

THE WALL STREET JOURNAL.

DOW JONES | News Corp

MONDAY, JULY 3, 2017 ~ VOL. XLI NO. 213

WSJ.com

ASIA EDITION

As of 4 p.m. ET DJIA 21349.63 ▲ 0.29% NIKKEI 20033.43 ▼ 0.92% STOXX 600 379.37 ▼ 0.34% BRENT 47.92 ▲ 1.05% GOLD 1240.70 ▼ 0.28% EURO 1.1410 ▼ 0.28% DLR \$112.43 ▲ 0.23%

What's News

Business & Finance

The dollar is down 5.6% so far this year, its worst two-quarter decline since 2011, as investors see recoveries around the world gaining on or surpassing growth in the U.S. **A1**

◆ China's box office remains in the doldrums, giving Hollywood studios a sense of urgency as Washington and Beijing negotiate a new deal for access for American films. **A1**

◆ France's Total is set to invest \$1 billion in an Iranian gas field, capping months of negotiations over the first move by a Western oil company into the country in years. **B1**

◆ Beijing will open a link allowing investors with accounts in Hong Kong into mainland China's \$9 trillion interbank bond market. **B1**

◆ Global stock markets had their best first half in years. But the strong run was capped by turbulence last week, a possible harbinger of greater volatility. **B1**

◆ Three former Tepco executives pleaded not guilty to charges of negligence at the beginning of the criminal trial tied to Japan's 2011 nuclear-plant meltdown. **B2**

◆ Microsoft will revamp its global sales group, laying off workers as it refines the business to focus on its cloud-computing services. **B3**

◆ Alibaba plans to introduce a digital personal assistant similar to Amazon's Echo device. **B3**

World-Wide

◆ The Trump administration conducted a second sea patrol close to a China-controlled island in the South China Sea, following a series of moves that appear to signal Washington's displeasure with Beijing. **A1**

◆ The U.S. and Philippine navies conducted a joint patrol off the southern Philippines, as a battle with Islamic State-aligned militants raised fears the conflict could spread. **A3**

◆ Trump and South Korea's Moon vowed to coordinate on a strategy for confronting Pyongyang after their first meeting on Friday. **A3**

◆ Japan's ruling party suffered a rare election defeat, clouding Abe's prospects for his policy goals such as revising the pacifist constitution. **A3**

◆ Xi warned Hong Kong that challenges to mainland sovereignty won't be tolerated, as the former British colony marked the 20th anniversary of its handover. **A3**

◆ Governors are pushing back on the GOP health bill, urging lawmakers to rethink cuts to Medicaid funding. **A5**

◆ U.S. consumers are getting letters from insurers warning that ACA plans will be terminated. **A5**

◆ The EU and Japan were nearing a trade deal but gaps remain. **A3**

◆ Parts of Damascus were on lockdown Sunday after a car bomb killed at least a dozen people. **A4**

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China: RMB28.00; Hong Kong: HK\$23.00;
Indonesia: Rp25,000 (incl PPN);
Japan: Yen620 (incl JCT); Korea: Won4,000;
Malaysia: RM750; Singapore: \$55.00 (incl GST)

KDN PP 9315/10/2012 (03275); MCI (P)
NO. 066/01/2017; SK MENPEN RI NO. 01/
SK/MENPEN/SCJ/1998 TGL 4 SEPT 1998

ISSN 0377-9920 4.12.13
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WORLD NEWS

Politics Add to Central Banks' Policy Puzzle



EUROPE FILE

By Simon Nixon

Central bankers around the world are grappling with a common problem: when and how to normalize monetary policy at a time of normal levels of economic growth, normal levels of unemployment but abnormal levels of wage growth that are keeping inflation lower than their economic models predict.

Policy makers at the European Central Bank and Bank of England are facing political challenges that are making their task even harder.

At the ECB, the political constraint is its own self-imposed rules setting limits on

the size and scale of its quantitative easing program.

To avoid getting foul of the European Union treaty prohibition on direct financing of governments by the central bank, the ECB limits itself to buying government bonds strictly in proportion to each eurozone member's ECB shareholding and capping its ownership of any individual bond at 33%. As a result, its QE program will soon run into capacity constraints—starting as soon as this summer with Germany, Spain, Ireland and Portugal. That leaves it little option but to taper its current €60 billion (\$68 billion) monthly purchases next year, says Gilles Moec, senior European economist at Bank of America Merrill Lynch.

That's a problem, however, because the case for normalizing eurozone monetary policy is particularly weak, despite a recovery whose strength continues to take most economists by surprise. The economy has now expanded for 16 consecutive quarters, creating 6.4 million jobs. Consumer confidence is also at a 16-year high.

The sharp reduction in Eurozone political risks following the defeat of populist parties in recent elections in Austria, the Netherlands and France could lead to further upward surprises in growth if it leads to a pickup in business confidence and investment. Yet unemployment in parts of the eurozone remains high—suggesting substantial spare capacity—wage increases are low even in Germany and inflation itself fell to 1.3% in June from 1.4% in May, well below the ECB's target of close to but below 2%.

The ECB's challenge is therefore to construct a narrative that allows it to taper without provoking a taper tantrum that sends eurozone financing costs soaring and undermines the recovery.

Last week, ECB President Mario Draghi attempted to meet the challenge by declaring that "the threat of deflation has gone and reflational forces are at play. As

these reflational forces emerge, the ECB can adjust the parameters of QE to offset an automatic real-terms loosening of monetary policy.

Balancing this subtle message was one that the ECB would need to be "persistent" and "prudent" in maintaining highly accommodative monetary policy to support the recovery. The

policy in the U.K. looks strong. Inflation is well above target at 2.9% and forecast to remain so beyond the BOE's two-year forecasting horizon. Inflation expectations have risen 0.4 percentage point since July. Unemployment is just 4.7%, and the economy is growing in line with its potential, helped by a growing global economy.

The European

Central Bank and the Bank of England run greater risk of errors.

jump in eurozone-government bond yields last week, led by a sharp rise in German bund yields, suggests Mr. Draghi's rhetorical balancing act wasn't entirely successful.

The Bank of England's political difficulties are equally daunting.

On the face of it, the case for a tightening of monetary

policy spending. At the same time, fears of a chaotic or badly managed Brexit that creates new barriers to EU trade may be deterring business spending.

That all points to the heightened risk of a premature normalization of monetary policy in the eurozone and UK.

Those risks could be heightened by action elsewhere. Should the Federal Reserve respond to a softening in recent data by delaying the three rate increases expected this year, a weaker dollar against the euro and sterling means an effective further tightening of euro-area and U.K. financing conditions. Both the euro and pound appreciated against the dollar last week.

That in turn highlights what may be the biggest challenge facing the ECB and BOE as they contemplate their plans for policy normalization: the need to reassure markets by explaining how they would respond if indeed they do make a mistake.

MOVIES

Continued from Page One
year ago, according to Beijing-based research firm Analysys.

The top-performing Chinese film this year is Jackie Chan's "Kung Fu Yoga," which took in nearly 1.8 billion yuan. Last year's Chinese production of "The Mermaid" nearly doubled that with close to 3.4 billion yuan.

The one bright spot in China's box office has been Hollywood films, led by the latest offering of "The Fast and the Furious" franchise, Universal's "Fate of the Furious," which has grossed nearly 2.7 billion yuan (\$400 million).

After years of rapid growth, the sharp slowdown suggests the market could be near its peak, giving Hollywood studios a sense of urgency as the U.S. and China renegotiate the 2012 deal that gave better access for American films in China, according to a person familiar with the situation.

"We believe we only get one shot at this, so we need to go for as much as we can including higher revenue share and better handling of release dates," the person said. "There's no other industry growth right now. Getting more money from China can still move the needle."

The current deal requires China to allow theatrical distribution of at least 34 Hollywood films annually, with the studios getting 25% of the revenue. It doesn't apply to films for which theatrical distribution rights are sold for a flat fee.

The Office of the U.S. Trade Representative is negotiating with its counterpart in China on behalf of the studios, and the two sides have until early 2018 to come to a new five-year agreement.

The Motion Picture Association of America, the studio trade group, has asked the trade representative to seek concessions that include increasing the quota by at least 20 films a year and allowing studios to keep about 40% of the box-office grosses, in line with some other foreign markets, the person said. In the U.S., studios keep about 60% of the box-office receipts for hit movies.

The trade group also wants to end blackout periods when

state-backed China Film Group, which distributes most films, restricts theaters to Chinese movies, typically during peak moviegoing periods such as national holidays.

In addition, the MPAA wants more advance notice of release dates, people familiar with the matter have said. Currently, the government notifies the studios often just four to six weeks ahead of the release date, limiting their ability to plan a marketing campaign.

China Film Group and the MPAA didn't respond to requests for comment.

Getting China to make major concessions may be difficult this year ahead of the Communist Party's congress in the fall, when party leaders will want to show they are putting national interests first, the person close to the talks said.

China's leaders want to tout steady box-office growth. For that they need imports.

At the same time, China's leaders want to tout steady growth at the box office, and for that they need imports.

Imported films have generated 61% of China's box-office grosses this year, by far the biggest margin since 2012. Chinese films accounted for slightly more than half of the box office last year.

Overall, the 57 foreign films released in China for the first half of 2017 have grossed 15.38 billion yuan, up from 11.59 billion yuan grossed by 43 foreign films during the same period last year. This includes films whose Chinese distribution rights were sold for a flat fee.

—Lilian Lin and Wayne Ma contributed to this article.

THE WALL STREET JOURNAL.
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Hong Kong
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Sales: Hong Kong: 852-2831 2504; Singapore:
65-6415 4300; Tokyo: 81-3 2269-2701;
Frankfurt: 49 69 29725390; London: 44 207
842 9600; Paris: 33 1 40 17 17 01; New York:
1-212 659 2176.
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Printers: Hong Kong: Euro Limited, 2/F, Block 1,
Tai Ping Industrial Centre, 57 Ting Kok Road, Tai
Po, Hong Kong; Indonesia: PT Gramedia Printing
Group, Jalan Palmerah Selatan 22-28, Jakarta
10270; Japan: The Mainichi Newspapers Co., Ltd,
1-1 Hitotsubashi, Chiyoda-ku, Tokyo, 100-8051;
Korea: JoongAng Ilbo, 100 Seosom-ro, Jung-gu,
Seoul, 100-814; Publisher: Song, Pil-Ho;
Malaysia: Basar Cetak (M) Sdn Bhd, Lot 2, Jalan
Sepana 15/3, Off Persiaran Selangor, Seksyen 15,
4020 Shah Alam, Selangor, Malaysia (ROC No. 0488856);
Singapore: Singapore Press Holdings Limited, 82
Genting Lane Media Centre Singapore 349567

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USPS 337-350; ISSN 0377-9920

About 0.7% in annual sales of Ocado Group PLC's product is wasted. A Business News article in the Friday-Sunday edition about grocery-delivery services cited data from a Barclays Capital Inc. report that incorrectly said about 30% of Ocado's product is wasted daily.

Xi Jinping is the Chinese president. A Heard on the Street article on Dec. 21 about the Swiss watch industry incorrectly called him the Chinese premier.

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

CORRECTIONS & AMPLIFICATIONS

ECONOMIC CALENDAR

This week, the U.S. and Europe will see key readings on the labor market, while the U.S. also will get data on international trade and minutes from the **Federal Reserve's** policy meeting in June when the central bank decided to raise short-term interest rates.

MONDAY: The eurozone's **unemployment rate** has been falling steadily, if slowly, since the currency area's return to growth four years ago, but the European Central Bank has yet to see the pickup in wages that would reassure policy makers inflation is on the way back to their target.

Economists expect that figures released Monday will show the fall in the jobless rate stalled in May at 9.3%, another reminder that the recovery has some way to go before that target is in sight and the central bank withdraws its stimulus measures.

WEDNESDAY: Minutes from the Fed's June meeting will shed more light on the Fed's view of the divergence between the inflation and employment sides of its dual mandate. Fed watchers will assess whether soft inflation readings are increasingly dividing the Fed over the appropriate course for monetary policy.

The central bank lifted its benchmark interest rate at the June meeting and penciled in one more rate rise this year.

THURSDAY: The U.S. Commerce Department releases the **international trade** report for May, and economists will be watching to see how the U.S. dollar's recent weakening may affect the U.S. trade gap. The U.S. trade deficit widened in April as Americans stepped up purchases of foreign goods. Imports grew 0.8% while exports fell 0.3%, perhaps due in part to the strong dollar. Economists surveyed by The Wall Street Journal

expect the **trade gap** to narrow to \$46.1 billion in May, from \$47.6 billion a month earlier.

FRIDAY: Economists will be watching wage growth figures when the U.S. Labor Department releases the June **employment report**. Earnings growth has softened in recent months, but some economists view the slowdown as only a temporary setback. U.S. employers added 138,000 jobs in June. Economists surveyed by The Wall Street Journal expect the **unemployment rate** remained at 4.3%, while U.S. employers added 181,000 jobs in June.

connected to North Korea's weapons program.

Mr. Trump had pinned his hopes on Beijing to use its influence over Pyongyang to get it to stop its nuclear and missile testing. But on June 20

Mr. Trump seemed to end that approach with a tweet: "While I greatly appreciate the efforts of President Xi & China to help with North Korea it has not worked out. At least I know China tried!"

The freedom-of-navigation operation on Sunday is the second to be publicly confirmed since Mr. Trump took office in January. The Navy destroyer the USS Dewey conducted another operation May 24 around Mischief Reef in the Spratlys. That one came to within 12 miles of Mischief.

During the presidential campaign, Mr. Trump signaled that his Pentagon would be more assertive in the South China Sea, but in recent months his administration has sought to play down the significance of freedom-of-navigation operations, also known as fonops.

Freedom-of-navigation operations, "are not about any one country, nor are they about making political statements," said Lt. Cmdr. Knight,

adding that in the 2016 fiscal year, the U.S. conducted such operations challenging excessive maritime claims of 22 coastal states, including allies and partners.

cilities have recently been expanded, including with a helipad, according to the Asia Maritime Transparency Initiative at the think tank.

U.S. defense officials stressed that operations like the one on Sunday are typically planned weeks, if not months, ahead of time and said it wasn't connected to the other actions taken by Washington in the past few days.

But the timing is likely to cause concern in Beijing, as it comes days before President Donald Trump is expected to meet China's leader, Xi Jinping, for the second time, at a Group of 20 summit in Hamburg, Germany.

Mr. Trump was expected to speak by phone with Mr. Xi and Japanese Prime Minister Shinzo Abe Sunday evening.

The U.S. operation around Triton also followed a series of moves in the past week that analysts and diplomats say re-

flect a hardening of U.S. policy toward Beijing.

U.S. officials have been disappointed by China's response to U.S. appeals for it to use its economic leverage to persuade North Korea to rein in its missile and nuclear programs.

On Thursday, the White House approved an arms sale of \$1.42 billion to Taiwan, including radar, missiles and torpedoes, angering Beijing, which claims Taiwan as its own territory.

Earlier in the week, China also registered concerns about a bill approved by a U.S. Senate panel this week that would allow U.S. warships to make regular port visits to Taiwan.

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The USS Stethem, here docked in Shanghai in 2015.

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On Thursday, the White House announced sanctions on four Chinese entities over their dealings with North Korea, including a bank the Treasury Department alleged provided access to the U.S. financial system for companies

connected to North Korea's weapons program.

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WORLD NEWS

Japan's Ruling Party Suffers Rare Defeat

Liberal Democrats lose position as biggest party in Tokyo metropolitan assembly

By ALASTAIR GALE

TOKYO—Japanese Prime Minister Shinzo Abe suffered a rare heavy election defeat, clouding prospects for his policy goals such as revising the nation's pacifist constitution.

Mr. Abe's Liberal Democratic Party lost its position as the biggest party in the Tokyo metropolitan assembly Sunday to an upstart group headed by a former TV anchorwoman who has adopted some of the rhetoric of global populist movements.

Public broadcaster NHK said Yuriko Koike's Tokyo Residents First Party and its allies were assured of winning over half of the 127 seats in the Tokyo Assembly.

While the Tokyo vote doesn't alter the picture of national power, it raises new concerns for Mr. Abe ahead of

an election for the lower house of parliament that must be held by the end of 2018. The LDP suffered a landslide election defeat in 2009 shortly after losing a Tokyo election.

Mr. Abe's government has been hit by a slump in public approval ratings in the wake of a series of recent gaffes and scandals, and as it forced through parliament new anti-terrorism legislation that some Japanese see as chilling free speech.

Mr. Abe has denied repeated accusations from rival politicians and bureaucrats that he used inappropriate influence to help friends win business deals.

Despite the setbacks, analysts say the weakness of national opposition parties and Mr. Abe's tight grip on power within his party mean he will likely continue to lead the government through next year's election.

"A lot of people are not crazy about Mr. Abe, but they think the alternatives are worse," said Gerald Curtis, professor emeritus at Colum-



RODRIGO GUTIERREZ/MARIN/ZUMA PRESS

Yuriko Koike after her Tokyo Residents First Party won more than half the seats in the Tokyo Assembly.

bia University and a long-term observer of Japanese politics.

Mr. Abe became prime minister for a second time in 2012 and is one of the longest-serving leaders among advanced economies. Earlier this year the LDP changed a party rule to allow him to run for a new term as party leader, which would keep him in power

through 2021.

The impact of the Tokyo defeat may be seen in increased resistance within the ruling party to some of Mr. Abe's policy plans, most notably his aim to amend the constitution. In May, Mr. Abe proposed formally recognizing Japan's Self-Defense Forces in the constitution, which has remained

unchanged since Japan renounced war at the end of World War II.

Mr. Abe has said he wants the LDP to come up with a draft revision by the end of this year, but some senior figures in the party have called for caution in making constitutional changes. Surveys show public opinion divided

on revising the constitution, with many Japanese reluctant to alter its pacifist mandate.

The big winner in the latest election was Ms. Koike, a former defense minister and TV presenter who is viewed by analysts as likely to run for national leadership after the 2020 Tokyo Olympics.

Ms. Koike is the only politician who polls well in surveys about potential national leaders other than Mr. Abe, but she routinely declines to discuss her future political ambitions.

"I feel emotional and a strong burden of responsibility," Ms. Koike said after exit polls showed her party was set for a big win.

Mr. Curtis said that while Japan has largely avoided the wave of populism that has swept several Western countries, Ms. Koike was able to tap into a strong undertone of dissatisfaction with incumbent parties around the world. Ms. Koike chided the LDP for being out of touch with regular people and for failing to work for their core interests.

Xi Warns of Hong Kong 'Red Line'

By JOHN LYONS



President Xi on Saturday.

HONG KONG—Chinese President Xi Jinping delivered a stern warning to Hong Kong, where a pro-democracy movement has provoked mass protests in recent years, saying challenges to mainland sovereignty won't be tolerated.

"Any attempt to endanger China's sovereignty and security, challenge the power of the central government...or use Hong Kong to carry out infiltration and sabotage activities against the mainland is an act that crosses the red line, and is absolutely impermissible," Mr. Xi said in a speech marking the 20th anniversary of the city's return to Chinese rule from Britain.

The 64-year-old leader spoke at the end of a three-day visit to Hong Kong, his first as China's president, as the mainland exerts growing influence over a city that has operated with a free-market ethos under a "one country, two systems" arrangement introduced in the 1997 handover. In the past year, mainland authorities have intervened in local elections and moved to block pro-democracy Hong Kong legislators from taking their seats.

The speech amounted to an admonition to the city of seven million people to end an era of political upheaval and embrace its place in broader

U.S., Philippines Jointly Patrol Seas

MANILA—The U.S. and the Philippine navies conducted a joint maritime patrol off the southern Philippines as a battle with Islamic State-aligned militants raised fears that the conflict could spread to other parts of the region.

The U.S. Embassy in Manila said the patrol in the Sulu Sea, which it said came at the invitation of the Philippine government, aimed to combat piracy and other crime in the region.

The Sulu Sea is a largely lawless expanse of water be-

tween the southern Philippines, Indonesia and Malaysia where piracy and kidnappings are common. The three nations last month started up joint patrols of the waters after the outbreak of fighting between Philippine troops and Islamic State-aligned militants on the predominantly Muslim island of Mindanao in the southern Philippines. The island is under martial law.

The Philippines says it is close to subduing around 100 militants holding hostages in the city, but authorities fear that foreign terrorists could join the fight via the porous southern border along the Sulu Sea.

—Ben Otto

China. Mr. Xi, who left the city Saturday afternoon, took pains to extol the virtues of Hong Kong's free-market system as a source of growth and a symbol of mainland accommodation and promotion of "global peace."

Mr. Xi lauded the "one country, two systems" model as a success and affirmed China's long-term commitment to it. But he cautioned against the risks of political turmoil.

"Making everything political or deliberately creating differences and provoking confrontation will not resolve the problems," Mr. Xi said. "It can only severely hinder Hong

Kong's social and economic development."

Mr. Xi demanded changes, some of which have the potential to rekindle controversy.

For example, he underscored the need to "step up the patriotic education of the young people," reviving the memory of a failed 2012 attempt to introduce a pro-China curriculum in Hong Kong schools.

The initiative failed after it sparked mass protests by local parents who decried it as Communist Party brainwashing.

Analysts say pressure now falls on Hong Kong's new leader, Carrie Lam, to reintroduce the controversial mea-

sure. Ms. Lam, who was sworn in before Mr. Xi's speech, is expected to try to introduce an anti-sedition law that failed amid mass protests in the past.

Hong Kong's protest movement appears mostly to have been subdued by the prosecution of protest leaders and a sense among many local residents that resisting mainland encroachment is hopeless.

Mr. Xi's visit was marked by small rallies, but nothing like the mass pro-democracy protests that shut down parts of the city for 79 days in 2014.

—Chester Yung and Jenny W. Hsu contributed to this article.

EU, Tokyo Move Closer To a Trade Agreement

BRUSSELS—The European Union and Japan were nearing a trade deal, the two sides said over the weekend, but there were still gaps to overcome as two of the U.S.'s biggest economic competitors look to bolster international commerce.

By Laurence Norman
in Brussels and
Alastair Gale in Tokyo

Trade talks between the EU and Japan have been ongoing since 2013 but discord over issues like Japanese auto exports and European agricultural sales to Japan has slowed progress. Negotiations have accelerated in recent months, as both sides have reacted to the Trump administration's retreat from international trade deals.

Japanese Foreign Minister Fumio Kishida said Saturday the framework of an agreement was within reach, adding he was willing to go to Brussels to complete a deal before Prime Minister Shinzo Abe travels to Europe for the coming Group of 20 leaders summit.

"We made meaningful progress, but both sides still have important points that need to be resolved," Mr. Kishida said after meeting the EU team.

The EU's trade commissioner Cecilia Malmström said she was confident of a political deal by July 6, paving the way for Mr.

Abe to come to Brussels. However, she also acknowledged the need for additional talks among officials.

"Hard work in Tokyo but a lot of progress. Some things remaining yet confident our leaders can announce political agreement at summit 6 July," she said before departing Tokyo.

The EU's executive negotiates trade deals on behalf of its 28 member states. Ms. Malmström will report back to capitals on the progress made.

Even if a political deal is announced next Thursday, there would still be work ahead to agree a detailed text of a final agreement. The full ratification process could also take some time.

With €125 billion (\$134.3 billion) of exports and imports in 2016, an EU-Japan trade deal would be one of the most significant the bloc has reached. Officials have said it could see the scrapping of an annual €1 billion worth of customs duties and propel European exports of processed food, chemicals and medical devices.

A deal would represent progress for Mr. Abe's goal of securing better terms of trade for Japanese companies overseas, particularly following the decision by the U.S. to pull out of the Trans-Pacific Partnership, which Japan joined.

Trump, South Korea's Moon Declare Unity on Pyongyang

WASHINGTON—President Donald Trump and South Korean President Moon Jae-in vowed to coordinate on a

By Carol E. Lee,
William Mauldin
And Eli Stokols

strategy for confronting North Korea in a display of unity after their first meeting on Friday, even amid a show of tensions over bilateral trade.

Mr. Trump called for additional sanctions on North Korea and left open the possibility of military force to confront Pyongyang.

"Our goal is peace, stability and prosperity in the region, but the United States will defend itself—always defend itself," Mr. Trump said with Mr.

Moon at the White House. Mr. Moon said the two leaders agreed on an approach that includes sanctions and dialogue. He also said Pyongyang's provocations require a "strong response."

Their statements marked an effort to signal to North Korea that there is no daylight between the new U.S. and South Korean leaders on their preferred approaches to the country, even though Mr. Trump has taken a hard-line stance while Mr. Moon has called for talks.

Mr. Moon said that Mr. Trump accepted his invitation to visit South Korea this year.

The two leaders also discussed differences on economic issues, particularly trade.

"We are renegotiating a trade deal right now as we

speak with South Korea and hopefully it will be an equitable deal, a fair deal to both parties," Mr. Trump said. "It's been a rough deal for the United States, but I think it will be much different."

Mr. Trump said U.S. officials are discussing barriers to the auto trade and the South Korea's export of "dumped" steel.

Business leaders have been pushing for the U.S. and South Korea to address differences on trade without opening up an existing trade agreement to full renegotiation.

U.S. Trade Representative Robert Lighthizer said last week the administration is looking closely at the South Korea free-trade agreement but there are "no plans to drop out."

The agreement—the sec-

ond-biggest U.S. deal measured by trading volume—contains a mechanism called the joint committee that allows the countries to address problems with the pact.

"At the direction of the president, Ambassador Lighthizer is calling a special joint committee meeting to begin the process of renegotiating and amending the deal," White House spokeswoman Sarah Huckabee Sanders said Friday.

"The president is committed to getting a better deal for the American people."

The economic pressure on South Korea was met with concern from a key GOP lawmaker.

"I'm a little surprised by the decision to renegotiate our Korea trade agreement when there is such urgency for us to

address America's absence in the larger Asia-Pacific region," said Rep. Kevin Brady of Texas, chairman of the House committee that oversees trade. He said the agreement has been "successful."

The U.S. imported \$69.9 billion in goods from South Korea last year but exported only \$42.3 billion, resulting in a trade deficit of \$27.6 billion. Five years earlier, the trade deficit was \$13 billion.

Some U.S. industry and labor critics say South Korea has kept its currency artificially cheap against the dollar in the past, gaining a trade advantage. Seoul denies manipulating its currency for trade advantage.

The meeting Friday came amid concerns in Washington and Seoul about the strength

of the alliance under Messrs. Trump and Moon.

On Thursday, the new South Korean leader told congressional leaders he wouldn't seek to cancel or reverse the deployment of a missile-defense system aimed at countering North Korea and supported by the U.S. Mr. Moon's remark was his clearest yet on a topic that has been marked by misunderstandings about the new South Korean administration's intentions on the system, called Terminal High-Altitude Area Defense, or Thaad.

