THE WALL STREET JOURNAL.

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DJIA 21479.27 Closed | NASDAQ 6110.06 Closed | NIKKEI 20032.35 ▼ 0.12% | STOXX 600 382.30 ▼ 0.29% | BRENT 49.61 ▼ 0.14% | GOLD 1217.90 Closed | EURO 1.1345 ▼ 0.18%

What's News

Business & Finance

European stocks are a major draw for global hedge funds amid economic growth, relative political calm and a sense that the worst of the continent's sovereign-debt crisis is over. **A1**

◆ **EU lawmakers** backed new rules that would force large multinational companies to give detailed information on where profits are made to prevent them from reducing tax bills. **B1**

◆ **Clariant's bid** to merge with U.S.-based Huntsman is under attack by a group of the Swiss company's largest shareholders. **B1**

◆ **As Italian** taxpayers face a huge bill to clean up three sickly Italian banks, some argue that Rome has moved too slowly. **B1**

◆ **Samsung is developing** a voice-activated speaker powered by Bixby, joining a proliferating arms race in tabletop devices. **B4**

◆ **A glitch led** incorrect data to briefly appear for Nasdaq-listed share prices of some of the world's biggest companies. **B10**

◆ **Qatar Petroleum** plans to increase natural-gas output by 30% over the next seven years, as the emirate faces a diplomatic crisis with its Persian Gulf neighbors. **B3**

World-Wide

◆ **North Korea's** launch of its first ballistic missile capable of reaching the U.S. presents Trump with his biggest foreign-policy crisis and threatens to shift the balance in the Pacific. **A1**

◆ **The intercontinental**-ballistic-missile test intensifies pressure on Beijing to penalize Pyongyang or risk tensions with Washington. **A4**

◆ **The GOP** health-care overhaul would raise average premiums for a midlevel insurance plan 20%, a challenge senators find hard to ignore as they engage with voters. **A6**

◆ **U.S.-backed** Syrian forces breached the wall surrounding Raqqa's heavily fortified Old City, marking a significant advance in the battle to drive out Islamic State. **A3**

◆ **Russia is** likely to leak hacked government information in an attempt to influence Germany's parliamentary election, security officials said. **A3**

◆ **A federal appeals** court blocked the EPA from loosening controls on emissions of methane and other greenhouse gases. **A6**

◆ **The reigning** Tour de France sprint champion was disqualified after he threw an elbow causing a crash in the finals meters of the Stage 4 sprint. **WSJ.com**

Inside

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Bossing Around Hong Kong

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

KCNA/EUROPEAN PRESSPHOTO AGENCY (TOP); KCNA/AGENCE FRANCE-PRESSE/GETTY IMAGES

North Korean leader Kim Jong Un, above right, reacts to the Hwasong-14 missile launch, top.

New Launch Poses Tough Test for U.S.

North Korea's launch of its first ballistic missile it said was capable of reaching the continental U.S. raised the stakes for Washington and threatened to shift the strategic balance in the Pacific that has held for some 70 years.

By Jonathan Cheng in Seoul and Alastair Gale in Tokyo

The development presents President Donald Trump with his biggest foreign-policy challenge and raises the potential costs of military action against Pyongyang. It comes as Mr. Trump has expressed frustration with China's inability to curb North Korea's's advancing weapons program.

The missile test is likely to push North Korea up the agenda Friday and Saturday at a meeting of leaders of the Group of 20 advanced nations in Germany, where Mr. Trump is set to hold a separate meeting with the leaders of Japan and South Korea.

The Trump administration has sought to increase pressure on China, North Korea's top trading partner and ally, to take greater action to cut off Pyongyang's economic lifeline. Mr. Trump is scheduled to meet Chinese President Xi Jinping at the G-20 summit in Hamburg.

The missile, which North Korean state media identified as the Hwasong-14, or the Mars-14, was launched at 9 a.m. local time Tuesday from an airfield in the country's northwest. Leader Kim Jong Un oversaw the test.

The missile, like others that Pyongyang has tested this year, was fired at a steep trajectory, reaching an altitude of about 1,740 miles before splashing down 580 miles away between Japan and the Korean Peninsula, according to North Korean state media. The numbers were in line with U.S., South Korean and Japanese military analyses, though the Pentagon initially identified the missile as an intermediate-range ballistic missile.

"As a full-fledged nuclear power that has been possessed of the most powerful intercontinental ballistic rocket capa-

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◆ Trump sets out for Europe... A3
◆ Opinion: Korean crisis......... A10

Hedge Funds Pile Into European Stocks

BY LAURENCE FLETCHER AND GREGORY ZUCKERMAN

After the presidential election last year, many hedge-fund managers called the U.S. a great moneymaking opportunity. It turns out Europe is the place to be.

Bets on stocks in Italy, France and Spain—long laggards compared with the U.S.—have given some global hedge funds returns of more than 20% so far this year.

The average hedge fund has managed only 3% through May, according to the most recent data from Hedge Fund Research.

"We've been quite aggressively long Europe in the last year," said Pieter Taselaar, founder of Greenwich, Conn.-based Lucerne, which manages $750 million in assets. Its main fund is up 20.5% this year through June 15, according to a person familiar with the matter.

A sustained rebound in Europe, should it come to pass, would reshape global markets. Most European bourses remain mired below their 2007 peaks. The euro and the British pound have been slumping for a decade.

Eurozone GDP growth hit its second-highest level since 2011 in the first quarter, at 0.6%, beating U.S. GDP growth of 0.4%. The European PMI, a survey of manufacturing activity, reached a 74-month high last month. Growth is solid not only in Germany, but also in the one-time trouble spots of Spain and Portugal.

Markets have reacted to the economic growth, relative political calm and a sense that the worst of Europe's sovereign-debt crisis is behind it. In local currency terms the S&P is outpacing the Stoxx Europe 600, but after accounting for the euro's rise a dollar investor would have done much better in the European index, making 14.3% versus 8.5%.

Earlier this year Lucerne started to add significantly to exposure in France, Spain and Italy, said Mr. Taselaar, while reducing exposure to Scandinavia, considered a haven in difficult times.

The fund bought stocks such as Italian bank UniCredit, up 24% this year, and French house builder Kaufman &

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POLICE PENSIONS PUT CITIES IN FIX

U.S. municipalities that try cutting retirement plans face pushback from officers, public

BY HEATHER GILLERS AND ZUSHA ELINSON

When the city of San Jose had trouble affording services such as road repair and libraries because of the cost of police pensions, it obtained voter approval to pare them. What happened next proved sobering for other cities in the same pickle. Hundreds of police officers quit. Response times for serious calls rose.

Faced with labor-union litigation, San Jose this year restored previous retirement ages and cost-of-living increases for existing police officers, and last month it gave them a raise.

Police pensions are among the worst-funded in the nation. Retirement systems for police and firefighters have just a median 71 cents for every dollar needed to cover future liabilities, according to a Wall Street Journal analysis of data provided by

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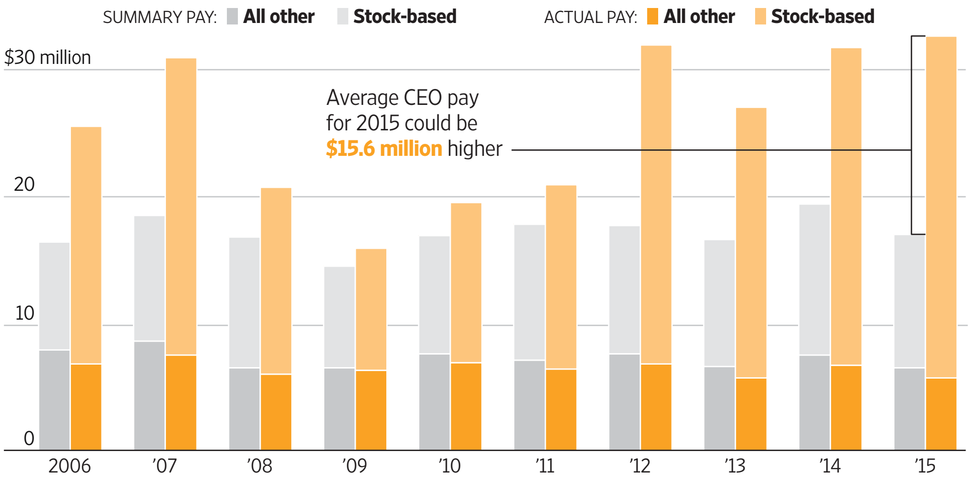
Better Ways to Measure Your Boss's Pay

Summary compensation tables massively understate what executives earn and don't tell investors what they need to know. **B1**

Summary pay vs. actual pay

Average pay for top 500 U.S. executives is lower when measured by SEC-mandated summary compensation disclosures compared to actual realized pay.



Sources: S&P ExecuComp; Academic-Industry Research Network

THE WALL STREET JOURNAL.

America Celebrates Its Birthday

SHANNON STAPLETON/REUTERS

HAPPY FOURTH: A woman holds U.S. flags while attending a parade marking Independence Day in Deer Isle, Maine.

J.P. Morgan Returns to Deal Making With Move

BY MAX COLCHESTER AND EMILY GLAZER

LONDON—J.P. Morgan Chase & Co. on Tuesday made a preliminary approach to acquire U.K. payments business Worldpay Group Inc., potentially marking one of the biggest deals for a U.S. bank since the financial crisis and reflecting banks' growing confidence in a shifting regulatory environment.

The board of Worldpay said it had received preliminary approaches from J.P. Morgan and from Vantiv Inc., a U.S.-based credit-card processor. The board said there is no certainty an offer will be made;

Please see DEAL page A2

Beach Patrol Confronts A New Menace: Oversize Tents

* * *

Rehoboth Beach, Del., lifeguards enforce ban on 'nontraditional shading devices'

BY SCOTT CALVERT

REHOBOTH BEACH, Del.—Capt. Kent Buckson's radio crackled with word of a situation on the beach. A lifeguard had spotted a large canopy amid the sea of umbrellas. That meant one thing. Time for a takedown.

"We've got to get to that one," said Mr. Buckson, the soft-spoken beach patrol boss.

He and his deputy, Aaron Tartal, jumped into an all-terrain vehicle and headed over. Mr. Tartal, shirtless and in red swim trunks, strode over to the canopy owner.

A noncompliant tent

"Good morning, sir. I've got bad news," Mr. Tartal told the man. Then he laid out the new law on the two-mile beach. No tents or canopies allowed, except baby tents up to 3 feet high, wide or deep.

"Freakin' ridiculous," groused the man, who declined to give his name, as he dismantled the black 8-by-10-foot canopy he had just erected.

"New city ordinance, it's a little bit of a learning curve," Mr. Tartal gamely replied, pointing out the nearby shacks that rent umbrellas for

Please see BEACH page A8

A Less Shiny Hong Kong Is Easier to Control

CHINA'S WORLD
By Andrew Browne

JEROME FAVRE/EUROPEAN PRESSPHOTO AGENCY

A junk in Hong Kong. Over the two decades since its return to China, Hong Kong's gross domestic product has shrunk from the equivalent of 18% of China's to 3% today.

SHENZHEN, China—This former fishing settlement used to be an escape route to Hong Kong, a city of dreams.

To sneak into Hong Kong overland meant overcoming a 25-mile stretch of barbed-wire fencing, then a muddy river, another floodlit fence and, beyond that, a restricted buffer zone. Swimming across the sea was another option, but deadlier. Escapees risked sharks or drowning.

Nowadays, few would think of trying. Hong Kong is losing its luster; Shenzhen has grown into an aspirational city, the tech hardware capital of the world and a magnet for talent—both Chinese and foreign.

The swinging fortunes of these two southern neighbors place the onetime British colony in a somewhat precarious position.

It challenges some of the assumptions that underpinned Hong Kong's return to China exactly two decades ago, with political privileges that no other part of the country enjoys. It could even call into question its very existence as a separate entity.

Next to Shenzhen, Hong Kong is starting to look ordinary, and this reality clouds its future. Chinese President Xi Jinping's lecture to Hong Kong last week, in a handover anniversary speech, about behaviors that "cross the red line" was at once a threat aimed at political dissenters and a sign that Beijing is more ready to boss around a place that's slipping down the Chinese urban rankings.

Hong Kong's GDP has shriveled from the equivalent of 18% of China's in 1997 to just 3% today. Hong Kong's port, once the world's busiest, has slipped to fifth position, behind both Shenzhen and Shanghai.

The more Hong Kong resembles just another Chinese city, the faster Beijing recalculates the risks and rewards of a deal it struck with London in a different era.

A Chinese Foreign Ministry spokesman has even declared that the Sino-British Joint Declaration, which laid the groundwork for the handover, "no longer has any realistic meaning."

Deng Xiaoping's pragmatic "One Country, Two Systems" formula for the territory was predicated on the notion that a uniquely successful society—the richest, most globalized, most financially sophisticated city in China—required its own special arrangements to prosper. Hong Kong kept its independent judiciary and individual freedoms.

Of course, implicit in the deal was that the world didn't trust Chinese Communist officials with the controls over such a vibrant endeavor. Prince Charles reportedly called them "appalling old waxworks" in a 1997 diary entry.

But when it comes to Shenzhen, these fusty bureaucrats have done surprisingly well, if only by staying out of the way. Although credit for transforming Shenzhen into a booming manufacturing export hub goes largely to Hong Kong investors, who brought in skills and international connections, the city's latest incarnation as a technology powerhouse is a domestic story.

Meanwhile, a complacent Hong Kong relies on banking, real estate and other services. Innovation has largely failed to take off.

Shenzhen's exuberant optimism recalls Hong Kong's earlier days, before astronomical rents and wealth disparities soured a generation of young people. Tech giants like Huawei and Tencent are hiring, and their armies of graduates can find affordable lodgings, even if it's just a cramped room in a walk-up in one of Shenzhen's "urban villages."

There's a frenetic energy here, too. In Shenzhen, says David Li, a founder of the Open Innovation Lab, a tech startup incubator, the "sound of money" is the crackle of duct tape sealing boxes of smartphones, MP3 players and drones for overseas shipment from the world's largest electronics markets.

Don't write off Hong Kong's prospects yet. Since the handover, Hong Kong has grown faster than almost any other comparable international economy, powered by Chinese tourist dollars and real-estate investment—as well as its role as a financial conduit in China's rise.

And Hong Kong's position as a glittering financial center is safe, so long as rule of law survives. That British legacy may ultimately hinge on Beijing's interpretation of the concept. The president of the Chinese Supreme People's Court a few months ago condemned "erroneous" Western ideas of judicial independence.

Hong Kong is in relative decline. Shenzhen's stock market turnover is higher, its startup culture livelier. Soon, it will overtake its neighbor in economic size.

Increasingly, Beijing views Hong Kong as a component—and not the most important one—of a megacity of more than 60 million people seamlessly connected by bridges, tunnels, subways and high-speed rail around the Pearl River delta.

New Hong Kong leader Carrie Lam is under strong pressure to bring the city into political alignment by introducing national security laws and "patriotic education" in schools. That would only sharpen the antagonism between Beijing loyalists and pro-democracy activists.

An ungovernable Hong Kong might tempt Beijing to intervene directly. Already, its agents have snatched away booksellers from Hong Kong's streets. A tycoon who may have known too much about Chinese palace politics hasn't been seen since he disappeared from a Hong Kong hotel.

For now, the barbed-wire border, complete with immigration controls, remains the most visible symbol of Hong Kong's political separation. But it's a thin line. In almost every other sense, the colonial-era barrier once known as the Bamboo Curtain is history.

STOCKS

Continued from Page One

Broad, which is up 13%, the person said.

Mr. Taselaar expects European economic growth to be between 2% and 3% in the next two to three years, as demand rebounds and companies begin to invest more. Investments that perform well in better times and in countries that had been struggling are achieving 50% returns now, he said.

Yet, foreign investors who have pounced on previous glimmers of hope in Greece and elsewhere have been repeatedly singed. Some them are cautious this time around, fearing the rebound is just temporary.

They point to familiar concerns such as inflexible labor-market rules across Europe, an aging population, constraints on government spending and the still-unknown impact of Brexit on European growth.

A study by J.P. Morgan Chase & Co. showed that the 29 largest active equity mutual funds with global mandates—predominantly U.S.-based—haven't added eurozone shares this year as a group.

Bullish hedge funds say European markets will climb further once the skeptics come around. Besides, they say, a sustainable recovery is less important for hedge funds, which can quickly exit positions if desired.

"It appears the mood in Europe is improving, the economic data is showing strength, corporate earnings are exceeding expectations," said Robert Duggan, partner at New York-based SkyBridge Capital, which invests $11.4 billion in funds.

Mr. Duggan said that he has been adding to holdings in funds that bet on European stock events and that some of these have gained 10% to 20% this year.

Some investors who are optimistic on European shares and the euro say billionaire fund manager Daniel Loeb's move on Nestlé SA is a fresh sign the continent has become a prime destination for global investors.

Mr. Loeb's Third Point hedge fund acquired a $3.5 billion stake in the Swiss food and cosmetics giant and demanded changes from it.

"We are seeing more opportunities in Europe because of strong and improving economic data, a trend that will likely continue now that the French elections have passed without incident," Mr. Loeb wrote to investors in late April.

Mr. Loeb added that "we have been more focused on improving global growth than on the 'Trump trade,'" referring to the idea that certain investments would benefit from Donald Trump's election. His main hedge fund rose 9.9% through the end of May, a person who had seen the numbers said.

Also profiting recently is Chris Hohn's European activist fund TCI, which has more than $20 billion in assets. Its main fund, which has a large allocation to Europe, is up around 23% this year through May with big bets on rising stock prices, said people who had seen the numbers.

Among stocks to have fueled gains at TCI, which takes a small number of very concentrated bets, is Spanish airports operator Aena, which has risen 30% this year.

Another hedge fund that has benefited from European investments is Lansdowne Partners, which has around $19 billion under management. Lansdowne has gained 15.6% in its European Equity fund this year, a person who had seen the numbers said, and 13.5% in its smaller Princay fund, which profited from buying French stocks that sold off around the time of the election.

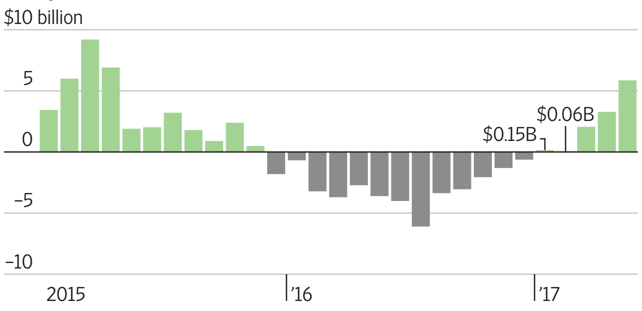
The gains are striking in a hedge-fund industry that is once again struggling to eke out returns. On average, hedge funds are up just 2.7% this year to June 29, according to Chicago-based data group HFR.

—Jon Sindreu contributed to this article.

Betting on Europe

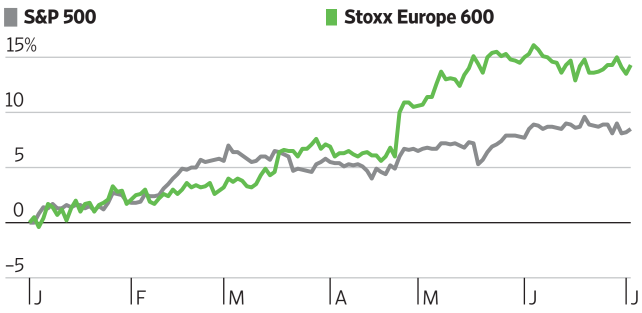
Cash is flowing back into U.S. funds that invest in European stocks...

Monthly flows into and out of U.S.-domiciled funds investing in European stocks



...as Europe's benchmark Index outperforms its U.S. counterpart.

Percentage change so far this year, in U.S.-dollar terms



Sources: EPFR Global (flows);

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DEAL

Continued from Page One

the two parties have until Aug. 1 to announce whether they intend to make an offer. As of Monday evening—before the approach was disclosed—Worldpay had a market value of $8.2 billion.

The expression of interest by the biggest U.S. bank by assets comes just days after J.P. Morgan and peers were given a regulatory green light to return billions of dollars of capital to shareholders via increased dividends and share buybacks. That news bolstered U.S. bank stocks, which had risen sharply in the wake of Donald Trump's electoral victory last November.

Like other big banks, J.P. Morgan has forgone sizable deals since the crisis when it bought Bear Stearns and Washington Mutual in distressed sales. Bank executives and analysts said the postcrisis political and regulatory climate, which was hostile to banks believed to be "too big to fail," made deal-making by the biggest firms virtually impossible.

But the Trump administration has vowed to loosen the shackles on banks and is in the process of putting its nominees, some former bankers, into key oversight posts at the Federal Reserve and other regulatory agencies.

"We've seen with the recent stress-test results that the regulators have clearly indicated a more comfortable position with banks' returning and using excess capital right now," said Douglas Landy, a partner at law firm Milbank, Tweed, Hadley & McCloy who focuses on financial-services regulation. "And if you can just return it to your shareholders then why can't you use it for strategic acquisitions? In some ways that's a better way to use it: shore up your business model in a traditional space."

J.P. Morgan's move also shows the growing interest among big banks in harnessing technology—whether by building it or buying it—before it disrupts their businesses. In this, J.P. Morgan has been particularly active, creating a person-to-person payments transfer system meant to rival that of PayPal Holdings Inc. and launching a high-end rewards credit card that has challenged the premier offering of American Express Co.

Worldpay processes millions of payments daily in stores, online and on cellphones, predominantly in the U.K. and the U.S. Its shares soared 28% Tuesday.

Payments businesses have recently been popular acquisition targets. Banks and payment companies are racing to retool their offerings as customers increasingly turn to mobile devices to pay for goods.

The move comes days after banks got a green light to return billions to shareholders.

Meanwhile, with processing fees being squeezed by regulators and the rising competition from technology startups, incumbents are trying to gain heft to generate economies of scale, analysts have said. Worldpay rival Nets AS said last weekend that it had been approached by suitors. In April, Mastercard Inc. got regulatory approval to acquire payment-technology firm VocaLink Holdings Ltd. for about $920 million.

J.P. Morgan already runs a European payments business, which is based in Ireland and processes some 40 million credit and debit transactions a day.

Like other banks, J.P. Morgan has been reshaping its business, predicting customers will move away from credit cards and simply pay with their phones. In 2015 J.P. Morgan announced an overhaul of its Chase Pay product to better compete with the likes of PayPal Holdings Inc. The bank has joined with a number of U.S. merchants to push its payment app. While the bank has made a series of smaller financial technology acquisitions in recent years, it has so far held off from big-ticket deals.

Worldpay was owned by Royal Bank of Scotland Group PLC until 2010, when the bank was forced to sell the business following its taxpayer bailout. Worldpay was then bought by private-equity groups Advent International and Bain Capital, who listed it in 2015.

The business has been growing strongly, posting a 15% increase in revenue to £4.54 billion in 2016. A person familiar with the company said that the approach from Vantiv and J.P. Morgan was unsolicited.

CORRECTIONS & AMPLIFICATIONS

The New York Police Department deployed units armed with long rifles to the British Consulate General in New York last month after attacks on a London bridge. A U.S. News article Monday about NYPD detectives stationed abroad incorrectly said the units were deployed to the British Embassy.

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

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WORLD NEWS

ISIS 'Capital' Is Breached

U.S.-backed forces advance into heavily fortified city in Syria, in blow to Islamic State

By Noam Raydan And Maria Abi-Habib

GORAN TOMASEVIC/REUTERS

Islamic State has suffered defeats in Syria and Iraq. Above, Kurdish fighters in Raqqa, Syria.

U.S.-backed Syrian forces breached the wall surrounding Raqqa's heavily fortified Old City, marking a significant advance in the battle to drive Islamic State out of a city it used to run its empire and plan attacks abroad, the American military said Tuesday.

The Syrian Democratic Forces made the breakthrough on Monday after the U.S.-led coalition battling Islamic State conducted airstrikes on the wall, according to the U.S. Central Command. The Kurdish-led SDF fighters came under heavy fire as they entered, Central Command said.

The advance is the SDF's deepest yet into Raqqa. If the city falls, it would be one of the biggest achievements in about four years of war against Islamic State led by the Pentagon and its coalition of Western and Arab allies.

Although coalition forces have now entered Raqqa's Old City, Islamic State is still putting up very tough resistance, a coalition spokesman said, portending a drawn-out battle for the city.

The spokesman declined to say when Raqqa city might be completely recaptured.

But as coalition forces advance toward the city's more urbanized core, the fighting will likely become more protracted as it has when Islamic State has been uprooted in U.S.-backed military campaigns from Libya to Iraq.

"There is still tough fighting to be done," the coalition spokesman said. "ISIS fighters are putting up stiff resistance," he added, saying the militants have booby trapped the city and surrounding areas with explosives, making it slow going.

Islamic State has suffered a series of defeats in both Syria and Iraq that have eaten away at its territorial foothold in its core caliphate, or religious empire.

The group is all but banished from Mosul, Iraq—the largest city it had captured in the Middle East—after more than eight months of battles.

Some of the last remaining residents streamed out of Mosul's old city on Tuesday as Iraqi troops, backed by U.S. Special Forces, continued to inch forward.

The SDF, a mixed Kurdish and Arab force, launched the long-awaited offensive to retake Raqqa in early June, more than three years after Islamic State took the city that became known as its de facto capital of its self-declared caliphate in Syria. The U.S. has said that the militants used the area as a staging ground for terrorist attacks on Europe and that the loss of it would be a major blow to Islamic State.

Across Syria and Iraq, hundreds of U.S. Special Forces are supporting local partners, advising them in battle and calling in airstrikes.

Islamic State's key leadership has already moved on farther east to Deir Ezzour province, specifically to Mayadeen, a small city there. Oil-rich Deir Ezzour is still mostly in Islamic State hands and the group is expected to put up a tough fight there after the Raqqa and Mosul offensives are over.

Damascus and its allies, namely Iran, Russia and the Lebanese militant group Hezbollah, are likely to take Islamic State's holdouts in Deir Ezzour, making the battle for Raqqa likely to be the last significant urban territory U.S.-allied forces will wrest away from Islamic State.

The extremist militants also still hold several strategically important towns in Iraq and a stretch of the Iraq-Syria border.

In Raqqa, Islamic State has used the Old City wall as a fighting position and planted mines and other explosives at several breaks in it, the U.S. military said. The military added that it was gauging airstrikes to try to preserve as much as possible of the historic 2,500-yard wall.

The spokesman of the Manbij Military Council, which is fighting under the umbrella of the SDF in southern Raqqa, said this advance was "huge and a victory." He said the forces that entered the Old City seized a strategic outpost from Islamic State, an ancient, fortified palace known as Qasr al-Banat.

"We are certain of victory. It is inevitable, but we cannot give a specific time," Sharfan Darwish said. "ISIS is completely besieged."

The spokesman also claimed that some ISIS fighters have handed themselves over to the SDF.

"Their morale is collapsing," he said.

An estimated 200,000 people are trapped in Raqqa amid heavy bombardment, and civilian casualties will likely rise as street-to-street urban warfare intensifies.

Putin Meeting Looms Over Trump's Trip

By Peter Nicholas And Nathan Hodge

Donald Trump sets out on the second foreign trip of his presidency on Wednesday, a rapid-fire series of meetings with world leaders that all could be upstaged by his first face-to-face encounter since the election with Russian counterpart Vladimir Putin.

The two will meet on Friday afternoon in what the White House on Tuesday began describing as a "bilateral" session, rather than the more casual and impromptu encounters that sometimes play out at world summits.

Mr. Trump first will stop in Poland and then head to Hamburg, Germany, for a two-day summit of leaders from the Group of 20 nations that figures to be tense. European leaders have signaled they are prepared to confront Mr. Trump over an "America first" doctrine they see as harmful to both free trade and the environment.

"This will be a very tough summit for him," said Angela Stent, a government professor at Georgetown University.

Previewing the clashing agendas, German Chancellor Angela Merkel seemed to take a swipe at Mr. Trump last week over his withdrawal from the Paris climate accord, telling parliament, "We cannot and will not wait until every last person in the world has been successfully convinced of the scientific findings about climate change."

The French, meantime, are worried that Mr. Trump might take new steps that inhibit free-flowing trade and say Europe is preparing to consider retaliatory measures should he impose tariffs on steel imports, an issue the administration is now studying.

An adviser to French President Emmanuel Macron said, "If the measures impact European exports, we would of course be led to react very quickly and we are preparing for that."

After arriving in Germany, Mr. Trump will meet with no fewer than nine foreign counterparts, White House officials said.

None of Mr. Trump's meetings is likely to command as much attention as his sit-down with Mr. Putin.

The French are worried the U.S. president might take steps to curb trade.

As a candidate, Mr. Trump heaped praise on Mr. Putin and vowed that the two would forge a better rapport than was the case under former President Barack Obama.

Since his election, though, the president and top officials have acknowledged that relations between the two countries remain sour.

Part of the reason for Mr. Trump's visit to Warsaw is to show solidarity with Eastern Europe allies living in Russia's shadow, an administration official said.

"It's a bit of message to Russia that we're going to stand with countries on NATO's eastern flank that are most directly pressured by Russia," he said.

—Anton Troianovski and William Horobin contributed to this article.

WORLD WATCH

AFGHANISTAN

U.S. Senators Criticize Tillerson Kabul Policy

U.S. senators visiting Kabul, including Republican John McCain, criticized Secretary of State Rex Tillerson's handling of policy in the country, saying that his lack of a strategy could undermine an anticipated U.S. troop surge and that the foreign service there was woefully understaffed.

Last month, President Donald Trump gave the Pentagon unilateral authority to send thousands more American troops to Afghanistan at its discretion, clearing the way for the U.S. military to intensify its fight against the Taliban and Islamic State extremists in the country. The State Department didn't respond to a request to comment.

Sen. McCain said the U.S. public wouldn't tolerate continued American casualties in the country without a clear direction for policy in the region.

"When they're dying and wounded, that's when the American people want to know what the strategy is and when they're coming home," he said.

Three U.S. soldiers were killed in Afghanistan last month. Some 2,400 U.S. troops have been killed in Afghanistan since a U.S.-led coalition ousted the Taliban from power in 2001. There now are fewer than 9,000 U.S. troops in the country, mentoring local forces and conducting counterterrorism missions.

The Pentagon is weighing plans to send between 3,000 and 5,000 troops to bolster Afghanistan's more than 16-year war, as government control continues to slip in areas including the capital. A decision on the total number of soldiers who will deploy is expected this month.

The U.S. government says the surge in troops would help break a stalemate with the Taliban and induce them to engage in a dialogue for peace.

—Jessica Donati

GLOBAL ECONOMY

G-20 Inflation Rate Falls, OECD Reports

Inflation in the Group of 20 largest economies, which account for most of the world's economic activity, fell for the fourth straight month in May to its lowest level since August 2016, the Organization for Economic Cooperation and Development said Tuesday.