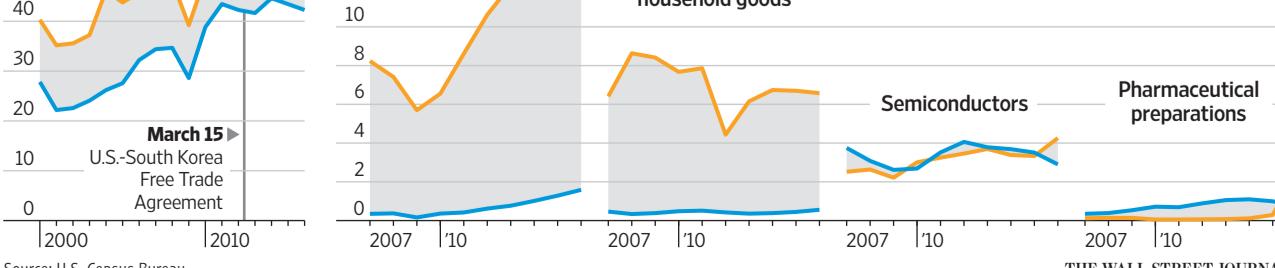
Mr. Trump has also sown confusion by suggesting that South Korea should pay more for the U.S. military presence in South Korea.

—Jonathan Cheng in Seoul contributed to this article.

Growing Gap

The U.S. trade deficit in goods with South Korea has expanded since a free-trade pact between the two nations took effect in 2012.

Trade between the U.S. and South Korea: ■ Imports from Korea ■ Exports to Korea



Source: U.S. Census Bureau



Donald Trump and South Korea's Moon Jae-in at the White House.

WORLD NEWS



The site of a deadly bombing in Damascus's eastern Tahrir Square district on Sunday. The capital had been relatively quiet since May.

Car Bomb Rocks Damascus

At least a dozen are killed in the Syrian capital on first day of work after holiday

By RAJA ABDULRAHIM

Parts of Damascus were on lockdown Sunday after a car bomb killed at least a dozen people in the Syrian capital, according to state media and an opposition monitoring group.

The explosion came after Syrian security forces chased three vehicles believed to be car bombs through the streets of the city, state media quoted the Interior Ministry as saying. State forces destroyed two of the vehicles but the third detonated in a residential neighborhood home to military checkpoints and government buildings.

It wasn't immediately clear

what the intended target was but the explosion went off near the Air Force intelligence branch, one of the regime's feared military branches because of its brutal crackdown on dissenters.

The attack occurred on the first day back to work after the religious holiday of Eid, which follows Ramadan.

No group claimed responsibility. Car bombs are usually the work of Islamic State or other Islamist extremist groups operating in Syria.

Attacks in Damascus aren't unusual. But the capital has been relatively quiet since May, when an internationally brokered de-escalation deal was reached between the Syrian regime and rebels.

Islamic State claimed several attacks earlier this year in both Damascus and the central city of Homs. In March, nearly 40 people were killed when suicide bombers attacked a

courthouse and restaurant in Damascus in an attack claimed by Islamic State.

Much of the focus of Syria's war in recent months has turned to escalating battles against Islamic State in areas east of Damascus, although fighting is ongoing in the capital's suburbs and other parts of western Syria.

On Saturday, regime forces launched artillery attacks on the town of Ein Tarma in the rebel-held eastern Ghouta suburb of Damascus. Local residents alleged the shells contained chlorine gas, causing dozens of injuries but no deaths, according to opposition activists and the U.K.-based Syrian Observatory for Human Rights.

The Syrian regime has denied using chemical weapons. But the U.S. and other Western and Arab states have blamed it for such attacks, including the deadly 2013 sarin

gas attack on Ghouta, which killed more than 1,400 people.

The U.S. and Russia brokered a 2013 deal under which Syrian President Bashar al-Assad, facing the threat of a U.S. attack, joined an international treaty barring the use of chemical weapons. Syria agreed to destroy the most dangerous substances from its declared chemical-weapons program, including sulfur mustard and sarin. The treaty also barred the use of chlorine as a weapon. But it didn't require Syria to destroy its chlorine supply because it wasn't a declared weapon and because of its widespread household use.

Though Ghouta is covered under the de-escalation deal reached in May, regime and allied forces have kept trying to advance into the besieged suburb.

—A correspondent in Damascus contributed to this article.

the U.S. blamed on the regime prompted Mr. Trump to order airstrikes on a Syrian base.

Kremlin spokesman Dmitry Peskov didn't respond to a request to comment on expectations for the upcoming meeting. Mr. Peskov told Russian news agencies Friday the format of the meeting was in discussion.

Mr. Putin's attendance at the G-20 may play well with the Kremlin's domestic audience, Russian political observers say. Andrei Kolesnikov, senior associate at the Carnegie Moscow Center, said the meeting represents a "win-win for Putin," who gets to play leader on the world stage, whether or not he hits it off with Mr. Trump.

"It's not an Australian situation like it was several years ago," Mr. Kolesnikov said, referring to the G-20 meeting in November 2014, when the Kremlin leader departed the summit early after being scolded by other leaders over Moscow's role in the Ukraine crisis. After the Syria intervention, Russia became a major player in the Middle East, a move that also raised Mr. Putin's stature as someone capable of rearranging the chess pieces.

Mr. Putin has been able to project confidence since the onset of the Ukraine crisis: His country has returned to growth, and his military has scored successes in propping up the regime of Mr. Assad.

Russian Expectations Low for Trump Talks

By NATHAN HODGE

MOSCOW—Russian officials are cautious about expectations for a fresh start in relations with Washington despite a planned first meeting between Russian President Vladimir Putin and U.S. President Donald Trump this week.

Mr. Trump is embroiled in investigations over links between Russia and members of his campaign team and inner circle. Russia's political establishment, which once hoped for a dramatic about-face in relations, now believes the U.S. president is hamstrung on foreign policy.

On Friday, a day after senior U.S. officials confirmed the two leaders would meet on the sideline of the Group of 20 wealthiest nations summit in Hamburg, Germany, Russian Foreign Minister Sergei Lavrov expressed hope that "pragmatism will prevail."

But he added that U.S.-Russian relations "have become hostage to the internal politics" inside Washington.

U.S.-Russian relations have been under extraordinary strain since Moscow annexed the Black Sea region of Crimea from Ukraine in 2014. The Russian government's backing of Syrian President Bashar al-Assad has further stoked confrontation, particularly after a suspected chemical attack



President Vladimir Putin. U.S.-Russia ties have been severely strained.

WORLD WATCH

DISEASE

Congo Declares End To Ebola Epidemic

The Democratic Republic of Congo's Ebola epidemic is over, the health ministry said, putting an end to the most recent outbreak of the highly contagious disease that caused four deaths.

The announcement came after health officials contained a chain of cases in the remote Bas-Uélé province, a forested region in the northeast of the country, allowing authorities to register zero cases for 42 days or two incubation periods of the virus, said Oly Ilunga Kalenga, the health minister.

The end of the outbreak, declared at midnight Saturday, is a huge relief for Sub-Saharan Africa's largest nation, which has been battling a record eighth outbreak near a region where the hemorrhagic fever was first discovered in 1976.

The outbreak in the remote Likati zone, some 800 miles from Kinshasa, coupled with Congo's experience in fighting past outbreaks helped officials to quickly snuff out the virus, health officials said.

Moumouni Kinda, program manager for the Alliance for International Medical Action, one of the institutions helping to combat the outbreak, hailed authorities and their partners for containing the epidemic rapidly by adopting response strategies different from those practiced in West Africa, where the virus killed more than 11,300 people between 2014 and 2016, marking the world's deadliest episode.

—Nicholas Bariyo

Still, Pacquiao, 38, dominated the later rounds and had Mr. Horn wobbling at the end of the ninth.

Pacquiao's longtime trainer Freddie Roach predicted the fight would be short and sweet, but Horn—unbeaten in his 17 previous professional fights—applied pressure by winning some of the early rounds, and Pacquiao needed treatment during the sixth and seventh rounds for a cut from when the two fighters bumped heads.

The judges scored the fight 117-111, 115-113 and 115-113, and Horn declared himself "no joke."

Some critics slammed it as a hometown decision, saying the statistics had Pacquiao landing twice the number of power punches as Horn.

—Associated Press

ISRAEL

Olmert Returns Home After Jail Release

Former Israeli Prime Minister Ehud Olmert was released from prison Sunday morning, a Prison Service official said.

Mr. Olmert, 71, was driven home by the security service after his release, spokesman Assaf Librati said. The release came days after a parole board granted him early release from his 27-month corruption sentence.

Under the terms of his early release, for the next few months Mr. Olmert must do volunteer work and appear before police twice a month, Mr. Librati said. He can't give interviews to the media or leave the country.

President Reuven Rivlin could lift the parole restrictions.

Mr. Olmert was convicted in 2014 in a wide-ranging case that accused him of accepting bribes to promote a Jerusalem real-estate project and of obstructing justice. The charges pertained to a period when he was mayor of Jerusalem and trade minister before he became prime minister in 2006.

Mr. Olmert, who denied the charges, was originally sentenced to six years in prison. But Israel's highest court reduced his sentence in December 2015 after acquitting him of some of the charges.

His imprisonment ended the last major Israeli-Palestinian peace efforts and ushered in the era of Benjamin Netanyahu in 2009.

—Associated Press

Soaring prize money has helped make 30-something the new 20-something.

has doubled the past decade, rising to \$119 million this year from \$58 million in 2006.

The biggest beneficiaries are the top players, but being a top 30 player now affords a far better life than it did a decade ago. Italy's Fabio Fognini, who at 30 is ranked 29th in the world, has collected \$8.7 million in prize money during an unspectacular 13-year career. He has already pocketed

\$700,000 this year while posting a 17-13 record.

The aforementioned Argentine Calleri, who was the Foggnini of his day, scratched out \$3.75 million during his middling 14-year career. Even first-round losers at Wimbledon will pocket \$45,500. A third-round appearance at the All England Club nets \$120,000.

The money allows the top players to travel with entourages that include coaches, trainers, physiotherapists, masseuses and nutritionists. The lesser players get similar treatments, albeit from smaller and less mobile teams.

The regimens have helped obliterate a group of players in the 26-29 age group, who normally would have taken over the sport by now. Since June 2005, just two players not named Murray, Nadal, Federer, Djokovic or Wawrinka have won one of the 49 Grand Slam tournaments. The Big Four of Federer, Nadal, Djokovic and Murray has a combined career record of 175-43 against once-future greats Milos Raonic, 26; Marin Cilic, 28; Kei Nishikori, 27; Grigor Dimitrov, 26; and Juan Martin del Potro, 28.

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WBO BOXING

Australia's Horn Upsets Pacquiao

Manny Pacquiao lost his WBO welterweight world title to Jeff Horn in a stunning unanimous decision Sunday afternoon in Brisbane.

The 11-time world champion entered the fight in front of more than 51,000 people at Suncorp Stadium as a hot favorite but got more than he bargained for against the 29-year-old former schoolteacher.

ingly physical during the past decade, requiring a freakish combination of speed, strength, endurance, and reflexes that wouldn't seem to make it very friendly past the typical athletic peak for a human of about 27-years-old.

However, a variety of factors—including skyrocketing prize money, better knowledge of fitness and nutrition, and the shaky psyches and physical weaknesses of players who were supposed to bump off the aging greats—have made 30-something the new 20-something in tennis.

The game is dominated by aging matinee idols. Federer, who turns 36 in August and Nadal, who is 31, astoundingly split the year's first two Grand Slams after several seasons in which they battled injuries and played like they were past their sell-by dates.

Tennis experts say both players have recaptured their glory with a similar strategy—improving their backhands and using the shot as a weapon rather than a defensive tool to set up a forehand. Federer skipped the clay court season to prep for Wimbledon's grass. Oddsmakers have pegged him as a 2-1 favorite.

John McEnroe, a three-time

Wimbledon champion, compared Federer to the ageless and bionic Six Million Dollar Man. "He looks great and he's rested. It's an amazing story."

But with so many lesser 30-somethings also still having success, clearly a larger dynamic is at work.

Money, and the opportunities and comforts it provides, is driving the demographic change. Thanks to burgeoning media rights fees, prize money on the ATP World Tour

has doubled the past decade, rising to \$119 million this year from \$58 million in 2006.

The biggest beneficiaries are the top players, but being a top 30 player now affords a far better life than it did a decade ago. Italy's Fabio Fognini, who at 30 is ranked 29th in the world, has collected \$8.7 million in prize money during an unspectacular 13-year career. He has already pocketed

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—Associated Press

CARMEN JASPERSEN/AGENCE FRANCE PRESSE/GETTY IMAGES

Federer celebrates after winning the Gerry Weber Open, a warm-up to Wimbledon, on June 25.

U.S. NEWS

Governors Push Back on GOP Health Bill

States that expanded Medicaid under ACA urge lawmakers to rethink funding cuts

By KRISTINA PETERSON
AND MICHELLE HACKMAN

WASHINGTON—Republican senators, back in their home states this week, have one constituent whose influential views on health care they will likely hear whether or not they hold town-hall meetings: their governor.

These governors, some of whose states stand to lose billions of dollars in Medicaid funding under the Senate health bill, are likely to press senators to keep as much funding as possible. That pressure reflects a risk taken by Senate Majority Leader Mitch McConnell (R., Ky.) in deciding to delay a vote on the GOP health-care bill until after this week's July 4 recess.

In states that expanded Medicaid under the Affordable Care Act, many Republican governors are urging senators to resist the Senate bill, which would cut \$772 billion in federal Medicaid funding over the next decade.

"It's a pretty big deal, because in most cases these states have had bitter battles inside the state legislature and



Govs. John Kasich of Ohio, right, and Colorado's John Hickenlooper discuss the health bill last week.

[with the] governor about [Medicaid], and it's been settled in favor of expansion," said Stewart Verdery, a former GOP Senate aide and founder of Monument Policy Group, a lobbying and public-affairs firm.

For a Republican senator "to blow that up from afar is really dicey," Mr. Verdery said.

Mr. McConnell can afford to lose no more than two GOP votes to pass the health-care bill, with Vice President Mike Pence breaking a 50-50 tie if necessary. That means Republican leaders must flip at least

seven of the nine GOP senators who have already said publicly they oppose the bill, a challenge compounded by the recession.

"The further you get away from this place, the more pushback you'll get," Sen. Lindsey Graham (R., S.C.) said in the Capitol last week, noting that recent polls have shown the bill is broadly unpopular. In a recent Wall Street Journal/NBC News poll, 16% of respondents said the version of the bill passed by the House was a good idea.

The 50 governors have

varying views of the Senate bill, which would roll back and replace much of the ACA while phasing out the enhanced federal funding for the Medicaid expansion program. The bill would also lower the growth rate used to calculate future spending on Medicaid, which provides health care for low-income and disabled people.

Some governors agreed with Senate GOP leaders that the Medicaid program is inefficient and needs to be trimmed back, freeing up money that could be spent elsewhere or used for tax cuts. But govern-

nors in the 31 states that expanded the program generally say the bill's cuts go too far, and 20 Senate Republicans represent such states.

Arkansas Gov. Asa Hutchinson, a Republican, said he has spoken to his state's GOP senators, Tom Cotton and John Boozman, almost daily, along with Senate GOP leaders, to convey his concern about the bill's steep cuts to Medicaid, which Arkansas expanded.

"I know that they're trying to save money, and they rightfully should," Mr. Hutchinson said in an interview. "I just want to be able to also not undo some really significant reform that we're trying to accomplish in Arkansas."

Mr. Hutchinson has advocated that the health bill either maintain higher levels of funding or exempt elderly and disabled people from caps on Medicaid. Without the extra federal help, he said, he would be forced to end the Medicaid expansion immediately.

Ohio Gov. John Kasich, a prominent Republican critic of the bill, has said some of the tweaks under discussion, including boosting money for opioid addiction treatment, wouldn't make up for the legislation's deep cuts to Medicaid. Adding the opioid money would be like "spitting in the ocean," he said.

Mr. Kasich told reporters

that he has repeatedly conveyed his worries to the state's GOP senator, Rob Portman, who has voiced similar concerns and currently doesn't support the bill.

Alaska's governor, independent Bill Walker, criticized the bill passed by the House in May and said Alaska could be "sorely damaged" by the Medicaid cuts in the Senate version. Alaska's two GOP senators, Lisa Murkowski and Dan Sullivan, have said the current bill doesn't do enough to address the high cost of health care in their state, but have taken no public stance on the legislation.

Some Democratic governors are hoping the bill's repercussions in their states are enough to dissuade GOP senators from supporting it. "You're going to force me into an impossible decision," Colorado Gov. John Hickenlooper, a Democrat, said he has told the state's GOP senator, Cory Gardner. "You're really asking governors to make the decision of who lives and who dies." Mr. Gardner hasn't taken a public position on the bill.

Republicans have said they want to give states more flexibility in how they spend federal dollars on Medicaid in hopes they can come up with innovative ways to stretch the money.

Insurers' Warnings Raise Stakes in Legislative Fight

BY ANNA WILDE MATHEWS
AND MELANIE EVANS

Hundreds of thousands of consumers across the U.S. are getting letters from insurers warning that their health plans bought under the Affordable Care Act will be terminated at year-end, raising alarm at a politically sensitive moment when Senate Republicans are struggling to craft their own health-care legislation.

As lawmakers head off for their July 4 recess, conservative Republicans on Friday revived a proposal to quickly repeal the 2010 health-care law and come up with a replacement later, a surprise move reflecting the fractured state of the Senate GOP and the frustration felt by some conservatives about the pace of the Republican health push. The initiative, quickly seized on by President Donald Trump, renewed an idea that earlier had been discarded as politically and practically unworkable, and some Republicans on Capitol Hill said the idea was unlikely to get sufficient support this time either.

The repeal-first approach re-opens an old skirmish between Republican centrists and conservatives, whose disagreements over everything from the scope and timeline of an ACA repeal to the future of Medicaid and the nature of health insurance have hamstrung the party.

Now, lawmakers heading home for recess have another potential headache: the letters to consumers sent to comply with rules requiring insurers to give policyholders notice of at least 180 days, or about six months, before they pull out of a state's individual insurance

market. That puts the deadline in early July for a plan that runs until the end of December.

In many cases, planned withdrawals from certain ACA marketplaces by major insurers, including Aetna Inc., Humana Inc. and Anthem Inc., have been disclosed. But the letters may be the first affirmation for many consumers that their plans will end.

Some insurers are also sending the letters even if they haven't made a final decision to withdraw, just to keep their options open, said Nate Purpura, a vice president at eHealth Inc., an online insurance vendor. "If they ultimately need to leave, they have to send these," he said.

Health insurers are sending letters to customers saying their plans could end.

The withdrawal notices are already causing heartburn, according to insurance agents and other industry officials. In Mississippi, one of the states where Humana will stop selling plans, consumers have recently been calling the state's insurance regulator in alarm after getting letters, said Mike Chaney, the insurance commissioner. "They're worried about what they will do for health insurance," he said.

In Knoxville, Tenn., Reba Horn, 63 years old, opened a letter from Humana last week to discover her insurance wouldn't be sold next year. She was shocked. "I had no idea"

Humana would leave the market, she said. Humana is the only current exchange insurer in the Knoxville area, but BlueCross BlueShield of Tennessee has said it would offer plans there next year.

Ms. Horn, an assistant for attorneys, called and peppered her insurance broker with questions. "Where am I going to look? Is it going to cost me more?" Her broker, Debra Foster, said she would likely not have answers until open enrollment in November.

Senate leaders delayed a vote this past week on legislation unveiled the previous week, after a report from the nonpartisan Congressional Budget Office found that GOP bill would result in 22 million more people uninsured in a decade, compared with current law.

Republicans have said insurer exits from some markets and rate-increase proposals show the need for their legislation. Democrats say the insurers are reacting to uncertainty created by Republicans—including questions about the future of federal payments that help with health costs for low-income enrollees, which the Trump administration has threatened to stop.

The CBO report on the GOP Senate bill said its effect on consumers would vary. Some, particularly younger ones, could see lower premiums than they would under the ACA, partly because plans might be skinnier and cover fewer benefits. But for lower-income consumers or those with special needs, overall medical costs could be significantly higher.

—Louise Radnofsky contributed to this article.

Sen. Ben Sasse (R., Neb.) kicked off the push, saying that



Insurers' withdrawal notices are upsetting patients, say insurance agents and industry officials.

Conservatives Seek Speedy ACA Repeal

WASHINGTON—Conservative Republicans on Friday revived a proposal to speedily repeal the Affordable Care Act and come up with a replacement later, a surprise move reflecting the fractured state of the Senate GOP and the frustration felt by some conservatives about the pace of the Republican health-care push.

The move, backed by President Donald Trump in a tweet, renewed an idea that earlier had been seen as politically and practically unworkable, and Republicans on Capitol Hill said the idea was unlikely to get enough support this time as well. But it had the potential to excite the Republican base as Congress heads into its July 4th recess.

Sen. Ben Sasse (R., Neb.) kicked off the push, saying that

he believed congressional leaders' prospects of simultaneously overturning former President Barack Obama's 2010 Affordable Care Act and enacting a replacement were dimming. He said that the party's best hope could be to wipe out the law in its entirety, then work on filling the void over time.

"On the current path, it looks like Republicans will fail to pass any meaningful bill at all," Mr. Sasse said in a letter to the White House. "We must keep our word."

He suggested that if Senate Majority Leader Mitch McConnell (R., Ky.) couldn't assemble a bill with broad GOP support by the time senators return from their recess on July 10, the Senate should vote on the same ACA repeal bill Congress passed in 2015, which was vetoed by Mr. Obama.

Within minutes of the suggestion, which Mr. Sasse also discussed on "Fox & Friends," Mr. Trump signaled support. "If

Republican Senators are unable to pass what they are working on now, they should immediately REPEAL, and then REPLACE at a later date!" he tweeted.

Democratic lawmakers, who are united in support of the ACA, warned of the consequences of a repeal-first approach on Friday. Sen. Patty Murray (D., Wash.) said that Mr. Trump shouldn't urge Republicans "to pull coverage and protections away from tens of millions of families and increase costs for tens of millions more without any plan for a replacement."

Mr. Sasse's move and Mr. Trump's response were notable in part because they pointedly circumvented Mr. McConnell, who has been laboring to produce a bill that would satisfy his party's conservative and centrist factions and win the support of at least 50 Senate Republicans.

—Louise Radnofsky

Trump Joins Fray Over Request for State Voter Records

BY LOUISE RADNOFSKY

WASHINGTON—President Donald Trump weighed in on a controversy over resistance from states to turn over voter records, tweeting: "What are they trying to hide?"

The new Presidential Advisory Commission on Election Integrity, which the administration set up to investigate any election impropriety, sought information from states that would identify and provide personal details about every registered voter, and the elections they had participated in from 2006.

Many states have countered that the request seeks information they consider sensitive and beyond their power to turn over, and that they object to attempts to interfere in their operation of elections.



A Trump election panel seeks personal details about every voter.

Mississippi Secretary of State Delbert Hosemann, a Republican, issued a statement Friday saying that he hadn't yet received the request but that he understood from an-

other secretary of state that it sought: "if publicly available under the laws of the state, the full first and last names of all registrants, middle names or initials if available, ad-

dresses, dates of birth, political party (if recorded in your state), last four digits of social security number if available, voter history (elections voted in) from 2006 onward, active/inactive status, canceled status, information regarding any felony convictions, information regarding voter registration in another state, information regarding military status, and overseas citizen information."

If he were to receive such a request, he said, he would reply: "They can go jump in the Gulf of Mexico and Mississippi is a great state to launch from. Mississippi residents should celebrate Independence Day and our State's right to protect the privacy of our citizens by conducting our own electoral processes."

Ten states have refused to

participate outright, including Mississippi, as well as California and New York. More have said they would only send partial information, and some are still deciding, according to a tally compiled by the Associated Press.

Kris Kobach, the panel's vice chairman and Kansas secretary of state, is a Republican supporter of Mr. Trump's campaign, and pursued a variety of antifraud measures in Kansas that were popular with some but were described as aggressive and discriminatory by critics.

The election integrity panel was formed in May after months of unsubstantiated claims by Mr. Trump that voter fraud had tainted last November's election. It is overseen by Vice President Mike Pence, who said last

week that the letter would be going out.

The five other members of the panel include Democrats and Republicans, and its full remit includes looking at voter suppression and registration processes.

"There's nothing more important than ensuring the integrity of the American vote," Marc Short, the White House legislative affairs director, said Sunday on Fox News in response to a question about states' resistance to turning over information to the voter fraud commission.

Sarah Huckabee Sanders, White House principal deputy press secretary, dismissed the state's objections Friday as "mostly a political stunt."

"This is a commission that's asking for publicly available data," she said.

IN DEPTH

TRIAL

Continued from Page One
who calls the person on trial innocent: a man who says he is Mr. Mered, the real smuggler. "I thought they were going to release him in no time—they know that he is not the right Medhanie," he said. The Wall Street Journal contacted the man via chat messages to what is listed in court documents as Mr. Mered's verified Facebook page.

Yes, he was in the people-smuggling business, this man said, but he no longer is. As for the one on trial in Sicily, "May God help him."

Political pressure is heavy in Europe to score a victory against the brutal business of people smuggling. Just last week rescuers pulled more than 10,000 migrants from boats, off Libya's coast and recovered 24 bodies.

It is estimated 14,000 people have died in Libya-based smuggling operations since 2013, fueling authorities' determination to capture operators such as Mr. Mered, for whom they long ago issued an arrest warrant.

Isolated land

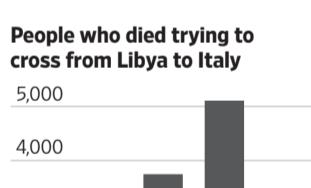
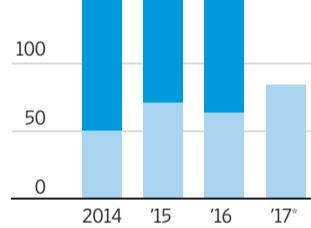
Born poor in rural Eritrea, Mr. Mered fled the isolated land across the Red Sea from the Arabian peninsula, as have countless other young men facing a future of forced military service. For cash, according to Italian prosecutors, he began helping his countrymen make their way to Israel through Sinai, a route bedeviled by bandits and kidnappers.

In 2013, Israel sealed off that route just as another, more lucrative path had opened up. The post-Arab Spring collapse of law and order in Libya created rich

Perilous Passage

Libya-to-Italy is a primary and sometimes deadly route for migrants trying to get to Europe.

Arrivals in Italy from Libya



*As of June 23
Sources: Frontex (2014-2016 arrivals);
IOM (2017 arrivals, deaths)

THE WALL STREET JOURNAL.



Migrants sleep aboard a rescue ship in the Mediterranean, above; Italy has put on trial an alleged people smuggler called Medhanie Dhedhego Mered, below right, but some say the defendant, below left, actually is an Eritrean migrant, Medhanie Berhe Tesfamariam.

opportunities to smuggle people, guns, drugs and contraband.

Moving to Libya around 2013, Mr. Mered seized on the surge of African migrants trying to get to Europe. He set up shop in the Libyan port of Zuwarah, turning a three-story building into a smuggling depot, according to Italian court documents.

By 2015, with migrants paying up to \$2,000 apiece to sail from Libya to Italy, Mr. Mered was grossing \$1 million in a good week, according to the Italian state's evidence. His network of contacts stretched to Sweden, Germany and the Netherlands.

Italian authorities say they have confirmed Mr. Mered's operation smuggled 7,000 people to Italy between 2013 and 2015, and they suspect it was far more. One state's witness in Italy described Mr. Mered as "a king...the only man who could walk around Libya wearing a crucifix."

The man who calls himself the real Mr. Mered said he was "in the business between August 2013 and 2015." Besides being contacted by the Journal through a Facebook page listed in court documents, he was reached via Facebook by an old friend in Canada, who then spoke to him by phone and confirmed it was Mr. Mered's voice. The Journal also sent a message on WhatsApp to the man via a number listed in court documents, which was shown as having been read.

On wiretapped phone calls dating from the period when Mr. Mered was in the smuggling business, he voiced the anxieties of an overstretched crime boss: rivals breaking into his business and fears that the police were closing in.

"I am really scared, my friend," Mr. Mered is heard telling an associate on one call.

"Do you know when one starts to fear? It is when he has made money that he starts to fear."

In October 2013, the death of more than 360 Eritrean migrants in a shipwreck off the small Italian island of Lampedusa trained the



world's attention on Europe's burgeoning migration problem. The calamity also moved Calogero Ferrara, a veteran mafia prosecutor in Sicily, to action. He decided to apply his techniques to a smuggling trade that had begun to rival drug trafficking.

"I was the first to investigate it in this way," the cigar-smoking prosecutor said in his office in Palermo packed with awards and "Wanted" posters of men he has gone after. "Basically, we're using the tools of a typical mafia investigation...wiretapping, intercepts, checking Facebook."

He soon ran into the obstacles that have made people smuggling one of the toughest crimes to pursue. While Italian police routinely nabbed the helmsmen of the boats, these were the small fish, often migrants who were steering the vessels under coercion. The masterminds stayed in African countries that provided little cooperation.

By sweeping tens of thousands of calls, and with support from investigators in Sweden, the Netherlands and elsewhere, Mr. Ferrara assembled a rough map of Libya-based smuggling networks. By 2014, he was homing in on one in particular, Mr. Mered's.

Mr. Mered, however, soon fled Libya, afraid of its rampaging militias, for Sudan. There, European law-enforcement officials last year saw their chance to nab him.

As the refugee crisis expanded, Sudan offered to help Europe in hopes of loosening decades of Western sanctions imposed for human-rights abuses and harboring terrorists. The U.K.,

Sudan's onetime colonial master, sent an agent from Britain's newly formed National Crime Agency to establish a rapport with the Sudanese state. The NCA declined to comment.

In July 2015, according to an account filed in the Italian court, the NCA informed Italy it had located Mr. Mered in Sudan. Italian prosecutors and NCA agents laid out a strategy to capture him, with the British lining up help from Sudan, according to an NCA memo. British agents supplied Mr. Ferrara's prosecution team with a cellphone number they said belonged to Mr. Mered.

Three times in May 2016, investigators intercepted calls on the phone. In one, they heard a discussion of helping a man emigrate, according to court documents.

The prosecutor says his defendant is the right man, but a judge will see.'

"Medhanie, please help me," the first man said, in the Eritrean language of Tigrinya.

"When you have the money, the situation will change," replied the second man.

The Sudanese pinpointed the location of the phone, placing the caller in Khartoum's Asmera Corner Café, a popular migrant hangout.

Sudanese police encircled the cafe and arrested the suspect while he was inside having tea. In his pockets,

according to court docu-

ments, were a few scraps of paper and a cellphone containing the numbers of known smugglers—men who, in 2014 wiretaps, had been heard discussing people smuggling with Mr. Mered.

The Sudanese handed over the man to Italian police, who loaded their quarry on an Italian government plane and flew him to Rome. There, news footage showed a stunned-looking young man in a reddish shirt walking off a plane, handcuffed and flanked by police.

The NCA celebrated its victory in a statement that day, saying it had captured "one of the world's most wanted people smugglers."

Almost immediately doubts arose about the identity of the arrested man. He bore little resemblance to the photo on Mr. Mered's Facebook page, said several people—including Mr. Mered's wife, who lives in Sweden.

A number of Eritreans, some identifying themselves as relatives and others as friends of the arrested man, said he wasn't Mr. Mered. Instead, they said, he was a then-29-year-old Eritrean, Mr. Tesfamariam.

They described a man unlike the entrepreneurial smuggler at the center of an international manhunt.

One of seven children, Mr. Tesfamariam, quiet and reserved, had shown almost no ambition growing up in the Eritrean capital of Asmara, they said. He loved cycling and dreamed of studying in China, said his half sister, Hiwet Tesfamariam, yet he didn't even know where China was. He drifted from one menial job to another, among them delivering milk

door to door.

In late 2014, facing a life of forced army service, Mr. Tesfamariam became part of the mass emigration that has marked Eritrea for a decade. He joined a sister in next-door Sudan, where he hoped to find a smuggler to take him to Europe.

His lack of drive and money left him stuck in Khartoum, spending his days playing videogames in a hovel he shared with four other migrants.

The man arrested by the Sudanese police in May 2016 had a battered Samsung i9105 phone containing pictures of himself hanging out in shabby clothes or sleeping on a bedraggled mattress. In Italy, he gave the police his Facebook password.

In the months after the arrest, reasons to think it was a mistake piled up.

Eritreans who said they had been smuggled by Mr. Mered said that he wasn't this man. Eritrea's government wrote to Rome saying the same, and providing a copy of Mr. Tesfamariam's identity papers. The defense said voice-recognition analysis showed the voice of the man in custody didn't match Mr. Mered's.

The defense offered a benign explanation of a wiretapped call on the cellphone found with the suspect, saying Mr. Tesfamariam was helping a friend whose family was trying to send him money to migrate.

An Italian lawmaker launched a parliamentary inquiry into the case, requesting information about the procedures followed to identify the man on trial. A couple of European governments, at the behest of their diplomats in East Africa, have asked the Italians to release the man in prison in Sicily.

Not giving up

Mr. Ferrara, the Sicilian prosecutor, is undeterred. In an interview, he cast doubt on evidence provided by Eritrea's government and by the supposed family members of the suspect, saying people in small communities might be looking out for one another.

"It is the same guy, at least according to our experts, but a judge will see," Mr. Ferrara said. "The problem we have...in these cases, we don't know exactly the names of these people. We have thousands of conversations of people who say they are Medhanie...it's a very difficult situation."

The trial, which began last fall, is expected to continue for months.

The half sister of Mr. Tesfamariam said her brother, sitting in a Sicilian jail, is "very desperate."

Far away, the man who says he is Mr. Mered has become a transient. "I have no permanent residence, I move from one country to another," he told the Journal. Facebook data this year put him in Uganda.

He said he had retired, having grown disillusioned with the smuggling business.

"If I am a bad person," he said, "I will be met with bad things."



on a basic benchmark: "Would the Stephen Colbert show be OK with this?"

Floats will undergo another screening before the 8 a.m. parade start. For anything still going too far, Ms. Downey said, vettors will be "bringing black spray paint and duct tape."

Resident Sindi Piku, 20, working in a pizza shop, worried the tradition will lose its sash: "People get offended so easily."

"We're not going to be politically correct," said Ms. Downey. "We want clever, not crude."

Joe Nichols, 29, entering his third Beverly Farms float with friends, hopes the vetting isn't too strict. He figures his edgiest appearance was in 2015 dressed as Caitlyn Jenner in fishnet top holding a sign: "Bruce Jenner believes in change."

His group starts bouncing around themes in May or June, looking online for topics that have drawn controversy. The night before the parade, they get a keg and make the float. He said they are keeping this year's idea secret for now.

"To me, it's about the tradition," he said, "staying up all night and making something that is actually horrible."

PARADE

Continued from Page One

sensitive on social issues.

One float referred to Bill Clinton's sex scandals. Another included a rendition of a Mexican border wall with people in sombreros.

"The flavor of last year was so political," said Raeann Downey, chairwoman of the Beverly Farms-Prides Crossing 4th of July Committee. "It got down and dirty; it was all Trump, Hillary and the wall."

So this year, a subcommittee of five semiretired parade volunteers will vet floats to make sure none oversteps the bounds of acceptable horribleness.

Vulgar words are out, and "we don't want body parts," said Ms. Downey. The vettors, she said, will also steer floats "away from the racial things, the gender things."

Horribles likely trace in part to one held in 1851 in Lowell, Mass., as a parody of the Ancient and Honorable Artillery Company of Massachusetts, according to the New England Historical Society.

Members of that citizen-sol-

dier organization, who marched in whatever uniforms they had, probably "looked a little ratty," said Charles Fazio, curator of the company's museum in Boston. Horribles parades, he said, were "a political thing started by some wisecrackers."

Over the years, the lampooning broadened to cultural and civic events. An 1877 horribles parade in St. Albans, Vt., depicted a local building committee in a trundle bed with a nursing bottle, according to the Vermont Historical Society.

In recent decades, displays have sometimes tested the limits of horrible taste. Jackson Tingle, 34 years old and coordinator of the Highlands Horribles Parade in Danvers, Mass., cringed when he saw 1970s photos of marchers wearing 17th-century attire, carrying small gallows and holding signs reading "just hanging."

"I thought, 'Oh, that's fun,'" he said sardonically. "They're making fun of the Salem Witch Trials."

Beverly's and Salem's mayors in a joint statement denounced 2008 Horribles parade displays in those communities that satirized a rise in teen pregnancies in nearby Gloucester, Mass. Gloucester's own Fishtown Horribles Parade had a kerfuffle with a float on which "the mermaid was a little bit topless," said Al Kipp, 57, a parade organizer there.

An organizer confronted the mermaid mid-parade and told her to keep herself covered.

Last year, Mike DeGrange, 39, organizer of the 91-year-old Ancients & Horribles Parade in Gloucester, R.I., was surprised by a truck flying a Confederate flag. "Was it a proud moment? No," he said. "But the Ancients & Horribles Parade is going to

have some horrible things in it."

Even by horribles standards, some of Beverly Farms's 2016 floats were too much for spectators like resident Jim Thompson, 55. "I stood on the sidelines getting angrier and angrier," he said. "I had a cup of Dunkin' Donuts ice tea. So I started throwing ice at them."

Along with the Trump, Clinton and border-wall floats was a trailer sporting real toilets and making light of the debate over transgender bathroom policies. A display bashed the Cincinnati zoo for the killing

of Harambe the gorilla and included a sign some deemed racially insensitive.

As criticism spread quickly on the internet, the parade decided "this year is going to be a little more controlled," said Ms. Downey, 68, the parade committee chairwoman.

The committee decided to more strictly enforce its "Horribles Parade Guidelines for Entrants," which prohibits disparagement of religion, sexual orientation and ethnic groups as well as offensive sexual content. It added the wording: "POLITICAL COMMENTARY AND SATIRE MUST STAY WITHIN THE BOUNDS OF ACCEPTABLE PUBLIC DISPLAY."

The new five-member vetting subcommittee will hop in a truck around 9 p.m. Monday night, July 3, hitting each location where float-building is under way. "If we can find them," Ms. Downey said. "Sometimes they hide their floats."

The vettors will keep guidelines on their clipboards and check that each float meets them, said committee spokesman David Bertoni, 65. The committee knows some conclusions will be judgment calls, he said, and has settled

U.S. NEWS

New York Police Keep Watch Overseas

NYPD liaison officers monitor terrorism from foreign cities to keep the U.S. informed

BY ZOLAN KANNO-YOUNGS

When three men started a deadly rampage on London Bridge in early June, New York Police Department officials prepared to send special units to the Big Apple's most-popular tourist destinations.

Then the call came from an NYPD detective—based in London. He said the attack didn't occur at a tourist attraction but at a bridge used by Londoners.

So the NYPD deployed armed units to avenues commonly used by residential New Yorkers, as well as the British embassy.

"We were able to look at that and say we can change our deployment strategy," said Lt. John Miedreich, who oversees the detectives posted abroad. "It changes the dynamic."

When a terrorist attack happens overseas, the NYPD uses information gathered by 14 detectives around the world to determine where in New York City they should deploy resources as a precaution.

The detectives stationed abroad foster relationships with local law-enforcement officials. That allows them to



A Times Square board displays a tribute to the victims of the May 22 Manchester Arena attack.

quickly relay information about terrorist attacks to New York, according to the NYPD's head of counterterrorism, John Miller.

At a time when terrorists are building networks that stretch around the world, Mr. Miller said, police need to be able to respond with a global network of their own.

The overseas detective program underscores how differently the New York Police Department with 36,000 officers—nearly triple the size of the next largest U.S. police depart-

ments in Chicago and Los Angeles—operates. Lt. Miedreich is unaware of any other domestic police department stationing officers abroad.

The NYPD gets a helping hand from the New York City Police Foundation, a nonprofit that spends about \$1.4 million a year, all from private donations, for the travel expenses and housing of detectives. The NYPD still pays the salaries for all of the detectives, a total of about \$1.6 million a year.

Eugene O'Donnell, a professor at John Jay College of

Criminal Justice and a former member of the NYPD, said he supports New York's oversea liaison program but it needs more oversight.

"The question is what are they doing sitting in London that they couldn't do sitting in New York," he said. "Are they just getting briefed? And if they are getting briefed, do they need to be there?"

Mr. Miller said stationing detectives abroad ensures stronger relationships. He also noted that many countries have liaisons posted at NYPD

headquarters. "With mutual cooperation from two law-enforcement agencies, part of that commitment is showing up," Mr. Miller said.

The NYPD stationed its first detectives abroad in Toronto and Lyon, France, in the wake of the Sept. 11, 2001, terrorist attacks, and subsequently Tel Aviv. Toronto, a large, diverse metropolitan city, was an easy place to start because it is similar to New York City, Lt. Miedreich said. Lyon is the headquarters of Interpol. The Israeli National Police also have extensive experience when it comes to terrorist attacks, he said.

Now the program has spread to 11 other cities, from Sydney to Santo Domingo, Dominican Republic, to Madrid.

In March, the NYPD sent a detective to Doha, Qatar, because of its proximity to regions with heavy movement among terrorists, Lt. Miedreich said. Qatar is also planning security for the 2022 World Cup.

Lt. Miedreich said the NYPD chooses the foreign cities based on the foreign police department's willingness to host detectives, how similar the city is to New York City and its "strategic value" when it comes to combating crime and terrorism.

The NYPD said the overseas detectives don't conduct investigations of their own. Instead, they share train-

ing practices and information about transnational crime with foreign police.

Earlier this year, an NYPD detective in Australia learned from New South Wales authorities that a 15-year-old girl was trafficked to the New York area, Lt. Miedreich said. The detective relayed it to NYPD headquarters and an investigation commenced.

NYPD investigators found the girl in Jamaica, Queens, and returned her to her parents.

One detective is stationed in Lyon at Interpol, an international police organization with 190 members. A spokeswoman for Interpol said the NYPD detective, as well as every member of the organization, has access to databases with more than 15,000 names of foreign terrorist fighters around the world.

The NYPD detective posted in Tel Aviv said when someone attempts an attack in Israel, he will communicate with his Israeli counterparts to see if any victims are from New York. He then gets descriptions of potential suspects and relays them to NYPD headquarters.

"It's important for me to pass on that information because who knows? Somewhere down the road or down the line, this individual may want to apply for a visa to come to visit New York," the detective stationed in Tel Aviv said.

U.S. WATCH

WHITE HOUSE

President Keeps Up His Fight With Media

President Donald Trump kept his public confrontation with the media front and center over the weekend, on Sunday tweeting a short doctored video of himself tackling and punching a person at the side of a wrestling ring who was meant to represent television network CNN.

Mr. Trump also made more extensive remarks criticizing news outlets for their coverage of him at a "Celebrate Freedom" concert Saturday night organized by the First Baptist Church of Dallas and held at the Kennedy Center in Washington ahead of the July 4 holiday.

"The fake media tried to stop us from going to the White House, but I'm president and they're not," he said.

"The fact is the press destroyed themselves because they went too far. Instead of being subtle and smart, they used the hatchet and the people saw it right from the beginning."

A separate disagreement between Mr. Trump and MSNBC hosts Mika Brzezinski and Joe Scarborough triggered rebukes from Republican lawmakers as well as Democrats after the president criticized Ms. Brzezinski's intellect and appearance in a tweet.

—Louise Radnofsky

ARKANSAS

During its record-breaking fiscal impasse, the state has racked up \$14.6 billion in unpaid bills, and bond houses are warning its credit rating could be downgraded to junk status.

Republican Gov. Bruce Rauner called a 10-day special session to solve the budget crisis before the start of the fiscal year on July 1. But the governor and lawmakers were unable to broker a deal before midnight Friday, leaving the General Assembly working overtime.

—Quint Forgey

Nightclub Shooting Leaves 28 Injured

A shooting at a nightclub in Little Rock left 28 people wounded early Saturday after an apparent dispute erupted at a rap concert, according to police.

The violence wasn't an act of terrorism or an active-shooter situation and didn't appear planned, police said at a news conference Saturday afternoon.

"This is certainly...a terrible, terrible tragedy," said Little Rock Mayor Mark Stodola at the briefing.

All of the victims are expected to survive, Little Rock Police Chief Kenton Buckner said. Two were in critical condition as of Saturday afternoon, and the remainder suffered wounds that weren't life-threatening, he said.

The shooting occurred about 2:30 a.m. Saturday at the Power Ultra Lounge in downtown Little Rock, about a mile east of the State Capitol, Chief Buckner said.

"Some sort of dispute ensued in the audience" with "multiple individuals responsible for those shots fired," he said.

—Arian Campo-Flores

Email Seeker Cited Trump Aides

campaign in general.

Mr. Smith died in mid-May at age 81, about 10 days after he spoke to the Journal. He said he operated independently of the Trump campaign.

Officials identified in the document include Steve Bannon, now chief strategist for President Donald Trump; Kellyanne Conway, former campaign manager and now White House counselor; Sam Clovis, a policy adviser to the Trump campaign and now a senior adviser at the Agriculture Department; and retired Lt. Gen. Mike Flynn, who was a campaign adviser and briefly was national security adviser in the Trump administration.

Mr. Bannon said he never met with Mr. Smith or anyone affiliated with a limited-liability company, KLS Research LLC, that the document said had been established for its mission. "Never heard of KLS Research or Peter Smith," Mr. Bannon said.

Ms. Conway said she knew Mr. Smith from Republican politics but hadn't spoken to him in years.

"I never met with him" during the campaign, Ms. Conway said. "There were no calls, no meetings, no nothing."

The White House didn't immediately respond to a request for comment. Neither did the Agriculture Department, Mr. Clovis's employer.

Mr. Flynn, his consulting firm Flynn Intel Group and his son Michael G. Flynn, who was chief of staff at Flynn Intel, were cited more extensively as Mr. Smith sought to recruit researchers, as well as in documents related to the effort that have been described to the Journal. Neither Mr. Flynn nor



Presidential advisers Kellyanne Conway and Stephen Bannon.

his son responded to requests for comment.

The names of the other campaign officials haven't surfaced in connection with Mr. Smith's work except in the document, which the Journal reviewed on Friday.

The document section that lists campaign officials is followed by the words, "in coordination to the extent permitted as an independent expenditure"—a possible reference to campaign strictures imposed by campaign-finance and disclosure laws.

The House Intelligence Committee and its counterpart in the Senate are investigating Russian election meddling and whether there was coordination with the Trump campaign. So is Special Counsel Robert Mueller. Mr. Trump has denied any collusion. The

Russian government has denied it tried to interfere.

U.S. investigators have examined reports from intelligence agencies that tell of Russian hackers discussing how to get emails from Mrs. Clinton's server and transmit them to Mr. Flynn via an intermediary, according to U.S. officials with knowledge of the intelligence. It isn't clear who the intermediary might have been or whether Mr. Smith's operation was the one allegedly under discussion by the Russian hackers.

Mr. Smith said in the May interview he had assembled a group of technology experts, lawyers and a Russian-speaking investigator based in Europe to acquire emails his group theorized might have been stolen from Mrs. Clinton's private server.

DOLLAR

Continued from Page One

was Federal Reserve Bank of St. Louis President James Bullard, who said on Thursday that he doesn't support raising short-term interest rates again this year.

"I think we have been overly hawkish, especially with regard to our future plans," he told reporters during a London presentation.

Markets are pricing in a roughly 54% chance that the Fed sticks to its projection for at least one more rate increase in 2017, according to fed-funds futures contracts tracked by CME Group. That is down from 62% in March.

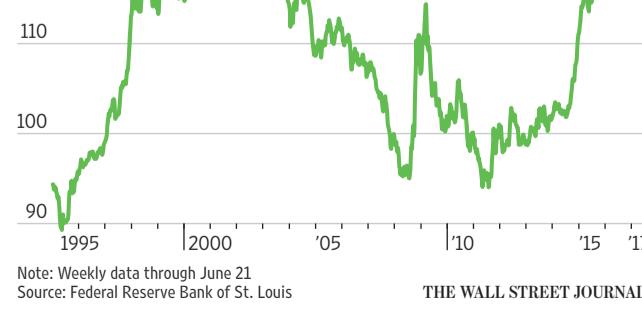
Meanwhile, investors are growing more bullish about economic recoveries in Europe and parts of the developing world, even as they fear a U.S. slowdown.

Emerging-market economies are expected to expand at the even faster rate of 4.7%

Dollar bull and bear markets typically last for about seven years.

The dollar this year entered the sixth year of a bull-market cycle.

Federal Reserve's Trade-Weighted Dollar Index



THE WALL STREET JOURNAL

this year, more than double the pace of U.S. and Europe, according to J.P. Morgan.

"The rest of the world's tone is improving while the U.S. is decelerating, and the dollar is reflecting that," said Mark McCormick, North Amer-

ican head of foreign-exchange strategy at TD Securities.

Some investors believe the dollar's performance this year could spell the end for the bull market in the greenback. Periods of dollar strength have typically lasted for around seven years.

"We're at this pivotal moment now where we're in the midst of a major turn lower in the dollar," said Bilal Hafeez, head of foreign-exchange strategy for Nomura Securities in London.

Alessio de Longis, a portfolio manager at OppenheimerFunds, entered the year betting on a broadly stronger dollar but now expects the dollar to trade sideways this year. "The growth momentum in the U.S. is fading," Mr. de Longis said. "Without a reinvigoration of tax reform, which doesn't seem likely this year, the dollar bull market is probably over."

Hedge funds and other speculative investors built up more than \$28 billion in bullish bets on the dollar at the end of last

year, according to Commodity Futures Trading Commission data.

As of June 27, bullish bets on the dollar had shrunk to a net \$2.7 billion.

Not everyone has lost confidence in a strong dollar: James Athey, a senior investment manager at Aberdeen

Investors are growing more bullish about economic recoveries in Europe and elsewhere.

Asset Management, still expects the dollar to rise against developed-market currencies such as the yen in the months ahead.

"The dollar has suffered greatly," said Mr. Athey, who thinks dollar investors are too pessimistic about the Fed's interest-rate path. "We think the U.S. economy is still the most robust," he added.

A weaker U.S. currency

could help support the recent recovery in corporate profits, which grew at the fastest pace in nearly six years in the first quarter of the year. A falling dollar makes U.S. multinationals' exports more competitive abroad.

A weaker dollar also would relieve pressure on emerging-market nations by making their dollar-denominated debts easier to service and relieving downward pressure on their currencies. Since many developing countries are also commodities producers, a weaker dollar helps these economies because it makes their materials cheaper for nondollar buyers.

Even in Europe, where exports to the U.S. have become more expensive as a result of the euro's 8.6% rise against the dollar this year, signs of growth slowly picking up could mean European companies are better able to withstand a weakening dollar than in previous years. The benchmark Stoxx Europe 600 index has rallied 5% this year.

LIFE & ARTS

MUSIC

The South's Rock Renaissance

The popularity of rock acts like Alabama Shakes, Bitter and the Glory Fires is fueling an expansion in the South's music scene

BY NEIL SHAH

ROCK 'N' ROLL hasn't ruled American pop culture for decades, but in the South, it's enjoying a renaissance.

From the garage-punk bands of Nashville to Atlanta's metal-heads, Southern rock scenes are flourishing, sprouting new acts, clubs and publications. The new acts are much different than their predecessors: They are multi-ethnic and tackle thorny subjects with a centrist voice. Rather than hiding their accents, they take pride in their Southernness and flaunt it. Musically, they've splintered into a variety of styles, from retro-soul and revved-up Lynyrd Skynyrd-esque rock to punk.

"Southern rock has gone from being music made by white guys with accents like mine to being this multicultural thing that crosses so many genres," says Chuck Reece, editor-in-chief of The Bitter Southerner, a Southern music and culture magazine whose digital audience has grown to over 100,000 monthly viewers since its launch in 2013.

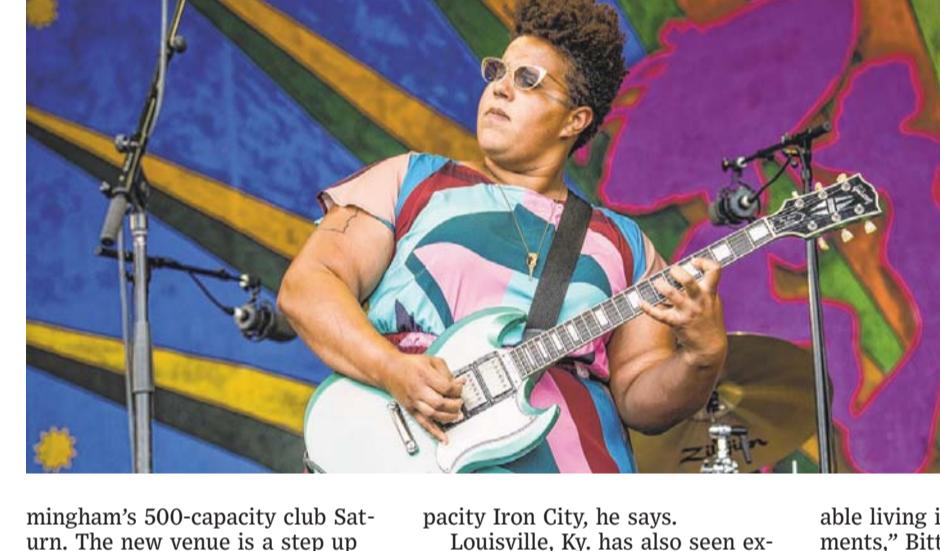
The South has long been a well-spring of American popular music, from New Orleans jazz and Memphis rock and roll to Atlanta rap. The latest rock revival shows how dramatically this region's demographic and economic landscape is changing. In the past decade, the South has seen more growth in Hispanics, Asians and mixed-race Americans than any region, says William Frey, a Brookings Institution demographer. There's also been an infusion of young people from New York, Chicago, Los Angeles and rural parts of the Midwest into Southern cities, drawn by a strong regional economy and lower living costs. This "blend of lifestyles, backgrounds and origins will keep the region on the cutting edge of cultural change," Mr. Frey says.

Among notable Southern acts are Birmingham's Lee Bains III and the Glory Fires; Bitter, a punk band with two transgender members and a Latina lead singer; and Alabama Shakes, led by power-house Brittany Howard, who is bisexual.