Figures also released by the Paris-based research body showed that inflation across developed economies fell for the third straight month and to its lowest level this year in May.

The decline in inflation rates around the world comes as some leading central banks have begun to contemplate a withdrawal of the stimulus measures they have put in place since the financial crisis.

In speeches last week, European Central Bank President Mario Draghi, Bank of England Gov. Mark Carney and Bank of Canada Gov. Stephen Poloz signaled it may soon be time to consider a reduction in their support for economic growth.

Of those three, only Mr. Carney is confronting an inflation rate above the 2% target shared by most developed-country policy makers. But while the U.K.'s inflation rate rose to 2.9% from 2.7% in April, Canada's fell to 1.3% from 1.6%, and the eurozone's inflation rate dropped to 1.4% from 1.9%.

"What's particularly baffling is that even by their own dogmatic inflation standards, the timing for most central banks appears particularly off," said Jan Lambregts, an analyst at Rabobank. "There's certainly no wage-driven inflation forcing the central banks to act, but even worse, 'temporary' factors such as commodity prices are not even in favor of changing the tune."

The apparent conflict between signals of tighter policy to come and easing inflation has led some economists to wonder if central bankers are growing more worried about possible threats to financial stability.

—Paul Hannon

CHRIS MCGRATH/GETTY IMAGES

LONG MARCH: Turkey's main opposition leader, Kemal Kilicdaroglu, launched a European court appeal over an April vote that granted President Erdogan sweeping powers, stepping up his challenge to the government as he led a 265-mile protest march, above, from Ankara to Istanbul.

Missile Test Puts China in a Tough Spot

Beijing calls for calm and restraint as Trump urges 'heavy move' on Pyongyang

By Jeremy Page

BEIJING—North Korea's announcement of an intercontinental-ballistic-missile test intensifies pressure on Beijing to penalize Pyongyang or risk further tensions with Washington as the U.S. and Chinese presidents prepare to meet this week.

Tuesday's test of the Hwasong-14 missile marked a setback for Beijing, analysts said, undermining its repeated calls for the U.S. to negotiate with North Korea and increasing the risk that the Trump administration could turn to military action to quash Pyongyang's nuclear and missile programs.

The test also provides political leverage for U.S. President Donald Trump at meetings with Chinese President Xi Jinping and other world leaders at a summit of the Group of 20 major economies in Germany this week. Mr. Trump is expected to try to rally other international leaders behind stricter United Nations sanctions on North Korea and urge stronger measures by China to restrain North Korean leader Kim Jong Un.

"This test is a heavy blow for China," said Zhu Feng, an international security expert at China's Nanjing University. "Beijing wants to see the U.S. talking with North Korea and not just emphasizing sanctions and isolation. But North Korea keeps escalating the tension."

Mr. Xi has trod a careful line with Mr. Trump, who for months has appealed to Beijing to rein in its North Korean neighbor. China has backed existing U.N. sanctions and banned imports of North Korean coal, a recent key source of revenue, while opposing more potent measures that might destabilize Pyongyang, triggering a flood of refugees into northeastern China and bringing U.S. troops closer to the Chinese border.

Even before the test, Mr. Trump signaled his rising frustration with Beijing, in recent days by approving a big arms sale to Taiwan, sending a U.S. Navy destroyer close to a Chinese-held island in the South China Sea, and sanctioning two Chinese companies and two Chinese nationals for alleged dealings with North Korea.

Soon after Tuesday's test, Mr. Trump posted on Twitter another appeal to Beijing, saying "Perhaps China will put a heavy move on North Korea and end this nonsense once and for all!"

China's options for ratcheting up pressure on Pyongyang include cutting exports of oil and other essential goods, reducing imports of commodities such as iron ore, and banning Chinese tourists from North Korea, said Nanjing University's Mr. Zhu.

He said that Beijing might also consider discussing contingency plans with the U.S. over what would happen in the event of a military strike against Pyongyang—something that the Chinese leadership has been reluctant to do despite repeated urging from Washington.

Fueling Beijing's caution are disagreements within the civilian and military leadership over how to respond, with some arguing that a united, democratic Korea poses a greater threat to Beijing than a nuclear-armed Pyongyang, other Chinese experts said.

At a regular briefing Tuesday, a Chinese Foreign Ministry spokesman said the issue was "complicated and sensitive" and reiterated Beijing's position that China opposes any North Korean actions that violate U.N. Security Council resolutions.

The spokesman, Geng Shuang, urged all countries involved to "remain calm and exercise restraint, stop irritating each other, work hard to create an atmosphere for contact and dialogue between all sides, and seek a return to the correct path of dialogue and negotiation as soon as possible."

China has repeatedly suggested that North Korea halt its nuclear program in exchange for a suspension of joint military exercises between the U.S. and South Korea—a proposal rejected by Washington.

Zhang Liangui, an expert on North Korea at the Chinese Communist Party's Central Party School, said Beijing's position was unlikely to change fundamentally until it recognized that Pyongyang's nuclear-weapons program didn't threaten just the U.S.

"In China, a considerable number of people think the North Korean nuclear issue is not a matter for China, but is between the U.S. and North Korea," he said. "I think it's an absolute mistake for the U.S. to rely on China to resolve the problem."

—Kersten Zhang and Yang Jie contributed to this article.

ALEX BRANDON/ASSOCIATED PRESS

Donald Trump welcomed Xi Jinping to his Florida estate in April.

LAUNCH

Continued from Page One

ble of hitting any part of the world, along with nuclear weapons, the DPRK will fundamentally put an end to the U.S. nuclear war threat and blackmail," North Korea's state media said, using the country's formal name, the Democratic People's Republic of Korea.

The U.S. Embassy in Seoul didn't respond to a request to comment. A Pentagon spokesman said the Defense Department was "working with our interagency partners on a more detailed assessment."

On Tuesday, before North Korea's ICBM claim, Mr. Trump tweeted: "North Korea has just launched another missile. Does this guy have anything better to do with his life? Hard to believe that South Korea and Japan will put up with this much longer. Perhaps China will put a heavy move on North Korea and end this nonsense once and for all!"

Tuesday afternoon, the European Union said foreign-policy chief Federica Mogherini would speak to her counterparts in coming days to discuss possible further U.N. Security Council measures and will consider additional unilateral EU sanctions against North Korea.

North Korea made its announcement on state television in the early hours of Independence Day in the U.S. The regime has test-launched missiles on or around July 4 before, including in 2006 and 2009.

If fired at a flatter trajectory, the missile would travel more than 4,100 miles, said David Wright, a physicist with the Union of Concerned Scientists—enough to reach Alaska and parts of Hawaii, and the U.S. naval base in Guam.

Uzi Rubin, a missile-defense engineer and former head of Israel's Missile Defense Organization, said that based on a preliminary analysis, he believed the Hwasong-14 was capable of flying nearly 6,200 miles—putting San Francisco in range.

Some analysts cautioned that North Korea faces many technical hurdles before it has a fully operating nuclear-armed ICBM.

Among the challenges is ensuring the missile can carry and detonate a warhead at a predetermined target. North Korea has said it can mount a nuclear bomb on a long-range missile, but opinion is divided on whether it has that ability.

Markus Schiller, an analyst with German space and defense consultancy ST Analytics, said North Korea faces several years of engineering work. "Their work is just starting," he said.

North Korea can now hit the U.S. with a missile, altering the calculus for Trump.

Mr. Rubin is less sanguine. He argues that Pyongyang's ability to pull off the successful launch of the Hwasong-14 on the first try—a new missile with a longer range than any other it has fired—is a sign of its prowess.

"To succeed in their first attempt, I take my hat off to them," he said.

While North Korea has been able to threaten Japan and South Korea for years with shorter-range missiles, Tokyo and Seoul could rely on Washington's nuclear deterrent. But with San Francisco potentially at risk, those allies could start to doubt the U.S.'s commitment, said Adam Mount, senior fellow with the left-leaning Center for American Progress think tank in Washington.

"We could see this day coming, but it was politically easier to continue to insist that the problem could be solved and that the problem would be solved than to prepare for this eventuality," he said.

A successful ICBM launch could jolt the strategic calculus between Washington and Pyongyang and across Northeast Asia, as the regime continues to defy United Nations sanctions and warnings from its neighbors to curb its nuclear and weapons program.

In a tweet in January, Mr. Trump said that North Korea's development of a nuclear weapon capable of reaching parts of the U.S. "won't happen!"

Since Mr. Kim, the North's third-generation leader, took power at the end of 2011, Pyongyang has accelerated its missile-development program, adding new capabilities that have given it the ability to fire missiles farther and with less preparation time.

The U.S. has weighed military options against North Korea since at least the early 1990s, though it appears to have decided in each case that it was too risky. North Korea has amassed artillery around the demilitarized zone that divides the Korean Peninsula to bombard Seoul, the South Korean capital that sits 35 miles south of the border.

"I just don't see how it makes sense," says Daniel Pinkston, a North Korea specialist and professor at Troy University in South Korea. "You would initiate some military operation that is almost certainly going to fail, and it would unleash so many of the things that you'd want to avoid."

North Korea's ability to threaten the continental U.S. could increase its leverage in potential negotiations, said Narushige Michishita, director of the Security and International Studies Program at the National Graduate Institute for Policy Studies in Tokyo. One objective often stated by North Korea: the removal of around 28,500 American troops in South Korea.

At a regular briefing Tuesday, a spokesman from China's Foreign Ministry reiterated Beijing's position that it opposes any actions by North Korea that violate U.N. Security Council resolutions.

China has repeatedly suggested that North Korea halt its nuclear program in exchange for a suspension of joint military exercises between the U.S. and South Korea—a proposal rejected by Washington.

Following a meeting in the Kremlin Tuesday between Russian President Vladimir Putin and Chinese President Xi Jinping, Russia and China issued a joint statement saying the two countries agreed to promote a plan for North Korea to call a halt to further nuclear and missile tests while the United States and South Korea freeze large-scale military exercises.

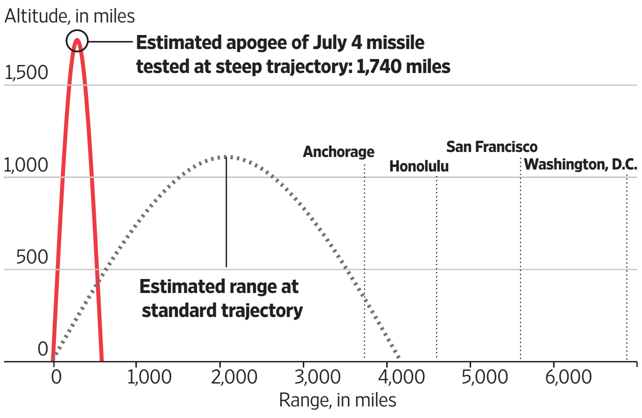
—Kersten Zhang in Beijing and Nathan Hodge in Moscow contributed to this article.

KIM HONG-JI/REUTERS

Travelers at a railway station in the South Korean capital, Seoul, stop to watch a TV broadcast of North Korea's Hwasong-14 missile launch.

Launch Pattern

Why North Korea could now threaten Alaska.



Source: Allthingsnuclear

THE WALL STREET JOURNAL.

EU, Japan Race to Clinch a Sweeping Trade Agreement

By Emre Peker

BRUSSELS—The European Union and Japan's leaders will gather in Brussels on Thursday, seeking to announce a broad trade deal that would send a strong signal for global cooperation against U.S. protectionism a day before the Group of 20 summit.

Officials from both sides will reconvene talks in the EU capital ahead of Japanese Prime Minister Shinzo Abe's arrival, racing to clinch a deal after failing to resolve differences in Tokyo during two days of negotiations through Saturday.

The EU-Japan push comes as G-20 leaders—representing the world's 20 biggest economies—prepare to rebuke President Donald Trump's protectionist policies during their annual summit. With the White House scrapping some trade deals, seeking to renegotiate others and launching probes against imports to the U.S. on national security grounds, world leaders gathering Friday-Saturday in Germany are increasingly worried that Mr. Trump's actions could spark trade wars.

"It is important for us to wave the flag of free trade in response to global moves toward protectionism by quickly concluding the free-trade agreement with Europe," Mr. Abe said at a cabinet meeting on Tuesday. The Japanese premier also dispatched Foreign Minister Fumio Kishida, who is overseeing the negotiations, to the EU capital.

Japan's interest in securing deeper economic links with Europe surged after Mr. Trump's election, according to an EU official. That led to a March summit in Brussels, where Mr. Abe, European Council President Donald Tusk and European Commission President Jean-Claude Juncker pledged to speed up negotiations that have been going on since 2013. On Thursday, EU and Japan's top officials will seek to deliver on that promise.

"This new deal would send a powerful signal to the rest of the world that two large economies are resisting protectionism," the commission—the EU's executive arm—said after the last round of talks in Tokyo.

With €125 billion ($142 billion) of exports and imports in 2016, an EU-Japan trade deal would be one of the most significant the bloc has reached. It would also present a political victory for Brussels, which seeks to build on a sweeping agreement with Canada to position the EU as the global champion of free trade.

The EU-Japan deal could similarly scrap an annual €1 billion worth of customs duties and propel European exports of processed food, chemicals and medical devices, according to officials.

Yet both Brussels and Tokyo also face stiff domestic opposition against the deal, particularly over Japanese auto exports and European agricultural sales. EU-Japan negotiations haven't yet yielded a compromise on either point, as well as some other thorny issues, such as settling disputes.

—Alastair Gale in Tokyo and Valentina Pop in Brussels contributed to this article.

EMMANUEL DUNAND/AGENCE FRANCE-PRESSE/GETTY IMAGES

'It is important for us to wave the flag of free trade,' Mr. Abe said.

A Long Way Home for Quake Town

FRANCO PAGETTI/VII FOR THE WALL STREET JOURNAL

Debris lies around the clock tower in Amatrice, Italy. Below, a resident recovers possessions from her home, accompanied by a firefighter.

By Pietro Lombardi

AMATRICE, Italy—The center of this tiny town is off limits. Workers cleared paths through mounds of rubble and debris after last year's earthquake, but damaged buildings are still at risk of collapse in the part of Amatrice known as the Red Zone.

The local school has operated since September out of a temporary structure. Some residents displaced by the quake got prefabricated replacement homes, but many others are living elsewhere while they wait for new housing.

Italy has a long record of recovering slowly from earthquakes, and people in Amatrice and nearby towns in central Italy that were devastated by the August 2016 disaster fear that dismal history is being repeated.

"Uncertainty hangs over our future," said Francesco D'Alessandro, whose mother, grandmother and uncle were among the 299 people killed by the 6.2-magnitude quake, 237 of them in Amatrice. His brother was trapped in the rubble for seven hours, but survived.

Eight years after a quake hit nearby L'Aquila, part of that city is also still off limits. Allegations of corruption and other problems have so slowed reconstruction that officials estimate it won't be complete before 2022.

Victims of the 1980 Irpinia quake in southern Italy spent decades in "temporary" accommodations.

"Italy has challenges with governance, corruption and enforcement of regulation," said Daniel Aldrich, a professor at Boston's Northeastern University who has written about recovering from natural disasters.

"Other countries that have faced quakes have stronger risk-management frameworks," he said. For example, he said, Italy's governance structure is "not nearly as well-organized and efficient as that in Japan."

Politicians, mindful of past delays, have pledged to rebuild Amatrice. Banking, postal and other services are available in the town. Authorities set up a health center, because the hospital was damaged and the nearest one is an hour's drive.

But tremors—some large—have shaken the area since August, making it more difficult to remove rubble. Piles of crumbled masonry and twisted metal stand taller than a grown man around Amatrice's clock tower, one of the few structures still standing in the Red Zone.

The government has earmarked more than €6 billion ($6.9 billion) to rebuild businesses, homes and infrastructure—including 38 schools whose construction is expected to start shortly—in the regions struck by the quakes, according to the government's body overseeing reconstruction.

"Reconstruction is already under way," the earthquake reconstruction commissioner's press office said, "and everything has been done by the book, with the country's anticorruption authorities fully involved in everything we do."

Pointing at the circumstances in which emergency response and reconstruction have occurred, it added "the four strong quakes between August and January enormously expanded the affected areas and forced us to restart almost from scratch every time."

Amatrice's mayor, Sergio Pirozzi, gives regular updates on a local radio station and talks up progress in reviving the town, including a two-year tax exemption aimed at supporting struggling businesses. "The earthquake could become a moment of renaissance" for Amatrice, he said.

Locals are skeptical about the reconstruction, but loath to give up on their hometown, which had about 2,600 residents before the disaster.

Mr. D'Alessandro, a 34-year-old audio technician, has been bunking for months with a brother in Rome and drives two hours to Amatrice each Saturday to work in a makeshift cinema erected in the town's

sports hall. He hopes the work will expand into a full-time job.

Construction on a new school, once expected to start in June, will probably begin in the second half of July, officials say. "At first, my friends and I talked about the quake," says Stefano Rosati, a 17-year-old student at the school. "Now we try not to."

Roughly half of the prefab homes authorities promised to provide have been delivered, at most, though figures provided by the regional government and by Amatrice differ. Emidio Bernardi, 70, lives with his sister in one of them, which he said is an improvement over the tent they stayed in right after the quake but "doesn't feel like home."

"People here live in a sort of limbo, a state of suspension and uncertainty," said Sonia Santarelli, a lawyer who helps manage her family's farm outside Amatrice. She saw the home where she was born crumble to the ground in the quake.

Dozens of stores were wiped out in the quake. Daniele Mosca lost his ice-cream shop in the Red Zone, forcing him and his partner to put off their plans to get married. They moved with their 1-year-old son to Perugia, roughly 100 miles away.

New marketplaces are under construction in Amatrice, and Mr. Mosca has been assigned a spot in one of them when it opens. He hopes to sell his wares out of a truck, including something he calls "Flavor of Amatrice" that features ricotta cheese from the area mixed with chestnut honey and nuts.

Mr. Mosca said he hesitates to return, doubtful that his family would have much of a future there. "We don't know what we are going to do," he said. "Our time horizon doesn't go beyond several days. We are afraid to make plans for the future."

EU Promises Aid to Italy for Migrant Crisis

By Valentina Pop

SEAWATCH/ROPI/ZUMA PRESS

Migrants crossing the Mediterranean are rescued in this undated photo. Italy has brought more than 85,000 to shore this year.

BRUSSELS—The European Union's executive branch promised Italy an extra €35 million ($39.7 million) in a bid to quell tensions in the bloc over how to respond to an increasing number of migrants crossing the Mediterranean from Libya.

The Italian government, which estimates having to spend €4 billion on the migration crisis this year, in recent weeks stepped up calls on fellow EU governments to share the migrant burden.

Rome's main request was for France and Spain to open their ports to ships rescuing migrants from Europe-bound dinghies.

More than 2,000 people died this year on the perilous sea journey. Italy rescued and brought to its shore over 85,000 migrants this year, compared with 71,000 over the year-earlier period, according to the International Organization for Migration.

But in meetings with French, German and EU officials over the weekend, it emerged that no major response was to be expected from the bloc, apart from more funding for housing of refugees and speedier deportations of those denied asylum.

According to the UNHCR, the United Nations' refugee agency, just 30% of the people who arrive in Italy are eligible for asylum, the rest being so-called economic migrants who can be sent back home.

"We will show full solidarity with Italy in this struggle...if it needs more money in certain areas, we will find the funds to make sure Italy can build up its capacities faster than before," European Commission Vice President Frans Timmermans said Tuesday at a news conference in Strasbourg, France.

The EU's 28 interior ministers will discuss the Italian situation on Thursday in Estonia, with the commission urging them to take more refugees from Italy under a 2015 relocation program.

The rising influx and fears that Italy won't be able to keep all migrants in the country have reignited tensions with Italy's northern neighbor Austria.

Austrian Defense Minister Hans Peter Doskozil told Austrian newspaper Krone that his country is preparing for tougher border controls and said that deploying some 750 soldiers at the border would be "indispensable if the influx to Italy doesn't get smaller." Italy and Austria are part of the border-free Schengen area but police checks in the border area have been reinstated since 2015, when the migration crisis peaked.

As for assistance to Libya, the European Commission said €46 million will be directed at training the Libyan defense ministry's coast guard and security forces on the southern border, in a bid to stem the migration flow. However, the government in Tripoli doesn't control most of the Libyan territory, and rival militias have set up their own coast guards and detention centers for migrants, with aid workers unable to access most of those facilities, according to the UNHCR.

A representative of Amnesty International called the European Commission's action "a woefully inadequate plan that does little to address the dire situation in the Central Mediterranean and the lack of EU solidarity." Iverna McGowan, Europe director with the group, added that "outsourcing more and more responsibility for search and rescue to the Libyan coast guard is irresponsible and ineffective and has led to more deaths at sea."

—Andrea Thomas in Berlin and Eric Sylvers in Milan contributed to this article.

Germany Warns of Pre-Vote Hacking

By Andrea Thomas

BERLIN—Russia is likely to leak hacked government information in an attempt to influence Germany's parliamentary election, top security officials said Tuesday, as they pointed to multiple attempts to steal confidential documents in recent months.

Hackers linked to Russia, as well as China and Iran, have repeatedly targeted the foreign ministry and its diplomatic missions as well as the finance and economics ministries. Other targets included the chancellery and Germany's armed forces, according to an annual report by Germany's domestic intelligence agency.

Suspected Russian hackers accessed confidential information from lawmakers in a sophisticated attack in 2015 that shut down parliament's computer network for days.

Stolen communication from that attack could be used to try to change the course of the Sept. 24 election, when Chancellor Angela Merkel is seeking a fourth term, the heads of Germany's interior ministry and domestic intelligence service said.

Western officials have repeatedly pointed the finger at Russia since its intervention in Ukraine for engaging in hybrid warfare—an array of hostile acts that range from military provocations to large-scale propaganda campaigns and cyberattacks.

Russia has been accused of conducting such attacks ahead of the 2016 U.S. presidential election and the presidential elections in France this spring. The Russian government has denied the allegations.

Ms. Merkel will meet Russian President Vladimir Putin in Hamburg this week when she chairs the summit of the Group of 20 large economies.

"We have witnessed efforts to influence the elections in America, we have witnessed efforts to influence the vote in France. We have every reason to believe that this originated in Russia," said German Interior Minister Thomas de Maizière.

French Prime Minister Pledges Spending Cuts

By William Horobin

PARIS—French Prime Minister Edouard Philippe warned that the country is reeling under an "unbearable" debt burden and pledged austerity measures in a speech outlining policies for President Emmanuel Macron's five-year term in office.

Mr. Philippe on Tuesday was addressing the French National Assembly for the first time since his appointment in May and since the election of a commanding majority for Mr. Macron in June's legislative elections.

Mr. Macron's presidency lost some of its élan last week when state auditor Cour des Comptes said there were gaping holes in the country's finances, making it tougher for the newly elected French leader to deliver his election promises. According to the auditor, France won't meet the European Union's target of a deficit under 3% of economic output this year, as the previous government had promised to do.

"We are dancing on a volcano that is rumbling louder and louder," Mr. Philippe said.

Repairing France's public finances is a key plank of Mr. Macron's economic strategy both at home and on the Continent. The centrist leader is pushing Germany and Chancellor Angela Merkel to accept a greater sharing of the burden by eurozone states, pledging in return that France will revamp its labor laws to make the jobs market more flexible and will respect EU budget rules after years of missing targets.

Mr. Philippe said his government would cut spending to meet the 3% target this year, and make further cuts to reduce spending by 3 percentage points of economic output over the course of Mr. Macron's five-year term. The public-sector payroll will be contained and no part of the budget will be spared from the search for savings, Mr. Philippe said, noting in particular France spends more than its peers on housing and job-training programs.

"France has an addiction to public spending, which, like any addiction resolves none of the problems it claims to," Mr. Philippe said.

Mr. Philippe, who comes from the center-right Les Républicains party, said the government will still deliver Mr. Macron's election pledges on investment and tax cuts, including a €50 billion ($57 billion) investment program focused on health and renewable energy, and reductions in corporate and payroll taxes.

But the prime minister said changes to wealth taxes and a tax-credit system for employers wouldn't come into effect until 2019. Over the whole five-year term, taxes would fall by 1 percentage point of economic output, he said.

France's largest business lobby, Medef, said it regretted the delay in measures to cut the cost of employment. "The catastrophic state of our public finances should encourage speedy and determined action," said Medef chief Pierre Gattaz.

U.S. NEWS

Higher Health Premiums Challenge GOP

Republicans, who long promised to overhaul health care, struggle with an unpopular bill

By Stephanie Armour And Kristina Peterson

Republican senators are confronting a political challenge that is increasingly hard to ignore as they engage with voters during the July Fourth recess: Under their health-care overhaul, average premiums for a midlevel insurance plan would jump by 20% in January.

That means many people who don't get insurance through work would see their premiums increase just a few months before the midterm elections, according to the nonpartisan Congressional Budget Office. Premiums would fall in later years, in part because less-comprehensive plans would be offered by that time.

This highlights what some Republicans privately concede is a Catch-22 as GOP Senate leaders work to assemble a bill they can bring to the floor when Congress returns to Washington: Both passing a bill and not passing one carry political peril.

Yet the Republicans' plight does resemble that of the Democrats seven years ago in many ways. Democrats were similarly caught between passing an unpopular bill not long before a new president's first midterm elections or failing to honor a longtime promise after seizing control of Congress and the White House.

"Democrats were a lot smarter because they didn't have anything take effect until after the election," said Rep. Mark Amodei (R., Nev.), referring to the provisions of the 2010 Affordable Care Act.

"Tasked with honoring a promise seven years in the making, Republican leaders have instead put their caucus in a very big bind going into the midterm elections," said David Bozell, president of ForAmerica, a grassroots-oriented conservative group that opposes the Senate bill.

Many Democrats view passage of the ACA as a historic achievement, but they also suffered a political cataclysm in the 2010 midterms from which they arguably still haven't recovered.

The fate of Republican health-care efforts now may hinge on whether GOP leaders can persuade enough Republican senators that forging ahead is their best political bet. Like Democratic leaders in 2010, Republican leaders today are telling their members it is better to pass an imperfect, unpopular bill than to renege on such a big pledge.

The near-term premium increase only raises the stakes of that bet. In Blanco, Texas, for example, a 40-year-old would see premiums go up by $494 in January under the Senate bill, according to an analysis of CBO data by the Century Foundation. In Nome, Alaska, premiums would rise by $2,376.

Bigger impacts would hit in later years, when average premiums fall for plans that offer fewer benefits than required under the ACA, but cuts to Medicaid spending would accelerate, raising costs for many Americans, according to the CBO.

GOP senators have split, with centrists saying the legislation guts too much of the current health law and conservatives pushing to abandon the bill altogether because they say it doesn't do enough to repeal the ACA.

Senate Majority Leader Mitch McConnell (R., Ky.) is trying to salvage the plan, which in its broad outlines would dismantle much of the ACA and set up a new system that would provide smaller tax credits, deep cuts to Medicaid and funding to stabilize markets.

Mr. McConnell scrapped plans to hold a vote last week after Republican centrists such as Susan Collins of Maine said they couldn't support the measure because it would leave too many people uninsured. Conservatives are also balking at the bill, and President Donald Trump, a Republican, tweeted on Friday that senators should repeal the ACA first and replace it later on.

Given these divisions, it is unclear whether Mr. McConnell can put together a revised bill and bring it to a vote after Congress returns next week.

The CBO's findings haven't made Mr. McConnell's job easier. Among other things, the CBO found that about 15 million fewer people would be insured under the Senate bill than the ACA in 2018, though many of those would have dropped insurance because they would no longer be required to have it. By 2026, the difference in the number of uninsured compared with the ACA would rise to 22 million.

REED SAXON/ASSOCIATED PRESS

Protesters rallied against the Republican health-care bill at Harbor-UCLA Medical Center in Torrance, Calif., on Monday.

Court Bars EPA Move to Loosen Emissions Standards

By Jess Bravin

WASHINGTON—A federal appeals court Monday blocked the Environmental Protection Agency from loosening controls on emissions of methane and other greenhouse gases, setting back Trump administration efforts to rapidly dismantle former President Barack Obama's climate-change policies.

Earlier this year, EPA Administrator Scott Pruitt granted an industry request to suspend a June 2016 rule requiring oil and natural-gas producers to fix leaks and take other steps to limit emissions from new or recently modified facilities. Mr. Pruitt suspended enforcement of the rule for two years.

On Monday, the U.S. Court of Appeals for the District of Columbia Circuit found that while the EPA could re-examine the 2016 regulations, known as New Source Performance Standards, Mr. Pruitt lacked authority to set the rule aside pending completion of the review.

The ruling marked a role reversal for Mr. Pruitt, who as Oklahoma attorney general made his name filing suit against Obama administration environmental policies he argued were unlawful.

Under the Administrative Procedure Act of 1946, federal agencies must follow a complicated series of steps, including providing public notice of proposed rules and inviting comments on them, before issuing regulations. Likewise, agencies must follow certain procedures before revoking regulations.

A three-judge D.C. Circuit panel found that the EPA had flouted those requirements in suspending the new-source rule.

"We are reviewing the opinion and examining our options," an EPA spokeswoman said. Those options could include asking the full D.C. Circuit to review the panel's 2-1 decision, or appeal to the Supreme Court.

A spokesman for the American Petroleum Institute, an industry group that intervened in the case, couldn't be reached.

"Donald Trump and Scott Pruitt's attempt to delay the implementation of these crucial protections had no basis in law, and we are glad to see their effort to do the bidding of the fossil fuel industry fail," said Joanne Spalding, chief climate counsel of the Sierra Club, one of six environmental groups that challenged the action.

According to the Environmental Defense Fund, another of the challengers, the regulation affects 18,000 oil and gas wells built or modified since September 2015. Suspending the rule, it said, could result in the release of up to 17,000 tons of methane pollution, 4,700 tons of smog-forming volatile organic compounds and 362,000 pounds of benzene and other air pollutants.

Federal law mandates "that agencies use the same procedures when they amend or repeal a rule as they used to issue the rule in the first instance," the D.C. Circuit said, citing a 2015 Supreme Court decision. The appeals court noted that its own 1992 precedent explained that "an agency issuing a legislative rule is itself bound by the rule until that rule is amended or revoked" and "may not alter [it] without notice and comment."

The court rejected the Trump administration's claim that the EPA held "inherent authority" to suspend the rule.

The panel also dismissed EPA and industry arguments that the final rule published in 2016 differed significantly from the initial proposal, and that therefore the Obama administration had denied oil and gas producers their opportunity to comment during the rule-making process.

The Trump EPA sought to halt several aspects of the Obama rule, including the decision to regulate low-production wells; the requirement that a professional engineer certify proper design of vent systems; the grounds for exempting pneumatic pumps from regulation; and an alternative method of proving compliance.

"The administrative record...makes clear that industry groups had ample opportunity to comment on all four issues on which EPA granted reconsideration, and indeed, that in several instances the agency incorporated those comments directly into the final rule," the appeals court found.

AARON P. BERNSTEIN/REUTERS

The EPA's Scott Pruitt testifying before a Senate panel last week.

Christie and Democrats Reach New Jersey Budget Deal

By Kate King

New Jersey Gov. Chris Christie reached a budget deal with Democratic lawmakers, ending a three-day closure that shut state parks, beaches, courts and many administrative offices during the Fourth of July weekend.

The agreement, announced by New Jersey leaders late Monday night, ended a standoff between the governor and state Legislature over demands by Mr. Christie for increased control over the state's largest insurer. Lawmakers missed Friday's deadline to approve a balanced budget, prompting the shutdown that furloughed more than 30,000 state workers on Monday.

The Republican governor, who faced an onslaught of criticism after he was photographed on a state beach that was closed to the public during the shutdown, received less than he initially sought with regard to the insurer, Horizon Blue Cross Blue Shield of New Jersey. But he hailed Monday's agreement as "overdue, significant reform" of the not-for-profit, which covers 3.8 million people, and said he would immediately move to reopen the government.

"I'm saddened that it's three days late, but I'll sign the budget," Mr. Christie said at a late-night news conference in Trenton.

Democratic lawmakers, who had resisted Mr. Christie's proposed intervention into Horizon's finances and operations, cheered a budget that included more than $300 million in additional funding for schools, social services and educational programs. Assembly Speaker Vincent Prieto, a Democrat who had declined to put the bill demanded by Mr. Christie up for a vote, said the deal was palatable to all parties, including Horizon.

"Sometimes it gets to a point that when you're in a crisis, then people are more willing to be more reasonable," Mr. Prieto said. "At the end of the day, this budget has a lot of really great things in it, a lot of Democratic priorities."

Mr. Christie has said he would use his line-item veto power to slash the additional spending from the state budget unless lawmakers approved legislation overhauling Horizon. The governor first targeted the insurer in his February budget address, when he called on it to provide funding for a new state addiction-treatment fund. When Horizon resisted, he proposed legislation that would give the state wide-ranging control over its finances while expanding transparency on executive and lobbyist pay and adding four new state-appointed members to its board.

Horizon had strongly opposed Mr. Christie's original proposals, which executives said would make the insurer less competitive.

The bill agreed to cap the insurer's reserves at 725% of risk-based capital with the understanding that excess funds will be used to benefit policyholders. The legislation also requires Horizon to post publicly detailed financial statements, including executive pay, and provides for the appointment of two new public board members.


MEL EVANS/ASSOCIATED PRESS

New Jersey Senate President Steve Sweeney, left, and Assembly Speaker Vincent Prieto on Monday.

Illinois Governor Vetoes Budget Bills

State Senate overrides move; House is expected to follow, ending two-year impasse

Illinois's Republican governor vetoed a budget plan Tuesday that gained final approval from the Democratic General Assembly earlier that day. But less than an hour after the governor's action, the state Senate overrode his veto of the three bills in the package.

The budget now heads back to the House for an override vote as early as Wednesday. If that chamber successfully overrides Gov. Bruce Rauner's veto, the legislature will have enacted the state's first budget in more than two years.

No other U.S. state has gone without a budget for more than a year since the Great Depression.

"The package of legislation fails to address Illinois' fiscal and economic crisis—and in fact, makes it worse in the long run," Mr. Rauner said in his veto message.

"Budgets in Illinois will not be balanced or stay balanced unless our economy grows faster than our government spending. We have been ignoring that truth for 35 years," he said.

The state's impasse is the result of a political standoff between Gov. Rauner, elected in November 2014, and longtime House Speaker Michael Madigan, a Chicago Democrat.

Mr. Rauner takes issue with the revenue side of the legislature's proposal, which levies a roughly $5 billion permanent income-tax increase to fund the more than $36 billion spending bill. The state brings in roughly $32 billion a year.

The governor has said he would prefer the income-tax increase to be temporary, and he is seeking other concessions from Democratic lawmakers, including a property-tax freeze and a revamp of the state's worker-compensation system.

The tax increase, the most contentious part of the budget, earned 72 votes when it passed the House Sunday, surpassing the three-fifths-majority threshold required to override a gubernatorial veto. Fifteen House Republicans voted for the tax increase. The Senate overrode the governor's veto of the revenue measure with the minimum number of required votes Tuesday.

Democratic Rep. Greg Harris, Mr. Madigan's top lieutenant in budget negotiations, authored the revenue and spending measures.

The revenue bill increases the state's personal income-tax rate from 3.75% to 4.95% and the corporate income-tax rate from 5.25% to 7%.

—Quint Forgey


YIN BOGU/XINHUA/ZUMA PRESS

Launching the plan in September would afford Chairwoman Janet Yellen an opportunity to initiate it ahead of any potential leadership transition.

Move on Asset Cuts Likely

Fed signals strong chance of September announcement on winding down portfolio

By Nick Timiraos

Federal Reserve officials have indicated there is a strong chance they will announce in September a decision to start shrinking the central bank's portfolio of bonds and other assets, while putting off until December any further interest-rate increase.

The moves would give officials time to assess how markets react to the balance-sheet reductions and to confirm their view that a recent slowdown in inflation will fade.

Launching the balance-sheet plan in September also would afford Chairwoman Janet Yellen an opportunity to initiate it well ahead of any potential leadership transition. Her term as chair expires in February, and President Donald Trump hasn't indicated whether he would nominate her to a second term or replace her.

While a final decision on the next Fed moves hasn't been made, officials will have several opportunities in coming weeks to clarify their thinking. The central bank releases minutes of the June meeting on Wednesday, and Ms. Yellen testifies before Congress next week. Officials will also gather in Jackson Hole, Wyo., at the end of August for an annual monetary-policy conference that will provide ample opportunities for them to offer further guidance.

Earlier this year, some officials indicated they were considering raising interest rates in March, June and September and then starting the portfolio reduction plan in December. They did raise rates in March and June, but are considering the new strategy for several reasons.

First, they agreed at their June policy meeting on how they would reduce the $4.5 trillion portfolio, and made that plan public. Some officials now think they might as well get started soon, given the U.S. economic expansion appears steady and global growth is improving.

Second, if Ms. Yellen isn't nominated to a second term as chair, they would prefer not to wait until December and launch the plan shortly before her successor takes charge.

Third, inflation remains a puzzle for the Fed. The unemployment rate fell to 4.3% in May, a 16-year low, yet price pressures have diminished in recent months, moving year-over-year inflation gauges further below the central bank's 2% target.

Some Fed officials in recent weeks have said they want to see more proof that such price softness is transitory before resuming rate increases, but haven't signaled similar qualms about initiating the balance-sheet runoff.

"Take the balance sheet, get that started, and position ourselves for a December rate increase," said Chicago Fed President Charles Evans in an interview last month. Mr. Evans is a voting member of the rate-setting Federal Open Market Committee this year.

The timing would allow the central bank to assess how markets react.

Likewise, St. Louis Fed President James Bullard, who doesn't favor any more rate increases, said last month it was past time for the Fed to start winding down its balance sheet. "We could start the ball rolling. It's going to roll very slowly anyway," said Mr. Bullard, who isn't a voting member, in an interview last month.

Fed officials still have time to adjust their plans if the economy faces any surprises. They meet four more times this year, including next on July 25-26, and Ms. Yellen holds news conferences following the meetings in September and December, making them the most likely dates to announce the plan.

The Fed raised its benchmark federal-funds rate to a range between 1% and 1.25% in June, the third quarter-percentage-point increase in the last three quarters.

Despite the Fed's interest rate increases, financial conditions have mostly eased, with stock markets running to new highs and the dollar falling. Yields on the 10-year Treasury are at 2.35%, up from recent lows but below the 2.64% annual high set in March.

The Fed's portfolio has been shrinking as a share of gross domestic product since 2014, when it stopped adding to its holdings but continued to reinvest the proceeds of maturing assets to maintain the portfolio's size at $4.5 trillion.

The Fed said last month that when it starts allowing the holdings to decline, it will do so gradually by allowing a small amount of bonds to mature every month without any reinvestment. It would start by allowing up to $6 billion in Treasury securities and $4 billion in mortgage bonds to roll off without reinvestment, and let those amounts rise each quarter, essentially setting a speed limit for the wind-down.

Trump, Tillerson Get Poor Marks in Survey

By Felicia Schwartz

WASHINGTON—Thousands of State Department and U.S. Agency for International Development employees indicated in a survey they are worried about the future of their agencies, with some expressing particular concern about a lack of support from the Trump administration and Secretary of State Rex Tillerson.

The findings are in a report for Mr. Tillerson compiled by a consulting firm as he embarks on an effort to reorganize the State Department amid steep budget cuts. The Wall Street Journal reviewed a copy of the report, which was to be released to employees Wednesday.

"I want to reiterate that we began this process with no preconceived notions about the outcome," Mr. Tillerson will say in a video message accompanying the release of the report, according to a transcript. "Our goal is, and always has been, to address challenges to the way our department operates. Your honesty and candid input is deeply valued as we devote our energy to building a better State Department."

Many of the more than 35,000 State Department and USAID employees responding to the survey indicated longtime frustration with the way the agencies function, including poor technology and redundant processes that make frequent workarounds necessary. They also cited pet projects created by ambassadors and Congress, according to the report reviewed by the Journal.

USAID employees in the report said they were particularly concerned about the consequences of a move to fully absorb USAID into the State Department, which officials are considering.

The 110-page report, which the State Department paid the consulting firm Insigniam about $1.1 million to compile, includes feedback from 35,386 employees of the two inter-related agencies, or about 43% of those who received the survey, and also includes 300 employee interviews conducted in person or by phone.

The report comes as the Trump administration has yet to fill scores of senior State Department positions, which current and former officials say has hampered decision making. The department, which coordinates U.S. diplomatic policy around the world, is contending with threats from North Korea and Russia as it seeks to end long-running wars in the Middle East.

Aides said the critical nature of the results reflects Mr. Tillerson's willingness to incorporate frank feedback into plans for the State Department. "The first step in this is to give a platform to people to identify what needs to be fixed, the second stage is to give people a platform to fix it and the third stage is to implement an improved design," said R.C. Hammond, a senior adviser to Mr. Tillerson.

The report revealed a wariness among employees about management at the State Department, including existing structures that are perceived as inefficient and the attitudes of President Donald Trump's administration.

"People do not speak optimistically about the future," the report says. "The absence of a clear vision of the future allows room for speculation and rumor about what the future could bring, such as further USAID integration into DOS [Department of State] or the militarization of foreign policy."


MANDEL NGAN/AGENCE FRANCE-PRESSE/GETTY IMAGES

Secretary of State Rex Tillerson commissioned the report.

U.S. WATCH

FLORIDA

Court Deals Blow to Gun-Rights Backers

A Florida judge ruled that lawmakers' changes to the state's controversial "stand your ground" self-defense law violate the state's constitution. The decision dealt a blow to gun-rights supporters who pressed for the revisions and heartened critics who said the changes made it more difficult to convict people of violent crimes.

In the Florida legislative session this year, the Republican-led House and Senate updated the 2005 "stand your ground" law, one of the earliest in the U.S. to expand the concept of self-defense. That measure increased protections for people who use deadly force in response to perceived threats, even when they have the opportunity to flee.

The changes, signed into law by Republican Gov. Rick Scott in June, enhanced those protections.

In his ruling Monday, Circuit Judge Milton Hirsch in Miami found that the Legislature overstepped its authority in making the alterations. He said that because the changes were procedural rather than substantive, they could be made only by the Florida Supreme Court, which spelled out how pretrial "stand your ground" hearings should occur in a 2015 decision.

A spokeswoman for Gov. Scott said his office was reviewing the judge's ruling.

—Arian Campo-Flores

JUSTICE DEPARTMENT

Pharmacy Is Charged With Overbilling

A pharmacy in Tampa, Fla., defrauded a military health-care program by charging prices for prescription pain creams that were as much as 100 times higher than what the pharmacy charged those paying cash, the Justice Department alleged in a civil complaint filed in federal court.

The allegations are the latest effort by federal prosecutors to recoup billions of dollars paid by Tricare, the health-insurance program for military service members, for pain creams and gels as a result of alleged fraud by compounding pharmacies in recent years.

RS Compounding LLC charged as much as $4,400 for a popular pain cream when it was purchased by a Tricare beneficiary, but charged just $45 for the same product when it was bought by someone without insurance, according to a civil complaint filed Friday in federal court in Tampa by the U.S. attorney's office for the Middle District of Florida. The pharmacy's owner, Renier Gobea, is also named as a defendant in the complaint. "Mr. Gobea denies the allegations," said his attorney, Kevin J. Darken.

—Joseph Walker

DRUG USE

Opioid Addiction Climbs by 500%

An analysis of millions of Americans' medical claims showed diagnoses of opioid-use disorder surged roughly 500% over the past seven years, according to a review by the Blue Cross Blue Shield Association.

The analysis, which examined the claims of more than 30 million people with commercial insurance provided by Blue Cross Blue Shield insurers between 2010 and 2016, underscores the rising tide of addiction in the U.S. Opioid-use disorder is the clinical term for addiction to opioids, which include prescription painkillers and illicit narcotics such as heroin.

—Anne Steele

In Lone Star State, Gold Rush Is On

By Covey E. Son

The University of Texas owns roughly $861 million in gold bullions locked in a bank vault in Manhattan. Now, Texas wants to bring that gold home.

The state is moving ahead with plans to create its own depository—the first state-regulated gold vault in the nation—in the hopes of persuading the university and other investors to keep their gold in the Lone Star State.

The depository has cleared years of political hurdles, and now must overcome a regulatory challenge to bring UT's gold to Texas.

The University of Texas said it would consider moving its gold under certain conditions, though negotiations with the state haven't started yet.

That hasn't stopped Texas from pressing forward. In June, Texas Comptroller Glenn Hegar announced the state tapped Lone Star Tangible Assets, which stores and trades precious metals, to build and operate a bullion depository in Austin.

Mr. Hegar said the depository would serve as an alternative stash for gold and other precious metals in place of federally regulated banks or smaller, unregulated storage facilities.

Gov. Greg Abbott, who signed a 2015 bill to create the depository, and others have called for the "repatriation" of Texas gold.

Mr. Hegar said the state has bigger plans beyond claiming UT's gold.

State officials say they also envision expanding the depository into a commodities exchange for natural resources such as oil and natural gas, potentially challenging the existing commodities marketplaces in Chicago and New York City.


Texas state Rep. Giovanni Capriglione first proposed a depository run entirely by the state in 2013.

"Once the depository is up and running and people see how easy it is to make transactions there, I think it's just a natural progression of things that we'll be working with other commodities as well," said Republican state Rep. Giovanni Capriglione, who wrote the 2015 bill.

Construction on the Texas Bullion Depository is scheduled to start in September, a Lone Star spokesman said. The depository is slated to open in December 2018.

The security at the facility—which dubs itself "The Fort Knox of Texas"—will be up to par with "military installation," Lone Star Chairman Matthew Ferris said.

Mr. Capriglione first proposed a depository run entirely by the state in 2013.

That bill came with a hefty price tag for the state—$27.6 million over five years—and didn't pass. Mr. Capriglione tried again in 2015, this time proposing a public-private partnership in which a private entity would own and operate the facility under oversight from the state.

Under the 2015 law, the Texas Bullion Depository would function as a state agency contracted with Lone Star to build and run the vault facility.

Lone Star would get 90% of the revenue from fees, and the state would receive 10%, which would be used to offset administrative costs, a state spokeswoman said.

Motivated by the 2008 financial crisis, Mr. Capriglione said he is calling for Texas' "independence and sovereignty" from Wall Street banks and the Federal Reserve, but isn't advocating a complete break.

"I don't think that we should blow away with the existing system, but there's nothing wrong with having a Plan B," Mr. Capriglione said. "That's what our depository does."

For years, Texas Republicans have championed a currency system backed by gold and other precious metals. In its 2016 platform, the Republican Party of Texas called for a return to "precious metal standard for the United States dollar" and abolishing the Federal Reserve.

SHANNON STAPLETON/REUTERS

Construction on the Texas Bullion Depository is scheduled to start in September.

POLICE

Continued from Page One
Merritt Research Services for cities of 30,000 or more.

The combined shortfall in the plans, which are the responsibility of municipal governments, is more than $80 billion, nearly equal to New York City's annual budget.

Broader municipal pension plans have a median 78 cents of every dollar needed to cover future liabilities, according to data from Merritt. The 100 largest U.S. corporate pension plans have 85% of assets needed on hand, according to Milliman Inc. data as of March 31.

And yet any attempt to bring police pensions into line with today's municipal budgets and stock-market performance runs into the reality that many officers won't stand for it—and they often have the public behind them.

"They have extra clout because people love police," said Dallas Mayor Mike Rawlings. "I love police. You love police. An electrician—you don't have that emotional tie."

His city, like San Jose, found itself facing widespread police-officer resignations when it moved to cut their pensions. In Dallas, the situation became so difficult the state legislature stepped in this spring to work out a solution.

Police pensions were the first nonmilitary retirement systems to be created in the U.S., in the second half of the 19th century. In later years, when municipal budgets were tight, augmenting pension promises in lieu of raises became a way governments could make peace with politically powerful police unions without incurring immediate new spending.

In the 1980s and 1990s, robust investment returns made governments' pension promises look affordable. By 2001, major police and firefighter plans followed by the Public Plans Database, which tracks 150 major state and local pension plans, had a median 101% of what they needed to pay for future obligations.

The 2008 financial crisis wiped out pension-plan earnings at the same time that it put stress on municipal budgets, leading some cities to contribute less to the plans each year than what actuaries calculated was needed.

Also, many cities continued to assume robust 1990s-era investment returns when they calculated annual pension contributions, Their pension debt grew as those returns failed to materialize and cities didn't adjust their contributions to the plans.

Memphis, Tenn., gambled it could cut police pensions without any impact on public safety. The city council voted in 2014 to end pensions for municipal workers, including the police, with 7.5 years of service or less, and replace the pensions with a hybrid plan combining pension and 401(k)-style benefits.

In the following two years, about 100 officers affected by the changes left the force, out of a total of about 2,000. Homicides rose to a record 228 last year from 167 in 2014. Billboards erected by the police union around town read, "Welcome to Memphis: 228 homicides in 2016, down over 500 police officers." Memphis currently has 1,928 officers, down from 2,416 in 2012.

The mayor, Jim Strickland, has since pledged to increase police staffing. A spokeswoman for the city said enrollment in the police academy is increasing despite the reduced benefits package. Even so, city officials recently announced a $6.1 million grant for retention bonuses. Meanwhile, the police union is trying to get certain benefits restored in court.

One of the first cities that tried to bring police pension costs down was San Jose, where former Mayor Chuck Reed asked voters to approve pension cuts as part of a 2012 ballot measure.

Among the hundreds of police officers who quit after voters said yes to the change was Tim Watermulder, who left to join the Oakland police department in 2013. It had been announced that the police-academy class in which he graduated would be the first to operate under a new system providing lower cost-of-living increases and a retirement age of 60 instead of 50.

"You start to see what police work is really like every day," said Mr. Watermulder, 35 years old, who fought in Iraq with the U.S. military before becoming a police officer. "I really started thinking about 'Can I do this job till I'm 60?' "

About 180 of 1,109 sworn officer positions in San Jose are currently vacant. San Jose has the lowest number of officers per capita among the nation's 35 largest cities, according to a Journal analysis of Federal Bureau of Investigation data from 2015, the most recent available.

Response times for the most serious calls rose to an average of 7.3 minutes last year from 6.1 minutes in fiscal 2011, according to the police department.

San Jose is still safe compared with many other cities, but its violent-crime rate jumped last year to the highest since 2008. "A lot of it had to do with us not having enough officers," said San Jose Police Chief Eddie Garcia. His advice to other cities seeking to shore up their finances by cutting police benefits: "Don't make a crisis into a bigger crisis."

Crime has risen in many cities in recent years, not just in those that have lost officers. Per capita homicide rates are up in 27 of the country's 35 largest cities since 2014, according to homicide data. The causes of such increases are hard to pinpoint, but there is little doubt "losing hundreds of officers would make a big difference in the ability to control crime," said Richard Rosenfeld, a criminologist at the University of Missouri-St. Louis.

San Jose, to retain and recruit officers, has gone beyond rolling back changes it had tried to make in retirement ages and cost-of-living increases for existing police officers. Police got a 10% raise last month, to be followed by 3% raises in 2018 and 2019.

Since those measures were put in place, police-academy enrollment has risen sharply.

"It looks like we're now on the right track," a city spokesman said.

Dallas has had an unusual struggle with the police-pension issue. The funding level of its plan for police and firefighters this year fell to just 36%, among the lowest in the nation.

A trouble spot has been a plan created 25 years ago in an effort to keep experienced officers from leaving for police jobs elsewhere after they qualified for police pensions around age 50.

Officials figured they couldn't afford sufficient wage increases to keep those officers, so instead they would sweeten pension benefits, said Steve Bartlett, who was mayor when the special fund was created.

That deal allowed officers who worked into their 50s to earn a pension and a salary at the same time. Terms provided for a guaranteed 8% to 10% return on the assets contributed to the plan, forcing the pension fund to make up the difference when market returns came in below that threshold. Officers who stuck around long enough could potentially accumulate $1 million in the special fund.

"They said, 'Hey, the retirement is top notch. You may not be paid well initially, but in the end you'll be a millionaire,' " said Brad Uptmore, a Dallas police officer for 10 years.

The promised return became harder to deliver after the financial crisis, as real-estate investments the fund made from Hawaii to Paris went sour and triggered more than $500 million in losses.

Spooked by the losses and talk of benefit cuts, hundreds of police and firefighters quit, withdrawing $500 million from the roughly $3 billion fund and pushing it closer to insolvency.

The city sought help from the Texas legislature. In late May the state government approved a package that requires the city to contribute an additional $25 million to $40 million a year to the pension plan while also cutting benefits.

Under the legislation, a police officer who is now 40 and retires in 2035 can get a pension that year of $95,339, compared with $109,583 under the old pension structure, according to a hypothetical calculated by the pension fund.

The changes may not be enough. The plan will still have less than half what it needs to cover its liabilities, according to an estimate provided by the fund to legislators. A review by S&P Global Ratings concluded that "more reforms will be needed."

Mayor Rawlings agreed the city has "much work ahead."

Many longtime Dallas police officers won't be around to see how the changes pan out, including Mr. Uptmore. He left to join the much smaller police department of Southlake, Texas, in the spring of last year—one of 336 Dallas officers who left in 2016.

"Once you realize there's no gold at the end of the rainbow, I think you stop pursuing that," Mr. Uptmore said.


TOM FOX/THE DALLAS MORNING NEWS/ASSOCIATED PRESS

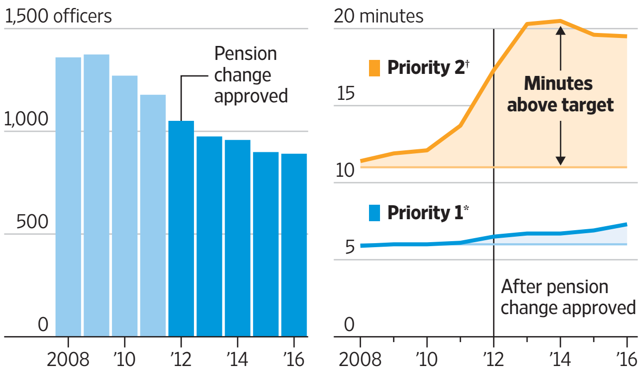

COOPER NEILL FOR THE WALL STREET JOURNAL

Above, Dallas police in September. Below, Brad Uptmore, who left the Dallas police force and became an officer in Southlake, Texas.

The combined shortfall is more than $80 billion, nearly equal to New York City's budget.

Policing San Jose

After California's third-largest city curbed pension benefits for its police, numerous officers quit and police response times rose.



*Present or imminent danger to life or major damage to/loss of property †Injury or property damage or potential for either to occur or the suspect is still present in the area; includes all missing person reports for children under the age of 12 or other at risk missing persons.

Source: City of San Jose Auditor THE WALL STREET JOURNAL.

BEACH

Continued from Page One
$12 a day.

Rehoboth Beach is part of a wave of seaside communities that have embraced umbrella-only policies. Myrtle Beach, S.C., enacted such a law four years ago. This summer, Sunset Beach, N.C., and Seaside Heights, N.J., both rolled out regulations restricting sun shields in the beach.

Myrtle Beach's advice to Rehoboth Beach: Hang in there.

"The first year was fairly rocky," spokesman Mark Kruea said. "People are accustomed to having that tent."

While the South Carolina resort sometimes cites people for wearing overly skimpy swimsuits, he couldn't recall anyone being ticketed for violating the canopy law.

Since May 27, the Rehoboth beach patrol says, lifeguards have blown the whistle on canopies and tents about 840 times—"takedowns," Mr. Buckson calls them. Lifeguards can call police if a violator doesn't comply, though police have issued just three $25 tickets, according to Rehoboth Beach Police Chief Keith Banks.

For the 65 lifeguards, many of them college age, it has been a different kind of educational experience. Their diplomacy skills are tested as front-line enforcers of a law that can pull unsuspecting beach-goers into an undertow of anger and disbelief.

"We keep it short and simple," said 21-year-old lifeguard Ryan Crowley. "Captain B. doesn't want us getting into altercations." Some people already were giving them lip for enforcing bans on smoking, drinking and kite flying, he said.

Fans view the law as a fair way to improve the beach experience. Critics throw shade, calling it a pointless hassle and questioning why a cluster of umbrellas is OK if open-sided canopies aren't. Some wonder if the aim is to boost umbrella rentals. (It isn't, officials say.)

"It's definitely a hot potato," said Mr. Buckson, 50 years old, who has led the beach patrol for 18 years and also is a special-education teacher. His voice rose at one point during an interview, prompting him to say, "It's stressful, as you can maybe tell from my voice."

Rehoboth Beach officials say public safety and aesthetics drove the change. Large, "nontraditional shading devices" had mushroomed in recent years, making it harder for lifeguards to see the beach and water while impeding access to the ocean, they say. Some people used the fabric walls to hide smoking or alcohol consumption.

Officials say single-pole umbrellas pose less of a navigational challenge for lifeguards and first-responders than canopies or tents with multiple poles and sometimes tethers.

Another concern: High wind could turn poorly anchored tents and canopies into airborne projectiles, though Mr. Banks acknowledged umbrellas present a similar risk.

Dozens of visitors and residents had complained about tents and canopies to the local Chamber of Commerce, said its chief executive, Carol Everhart, who notified the town. She said public support for the law seems strong.

"Love, love, love it," said regular visitor Lynn Degenhart as she sat on the beach with her husband, Karl. The beach is now much less cluttered, she said. She used a baby tent to shade their cooler.

At a gathering one morning, Mr. Buckson doled out reminders to his lifeguards. Drink lots of water. Don't let anyone dig deep holes. Enforce the canopy law.

"Just remember, if you see the pop-up tents or canopies, approach the people politely" and "ask them please take them down within the next 15 minutes," he said. "They're not going to be too happy about it."

The first takedown fell to 19-year-old Christian Cosden. The offenders were Justin and Sara Slomkowski of Philadelphia, whose umbrella had a swatch of fabric extending down to the sand to shade their 16-month-old, Nora.

Mr. Cosden, shirtless and barefoot, explained that umbrellas with sides aren't allowed. "So if you can take the sides off, that'd be awesome," he said.

"Sure," said Mr. Slomkowski.

"Cool. Thank you, guys."

Asked about it, Mr. Slomkowski said it was "kind of silly" they had to yank the side off. His wife bought the umbrella after reading about the law online and thought it complied. They weren't going to make waves. "We're just here on vacation for a couple days," he said.

Mr. Cosden said most interactions are similarly smooth, but some scofflaws tell him to go pound sand. "They just won't take it down, they just won't even talk to you or look at you, or they'll walk away," he said. Those he lets the police handle.

That morning, the beach patrol's Mr. Tartal broke it to John Haas of Silver Spring, Md., that his blue tent—at that moment shading his wife, their toddler twins and his niece—exceeded the 3-foot limit. Mr. Haas took the news well and even laughed about being busted. An assistant principal at a high school, he knows about rule-following.

Moments later, the 25-year-old Mr. Tartal, who is a lifeguard in addition to Capt. Buckson's beach patrol deputy, told Marjorie Danko, a receptionist from Hershey, Pa., that the $40 three-sided tent she bought for her grandchildren didn't pass muster, either.

"I don't understand this," she said. "I think umbrellas are much more dangerous. What kind of ordinance is that? I mean, really dumb."

Mr. Tartal apologized but didn't debate her. "We don't write the ordinances," he said, "we just enforce them."

Clutching some cash, Ms. Danko marched off to go rent an umbrella.


SCOTT CALVERT/THE WALL STREET JOURNAL

A tent that violates a new ordinance in Rehoboth Beach, Del.

LIFE & ARTS

F. MARTIN RAMIN/THE WALL STREET JOURNAL

NUTRITION

Probiotics With Your Pizza?

Food companies add the digestive and immune-system helpers to granola, baking mixes, juice, pizza dough and water

BY ANNE MARIE CHAKER

THIS SUMMER, expect more bugs in your food.

Probiotics once appeared mostly in yogurt, plugged by Jamie Lee Curtis in television commercials (and mocked on Saturday Night Live). Now, new cereals, snacks and beverages from Kraut Krisps to Gut Punches and Wellness Waters are featuring the microorganisms touted to help digestive and immune systems function.

Mariani's Probiotic Prunes say they "deliver active cultures 10 times more effectively than yogurt." Brad's **Raw Foods** LLC's kale chips has added "shielded probiotics to promote digestive and immune health." The number of food products in the U.S. making a probiotic-related claim has nearly tripled to more than 500 in the last five years, according to food market research firm Innova Market Insights.

The additions come as consumers are looking for medicinal, in addition to nutritional, benefits from their food. "People now want food to be functionally formulated, not just delicious," says Elizabeth Moskow, culinary director for food consultancy **Sterling-Rice Group** in Boulder, Colo. Many stores stock the probiotic-infused foods, but some retailers filter the offerings, skeptical of some of the claims that otherwise less-healthy foods may make.

New strains of probiotics don't require refrigeration. These newer spore-forming strains produce coated cell structures that help extend probiotics' shelf life. Still, most probiotics can't survive heat, processing or air exposure and often degrade with time.

The new food introductions reflect a growing consumer interest in gut health and the belief that the microbial composition of the intestines can foster good health outcomes. The impact of probiotics on digestive health is well documented, says Robert Hutkins, a professor of food science at the University of Nebraska-Lincoln. A 2014 study published in the journal Vaccine looked at 500 hospital patients who were suffering from antibiotic-associated diarrhea. Those patients who received the highest doses of probiotics showed the most symptom relief compared with those patients who got more moderate doses or none at all. The benefits of probiotics on other body functions, from sleep to stress, however, are less clear.