The popularity of homegrown Southern acts has fueled a broad expansion in the live-music scene. In 2015, The Bowery Presents, a New York-based concert promoter, partnered with musician-entrepreneur Brian Teasley to open Bir-



FROM TOP: WES FRAZER FOR THE WALL STREET JOURNAL; AMY HARRIS/ASSOCIATED PRESS
The South's new acts reflect the region's diversity. Top from left, Adam Williamson, Lee Bains III, Eric Wallace of Lee Bains III & the Glory Fires; below, Brittany Howard of Alabama Shakes.



mington's 500-capacity club Saturn. The new venue is a step up from Mr. Teasley's earlier 250-capacity room, Bottletree. "It's unbelievable how much the demand for great music has grown here in the last 10 years," Mr. Teasley says.

Bigger bands like TV on the Radio "didn't come here in anywhere near the frequency that they do now," Mr. Teasley says. Meanwhile, Birmingham's music-business infrastructure has grown—more bands, labels, blogs, record stores and venues, such as the 1,300-ca-

pacity Iron City, he says.

Louisville, Ky. has also seen expansion. Zanzabar, a favorite local venue, recently doubled its capacity and now accommodates nearly 400 people. Co-owner Jon Wettig says he hopes an apartment the venue owns next door will entice more bands to come through.

In Nashville, Live Nation, the country's biggest concert promoter, has been bulking up. It now runs the city's Ascend Amphitheater and Carl Black Chevy Woods Amphitheater. Rival AEG Presents

is planning to open two new music establishments—a 4,000-capacity venue and a smaller 600-capacity one—in downtown Nashville as part of a new entertainment district.

What unites the new crop of bands is their inclusive definition of Southernness.

"The whole sweep of changes from the first era of Southern rock to where we are now has a lot to do with the younger generation becoming more comfortable living in diverse environments," Bitter Southerner's Mr. Reece says. Atlanta's Bitter, which formed a year ago, sometimes sings in Spanish; its Houston-born singer and songwriter Maritza Núñez, 21, a first-generation Mexican-American, loves Shakira and Courtney Love.

Perhaps the region's biggest breakout group is Alabama Shakes, based in Athens, Ala., who won Grammy awards in 2016 for "Best Rock Performance" and "Best Alternative Music Album." The band

has racked up nearly 1.7 million in album units, including sales and streams, says Nielsen Music. Jason Isbell and the 400 Unit, another thriving act, debuted at No. 4 on the Billboard chart last month with their new album, "The Nashville Sound."

The Glory Fires, who fuse classic-rock, punk and soul, released their third album on Friday. Frontman Lee Bains III, 32, an English-literature major who wears a baseball cap and holds a construction job, says his first concert was seeing the Allman Brothers Band. Yet he calls Atlanta rap duo OutKast his "Beatles." "The South doesn't sound one way," he says. "It's a multitude." On "Whitewash," a new song, he rejects white privilege, saying he doesn't want "power over anybody."

The Glory Fires are the latest in a line of unashamedly Southern rockers. Lynyrd Skynyrd wrote "Sweet Home Alabama" in response to Neil Young's criticisms of the region. Drive-By Truckers, who revived Southern rock in the 2000s, took pride in Southernness but also challenged the region's troubled history. On "The Weeds Downtown," from the Glory Fires' 2014 album, "Dereconstructed," Mr. Bains tries to convince his now-wife to move back to Birmingham: "I know that Birmingham gets you down / But look what it raised you up to be."

Seventies acts like the Charlie Daniels Band defended the South at a time when it was poor, largely rural and frequently disdained in other parts of the country. By the time pop, "hair metal" and hip-hop dominated in the 1980s and early 1990s, Southern accents had become a career obstacle. "Everybody was trying to run from their Southernness," says Mike Cooley, co-leader of Drive-By Truckers.

Today's bands "speak loud and proud with their accents," Mr. Cooley says. Being Southern has been an asset for Birmingham's St. Paul and the Broken Bones. Just three years after forming in 2012, the soul-rock group, popular in the U.S. and Europe and fronted by the energetic, bespectacled singer Paul Janeway, opened up for the Rolling Stones.

When the band first started, fellow musicians and fans questioned how they succeeded being from a small Southern city like Birmingham, Mr. Janeway says. "Now it's like, 'Y'all from Alabama!'" He laughs. "It's kind of beautiful."

ART REVIEW

THE UNKNOWN GAUGUIN

BY MARY TOMPKINS LEWIS

Chicago

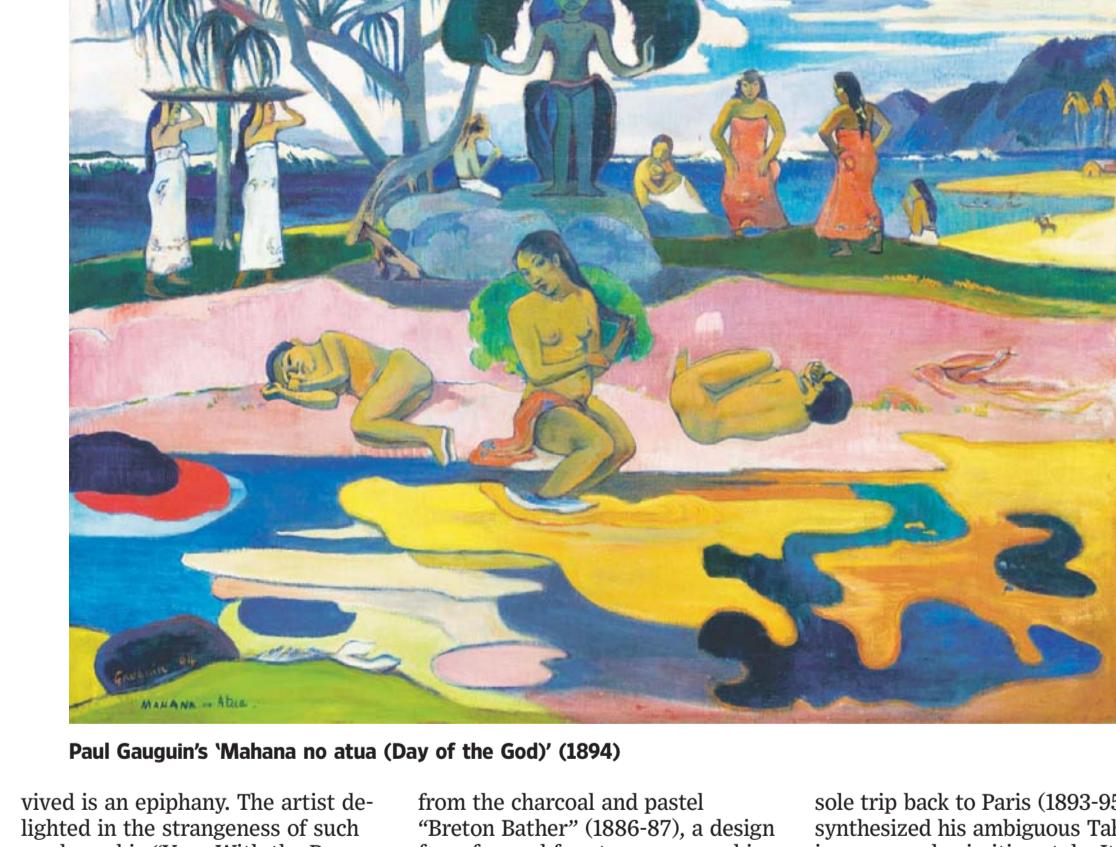
THE SHADOWS OF French colonialism, of 19th-century cultural appropriations, and of the artist's unbridled carnal appetites found in his work have made the French Post-Impressionist painter Paul Gauguin (1848-1903) a lodestone for scholars and commentators of every conceivable stripe. Gauguin's infamous self-image as an exotic, unrepentant savage has been debunked, but what has not received its due is the breadth of his creative process—the radical experiments and breathtaking range of media Gauguin employed to define a willfully crude, self-conscious primitivism that defied the hierarchies of the fine arts.

The exhaustive and exhilarating "Gauguin: Artist as Alchemist," an exhibition of almost 250 works curated by Gloria Groomes of the Art Institute of Chicago and Claire Bernardi and Ophélie Ferlier-Bouat of the Musée d'Orsay (where the show travels next), changes that. Though he supported himself as a painter (some 70 of his paintings are on view), the primal place of sculpture and the applied arts in Gauguin's oeuvre—as seen here in wood, carved stone, embellished furniture and richly expressive ceramics—reveals his fascination with decoration and the lowly craft arts that would shape his outlier

aesthetic. Working in France, the Caribbean and finally French Polynesia, he produced an oeuvre of astonishing complexity and refinement that challenges his mythic persona as an *ultra-sauvage*.

The show opens with early works that highlight the artist's deep attachment to the humble objects he carved or collected and their significance for his art. A chalk drawing by Camille Pissarro of Gauguin whittling a small wooden statuette—a skill likely acquired in his years as a youthful mariner—is flanked by the tiny figure pictured within it, painstakingly carved by Gauguin in a tropical hardwood he would see again in Tahiti. An 18th-century pine-wood tankard looms large in Gauguin's "Clovis Sleeping" (1884), an exquisite portrait of his young son that anticipates the dreamlike world of the artist's later Symbolist works. A later wooden walking stick, on which Gauguin sculpted a snake and female nude and topped with a wooden clog, encapsulates his late 1880s stay in Brittany while offering a rustic riposte to Parisian flâneurs' elegant accoutrements.

Gauguin produced over a hundred ceramic objects in France. Though prized by the artist and often depicted in his still lifes (a number are here), these clay and stoneware creations remain his least known works; the inclusion of almost half of those that have sur-



Paul Gauguin's 'Mahana no atua (Day of the God)' (1894)

vived is an epiphany. The artist delighted in the strangeness of such works as his "Vase With the Portrait Mask of a Woman" (1887-88), a glazed vessel on which the accidental effects of the firing process are celebrated with gilded highlights. Gauguin remembered his mother's collection of anthropomorphic ceramics from her native Peru, and the placement of this work alongside the ancient Andean "Portrait Vessel of a Ruler" is one of the show's many inspired pairings. It suggests how non-European cultures shaped his defiant aesthetic.

The artist also mined his own works for eloquent motifs. The tentative female nude who inches into a pool atop his elegant glazed "Cup Decorated With the Figure of a Bathing Girl" (1887-88) evolved

from the charcoal and pastel "Breton Bather" (1886-87), a design for a fan and for stoneware, and is reprised in reverse in a zincograph from his Volpini Suite (1889).

Neither clay nor kilns were in Tahiti when Gauguin arrived in 1891, so he worked, instead, in bark cloth, stone and especially tropical hardwoods. He became obsessed with the local *ti'i*, the mysterious Maori deities banned by Christian missionaries and hidden away by natives; they figure in his Polynesian paintings and were joined by the artist's own small idols carved in wood and adorned with precious objects.

Woodblock prints became a huge part of his late output, as seen here in the pages and printing plates of his "Noa Noa Suite," an ambitious graphic project he undertook on his

sole trip back to Paris (1893-95) that synthesized his ambiguous Tahitian imagery and primitive style. Its shallow carved blocks of flattened motifs may well have inspired his later ensembles of painted and sculpted reliefs, including the decorative panels of his "Maison du Jour" (or House of Pleasure) that he built in his last days on the Marquesas Islands. The final expression of his mythic artistic identity, its remnants bring the exhibition to a powerful and poignant close.

Gauguin: Artist as Alchemist
Art Institute of Chicago, through Sept. 10

Ms. Lewis teaches art history at Trinity College, Hartford, Conn.

LIFE & ARTS

WHAT'S YOUR WORKOUT? | By Jen Murphy

The Disc Golf Fitness Regimen

After finding other types of exercise too hard or too dull, a Georgia musician discovered his jam with this mellow sport

ZACH DEPUTY never found exercise fun. But when his weight tipped past 400 pounds, he knew he needed to move more. Running was uncomfortable. CrossFit sounded like torture. And low-impact activities like golf seemed boring until the singer-songwriter's tour manager introduced him to disc golf six years ago. Instead of using a ball and club, players attempt to throw a Frisbee-like disc into an elevated metal basket in the fewest throws possible.

On his second disc golf outing he landed a toss from 150 feet away. "From that moment on I was hooked," he says. "If someone told me to hike up a hill for a beautiful view, I'd think about it," he says. "If you put baskets up a mountain, well there's no question I'd hike up to toss a disc."

He credits his passion for disc golf, combined with a high-fat, low-carb ketogenic diet, with helping him drop 100 pounds.

Mr. Deputy is in the middle of his 10th year on tour. Some years he's averaged 300 days on the road. The 35-year-old has cut back to about 175 days of travel in 2017 to maximize time at home, in Savannah, Ga.

Mr. Deputy competes in as many Professional Disc Golf Association tournaments as his schedule allows. His PDGA Player Rating is currently 894, which is similar to a golf handicap of about 10. "I have a fantasy that I'll compete professionally in the Masters division," he says of the 40-and-over competition.

The Workout

Mr. Deputy tries to play six days a week and always covers at least one mile walking a course. "I can get up to four miles of hiking up and down hills on challenging courses," he says. Most courses have nine to 18 holes. Completing a course can take anywhere from 40 minutes to three hours, he says.

Tom Triplett Park in Pooler,



SEAN RAYFORD FOR THE WALL STREET JOURNAL

Ga., is his home course. While on tour, he plays before shows. "It's a great way to catch up with friends I haven't seen in awhile," he says. "On the disc golf course, you have a few hours to really

connect." He estimates he's played 700 courses. Favorites include Maple Hill in Leicester, Mass., and DeLaveaga in Santa Cruz, Calif.

As in golf, a disc golfer pro-

pounds. "I tried every diet out there, and my body rejected each one in two weeks," he says. On the ketogenic diet, most of one's caloric intake comes from fats. "Losing weight by eating more butter and sour cream really messes with everything we've been taught about nutrition, but I felt great and the diet is sustainable." In one year he lost 70 pounds and now rarely eats sugar and refined carbs. "I did have a fruit extravaganza for a few months eating watermelon and apples and probably gained 15 pounds back," he says.

Breakfast is spinach and baked chicken topped with cheese and sour cream. Lunch or dinner might be a burger, hold the bun, and broccoli. On the road, Chipotle is a frequent stop. He orders a chicken bowl with no rice, light on the beans and heavy on the sour cream, cheese and lettuce.

Intermittent fasting is part of the ketogenic diet philosophy, so he tries not to eat before noon or after 8 p.m.

The Gear & Cost

Disc golfers can choose from hundreds of discs. Many disc brands offer a flight rating system designed to describe a specific disc's speed, turn and stability. Mr. Deputy estimates he owns 400 discs. "When a new model comes out, I need to know how it performs," he says. Discs retail for \$7 to \$30, but Mr. Deputy receives free discs from his sponsor, Innova.

Tie-dye T-shirts and shorts are common on the disc golf course. "I like loose clothing, like basketball shorts, so I'm not constricted in a run up or throw," he says. Mr. Deputy rotates hard on his right foot, which wears down the sole of normal sneakers, so he now wears thick-soled, Keen Nasu Disc Golf WP sneakers. (They retailed for \$130, but have been discontinued.) Most courses are free to play.

FITNESS

HOW CYCLISTS CAN STAND OUT

BY RACHEL BACHMAN

SOME OF THE best ways to make cyclists more visible to drivers are also the simplest, new research says.

Highlighting the motion of pedaling can make cyclists more conspicuous, according to two recent experiments. Rick Tyrrell, a psychology professor at Clemson University, plans to submit his findings to academic journals this summer.

In one experiment, Dr. Tyrrell put 186 college students in a car—"not all at the same time, obviously." One by one, the passengers were driven along a 15-minute route and told to press a button each time they were confident that they saw a cyclist.

A stationary cyclist was placed along the route facing away from the car. The cyclist wore one of four combinations of clothes, from all-black to nearly all-fluorescent yellow.

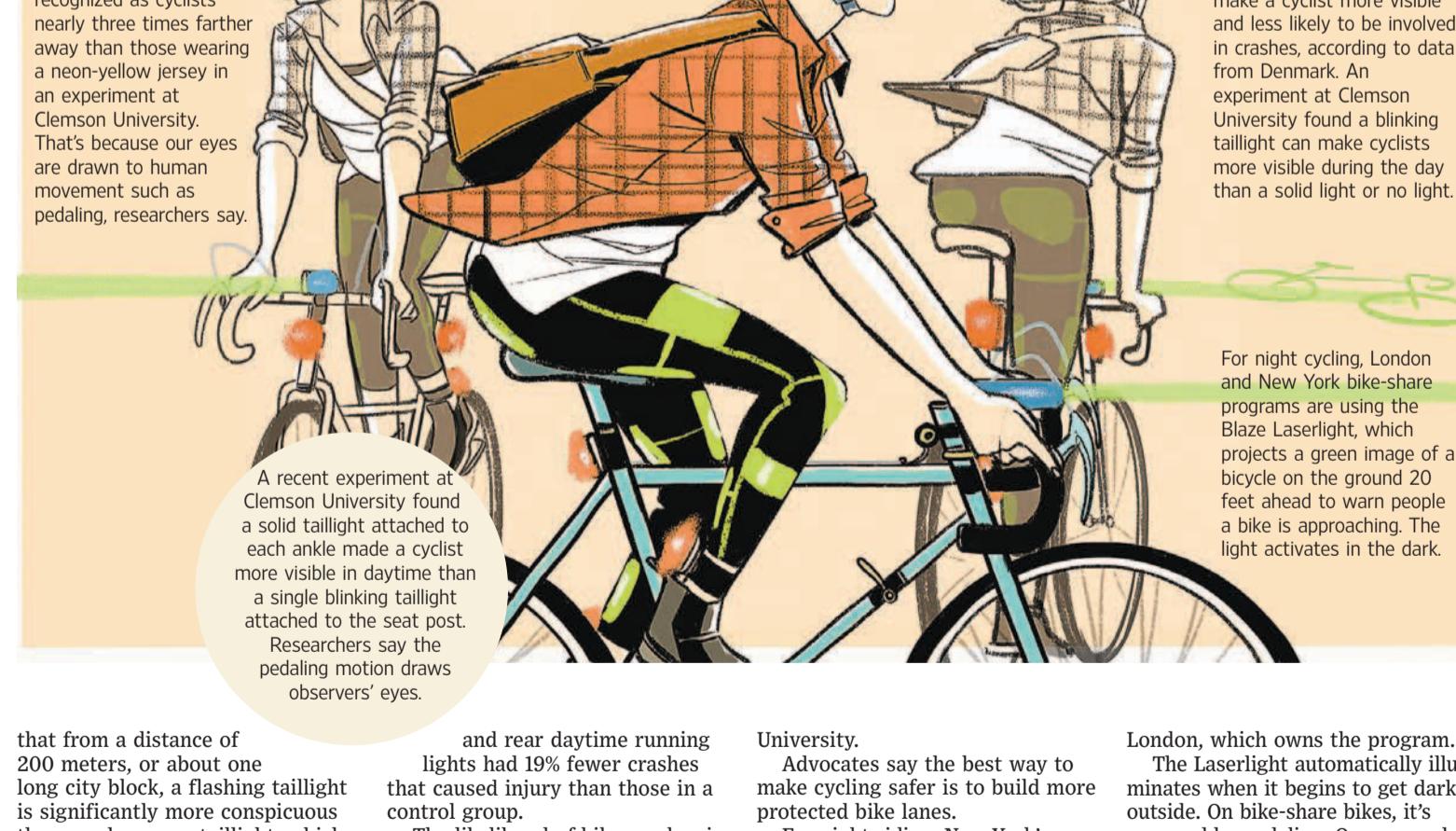
Although fluorescent jackets can make people more visible generally, in this experiment the fluorescent jersey didn't make the cyclist significantly more recognizable as a cyclist than a black jersey. When the cyclist wore fluorescent leg coverings, however, observers recognized he was a cyclist more than three times farther away on average than when he wore black leggings and a fluorescent jersey.

"Humans are really good at recognizing other humans," Dr. Tyrrell says, noting that pedaling a bike is an obviously human motion.

Cyclists and pedestrians tend to overestimate how visible they are to others, previous research has shown.

In Dr. Tyrrell's other experiment, he and his students tested the use of taillights to increase cyclists' visibility during the day. Both studies were funded in part by bike maker Trek Bicycle. While nighttime cycling crashes are more likely to be fatal, about 80% of crashes occur during the day, when most cycling takes place, according to U.K. data.

The Clemson experiment found



that from a distance of 200 meters, or about one long city block, a flashing taillight is significantly more conspicuous than an always-on taillight, which in turn is significantly more conspicuous than a taillight turned off.

But most eye-catching of all: a solid light worn on the back of each ankle. The researchers custom-rigged taillights with ankle straps for the experiment. Trek's parts-and-accessories brand, Bontrager, doesn't make ankle lights.

"It's something that we're looking into for the future of how to make the right product for the consumer," says Scott Kason, Trek's electronics and integration product manager. "It was truly eye-opening for all of us."

A yearlong experiment with nearly 4,000 cyclists in Denmark found that those who used front

and rear daytime running lights had 19% fewer crashes that caused injury than those in a control group.

The likelihood of bike crashes is declining as ridership rises in big U.S. cities, data suggest. Rides on bikes offered through city-centered bike-share programs have surged—to 28 million last year—as the programs expand, according to the National Association of City Transportation Officials. Two cyclists have died in bike-share crashes out of more than 100 million trips since 2010: a woman in Chicago last year and, recently, a man in New York.

Bike-share bikes are thought to be safer than personal bikes because they tend to be heavier, slower and equipped with lights, according to a report by the Mineta Transportation Institute, a research center at San Jose State

University.

Advocates say the best way to make cycling safer is to build more protected bike lanes.

For night riding, New York's bike-sharing system, Citi Bike, is testing a product called Laserlight on 250 of its 10,000 bikes. The light, made by a London-based company called Blaze, is mounted on the front of the bike and projects a green laser image of a bicycle onto the ground about 20 feet in front. The image alerts drivers and pedestrians that a cyclist is approaching. An independent 12-week study found that a bike with a Laserlight in the dark is more visible to a driver than a bike without one in the daytime.

In London, all 11,500 bikes in the city's bike-share program, Santander Cycles, are equipped with Laserlights, says spokesman Matthew Sparkes of Transport for

London, which owns the program.

The Laserlight automatically illuminates when it begins to get dark outside. On bike-share bikes, it's powered by pedaling. On personal bikes, it's removable and rechargeable.

Bike headlights are brighter than ever. Garmin's Varia UT800 can be seen a mile away in daylight, company officials say.

Mighk Wilson, executive director of the Orlando, Fla.-based nonprofit American Bicycling Education Association, says strategies can make a rider more visible. One tip in the association's classes is riding in the center of a lane so drivers don't try to squeeze past or turn in front of you. "Most important, really, is your positioning on the road, which then enhances your use of those lights and makes you more relevant," Mr. Wilson says.

OPINION

REVIEW & OUTLOOK

Trump's Signals to China

The Trump Administration is losing patience with China's failure to stop North Korea's nuclear program, and two signals last week were new U.S. sanctions on Chinese aiding the North and a \$1.4 billion arms sale to Taiwan. Beijing may be miscalculating that this U.S. government will behave like every other.

The arms sale includes such sorely needed equipment as antiship missiles and torpedoes, though that doesn't make up for two decades of neglect by past U.S. administrations. Washington is obligated under the Taiwan Relations Act to help the island if it comes under attack, so the smart policy is to ensure that Taiwan can defend itself and deter a Beijing invasion.

Twenty years ago military experts derided the idea of a Chinese invasion as a "million man swim," since the People's Liberation Army lacked even the amphibious landing capability to move its forces across the 110-mile Taiwan Strait. Today China has landing craft, advanced fighters, ships and submarines. Shore-based missiles make it dangerous for the U.S. Navy to enter the Taiwan Strait in a crisis.

Taiwan's air force still flies some F-5 fighters bought in 1985, and its navy's two deployable submarines date from the same era. A 2016 report from the RAND Corporation estimated that Taiwan needs to spend \$25.3 billion on new weapons over the next 20 years to create a

Arms for Taiwan and sanctions on Chinese dealing with Pyongyang.

credible deterrent against Chinese attack. The most critical need is for more F-16 fighters so Taiwan's air force isn't overwhelmed in the early days of a conflict, as would be the case now.

Meanwhile, the U.S. Treasury last week announced new sanctions to reduce the flow of money through China to North Korea. Treasury said it will cut

off the China-based Bank of Dandong from the U.S. financial system for "facilitating millions of dollars of transactions for companies involved in North Korea's WMD and ballistic missile programs." Treasury also sanctioned Dalian Global Unity Shipping Co., and two Chinese citizens, Sun Wei and Li Hong Ri.

These sanctions against Chinese entities dealing with the North are long overdue, and we've advocated turning the financial screws against any Chinese doing business with the North if China's government won't rein in its client regime. Beijing loudly protested the new sanctions and the Taiwan arms sales, but it should understand that the U.S. can escalate on both fronts and there is pressure from both parties in the U.S. Congress to do so.

After his friendly visit to Mar-a-Lago in April, Chinese President Xi Jinping may have concluded he can take a few token steps on North Korea and resume business as usual. But as the North's threat to the U.S. and its allies increases, China's malign neglect is untenable.

The Other Republican Health Plan

U.S. Democrats spent most of last week accusing Republicans of trying to create a dystopia where Americans are denied basic health-care treatments. So note the initial steps that the Food and Drug Administration, under new political management, took to lower the cost of prescription medicine for patients. You might not have noticed amid the latest Trump Twitter meltdown.

Last week the FDA published a list of drugs that don't face competition from generic alternatives even though their intellectual property protections have expired. The FDA said it will expedite the approval process for such applications "until there are three approved generics for a given drug product." The agency says it will take more steps and has announced a July meeting for public feedback.

For some drugs on the roster, no company has submitted a generic application. One reason is that the cost of developing a generic product can run into the millions of dollars, and many can't fetch the profit to recoup the expense. Yet competition is essential for lowering prices: Consumers pay 94% of the branded price on average when one generic firm enters the market, but that drops to 52% with two competitors and to 44% with three, according to an FDA analysis.

The savings ripple across the health-care system, and last year generics saved \$253 billion, according to a June report from the Association for Accessible Medicines. Case in point are alternatives for chronic troubles such as the cholesterol-reducing statin, Lipitor, which cost \$3.29 a unit before its patent expired. The generic version last year cost \$0.11.

One barrier to innovation is that some manufacturers are abusing FDA safety and risk-mitigation regulations to protect monopoly positions. A generic competitor has to prove equivalence to the branded product to win FDA approval, and that requires extensive testing with anywhere from 1,500 to 5,000 tablets of

the original treatment. But companies are invoking FDA safe-use and distribution restrictions to avoid handing over the capsules.

In 2014, Alex Brill of Matrix Global Advisors analyzed reported cases of this misuse. Delayed competition for 40 products cost \$5.4 billion annually in lost savings, Mr. Brill found. About \$1.8 billion of

the cost is picked up by the federal government through Medicaid and other programs. This issue will no doubt capture attention at the agency's public meeting next month, and Congress could help by codifying changes as part of an agency reauthorization. Bills to rein in this behavior have been introduced.