Ganeden Inc. began selling a branded spore-forming strain of probiotic bacteria called GanedenBC30 to food and beverage manufacturers in 2008, when it had eight natural-foods customers.

Karma Probiotics Wellness Waters have a special cap so people push the powdered probiotic into the bottle.

Today nearly 800 food products are pitching BC30 as a probiotic ingredient, chief executive Mike Bush says.

He argues that the health message pays off. It can cost a company 3 to 4 cents a serving, which might then mean the consumer pays an additional 6 to 8 cents a serving. Compared with the cost of taking additional supplements, "it's a pretty minimal investment," he says. A 45-day supply of Bayer TruBiotics supplements costs about $30.

Some food scientists argue that, unlike strains of Lactobacilli and Bifidobacteria, which are more documented in scientific research and typically appear in yogurt, there are far fewer studies on spore-forming varieties now appearing in so many foods. "The industry is introducing them into foods far faster than the clinical research can keep up," says Robert Hutkins, a professor of food science at the **University of Nebraska, Lincoln.**

Mr. Bush says the company's probiotic is recognized as safe by the **Food and Drug Administration** and has appeared in 26 pieces of published research since 2009.

Earlier this year, the **International Probiotics Association** worked with the **Council for Responsible Nutrition,** a trade association for the supplements industry, to establish voluntary guidelines on labeling, stability testing and storage recommendations. In February, representatives from the association met with Food and Drug Administration officials to present its guidelines. "We want them to know the industry is doing a good job of setting good standards and self-policing," says Ganaden's Mr. Bush, who is president of the probiotics association's board of directors.

FDA spokeswoman Lyndsay Meyer says that the agency "encourages dietary supplements manufacturers who have questions about their p

Still, some retailers, such as **Whole Foods,** are cracking down on suppliers it says try to pitch more foods as good for you because they contain probiotics. "We would see a cheese pizza with added Bacillis coagulants marketed as a health-enhancing food to consumers even when it was relatively high in fat and sodium," says Joe Dickson, Whole Foods Market Inc.'s quality standards coordinator. He says the retailer works with suppliers to make sure the nutrition label is kept in check even with the addition of a probiotic.

The probiotics have also inspired new packaging. Karma Probiotics Wellness Waters have a special cap that allows consumers to push the powdered probiotic into the beverage when they are ready to drink from the 18-ounce plastic bottle.

Dan Johnson, a 30-year old pastor in Durham, N.C., says he likes the Wellness Waters. "I try to drink one of those a day," he says. "It has certainly helped my issue."

BURNING QUESTION | By Heidi Mitchell

IS IT BETTER TO SHOWER AT NIGHT IN THE SUMMER?

BY HEIDI MITCHELL

THE AVERAGE AMERICAN takes a shower each day, using about 16 to 40 gallons of water while washing his body and clearing his mind. Some swear that cleaning before bed, especially in hotter months, relaxes the muscles and improves sleep, while others insist an eye-opening morning shower is ideal. So which is it? One expert, Temitayo Ogunleye, an assistant professor of dermatology at the University of Pennsylvania's Perelman School of Medicine, has answers.

Eradicate the Odor

Most people shower to remove or prevent body odor. That odor is produced in part by sebum, an oil the skin manufactures to keep it moisturized. When you shower, you remove the sebum from the skin—along with all the dirt it can collect. Hot showers further strip the skin of sebum, dirt and potentially offensive odor. "That's why people are inclined to shower more frequently in summer," when sunblock and sweat may add to that tacky, dirty feeling, Dr. Ogunleye says. However, she adds, "lotion may marginally attract more dirt, but not enough to make a huge difference as far as odor."

While the cultural norm in the U.S. is to shower at least once a day, typically in the morning, showering habits are actually more tied to culture than many would suspect. "There is some evidence to suggest that different ethnicities produce different levels of sebum," the dermatologist says. "Some people shower every night because that was what their family did," she says.

The Summer Stick

For many Americans, there is a mental component to a morning shower: "That jolt of water wakes you up. It also makes many people feel fresh for the coming day," says Dr. Ogunleye, herself a morning washer. But because mornings can be so rushed, many forgo the sunrise rinse and instead wash at night. "If you like your sheets clean or work in a dirty or germ-

GETTY IMAGES/ISTOCKPHOTO

filled job, that makes sense," she says.

People with eczema or other skin conditions should take fewer showers, and use lukewarm, not hot, water to keep some of the sebum intact, she says. As long as your bedroom is cool and you're not sweating all night long, showering in the evening can give a nice coda to a long, hot day, with the added bonus of removing all that icky stick.

She only recommends people shower twice a day if they participate in activities like swimming in bacteria-laden lakes, salty oceans or drying pools, or working out. If you wear open-toed shoes and stomp through city grime, evening showers are useful—though for morning shower-takers, just washing the feet will suffice. "Do most people need to take a second shower?" Dr. Ogunleye asks. "Probably no. Need is a strong term."

Prepare to Beat the Heat

Some studies have suggested that taking hot baths or showers in advance of a hot day might prep the body for the coming heat wave, but Dr. Ogunleye hasn't seen strong enough evidence to advise this. "When air hits your skin when you step out of the shower, it's like sweating, which decreases your body's temperature," she says. "As that water evaporates, you will feel cooler, but that feeling lasts minutes, not hours," she says.

When to shower is ultimately a question of preference. But in the summer, you might sleep sounder with clean skin. "Kids usually shower at night, when they are sweaty and filthy after a long day, and that makes total sense," Dr. Ogunleye says.

OPINION

REVIEW & OUTLOOK

The North Korean Missile Crisis

The nuclear threat to U.S. cities requires an urgent response.

North Korea continued to defy the protests of world leaders on Tuesday by launching what looks to be its first intercontinental ballistic missile. The symbolism of launching on America's Independence Day was surely no accident, but the technical feat is more consequential. The speed of North Korea's progress toward threatening the U.S. with a fleet of nuclear-tipped ICBMs requires an urgent response.

Tuesday's missile, dubbed the Hwasong-14, has an estimated range of 6,700 kilometers, which puts Alaska within range. America's lower 48 states may still be out of reach, but the test shows the North has overcome most of the obstacles to a long-range missile. The apparent success will provide more data on the remaining problems, such as a warhead capable of withstanding extremes of temperature and vibration.

One crucial question is whether the new missile is based on the Hwasong-12, an intermediate-range missile successfully tested on May 14. As we wrote at the time, that rocket was apparently a single-stage design and thus a good candidate to become the first stage of an ICBM. The regime has heretofore used engines cobbled together from Russian and Chinese missiles for its ICBM program.

The Hwasong-12 was designed from scratch, and its new engine is more sophisticated than anything the regime had produced. If the North has now attached a second stage, the U.S. will have to advance the estimates of when Los Angeles and Chicago could come under direct threat.

The Trump Administration now has some hard decisions to make as it contemplates its Korea options. More sanctions put the Kim regime under pressure and thus are worth doing, but they can't be relied on to disarm the North in time. Like its allies South Korea and Japan, the U.S. will soon be vulnerable to attack by a regime that has an estimated 20 nuclear warheads as well as chemical and biological weapons. A pre-emptive U.S. military attack can't be ruled out but risks a nuclear counterstrike on South Korea if even one North Korean missile survives.

China, the dovish new South Korean government and the U.S. left are pressing for more disarmament talks in return for a "freeze" on Pyongyang's nuclear programs. But three U.S. administrations have tried diplomacy and failed. The freeze would be phony and the North would break out again when it feels its demands for more money and recognition aren't being met.

The best option is a comprehensive strategy to change the Kim regime, as former Undersecretary of State Robert Joseph has argued. Washington must strengthen deterrence and build out missile defenses, revive the Bush Administration's antiproliferation dragnet, convince countries in the region to cut their ties with North Korea, consider shooting down future Korean test missiles, and spread news about the regime's crimes to people in the North.

The U.S. will also have to recognize that Beijing is part of the problem. North Korea's trade with China grew by 37.4% in the first quarter, contributing to an economic miniboom. Chinese companies are cashing in on the North's mineral resources and cheap labor while supplying the dual-use materials and technology for its nuclear and missile programs.

The U.S. has held out hope that China's leaders would see that a nuclear-armed North Korea isn't in its interests. But Beijing's behavior suggests that it hopes the North Korean threat will drive the U.S. out of Northeast Asia. Only a much tougher strategy aimed at toppling the Kim regime, with or without China's help, has a chance of eliminating a threat that puts millions of American lives at risk.

China Discards a Treaty With Britain

Beijing says its treaty with the U.K. on Hong Kong no longer applies.

The Chinese Foreign Ministry dropped a bombshell ahead of Saturday's 20th anniversary of Hong Kong's return to the motherland: The treaty by which Britain returned the former colony is no longer in effect. Spokesman Lu Kang said that the 1984 Sino-British Joint Declaration was a "historical document that no longer has any realistic meaning."

No, that doesn't mean the Brits can take back Hong Kong, much as some of the city's residents might wish that were possible. Instead it's a sign that China intends to renege on its promise in the treaty, registered at the United Nations, to give the territory "a high degree of autonomy." The local government foreshadowed this decision last year when it made a subtle change to its website. It altered the slogan "Hong Kong people ruling Hong Kong," coined by Deng Xiaoping, to "Hong Kong people administering Hong Kong."

In a 2014 white paper denying Hong Kong democracy, the Chinese State Council asserted that certain promises in the Joint Declaration were not binding as international law on grounds that Beijing wrote them. Since China was the author, Beijing is therefore free to change the terms or declare them to be no longer valid. By that logic, all treaties China signs are meaningless because China will be a party to their language. It's hard to see why any government would conclude a treaty with Beijing when it views such agreements as binding only as long as they are expedient.

Chinese leaders have long memories and they bear a historical grudge against the treaties that Western nations imposed on a weak China in the late 19th century. But China's response more than a century later is to impose its own version of diplomatic blackmail on weaker nations, as it is attempting to do in the South China Sea. Only Japan's resistance is preventing something similar in the East China Sea.

Britain is too afraid of China, or too concerned for its commercial interests, to protest violations of the Joint Declaration and stick up for the citizens of its former territory. But the self-governing citizens of Taiwan will surely notice how Beijing has disavowed the autonomy promised to Hong Kong and dishonored the "one country, two systems" formula that Deng once offered as a model for Taiwan's eventual return to the motherland.

As their double game with the U.S. over North Korea shows (see nearby), China's current leaders put regional dominance above global order. The growing evidence is that treaties and other diplomatic promises are disposable means to that end.

The Tory Policy Retreat

The May Conservatives now want to throw over the public-pay cap.

The damaging consequences from Theresa May's election debacle continue to compound, as the Prime Minister's Tories now want to abandon their claim to fiscal discipline. Rather than blame a feckless campaign, wobbly Tory leaders have decided that voters are exhausted with "austerity" and government employees are happy to step in with spending demands.

Those government workers and their patrons in the opposition Labour Party are demanding an end to the 1% annual pay-rise cap imposed by former Prime Minister David Cameron and Chancellor George Osborne in 2013 after several years of pay freezes. This has amounted to an inflation-adjusted pay cut for many government workers—a major voting bloc in a country where government accounts for 17% of the work force.

Mrs. May rebuffed a Labour attempt to lift the pay cap in Parliament last week, but pressure from her cabinet and party will prove harder to resist. Advocates of lifting the cap now include cabinet grandees Boris Johnson and Michael Gove. Some Tories seem willing to pay for it by reducing scheduled corporate tax-rate cuts or increasing individual taxes by reducing the threshold at which the second-highest 40% rate applies.

What a fiasco—political and economic. Britain's government workers aren't suffering from a pay crisis compared to their peers in the private (that is, productive) economy. For most of the period since 2000, average weekly nominal earnings for public employees have exceeded the private average, according to the Office for National Statistics. And that excludes government pensions that are far more generous than what most private employees enjoy.

Government workers were also shielded from the worst of the post-2008 downturn. The 1% cap amounted to steady nominal wage growth while private wages fell sharply and then rose back modestly—with inflation hurting even more. Government workers were also spared the worst of the job cuts private employers imposed. Central- and local-government employment has fallen by around one million, or 16%, since 2009, but this was accomplished mainly via attrition or modest privatization rather than elimination of departments or roles.

The 1% nominal pay cap mainly has given private workers an opportunity to catch up to government pay. The case for scrapping the cap now is that the government might struggle to attract top talent for the many functions it still insists on doing if pay isn't competitive. That's possible, but it's an argument for reducing the number of jobs the government is expected to do rather than paying people more money to do them.

The cost of this Labour-lite political redistribution exercise could be as much as £6.3 billion ($8.18 billion) a year to be financed either by more borrowing or higher taxes. Either is a political loser for the Tories. Voters are frustrated by an economic recovery that has largely failed to deliver inflation-adjusted earnings growth. But the solution isn't to further stifle wage growth in the private economy by raising taxes to benefit public employees.

The larger political danger is this signal of early retreat from Mrs. May's new coalition government. The spending interests will soon be back for more. If the Tories forget that they're the party of economic growth, not government growth, their defeats have only begun.

For Whom the Bell Tolls, Sell

By Andy Kessler

You think this market's crazy? One day in early 1987, with Wall Street humming, a meeting after trading closed involved several cases of champagne. The Dow Jones Industrial Average had breached 2000 that day, a cause for celebration. A week and a half later, more champagne was ordered when the average passed 2100. Then again a few weeks later for 2200. Eventually my boss stopped buying bubbly when breaking records became the norm. Japanese insurance companies would show up at the brokerage firm where I was a securities analyst and ask for a list of our five favorite stocks, then hand it to their salesman and say "buy 50,000 of each."

On Friday, Oct. 16, 1987, the average dropped 108 points. Rumors swirled that we'd celebrate with cases of Bud Light. No matter: I was with some traders and a client in a stretch limo, headed to watch Mike Tyson fight Tyrell Biggs for the heavyweight championship—an event staged by Donald Trump in Atlantic City, N.J. Man, I miss the 1980s.

The market truly crashed the next Monday, dropping 508 points, or 22.6%. In retrospect, there had been signs all over the place. How did everyone miss them? Well, as the old Wall Street adage goes, no one rings a bell at the top (or bottom) of the market.

So here we are in 2017. The stock market is supposed to be the great humbler, but the records are coming fast and easy. The Dow Jones Industrial Average is up 8% for the year and flirts with a record practically every day. Some of this is structural: Bonds are no fun, since the yield curve is flattening and three-month Treasurys are 1%. So money flows to stocks—and other weird things.

A friend of mine used to run a large-growth mutual fund. In the dot-com mania of 1999, he told me that tens of millions of new capital would flow in every single day. Trying to figure out where to put it, he would consider the new batch of initial public offerings—and then inevitably he just would buy more Yahoo or America Online or Cisco or, what the heck, Yahoo again.

Today, money is flowing into exchange-traded funds. But because ETFs are weighted by market cap, that money flows into the biggest names: Amazon, Apple, Facebook, Google, Microsoft. Classic momos, or momentum stocks. The church of what's working now. What could possibly go wrong?

Sure, the economy is picking up, earnings are growing, and the business is being transformed by mobile, cloud and artificial intelligence. But who doesn't already know that? On the flip side, we're at the start of a 30-year cycle of interest-rate raising, nonhousing debt is higher than in 2008, and deciphering China's direction is as hard as Chinese arithmetic.

Remember, bull markets end when the perception of earnings growth disappears, maybe because of a recession or even simply pending inflation. Manias, on the other hand, end when the market runs out of buyers.

In 1987, U.S. Treasury Secretary James Baker refused to support the dollar, and Japanese buyers left town. In late 1999, Federal Reserve Chairman Alan Greenspan flooded the economy with money to head off a potential panic over the Y2K computer glitch. Then in early 2000 he pulled the money back in, ending the stock-buying frenzy. In 2007, the subprime mortgage-backed security market rolled over as foreign buyers left, though because of thinly traded markets it took another year to show up in prices.

Is this a bull market or a mania? You'll never know for sure, except in retrospect.

Another ding-dong: In less than a year at least 50 companies, including one named Mysterium, have raised hundreds of millions of dollars via something called Initial Coin Offerings, selling a percentage of a new cryptocurrency service in exchange for other digital coins. That's a modern version of a blank-check company, which usually ends in tears.

So are we facing a raging bull market or a mania? Sadly, you'll only know in retrospect. I'm not saying it's a top today, though if it is, I'm happy to take credit. It could go on for a while.

Pundits pore over charts of volatility and put-call ratios. Forget that. Real investors survey the landscape and look for signs of a market gone loco. In one week in late 1999, the hedge fund I used to run had two groups from the Middle East each insist on wiring us $500 million. Practically "The Gong Show." We politely declined and then started returning money to our existing investors.

Are there any bells ringing now? How about a few months back when someone looked me in the eye and insisted—without cracking a smile—that Uber was a bargain at a $68 billion valuation? Or when, with shades of AOL and Time Warner, Amazon bought Whole Foods for $13 billion—and then its stock went up by more than that amount?

Or when Tesla missed its numbers again and the stock rose anyway? Or when the price of a bitcoin, backed by nothing but the faith of devotees, hit $3,000, tripling over a year? Or when Hertz stock rose 14% on news of a deal with Apple for a self-driving car that is still vaporware?

Listen for whom the bell tolls.

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

A Main Street Independence Day

By Thomas M. Boyd

When you begin to worry that America's traditions are lost to political correctness and the genius of the Founders forgotten, stand on Main Street in Leland, Mich., and watch a July 4 parade roll past.

Leland is a rural hamlet sandwiched between Lake Michigan on the west and Lake Leelanau on the east. It has become a summertime retreat for those who migrate to the water when the prairie begins to bake. I am a Virginian who grew up with the salt of the Atlantic in my nostrils. But I married a daughter of the Midwest, and she introduced me to the Great Lakes, where nostalgic American traditions still resonate.

Every summer, several generations of families return to Leland, and the town's July 4 parade is a main event. In years past, Gen. Mark W. Clark, liberator of Rome in 1944, spent his summers along the shore and donned his uniform to march down Main Street with other veterans.

A few years back, Russ Stroud, who retired here after a successful career downstate as an auto executive, stopped his 1936 Studebaker grain truck in front of the judges' stand and, dressed in a tuxedo top and Bermuda shorts, got down on one knee to repropose to his wife.

Last year, every spot along Main Street was taken well in advance of the parade, with swarms of young children perched eagerly on both curbs. The Stars and Stripes were everywhere: on silk bow ties, top hats, headbands, T-shirts and painted faces. Uncle Sam, in full regalia, pedaled by on a bike, his white beard and tails flowing in the wind.

The parade opened with the color guard, and as Old Glory passed, men and women of all ages stood, some with hands pressed respectfully over their hearts. Next came the veterans, no longer of World War II but Korea or Vietnam or Iraq. Following behind was a series of antique Army jeeps and armored personnel carriers.

Then came the Boy Scouts, Leland Township Fire and Rescue, the Cherry King and Queen, and the Grand Marshal in a 1922 convertible. A chorus line of antique cars carried a series of candidates for political office, from local county commissioner to Congress.

What, after all, would July 4 be without a reminder that the Declaration of Independence was, among other things, a clarion call for independent choice?

Veterans, antique cars, volleyball players—and flags everywhere.

There were floats for practically every entity in Leelanau County, from the Coffee Club to the Library Committee to the state-champion volleyball team. All the groups were armed with candy and bubble gum, which they tossed toward the curbs. Children swarmed like pigeons in the park competing for crusts of bread.

The float that really captivated the crowd was from Bunek True Value Hardware. In the rear was a wooden outhouse and in front, seated on a white porcelain "throne," was someone, no doubt a member of the Bunek family, holding aloft a silver painted plunger like a scepter.

Forty-five minutes later, it was over. As the crowd dispersed, everyone wore a smile. Heading to my car, I caught sight of a thematic banner, one of those carried periodically throughout the parade. This one read: "Remember the past, imagine the future." Good advice for that, and any, July 4.

Mr. Boyd is a partner in the Washington office of DLA Piper and served as an assistant attorney general in the Reagan administration.

OPINION

An Italian Banking Bailout Made in Brussels

By Marcello Minenna

Italy's banks can't seem to avoid controversy. This time it's the government's decision last month to wind down Veneto Banca and Banca Popolare di Vicenza rather than subject them to the eurozone's new bank bail-in rules. This looks like a classic eurozone fudge with Italian characteristics—which it is. But look closer and you'll find it difficult to fault Rome for its actions.

Eyebrows have been raised over the complexity of the process. The banks' loan books are to be divided into two categories. The performing loans and other good-quality assets, worth some €26 billion ($29.61 billion), will go to Italy's largest lender, Intesa Sanpaolo, for €1. The bad loans, with a net value of €10.3 billion, will go to Società per la Gestione di Attività (SGA), established in 1996 as a bad bank to help resolve the Banco di Napoli.

EU rules foist more costs on taxpayers by barring honest socialism and creating bigger banks.

This is very different from the bail-in provisions envisioned by the European Union's directive on bank resolutions. Under those rules, depositors and senior bondholders are supposed to take a haircut in the first instance, with taxpayers entering only as a last resort.

Here, however, losses of roughly €3.7 billion will be concentrated on shareholders and subordinated bondholders. That includes a €2.5 billion loss for Atlante, the bank-recapitalization fund organized by the government and funded by Italy's largest banks and other investors, which recapitalized these banks only a year ago.

Taxpayers will pay a far larger bill, mainly to Intesa. The Milan-based bank will receive a lump sum of €4.8 billion to compensate for costs associated with its role in winding down the two banks and to bolster its capital cushion in light of the new assets it's taking on.

Rome also is offering €12 billion in taxpayer guarantees for any deterioration in the loan portfolio Intesa is buying. The total of €16.8 billion is around 82% of the funds allocated barely six months ago to shore up Italian banks; the remaining funds will hardly be enough to cover the €5.4 billion in state aid to Monte dei Paschi di Siena that was just unlocked Tuesday by the European Commission. And this doesn't factor in Rome's guarantees to SGA for the nonperforming loans it's absorbing.

Critics are right that this solution runs counter to the spirit of the EU's bank-resolution rules. But

REUTERS

Rome was given little choice. The EU-level banking regulator determined neither bank was systemically significant enough to demand resolution under the EU directive, leaving Rome to decide alone how to proceed. But when Rome determined that the two institutions were indeed significant enough in their regions that they couldn't be allowed to fail chaotically, other EU rules prohibited a more honest form of socialism that would have benefited taxpayers.

Intesa's involvement was necessitated by EU rules prohibiting outright state aid to banks. Yet Brussels cared only about the form, not the substance, of the ensuing deal. The European Commission liked the fact that the bank assets were being sold in part to a private-sector bidder. It gave no regard to such details as the purely symbolic €1 price being paid, or the taxpayer benefits that Intesa would enjoy.

It would have made much more sense and been less burdensome for Italian taxpayers if Rome had fully taken over the two banks. The SGA "bad bank" could have established an asset-management company to purchase all the assets of the two banks and to fund the operation by issuing asset-backed securities. The inclusion of performing loans in the collateral portfolio would have reduced the state's direct commitment. That commitment could have been further reduced by the creation of a mezzanine tranche, secured by public guarantees but of limited size and contingent upon the occurrence of enough losses as to fully absorb the junior slice.

Yet it would have been a struggle to get such measures approved, especially in the short time in which Rome had to act. The government would have had to argue that the honest socialism of this alternate procedure would have less impact on public finances, and that despite its ties to the government the SGA is a public company. Brussels might have disagreed.

In effect, Rome was in a bind. The EU imposes resolution and state-aid rules to create some semblance of restraint on taxpayer rescues for failing banks. But the EU has yet to roll out EU-wide deposit guarantees that might reduce the political pressure on governments to expend taxpayer resources.

The result may be the worst of all possible worlds. One irony is for sure: State-aid rules intended to encourage market competition have instead in this case resulted in an enormous taxpayer gift to Intesa, already Italy's largest bank. The current system is fueling the growth of giant institutions in a way that's unlikely to be good for the financial market or consumers.

Mr. Minenna is a doctoral lecturer at the London Graduate School of Mathematical Finance.

Positive Change Is Happening in Ukraine

By Volodymyr Groysman

Achieving positive change in a country is no easy feat. It requires ambition, dedication and persistence. I see this every day as Ukraine introduces wide-ranging reforms to make our country a better place to live, visit and invest. But now that we are at the stage where persistence is essential to realizing our goals, I want to share our progress while showing our commitment to carrying out these changes.

When I became prime minister in April 2016, the government's main challenge was to stabilize our country. We had to establish new rules and greater transparency to fight corruption and create a business-friendly climate. We've been working hard, and over the past three years we've canceled more than 3,000 regulatory acts—more than during the entire previous 20 years.

Now that we have the momentum, the numbers are stacking up, too. After a 17% drop in 2014-15, Ukraine's gross domestic product grew by 2.3% in 2016, accelerating to 4.7% in the final quarter. A report published by the European Commission last year concluded that we're making headway at an "unprecedented" level, and the International Monetary Fund has committed $17 billion in financial support for my government's reform efforts.

It's never been easy, but we've insisted on being open and transparent throughout. Under previous rules, subsidized energy prices cost the government around 10% of GDP each year and offered politically connected oligarchs the chance to siphon off billions into their own pockets. That's why my government deregulated gas prices and substituted energy-tariff subsidies with direct subsidies to households.

We implemented these changes a year earlier than our IMF program stipulated. Indeed, we are trying to outpace the international standards for transparency. Last summer, for example, we made it obligatory for state bodies and civil servants to purchase goods and services through an award-winning e-procurement system called Prozorro, developed by Transparency International. This new system automatically publishes details of public spending on an open e-register so that businesses, citizens and investors can be confident that the government is working to support their needs and enable further development.

We're ahead of schedule on deregulating energy and fighting corruption, and are growing as a result.

We are proud of our achievements so far, and have identified five priorities in our 2020 Reform Plan: economic growth to create new jobs, higher wages and increased personal wealth; effective governance, aimed at high-quality public services and better control over state funds; combating corruption in order to secure equal rights for all; increasing our security and defense services to protect our citizens; and increasing the availability and quality of health care across the country.

Driving these reforms will push us into an exciting new period in our nation's history, allowing us to open up for global business. We are a member of the World Trade Organization, have a free-trade and visa-free travel arrangement with the European Union, and we have recently concluded a free-trade agreement with Canada.

We've also created the Ukraine Investment Promotion Office to attract even more foreign investment, as well as continually improving our infrastructure and legislation to match the high standards of our highly skilled workforce. A recent European Business Association Investment Attractiveness Index characterized Ukraine's investment environment as the best it's been in six years. Foreign direct investment last year totalled $4.41 billion, 17.1% more than in 2015.

Ukraine has a bright future, and I'm sure this future will be based on further cooperation with our international partners. I will do everything in my power to make this happen, and the Ukraine Reform Conference meeting in London Thursday will be the first of many opportunities to broaden the coalition around reforms in Ukraine.

We have a vision for making sure progress turns into further reform. Our persistence will be the key to making sure Ukraine continues to give our people a brighter future, our allies a stronger partner and our investors more valuable opportunities.

Mr. Groysman is the prime minister of Ukraine.

The Economic Choice Facing Mongolia

By William Bikales

As Mongolian voters go to the polls Friday for a runoff election to choose their fifth president, their most pressing concern should be which of the two candidates is most likely to tackle the country's dependence on debt.

Sustainable growth for the country requires its leaders to get serious about economic policy.

The two contenders are Battulga Khaltmaa of the Democratic Party and Enkhbold Miyeegombyn of the Mongolian People's Party (MPP). Mr. Battulga, a flamboyant businessman turned politician who named his company Genco after the Corleone olive-oil business in the film "The Godfather," has strongly criticized the influence of China and the International Monetary Fund in Mongolia's economy.

Mr. Enkhbold presents himself as a voice of stability and continuity. He is best known for his years as the mayor of Ulaanbaatar, where startlingly rapid expansion of building construction was so unpopular that his opponents badly outpolled him among city voters in the first round of this election before he eked out a second-place finish with support from the rural areas.

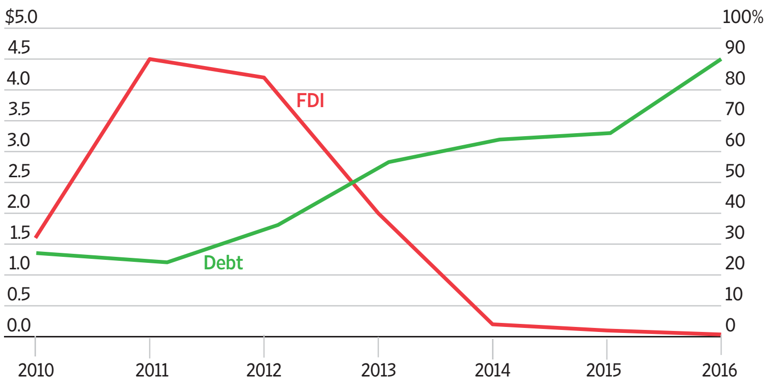
Whoever wins will have to confront the fact that Mongolia today, from the national authorities down to the rural herders, is mired in high-interest debt, and is adding more to the burden every day.

In March, Mongolia came perilously close to defaulting on a $580 million Eurobond. A $5.5 billion package of loan commitments, made possible through the IMF, helped avoid such an outcome.

This package will lower the cost of financing the budget deficit, projected to be 10.4% of gross domestic product this year, and the cost of refinancing foreign-currency bonds that will mature in the coming years. But it doesn't resolve the underlying solvency problem.

Debt Dependency

FDI, in billions of dollars (left) and public debt, as a share of GDP (right), 2010-2016



Sources: Bank of Mongolia, World Bank and Citi Research

In addition to the IMF-led loan package, Mongolia continues to take on other new low-interest foreign-currency debt, such as a new $1 billion "soft loan" from India. It also continues to assume high-interest domestic debt: In the past two months, more than $250 million in bonds of maturities from 12 weeks to 3 years were issued with 13% weighted average interest rate.

Even under the optimistic fiscal assumptions of the new IMF agreement, already-issued commercial-market bonds will have to be rolled over as they mature. This pattern is likely to continue unless the country's leaders identify the root of the problem.

Just five years ago, the 17% economic growth of "Minegolia" was the envy of the world due to a large inflow of foreign direct investment, primarily into the mining sector, but also into support sectors such as services, property, tech and finance. Mongolia's abundant copper, coal, iron, gold, uranium, oil and other resources, and its location on the border of China's heartland, earned the country the nickname "Dubai of Asia."

Then the resource curse struck. In Mongolia, it wasn't so much a currency overvaluation or a cyclical downturn in commodity prices but a decline in serious economic policy making. Nationalistic rhetoric and ham-handed attempts to renegotiate signed agreements drove FDI away, while debt-financed spending exploded despite slowing growth and budget revenues.

Sustainable FDI-fueled growth turned overnight into unsustainable debt-fueled growth. From 2011 to 2016, FDI plunged to almost zero from $4.5 billion a year, and public external debt as a share of GDP rose to 90% from 24.1%.

Now the debt-to-GDP ratio is expected to reach at least 118% of GDP by 2020.

Private domestic debt also exploded in this period, at punishingly high interest rates. Domestic credit rose 350%, and loans to individuals rose 20-fold to nearly half the total. More than half of Mongolian households have bank loans outstanding, with annual interest averaging more than 20%. Inflation is 3%.

A combination of international good will and faith in the country's economic potential due to its resource endowment has now created a dangerous sense of complacency among all parties, especially the Mongolian government. Time after time Mongolia has been rescued from economic crises by loans from abroad. But there are now clear signs that things aren't going to end well without a sharp change in direction.

In early 2015, an IMF debt-sustainability analysis concluded that Mongolia was at considerable risk of debt distress. But the government ignored the IMF's advice to tighten macroeconomic policy. In 2015 and 2016, through a program of cash handouts, salary increases and other big-spending programs—all financed by external and domestic borrowing—Mongolia blew up the budget deficit to 20% of GDP.

That borrowing culminated in a $500 million bond in May 2016, with an incredible 10.875% coupon. Even with this borrowing, and a large credit-swap line between Mongolian and Chinese central banks, official reserves plunged to their lowest level in six years.

The new MPP government that took office last summer made some progress in reversing the growth of the budget deficit. But the relatively small tax increases and spending cuts that are in the IMF agreement won't change the dangerous underlying trend. Some of those cuts, aimed at essential social programs, could pose social and political risks to stability.

The office of Mongolia's president has limited powers, but it can exert influence over policy. Whoever wins the election Friday should seize this opportunity to encourage the country to face up to its perilous debt situation and accept the need to live within its means and return to sustainable FDI-led growth. At the very least, the president-elect should abide by Hippocrates' words, "First, do no harm" and not advocate populist steps that will make the likelihood of a crisis even greater.

Mr. Bikales is an economist who has advised many Mongolian governments since 1991.

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MY RIDE | By A.J. Baime

An Oldsmobile Obsessive Explains Himself

Jim Schultz, 66, a retired industrial salesman from Chino Valley, Ariz., on his 35 Oldsmobiles, as told to A.J. Baime.

The car you see pictured here—a 1957 Oldsmobile 88 Holiday Sedan—turns 60 this year, and no one outside my family has ever touched it with a wrench. My father did all the maintenance for the first owner, and 50 years ago, he bought the car for about $400. He loved this car so much, an image of it is carved into his headstone.

I was born into a family of Oldsmobile fans. My father worked as a mechanic at Olds dealerships and at his own garage, and he bought and sold Oldsmobiles to help support our family while I was growing up. I started working at his garage at age 12. Everywhere I looked, there were Oldsmobiles.

I began collecting them years ago, and my late wife was a good sport. I have a 6,000-square-foot metal building on my property I call my toy box, and I have filled it with Oldsmobiles.

Today I have about 35. My wife used to say, "You'd better not bring any more home. If you do, it had better be big enough for you to go live in."

My oldest Oldsmobile is a 1940 Series 90, with the industry's first-ever automatic transmission. My newest is a 1989 Custom Cruiser station wagon I call the Lab Cab, because I've driven the vehicle all over the country with my black labs in the back. I have six Toronados and some Rocket 88s. But the car I always come back to is the 1957 88 Holiday.

I am president of the National Antique Oldsmobile Club, and earlier this month, I brought the 88 Holiday to our annual convention, in Reading, Pa. (That's where these pictures were taken.) The car has its original, unrestored paint and engine.

I recently put new tires on it, so it has new sneakers. After all these years, it drives like a dream.

General Motors phased out the Oldsmobile. The last vehicle rolled out of the factory on April 29, 2004. Someone has to collect and maintain these cars. If everyone knew how wonderfully they were engineered, they would be too expensive for us fans to buy.

Olds fans think of these vehicles as the best-kept secret in the car-collecting hobby, and that's the way we like it.

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

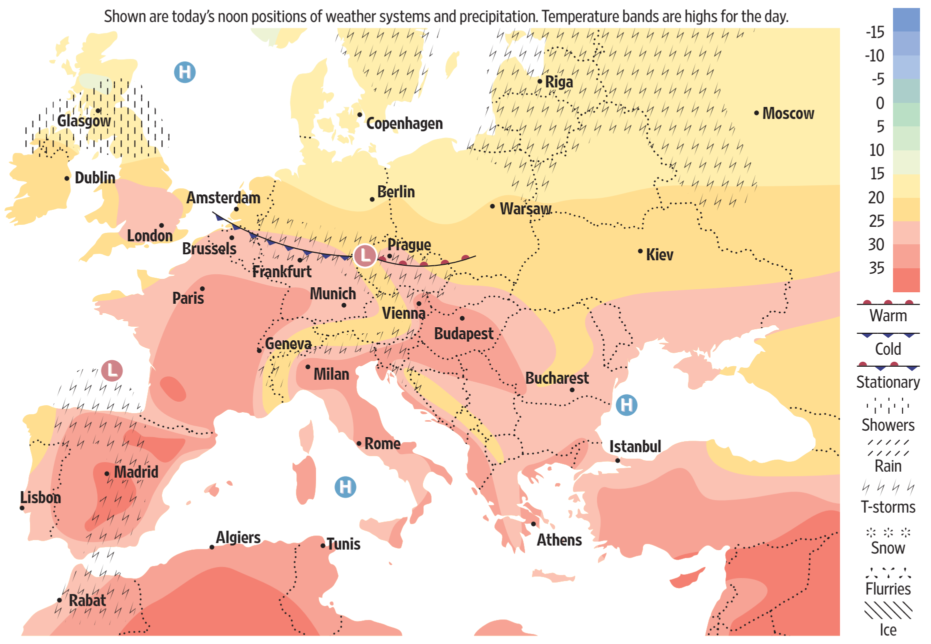
Jim Schultz with his family's Oldsmobile 88 Holiday Sedan at an Olds convention in Reading, Pa.

JESSE NEIDER FOR THE WALL STREET JOURNAL

Weather

AccuWeather.com

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



Global Forecasts

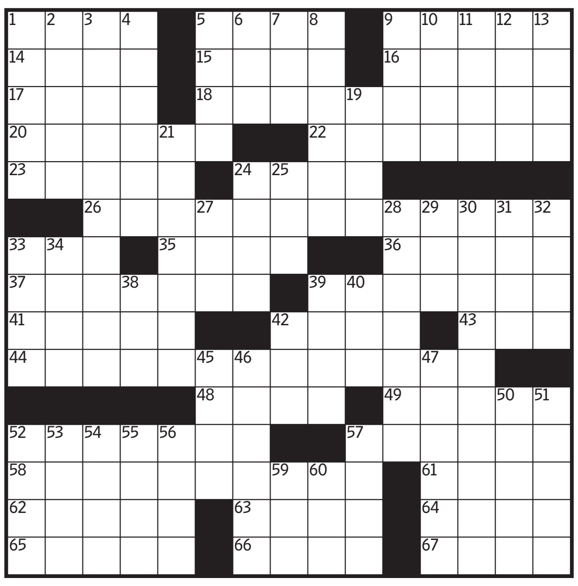
s...sunny; pc... partly cloudy; c...cloudy; sh...showers; t...t'storms; r...rain; sf...snow flurries; sn...snow; i...ice

City	Today Hi	Today Lo	Today W	Tomorrow Hi	Tomorrow Lo	Tomorrow W
Amsterdam	24	14	pc	26	17	pc
Anchorage	20	13	pc	20	13	pc
Athens	31	23	s	32	23	s
Atlanta	33	23	pc	33	23	pc
Baghdad	48	32	s	48	32	s
Baltimore	29	19	c	29	21	t
Bangkok	32	26	t	32	26	sh
Beijing	32	23	sh	26	23	t
Berlin	19	11	pc	22	13	pc
Bogota	18	10	c	19	9	c
Boise	38	21	s	38	21	pc
Boston	26	17	s	27	18	pc
Brussels	26	15	pc	28	18	t
Buenos Aires	16	8	r	17	12	sh
Cairo	36	25	s	35	25	s
Calgary	27	12	s	28	13	pc
Caracas	31	25	pc	29	26	pc
Charlotte	33	22	t	34	23	pc
Chicago	30	19	c	32	21	pc
Dallas	33	25	r	35	26	t
Denver	36	17	s	36	16	pc
Detroit	29	17	pc	31	20	pc
Dubai	43	31	s	42	32	s
Dublin	20	12	c	22	13	pc
Edinburgh	16	12	c	20	13	pc
Frankfurt	28	16	pc	30	19	pc

City	Today Hi	Today Lo	Today W	Tomorrow Hi	Tomorrow Lo	Tomorrow W
Geneva	31	16	s	31	18	pc
Hanoi	31	25	t	32	25	t
Havana	31	23	pc	32	23	pc
Hong Kong	31	27	sh	31	27	t
Honolulu	27	24	s	30	24	pc
Houston	34	24	pc	35	24	t
Istanbul	28	21	pc	29	22	s
Jakarta	32	25	c	31	24	pc
Johannesburg	19	5	s	20	4	s
Kansas City	29	19	t	33	22	s
Las Vegas	44	30	pc	44	32	s
Lima	22	16	pc	22	16	pc
London	28	17	pc	27	18	t
Los Angeles	30	19	pc	32	22	s
Madrid	36	20	pc	29	17	t
Manila	32	26	t	34	26	t
Melbourne	14	6	c	14	7	s
Mexico City	22	13	pc	22	13	pc
Miami	33	27	pc	32	27	pc
Milan	32	19	pc	34	20	pc
Minneapolis	32	22	pc	33	18	t
Monterrey	38	21	pc	36	20	pc
Montreal	27	16	s	28	19	pc
Moscow	20	11	r	17	9	r
Mumbai	32	26	sh	32	26	sh
Nashville	30	22	t	29	22	t
New Delhi	35	26	pc	34	27	pc
New Orleans	32	25	pc	32	24	pc
New York City	28	19	s	25	20	pc
Omaha	33	21	pc	36	20	t
Orlando	34	22	t	34	23	pc

City	Today Hi	Today Lo	Today W	Tomorrow Hi	Tomorrow Lo	Tomorrow W
Ottawa	27	13	s	27	19	sh
Paris	31	20	pc	32	20	t
Philadelphia	30	19	pc	29	21	t
Phoenix	45	32	s	45	33	pc
Pittsburgh	29	20	t	27	19	t
Port-au-Prince	35	24	pc	36	23	pc
Portland, Ore.	33	16	s	31	15	s
Rio de Janeiro	23	18	pc	24	18	pc
Riyadh	46	28	s	45	30	s
Rome	31	19	s	31	19	s
Salt Lake City	40	23	s	39	24	pc
San Diego	23	18	pc	24	20	pc
San Francisco	20	13	pc	20	12	pc
San Juan	31	26	sh	32	26	pc
Santiago	12	3	pc	15	4	pc
Santo Domingo	31	23	pc	33	23	pc
Sao Paulo	19	11	s	20	12	pc
Seattle	29	15	s	28	14	s
Seoul	32	23	pc	33	24	t
Shanghai	32	27	t	34	27	sh
Singapore	29	25	pc	30	26	c
Stockholm	19	7	c	21	9	pc
Sydney	19	9	s	17	7	s
Taipei	34	26	t	35	26	c
Tehran	39	25	s	39	25	s
Tel Aviv	31	25	s	30	25	pc
Tokyo	30	23	t	28	23	pc
Toronto	26	15	s	29	18	pc
Vancouver	24	13	s	24	14	s
Washington, D.C.	30	23	t	30	24	t
Zurich	30	15	pc	31	17	pc

The WSJ Daily Crossword | Edited by Mike Shenk



CAPITAL LETTERS | By Joe DiPietro

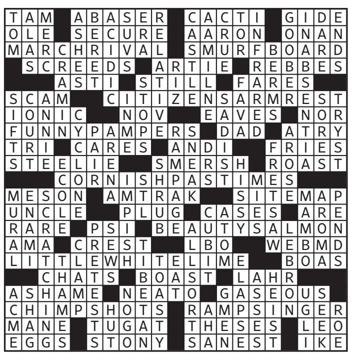
Across

1 Delighted
5 Handful, maybe
9 City southeast of Lake Titicaca
14 Flying start?
15 A pop
16 Mentioned earlier on the page
17 Savannah's "Today" co-host
18 ★Pedal-to-the-metal sort
20 Jack Worthing's pseudonym in a Wilde play
22 2014 TV retiree
23 Nose-thumbing gesture
24 Westernmost American territory
26 ★Montana's 16, e.g.
33 Edge on a highway, e.g.
35 Like a neat lawn
36 Nick of "Lorenzo's Oil"
37 1976 horror film with three sequels and a 2006 remake
39 Partnership, slangily
41 Amazed
42 Niger neighbor
43 Rainy
44 ★Generous bar order
48 Bygone days
49 Comprehend
52 Invites for dinner, perhaps
57 Intentionally ignorant of
58 ★Intimidating look
61 Rock's Cobain
62 Bit of info
63 CFO, e.g.
64 Genesis brother
65 Like a 58-Across
66 Trade show presentation
67 It may be fake

Down

1 Series components
2 Wise up
3 Turn-of-the-century style
4 Spoil, maybe
5 #1
6 Genre for G-Unit
7 Unreturnable shot
8 "Town Called Malice" punk rockers
9 See 12-Down
10 Genesis brother
11 Apple or pear
12 With 9-Down, certain doorbell ringer
13 Founder of Stoicism
19 "Sheesh!"
21 Read quickly
24 Cap's partner
25 Vase with a base
27 Adversary
28 Drive nuts
29 Jersey call
30 Loses it
31 Suffix with cigar
32 Take five
33 To-do
34 "Don't think so"
38 Dominate, informally
39 Online shopping icon
40 International Boxing Hall of Fame inductee
42 Rx writers
45 Hard work
46 Like a proverbial calf
47 Legendary sea monster
50 Shake insert
51 Capital VIP, and a clue to what's hidden in three letters in each starred answer
52 Throws in
53 American assignment
54 Green Hornet's sidekick
55 Dumbfound
56 "Golly!"
57 Early 20th-century style
59 Firefighter's tool
60 Dream state acronym

Previous Puzzle's Solution



TECHNOLOGY: SAMSUNG IS SETTING ITS SIGHTS ON A SMART SPEAKER B4

Euro vs. Dollar 1.1345 ▼ 0.18% **FTSE 100** 7357.23 ▼ 0.27% **Gold** 1217.90 Closed **WTI crude** 47.07 Closed **German Bund** yield 0.477% **10-Year Treasury** yield 2.352%

Italy to Overhaul Monte dei Paschi

Bank's control passes to government with injection of $6.1 billion; other holders help out

By Deborah Ball

MILAN—The Italian government took control of **Banca Monte dei Paschi di Siena** on Tuesday, injecting €5.4 billion ($6.1 billion) into the troubled lender as part of a broad plan to bring one of Europe's weakest banks back to health.

The state recapitalization is the centerpiece of a deep overhaul of Monte dei Paschi, Italy's fourth-largest lender, that will also include the transfer of the bank's €28.6 billion in bad loans to a special vehicle, a cap on remuneration of its top executives and deep cuts in personnel.

The bank, which is the world's oldest, was set to give details of its new industrial plan Wednesday morning in a presentation to analysts.

The bank, which was laid low by years of mismanagement, poor lending practices and political interference, had defied efforts to restore its health. Its troubles peaked last year, when concerns over its stability and the flight of billions in deposits undermined confidence in Italy's banking sector as a whole.

Finally, in December, the Italian government announced its plans to rescue Monte dei Paschi, after the Siena-based bank failed in its attempt to raise fresh capital from private investors.

ALESSIA PIERDOMENICO/BLOOMBERG NEWS

The rescue of the world's oldest bank bothers some European officials.

A Monte dei Paschi spokesman declined to comment Tuesday.

Monte dei Paschi faces a capital shortfall of €8.1 billion. In addition to the public money, shareholders and junior bondholders will contribute €2.7 billion from the conversion of junior bonds into equity. The government will end up owning a 70% stake in the bank. Earlier in the day, the European Union approved the state rescue.

The Italian government used a loophole in Europe's new banking rules to secure approval to use taxpayer money to prop up the bank, drawing the ire of some European officials who worry that the regime is already being watered down.

In December, Rome earmarked €20 billion to help ailing banks, primarily Monte dei Paschi. Another portion of those funds will go toward the liquidation of Italian lenders **Banca Popolare di Vicenza** SpA and **Veneto Banca** SpA. That operation will cost the government €5.2 billion immediately, plus as much as €12 billion in state guarantees tied

Please see BANK page B2

Europe Aims for Tighter Tax Laws

By Julia-Ambra Verlaine

BRUSSELS—European Union lawmakers backed new rules that would force large multinational companies operating within the bloc to give detailed information on where profits are made to prevent them from reducing tax bills.

As such, companies ranging from Google parent **Alphabet** Inc. to **Amazon.com** Inc. will be forced to publish profits and tax bills from each of the EU countries in which they operate—and to provide some information for subsidiaries operating outside of the bloc. They will also be forced to publish data such as employment numbers, proving that they aren't running shell companies.

However, the European Parliament backed a compromise version of the proposal. It allowed authorities to grant exemptions in cases where providing the information would place the company at a disadvantage with its competitors.

EU nations have been trying to rein in tax avoidance by multinational firms.

EU governments and the European Commission must still sign off on the proposals.

The so-called country-by-country reporting was put forward by the EU's executive arm, the European Commission, in April 2016. It stipulates that companies with an annual revenue of more than €750 million ($851 million) must publish a report on income and tax information accessible to the public.

European countries have been trying to rein in corporate tax avoidance by multinational firms since the financial crisis, both by pushing to change international rules and by cracking down on companies that have struck alleged sweetheart deals in countries such as Luxembourg that allowed them to pay little tax in the EU.

“Public country-by-country reporting will make it much harder for multinational corporations to shop around for the lowest possible tax rate, and help bring illegal activity to light,” said German lawmaker Sven Giegold from the left-leaning Green party.

Lawmakers agreed, however, to a “safeguard clause” that gives companies the option to apply for an annual exemption from reporting some

Please see TAX page B2

HEARD ON THE STREET

By Stephen Wilmot

Boss's Pay Is Likely More Than Tables Say

When it comes to executive pay, what you see isn't what you get. This should worry investors, who need to understand the financial motivations of those who run their companies.

John C. Martin took home close to a billion dollars for a decade of work at the helm of Gilead Sciences. If you look at the summary compensation tables of the biotech company's proxy filings, though, you would think his pay for the 10 years through 2016 was equivalent to only $153 million.

Summary compensation tables get a lot of press—and will get even more next year, when U.S. companies may be obliged to disclose the ratio of their chief executive's pay to that of a median employee. But in reality they don't say much.

The key problem is how to measure the stock options and awards that make up a ballooning share of executive pay. The Securities and Exchange Commission requires company accountants to estimate their “fair value.” For options this involves mathematical models that ignore the human factor: Bosses can decide when to exercise them. For awards, fair value is defined as the share price on the day they are granted, which in a rising market underestimates their value when executives cash them in.

Another problem is that stock awards increasingly depend on bosses hitting performance targets, such as a certain level of revenue in the case of Gilead.

Accountants assume a “target” number of shares, but what executives end up with could be completely different. Most bosses end up making far more than their accountants estimate. Mr. Martin at Gilead is an exception only in scale.

In 2015—the last year for which full data is available—the average pay of the 500 highest-paid U.S. executives was $17.1 million according to fair-value estimates, but $32.6 million according to realized pay.

Fair-value pay has been lower than realized pay in every year since at least 2006, according to an analysis of Standard & Poor's data by William Lazonick, professor of economics at University of Massachusetts Lowell, and Matt Hopkins, senior research associate at the Academic-Industry Research

Please see HEARD page B2

DISNEY CHANNEL

The entertainment company is hoping a sequel to its original-movie hit ‘Descendants’ will boost viewership for Disney Channel.

Disney's TV Losses Extend to Kids

By Joe Flint And Ben Fritz

Walt Disney Co.'s biggest business, cable TV, is stalling. And the problems go well beyond ESPN.

The sports network's struggle to adapt to a rapidly changing media landscape has garnered much of the attention from investors and analysts. Meanwhile, ratings have fallen significantly at Disney's biggest brands reaching children, teens and young adults, led by Disney Channel and Freeform.

Those two channels each has lost about four million subscribers over the past three years, bringing them to around 90 million apiece.

The troubles are twofold: a lack of hits and the broader move by audiences away from traditional television to digital alternatives. The shift to streaming services such **Netflix** Inc. and web-based platforms like Google's YouTube is particularly pronounced among younger viewers targeted by these Disney networks.

Channel executives say they are trying to improve programming and determine how aggressively to make the leap to mobile and online formats.

“We see the migration,” said Disney Channel President Gary Marsh. “One of the challenges is trying to serve the viewership where they're going as opposed to trying to drive them where we want them to go.”

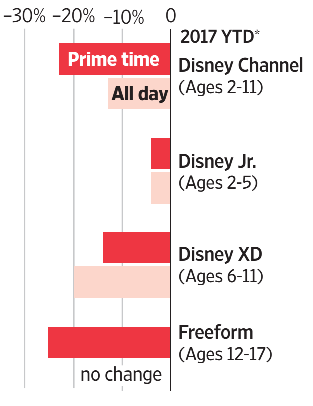
Disney Channel programming is focused on children, while Freeform, which changed its name from ABC Family in January 2016, is aimed at teenagers and young adults.

Cable TV has long been Disney's biggest business, accounting for 30% of its revenue and 43% of profits last fiscal year. About 26% of cable revenue and profits come from entertainment networks like Disney Channel and Freeform, Morgan Stanley estimates, while the rest is generated by ESPN. (Disney doesn't disclose the breakdown.)

Also at stake for Disney is the exposure its TV channels offer for toys, clothes and other products that the company relies on for hundreds of millions of dollars annually in revenue.

Losing Interest

Disney's cable-entertainment channels are all suffering from declines in viewership.



*Dec. 26, 2016—June 25, 2017

Source: Nielsen

THE WALL STREET JOURNAL.

As consumers “cut the cord,” Disney's once fast-growing cable business has slowed down. Cable revenue was flat and operating income down 6% in the first half of the current fiscal year, which has alarmed Wall Street.

Disney Chief Executive Robert Iger has said that strengthening online accessibility for television programs is a priority and that the company is preparing to offer its channels, in part or whole, directly to consumers online rather than just through costly cable packages.

Profits for Disney Channel and Freeform are driven in part by long-term contracts with cable companies, but the erosion in ratings is likely to ultimately hit the bottom line unless the networks can generate substantial new digital revenue.

Both channels are considering when, not whether, to launch direct-to-consumer apps, similar to Time Warner Inc.'s HBO Now. “There's no doubt in my mind that the company will pursue that,” Mr. Marsh said, adding that such

Please see DISNEY page B2

Chemical Merger Draws Attacks

By Brian Blackstone

ZURICH—**Clariant** AG's bid to create a $14 billion chemicals giant through a merger with U.S.-based **Huntsman** Corp. has come under attack from a group of the Swiss company's largest shareholders who are pushing to derail the transaction.

Investment funds **40 North Latitude Master Fund** Ltd., controlled by U.S. investors David Winter and David Millstone, and **Corvex Master Fund** Ltd, controlled by investor Keith Meister, disclosed their stake with Swiss regulators. Separately, the funds said they own a combined 7.2% of Clariant through White Tale Holdings.

“We believe shareholders ought to reject this value destructive merger,” the funds said in a statement released by 40 North, adding that the proposed deal “significantly undervalues Clariant's shares” and “far more value could be created for shareholders through any number of alternative transactions.”

“The U.S. activist investors' step makes a counterbid more likely,” analysts at Baader Helvea Equity Research said in a research note. “As we have often stated, Clariant is the No. 1 takeover target in the sector, with a long list of interested parties.”

Clariant shares rose nearly 3.1% Tuesday on the news.

“We have noticed the increased investment of Corvex, 40 North in Clariant and their demands,” a Clariant spokesman said. “We are taking all of our shareholders' interests seriously and maintain our long-practiced open and engaging attitude with them. In that spirit we are in contact with Corvex, 40 North.”

40 North is an arm of Standard Industries, a U.S.-based conglomerate with interests in building materials, money management and real estate. It isn't widely known in Europe as an activist investor. Its effort has the support of Corvex Management and Mr. Meister, a well-known U.S. activist investor and former lieutenant of Carl Icahn.

Corvex last flexed its muscles only recently, disclosing in May a 5.5% stake in CenturyLink Inc. The U.S. telecommunications company is in a deal to acquire Level 3 Communications Inc., and Mr. Meister is pushing for Level 3's chief executive to become the CEO of the combined company instead of CenturyLink's leader.

Standard Industries is no stranger to Europe. In December it agreed to acquire German roof maker Braas Monier Building Group SA for about €1.1 billion ($1.2 billion) after raising its offer to end an hostile takeover effort.

ARND WIEGMANN/REUTERS

Clariant CEO Hariolf Kottmann, left, and Peter Huntsman, the chief executive of Huntsman, after announcing their deal in May.

Huntsman and Clariant announced their proposed trans-Atlantic tie-up in May amid a period of consolidation in the chemicals industry. Companies have been seeking to cut costs by eliminating overlapping operations and products, and identify sources of revenue by tapping new markets and customers. The deals are designed to help chemical producers combine resources to bolster research and development.

Clariant shareholders would own about 52% of the new entity, with Huntsman holding the rest, based on the companies' values at the time of the announcement.

INDEX TO BUSINESSES

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

INDEX TO PEOPLE

SEAN GALLUP/GETTY IMAGES

Under the new rules, businesses such as Google will have to post profits and tax bills from the EU countries in which they operate.

TAX

Continued from the prior page
of the detail on grounds of commercial sensitivity. Business groups have argued that providing too much detailed information could allow competitors to work out important business information on, for example, how a firm is structured and mirror that.

"The fight against tax avoidance will be in vain if we damage the competitiveness of our companies and the investment climate in the EU," said Dariusz Rosati, a Polish lawmaker from the center right European People's Party.

A European Commission spokeswoman said Tuesday the safeguard clause should not be a carte blanche for companies to avoid reporting.

Elena Gaita, a policy officer at anticorruption watchdog Transparency International, said the text agreed on by lawmakers in Strasbourg, France, on Tuesday would have an ambivalent impact.

"On one side, it shows widespread support for transparency around multinationals' tax arrangements world-wide, but on the other it still leaves loopholes for corporations to shroud their affairs in secrecy," Ms. Gaita said.

EU officials and lawmakers have accelerated their work on tax after the Panama Papers revealed planning techniques that helped clients exploit loopholes and arbitrage tax regimes in different countries to cut bills. A total of €173 billion ($192.8 billion) of tax was avoided through the Panama Papers schemes alone, according to an April study by the EU Parliament.

In February, EU finance ministers agreed to a batch of rules coming into effect between January 2020 and January 2022 that would close several legal loopholes to reduce tax bills—such as shifting profit and moving debt to countries outside the bloc where there are more generous interest deductions.

BUSINESS & FINANCE

Sanctions Worry Oil Giants

By Bradley Olson
And Peter Nicholas

BRENDAN MCDERMID/REUTERS

Exxon CEO Darren Woods. His company and others seek to preserve business ties with Russia.

Exxon Mobil Corp. and other energy companies joined President Donald Trump in expressing concerns over a bill to toughen sanctions on Russia, arguing that it could shut down oil and gas projects around the world that involve Russian partners.

The pushback from energy companies such as Exxon and **Chevron** Corp.—and other industries—threatens to complicate House passage of the legislation, aimed partly at punishing Russia for what U.S. officials describe as interference in last year's U.S. election. The bill breezed through the Senate last month on a bipartisan, 98-2 vote.

Exxon's advocacy also presents a potential political problem for the Trump administration, which has been trying to avoid conflict-of-interest questions involving Secretary of State Rex Tillerson, the oil giant's former chief executive.

Mr. Tillerson, who has promised to recuse himself from matters involving Exxon, hasn't explicitly spoken out against the sanctions bill, but last month urged Congress not to take any actions that tie the administration's hands.

Mr. Trump is set to meet Russian President Vladimir Putin face-to-face this week for the first time since the election at the Group of 20 summit in Hamburg, Germany. The White House hasn't ruled out a presidential veto of the sanctions measure, which includes a provision that would make it more difficult for the president to relax existing sanctions against the Kremlin, saying that it could erode Mr. Trump's ability to conduct diplomacy.

A U.S. special prosecutor and Congress are investigating Russia's use of cyberattacks in the election and whether there were improper ties between aides to Mr. Trump and Russia's government. The president has denied any wrongdoing.

As the nation's top diplomat, Mr. Tillerson has said Russia must be held accountable. A senior State Department official said Monday that "Secretary Tillerson retired from Exxon prior to assuming his position as Secretary of State" and added, "As a general matter, Russian sanctions cover broad areas, including the invasion of Ukraine, and are coordinated with our allies."

Lobbyists for Exxon and other oil industry players have expressed dismay to lawmakers about several provisions in the legislation, including measures to prohibit partnerships with Russian individuals or companies under sanctions around the world, and to add congressional review of certain sanctions exemptions. Companies also have expressed concern that the bill could force them to disclose information they consider proprietary.

Exxon spokesman Alan Jeffers said the company doesn't have a position on sanctions but has provided legislators with information about how the bill could "disadvantage U.S. companies compared to our non-U.S. counterparts." A Chevron spokesman declined to comment.

The lobbying by Exxon and other big oil companies is part of a push to preserve potential business relationships with Russia, even as U.S. ties with the Kremlin sink to new lows.

The bill could scuttle any U.S. business partnership around the world that involves Russia. That has prompted concerns from energy firms and also banking and industrial companies, according to people familiar with the matter. General Electric Co. is watching the legislation over concerns it could disadvantage U.S. companies relative to global peers, one person said.

"It has the potential to penalize U.S. interests and advantage Russia," said Jack Gerard, chief executive of the American Petroleum Institute.

BANK

Continued from the prior page
to the sale of the banks for €1 to **Intesa Sanpaolo** SpA.

With the Monte dei Paschi bailout and liquidation of the two lenders, the government has done much to address the weakest parts of Italy's banking sector, say officials. For instance, with the capital injection, Monte dei Paschi will have one of the biggest capital cushions in European banking.

Under pressure from the European Central Bank, which is pushing European banks to address the problem of bad loans, Italian banks have stepped up efforts to sell and liquidate sour debt, with tens of billions of such loans earmarked for disposal.

Nonetheless, the Italian banking system is among the weakest in Europe, with about €200 billion in bad loans. The banks have suffered from a combination of poor management, low interest rates, poor profitability and economic growth that has been the weakest in the region for years.

Italy's banking woes remain a serious impediment to a stronger recovery in the country, which isn't enjoying the rebound other European countries have seen. Italy's economy is expected to grow only about 1% this year, slightly more than half the rate for the eurozone as a whole.