A larger challenge for the FDA is developing an approval process for "complex generics," such as the allergy shot EpiPen, that require a device or present some other complication. The good news is that no scholar has devoted as much attention to the issue as new FDA Commissioner Scott Gottlieb, who has testified to Congress that the generic-approval process was written when most products were molecule pills that were straightforward to re-create. Regarding EpiPen, FDA regulations helped keep a generic alternative off the market by requiring an identical device to deliver a shot of adrenaline.

Last week's announcement is the beginning of a process, and other unresolved issues include that most generics aren't approved on the first round, and revisions create substantial work for companies and FDA staff. The agency also has a backlog of applications and has struggled to hire enough staff to keep up with applications.

None of this will ever attract the media attention of "Pharma bro" Martin Shkreli, who jacked up the price of a treatment that faced no competition, or the periodic mugging of some drug company CEO in front of Congress. But Dr. Gottlieb has dedicated much of his career to explaining the benefits that competition can bring to medicine, and now he's bringing that experience to one of the most resistant bureaucracies in Washington.

Seattle Workers Pay for the Minimum Wage

Some laws of economics are so obvious that they require hundreds of papers to prove, and a classic example is the minimum wage, which increases the cost of labor and in most cases prices some workers out of jobs. Fresh evidence comes from Seattle's minimum-wage climb to a \$15 an hour.

A study from researchers at the University of Washington published in the National Bureau of Economic Research looked at how Seattle's minimum-wage increase in 2016 to \$13 an hour from \$11 affected low-wage workers. The results? Hours worked fell 9%—3.5 million hours a quarter—and low-wage employees lost \$125 a month on average.

Let that sink in: A campaign predicated on giving workers a raise lowered paychecks. The increase to \$13 from \$11 also "yielded more substantial disemployment effects" than an earlier jump to \$11 from \$9.47, the study found.

Note that Seattle's minimum will continue to rise to \$15, with varying deadlines for small and large businesses. Later increases will almost certainly be more damaging, as businesses try to absorb costs by automating more tasks or raising prices for consumers. As for workers, some may even ask for reduced hours: Benefits like Medicaid phase out as income rises, which means a worker's next dollar of income can be taxed above 100%.

The labor unions underwriting the Fight for \$15 campaign have activated the phone trees to impugn the study's credibility. Proponents of the increase point to a report released last month from the University of California-Berke-

ley that purported to find no adverse effects from Seattle's move. Yet the Washington study relied on sophisticated and detailed data about hours and earning, while Berkeley deployed the restaurant industry as a proxy.

One political subplot: Wage and employment expert Michael Saltsman wondered why Seattle Mayor Ed Murray's office pumped the Berkeley report when the city commissioned its own studies from the Washington researchers. According to reporting in the Seattle Weekly, the mayor's office knew the damning report was coming. Berkeley scholars were offered an advance copy to rebut the claims. This looks more like coordinating press releases than honestly addressing the Seattle evidence.

Other attempts to avoid reality include complaints that the study didn't adequately control for Seattle's booming labor market, which liberals say is displacing low-wage jobs for better opportunities. The study did include a control, and this is the tension for the left: Wages are growing so fast in Seattle that the government needs to intervene to increase them?

Still another progressive impulse is to say that perhaps \$15 an hour is too disruptive to the labor market, but with more data the government can pinpoint the precise wage that benefits workers. That would certainly raise the demand for labor consultants and Berkeley professors, if not for waiters. The real and eternal lesson is that political wage-setting hurts the least skilled and lowest-paid workers, as the evidence in Seattle shows.

A new study says the \$13 wage is a killer for lower-wage workers.

The Simplicity Of a Health Deal



POTOMAC WATCH
By Kimberly A. Strassel

As Washington continues to boggle America with the complex minutiae of health-care reform, the contours of an actual deal aren't nearly so mystifying. The success of the Republican Party effort comes down to one simple question: Will the most conservative members of Congress accept that the politics of health care have changed?

Or more simply yet: Will they acknowledge that any reform must include continued protections for pre-existing medical conditions?

It's that easy. Yes, the media analysis is correct that there are two camps of defectors from the Senate's reform bill. One consists of Republican moderates—Susan Collins, Dean Heller, Lisa Murkowski, Rob Portman—who claim the bill is too mean to poor and sick people. Cue mind-numbing media stories about Medicaid formulas and per capita spending caps and medical inflation, all of which make a compromise sound nigh impossible.

Hardly. Here's a tip: When a politician claims a bill "cuts too much," that's an invitation to be bought off. There's a reason several senators who had been largely mum on the GOP bill (Shelley Moore Capito of West Virginia, Jerry Moran of Kansas) came out against it only after Majority Leader Mitch McConnell delayed a vote. They saw the other holdouts were about to get payola, and they wanted theirs.

And there is cash to be had. With the stakes this high, the Senate leadership will gladly shuffle some money toward opioid treatment, rural health-care providers or Medicaid. So getting the "moderates" on board is simple and transactional. They name a price, they get pork, they vote yes.

The conservatives are the sticking point, precisely because they have principles. Sens. Ted Cruz, Ron Johnson, Mike Lee and Rand Paul have been clear from the start that any bill must lower premiums, which involves getting rid of costly ObamaCare mandates. And there is no question that among the most expensive mandates are those designed to protect individuals with pre-existing conditions—in particular "community rating," which requires insurers to charge the same prices regardless of health status.

The House Freedom Caucus was so intent on getting rid of community rating that it nearly derailed the bill. Only after the conference added an amendment allowing states to apply for waivers from community rating did the most conservative members finally come on board.

Even so, it was always clear that provision was never going to fly in the Senate—and for a simple reason. Freedom Caucus members tend to hail from inordinately conservative (and safe) congressional districts, whereas senators

represent entire statewide populations. And a sizable majority of the public strongly supports retaining protections for pre-existing conditions.

This is the true legacy of the Republican presidential loss in 2008, and the health-care law that resulted. Few Americans ever understood the stunningly complex means by which ObamaCare screwed up the individual insurance market, or the wider economy. To this day, most Americans haven't intimately interacted with the law, as they receive their health care from an employer or Medicare.

But every American remembers two particular provisions of the law—pre-existing conditions and coverage for children up to 26. These policies are simple and sound good. And they have become over the years a new standard in most people's minds. A February poll from YouGov showed 77% support for protections for consumers with pre-existing conditions.

The GOP must realize protection for pre-existing conditions is here to stay.

Principles matter, but so does public will. Conservatives will argue their side just needs to do a better job explaining how these mandates drive up costs for everyone, or lower the quality of care. These are valid points, but they'll count for little in the face of 2018 Democratic campaign ads that flash GOP names next to a graphic of a kid in a wheelchair with cancer who can't get care. Republicans lost this argument nearly a decade ago, when Mr. Obama won. More than 90% of Senate Republicans understand this.

Which is another way of saying that protections for pre-existing conditions are here to stay, and conservatives face a choice. They can work with their colleagues to minimize the costs of the mandates (there are innovative ways to do this) and build in different free-market reforms to lower premiums. The Congressional Budget Office estimates that the current Senate bill will reduce premiums by about 30%. The GOP can and should build on this.

Or they can kill the bill, and get no premium reductions at all, no deficit reduction, no Medicaid reform, no tax cuts and no economic boost. Oh, and the protections for pre-existing conditions would remain. Plus, electoral disaster would loom.

It's a binary choice, rooted in blunt political reality, which ought to make it an easy call. The question is whether conservatives will be savvy enough to forge a face-saving compromise and seek victories elsewhere in the bill. The health-care debate has changed over the past decade, and Republicans can't reverse it on a dime. But they can pass a bill that starts the walk back to freer health-care markets.

Write to kim@wsj.com.

LETTERS TO THE EDITOR

U.S. Steel Is Competitive With Fair Imports

"The Outlook: Trade War Risks From 'National Security' Tariffs" (U.S. News, June 19) fails to acknowledge the widespread negative reverberations that are happening in the American steel industry. Negative consequences of the status quo are

happening right now to hundreds of companies representing billions of dollars of the U.S. economy. If President Trump curbs imports of steel and steel products in the name of national security, positive impacts are very likely.

The article's illustrations show countries of origin for steel imports to the U.S. Very little raw Chinese steel is imported to America since tariffs were imposed several years ago. However, millions of tons of Chinese steel are imported every year as pipe, tubing, rebar, structural steel, valves, fittings, car parts, machine

parts, etc. None of those items enter the U.S. economy as steel imports, even though 50% to 90% of the market value of the goods are comprised of the cost of the steel. Raw Chinese steel is sold to foreign manufacturers of steel products at prices below the combined cost of the commodities that go into making the steel.

The result is that most steel-related businesses in the U.S. have been losing money recently. I don't support one-sided protectionism. The U.S. needs a level playing field and fair trade. We don't need a heavy-handed government to tilt things in our favor.

When we engage in free trade at all costs, American citizens always lose in the long run.

JOHN CLARK
Stupp Corp.
Houston

Reality Confronts the Multiculturalist Elite

In "Europe's Elites Seem Determined to Commit Suicide by 'Diversity'" (op-ed, June 20), Douglas Murray leaves out one critical ingredient. Europe's elites, just like those in the U.S., opt out of the multicultural system they advocate for everyone else. They live in gated communities or doorman-guarded high rises, travel in chauffeur-driven cars, fly in private jets or first class and generally meet and talk to people like themselves. How could they possibly understand the downside of diversity?

Admittedly, the elites are well traveled, so they have seen the cultures immigrants come from, but they never live with them. They look at foreign cultures, skim the top and go back to their bubbles. In the end, their children and grandchildren will be the ones who lose.

CHARLES H. GESSNER
Marblehead, Mass.

Mr. Murray's statement that "more immigration from Muslim

countries produces many problems, including terrorism" is wrong. The data show that migrants and asylum seekers are least likely to commit crimes, let alone violent crimes. In the U.S., as well as in Europe, more terrorism is committed by local citizens than by immigrants. But Mr. Murray's view seems not to be anti-immigrant, but anti-Muslim immigration. He joins a long list of people who propagate fear of Muslims by demonizing the whole Muslim community. The recommendation to reduce diversity by keeping Muslims out is racist and narrow-minded.

KHALID REHMAN
New York

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OPINION

A Reform Win for Modi

By Sadanand Dhume

Three years after he was elected to boost India's economy, Prime Minister Narendra Modi has delivered his most significant economic reform to date. A nationwide goods and services tax that kicked in July 1 is replacing more than a dozen state and central levies, and promises to knit 1.3 billion people in India's 29 states and seven federally administered union territories into a single market.

With its finely tuned gift for hyperbole, the Modi government turned the occasion into a spectacle. On Fri-

India's long-awaited goods and services tax is far from perfect. But as economic reform it's still significant.

day, lawmakers and eminent citizens filed into a parliament building bedecked with lights for a special midnight ceremony to mark the onset of the new tax. In the past, governments have reserved such heightened symbolism for rare commemorations of India's independence from Britain. With millions of people watching on television, Mr. Modi hailed the new tax regime as "a landmark achievement that is bound to take the nation toward exponential growth."

Proponents of the GST, a value-added tax similar to those in place in

many countries, laud it as the most far-reaching tax reform in India's history. They say it will increase efficiency by reducing the number of taxes businesses must file, improve logistics by dismantling border checkposts, and boost government revenues by increasing incentives to pay taxes instead of dodging them.

For instance, large firms seeking tax credits will likely favor suppliers who are compliant with the new tax system. If things go as planned, the new tax could end up giving India's economic growth a boost.

Skeptics point out that the model India has ended up adopting—after protracted haggling between New Delhi and the states—is not merely less than perfect. It's not even a good second best.

To begin with, in the clash between India's love of complexity and the traditional simplicity of a value-added tax, complexity has clearly prevailed. Depending on how you count, India's GST boasts between five and seven rates, from 0% to 28%. Aerated drinks, many tobacco products and other goods regarded as either harmful or luxuries will attract even higher levies.

The complexity opens the door for both potential fudging by crooked businessmen and harassment by revenue tax authorities. In places it shades into absurdity. Customers will pay different taxes for the same movie or the same flight depending on how much their ticket costs.

In theory, the GST was meant to lower taxes, but in practice India's rates will be among the highest in the



EUROPEAN PRESSPHOTO AGENCY

India's President Pranab Mukherjee, left, and Prime Minister Narendra Modi launch the country's goods and services tax at midnight Saturday in New Delhi.

world. Contrast India's steep rates with those in traditionally well-run and prosperous economies. Australia levies a simple 10% VAT on most goods and services. Singapore's rate is 7%.

In a scramble to come to an agreement between states and the center, the Modi government has left large chunks of the economy outside the new tax net. For now many petroleum products won't be included. Nor will the GST cover alcoholic beverages or electricity. Perhaps over time the list of exemptions will narrow, but for now they appear glaring.

Then there's the fraught question of harassment by tax authorities. Before Mr. Modi came to power he promised an end to the previous government's "tax terrorism" against both individuals and businesses. Early on in his

campaign, he likened his ideal of tax collection to how a bee collects honey from a flower: in a manner that's painless and mutually beneficial.

In practice, the Modi administration has deepened some of the worst instincts of its predecessor. India's infamous 2012 retroactive tax law, which allows the government to tax transactions dating back to 1962, remains on the books. The prime minister has armed India's tax inspectors—not exactly famous for their probity—with draconian powers of search and seizure, and sharply curbed citizens' ability to appeal against arbitrary decisions. In private, some businessmen complain that the uncertainty this has generated helps explain why private domestic investment in India cratered over the past three years.

The GST is supposed to ease harassment by relying on technology. But, true to the bureaucratic spirit of this government, it includes a harsh anti-profligacy clause that allows tax authorities to haul up businessmen they accuse of not passing on the benefits of lower tax rates to consumers.

While this isn't unique to India, it underlines the central problem with the government's taxation philosophy. Instead of widening the tax base with carrots such as lower and simpler tax rates, it prefers to wield the old socialist stick of punishment.

The framers of India's GST have also ensured that businesses will have to come to terms with a welter of complicated regulations. The jury remains out on how well small businesses, unable to hire batteries of chartered accountants and tax lawyers, will cope with the brave new world that awaits them.

For now cautious optimism appears warranted. He may have made too many compromises, but Finance Minister Arun Jaitley still deserves credit for forging a difficult political consensus on a long-awaited reform. Many of the teething troubles that businesses fear—such as unclear and excessively complex new rules—will likely become less daunting over time.

In Parliament Friday, Mr. Modi praised the GST as a "good and simple tax." This may be far from current reality, but it remains a laudable aspiration. His administration deserves credit for taking a big step on a long journey.

Mr. Dhume is a resident fellow at the American Enterprise Institute, and a columnist for WSJ.com.

Trump's Opportunity to Arm Ukraine

By Stephen Blank

President Trump's trip to Poland this week is an exceptional opportunity to reassess U.S. leadership and American greatness. In Warsaw Mr. Trump can reaffirm the U.S. commitment to European security by giving Ukraine the weapons it urgently needs to defend itself against Russia's continuing aggression.

Russia's violations of the 2015 Minsk II accords grow daily in both number and intensity. Moscow has reconstituted four armies on Ukraine's borders, rebuilt the Black Sea Fleet, created a powerful anti-access and area-denial bubble in the Black Sea, militarized Ukrainian energy installations there and prepared the logistical infrastructure for a major war with Ukraine, including po-

tential amphibious operations in the South. It is building nuclear bunkers in Feodosia and Sevastopol. The Russian military clearly regards large-scale, protracted conventional war, backed by mounting nuclear threats, to be a real possibility.

Vladimir Putin believes that he is already at war with the West, even if shots are not yet being fired. How else to explain repeated overflights of Europe, close encounters with U.S. and other NATO naval and air forces, election subversion in France, Germany and Holland, massive information-war campaigns throughout Europe that coincide with continued hacking against America's political system?

Though Mr. Putin occasionally praises Mr. Trump, his actions show that he is contemptuous of the American president—and of U.S. resolve.

The Obama administration's strategic dereliction compounded the Russia problem. Mr. Trump's trip will be closely watched as a sign of his willingness to advance U.S. and Euro-

How to promote freedom, advance U.S. interests, and show strength to Russia.

pean security. Giving Ukraine weapons that can meet Russia's threats—counterbattery radars, armored vehicles, antitank weapons, secure communications gear, reconnaissance drones, antilanding weapons such as shallow-water mines, and training and intelligence support—can help deter Russian aggression while solid-

ifying American leadership of NATO.

Arming Ukraine would keep faith with American policies dating back to President Harry Truman to support free peoples against aggression. It would enhance U.S. leadership and resolve. Moreover, it would communicate those attributes globally and create, as Ronald Reagan's policies did, a real basis for future dialogue with a Russia deprived of the means of aggression. A public show of helping Ukraine would also turn down the heat domestically. Mr. Trump's persistent critics would be forced to credit him with resisting Russia in support of American interests.

Arming Ukraine and shoring up NATO can't be the end of it. Congress must expand and extend sanctions while passing legislation to counter Russian information warfare. Perhaps

the most direct way to impose costs on Russia is to increase American energy exports to Europe.

Mr. Putin won't like any of it. His goal all along has been to sow chaos in the West and diminish NATO's influence on his doorstep. Paradoxically, he is forcing Mr. Trump to play a bigger role in Eastern Europe than the U.S. president wants to. If Mr. Putin moans about it, Mr. Trump should deliver a strong, simple message: You brought this upon yourself.

While in Warsaw, Mr. Trump will have a rare opportunity to do the right thing and demonstrate American greatness in action. For America's freedom and the freedom of Europe, he shouldn't miss that opportunity.

Mr. Blank is a senior fellow at the American Foreign Policy Council.

At 150, Canada Is 'Cool' but Can Aspire to Something More

By Michael Taube

The U.S. isn't the only North American nation busy celebrating its birthday. On July 1, 1867, the British North America Act took effect, establishing the Dominion of Canada. Today, my country has the world's second-largest land mass, its 10th-largest economy, and consistently high rankings in economic freedom and quality of life. But while Canada often punches above its weight, there's always been some frustration that it doesn't hold the title belt.

"Canada has been modest in its history," Prime Minister Wilfrid Laurier said in 1904, "but its history, in my estimation, is only commencing.... The 19th century was the century of the United States. I think we can claim that it is Canada that shall fill the 20th century." Laurier was too optimistic: The 20th century also belonged to the U.S., and unless Donald Trump changes things dramatically, the 21st probably will, too.

Fair enough. America became a global superpower, Canada a traditional middle power with more influence than most. Together, our two countries formed a political friendship and economic alliance that has stood the test of time, and we have more similarities than most care to admit.

Yet our histories are exceedingly different. Canada wasn't born out of revolution and a desire to escape the

shackles of monarchy. Canadians firmly believed in liberty and freedom, and still do, but never wanted a republic. Rather, we usually view our former colonial status as New France, and later British North America, in a respectful manner as a stage in our development.

There have been occasional flare-ups, and fierce constitutional battles, between French-speaking Quebec and English-speaking Canada. These have led to terrorism, but not all-out civil war, and Quebec's separationism has been drowned out in recent decades.

Meanwhile, Canada remains an independent country within the Commonwealth. The British Parliament was involved, directly and indirectly, in any changes to the Canadian Constitution until the Canada Act in 1982 ended that requirement. While Canada's history of responsible government goes back to 1848, it started using the Westminster model of representative democracy only in 1931.

But Canada never slavishly followed its early territorial masters. The country always had an independent spirit and developed its own ideas and policies. Early prime ministers, such as John A. Macdonald (Conservative) and Laurier (Liberal), worked to ensure that Canada had a seat and voice at the bargaining table.

Canadians fought valiantly alongside the U.S. and other allies during the two world wars and Korea. True,

the U.S. and Canada also fought each other in the War of 1812, but we needn't belabor that one.

What can Canadians do differently to ensure that this century, or any century, belongs to us, too? A fine start would be to establish a proper break between progressive values and progressive politics.

Canada has leaned left for most of its existence. It's more comfortable as a nanny state than a free-market champion. It prefers to jaw-jaw rather than war-war. It takes pride in leading the way, helping to shift popular opinion, on legal marijuana and same-sex marriage.

This "certain boldness in social matters," the Economist observed in 2003, meant that "a cautious case can be made that Canada is now rather cool." While progressive Canadians cheered this analysis, they must have been disappointed when the same magazine wrote a decade later that Conservative Prime Minister Stephen Harper had made their country "decidedly uncool."

Relations with the U.S. It earned respect for prudently handling the global economic crisis and for leaving the foreign-policy kiddie table to take a leadership role in world affairs.

Canadian voters could handle this radical political change only for so long, however. They abandoned the Tory ship and gave the Liberals a mandate in 2015. Suddenly we were cool again. Justin Trudeau, our young, hip prime minister, has gradually reversed many of Mr. Harper's policy gains. He

has returned Canada to its traditional role abroad as a peacekeeper, renewed its supporters' faith in social liberalism, and become the king of selfies.

For the next 150 years and beyond, my hope is that Canada will reflect on its longstanding core principles, question them and make the necessary improvements. That would mean reducing our state-centric approach to government, increasing the influence of free markets, and ensuring that individual rights and freedoms are properly defended and upheld by the constitution.

Maybe then Barack Obama's statement to the Canadian Parliament last year—"the world needs more Canada"—would be more than just a friendly sentiment. It would be closer to the world Laurier envisioned more than a century ago, and a nice birthday gift to boot.

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

A Used Book Is a \$3 Time Machine

By Danny Heitman

My 16-year-old son loves to read as much as I do, but unlike me, he prefers to savor his nonfiction and novels on an electronic reader. Although I'm thrilled when any young person enjoys reading regardless of format, I wonder if my teenager is missing out on the joys of used books.

This came to mind recently when I attended a used-book sale. I go every year, and I often spot complete sets of Dickens, Twain or Poe labeled with the personal-library seals of their former owners. When I find several volumes from the same donor, I can't help but wonder if a household bookshelf has been emptied, perhaps because someone died or moved into a nursing home. I've come to regard the hints of personal history in these books as a sheltering presence, like lingering in an old church for an hour or two.

This year, for three bucks, I took home a first-edition copy of the American anthropologist Loren Eiseley's 1975 memoir, "All the Strange Hours." The first page bore an inscription: "To Gar. Christmas 1976. From Mickey."

"Gar" sounded like a nickname, which made me feel as if I were eavesdropping on an intimate conversation. Within the fourth chapter, I found a longer message from Mickey, written in cursive on a yellowing sheet of loose-leaf paper: "Gar—I ended up having to send you my very own copy (still crackling new) of this because, believe it or not, I haven't been able to get to the bookstore to get you a copy. Getting ready to wrap it for you, I started reading parts of it again. I know you will enjoy reading every page of it. Have a nice Christmas. Hope to see you soon. Greetings also to Peggy. Love, Mick."

Secondhand books remind me that the world of reading spans time as readers reach across the years to shake hands with each other. Eiseley isn't read much today, but before his death in 1977, he was a big deal. His books sold well and were eagerly anticipated, which Mickey's note conveys. My vintage copy of "All the Strange Hours" had landed me in a yuletide some four decades ago, when Jimmy Carter had just defeated Gerald Ford for the presidency, and readers raw from raging inflation and Water-

gate would surely have found respite in reading a naturalist's memoir.

In "84, Charing Cross Road," Helene Hanff celebrated old books as torches passed between generations. "I do love secondhand books that open to the page some previous owner read oftener," she wrote. "The day Hazlitt came he opened to 'I hate to read new books,' and I hollered 'Comrade!' to whoever owned it before me."

Like Hanff, I've opened old books and found some path a prior pilgrim has worn through the text. In my tattered copy of Virginia Woolf's "A Room of One's Own," a reader I'll never know penciled "integrity" throughout one chapter, inviting me to consider to what degree that single word might summarize Woolf's sensibility.

I've been thinking about how I might extend my own greeting to some future soul through the books I'll leave behind, as I turn each page of my old Eiseley, hoping, as I always do when I read, to touch the eternal.

Mr. Heitman, a columnist for the Advocate in Baton Rouge, La., is author of "A Summer of Birds: John James Audubon at Oakley House."

THE WALL STREET JOURNAL.

PUBLISHED SINCE 1889 BY DOW JONES & COMPANY

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Executive Chairman, News Corp

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Matthew J. Murray
Deputy Editor in Chief

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LIFE & ARTS

ART REVIEW

Finding Meaning in the Scraps

BY LEE LAWRENCE

Boston

WHEN NANCY BERLINER began to research the little-known genre of *bapo* painting, eyes rolled. It lasted from the mid-19th through the early 20th century and, to most scholars, it committed grievous sins. The paintings were crassly commercial, as opposed to, say, works by scholar artists expressing erudition, wit and veiled commentary. The artists portrayed objects hyper-realistically, an approach dismissed as gimmickry by a tradition that valued distillation over representation. Not to mention their subject matter—*bapo* artists reproduced, quite literally, scraps.

Some 25 years later, Ms. Berliner is curator of Chinese art at the Museum of Fine Arts, Boston, and is giving this intriguing genre its due. Since she joined the MFA in 2012, the institution has acquired some 40 *bapo* paintings, making it the largest museum collection of its kind. Now, with "China's 8 Brokens: Puzzles of the Treasured Past," she has staged the genre's grand debut. While the show includes some decorated objects and a most amazing piece of embroidery (all on loan), the primary focus is on paintings. From a distance, they look like collages of writings, paintings and rubbings the artist has salvaged—edges are torn, frayed, or charred; ink rubbings of inscriptions have faded patches; paintings have folds and rips, missing sections and insect damage.

In a few, the artist emulated 17th-century art lovers, who displayed cherished works by pasting them onto a screen. In most, however, the bits and pieces cascade down the length of a scroll, clump, and occasionally coalesce into the shape of a dragon, scepter, or coin. Such forms are auspicious, as are some texts reproduced in the paintings. This explains the show's title: It is a translation of *bapo*, which combines the lucky charms of the number eight and the notion of incompleteness. But that's



Untitled *bapo* from 1911. The long-dismissed genre of Chinese *bapo* painting, in which artists portrayed objects hyper-realistically, is having its debut examination.

not all the paintings are about.

At one level, there's quite a lot of boasting going on. Artists are showing off their knowledge and skill, while buyers are advertising themselves as men so cultured they recognize snippets of poetry, allusions, ancient masterpieces. Yet there is something almost tongue-in-cheek about paying homage to ancient masters using frowned-upon realism. And while the artists purport to duplicate the real thing, some play tricks. A painting by Wu Chunkui includes a rubbing with a large crack, yet the stone it replicates has never suffered such damage. What are we to make of that?

Or, for that matter, of artists mixing in mundane mementos like a ticket stub, toothpaste wrapper, or matchbox label? It is tempting

to see pastiches of classic and modern—the revered poem tossed in with the discarded wrapper—as criticisms of China's veneration of the past. Or perhaps as sermons about the futility of earthly pursuits, be they highbrow or low-brow. This was my first reaction and, Ms. Berliner says, hers. But the timeline she has pieced together and the texts she has translated—both of which the show outlines nicely—cast a different light on *bapo*. Consider that, from 1850 until 1864, fighters in the Taiping Rebellion disparaged tradition, killed millions and laid waste to a great swath of the country. Elsewhere, Muslim rebels staged uprisings, some lasting until the late 1870s. China's last imperial dynasty was flailing, finally falling

in 1911/12. And all the while Western-style modernity was encroaching at an ever-quickenning pace.

No single interpretation fits all. Some artists might have been calling attention to the value in the ordinary—does a printed school primer not belong in the venerable history of imparting knowledge? Is the invention of toothpaste not wonderful? But it seems likely that others harbored darker thoughts. The hope that "worm-eaten pages may have spirits preserved within" appears in one; in another, a poem mourning the destruction of past treasures. They can be read as warnings that, given the turbulent and violent times, China's cultural heritage risked going the way of flotsam.

Bapo was not the only name

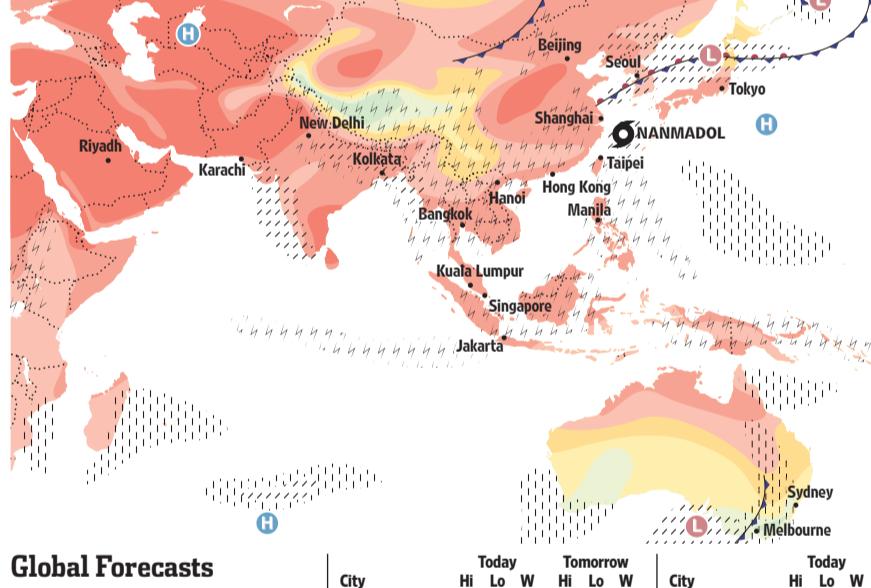
given this genre. Others include "accumulated wealth," "upset waste-paper basket" and "piles of brocade ashes." They all fit. Not many *bapo* paintings survive, having been discarded as worthless by generations of both art lovers and revolutionaries. What survives may be just a fraction of what was once a popular art form whose origins are still unclear. But like the fragments the paintings depict, they embody rich stories Ms. Berliner is still uncovering.

China's 8 Brokens: Puzzles of the Treasured Past

Museum of Fine Arts, Boston, through Oct. 29

Ms. Lawrence writes about Asian and Islamic art for the Journal.

Weather



Global Forecasts

s=sunny; pc=partly cloudy; c=cloudy; sh=showers;

t=tstorms; r=rain; sf=snow flurries; sn=snow; l=ice

City	Today			Tomorrow		
	Hi	Lo	W	Hi	Lo	W
Amsterdam	20	12	pc	21	14	pc
Anchorage	15	10	pc	17	11	pc
Athens	35	24	s	30	22	s
Atlanta	30	22	t	32	23	t
Baghdad	48	29	s	49	33	s
Baltimore	34	21	s	32	21	pc
Bangkok	34	26	t	33	25	t
Beijing	34	24	pc	31	23	t
Berlin	20	13	pc	20	12	pc
Bogota	19	10	c	19	10	c
Boise	36	18	s	38	20	s
Boston	31	19	s	27	18	s
Brussels	22	13	pc	23	14	pc
Buenos Aires	20	12	s	20	13	s
Cairo	40	26	s	39	25	s
Calgary	26	12	t	26	12	pc
Caracas	31	25	pc	31	25	pc
Charlotte	30	22	t	30	20	t
Chicago	26	17	pc	28	19	t
Dallas	36	26	s	35	26	pc
Denver	32	16	pc	33	15	pc
Detroit	28	17	pc	28	17	pc
Dubai	42	31	s	42	32	s
Dublin	17	12	r	16	12	r
Edinburgh	17	9	c	16	8	c
Frankfurt	24	14	pc	26	14	pc

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BUSINESS & FINANCE

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THE WALL STREET JOURNAL.

Monday, July 3, 2017 | B1

Yen vs. Dollar 112.4300 ▲ 0.23%

Hang Seng 25764.58 ▼ 0.77%

Gold 1240.70 ▼ 0.28%

WTI crude 46.04 ▲ 2.47%

10-Year JGB yield 0.088%

10-Year Treasury yield 2.298%

Total to Seal \$1 Billion Iran Deal

By SARAH KENT
AND BOENOT FAUCON

LONDON—France's **Total** SA said it will sign a deal on Monday that completes a \$1 billion investment in giant Iranian gas field, capping months of negotiations over the first big move by a Western oil company into the country in years.

Total will be the lead operator in a partnership with

China National Petroleum Corp. and Iran's Petropars to develop South Pars—a gas field under the Persian Gulf that is one of the world's largest. Iran's oil ministry said the contract would be signed Monday afternoon.

The Paris-based oil giant has led the charge to return to the oil-rich country since Western sanctions over its nuclear program were lifted. Monday's deal will be the cul-

mination of months of negotiations after Total signed a preliminary \$4.8 billion agreement to develop the giant gas deposit alongside its partners late last year.

Total Chief Executive Patrick Pouyanné has indicated the first \$1 billion to be pledged on Monday would go toward funding the project's first phase.

Total said the gas from the Pars field will supply the do-

mestic market from 2021. The company had been in talks with Iran to create the country's first liquefied natural gas export system but they couldn't agree on a gas price, people familiar with the matter said.

International oil companies have been slow to re-enter Iran following a landmark deal with world powers in 2015 that lifted many West-

Please see IRAN page B2

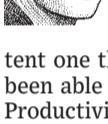


Total plans to develop the South Pars gas field in Iran.

KEYWORDS

By Christopher Mims

We Should Construct a Skyscraper Like iPhone


The world's housing crisis has many causes, but there is a stubbornly persistent one that we should have been able to solve by now: Productivity.

As prices of components and materials for pretty much every other physical object—cars, cellphones, clothing, etc.—have dropped precipitously, it still costs too much to build a building. Over the past 60 years, productivity in manufacturing has increased eightfold while remaining basically flat in construction, says Jan Mischke, a senior fellow at McKinsey Global Institute who specializes in infrastructure and housing.

Gadgets like iPhones, every one the same, benefit from economies of scale, but that's harder to achieve with buildings, which must fit the sites they are constructed on.

As usual, technologists think they have a solution. They are reviving surprisingly old ideas in construction, including prefabrication and modular building. But don't think "trailer park." This time, they're applying all the logistics and IT knowledge gained from building the global supply chains that deliver mobile devices, and all the automation pioneered by the automobile and other manufacturing industries. Yes, robots may be replacing more workers, but at least this should create more affordable housing.

Katerra, a construction startup, has raised \$221 million at a valuation north of \$1 billion, and it projects up to \$500 million in revenue this year. It is, in some ways, the standard-bearer of this new, tech-focused wave of interest in building.

The company currently has a single, 200,000-square-foot factory in Phoenix where it manufactures whole walls, including all the windows, insulation, electrical wiring and plumbing. Katerra uses an integrated, computer-aided design-and-manufacturing system that tells all the factory's automated saws and routers how to produce all the buildings' components. The same system connects to job-site cranes that lift and place the finished panels.

Katerra ships the walls to construction sites, where they're snapped together like Lego bricks. The company's goal is to build seven more factories within two years, each intended to serve a different geographic area. "That will cover the whole U.S.," says Katerra's chairman and founder, Michael Marks, who was previously chief executive of consumer electronics manufacturing giant Flextronics.

Construction is an industry worth more than \$1 trillion a year, and Katerra has plenty of competition. A nearly identical

Please see MIMS page B3



'Spider-Man: Homecoming' opens this week in the U.S. Marvel Studios oversaw the movie's production while Sony picked up the tab.

Investors Get Path To China Bonds

By SHEN HONG

SHANGHAI—Starting this week, global investors will have a new way to invest in the world's third-largest bond market.

China will open the so-called bond connect trading link between the mainland and Hong Kong on Monday, people familiar with the matter told The Wall Street Journal on Friday. The program, which will make it easier for foreign investors to invest in China's \$9 trillion bond market, was approved by China's central bank in May.

The link could be seen as a 'little gift' from Beijing to Hong Kong, an analyst said.

The new trading link follows last year's landmark opening of China's bond market to global investors with trading accounts inside China. With the bond connect program, the market will open to foreign investors with trading accounts in Hong Kong, too.

The connection will be one-way, however: Foreigners will be able to buy bonds in the mainland market, but Chinese investors won't be able to do likewise in Hong Kong. Its launch comes as China has been fighting a battle to stem capital outflows and reduce downward pressure on its currency.

"The fact that only the northbound channel is open for now means it's more about attracting foreign investors into China," said Zang Min, senior fixed-income analyst at Hongxin Securities.

The bond connect program is modeled in part on the stock-market links between Hong Kong and China's exchanges in Shanghai and Shenzhen, although they permit two-way investment flows.

Although foreign investors have expressed growing interest in investing in Chinese bonds, that hasn't translated into a rush of overseas money into the market to date.

Even after the People's Bank of China allowed free access for global investors to the bond market last year, their share in the market remains low. At the end of March, the total amount of Chinese domestic bonds held by foreign investors was around 830 billion yuan (\$122.4 billion), or around 1.4% of the market, according to Goldman Sachs.

Among the more than 100 foreign investors who have so

Please see BOND page B2

Rivals Join to Spin Gold

Disney's Marvel and Sony Pictures team up for 'Spider-Man' film that looks to be a hit

By BEN FRITZ

unlikely partnership.

The Spider-Man franchise has had dual masters since 1999, when Sony bought big-screen rights to the character from Marvel, then an independent company. The deal gave the comic-book publisher 5% of film revenue and called for the two companies to split revenue from related Spider-Man merchandise.

The first movie Sony made under the arrangement, 2002's "Spider-Man," was a massive hit, grossing \$822 million world-wide, as were the 2004 and 2007 sequels. But ticket sales declined for a poorly received 2012 reboot, "The Amazing Spider-Man," and its sequel, which grossed a weak \$709 million in 2014.

In a 2011 renegotiation designed to resolve years of behind-the-scenes legal disputes and provide Sony with much-needed cash, the Japanese company gave up its share of merchandise rights to Marvel, Disney-owned by that time, agreed to forgo its 5% of film revenue and make a one-time payment of \$175 million and pay up to \$35 million for each future film.

Now that it kept all the

Fraying Web

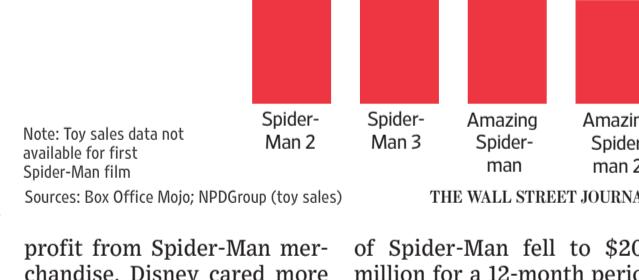
The Spider-Man franchise is getting a reboot after recent releases flopped and sales of toys fell sharply.

Global box-office in millions

Spider-Man	2002	\$822
Spider-Man 2	2004	\$784
Spider-Man 3	2007	\$891
The Amazing Spider-man	2012	\$758
The Amazing Spider-man 2	2014	\$709

Toy sales in the U.S.

In millions, from month prior to movie's release through 11 months after



Note: Toy sales data not available for first Spider-Man film

Sources: Box Office Mojo; NPD Group (toy sales)

profit from Spider-Man merchandise, Disney cared more deeply about that business, which declined as the movies lost momentum. U.S. toy sales

of Spider-Man fell to \$200 million for a 12-month period bracketing the release of "The Amazing Spider-Man 2" in Please see SPIDER page B2

Global Stocks Cap Strong Half, and Worries Mount

By STEVEN RUSSOLILLO

Global stock markets collectively had their best opening half-year in years, but turbulence last week could be a harbinger of greater volatility.

All but four of 30 major indexes representing the world's biggest stock markets by value have risen this year, a first-half performance unmatched since 2009, according to an analysis by The Wall Street Journal. In the past 20 years, only four first-half rallies have been as widespread or better than the current global surge. Two of them preceded sharp market crashes, and two others came at the start of long bull markets.

In the U.S., the tech-heavy Nasdaq Composite surged 14%, its best first half since 2009. The Dow Jones Industrial Average and S&P 500 each rose about 8%—the best start to a

year since 2013. Stock benchmarks from South Korea to India to Spain put up double-digit percentage gains for the first six months.

Investors attribute the rally's

breadth to strengthening corporate earnings, improving economies and continued support from central banks. Europe in particular benefited from surprisingly stronger-than-ex-

pected economic conditions. A sentiment reading of Eurozone businesses and consumers released last week jumped to its highest level since before the financial crisis.

In the U.S., earnings growth has been a crucial to the market's performance. And a resilient tech sector, led by U.S. and Chinese giants, is an increasing influence on domestic and Asian markets.

Despite challenges to President Donald Trump's agenda, and political jolts in countries from Brazil to the U.K., stock markets have been unusually steady. Measures of volatility in the year's first half were at or near multiyear lows in the U.S., Europe and Asia.

Investors are now asking whether the strong first half heralds a choppier second half, or continued strength.

Data on global rallies offer a

mixed record: A surge in the first half of 1999 preceded the tech bubble's burst. The rally to start 2007 came before the global financial crisis. But broad, world-wide gains in 2003 and 2009, similar to this year's, were early stages of yearslong market rallies.

High stock valuations and tranquil trading this year have led to concerns about complacency. Federal Reserve Chairwoman Janet Yellen warned that asset valuations were "somewhat rich." The S&P 500 trades at about 18 times projected earnings over the next 12 months, around its highest level in 13 years. Still, this forward multiple was above 26 times at the dot-com bubble's peak in 2000, according to FactSet.

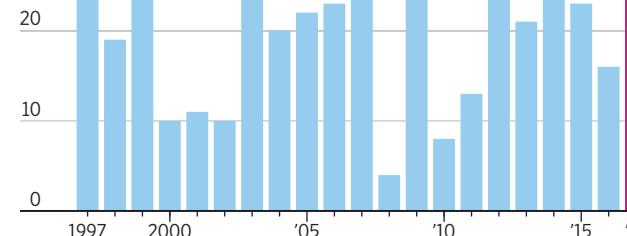
Valuations are more modest elsewhere. Germany's DAX trades at less than half its 2000

Please see STOCKS page B5

Positive Territory

Twenty-six of the world's top 30 stock-market indexes have risen this year, a first-half performance unmatched since 2009.

Number of indexes that rose in the first half of each year



Source: FactSet

THE WALL STREET JOURNAL

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BOND

Continued from the prior page
far registered with regulators to use the bond connect program "many carry the DNA of Chinese money," said one of the people familiar with the matter, referring to overseas branches of Chinese companies or funds.

Among the reasons behind global investors' reluctance to pile into Chinese bonds is their absence from major global bond indexes that are tracked by passively managed funds, such as the one compiled by Citibank. Goldman Sachs estimates that once China's bond market is included in such indexes, it could lead up to \$250 billion of extra foreign capital into China, as global money managers allocate their bondholdings based on the composition of such indexes.

Foreign Interest

Foreign investors' holdings of Chinese bonds

■ Other bonds
■ Exchange-traded bonds
■ Policy bank bonds
■ Chinese government bonds



Source: Standard Chartered

THE WALL STREET JOURNAL.

A lack of diversity among investors, regular turmoil in the market and various forms of price anomalies in China's bond market has also made foreign investors hesitant. Chinese banks, which are mostly state-owned and tend to share similar trading strategies, are estimated to account for around two-thirds of the bond market's trading volume.

The market has suffered several sell-offs in the past few months, ranging from one caused by a fraud-related

trading scandal by a midsize Chinese brokerage in December to a regulatory crackdown on leveraged investment in April and May. China's domestic credit-rating system, in which the vast majority of corporate bond issuers enjoy a high AAA grade, has also been criticized for being overly generous.

China's bond market has expanded ninefold in the past decade as Beijing has looked to encourage companies to use bonds and stocks to raise funds and reduce the pressure on an overstretched banking sector.

The effort has yet to achieve significant breakthroughs as corporate bonds account for only 12% of the entire market, while government and policy bank bonds take up a combined 80% share.

The launch of the new trading platform this week will come after several days during which Hong Kong has been marking the 20th anniversary of the handover of the former British colony to Beijing.

Hongxin's Mr. Zang said the bond connect link could be seen as a "little gift" from Beijing to Hong Kong, as it could boost income for banks based in the city as foreign investors open trading accounts there.

But for some investors, the benefits of the new program appear limited.

Ashley Perrott, head of pan-Asian fixed income at UBS Asset Management in Singapore, said he isn't planning on using the bond connect just yet since he can already buy Chinese bonds through existing programs.

"Bond connect is another useful addition to the whole tool kit for access... Does it offer something different than what we already have? Not majorly," Mr. Perrott said.

China Development Bank and the Agricultural Development Bank of China, two of the country's three policy lenders, will issue new bonds that can be bought by both domestic and foreign investors under bond connect early this week, according to two of the people familiar with the matter. Four Chinese companies are also expected to issue bonds following the launch, they added.

—Gregor Stuart Hunter and Saumya Vaishampayan contributed to this article.

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BANKRUPTCIES

COURT OF LAMEZIA TERME - BANKRUPTCY DIVISION

BANKRUPTCY Meca Lead Recycling S.p.A. In liquidation

Ruling #2017 R.E. 2017 - Bankruptcy Judge: Adele Foresta

The Official Receiver, Paolo Cosenzino

Announces

that at 10:00 on 27.07.2017, a selection will be made of the bids for the

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BUSINESS NEWS

Odebrechts Ease Grip on Company

Family plans to move beyond corruption case by turning businesses public

BY LUCIANA MAGALHAES AND SAMANTHA PEARSON

SÃO PAULO—The billionaire Odebrecht family that owns Latin America's largest construction group plans to relinquish its grip over the board and turn all of the firm's businesses public, as the company battles to emerge from one of the largest corruption scandals in history.

Odebrecht SA's new Chief Executive Luciano Nitrini Guidolin, in his first interview since taking over in May, said Friday that the company plans to get most of its units listed within three years, and all of them public soon after.

Odebrecht will likely begin by floating the agribusiness unit and its flagship construction business, Mr. Guidolin said. Meanwhile, the company aims to complete \$3.6 billion of asset sales next year, he said.

For decades, Odebrecht was considered the gold standard of Brazilian business and a source of national pride. Even as Brazil was ridiculed for its shoddy infrastructure, Odebrecht was building world-class airports, highways and hydroelectric plants in the U.S., Europe and Africa, as well as across Latin America. Known in the U.S. for building the Miami Heat's arena and part of Miami International Airport, Odebrecht saw its gross revenue reach \$40 billion at the end of 2015, dwarfing many American construction groups.

But in December last year, the family-owned company pleaded guilty to taking part in Brazil's vast Car Wash corruption scheme, which began as a money-laundering probe named after a gas station and has drawn in some of the country's major industries.

Odebrecht admitted to paying almost \$800 million in bribes to governments across



Brazil's Odebrecht is known in the U.S. for building part of Miami International Airport.

the world for scores of contracts, signing what was at the time the biggest anticorruption settlement in history,

agreeing to pay U.S., Brazilian and Swiss authorities at least \$2.6 billion. According to prosecutors, corruption had become so integral to the company's business model that Odebrecht even had its own "bribery department."

Mr. Guidolin said corruption wasn't spread throughout the group and that it has taken all the measures to ensure such practices will never happen again.

Marcelo Odebrecht, the former chief executive and heir to the family empire, is now in prison in connection with the case, and Odebrecht's bonds plummeted recently as investors feared the 73-year-old group could struggle to pay its debts. As well as facing possible further fines around the world, Odebrecht has suffered a credit squeeze after Brazil's state development bank cut off its access to subsidized finance. Concerns also have grown about Odebrecht's ability to win new projects.

After the company's spectacular fall from grace, the Odebrecht family, which arrived in Brazil from Germany in the mid-19th century, now realizes it is time to loosen its

grip over the conglomerate in a bid to reassure investors, according to the group.

"Car Wash was not the end and it will not be the end of Odebrecht," Mr. Guidolin said.

Emilio Odebrecht, the family patriarch and chairman, is expected to step down from the board at the end of next year, the company said. And his son Marcelo, who was arrested in June 2015 and convicted as part of the Car Wash probe, won't return to the company's helm.

The company said members of the founding Odebrecht family will no longer occupy top executive roles at the company, but continue as shareholders.

In some of the businesses, the family would consider selling off controlling stakes to outside investors. Mr. Guidolin said outside investors could buy stakes in some of the businesses before they are listed. Odebrecht has even discussed changing the name of its holding company. The hope is that bringing in outsider investors will increase transparency as well as fresh capital, Mr. Guidolin said.

One of Odebrecht's first priorities is to free up liquidity after the company's revenue slumped in the wake of its chief executive's arrest, the company said. In the 12 months before

December 2016, the company's revenue is estimated to have dropped about 30% to \$271 billion from \$40 billion, according to people close to the company.

Odebrecht said it has fired tens of thousands of workers since 2013, and it has shrunk to 10 businesses from 15 over roughly the past year. But Mr. Guidolin said the group wasn't considering selling what it considers to be one of its crown jewels—its controlling stake in petrochemical company Braskem, which is already publicly traded.

Legal experts say Odebrecht may struggle to move on while foreign governments are still carrying out follow-on investigations from its December plea deal. Vladimir Aras, a Brazilian prosecutor who leads the international cooperation unit of the attorney general's office, said he has received dozens of requests for information related to the Odebrecht case from 10 foreign governments, including the U.S.

One of the biggest obstacles to Odebrecht's recovery plan continues to be the Brazilian government. Brazil's state development bank BNDES is still refusing to finance international projects linked to Odebrecht and several other construction companies implicated in the graft scandal.

IRAN

Continued from the prior page
ern sanctions on Tehran. The energy business remains politically fraught in a country that needs international investment to develop its resources but also sees oil and gas as a vital national asset that shouldn't be turned over to foreigners.

With U.S. sanctions over terrorism, weapons and human rights still remaining, many banks have refused to deal with Iran, and Tehran's hard-liners have pushed back against attempts by President Hassan Rouhani's administration to sweeten the terms for international oil companies in Iran. Discussions between oil companies and Tehran have also been complicated by the election of U.S. President Donald Trump, who has been critical of the nuclear agreement.

Total's Anglo-Dutch rival Royal Dutch Shell PLC has also signaled interest in returning to Iran. In December it signed a preliminary deal to explore future projects in the country, but has yet to make a more concrete commitment.

A Total spokesman said its planned investment would remain in strict compliance with all applicable sanctions and regulations.

Investors have been closely watching to see the terms western companies will get to return to the country.

Total's deal will be the first Iranian Petroleum Contract signed in Iran, and the company said the 20-year contract came "with very attractive commercial terms," without disclosing more details.

The terms of the deal appear more flexible than previous arrangements Iran signed before sanctions. The 20-year time frame, for instance, is longer than the five-year deals Iran previously allowed.

Foreign companies have frequently complained they were unable to recoup their investments in previous contracts signed in the 1990s because Iran had set a fixed amount for project costs.

SPIDER

Continued from the prior page
2014, from \$385 million in the year around the release of 2004's "Spider-Man 2," according to NPD Group.

As Sony executives struggled with their next move for the character after "The Amazing Spider-Man 2," Marvel lobbied to take back creative control. A team led by Marvel Studios President Kevin Feige that made the hits "Avengers" and "Guardians of the Galaxy" figured they could make a better movie, generating higher box-office and toy sales. Sony agreed in 2015, a little more than two months after a huge cyberattack revealed that talks were ongoing and after much internal debate, according to current and former employees.

No money changed hands under the deal. The only tweak to the prior arrangement was that in exchange for its producing services, Marvel gets to reduce the \$35 million it would owe on "Homecoming" if the movie grosses more than \$750 million, said people with knowledge of the arrangement.

"Homecoming," which portrays Spider-Man as a high-school student and is meant to echo director John Hughes's 1980s teen comedies, plays up the character's inexperience and insecurity in comparison to the wealth and confidence of Avengers characters like Robert Downey Jr.'s Iron Man, who appears in the film.

He sees the Marvel universe from the ground level, which is who he is in the comics but not something that

we've seen in a movie before," said Mr. Feige, who also is a producer.

Disney is hoping "Homecoming" audiences will skew younger than prior "Spider-Man" or Marvel films and provide a further jolt to toy sales, a person close to the company said.

Many fans are excited simply to see Spider-Man interact with other Marvel superheroes, as he has done in comic books since the 1960s but never before on the big screen because of the rights split between Sony and Disney.

Sony, which closely watched Marvel's work on "Homecoming" and had final say on all decisions, is headed for its biggest hit in years, according to

TECHNOLOGY

WSJ.com/Tech

EU Faces Off With U.S. Tech Firms

A deep cultural divide between the U.S. and Europe in their approaches to Silicon Valley has thrust European officials into the role of global tech-industry cops.

By Sam Schechner
in Paris,
Natalia Drozdiak
in Brussels and
John D. McKinnon in
Washington

The result is that many of the most heated battles over whether or how regulators should protect car makers, news organizations and other industries from the disruptive effects of tech giants are playing out first in Brussels, Paris and Berlin instead of Washington or San Francisco.

Just Friday, Germany approved new legislation imposing €50 million fines on social-media companies that fail to quickly remove hate speech and terrorist content—over strident opposition from Facebook Inc. and other tech companies, which advocate self-regulation to tackle those problems. That step followed the €2.42 billion (\$2.76 billion) fine that the European Union's executive arm levied last week against Alphabet Inc.'s Google for abusing its dominance as a search engine.

These decisions have significant implications for the companies in Europe, one of their most important markets with its 500 million consumers. The rulings also influence regulators, courts and officials globally. Last week, South Korea's antitrust chief told the Yonhap News agency he would examine how to curb the market clout of Google and Facebook.

Google said it "respectfully disagrees" with the EU decision and will consider an appeal, and didn't respond to requests for comment on South Korea's plans. Facebook declined to comment.

Some of these issues are coming to a head in the U.S., too, though at a slower place. American policy makers in

some cases are rethinking policies that were designed to nurture the tech industry in its early days, now that these companies are touching every sector of the economy.

The firms also are coming to terms with the loss of a strong ally in the White House in former President Barack Obama. When Republicans took charge, GOP lawmakers set out to roll back several big Obama-era policies that favored tech companies. That included the "net neutrality" regulations that prevented broadband providers from prioritizing certain internet content. Up to now, though, the U.S. generally has favored a lighter approach, driven partly by Americans' aversion to restrictions on free speech. Across the Atlantic, the more tightly controlled approach is illustrated by Europeans' war-hardened devotion to personal privacy and restricting hate speech.