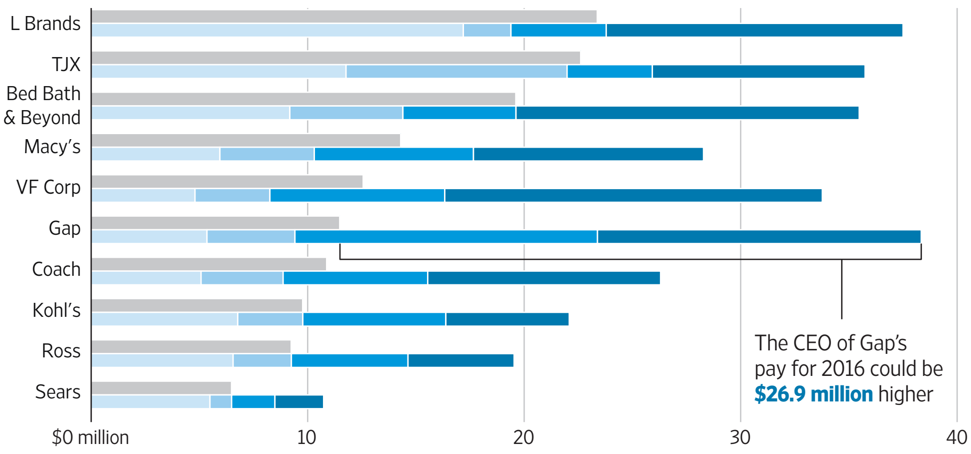
—*Eric Sylvers contributed to this article.*

Retail Detail

The SEC requires companies to estimate executive pay based on a target level of performance and the 'fair value' of stock awards. Investor ValueAct thinks this fails to capture what executives are properly incentivized. For big retail executives, it assessed pay as of August 2016 based on four scenarios:

1. Minimum pay is base pay plus 50% of target annual and long-term bonuses
2. Target pay assumes the executive achieves the official target performance level
3. Maximum pay is the most a boss can earn without stock-price gains
4. The extra pay implied by a 50% increase in the stock price.

SEC FRAMEWORK: **Grant-date fair value**
VALUE ACT FRAMEWORK: **1. Minimum** **2. Target** **3. Maximum** **4. 50% stock-market gains**



Source: Rock Center for Corporate Governance, Stanford University

THE WALL STREET JOURNAL.

HEARD

Continued from the prior page
Network.

The sheer size of realized-pay numbers is one concern. For most of corporate history such riches were associated with risk-taking entrepreneurs, not managers.

It is doubtful investors need to fork out so much for managerial talent, and the practice encourages antibusiness sentiment, populist politics and eventually regulations like the U.S. pay ratio, part of the Dodd-Frank reforms.

There is also a more subtle problem with the divergence between realized and estimated pay: Investors underestimate the extent to which stock awards and options have come to dominate executive packages.

A full 82% of realized pay in 2015 was in stock, compared with 62% for estimated pay. The incentive for bosses to concentrate on boosting specific numbers or the share price to trigger awards, rather than growing the business more generally, is more powerful than usually thought.

Focusing on realized rather than estimated compensation won't solve the problem of executive pay. But it would at least make it clearer.

This is the first in a series of Heard on the Street columns. Tomorrow: How to solve the problem of misaligned executive pay.

No Easy Answers For Investors

Only the most diligent investors can hope to understand how the bosses of their companies are financially motivated.

Increasingly, executives only get share awards if they hit certain targets agreed upon with the board. The all-important performance hurdles are usually detailed in the small print of the proxy statement, but their rigor is "not readily evident even to a professional reader," said activist investor **ValueAct Capital** in a recent paper.

An alternative to summary compensation tables proposed by ValueAct involves estimating three levels of pay depending on performance triggers—minimum, target and maximum pay—and an extra level assuming a 50% increase in the share price. A comparison of retailers shows, among other things, that pay for the boss of Gap, Art Peck, is at the top of its peer group at the maximum level, even though it looks low at the target level. So Mr. Peck has a stronger financial incentive to outperform than his peers.

But this approach has limitations, too. It shows that Mr. Peck's pay is unusually sensitive to performance, but not how difficult his targets are to reach.

In reality, investors that want to understand whether an executive like Mr. Peck is being paid for routine performance or challenged to go far beyond expectations have no choice but to plunge into the detail of proxy statements, talk to board members—and use their judgment.

—*Stephen Wilmot*

DISNEY

Continued from the prior page
an original could be unveiled in the near future.

For the first six months of this year, the commercial-free Disney Channel's ratings among in its core 2-11 and 6-14 demographics fell 23% in prime time and 13% and 18%, respectively, during the full day, compared with the same period a year earlier, according to Nielsen. Ratings are also down at the smaller Disney Jr. and Disney XD networks, which fall under Mr. Marsh's Disney Channel umbrella.

Making the transition to online and mobile platforms is a delicate dance. Distributors like Comcast Corp. and AT&T Inc.'s DirecTV pay high subscription fees that currently account for a large chunk of the Disney networks' profits. They are wary of too much content being available outside of the pay-TV ecosystem.

Online video currently carries fewer ads and generates significantly less revenue than network programming, particularly if it is available to people who don't subscribe to cable.

Still, Freeform President Tom Ascheim said digital viewing for the channel has doubled in the past two years as his network has put its shows online, including full seasons of popular programs like "Famous in Love."

On the Disney Channel, some new shows, such as "I Didn't Do It" and "Best Friends Whenever" didn't click with kids, which contributed to the ratings decline. "We haven't had the breakout hits in the last year or so," Mr. Marsh said.

Disney Channel is betting on "Raven's Home," a spinoff of its hit "That's So Raven." It also has a sequel to its smash original movie "Descendants."

Freeform's prime-time viewership among people aged 12-17 was down 25% from January through June, according to Nielsen. For the 18-34 demographic, the drop was 20% over the same period.

SpaceX Aborts Intelsat Mission

By Andy Pasztor

For the second time in two days, entrepreneur Elon Musk's SpaceX was forced to scrub blastoff of a large commercial communications satellite, when an automated system aborted the launch within seconds of liftoff.

Monday's mission for **Intelsat** SA was slated to follow a pair of trouble-free launches that occurred less than two weeks ago.

Company supporters said the successes point to increasing operational proficiency and an accelerating launch tempo that SpaceX's commercial and U.S. government customers had long wanted to see.

A previous launch attempt was aborted on Sunday, also 10 seconds before liftoff, when the same automated safety alert system detected some problems with the Falcon 9's navigation or flight-control systems.

On Monday, the closely held Southern California company ended its webcast without providing any details on the reason for the aborted launch. Neither the satellite nor the rocket appeared to be damaged, but industry reaction to the twin aborts will depend partly on the explanation SpaceX officials provide.

The launch won't take place before Wednesday, Mr. Musk said via Twitter, while the company conducts a "full review" of rocket and launchpad systems.

"Only one chance to get it right," the SpaceX founder said.

The nearly 15,000-pound satellite, believed to be the heaviest payload SpaceX has ever tried to launch, requires the full thrust and all of the fuel aboard SpaceX's Falcon 9 rocket to reach its desired orbit. So in this case, there were no plans to bring the main part of the rocket back—a procedure that requires fuel.

Reusing rockets and even unmanned cargo capsules has become part of SpaceX's everyday operations, with commercial customers lining up to put satellites on top of what the company calls "flight tested" main stages.

Pentagon officials also are talking more favorably about the prospect of contracting to put national security payloads on top of reused rockets, perhaps sometime in the next few years.

The aim of reusing boosters is to lower costs and speed up launches, though the practice also provides SpaceX somewhat of a respite from having to manufacture boosters at a breakneck pace to meet its launch commitments.

The company is conducting a 'full review' of rocket and launchpad systems.

After the Intelsat launch, one of the company's next big challenges in coming months will be to start flying what it has described as the final variant of its Falcon 9 family of launchers, a design optimized for reusing the main part of the rocket along with its nine engines.

Also later this year, SpaceX's management team intends to carry out the maiden launch of the company's Falcon Heavy, a beefed-up derivative of the Falcon 9, which is several years delayed and features 27 separate main engines.

Over the years, SpaceX has talked about its automated pre-launch abort system and related design features of the Falcon 9 as important safety enhancements to traditional rocketry.

Uber Takes a Hit in France

An influential adviser to Europe's highest court on Tuesday sided with France in yet another legal wrangle targeting **Uber Technologies** Inc.

By Natalia Drozdiak in Brussels and Sam Schechner in Paris

CHARLES PLATIAU/REUTERS

An EU court adviser has dismissed arguments Uber made against French transportation rules.

The adviser to judges at the European Court of Justice dismissed Uber's arguments that French transportation rules, which effectively criminalized Uber's low-cost service, should be overturned.

The adviser's recommendation is the latest in a series of unfavorable legal or regulatory developments weighing on Uber's operations in Europe, where the U.S. ride-hailing company has faced local or national bans on at least some of its services in Germany, Belgium, the Netherlands, Spain and Hungary.

The recommendation isn't binding but the ECJ typically—though not always—sides with such advice.

In the court case, Uber has argued that the French transport rules, which banned platforms from connecting customers to unlicensed transport providers, specifically targeted online services and therefore should be invalidated because the government didn't follow the correct procedure when implementing them. In turn, Uber shouldn't be prosecuted on the basis of those laws, the company has argued.

Under European Union law, countries are supposed to first flag any national legislation regulating an "information society service," or web platforms, to the European Commission, the bloc's executive. But France didn't do that before pushing the 2014 law aimed at curtailing Uber through its legislature.

One provision of the French law made it a crime punishable by prison and fines to link people in search of a ride with drivers who have no professional license—as Uber's then-active low-cost service UberPop did. Only after authorities arrested and charged the company's top two executives in France, and the country's interior minister dressed down other executives in his office, did the firm shut down UberPop.

Maciej Szpunar, an advocate general at the ECJ, said notification of the French rules wasn't necessary because they weren't specifically designed to regulate IT services.

"Member states may prohibit and punish the illegal exercise of a transport activity such as Uberpop without having to notify the commission of the draft law in advance," Mr. Szpunar said Tuesday.

Uber spokeswoman Marloes van der Laan said in response: "We have seen today's statement and await the final ruling later this year." The company has changed its ways since the French law was implemented and now operates only with professional licensed drivers in France, Ms. Van der Laan said.

Uber is hoping that a decision in its favor could bolster its appeal of the conviction of the two executives who, along with Uber, were fined a total of about €964,000 ($1.1 million).

That conviction also included other charges, such as privacy violations, which wouldn't be affected by the current ECJ case. A decision in the appeal to the French court conviction is expected at the end of the year.

The case in Tuesday's opinion stems from Uber's pugilistic approach to its legal battles world-wide. In Europe, one of the firm's main strategies has been to try to use the EU's free-market treaties to beat back restrictive transport regulations at a national level in any way possible.

The company has complained multiple times in the last two years about national laws in France, Germany and other countries directly to the commission, which is still considering those complaints.

At the same time, the company has urged national courts whenever possible to ask the EU's top court whether national taxi rules can even apply under EU law to a technology platform like Uber.

Tuesday's opinion was expected after the same court adviser, in a more advanced case also at the ECJ, said in May that the U.S. ride-hailing company should be regulated as a transportation company, not an online platform as Uber had argued.

If judges rule in line with Mr. Szpunar's recommendation that Uber be regulated as a transport service, it would effectively end Uber's long-fought legal attempt to lighten its heavy regulatory load across the continent. Regulators in Europe have sought to hold it to often strict rules and licensing requirements that apply to transportation companies, like taxi and traditional car-hire services.

Pointing to that recommendation, Mr. Szpunar said Tuesday, if Uber doesn't constitute an IT service, it would therefore be unnecessary for any member state to notify the national rules to the commission.

Judgments in both ECJ cases are expected later this year.

Qatar Unveils Plan to Boost Gas Output Amid Gulf Crisis

By Summer Said

RIYADH—**Qatar Petroleum**, the world's largest producer of liquefied natural gas, said Tuesday it plans to increase natural-gas output by 30% over the next seven years, as the emirate faces a diplomatic crisis with its Persian Gulf neighbors.

Qatar Petroleum will double the size of a major project in a massive subsea Persian Gulf gas field shared with Iran, Chief Executive Saad al-Kaabi said at a news conference in Doha on Tuesday. The expansion will bring Qatar's total LNG production to 100 million tons a year—the equivalent of about 6 million barrels of oil—from its current level of 77 million tons, he said.

Qatar's decision was announced the same day that Saudi Arabia, the United Arab Emirates, Bahrain and Egypt said the emirate had to respond to a list of demands. Those countries have cut diplomatic ties and imposed a transport ban against Qatar, accusing former allies in Doha of supporting extremist groups and meddling in their domestic affairs. Qatar denies the allegations.

Qatar's economy has been resilient so far but could suffer if the transport ban remains and other economic sanctions are imposed. Despite the blockade, Qatar's gas shipments haven't been affected, and it has found ways to get food and medicine imports.

The LNG announcement helps "emphasize Qatar's importance to world energy, and to claim business as usual," said Robin Mills, chief executive at Qamar Energy, a Dubai consulting firm.

The Arab countries targeting Qatar in the diplomatic row aren't big gas producers. Qatar's move comes a day after Saudi Arabia's rival, Iran, said it was trying to increase its own output from the world's largest gas field, which it shares with Qatar.

French energy giant Total SA said Monday it would invest $1 billion in a partnership to develop more gas from Iran's piece of the field, which Iran calls South Pars and Qatar calls the North Field.

North Field output accounts for nearly all of Qatar's gas production and around 60% of its export revenue. Qatar declared a moratorium in 2005 on the development of the North Field to give Doha time to study the impact on the reservoir from a rapid rise in output.

Qatar is also facing pressure from international competitors who are ramping up LNG output. Russia is developing its LNG capabilities, the U.S. has begun exporting the commodity, and companies such as **Royal Dutch Shell** PLC have made gas a strategic priority.

If Qatar follows through with its plans to raise output, it would be sending more LNG into the global market at a time of oversupply, said Frank Harris, head of LNG consulting at energy consultancy Wood Mackenzie. "Whichever way you look at it, it tends to suggest LNG prices going down, which isn't good for them," he said.

"Today's announcement looks like it's more about sending messages in the region rather than to the global LNG market," he added.

—Sarah McFarlane in London contributed to this article.

KARIM JAAFAR/AGENCE FRANCE-PRESSE/GETTY IMAGES

Ras Laffan Industrial City. North Field output accounts for nearly all of Qatar's gas production.

Samsung Sets Sights on a Smart Speaker

Electronics giant joins Amazon and Alphabet in race to roll out such connected devices

By Timothy W. Martin

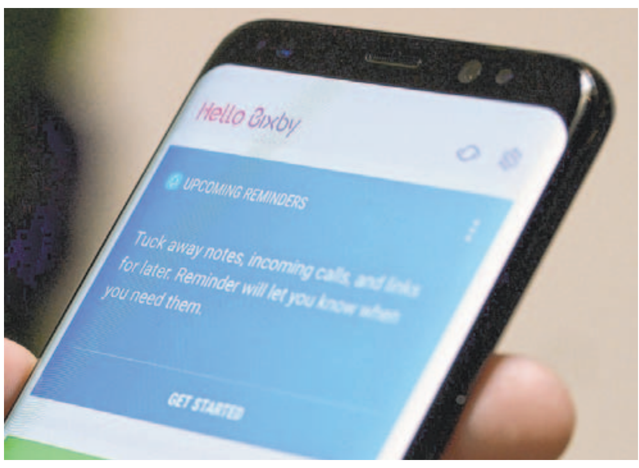
SEOUL—**Samsung Electronics** Co. is developing a voice-activated speaker powered by its digital assistant Bixby, according to people familiar with the matter, joining a proliferating arms race in tabletop devices.

The timing is far from determined, the people said. The English-language version of Bixby has been delayed and they said many of the speaker's features and other specifications are yet to be decided. But the project—internally code-named Vega—has been going on for more than a year, several of the people said.

Should a Samsung speaker hit the market, the South Korean tech giant would face the likes of **Amazon.com** Inc., **Alphabet** Inc. and **Microsoft** Corp. in a race to create and install such speakers to eventually run internet-connected homes, cars and offices—from turning off lights to adjusting the thermostat.

To Silicon Valley, voice-activated speakers are more about big data than big bucks. The ultimate payoff is advancing voice-activated artificial-intelligence technology. The virtual assistants, like Amazon's Alexa, **Apple** Inc.'s Siri and Bixby, improve with use—the software learning from mistakes—industry executives say.

Amazon's Echo has captured more than 70% of the U.S. market for voice-activated speakers, with Alphabet's Google Home next at around 24%, according to eMarketer, a market-research firm. The number of Americans using such speakers at least once a month will reach about 36 million this year, eMarketer said, double last year's figure.



EMILY PRAPUOLENIS/THE WALL STREET JOURNAL

Samsung's digital assistant Bixby would power the new device.

Microsoft has introduced a voice-controlled speaker, Invoke, that can make phone calls, for release in the fall, and Apple is preparing to release its HomePod device in December. Alibaba Group Holding Ltd. also plans to introduce a device powered by voice-recognition technology, that will be targeted at Chinese consumers.

Microsoft's speaker, which uses its digital assistant Cortana, is the product of an alliance with audio pioneer Harman International Industries Inc., newly acquired by Samsung. The alliance predates the March closing of that $8 billion deal, according to people familiar with the matter.

One variable slowing Samsung's progress is the postponed U.S. launch of the English-language version of Bixby, which would operate the speaker much as Alexa operates Amazon's Echo device, according to people familiar with the matter. Bixby's voice features were a key selling point for the world's largest smartphone maker's latest flagship model, the Galaxy S8, introduced April 21.

The company vowed the English-language Bixby would be ready by spring, but now Samsung internally believes those voice features are unlikely before the second half of July, one of the people said. The Galaxy S8 is Samsung's first device to feature Bixby.

A Samsung spokeswoman said the company doesn't comment on rumors and speculation.

Vega is only the latest of Samsung's speaker projects, which go back years, according to people familiar with the matter. The company had once planned to debut one code-named Hive in March 2015 at the Mobile World Congress in Spain, the people said, but it was quietly shelved over software issues including problems with voice recognition.

The Vega project could end the same way, though that is unlikely, the people said.

Bixby voice is available in Samsung's home country, but the English language version has faced hurdles. It is being piloted in an "early access" program with tens of thousands of U.S. consumers, according to people familiar with the matter.

The timing of its U.S. launch has been in flux and could still be altered again, the people said.

Samsung views Bixby as a potential game-changer. It dedicated a button on the Galaxy S8's side to the virtual assistant, while extolling its "intelligent interface and contextual awareness." Executives foresee its use in Samsung's broader suite of products, such as home appliances and automobile software.

Shanghai Court Freezes LeEco Founder's Assets

A court in Shanghai froze nearly $181 million in assets partially owned by **LeEco Holdings** founder Jia Yueting over a missed interest payment, and an additional $2.3 billion worth of shares in the firm's listed unit, deepening the technology conglomerate's financial distress.

The Shanghai High People's Court froze about 1.24 billion yuan ($181 million) in assets owned by Jia Yueting and his wife Gan Wei, along with three of LeEco's subsidiaries, according to a court filing dated June 26, as well as an article by the official Xinhua News Agency on Monday.

Originally known as China's Netflix, LeEco established its presence as an online streaming-content provider that later expanded into businesses including smartphones and electric vehicles. The company's financial woes came to light after Mr. Jia admitted to a cash crunch in a letter to employees last fall.

A Shanghai branch of China Merchants Bank Co. applied to the Shanghai High People's Court to have some of LeEco's assets frozen after Leview Mobile HK Ltd., a subsidiary of LeEco missed an interest payment, according to the state-run Shanghai Securities News.

LeEco didn't respond to a request for comment.

On Tuesday, Leshi Internet Information & Technology Corp., a unit of LeEco that runs an online video streaming site, said the Shanghai court had frozen more than 51.9 million shares, or 26% of the firm's total shares, owned by Mr. Jia and its controlling shareholder LeEco, for three years, in addition to the 2.83 million shares owned by Mr. Jia and LeEco that had already been frozen, according to its filing with the Shenzhen Stock Exchange.

The share freeze was the result of a property preservation over Mr. Jia's joint guarantee in financing for LeEco's mobile business, the filing said.

The latest batch of shares owned by Mr. Jia that were frozen is valued at around 15.9 billion yuan, based on the firm's latest share price.

VASSEY STOYAN/TASS/ZUMA PRESS

About $181 million in assets owned by Jia Yueting and his wife were frozen by the court.

Leshi Internet Information & Technology Corp. said it cannot assess the share freeze's impact over the firm's ownership, but won't affect its normal operations.

The company has halted trading since April due to a restructuring plan. It has a market value of 61.2 billion yuan as of Tuesday.

—Yifan Xie

Tencent Puts Limits on Game

By Alyssa Abkowitz

BEIJING—The world's biggest online game company, **Tencent Holdings** Ltd., is running into problems at home in China as debate rages over how long children play its popular games, the latest imbroglio facing the nation's internet giants amid greater official scrutiny.

Tencent on Tuesday unveiled a new system that limits the time children play its top-grossing mobile game, "Honor of Kings," saying on social media that it was taking the lead to roll out policies to prevent game addiction. The issue of youngsters playing games has drawn the attention of media and officials after being linked to a spate of suicides and crimes.

Yet state media continued to criticize the company's hit game, which had 50 million daily active users at the end of last year, according to game consultancy Niko Partners, and the effect it was having on society. The company's stock fell 4.1% on Tuesday, dragging down Hong Kong's stock index on which it is the largest constituent.

Analysts warned the limitations on play time will have a negative impact on Tencent, one of Asia's biggest public companies, which pulls in about 30% of its revenue from mobile games.

A big chunk of this revenue comes from players under the age of 18, said China Merchants Securities analyst Richard Ko. Players can play up to certain levels for free, but then must pay to continue to more advanced levels. Mr. Ko estimates the limitations will lower "Honor of Kings" revenue by 5% for the year, affecting Tencent's overall mobile gaming top line by 1.6%.

Tencent didn't immediately respond to requests for comment.

The incident is the latest to affect China's biggest tech companies, as Beijing increasingly steps up monitoring and policing of the platforms to ensure they don't violate official social policies.

For Tencent, which also operates China's largest social-media platform WeChat and owns other game makers including Supercell Oy of Finland and Riot Games Inc. in its portfolio, the stakes are high because the company is used on a regular basis by the majority of Chinese internet users.

"It's important for Tencent to show their social responsibility," said Kitty Fok, managing director at research firm IDC, who hailed the decision. "They're big enough."

Under the new system, children aged 12 and under are limited to one hour a day of play before 9 p.m. and children aged 12 to 18 to two hours a day.

The new system builds on a platform Tencent unveiled this spring that connects children's gaming accounts with their parents' accounts, so they can monitor children's play. The parental oversight platform has nearly 700,000 accounts linked.

Despite Tencent's initiatives, China's state-run newspapers, which often serve as the Communist Party's mouthpiece, came down hard on the company. "When making money and hurting people coexist, we need to be more alarmed," said People's Daily.

An opinion piece by Xinhua News Agency said the game "weakens the kids' self control and worsens their tempers," adding that some children had even stolen their parents' bank cards in order to keep playing the game.

Inside the company, some younger employees who spent time developing and coding the popular game felt it was unfair to be blamed for making the game so successful, according to a Tencent employee familiar with the situation.

"It's not only about the game," the employee said. "It's an issue about undertaking social responsibility and the borders between private enterprises and the government, and how much the government should do and how much we should do."

—Fanfan Wang contributed to this article.

REUTERS

A new system will limit the time children can play 'Honor of Kings,' Tencent's top-grossing mobile game.

A Name Handicaps The Steno Profession

By Francesca Fontana

One of the nation's highest-paying jobs that doesn't require a college degree is facing a shortage of workers. Part of the problem: An ill-fitting moniker.

Court reporters do more than just transcribe legal proceedings for courts or legislatures, said Nativa Wood, president of the National Court Reporters Association. They also caption broadcast television shows and public and school events for the hearing-impaired, and provide real-time transcripts for everything from business meetings to legal depositions.

The field requires training in typing as many as 225 words a minute on a stenotype machine, used to transcribe the spoken word into shorthand. Students can learn to use the machine in programs offered by trade schools and community colleges.

Depending on the industry, their experience and the amount of work they take on, court reporters can make upward of $95,000 a year. Bureau of Labor Statistics data show that the median annual pay for court reporters in 2016 was $51,320.

Median pay for all high-school graduates without further education, meanwhile, has hovered around $30,000 over the past several years, according to the National Center for Education.

Still, Ms. Wood said the National Court Reporters Association has struggled to attract young workers, hurt by the preconception that court reporting is an antiquated job.

Ducker Worldwide, a Troy, Mich.-based consulting and research firm, estimates the aging pool of court reporters, plus declining enrollment rates in training programs, will create a shortfall of about 5,500 positions by 2018.

Ms. Wood said freelance stenographers are currently in such high demand that some have been forced to put clients on waiting lists.

One solution to attracting more people to the field, Ms. Wood said, is to retire the name "court reporter" and adopt a new one. "Ideally, I believe it should reflect our use of technology and accurately represent the many career paths that can be undertaken once you learn the stenographic machine," she said. She hasn't come up with any alternatives yet.

DANNY DAMIANI/HERALD & REVIEW/ASSOCIATED PRESS

Getting to 225 words a minute.

Shake Shack to Serve Up Changes

Tara Comonte's first task as CFO was to learn how to make a burger. Now she is focused on a tech makeover at the chain

By Rheaa Rao

RICHARD B. LEVINE/LEVINE ROBERTS/NEWSCOM/ZUMA PRESS, ANDREW TOTH/GETTY IMAGES FOR AWXII

Shake Shack is battling weak foot traffic and rising labor costs, but has global expansion plans. At right, Tara Comonte.

Tara Comonte struggled to make a perfect burger on her first day at the Shake Shack restaurant on the Upper East Side of Manhattan.

"Working in the shack was a physically hard day. These pieces of meat get smashed down on a scorching hot grill...and you put eight of them at a time, 'smash, smash,' like you're pulverizing this thing," she said. "I just didn't have enough hands and I kept forgetting to put the [fries] timer on."

Ms. Comonte is likely to need more than two hands to juggle things as **Shake Shack** Inc.'s newest finance chief. The company, once a darling of the fast-casual dining sector, experienced a 2.5% fall in same-store sales in the first quarter and it revised its 2017 comparable sales outlook downward. Although the stock is trading above its January 2015 initial public offering price of $21, shares have fallen more than 60% to $34.88 as of Friday, from its peak of $92.86 in May of that year.

"Managing any expectations comes from making sure shareholders and the market understand the [company's] story," said Ms. Comonte. "Sometimes businesses are looked at within an analytic box. Shake Shack can't really compare its metrics to that of other restaurants."

Same-store sales, a metric that investors look for within a company's financials, are applicable to stores that have been around for longer periods. A significant number of Shake Shack outlets aren't included in those metrics, she said.

Ms. Comonte isn't the only executive to venture into the Shake Shack kitchen. Every new employee, regardless of their job title, has to spend some time of their training period in a store at different stations learning how to make fries, burgers and milkshakes, she said.

New York-based Shake Shack—like many of its competitors—is battling weak foot traffic and rising labor costs. Still, there are global expansion plans. There are 84 stores in the U.S. and stores in 12 countries overall, including Japan, United Arab Emirates and Russia.

"It's a high expectation stock," said Nicole Miller Regan, senior research analyst at Piper Jaffray. Part of Ms. Comonte's task will be to make sure investor expectations are realistic, Ms. Regan said. "She will have to protect the company's unique ability to think small while growing large."

Ms. Comonte said her focus at Shake Shack is to leverage the use of technology to connect with customers as the company continues to grow. Shake Shack launched its mobile app earlier this year allowing customers to skip the physical line.

The app is only one piece of the broader technology push. Ms. Comonte is looking to bolster the company's internal processes through technology that supports inventory, invoicing and other financial systems.

Ms. Comonte joined the company recently, succeeding Jeff Uttz, who retired earlier this year. She was previously CFO at Getty Images Inc., a digital media company.

Before Getty, she was finance chief for McCann Worldgroup, a subsidiary of Interpublic Group of Cos., a publicly traded advertising company.

It was Ms. Comonte's marketing experience and brand awareness that made her a good fit for the company, said Randall Garutti, Shake Shack's chief executive.

"Shake Shack is such a strong brand," he said. "We needed a CFO who understands how the brand informs the financials."

Ms. Comonte was cognizant of Shake Shack's brand value even before she was brought on board. "As a New Yorker, I knew Shake Shack. It was a brand I love, a brand my kids love," she said.

Now, she's tasked with preserving that brand identity from a glass office at Union Square, Manhattan, not too far away from the first store that opened in Madison Square Park in 2004. Working for "the shack," as employees call it, is about identifying and keeping the cultural feel of a startup.

"I can't help this company if I come in and try to put in practices or systems or processes that happen to work for me elsewhere," Ms. Comonte said.

On a late June morning, a group of employees at the company's headquarters, wrapped up a monthly morning meeting with Mr. Garutti and Ms. Comonte joining Shake Shack's loud clap anthem.

"It would have been perfectly acceptable for them to hire a typical public company restaurant executive," Ms. Regan said. "But in this case, the cultural fit and financial experience is important, and not coming out of the restaurant business."

Ms. Comonte plans to continue to spend more time in the stores, even after she finishes her three-day kitchen training period, to get insight into what processes she can centralize, or bring back to headquarters, to be more efficient, she said.

Ms. Comonte said her work in the restaurant didn't stop once the burger patty was smashed and seared on both sides. She had to scrape stuff off the griddle and start all over again, ending her day elbow deep in dish soap, scrubbing pans. On a second day at a different store, she was responsible for assembling the orders.

"All I wanted to do was eat the fries," she said.

BUSINESS WATCH

VOLVO CAR

Solid Demand Boosts Auto Maker's Sales

Swedish car maker **Volvo Car** Corp. said first-half global sales rose 8.2% from a year earlier, boosted by strong demand for its 90 series of cars as well as its best-selling XC60.

The company, owned by China's **Zhejiang Geely Holding Group** Co., said on Tuesday that it sold 277,641 cars in the January-to-June period, with Asia-Pacific the standout performer.

In Europe, sales rose 6.6% to 164,128 cars after a strong performance in Sweden, the U.K., France and Germany.

China was Volvo's largest single market in the first half of the year with 51,914 cars sold, an increase of 28% year-over-year, driven by demand for the locally produced XC60, S60L and S90 models.

Sales in the Americas region fell 4.9% to 41,277 cars, though the XC60 and XC90 sport-utility vehicles continued to be popular in the region.

Retail sales in June increased by 5.7% compared with June 2016 with a total of 54,351 cars sold.

—Dominic Chopping

FOX

Network Fires Head Of Programming

Fox Sports fired Jamie Horowitz, one of its most senior executives, amid a probe into sexual-harassment allegations, according to a person familiar with the matter.

Fox Sports President Eric Shanks announced the removal of Mr. Horowitz as president of Fox Sports National Networks in a memo to staff on Monday.

"Everyone at FOX Sports, no matter what role we play, or what business, function or show we contribute to—should act with respect and adhere to professional conduct at all times. These values are nonnegotiable," Mr. Shanks wrote.

Fox Sports recently retained a law firm in relation to concerns of sexual harassment at the division of **21st Century Fox**, the person familiar with the matter said. No claim has been made against the company, but Mr. Horowitz was removed as a result of the law firm's probe, the person said. Representatives for Fox Sports declined to elaborate on the staff email, and Mr. Shanks didn't return a call seeking comment.

Mr. Horowitz retained entertainment industry lawyer Patricia Glaser, who said the way Fox Sports has treated him is "appalling." "At no point in his tenure was there any mention by his superiors or human resources of any misconduct or an inability to adhere to professional conduct," Ms. Glaser said.

Daniel Petrocelli, a lawyer with O'Melveny & Myers representing Fox Sports, responded to Ms. Glaser, saying: "Mr. Horowitz's termination was fully warranted and his lawyer's accusations are ill-informed and misguided."

—Joe Flint

Hong Kong Scion Bets on Property

Adrian Cheng plans to make waterfront strip into city's 'creative heart and haven'

By Dominique Fong

DOMINIQUE FONG/THE WALL STREET JOURNAL

New World Development's Adrian Cheng has re-envisioned the tip of Tsim Sha Tsui, which has fallen short in commercial development.

HONG KONG—A scion of one of the richest family empires in this megalopolis is making a bold bet to turn a dowdy strip of waterfront into a glamorous front-row seat to one of the world's most stunning skylines.

Adrian Cheng, grandson of the late Cheng Yu-tung, the legendary real estate and jewelry magnate, has re-envisioned the tip of Tsim Sha Tsui, which has fallen short in terms of commercial development even though it is popular with tourists, families and teenage lovers gazing at the neon field of lights across Victoria Harbour. The promenade has been too hot, too crowded and too sparse in food and drink choices.

But now, after five years of planning, the Cheng family's **New World Development** Co. is moving ahead with a $2.6 billion complex of a luxury hotel, offices, an arts and culture district, as well as a spruced-up public promenade and public park. At the helm of the project, now taking shape on the site the family has owned for years, is 36-year-old Adrian Cheng, who represents the new generation of wealthy scions taking over the fortunes forged in the old era of Hong Kong tycoons, some now well into their 80s.

The project, named Victoria Dockside, "will be a creative heart and haven of Hong Kong," Mr. Cheng said in an emailed statement.

Victoria Dockside underscores that 20 years after Hong Kong returned to China, the mechanics of private development remain dominated by the city's big real-estate families. While Beijing increasingly exerts its influence on other parts of the former British colony, families like the Chengs, the Lees and the Kwoks control the top sites and have the financial and political relationships to stay in the driver's seat.

At the same time, families like the Chengs continue to take on big risks. New World is planning to charge some of the highest office rents in the city for space in a location that is not known as a prime office district.

The family also is working with a new design that makes more use of the open air in the retail and public spaces than other megaprojects in the city.

"I think it's a big gamble," said Forth Bagley, a principal at the Kohn Pedersen Fox Associates firm in New York and a key architect on the project, about the size of New World's investment.

Mr. Bagley compared it to Hudson Yards, a gigantic development on New York's waterfront that his firm is also helping to design. That project created a new place above a rail yard that has been attracting big-name tenants like BlackRock Inc., KKR & Co. and Time Warner Inc.

Mr. Bagley predicts that New World will enjoy similar success in Hong Kong. The developer "did so much, that it's not going to fail."

In Hong Kong, the site of Victoria Dockside has had a few lives: first as a bustling logistics and trade wharf in the early 20th century; later a **New World Centre** commercial complex, which the developer closed in 2009. The Avenue of Stars there—Hong Kong's version of the Hollywood Walk of Fame—became famous for featuring the plaques and some handprints of Chinese and Hong Kong celebrities.

Earlier plans to revamp the area faced controversy for not including enough public opinion in the planning process. A proposed observation deck and movie-history gallery at the eastern end of the promenade was also criticized for possibly blocking the views of some buildings behind it. Hong Kong's Town Planning Board scrapped those plans last February. In response, New World slightly downsized the project. The deck and gallery are out, for now.

"So it languishes, and that's a pity," said Paul Zimmerman about the eastern waterfront of Tsim Sha Tsui. Mr. Zimmerman is a local elected official and a member of the Harbourfront Commission, which advises the government on development plans along the waterfront.

Mr. Cheng declined to comment on the government's actions.

On a recent muggy afternoon, jackhammering noises and banging boomed from the construction project. While the Avenue of Stars remains closed until late next year, visitors can still climb up to a two-story platform nearby to snap photos of the view, or eat a Hong Kong-style snack from one of the food trucks parked close by.

"All the tourists want to come here to see the celebrities of the Avenue of Stars," one of the food-truck workers said as he handed out a box of spicy shrimp wontons. "But once they get here, they find out they can't, so there's not that many people coming around anymore," he said, though he expects a new flow of business once the avenue is open again. The public park, Salisbury Garden, is expected to reopen August.

Drawings of the new Avenue of Stars envision a dreamier, more romantic mood than the old walkway, renderings from New York landscape architecture firm **James Corner Field Operations** show. Curved shell-shaped leafy awnings shade benches. Mini food carts, vending machines and soft lights dot the promenade. Movies can be projected onto the spray from a water fountain. The side of the waterfront is more striking: From the perspective from a boat on the harbor, it looks like giant dragon scales.

In the background, the recently topped-out Rosewood hotel, stretching nearly 1,000 feet high, looks like a toothpick. New skyscrapers have been popping up since the government removed height restrictions in 1998 after the old Kai Tak airport closed. Before, planes used to make a notoriously harrowing landing that swooped closely by tall office buildings.

Mr. Bagley's biggest challenge for Victoria Dockside was to design the Rosewood building in such a way "so you're not just plunking down a huge tower," he said. He's also trying something unusual for a place as humid as Hong Kong: Opening up more of the edifice to the outdoors. Hong Kong is mostly full of plinths, giant boxes of shops and offices blasting cold air.

"That's the gamble," Mr. Bagley said. "That people are going to want to be outside."

—Peter Grant contributed to this article.

Weakness In Techs Weighs on Markets

By Riva Gold and Ese Erheriene

Stocks in Europe and Asia were mostly lower Tuesday as a decline in shares of U.S. technology companies Monday reverberated overseas.

TUESDAY'S MARKETS

The Stoxx Europe 600 edged down 0.3% to 382.30, following steeper losses across Asia, while U.S. markets were closed for Independence Day.

In Asia, Taiwan's technology subindex dropped 1.1%, while internet giant Tencent slumped 4.1% as Hong Kong's Hang Seng Index fell 1.5% to its lowest close since May. Japan's Nikkei Stock Average edged down 0.1%, and China's Shanghai Composite Index fell 0.4%.

Investors globally have been rotating out of the first half's leading sector in recent sessions and into areas such as banks, which are considered comparatively cheaper and tend to benefit more from a rising interest-rate environment.

"The last leg of the tech rally was a very genuine and well-earned price appreciation supported by fundamentals that justify it—the problem is, that seems now largely to be complete," said Guy Monson, chief investment officer at asset manager Sarasin & Partners. He views better opportunities among shares of financials, which also act as a hedge against a rise in government-bond yields. Higher rates tend to improve banks' net interest-rate margins.

Europe's banking sector is up 3.5% from a week ago, compared with a 3.2% loss for tech companies over that time. Still, even as investors seek to shift holdings from growth into value stocks, the market may find itself challenged in the second half of the year after a solid run, some investors worry.

"I think we've got a risk of a 'reverse-Goldilocks scenario,' " Mr. Monson said, where the economy might be a bit "too cold" to get profits up to the levels required to justify the recent climb in stock prices, but "too hot" for central bankers to hold off on tightening monetary policy.

Losses in Europe on Tuesday came even as payment firm Worldpay Group jumped 28% after it confirmed preliminary takeover approaches from Vantiv and J.P. Morgan Chase.

Earlier, incorrect stock-market data hit some traders' screens Tuesday morning in Asia, with Nasdaq-listed securities including Apple, Amazon and Microsoft for a time all showing their stock prices at $123.47 on some platforms.

Haven assets found some support Tuesday after North Korea launched another missile into the waters between South Korea and Japan, although financial markets showed a muted reaction to the 13th such launch this year.

Gold rose 0.3% to around $1,222.60 an ounce during European trading from its lowest level in nearly two months, while yields on 10-year German bunds edged down to 0.474% from 0.488% Monday. Yields move inversely to prices.

U.S. bond markets were closed for the holiday.

Data released Tuesday added to recent doubts about inflationary pressures globally, with inflation in the Group of 20 largest economies falling for the fourth consecutive month in May, according to the Organization for Economic Cooperation and Development. The prices of goods leaving the eurozone's factory gates fell in May at the fastest pace in over a year.

—Paul Hannon and Tapan Panchal contributed to this article.

Office Growth Slows

By Peter Grant

The pace of office-space leasing slowed in the second quarter, mostly because of sluggish activity in the country's top five markets, according to new figures from data firm **Reis** Inc.

The amount of occupied office space in New York, Los Angeles, Chicago, Houston and Dallas increased by a total of 789,000 square feet in the three-month period ending in June. By comparison, the amount of so-called positive absorption rose by a combined 3.63 million square feet in those five markets during the first quarter, Reis said.

Leasing activity also was lackluster in many smaller markets. A total of 3.33 million square feet was absorbed in the second quarter in the 79 metropolitan areas Reis studied. That was down from 5.2 million square feet in the first quarter and the lowest level of positive absorption since the second quarter of 2014.

Office leasing has been tepid throughout most of the economic expansion. Businesses have been slow to add jobs and many of those that are growing are figuring out ways to use space more efficiently, according to Barbara Byrne Denham, Reis's senior economist.

Political uncertainty might also be weighing on employers. "Many had hoped that there would be more clarity from Washington by now on what fiscal stimulus they would be promoting," Ms. Denham said in an email. "The lack of a plan for either tax reform or infrastructure investment has discouraged many from over-leasing or over-expanding."

Abu Dhabi Targets Private Equity

By Nicolas Parasie

DUBAI—The **Abu Dhabi Investment Authority** said it intends to pursue more direct private-equity investments, especially in rapidly developing Asian markets such as China and India, reflecting a growing appetite for such transactions among the world's biggest sovereign-wealth funds.

ADIA, one of the world's biggest sovereign-wealth funds with assets worth about $800 billion, increased its exposure to direct private-equity and credit transactions in 2016, according to its annual review.

The fund will continue to work with its partners to identify private-equity opportunities, ADIA said.

Sovereign-wealth funds are typically conservative, investing in asset classes such as bonds, real estate and blue-chip stocks. But these funds are increasingly looking for investments like private equity that can yield comparatively higher returns to satisfy the growing financial needs of their owners, notably in oil-exporting countries whose revenues have slumped with the drop in crude prices. Norway's wealth fund, the world's largest, said in April it was considering expanding its investment mandate to include private equity.

ADIA receives its funding from the oil-rich Abu Dhabi government. In theory, the emirate can tap ADIA's financial resources to overcome any budgetary difficulties, but the fund said withdrawals have occurred rarely so far.

The fund in recent years has expanded an internal unit focusing on private equity, staffed with regional and sector specialists. Despite the rising interest in emerging markets like India and China, recent transactions have taken place in more mature markets.

DRUZHININ ALEXEI/TASS/ZUMA PRESS

Abu Dhabi Investment Authority's Hamed bin Zayed al Nahyan

ADIA was one of the largest investors in the acquisition of LeasePlan Corp. in March 2016, and co-invested with **MSD Partners** to support Dell's $60 billion acquisition of **EMC**. The fund recently invested in U.S. pharmaceutical firm PPD.

ADIA didn't disclose the value of its private-equity investments, though allocations to the asset class range from 2% to 8% of its long-term portfolio, in which developed equities account for about a third of total exposure, it said.

The Abu Dhabi fund made 20-year annualized returns of 6.1% at the end of 2016 compared with 6.5% the previous year. Its 30-year annualized returns also declined to 6.9% at the end of last year compared with 7.5% at the end of 2015. ADIA said the numbers reflected the exclusion of high returns from the mid-1980s and 1990s from the rolling averages.

"When viewed as a whole, ADIA ended 2016 on a positive note, with performance underpinned by respectable gains in global markets despite considerable headwinds from political events throughout the year," Hamed bin Zayed Al Nahyan, the fund's managing director, said in the report.

Referring to some of the political surprises last year such as the U.K.'s vote to leave the European Union and the election of Donald Trump as U.S. president, Mr. Al Nahyan said that traditional political, policy and economic factors are set to look significantly different in the next 10 years.

"One of the strongest sentiments coming out of 2016 is that the world is changing," he said. Even the most important political changes weren't entirely unexpected, he said. "They were the result of pressures that had been building for some time, and that are likely to persist."

ADIA reiterated that future economic growth will be generated by the emerging economies, especially China and India. ADIA in 2016 opened an office in Hong Kong, underlining the fund's growing interest in China and the rest of Asia.

"A key challenge for ADIA and other global investors is how to access this growth, and we welcome efforts in many of these countries to improve the openness and functioning of capital markets," he said.

Despite its increasing focus on these emerging markets, ADIA's long-term portfolio is still concentrated on North America, Europe and Japan in more developed markets. ADIA's investment strategies are closely watched around the globe as even a small shift by a fund of this size could move asset prices. It kept target asset-allocations unchanged last year, the fund said.

ADIA was founded in 1976 but has released annual reports only since 2009 as part of a broader move by sovereign funds to improve disclosure. The fund had around 1,750 employees from more than 60 countries at the end of 2016, according to the review, up from 1,700 the previous year.

Tighter Oversight of Bank Leaders Sought

By Julia-Ambra Verlaine

BRUSSELS—Global financial regulators want banks to pinpoint senior executives responsible for different trading areas, ensuring top managers won't escape blame in future financial failures.

The Financial Stability Board, which sets global standards and makes recommendations to national authorities, said supervisors should increase individual accountability for bad behavior and review compensation practices to prevent the sort of scandals that have cost banks billions and tarnished the sector's reputation.

The probe into the manipulation of the Libor benchmark interest rate, for instance, cost nearly a dozen firms a total of $6 billion in fines. Five global banks were also fined a combined $5.6 billion after pleading guilty to collusion in foreign-exchange markets.

Court cases continue for people connected to both scandals.

Bank of England Gov. Mark Carney, who chairs the Basel-based standards setter, told leaders of the world's biggest economies last year that such misconduct had the potential to create a systemic risk for the banking sector because it undermined trust in financial institutions.

Since then, the FSB has looked into trading practices in fixed-income, currency and commodity markets to develop a framework to contain misconduct. In a report prepared ahead of the Group of 20 meeting of world leaders later this week in Hamburg, Germany, the FSB said it would devise proposals over the next 12 months to set global guidelines for authorities to implement new rules.

During the currency and interest-rate-rigging investigations and trials, junior traders said they were only acting under management orders—managers they say weren't brought to trial or accused of wrongdoing. Regulators and authorities are seeking to rectify this.

The U.K. is one of the few countries that has put rules in place—effective since 2016—that make senior managers accountable for bank failings and has increased due-diligence requirements on bank staff. Under the U.K. framework, top managers could be found criminally guilty of reckless misconduct.


CHRIS RATCLIFFE/BLOOMBERG NEWS

Bank of England Gov. Mark Carney last year said financial misconduct poses a systemic risk.

The FSB is assessing similar options. It said it would consider any legal challenges that could limit the application of such solutions on an international basis. It also wants to encourage continuous monitoring of staff—something that could be hindered because of data and privacy laws.

Global regulators have linked pay to misconduct since the financial crisis, with politicians clamoring that senior bankers walked away with millions in bonus money and left taxpayers on the hook.

Countries such as the Netherlands placed caps on cash bonuses. While the FSB doesn't mention compensation limits, it is looking at guidelines in which pay is subject to clawback arrangements in the case of misconduct.

Beijing Aims to Streamline Its Financial Regulation

By Lingling Wei

BEIJING—China's leadership is set to convene a long-delayed policy meeting late next week to streamline financial regulation, according to people with knowledge of the matter, as curbing risks becomes a priority for Beijing in a year of political transition.

The closed-door meeting, known as the National Financial Work Conference and traditionally held every five years, will seek to set the tone for how to fix a fragmented regulatory system in which the country's central bank and regulators overseeing the banking, securities and insurance industries often have acted in isolation and even at cross-purposes.

But the ultimate formula to be decided at the July 14 meeting, the people say, likely won't involve creating a "superregulator" as advocated by some officials and government advisers, which had called for putting all regulation under the oversight of the People's Bank of China.

Instead, the leadership may settle on less drastic measures such as giving the central bank a bigger say in coordinating with other regulators, according to the people.

"It's stability first and foremost," one of the people said. "The goal is to improve regulatory coordination."

President Xi Jinping ordered a plan for creating more coherent financial oversight in late 2015, following regulatory missteps that exacerbated market turmoil and put in question Beijing's ability to manage the economy. That resulted in hopes within China's financial circles for a more empowered central bank, a step other countries have taken in times of heightened risks.


QILAI SHEN/BLOOMBERG NEWS

The People's Bank of China could get a more powerful role.

But a consolidation of regulatory power into the PBOC would require some powerful groups to cede turf, officials involved in the process say. As a result, the final plan is expected to be less radical while still seeking to elevate the central bank's role. One option being discussed is the creation of a separate group within the PBOC to oversee coordination with the banking, securities and insurance regulators, the people said.

A lack of consensus on the regulatory overhaul had caused the leadership to put off the key policy meeting, originally expected late last year or early this year.

The first financial work conference, held in November 1997, at the time of the Asian financial crisis, resulted in the birth of four major state-owned asset-management companies in charge of handling bad assets from the nation's big banks. The most recent one, in January 2012, paved the way for a faster pace of financial liberalization in the following years.

The conference will take place as Beijing tries to keep the economy on an even keel ahead of a major power reshuffle later this year. In recent months, Mr. Xi has replaced most of his economic team, including the finance minister and the top banking regulator; questions remain on who will succeed Zhou Xiaochuan, the central-bank governor, who is expected to retire this year.

Of particular concern to the leadership is new risk that has sprung up precisely because of an onslaught of regulatory measures to curb runaway debt levels. Moves such as raising the cost of short-term funds have left companies scrambling for cash.

Most recently, China's banking regulator has ordered sweeping checks on the borrowings of some of the country's top overseas deal makers, including **Anbang Insurance Group** Co., **HNA Group** Co. and **Dalian Wanda Group**.

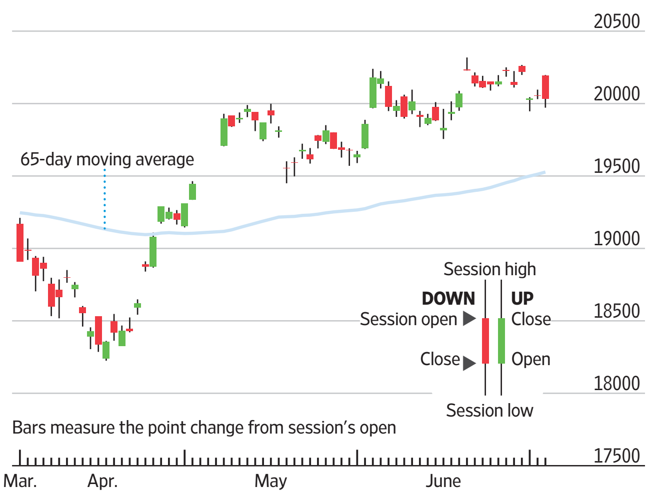
MARKETS DIGEST

Nikkei 225 Index

20032.35 ▼23.45, or 0.12%

High, low, open and close for each trading day of the past three months.

Year-to-date	▲4.80%	
52-wk high/low	20230.41	15106.98
All-time high	38915.87	12/29/89



STOXX 600 Index

382.30 ▼1.11, or 0.29%

High, low, open and close for each trading day of the past three months.

Year-to-date	▲5.78%	
52-wk high/low	396.45	318.76
All-time high	414.06	4/15/15

S&P 500 Index

Data as of 4 p.m. New York time

2429.01 (Market Closed)

High, low, open and close for each trading day of the past three months.

	Last	Year ago
Trailing P/E ratio	23.87	24.22
P/E estimate *	18.72	17.81
Dividend yield	1.96	2.18
All-time high: 2453.46, 06/19/17		

Weekly P/E data based on as-reported earnings from Birinyi Associates Inc.

International Stock Indexes

Data as of 4 p.m. New York time

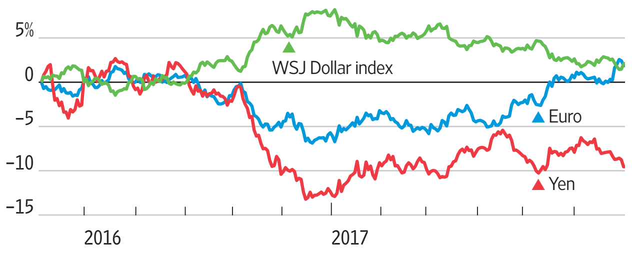
Region/Country	Index	Latest Close	Latest NetChg	Latest % chg	52-Week Range Low	52-Week Range High	YTD % chg
World	**The Global Dow**	2780.78	-3.40	-0.12	2285.55	2792.77	10.0
	MSCI EAFE	1882.63	-5.04	-0.27	1471.88	1956.39	9.7
	MSCI EM USD	1006.75	-7.49	-0.74	691.21	1044.05	26.8
Americas	**DJ Americas**	584.14	0.05	0.01	502.42	588.61	8.1
Brazil	**Sao Paulo Bovespa**	63283.47	3.88	0.01	50824.99	69487.58	5.1
Canada	**S&P/TSX Comp**	15128.71	-53.48	-0.35	14080.24	15943.09	-1.0
Mexico	**IPC All-Share**	50029.44	-3.31	-0.01	43998.98	50312.02	9.6
Chile	**Santiago IPSA**	3670.85	36.23	1.00	3111.53	3786.05	13.9
U.S.	**DJIA**	21479.27	...	Closed	17713.45	21562.75	8.7
	Nasdaq Composite	6110.06	...	Closed	4786.01	6341.70	13.5
	S&P 500	2429.01	...	Closed	2074.02	2453.82	8.5
	CBOE Volatility	11.22	...	Closed	9.37	23.01	-20.1
EMEA	**Stoxx Europe 600**	382.30	-1.11	-0.29	318.76	396.45	5.8
	Stoxx Europe 50	3144.46	-14.99	-0.47	2720.66	3279.71	4.4
Austria	**ATX**	3147.66	9.49	0.30	1997.21	3212.50	20.2
Belgium	**Bel-20**	3834.97	-4.94	-0.13	3211.08	4055.96	6.3
France	**CAC 40**	5174.90	-20.82	-0.40	4062.07	5442.10	6.4
Germany	**DAX**	12437.13	-38.18	-0.31	9304.01	12951.54	8.3
Greece	**ATG**	825.89	-1.76	-0.21	520.40	829.88	28.3
Hungary	**BUX**	34889.56	108.68	0.31	26133.23	36168.63	9.0
Israel	**Tel Aviv**	1435.68	-0.61	-0.04	1372.23	1490.23	-2.4
Italy	**FTSE MIB**	21031.05	17.91	0.09	15293.10	21828.77	9.3
Netherlands	**AEX**	511.73	-1.39	-0.27	419.45	537.84	5.9
Poland	**WIG**	60728.12	-664.65	-1.08	43534.02	62666.49	17.3
Russia	**RTS Index**	1017.59	8.17	0.81	898.05	1196.99	-11.7
Spain	**IBEX 35**	10566.70	-37.50	-0.35	7857.80	11184.40	13.0
Sweden	**SX All Share**	580.85	-2.52	-0.43	457.08	598.42	8.7
Switzerland	**Swiss Market**	8971.40	-38.41	-0.43	7585.56	9148.61	9.1
South Africa	**Johannesburg All Share**	52049.25	-114.55	-0.22	48935.90	54716.53	2.8
Turkey	**BIST 100**	101207.79	685.49	0.68	70426.16	101245.83	29.5
U.K.	**FTSE 100**	7357.23	-19.86	-0.27	6432.47	7598.99	3.0
Asia-Pacific	**DJ Asia-Pacific TSM**	1612.80	-6.85	-0.42	1351.93	1643.59	13.4
Australia	**S&P/ASX 200**	5783.80	99.30	1.75	5156.60	5956.50	2.1
China	**Shanghai Composite**	3182.80	-13.11	-0.41	2953.39	3288.97	2.6
Hong Kong	**Hang Seng**	25389.01	-395.16	-1.53	20495.29	26063.06	15.4
India	**S&P BSE Sensex**	31209.79	-11.83	-0.04	25765.14	31311.57	17.2
Japan	**Nikkei Stock Avg**	20032.35	-23.45	-0.12	15106.98	20230.41	4.8
Singapore	**Straits Times**	3211.17	-12.29	-0.38	2787.27	3271.11	11.5
South Korea	**Kospi**	2380.52	-13.96	-0.58	1953.12	2395.66	17.5
Taiwan	**Weighted**	10347.78	-65.01	-0.62	8575.75	10513.96	11.8

Source: SIX Financial Information;WSJ Market Data Group

Currencies

London close on July 4

Yen, euro vs. dollar; dollar vs. major U.S. trading partners



Country/currency	Tue in US$	Tue per US$	US$ vs, YTD chg (%)
Americas			
Argentina peso-a	0.0594	16.8378	6.1
Brazil real	0.3029	3.3017	1.4
Canada dollar	0.7735	1.2929	-3.8
Chile peso	0.001507	663.60	-0.9
Colombia peso	0.0003283	3045.96	1.5
Ecuador US dollar-f	1	1	unch
Mexico peso-a	0.0550	18.1980	-12.2
Peru sol	0.3072	3.2556	-2.9
Uruguay peso-e	0.0349	28.620	-2.5
Venezuela bolivar	0.100050	10.00	unch
Asia-Pacific			
Australia dollar	0.7607	1.3146	-5.3
China yuan	0.1470	6.8008	-2.1
Hong Kong dollar	0.1281	7.8079	0.7
India rupee	0.0154	64.7699	-4.7
Indonesia rupiah	0.0000748	13370	-1.1
Japan yen	0.008835	113.19	-3.3
Kazakhstan tenge	0.003099	322.69	-3.3
Macau pataca	0.1243	8.0457	1.6
Malaysia ringgit-c	0.2327	4.2975	-4.2
New Zealand dollar	0.7292	1.3714	-5.0
Pakistan rupee	0.0095	104.825	0.4
Philippines peso	0.0198	50.558	1.9
Singapore dollar	0.7234	1.3824	-4.5
South Korea won	0.0008684	1151.58	-4.7
Sri Lanka rupee	0.0065087	153.64	3.5
Taiwan dollar	0.03279	30.497	-6.0
Thailand baht	0.02940	34.010	-5.0
Europe			
Bulgaria lev	0.5801	1.7237	-7.2
Croatia kuna	0.1530	6.534	-8.9
Euro zone euro	1.1345	0.8815	-7.3
Czech Rep. koruna-b	0.0434	23.028	-10.4
Denmark krone	0.1525	6.5554	-7.3
Hungary forint	0.003683	271.53	-7.7
Iceland krona	0.009706	103.03	-8.8
Norway krone	0.1197	8.3539	-3.4
Poland zloty	0.2674	3.7398	-10.7
Russia ruble-d	0.01684	59.393	-3.1
Sweden krona	0.1173	8.5227	-6.4
Switzerland franc	1.0355	0.9657	-5.2
Turkey lira	0.2810	3.5592	1.0
Ukraine hryvnia	0.0384	26.0400	-3.9
U.K. pound	1.2920	0.7740	-4.5
Middle East/Africa			
Bahrain dinar	2.6515	0.3771	-0.01
Egypt pound-a	0.0560	17.8683	-1.5
Israel shekel	0.2844	3.5167	-8.6
Kuwait dinar	3.2969	0.3033	-0.8
Oman sul rial	2.5953	0.3853	0.09
Qatar rial	0.2746	3.642	0.05
Saudi Arabia riyal	0.2666	3.7503	-0.01
South Africa rand	0.0756	13.2242	-3.4

	Close	Net Chg	% Chg	YTD % Chg
WSJ Dollar Index	88.32	0.05	0.06	-4.97

Sources: Tullett Prebon, WSJ Market Data Group

Global government bonds

Latest, month-ago and year-ago yields and spreads over or under U.S. Treasurys on benchmark two-year and 10-year government bonds around the world. Data as of 3 p.m. ET

Coupon	Country/ Maturity, in years	Yield	Spread Over Treasurys, in basis points Latest	Previous	Month Ago	Year ago	Yield Previous	Month ago	Year ago
5.250	**Australia** 2	1.686	27.2	31.6	29.3	103.2	1.731	1.587	1.629
4.750	10	2.575	22.7	27.0	26.3	57.4	2.618	2.423	2.018
3.000	**Belgium** 2	-0.490	-190.4	-189.7	-189.2	-117.6	-0.483	-0.598	-0.578
0.800	10	0.817	-153.1	-154.0	-152.3	-138.3	0.809	0.637	0.061
0.000	**France** 2	-0.402	-181.6	-181.2	-182.7	-116.1	-0.398	-0.533	-0.564
1.000	10	0.824	-152.5	-151.6	-145.2	-127.9	0.832	0.708	0.164
0.000	**Germany** 2	-0.620	-203.5	-201.0	-204.4	-126.6	-0.595	-0.750	-0.668
0.250	10	0.477	-187.1	-187.2	-188.4	-158.1	0.477	0.276	-0.137
0.300	**Italy** 2	-0.322	-173.6	-173.2	-149.1	-71.6	-0.318	-0.197	-0.119
2.200	10	2.110	-23.8	-21.0	10.1	-28.2	2.138	2.261	1.162
0.100	**Japan** 2	-0.125	-153.9	-153.4	-144.8	-91.9	-0.120	-0.154	-0.321
0.100	10	0.082	-226.6	-226.2	-210.6	-169.2	0.086	0.054	-0.248
4.000	**Netherlands** 2	-0.591	-200.5	-198.0	-198.2	-119.8	-0.566	-0.688	-0.601
0.750	10	0.664	-168.4	-168.1	-167.2	-149.8	0.668	0.488	-0.055
4.750	**Portugal** 2	0.038	-137.6	-135.7	-106.4	-36.1	0.058	0.230	0.237
4.125	10	2.950	60.2	63.5	85.2	152.7	2.983	3.012	2.970
2.750	**Spain** 2	-0.248	-166.2	-167.6	-157.3	-78.2	-0.262	-0.279	-0.185
1.500	10	1.522	-82.6	-83.6	-59.3	-29.4	1.513	1.567	1.150
4.250	**Sweden** 2	-0.686	-210.0	-206.2	-201.2	-123.6	-0.648	-0.718	-0.639
1.000	10	0.611	-173.8	-170.5	-174.3	-127.1	0.643	0.417	0.173
1.750	**U.K.** 2	0.333	-108.1	-107.2	-117.4	-45.3	0.342	0.120	0.145
4.250	10	1.249	-109.9	-108.6	-112.0	-60.1	1.262	1.040	0.842
1.250	**U.S.** 2	1.414	...	...	...	...	1.414	1.294	0.597
2.375	10	2.348	...	...	...	...	2.348	2.160	1.443