"It stems from very different economic traditions in how much of a role the state should have in resolving problems," says James Waterworth, vice president for Europe at the U.S.-based Computer & Communications Industry Association, a lobby group that represents U.S. tech companies including Facebook and Google. "In a globalized world, with large transnational companies, these things increasingly come into conflict."

Some free-market supporters in the U.S. and Europe view the moves by regulators as cover for political interventions and even protectionism. Europe dominated the early mobile-phone era but now has no tech companies on the scale of Google or Facebook.

Mr. Obama in 2015 said the EU's investigations into big U.S. tech companies were "more commercially driven than anything else," suggesting the EU was trying to help out European competitors.

EU officials deny such accusations but frequently say that if large tech companies, which

EMMANUEL DUNAND/AGENCE FRANCE PRESSE/GETTY IMAGES



Margrethe Vestager, the European Union's competition commissioner, in Brussels last Tuesday.

Targeted

U.S. tech firms have faced investigations or possible regulations on several fronts in Europe. Here are some of the hot spots:

INVESTIGATIONS

● Negative decision ● Partly settled ● Ongoing ● Passed ● In debate

Taxes

- Apple—EU
- Google—France, Italy, among others
- Amazon—EU

Privacy

- Google—France
- Facebook/WhatsApp—Ireland, France, others

Source: staff reports

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LEGISLATION

● Passed ● In debate

Competition

- Google—EU
- Qualcomm—EU
- Facebook—Germany

Online Media

- Facebook/Google et al.—Germany; hate speech
- Google—EU; copyright
- Google, Amazon et al.—EU; unfair terms

ment's resolution in 2014 calling for a breakup of Google.

Regulatory scrutiny in the U.S. may never match that of Europe, but some American politicians have raised concerns about the size of tech companies and their power in the market. President Donald Trump's nominee to be the Justice Department's antitrust chief, Makan Delrahim, has promised to "investigate and vigorously enforce the antitrust laws with respect to online platforms."

One factor in the policing has been tech firms' disruption of traditional industrial giants in Europe. In response, many legacy players have lobbied for new rules and tougher enforcement against the interlopers. European telecom firms, angry about seeing their revenue from text messages undercut by chat apps, were among the first to advocate new legislation to mandate a "level playing field."

News Corp., owner of The Wall Street Journal, has formally complained to the EU about Google's handling of news articles in search results.

—Eun-Young Jeong in Seoul contributed to this article.

Alibaba Plans Digital Assistant

By LIZA LIN

Alibaba Group Holding Ltd. plans to introduce a digital personal assistant similar to Amazon.com Inc.'s Echo device as soon as this week, according to a person familiar with the matter.

The home device, powered by voice-recognition technology, will be targeted at Chinese consumers. Among other features, the device will allow people to use verbal commands to buy products from Alibaba's shopping platforms Taobao and Tmall, the person said.

Alibaba's device, which was previously reported by the Information, would heighten the competition for Amazon, Alphabet Inc.'s Google and Apple Inc. when they look to market their own digital assistants in China.

Alibaba's digital personal assistant will be targeted at Chinese consumers.

Chinese search-engine giant Baidu Inc. launched its own voice-controlled home robot, called Little Fish, in April. It includes a tablet screen that allows users to perform searches, order food and play music and movies.

JD.com Inc., Alibaba's smaller e-commerce rival, already sells a smart home speaker, called Dingdong.

These and other Chinese tech companies, including Tencent Holdings Ltd., control the lion's share of the domestic market for online retail, live-streaming video and search, among other services.

Microsoft to Trim Sales Jobs

By JAY GREENE

Microsoft Corp. will reorganize its global sales group this week, laying off workers, as it refines the business to focus on selling its cloud-computing services, according to a person familiar with the plans.

The exact number of layoffs is unclear, though they will hit staff in offices around the world, this person said. Mi-

crosoft had more than 121,000 employees at the end of March, the last time the company disclosed its head count. Reorganizations at the software giant are something of an annual ritual, often announced at the close of the company's fiscal year, which ended Friday.

A year ago, Microsoft revamped its sales organization after Kevin Turner, the com-

pany's chief operating officer, who oversaw 51,000 employees, left the company. Microsoft Chief Executive Satya Nadella used Mr. Turner's departure to reorganize the sales group, promoting Judson Althoff to executive vice president of its world-wide commercial business, and Jean-Philippe Courtois to executive vice president and head of global sales, marketing and operations.

Recently announced it placed an order with Factory OS, the startup's first order, for 300 units of housing for employees. Factory OS Chief Executive Rick Holliday says a previous project built with modular construction saved \$105,000 per unit in construction costs, which translated to \$700 a month less in rent per unit. Google has said modular construction is also more environmentally friendly, leading to less waste.

The tallest modular high-rise ever built was com-

pleted in the Prospect Heights section of Brooklyn in November 2016 by Forest City Ratner Cos. A conventional builder that has explored prefabricated methods, the company created a factory in the Brooklyn Navy Yard. At the project's busiest, upward of 200 people were constructing and finishing individual "mods"—three for every one-bedroom apartment, says Bob Sanna, executive vice president of construction at Forest City.

Though successful, the proj-

ected illustrates some growing pains of the new methods. Forest City had joined with construction giant Skanska on the modular factory, but that relationship ended, after delays in completing the high-rise, in a dispute.

History is littered with architects' experimental modular building projects, from Frank Lloyd Wright's Usonian homes to the Palacio Del Rio hotel in San Antonio, erected in record time to be ready for the 1968 World's Fair. So why isn't it mainstream by now?

The consensus of those I spoke with, both providers and customers, is that the biggest barrier to modular construction is mind-set. Construction is a conservative industry where old habits die hard. In Europe and Asia, modular construction is far more popular than in the U.S., where it represents less than 3% of new building, says Tom Hardiman, executive director of the Modular Building Institute.

Modular construction is also far more sensitive to demand. For a building factory to be profitable, says McKinsey's Mr. Mischke, there must be a need for 3,000 to 5,000 new units of prefabricated housing a year within two hours' shipping distance from the factory. In the U.S., aging millennials mean there is plenty of demand for housing. But much of it is in cities, where factors such as scarcity of land trump all else and have limited the market for modular construction. Homes, after all, aren't like cellphones. We can't just stick the old ones in a drawer when the latest model comes out.



Modular home assembly at a Katerra facility located in Phoenix.

Katerra is responsible for its buildings from design to final construction, which it says allows it to further cut costs. In consumer electronics, "design for manufacturability"—the reconfiguring of a device's shape and function to make it cheaper to build—is standard. Another thing Katerra borrows from that industry: buying goods in bulk, direct from suppliers.

Some startups are also constructing whole rooms, which can then be stacked atop one another. Google re-

plicated in the Prospect Heights section of Brooklyn in November 2016 by Forest City Ratner Cos. A conventional builder that has explored prefabricated methods, the company created a factory in the Brooklyn Navy Yard. At the project's busiest, upward of 200 people were constructing and finishing individual "mods"—three for every one-bedroom apartment, says Bob Sanna, executive vice president of construction at Forest City.

Though successful, the proj-

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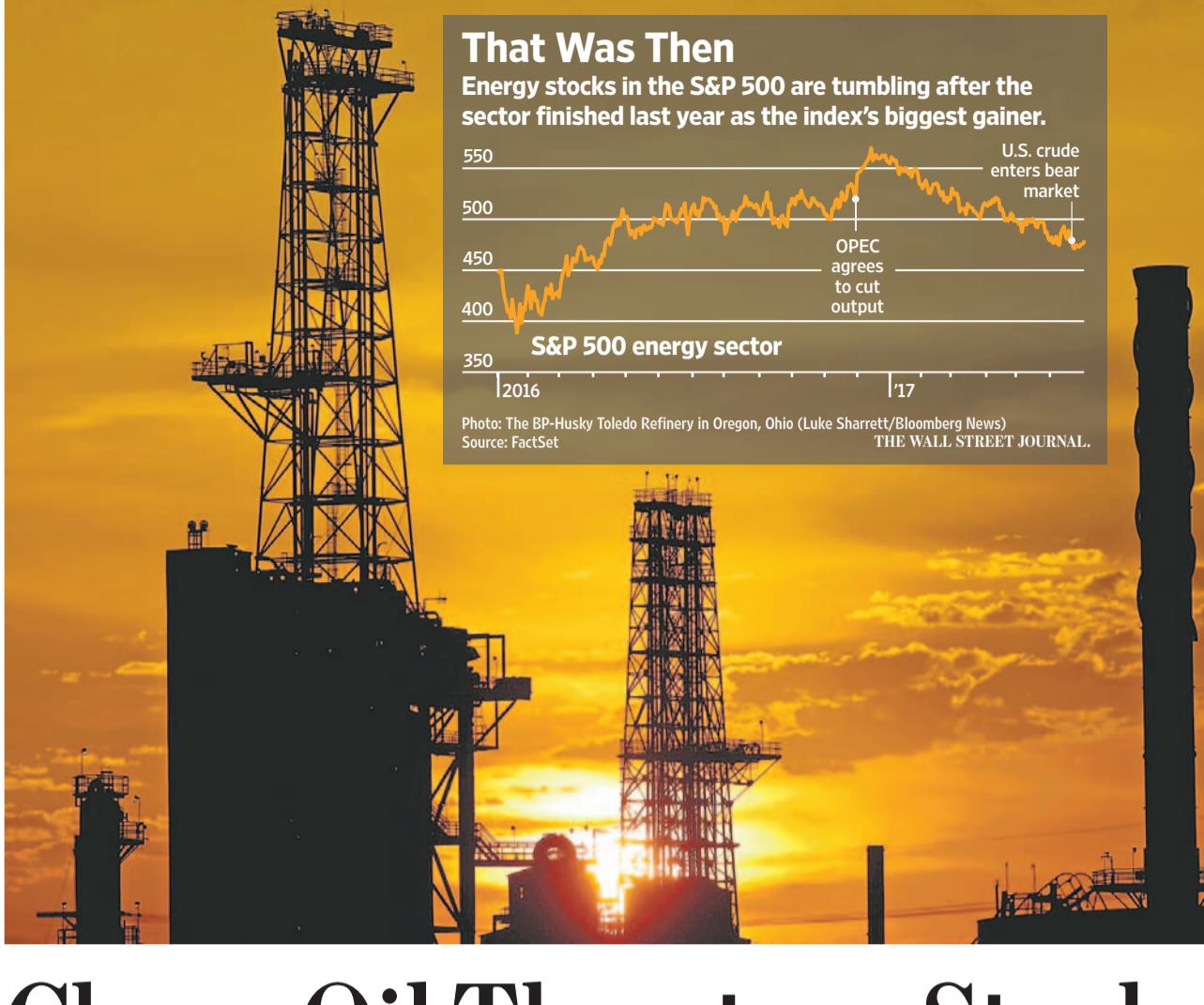
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MARKETS REVIEW & OUTLOOK | SECOND QUARTER



That Was Then

Energy stocks in the S&P 500 are tumbling after the sector finished last year as the index's biggest gainer.

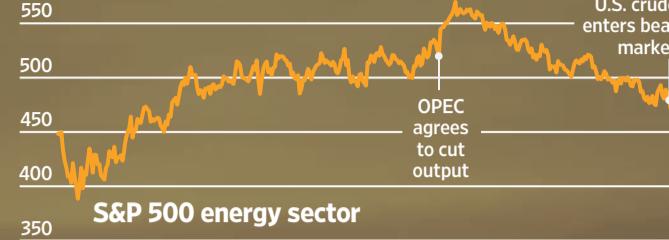


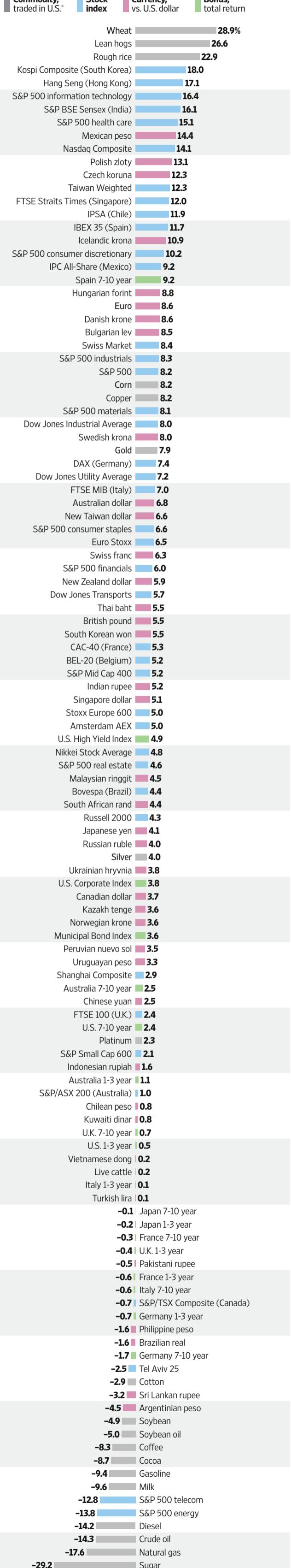
Photo: The BP-Husky Toledo Refinery in Oregon, Ohio (Luke Sharrett/Bloomberg News)

Source: FactSet

THE WALL STREET JOURNAL.

First Half Winners and Losers

Stock markets around the world have performed well so far this year, with big gains in technology shares. Energy markets posted some of the largest declines.



*Continuous most-active contract

Sources: FactSet (indexes, commodities); Tullett Prebon (currencies); Bloomberg Barclays (bonds)

THE WALL STREET JOURNAL.

Cheap Oil Threatens Stocks

Worries emerge that crude-price collapse could dampen bullish outlook on market

By AKANE OTANI

Tumbling oil prices are emerging as the latest threat to the long stock-market rally.

U.S. stocks set records in the first half of the year, bolstered by steady economic growth world-wide and the best quarterly earnings among S&P 500 companies in nearly six years. Energy companies are expected to provide the biggest boost in earnings growth of the broad index's 11 sectors this year, according to analysts surveyed by FactSet, largely due to favorable comparisons with a weak year-ago period.

U.S. crude for August delivery closed up 2.5% to \$46.04 a barrel on Friday, but oil prices are still down 14% this year. Oil in June entered a bear market, which is typically defined as a decline of 20% or more from a recent peak.

Further declines in oil prices could renew concerns about the health of U.S. oil companies, refiners and drillers, whose profits bounced back in the first half of the year after several quarters of contraction.

It also could prompt analysts to trim corporate earnings estimates—undermining a key factor that has kept stocks climbing despite reduced expectations for policy changes from Washington, such as tax cuts and fiscal stimulus.

"Clearly the energy sector has felt the impact of falling oil prices already—and if keeps going, corporate earn-

ings will definitely be impacted," said Omar Aguilar, chief investment officer of equities at Charles Schwab Investment Management.

Early last year, a collapse in oil prices spilled over to the stock market, combining with global recession concerns to send shares lower.

Stocks look better able to withstand oil-price declines this time around, analysts say. They note energy stocks in the S&P 500 already have shed 14% this year. Among the biggest decliners are offshore-drilling contractor Transocean Ltd. and exploration-and-production firms Andarko Petroleum Corp. and Range Resources Corp.

Yet the broader stock market has been resilient: The S&P 500 has climbed 8.2% this year—posting its best first half of the year since 2013.

Also the stock market has been moving less in tandem with oil prices this year than last, when U.S. crude and the S&P 500 hit their 2016 lows on the same day.

Perhaps the biggest factor is that the economic picture has changed: When oil prices

slid in the second half of 2015 and the start of 2016, investors were contending with a number of risks beyond declining commodity prices, including signs of slowing global growth, shrinking corporate profits and a stronger U.S. dollar.

This year, global economic growth is on the mend, with regions from the U.S. to Europe posting their strongest corporate earnings in years. And oil prices remain well off their 2016 trough, when U.S. crude settled at \$26.21 a barrel, its lowest since May 2003.

"We're in a very different economic environment, one where we can take a bit of a hit on oil prices without it necessarily affecting the recovery," Mr. Aguilar said.

Many investors also largely consider the latest decline in oil prices to be an issue of oversupply, rather than a sign of waning global demand.

"As long as oil finds a floor around \$40 a barrel or higher," earnings should continue growing, said Alan Gayle, director of asset allocation at RidgeWorth Investments.

Weak Inflation Keeps Yields Down

By SAM GOLDFARB

U.S. government-bond yields startled many investors in the year's first half by falling, yanking the rug out from under expectations that a recovery in inflation would drain cash from the credit market.

The yield on the benchmark 10-year Treasury note settled Friday at 2.298%, down from 2.446% at the end of last year and well below its recent peak of 2.609% set in March. Yields fall when bond prices rise.

Weaker measures on inflation are a big reason for the yields' decline. Inflation is perhaps the biggest threat to long-term government bonds because it erodes the purchasing power of their fixed returns. Softening inflation then bolsters demand for Treasury debt, driving down yields.

After reaching 2.1% in February, the Fed's preferred gauge of overall inflation rose just 1.4% in May from the prior year. Core inflation, which excludes energy and food prices, has slipped to 1.4% from 1.8% in February.

This came as a surprise to many investors who anticipated inflation would surge as lawmakers cut taxes and unleash a flood of fiscal spending under a new presidential administration. Now those expectations are diminishing, especially as a retreat in oil prices threatens to weigh down costs for a broad range of products.

Many observers now question whether the Federal Reserve's 2% target is really within reach.

"The Fed has been trying to get inflation to 2% for a long time now," said Donald Ellenberger, senior portfolio manager at Federated Investors. As

Inflation Fade

The 10-year break-even rate, a market-based gauge of inflation expectations, has declined this year.

2.2 percentage points



Note: Break-even inflation reflects the yield gap between the 10-year Treasury note and the comparable inflation-protected security.

Source: Tradeweb

puted by the White House—that President Donald Trump may have interfered with an FBI investigation.

Also undermining that optimism is the lack of success GOP lawmakers have had in fulfilling their promise to overhaul the health-care system, even as opposition mounts to some of their tentative tax proposals.

Several investors said Congress now has a long way to go to win back their confidence that it can pass fiscal stimulus in the form of tax cuts or infrastructure spending. "It would take a tax bill to be delivered and voted on for the market to take that seriously again," said Brian Battle, director of trading at Performance Trust Capital Partners LLC.

Some investors say yields can't fall much further from here. Recent hints that some major central banks could be moving closer to unwinding their monetary stimulus has already unsettled traders, lifting yields from their 2017 lows.

In addition, higher interest rates set by the Fed have generally provided a floor for Treasury yields. Few analysts see risks of a recession soon, and geopolitical risks have abated in the aftermath of France's presidential election, diminishing the chances of a pronounced flight to haven assets.

At current levels, there is more room for yields to rise than to fall, said Jim Caron, fixed-income portfolio manager at Morgan Stanley Investment Management.

The 10-year yield is unlikely to drop below 2%, but could rise as high as 2.75% if Congress manages to pass fiscal stimulus, he said.

U.S. inflation has become a focus for Treasury investors, overwhelming concerns about the Fed.

has raised interest rates twice this year and signaled the possibility of another increase in the second half of the year.

Some bond investors say that it almost doesn't matter what the central bank does unless inflation picks up. The Fed could respond to lackluster inflation by keeping rates steady, which typically supports Treasury prices. Or it

rates are not going to go as high as everyone had expected."

Optimism that the Trump administration would usher in a new era of economic growth driven by fiscal rather than monetary policy has dissipated. That was punctuated by the 10-year yield's largest one-day decline in nearly a year on May 17, after reports—dis-

MARKETS REVIEW & OUTLOOK | SECOND QUARTER



Relatively high returns have lured investors into new municipal bonds such as one issued to refinance Houston's NRG Stadium.

Investors Flood Into Munis

By HEATHER GILLERS

For evidence of investors' appetite for municipal debt, look no further than New Jersey.

That is where delays have plagued the planned megamall American Dream for more than a decade. Nevertheless, investors last month flooded into unrated public authority bonds designed to revive the 2.9 million-square-foot project.

The \$1.1 billion offering, which promised returns of as much as 6.86%, is a sign of how hungry investors are for new municipal debt despite mounting fiscal problems in some cities and states around the country.

Buyers have snapped up nearly \$88 billion in new public bonds this year through Friday, up 8% from the same period last year, according to Thomson Reuters. That happened as annual borrowing by local governments rose to a seven-year high.

It also comes as ratings firms have downgraded Illinois

and Hartford, Conn., to the brink of junk status, and the troubled U.S. territory of Puerto Rico was placed under court protection as a way of sorting through its mountain of liabilities.

"The market is able to take these individual events in stride," said John Miller, co-head of global fixed income at Nuveen Asset Management.

The demand for new bonds is driving down costs for government borrowers and making existing debt more expensive for investors. The S&P Municipal Bond Index gained 3.25% year to date through Friday.

One high performer was a bond issued by the Harris County Sports Authority to refinance Houston's NRG Stadium. It returned 20.7% during the second quarter through Thursday, according to bondholder Nuveen Asset Management.

The same authority struggled during the latest recession with soured debt deals, a cash crunch and ratings downgrades. But it has now been

able to set aside enough money to repay the bonds, making them more valuable.

Many investors still view public debt as a relatively safe way to make money because municipal defaults are rare and states aren't allowed to seek bankruptcy protection. But some observers say they see greater potential for losses as public expenses rise.

"Risk in the municipal market is building," said Matt Fabian, a partner at Municipal Market Analytics, in a recent note.

The performance of the municipal-debt market in 2017 is a surprise to many observers, who expected a pullback following the election of President Donald Trump. The S&P Municipal Bond Index fell 3.46% last November largely because of expectations that tax cuts and higher inflation would reduce the value of tax-exempt debt, analysts said.

About \$27 billion flowed out of municipal-bond mutual funds and exchange-traded funds during the last two

months of 2016, according to the Investment Company Institute.

But those outflows reversed at the start of 2017 as tax cuts and higher inflation looked less likely in the near term. Inflows have totaled \$15 billion so far in this year. Lower inflation expectations typically give investors confidence that the debt will retain its value.

"People got more comfortable with the fact that tax reform is not going to happen anytime soon," said Triet Nguyen, a managing director at New York-based NewOak Capital, a research and advisory firm.

A drop in municipal-bond refinancing combined with an increase in debt coming due during 2017 have also driven up bond prices as investors look for ways to use their cash, analysts said.

"Despite the Illinois and Connecticut headlines, munis have performed just fine," added J.R. Rieger, managing director of Fixed Income Index Product Management at S&P Dow Jones Indices, LLC.

Banks including Citigroup Inc. and Bank of America Corp. said they would boost share buybacks and dividends.

STOCKS

Continued from page B1
peak. The Nikkei Stock Average fetches 17 times forward earnings, around its five-year average.

Last week, investors tasted greater uncertainty that could lie ahead, when top European Central Bank officials offered mixed messages on the future of its bond-buying program. Heads of the central banks in the U.K. and Canada also indicated they were pondering when to raise interest rates.

Stocks and currencies gyrated on the notion of less central-bank accommodation. "Central banks have created huge distortions in the markets, which are going to be difficult to unwind," said Colin Graham, chief investment officer of multiasset solutions at BNP Paribas Asset Management. "But we think they are going to talk hawkish and walk dovish," he said, implying that central banks won't do anything too drastic.

In the ninth year of a bull market in the U.S., the Dow, S&P 500 and Nasdaq Composite have set numerous records. Globally, nearly half of the top 30 stock indexes are at or near all-time highs.

"We're really seeing a synchronized global recovery take shape this year," said Graeme Bencke, global portfolio manager at Pinebridge Investments in London. "Everything is looking better."

The tech sector's rising clout has been key. The five largest U.S. companies are tech- and consumer-related companies, led by Apple Inc. They propelled the Nasdaq this year. China's tech behemoths fared even better.

Even sectors that have mostly underperformed this year, such as financials, have belatedly joined in. After all major U.S. banks passed the Fed's annual stress tests, analysts say they look attractive again.

Banks including Citigroup Inc. and Bank of America Corp. said they would boost share buybacks and dividends.

Among the few losers this

year were energy stocks, thanks to oil's sharp decline. Exxon Mobil Corp. and Chevron Corp. were some of the Dow's worst performers.

In January, investors hoped Donald Trump's election victory would trigger lower taxes, less regulation and more infrastructure spending. France's presidential election loomed over Europe's prospects. So far, though, Mr. Trump hasn't enacted major changes to fiscal policy or taken significant protectionist measures. And pro-Europe Emmanuel Macron romped to victory in France, allaying fears about anti-European Union sentiment.

Through it all, the market's focus has remained on central bankers, the pattern since the financial crisis. While the U.S. has raised short-term interest rates four times since the end of 2015, the ECB and Bank of Japan have mostly remained accommodative, helping juice asset prices.

Investors point to a pickup in earnings growth as the vital driver of global gains.

In the U.S., first-quarter earnings from S&P 500 companies increased 14%, the best growth since 2011. First-quarter earnings in Asia-Pacific, excluding Japan, and in Europe, also grew at a double-digit rate. "Europe has gone from a headwind to a tailwind," said Mark Matthews, head of research for Asia at Swiss private bank Julius Baer.

"There was a fear that the euro was unraveling. The fear is behind us."

"We've never been in a period like this," Mr. Bencke of PineBridge Investments said. "It's like central banks are slowly pulling the rug from under your feet. My hope is they'll move slowly, and the world will err on the side of caution."

—Demi Guo
contributed to this article.

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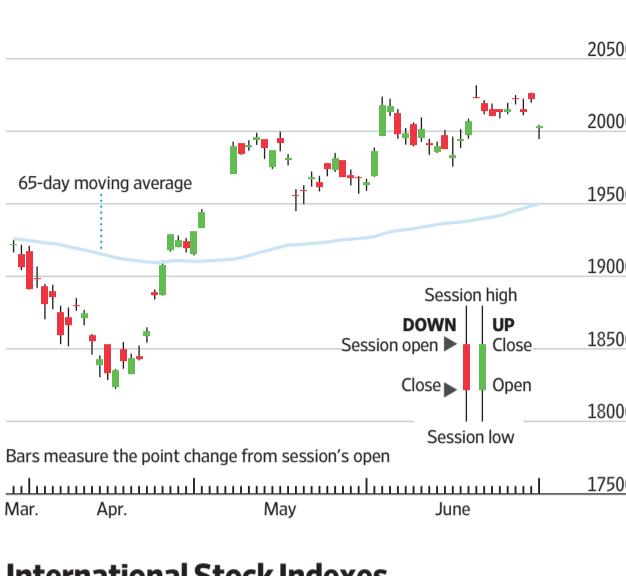
MARKETS DIGEST

Data as of Friday, June 30, 2017

Nikkei 225 Index

20033.43 ▼186.87, or 0.92%

High, low, open and close for each trading day of the past three months.



Bars measure the point change from session's open

Mar. Apr. May June

STOXX 600 Index

379.37 ▼1.29, or 0.34%

High, low, open and close for each trading day of the past three months.



Data as of 4 p.m. New York time

International Stock Indexes

Region/Country	Index	Close	NetChg	% chg	52-Week Range	Low	Close	High	YTD % chg
World	The Global Dow	2769.39	-6.25	-0.23	2284.45	2790.26	9.4		
	MSCI EAFE	1883.19	-12.56	-0.66	1573.30	1916.37	11.8		
	MSCI EM USD	1010.80	-3.22	-0.32	819.19	1019.11	17.2		
Americas	DJ Americas	582.63	0.82	0.14	502.62	588.47	7.8		
Brazil	Sao Paulo Bovespa	62899.97	661.02	1.06	51842.27	69052.03	4.4		
Canada	S&P/TSX Comp	15182.19	-31.23	-0.21	14064.54	15922.37	-0.7		
Mexico	IPC All-Share	49857.49	659.37	1.34	44364.17	49939.47	9.2		
Chile	Santiago IPSA	3606.79	12.87	0.36	3113.51	3782.66	11.9		
U.S.	DJIA	21349.63	62.60	0.29	17888.28	21528.99	8.0		
	Nasdaq Composite	6140.42	-3.93	-0.06	4822.90	6321.76	14.1		
	S&P 500	2423.41	3.71	0.15	2085.18	2453.46	8.2		
	CBOE Volatility	11.18	-0.26	-2.27	9.75	22.51	-20.4		
EMEA	Stoxx Europe 600	379.37	-1.29	-0.34	318.76	396.45	5.0		
	Stoxx Europe 50	3122.17	-20.30	-0.65	2730.05	3276.11	3.7		
France	CAC 40	5120.68	-33.67	-0.65	4085.30	5432.40	5.3		
Germany	DAX	12325.12	-91.07	-0.73	9373.26	12888.95	7.4		
Israel	Tel Aviv	1433.63	...	Closed	1378.66	1478.96	-2.5		
Italy	FTSE MIB	20584.23	-120.42	-0.58	15423.79	21787.90	7.0		
Netherlands	AEX	507.15	-1.38	-0.27	422.18	536.26	5.0		
Russia	RTS Index	1000.96	0.51	0.05	903.04	1195.61	-13.1		
Spain	IBEX 35	10444.50	-86.60	-0.82	7926.20	11135.40	11.7		
Switzerland	Swiss Market	8906.89	-37.15	-0.42	7593.20	9127.61	8.4		
South Africa	Johannesburg All Share	51611.01	255.04	0.50	48935.90	54548.91	1.9		
Turkey	BIST 100	100440.39	250.07	0.25	71594.98	100617.69	28.5		
U.K.	FTSE 100	7312.72	-37.60	-0.51	6463.59	7547.63	2.4		
Asia-Pacific	DJ Asia-Pacific TSM	1624.81	-9.49	-0.58	1359.38	1640.63	14.2		
Australia	S&P/ASX 200	5721.50	-96.60	-1.66	5156.60	5956.50	1.0		
China	Shanghai Composite	3192.43	4.36	0.14	2932.48	3288.97	2.9		
Hong Kong	Hang Seng	25764.58	-200.84	-0.77	20495.29	26063.06	17.1		
India	S&P BSE Sensex	30921.61	64.09	0.21	25765.14	31131.57	16.1		
Indonesia	Jakarta Composite	5829.71	...	Closed	4834.57	5829.71	10.1		
Japan	Nikkei Stock Avg	20033.43	-186.87	-0.92	15106.98	20304.41	4.8		
Malaysia	Kuala Lumpur Composite	1763.67	-7.69	-0.43	1616.64	1792.35	7.4		
New Zealand	S&P/NZX 50	7611.44	-74.01	-0.96	6664.21	7685.45	10.6		
Pakistan	KSE 100	46565.29	-146.56	-0.31	37783.54	52876.46	-2.6		
Philippines	PSEI	7843.16	55.10	0.71	6563.67	8102.30	14.7		
Singapore	Straits Times	3226.48	-32.17	-0.99	2787.27	3271.11	12.0		
South Korea	Kospi	2391.79	-3.87	-0.16	1953.12	2395.66	18.0		
Taiwan	Weighted	10395.07	-26.58	-0.26	8575.75	10513.96	12.3		
Thailand	SET	1574.74	-3.38	-0.21	1406.18	1591.00	2.1		

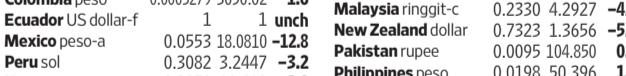
Source: SIX Financial Information/WSJ Market Data Group

Currencies

Yen, euro vs. dollar; dollar vs. major U.S. trading partners



US\$ vs. in US\$ per US\$ (%)



Country/currency in US\$ per US\$ (%)

London close on June 30

US\$ vs. in US\$ per US\$ (%)

Country/currency Fri YTD chg

FINANCE & MARKETS

Bitcoin Has a New Problem: High Fees

Transactions get more expensive, reducing currency's appeal for day-to-day usage

BY PAUL VIGNA

Bitcoin was designed to be cheap, reliable and fast. Lately, though, many users are complaining that the digital currency is anything but.

The cost for investors and consumers to buy or sell bitcoin hit an average of \$5 per transaction in early June, the highest rate of its eight-year history as an alternative means of payment. The fee has since come down to about \$3.50. Two years ago, it was less than a nickel.

The figures, from data provider BitInfoCharts, show that the growing use of bitcoin, whose total value now exceeds \$40 billion, is stretching the limits of its current market structure. In turn, dealing in bitcoin is becoming more costly and inconvenient, turning off some customers.

High fees make it impractical to use bitcoin as a day-to-day currency. Paying a \$5 fee to send \$10,000 in bitcoin isn't a big deal, but it is hard to justify buying a cup of coffee with bitcoin if the transaction costs more than the coffee.

An array of bitcoin applications such as cross-border money transfers and small-ticket consumer payments need an affordable bitcoin network to thrive. With higher fees, "I think a lot of use cases start to die," said Jonathan Levin, chief executive of research firm Chainalysis.

In recent years, consumers have been showered with rewards for swiping their credit cards—from cash back to airline miles and points for free

Bitcoin Fees Spike

Average transaction fees on bitcoin



Source: BitInfoCharts
THE WALL STREET JOURNAL.

hotel stays. The merchant pays the fee, the consumer gets the spoils. In bitcoin's case, the fees are being borne by users.

When Cameron Oatley, a 19-year-old student in Romsey, southeast England, recently sent a friend \$30 worth of bitcoin on a U.S. platform, he was hit with a \$6 transaction fee.

"The whole reason behind bitcoin isn't really there anymore," Mr. Oatley says. "Any currency where you have to pay a huge portion of the transaction just for the privilege of using that currency is no currency."

Bitcoin transactions are processed by a group called miners, who maintain the network and get paid for their work in newly created bitcoin and through transaction fees. Until a few years ago, the fees were an afterthought. But rising activity has changed the math.

The increased popularity of the currency has pushed the number of transactions to about 260,000 a day from 100,000 a few years ago. The network, however, still can only process about seven transactions a second, which

has resulted in bottlenecks.

To expedite orders, end users have the option of offering a higher fee as an incentive to miners to process their transactions. The fee you pay can determine how fast you get bitcoin.

Eric Piscini, a principal at Deloitte Consulting LLP who specializes in virtual currencies, recently tried to move a small amount of bitcoin without paying a fee. It took two days.

"It's an issue," says Mr. Piscini. "If you want to pay a merchant, either the merchant is taking the risk that the transaction won't be validated, or he has to wait two days before he gives you the service or product."

Bitcoin fees also fluctuate with demand; when trading is busier, the fee goes up. Some services like San Francisco-based Coinbase charge customers an average network fee; others allow users to manually set the fee themselves.

Rising fees have led the bitcoin community to renew efforts to solve problems with the currency's market structure.

The question of how to best increase network capacity has long divided the industry. Entrepreneurs, who have built businesses around bitcoin, see the currency as something to be used and exchanged frequently.

Miners and developers, meanwhile, tend to see it as an asset to hold, like gold. They fear that increasing limits would make it more expensive to be a miner, driving out smaller miners and leading to a more centralized system.

The fight has dragged on for two years. New solutions to the standoff were recently proposed and may be adopted this summer, likely lowering fees.

Several other potential breakthroughs, however, have fallen apart in the past.

Until the bickering ends, the only way for users to ensure their transactions get processed quickly is to offer miners higher fees. "You hope for the best," says Cornell University computer-science professor Emin Gun Sirer.

Even though coming changes could alleviate high fees, Mr. Oatley says he is done with the digital currency. "I'm not going to put another cent into bitcoin," he said after selling his remaining stake in early June. "There are too many issues."



The cost to buy or sell bitcoin hit \$5 per transaction in early June.

Goldman Sells Venezuela Debt

BY MATT WIRZ
AND LIZ HOFFMAN

Goldman Sachs Group Inc. has begun offloading some of the \$2.8 billion in Venezuelan bonds it acquired in a controversial deal involving the country's central bank, according to people familiar with the matter.

The Wall Street firm's asset-management arm sold at least \$300 million face amount of the debt to a small group of hedge funds in recent days, people familiar with the trades said.

The firm's purchase of the bonds in May drew harsh criticism from Venezuelan opposition leaders, some investors and U.S. Sen. Marco Rubio (R, Fla.) for supplying cash to authoritarian President Nicolás Maduro.

Goldman Sachs Asset Management sold the debt to promote trading of the bonds, which the firm hopes will push up prices and legitimize the

controversial investment. In recent weeks, some firm executives have said privately that Goldman's chief mistake wasn't in buying the bonds—which fund officials felt were a good deal for their investors—but in going it alone, buying nearly all of the \$3 billion issuance. That focused the blowback squarely on Goldman and left it with a shallow market to trade and value the bonds going forward.

Wall Street brokers, including Barclays PLC, Morgan Stanley and Nomura Holdings Inc. quoted the bonds around 34 cents on the dollar Thursday, investors said. The new buyers are hoping prices will soon rise in line with PdVSA bonds that were issued before Mr. Maduro became president in 2013 and trade around 40 cents, according to people familiar with the matter.

The discount between the bonds due 2022 and PdVSA's pre-existing debt partly reflects uncertainty about whether the new debt would be treated equally if Venezuela defaults. Opposition lawmakers have threatened to repudiate the debt should they rise to power.

Investment banks have been courting GSAM for weeks to arrange the trade, anticipating the firm's need to create a market for the bonds. Sam Finkelstein, the firm's head of emerging markets, selected the U.K.-based broker Liquidity Finance because of his relationship with the firm, according to a person familiar with the matter. An official for Liquidity Finance said the firm declined to comment.



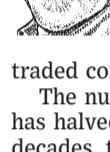
Demonstrators protested at the perimeter of an air force base during a rally against the government in Caracas on June 24.



CHRISTOPHE VORLET

INTELLIGENT INVESTOR | By Jason Zweig

Don't Sweat the Small Stuff



How much should you care about the decline in the number of publicly traded companies?

The number of U.S. stocks has halved over the past two decades, to fewer than 3,600 from nearly 7,400, with most of the declines coming among the smallest companies.

That, I argued in a column last weekend, may be making it tougher for stock pickers to beat the market and for investors to forecast future returns from past data. Now, I'm not so sure. In the past few days I've heard from several leading investors and researchers who feel I got parts of that story wrong. There's a lot that I, and you, can learn from their criticisms, mainly about the role that small companies play in the markets.

Ronen Israel, a partner at **AQR Capital Management** LLC, a firm in Greenwich, Conn., that manages more than \$180 billion in assets, doesn't think the decline in the number of small companies is a big deal.

"That part of the universe is so small," says Mr. Israel, "that it doesn't really affect most portfolio managers because they can't invest there anyway."

The 1,900 most minuscule companies combined are only 2% of the total value of the U.S. stock market, according to the Center for Research in Security Prices at the University of Chicago's

Booth School of Business.

Many such minnows have market values barely above \$15 million, making them un-touchable for the typical fund manager and unlikely to be a major factor in the performance of stock pickers, says Mr. Israel.

Or consider "factor investing," which selects groups of stocks based on how big companies are, how much their shares fluctuate, how expensive they are relative to asset value and so on.

Much of that underlying research is based on periods when twice as many stocks existed as today. Is it still valid?

So many of the stocks that disappeared were so

in a single year since 2000.

The new chairman of the Securities and Exchange Commission, Jay Clayton, has said that he hopes to encourage more small companies to list shares, at least partly by reducing red tape.

Regulatory costs aren't the main issue, says Prof. Ritter: "Small companies are having a lot of difficulties competing with big companies, mainly due to technology and globalization."

"Getting big fast is more important than it used to be," says Prof. Ritter. So the venture-capital funds backing many startups protect their investments by merging with or selling to other companies rather than taking them public.

In the 1990s, IPOs regularly accounted for more than half of all "exits," or sales, by venture-capital firms; from 2001 onward, they haven't accounted for more than 20% in a single year, calculates Prof. Ritter.

The losers here are small investors who can't invest in venture-capital firms, says Brian Buenneke, a partner at **Pantheon Ventures** in San Francisco, which manages about \$36 billion in venture-capital and private-equity funds. "Individual investors have access to fewer companies and slower growth. They're really getting shut out."

The earliest and biggest gains are being captured by a wealthy, closed and connected investing clique. If that continues, it could jeopardize popular support for free-market policies.

Some top investors disagree with parts of column on drop in small-stock numbers.

small that they shouldn't overly influence the results, says Mr. Israel, except in strategies that weight stocks equally rather than by size as most indexes do.

Jay Ritter, a finance professor at the University of Florida who is a leading authority on initial public offerings, says the shrinkage of small stocks isn't new. While it was common for more small companies (with under \$50 million in sales) than big ones to sell shares to the public in the 1980s and 1990s, that hasn't happened

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FUND NAME GF AT LB DATE CR NAV YTD %RETURN—

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China A-Share Fund Cls A USD H OT HKG 06/29 AUD 12.46 14.0 19.5 -0.2

China A-Share Fund Cls A CAD H OT HKG 06/29 CAD 12.49 14.4 20.4 -1.2

China A-Share Fund Cls A EUR H OT HKG 06/29 EUR 13.71 14.1 19.5 -1.4

China A-Share Fund Cls A GBP H OT HKG 06/29 GBP 13.07 13.3 18.5 NS

China A-Share Fund Cls A CNY H OT HKG 06/29 CNY 13.09 13.6 23.4 0.0

China A-Share Fund Cls A SGD H OT HKG 06/29 SGD 13.18 14.2 26.3 8.0

China A-Share Fund Cls A NZD H OT HKG 06/29 NZD 13.20 14.1 20.1 -0.9

China A-Share Fund Cls A HKD H OT HKG 06/29 HKD 13.47 20.8 23.2 1.1

China A-Share Fund Cls A NZD H OT HKG 06/29 NZD 13.24 15.0 22.3 2.5

China A-Share Fund Cls A SGD H OT HKG 06/29 SGD 11.54 15.9 20.7 -3.8

China A-Share Fund Cls A CNY H OT HKG 06/29 CNY 14.61 16.5 24.3 2.5

China A-Share Fund Cls A USD H OT HKG 06/29 USD 13.38 20.2 22.8 -1.2

China A-Share Fund Cls A USD H OT HKG 06/29 USD 13.29 14.4 20.9 -0.6

China Greenchip-A Units AS EQ CYM 06/29 HKD 6.26 23.2 32.3 -2.3

China Greenchip-A Units AUD H AS EQ CYM 06/29 AUD 10.63 23.7 33.4 -2.1

China Greenchip-A Units CAD H AS EQ CYM 06/29 CAD 10.35 23.8 32.5 -2.9

China Greenchip-A Units NZD H AS EQ CYM 06/29 NZD 10.89 23.5 33.6 -1.4

China Greenchip-A Units USD AS EQ CYM 06/29 USD 10.35 22.9 32.0 -2.8

China Greenchip-A2 QDIs Units AS EQ CYM 06/29 HKD 11.34 22.9 32.0 -2.4

GC HI Yield Inc-Cls A MDLS GBP H OT CYM 06/29 GBP 9.66 5.2 14.1 9.3

GC HI Yield Inc-Cls A MDLS CAD H OT CYM 06/29 CAD 9.31 6.2 16.1 11.2

GC HI Yield Inc-Cls A MDLS H OT CYM 06/29 H 10.13 6.4 16.0 12.0

GC HI Yield Inc-Cls A MDLS SGD H OT CYM 06/29 SGD 10.13 6.5 16.0 10.5

GC HI Yield Inc-Cls A MDLS SGD H OT CYM 06/29 SGD 10.13 5.5 14.8 10.3

GC HI Yield Inc-Cls A MDLS SGD H OT CYM 06/29 SGD 10.05 5.9 15.3 10.1

GC HI Yield Inc-Cls A MDLS SGD H OT CYM 06/29 SGD 9.28 5.9 15.3 10.1

GC HI Yield Inc

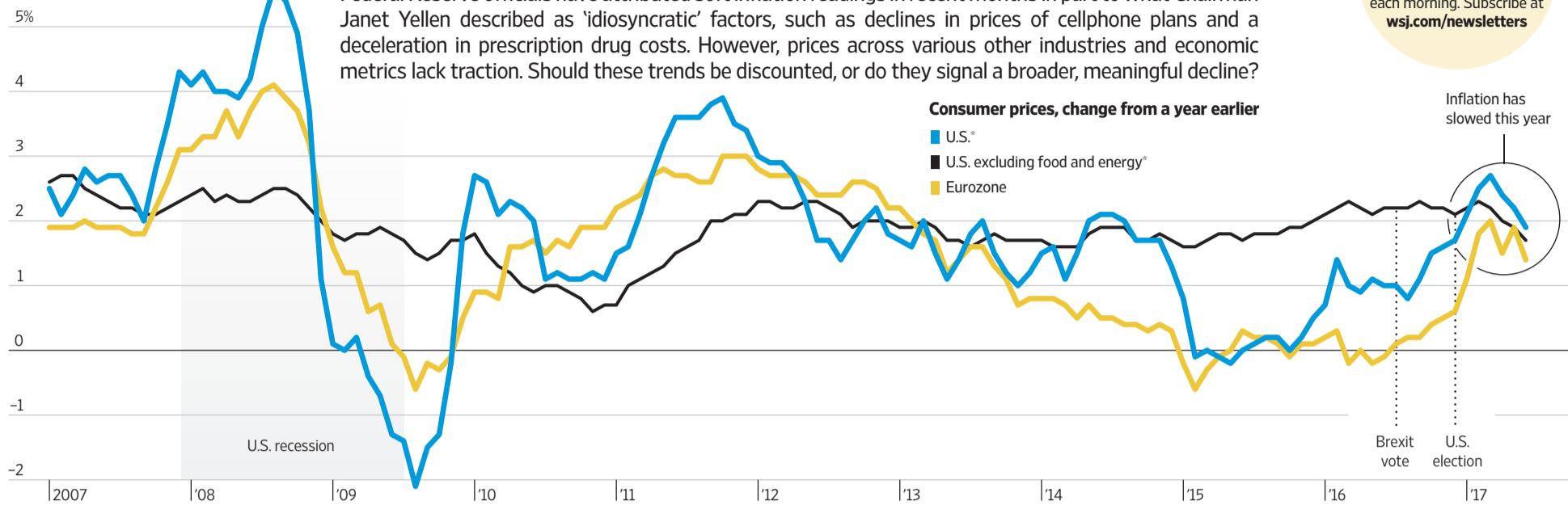
MARKETS

THE DAILY SHOT | By Lev Borodovsky

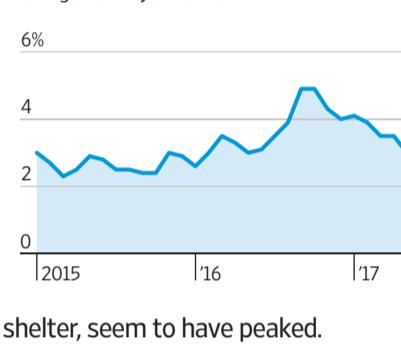
What to Make of Softening Inflation

Federal Reserve officials have attributed soft inflation readings in recent months in part to what Chairman Janet Yellen described as "idiosyncratic" factors, such as declines in prices of cellphone plans and a deceleration in prescription drug costs. However, prices across various other industries and economic metrics lack traction. Should these trends be discounted, or do they signal a broader, meaningful decline?

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Wireless prices have fallen and health-care inflation has slowed in recent months...



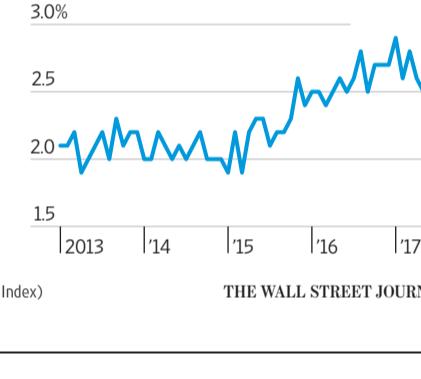
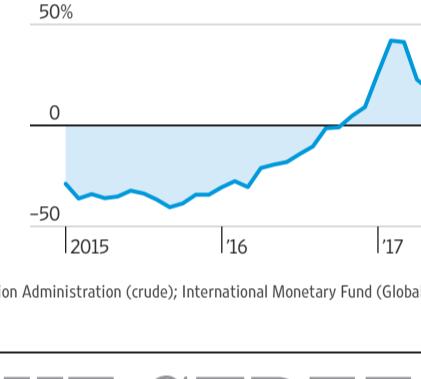
...But the trend is also evident in other sectors, such as used autos and education.



Even sectors with persistent inflation, such as shelter, seem to have peaked. And after a run-up, prices for crude oil and other commodities have slumped.



U.S. import price inflation is also slowing. Economists have argued that tight labor markets will spur inflation, but that hasn't happened and wage growth has decelerated.



*Seasonally adjusted
Sources: Federal Reserve Bank of St. Louis; U.S. Bureau of Labor Statistics (U.S. inflation and wages); Eurostat (eurozone inflation); Energy Information Administration (crude); International Monetary Fund (Global Commodity Index)

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Central Bankers Shake Sentiment

OVERHEARD

China Data Show Global Growth Fine

Investors have grown accustomed to rude shocks from China, so it is always nice to get some unexpected encouraging news.

China's June purchasing managers index fit the bill—it ticked up after stalling off for two months, in a sign that this spring's tough crackdown on financial market leverage has, so far, done limited damage to the real economy.

More important, the percentage of businesses reporting stable or improving export orders hit its highest level since early 2012.

Weakening trade data from Taiwan and Korea and faltering U.S. consumer confidence earlier in the second quarter had suggested a cautious outlook about global demand. But this latest China data, paired with bullish signals from Europe, suggest it is doing just fine.

May profits in the information technology and communications sector—one of China's biggest export earners—ticked up for the second month in a row following a big drop in March. Factory input prices rose again after falling in May. Factory gate prices fell, but the fall was the smallest since March.

There were some discouraging signs: The PMIs for small and medium-size enterprises were lower in May, although they still indicated growth. Smaller firms may be feeling the pain from slower credit growth. Manufacturing employment weakened again. A weaker job market and tougher conditions for small firms could mean a deeper slowdown in the second half.

But for now, the message from China to the world is: steady onward.

—Nathaniel Taplin



Mario Draghi, president of the European Central Bank

The calm has been broken. The first half of 2017 has ended with big moves in global bond yields and exchange rates, sparked by a belated realization that central banks are increasingly edging toward reigning in extraordinary policy measures. The stage is set for a scrapier second half.

Comments last week from central bankers, most notably European Central Bank President Mario Draghi, have challenged the conditions that have lifted bonds and stocks together this year, and kept volatility low. The assumption that inflation was too soft for central banks to tighten policy is being questioned.

Falling unemployment and closing output gaps mean emergency policy looks inappropriate. Progress in the recovery means not changing policy settings delivers ever more stimulus. That raises fears about bubbles in stock and bond valuations. The withdrawal will likely be gradual, but the direction of travel is clear.

Bonds got a rude awakening, especially in Europe, but with major reverberations in the U.S. The 10-year German yield has risen to 0.44% from 0.25% last Monday, dragging up the 10-year U.S. Treasury yield to 2.27% from 2.13%. Currencies swung; the euro has risen to \$1.14, its highest for more than a year. Stocks got caught up in the turmoil.

What comes next? The first key indicator for investors is inflation. On Friday,

The second is investment. A pickup in investment spending would reassure central banks that growth isn't overly dependent on consumption. Bank of England Gov. Mark Carney noted in May that this could also lift the underlying level of interest rates, which would also require a response from central banks.

The third is exchange rates. Central banks on the move are likely to see their currencies appreciate. That in turn could tighten financial conditions and weigh on inflation, potentially delaying actual policy moves.

For markets, tension looms. If central bankers are making a mistake, and growth prospects dim, then bonds should do well while riskier assets struggle.

If central bankers are right, and growth is solid while inflation is being held back by temporary factors, then bond buyers should lose. After a stretch where both bonds and stocks have done well, a new landscape is forming. —Richard Barley

could go wrong. The country's growth and consumption, already hit by the cash cleanup, could be derailed further if companies struggle to adjust.

Like most things in India, the tax, too, is complicated. Rather than creating a single sales-tax rate, charges will vary on different categories of goods, ranging from 5% on mass-consumption goods to 28% on consumer durables. Items such as tobacco and luxury cars could face an even higher rate.

The variations mean companies might have incentive to produce lower-quality goods or find some other way to circumvent higher

rates on their goods. Moreover, a confusing "antiprofiteering" clause means businesses will have to pass on any upside they gain from lower taxes on their goods by cutting prices.

The broader upshot is that consumer demand in India faces significant change. More than one-quarter of Indian consumer goods, including hair oil, incense sticks, soda and the widely used clarified butter known as ghee, are set to get more expensive while one-fifth will get cheaper, according to Goldman Sachs.

For consumer companies with deep supply chains across India, this alters the

calculus of doing business. India is a notoriously price-sensitive market. Pharmaceutical giant GlaxoSmithKline, which has a big business in India, faces lower sales growth in fiscal 2018 because of the tax, analysts reckon; its consumer health-care company will likely have to raise prices or endure thinner margins. Maruti Suzuki, maker of one of the most popular cars on Indian roads, could see prices fall by 2% to 3%, which could hit revenue if a rise in demand doesn't compensate.

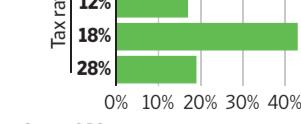
In India, it seems, even reforms supposed to simplify can prove a headache.

—Anjani Trivedi

India's Sweeping Tax Overhaul Is Far From Straightforward

Taxing Goods

Portion of goods affected by tax rate under India's new levy



India, one of the world's fastest-growing economies, was implementing one of the most sweeping tax overhauls in its history over the weekend. But cheering investors should be cautious.

The introduction of a nationwide goods-and-services tax should put India in line with many countries by introducing a unified levy on sales across the nation. Taxes on goods shipped across the vast nation will be charged at their final destination, replacing the current muddled system under which layers of taxes are charged whenever goods cross state borders.

Any reform that lowers the cost and complexity of

doing business in India is a positive. Still, following Prime Minister Narendra Modi's botched demonetization program last year, there is a risk that the rollout

could go wrong. The country's growth and consumption, already hit by the cash cleanup, could be derailed further if companies struggle to adjust.

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