Commodities

Prices of futures contracts with the most open interest 3:30 p.m. New York time

EXCHANGE LEGEND: CBOT: Chicago Board of Trade; **CME:** Chicago Mercantile Exchange; **ICE-US:** ICE Futures U.S.; **MDEX:** Bursa Malaysia Derivatives Berhad; **TCE:** Tokyo Commodity Exchange; **COMEX:** Commodity Exchange; **LME:** London Metal Exchange; **NYMEX:** New York Mercantile Exchange; **ICE-EU:** ICE Futures Europe. *Data as of 7/3/2017

Commodity	Exchange	Last price	One-Day Change Net	One-Day Change Percentage	Year high	Year low
Corn (cents/bu.)*	CBOT	385.00	4.00	1.05%	399.25	364.50
Soybeans (cents/bu.)*	CBOT	980.75	26.00	2.72	1,034.50	907.00
Wheat (cents/bu.)*	CBOT	555.00	29.00	5.51	556.00	430.75
Live cattle (cents/lb.)*	CME	116.300	...	unch.	127.650	99.400
Cocoa ($/ton)*	ICE-US	1,960	20	1.03	2,281	1,767
Coffee (cents/lb.)*	ICE-US	127.60	1.90	1.51	163.75	115.50
Sugar (cents/lb.)*	ICE-US	13.95	0.14	1.01	20.50	12.74
Cotton (cents/lb.)*	ICE-US	67.76	-0.83	-1.21%	75.72	66.15
Robusta coffee ($/ton)*	ICE-EU	2141.00	-8.00	-0.37	2,286.00	1,885.00
Copper ($/lb.)*	COMEX	2.6920	-0.0190	-0.70	2.8495	2.4850
Gold ($/troy oz.)*	COMEX	1221.20	-21.10	-1.70	1,300.30	1,155.00
Silver ($/troy oz.)*	COMEX	16.115	-0.512	-3.08	18.780	16.075
Aluminum ($/mt)*	LME	1,922.00	7.00	0.37	1,972.00	1,688.50
Tin ($/mt)*	LME	20,025.00	75.00	0.38	21,225.00	18,760.00
Copper ($/mt)*	LME	5,917.00	-1.00	-0.02	6,156.00	5,491.00
Lead ($/mt)*	LME	2,309.00	19.00	0.83	2,445.00	2,022.00
Zinc ($/mt)*	LME	2,785.00	32.50	1.18	2,958.50	2,450.50
Nickel ($/mt)*	LME	9,410.00	75.00	0.80	11,095.00	8,780.00
Rubber (Y.01/ton)	TCE	196.00	-7.90	-3.87	n.a.	n.a.
Palm oil (MYR/mt)	MDEX	2508.00	unch.	0.00	2966.00	2390.00
Crude oil ($/bbl.)*	NYMEX	46.99	0.95	2.06	58.30	42.06
NY Harbor ULSD ($/gal.)*	NYMEX	1.5089	0.0258	1.74	1.7930	1.3609
RBOB gasoline ($/gal.)*	NYMEX	1.5327	0.0190	1.26	1.8561	1.3902
Natural gas ($/mmBtu)*	NYMEX	2.946	-0.089	-2.93	3.5750	2.8750
Brent crude ($/bbl.)	ICE-EU	49.68	...	unch.	60.18	44.60
Gas oil ($/ton)	ICE-EU	450.50	1.75	0.39	530.25	403.50

Sources: SIX Financial Information; WSJ Market Data Group

Cross rates

London close on Jul 4

	USD	GBP	CHF	JPY	HKD	EUR	CDN	AUD
Australia	1.3146	1.6982	1.3613	0.0116	0.1683	1.4912	1.0168	...
Canada	1.2929	1.6701	1.3387	0.0114	0.1656	1.4665	...	0.9834
Euro	0.8815	1.1390	0.9128	0.0078	0.1129	...	0.6819	0.6706
Hong Kong	7.8079	10.0871	8.0870	0.0690	...	8.8577	6.0403	5.9403
Japan	113.1920	146.2400	117.2100	...	14.4970	128.4000	87.5700	86.1200
Switzerland	0.9657	1.2475	...	0.0085	0.1237	1.0956	0.7470	0.7346
U.K.	0.7740	...	0.8016	0.0068	0.0991	0.8783	0.5988	0.5889
U.S.	...	1.2920	1.0355	0.0088	0.1281	1.1345	0.7735	0.7607

Source: Tullett Prebon

Key Rates

	Latest	52 wks ago
Libor		
One month	**1.22333%**	0.47030%
Three month	**1.30211**	0.65710
Six month	**1.45767**	0.92740
One year	**1.75122**	1.23375
Euro Libor		
One month	**-0.39929%**	-0.35743%
Three month	**-0.37357**	-0.29800
Six month	**-0.30543**	-0.18871
One year	**-0.18829**	-0.06429
Euribor		
One month	**-0.37300%**	-0.36300%
Three month	**-0.32900**	-0.29200
Six month	**-0.27200**	-0.18800
One year	**-0.15900**	-0.05900
Yen Libor		
One month	**-0.01586%**	-0.05614%
Three month	**-0.00157**	-0.02314
Six month	**0.01857**	-0.01929
One year	**0.12114**	0.07036
	Offer	Bid
Eurodollars		
One month	**1.3200%**	1.2200%
Three month	**1.3700**	1.2700
Six month	**1.5100**	1.4100
One year	**1.7200**	1.6200
	Latest	52 wks ago
Prime rates		
U.S.	**4.25%**	3.50%
Canada	**2.70**	2.70
Japan	**1.475**	1.475
Hong Kong	**5.00**	5.00
Policy rates		
ECB	**0.00%**	0.00%
Britain	**0.25**	0.50
Switzerland	**0.50**	0.50
Australia	**1.50**	1.75
U.S. discount	**1.75**	1.00
Fed-funds target	**1.00-1.25**	0.25-0.50
Call money	**3.00**	2.25
Overnight repurchase rates		
U.S.	**1.23%**	0.53%
Euro zone	**n.a.**	n.a.

Sources: WSJ Market Data Group, SIX Financial Information, Tullett

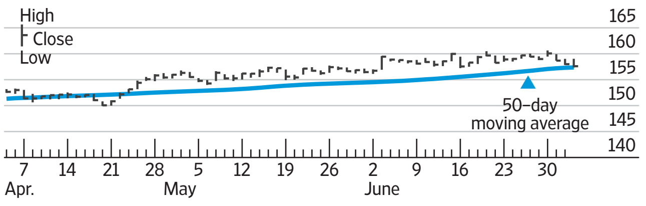
Top Stock Listings

4 p.m. New York time

Cur	Stock	Sym	Last	% Chg	YTD% Chg
	Asia Titans				
HK$	AIAGroup	1299	54.80	-2.58	25.26
¥	AstellasPharma	4503	1380.50	-0.18	-14.97
AU$	AustNZBk	ANZ	29.29	2.23	-3.71
AU$	BHP	BHP	23.76	2.28	-5.19
HK$	BankofChina	3988	3.85	-0.52	11.92
HK$	CKHutchison	0001	96.50	-0.97	9.78
HK$	CNOOC	0883	8.64	1.29	-10.93
AU$	CSL	CSL	136.48	0.89	35.92
¥	Canon	7751	3809.00	0.40	15.60
¥	CentralJapanRwy	9022	18360	0.41	-4.52
HK$	ChinaConstructnBk	0939	5.99	-1.48	0.34
HK$	ChinaLifeInsurance	2628	23.55	-2.28	16.58
HK$	ChinaMobile	0941	82.15	-0.84	-0.06
HK$	ChinaPetro&Chem	0386	6.12	0.16	11.27
AU$	CmwlthBkAust	CBA	84.00	1.89	1.93
¥	EastJapanRailway	9020	10890	-0.32	7.82
¥	Fanuc	6954	21910	1.08	10.57
¥	Hitachi	6501	692.20	-0.22	9.53
TW$	Hon Hai Precisn	2317	113.00	-3.00	34.20
¥	HondaMotor	7267	3128.00	1.99	-8.40
KRW	HyundaiMtr	005380	158500	-3.06	8.56
HK$	Ind&Comml	1398	4.96	-1.39	6.67
¥	JapanTobacco	2914	3899.00	-1.29	1.43
¥	KDDI	9433	2981.50	0.02	0.74
¥	Mitsubishi	8058	2376.00	0.13	-4.58
¥	MitsubishiElectric	6503	1622.50	-0.49	-0.43
¥	MitsubishiUFJFin	8306	759.30	0.29	5.43
¥	Mitsui	8031	1603.50	0.12	-0.22
¥	Mizuho Fin	8411	205.90	0.29	-1.86
¥	NTTDoCoMo	9437	2653.50	0.30	-0.36
AU$	NatAustBnk	NAB	30.34	2.78	-1.08
¥	NipponTeleg	9432	5313.00	-0.08	8.16
¥	NissanMotor	7201	1128.50	1.03	-4.00
¥	Panasonic	6752	1501.00	-2.18	26.19
HK$	PingAnInsofChina	2318	51.90	-1.42	33.76
$	RelianceIndsGDR	RIGD	44.15	3.40	39.94
KRW	SamsungElectronics	005930	2350000	-0.47	30.41
¥	Seven&I Hldgs	3382	4622.00	0.06	3.80
¥	SoftBankGroup	9984	8987.00	-1.36	15.74
¥	Sony	6758	4237.00	-1.69	29.37
¥	Sumitomo Mitsui	8316	4396.00	0.18	-1.43
HK$	SunHngKaiPrp	0016	115.10	-0.35	17.45
TW$	TaiwanSemiMfg	2330	207.00	-0.96	14.05
¥	TakedaPharm	4502	5682.00	-0.39	17.52
HK$	TencentHoldings	0700	269.20	-4.13	41.91
¥	TokioMarineHldg	8766	4701.00	1.08	-1.98
¥	ToyotaMtr	7203	6060.00	1.85	-11.89
AU$	Wesfarmers	WES	40.79	1.54	-3.20
AU$	WestpacBanking	WBC	31.39	3.29	-3.71
AU$	Woolworths	WOW	25.69	1.86	6.60
	Stoxx 50				
CHF	ABB	ABBN	23.72	-1.00	10.43
€	ASMLHolding	ASML	114.30	-0.31	7.17
€	AXA	CS	24.52	-0.16	2.25
€	AirLiquide	AI	109.15	-0.82	3.31
€	Allianz	ALV	176.65	0.43	12.52
€	AB InBev	ABI	97.37	0.07	-3.16
£	AstraZeneca	AZN	5111.00	-1.01	15.18
€	BASF	BAS	82.36	-0.25	-6.74
€	BNP Paribas	BNP	64.68	-0.40	6.82
£	BT Group	BT.A	291.70	-0.09	-20.50
€	BancoBilVizAr	BBVA	7.46	-0.65	17.47
€	BancoSantander	SAN	5.96	-0.78	20.08
£	Barclays	BARC	206.95	-0.05	-7.38
€	Bayer	BAYN	113.00	-0.35	13.99
£	BP	BP.	450.00	-0.29	-11.70
£	BritishAmTob	BATS	5177.00	-1.13	12.02
€	Daimler	DAI	64.10	0.03	-9.36
€	DeutscheTelekom	DTE	15.68	-0.95	-3.20
£	Diageo	DGE	2263.50	-0.42	7.27
€	ENI	ENI	13.36	0.30	-13.64
£	GlaxoSmithKline	GSK	1628.50	-0.09	4.26
£	Glencore	GLEN	303.60	0.66	9.46
£	HSBC Hldgs	HSBA	721.70	-1.11	9.86
€	INGGroep	INGA	15.41	-0.42	15.26
£	ImperialBrands	IMB	3447.50	-0.32	-2.68
€	IntesaSanpaolo	ISP	2.85	...	17.48
€	LVMHMoetHennessy	MC	220.05	-0.41	21.31
£	LloydsBankingGroup	LLOY	66.32	-0.58	6.10
€	LOreal	OR	181.35	-0.87	4.58
£	NationalGrid	NG.	942.00	-1.26	-9.26
CHF	Nestle	NESN	83.05	-0.78	13.69
CHF	Novartis	NOVN	80.35	-0.31	8.43
DKK	NovoNordiskB	NOVO-B	277.40	-0.57	8.91
£	Prudential	PRU	1782.50	-0.47	9.52
£	ReckittBenckiser	RB.	7700.00	-1.04	11.82
£	RioTinto	RIO	3378.50	0.12	6.97
CHF	RocheHldgctf	ROG	245.40	-0.41	5.50
£	RoyDtchShell A	RDSA	2073.00	0.07	-7.56
€	SAP	SAP	90.73	-0.49	9.56
€	Sanofi	SAN	83.86	-0.40	9.05
€	SchneiderElectric	SU	67.51	-0.95	2.12
€	Siemens	SIE	121.85	-1.02	4.32
€	Telefonica	TEF	9.15	-0.86	3.74
€	Total	FP	43.98	-0.40	-7.91
CHF	UBSGroup	UBSG	16.71	-0.48	4.76
€	Unilever	UNA	48.27	-0.48	23.41
£	Unilever	ULVR	4151.00	-0.52	26.07
€	Vinci	DG	74.79	-0.35	15.60
£	VodafoneGroup	VOD	217.30	-0.64	8.73
CHF	ZurichInsurance	ZURN	284.60	-0.04	1.50
	DJIA Monday, July 3, 2017				
$	AmericanExpress	AXP	85.10	1.02	14.88
$	Apple	AAPL	143.50	-0.36	23.90
$	Boeing	BA	198.59	0.42	27.56
$	Caterpillar	CAT	106.97	-0.46	15.34
$	Chevron	CVX	106.30	1.89	-9.69
$	CiscoSystems	CSCO	31.33	0.10	3.67
$	Coca-Cola	KO	44.76	-0.20	7.96
$	Disney	DIS	107.46	1.14	3.11
$	DuPont	DD	82.13	1.76	11.89
$	ExxonMobil	XOM	82.10	1.70	-9.04
$	GeneralElec	GE	27.45	1.63	-13.13
$	GoldmanSachs	GS	227.28	2.42	-5.08
$	HomeDepot	HD	154.01	0.40	14.86
$	Intel	INTC	33.46	-0.83	-7.75
$	IBM	IBM	155.58	1.14	-6.27
$	JPMorganChase	JPM	92.75	2.04	7.49
$	J&J	JNJ	132.90	0.46	15.35
$	McDonalds	MCD	152.50	-0.43	25.29
$	Merck	MRK	64.27	0.28	9.17
$	Microsoft	MSFT	68.17	-1.10	9.70
$	Nike	NKE	58.65	-0.59	15.38
$	Pfizer	PFE	33.82	0.68	4.13
$	Procter&Gamble	PG	87.74	0.68	4.35
$	3M	MMM	209.83	0.79	17.51
$	Travelers	TRV	127.34	0.64	4.02
$	UnitedTech	UTX	122.08	-0.02	11.37
$	UnitedHealth	UNH	186.65	0.66	16.63
$	Visa	V	93.35	-0.46	19.65
$	Verizon	VZ	45.00	0.76	-15.70
$	Wal-Mart	WMT	75.36	-0.42	9.03

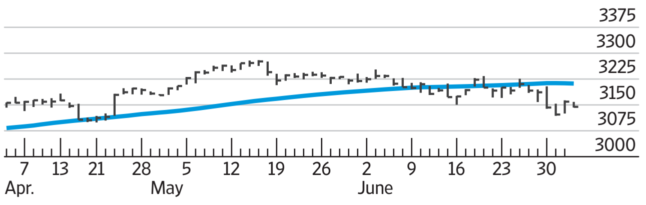
Asia Titans 50

Last: **157.60** ▼ 0.40, or 0.25% YTD ▲ 11.8%



Stoxx 50

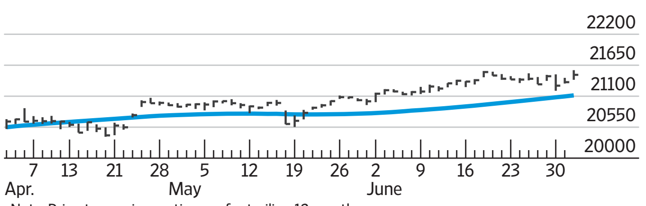
Last: **3144.46** ▼ 14.99, or 0.47% YTD ▲ 4.4%



Dow Jones Industrial Average

P/E: 21

Last: **21479.27** Market Closed YTD ▲ 8.7%



Note: Price-to-earnings ratios are for trailing 12 months
Sources: WSJ Market Data Group; Birinyi Associates

Hong Kong Housing Feels New Pressure

Rising rates may cool a blistering market, where apartments are out of reach to many

By Esther Fung

ALEX HOFFORD/EUROPEAN PRESSPHOTO AGENCY

A woman views properties available in Hong Kong, which is ranked least-affordable of the 406 cities surveyed by a U.S. think tank.

Rising interest rates may help to cap prices in the world's least-affordable housing market, something the government's administrative measures have had little success in doing.

Housing prices in Hong Kong have risen to record levels in recent months, defying efforts by the government to stem the tide of rising costs.

But rising interest rates, sparked by recent moves by the U.S. Federal Reserve, may succeed where taxes and other government measures have failed. And some experts are warning that if this happens, it might not be pretty.

"Normalization of U.S. interest rates will eventually raise the mortgage burden of Hong Kong borrowers, posing risks" to the city's export-driven economy and housing market, said Kevin Lam, HSBC's Greater China economist, in a research note.

Home resale prices rose on average 21% in May from a year earlier, exceeding the previous peak recorded a month earlier, according to the latest data available from Hong Kong's Rating and Valuation Department.

The housing market has been mostly rising since the second half of 2016 after a small dip, as regulatory cooling measures seemed to have only a short-lived impact.

"Home prices have nearly tripled over the last decade and relative to incomes are close to the highest on record," said Chang Liu, China economist at Capital Economics.

One of the newest residential projects put on sale is Park Yoho Genova, where the asking price of a 721-square-foot apartment is 10.4 million Hong Kong dollars (about US$1.3 million), or HK$14,429 (US$1,850) a square foot. The average sales price of a residential property transacted in Manhattan in the first quarter was $1,778 a square foot, according to a report from Douglas Elliman.

While these prices are comparable, housing is considered much less affordable in Hong Kong because incomes are so much lower. Indeed, for seven years Hong Kong has been ranked the least-affordable city of the 406 surveyed by Demographia, a think tank based in Belleville, Ill.

Hong Kong's housing crisis is one of the biggest causes of resentment in the region 20 years after it was handed back to China. Housing prices remain high because of the city's large population, land shortages and speculation and ample money supply.

Hong Kong also attracts demand from wealthy customers globally, and in recent years its housing prices have been driven up by an influx of newcomers from mainland China.

To head off damaging property bubbles, the government has implemented property-cooling measures intermittently since 2009, including stamp duties—essentially sales taxes—and curbs on bank lending. The latest attempt was in May, when the Hong Kong Monetary Authority ordered banks to tighten credit assessments and cut the size of property loans.

But many experts predict these new measures will be as unsuccessful as similar efforts in the past. Buyers in Hong Kong already labor under some of the most-prohibitive rules governing home purchases, including a central-bank regulation that requires buyers to fork out a minimum down payment of at least 40%. Banks also have to set aside more money as reserves against bad loans. Stamp duties have been raised to at least 15% to 30% for individuals and companies purchasing a residence, with some exceptions for permanent Hong Kong residents buying their first home.

But over the years such measures have worked only in the short term. They haven't been as effective as those in Singapore or Canada because of a chronic mismatch between demand and supply and the exploitation of loopholes, analysts said. For example, cash-flush property developers are helping customers skirt the central bank's minimum down payment by offering buyers credit so that they can meet the threshold for purchases in new developments. But there is an element of foot-dragging on the part of the government.

"The authorities are not that determined to crack down on the housing market because it is not in their interest to do so," said Professor Ngai-Ming Yip, an urban-studies expert at City University of Hong Kong. He pointed out that land premiums and stamp duties from property transactions make up a significant portion of government revenue.

Hong Kong's real-estate market is affected by Federal Reserve policy because its currency is pegged to the U.S. dollar. The Fed's loose monetary policy since 2008 has been one of the causes of low mortgage rates in Hong Kong.

Lately the Fed has started to raise short-term rates and has laid the groundwork for shrinking its $4.5 trillion portfolio of assets. Mortgage rates in Hong Kong have risen slightly in recent weeks after the authorities expanded risk-management requirements for banks extending residential mortgages. But rates are generally still low compared with historical averages.

Rising rates could have a big impact on the city's housing market because many mortgages have floating rates. Prices also would likely fall because buyers would face higher borrowing costs.

The high prices are contributing to a housing shortage in this city of 7.3 million people that dwarfs comparable problems in other cities. Developers have been responding to the supply and demand imbalance by building tiny flats sometimes described as "mosquito" apartments.

Many residents live in homes the size of a parking space while people with lower incomes live in cage homes the size of a bunk bed. These have resulted in numerous photo essays online depicting their cramped conditions.

The lack of affordable housing also contributed to the discontent that fueled the pro-democracy protests in 2014, where supporters carried yellow umbrellas and blocked streets for weeks.

"More and more Hong Kongers find it impossible to afford private housing, and are forced to join the queue for public ones," said Joshua Wong, a 20-year-old pro-democracy activist. He said the average wait time for a public-housing unit is 4.6 years.

The government has promised to build an additional 94,500 public units in the coming four years, a higher rate of construction than in previous years. The stock of public-housing apartments rose by 74,000 between 2006 and 2016, according to the Hong Kong Housing Authority.

Law Firm Finds Rent Too High in Central District

By Art Patnaude

JEROME FAVRE/BLOOMBERG NEWS

Freshfields is moving to One Island East, out of Central.

When U.K. law firm **Freshfields Bruckhaus Deringer** LLP signed a lease earlier this year for office space outside Hong Kong's main business district, it turned heads.

Cost-conscious U.S. and European financial firms for years have been leaving the financial district known as Central, the world's most expensive office market, for other neighborhoods. But Freshfields will be the first major international law firm to say goodbye.

A big part of the decision came down to cost: Renting quality office space less than 5 miles away is less than half the price. "When Freshfields moved out, that was a game changer," said Denis Ma, head of Hong Kong research at property broker JLL.

In cities around the world, firms are often willing to pay a premium for office addresses that give them a level of prestige and easy access to clients. But in Hong Kong, the increasing divergence between soaring rents in Central and suburban business districts is forcing even the most traditional firms to reconsider their choice of real estate.

Even with the departures, office-space demand in Central remains strong thanks to mainland Chinese firms willing to pay the premium, brokers say. "Chinese firms bumping up the rents in Central have given [international firms] the nudge," Mr. Ma said.

Leasing office space in Central cost around 128 Hong Kong dollars (about $16) a square foot a month in June, up more than 6% from the same period last year, according to real-estate broker CBRE. It is still below the prefinancial-crisis record of 137 Hong Kong dollars a square foot a month.

Freshfields in December will move into a glass skyscraper in Hong Kong East, another urban district of high-rise buildings across the harbor. Rents there are 49 Hong Kong dollars a square foot a month, on par with last year, CBRE data show.

New York-based asset manager **Alliance Bernstein** is planning to move into the same tower, One Island East.

In April, Chinese companies accounted for over half of the new leases in Central, according to JLL. "They've been essentially propping up the market," Mr. Ma said.

Offices in Hong Kong's central district were the most expensive in the world last year, according to broker CBRE. Annual prime rents were nearly double those in London's West End and Midtown Manhattan, which were fifth and sixth on CBRE's global list.

And rents in Central are still rising. While overall Hong Kong rents will remain flat in 2017, they are expected to increase up to 10% in Central because of "pent up demand from mainland firms opening up offices in Hong Kong and very low vacancy rates," said Tom Gaffney, managing director of Hong Kong, Macau and Taiwan at CBRE.

The vacancy rate in the central district was 1.8% in June, in line with a year earlier, and compared with an average 4.7% throughout the Hong Kong districts, Mr. Gaffney said.

While Chinese companies are willing to pay the premium to be in Central, "for everyone else, rents are going up at the wrong time," Mr. Ma said.

U.S. and European firms have been looking to cut costs amid the low world-wide economic growth that has persisted through the recovery following the financial crisis of nearly a decade ago. Global banking groups were among the first to decamp from central Hong Kong.

Bank of America Merrill Lynch, Barclays and Société Générale have all stepped back from central Hong Kong in recent years. Insurance companies also have expanded into suburban markets.

The legal firms have largely stuck to the central district, where many large corporate clients remain based.

That is changing. This year "should be a turning point for Hong Kong's office market following the relocation of several legal firms away from Central," said Yasas Wickramasinghe, senior analyst at broker Colliers International in Hong Kong.

Smaller law firms have moved out of Central in the past, but the market took more notice of Freshfields's move because it is a major player in the legal world. It is part of the so-called magic circle, a term used to describe five major London-based law firms.

Much lower rents outside Central "was clearly part of our decision making," said William Robinson, managing partner of Freshfields's Hong Kong office. The availability of quality space in the right location for staff was an equally important factor, he said.

But Freshfields isn't completely abandoning Central, where it has been a tenant in Two Exchange Square for three decades. The firm is maintaining a client suite in the building "for those intense meetings at the end of deals or before a regulatory filing," Mr. Robinson said. "It will be the best of both worlds."

"I'm looking out of my window, and I can see One Island East," the skyscraper Freshfields is moving into this December, Mr. Robinson said. Compared with distances in other global cities, "it's just around the corner."

MARKETS

Banks' Challenge Not Over

Stress-test results fuel a rally, but tough conditions on lending, rates are still an issue

By Telis Demos

MARK LENNIHAN/ASSOCIATED PRESS

Brian Moynihan's Bank of America and other big banks passed the Federal Reserve's stress tests.

Bank stocks soared after lenders handily passed the Federal Reserve's stress tests, but the upbeat finish to the second quarter belies a tough spell amid challenging lending and interest-rate conditions.

Those trends threaten to drag on banks' performance in coming months, a potential counterweight to the higher dividends and share buybacks many banks announced last week. In the second quarter, growth in business lending fell to its slowest pace since spring 2011. Long-term interest rates remain close to historically low levels, despite an uptick in the last week of June. And market volatility remains subdued, resulting in muted trading activity.

"As we head into the second half of the year, the question is how long can banks fight the fundamentals," said James Chappell, an analyst at banking group Berenberg. "Earnings expectations may be too high."

Worries about banks' underlying performance have weighed on their stocks this year, even though first-quarter results were strong. Financial stocks in the S&P 500 have led all sectors since November's U.S. election, but the bulk of the gains came in late 2016. In the first half of 2017, financial stocks trailed the broader market.

In the second quarter, the KBW Nasdaq Bank index, which tracks 24 of the U.S.'s biggest banks, lagged behind the S&P 500 until the stress-test results were announced June 28. The end-of-quarter surge happened as banks announced shareholder payouts—through dividends and share buybacks—that are just shy of their highest level relative to earnings in nearly two decades, according to analysts at Barclays.

Regional banks didn't get the same bump. The KBW Regional Banking index was nearly unchanged in the second quarter, trailing the broader market. In the first half, it was down more than 4%.

Besides the immediate prospect of more cash in hand for shareholders, the stress tests also bolstered investor hopes that the Trump administration would usher in a period of less-stringent bank regulation. That approach could help bolster returns on equity, which have remained tepid.

Donald Trump's election spurred hopes for even broader changes from Washington, namely a tax-code overhaul and policies, such as major infrastructure spending, that would promote stronger economic growth. But these have yet to bear fruit.

That has led to a decline in confidence that growth will accelerate. As a result, long-term interest rates slid in the second quarter. After a sharp rise in yields following the election, the 10-year Treasury note topped out at 2.6% in mid-March. The 10-year yield rose in late June and recently hovered around 2.3%.

At the same time, short-term rates have marched higher thanks to continued increases in the Fed's rates. The Fed increased its short-term target in June to between 1% and 1.25%.

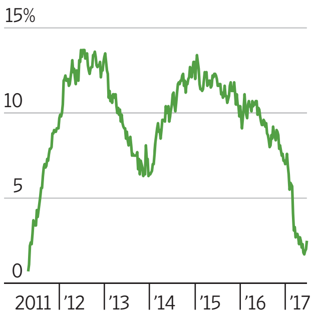
The result: The difference in yields between 10-year and two-year Treasurys, which is a proxy for the profits banks can make from borrowing and lending money, fell below 1 percentage point in mid-May. It has stayed there since and closed the quarter at 0.90 percentage point. In the wake of the election, the spread topped out at 1.35 percentage points in late December.

Bank of America Corp. Chief Executive Brian Moynihan told investors in May that the bank's potential net-interest income growth in the second quarter could be lower by tens of millions of dollars compared with the first quarter. "We always follow the [yield] curve, and it's been lower," Mr. Moynihan said at an investor conference.

The other point of concern, slowing lending activity, is a bit of a mystery. Bank executives have been at a loss to explain the decline, especially given the surge of optimism among business owners following the election.

Business Loan Woes

Commercial and industrial loans by banks, percentage change from year earlier



Source: Federal Reserve

THE WALL STREET JOURNAL.

Glitch Leads to Wrong Prices for Big Stocks

By Steven Russolillo

A flood of incorrect stock-market data briefly hit traders' screens around the globe early Tuesday morning in Asia, showing apparent huge moves in the **Nasdaq**-listed share prices of some of the world's biggest companies, including tech giants **Apple** Inc., **Microsoft** Corp. and **Amazon.com** Inc.

The faulty data on stock prices appeared on several platforms including **Yahoo Finance**, Google Finance and on Bloomberg terminals between 6 a.m. and 7 a.m. Hong Kong time, after U.S. markets Monday had closed early ahead of the Independence Day holiday.

As a result of the glitch, several stocks briefly showed their price to be $123.47—equivalent to a 14% drop in Apple's shares, an 87% plunge for Amazon and a 79% surge for Microsoft.

Joe Christinat, a Nasdaq spokesman, said no actual trades were affected by the glitch. Both normal trading and so-called aftermarkets trading, when investors can continue to trade via the exchange for a further four hours, had ended for the day on Nasdaq by the time the wrong data appeared.

If the stock price moves had actually occurred, it would have knocked $104 billion off the market value of Apple, the world's most valuable stock. Amazon's market cap would have dropped $396 billion, while Microsoft's would have risen $415 billion.

The appearance of the incorrect data sparked disagreement over who was to blame. A spokesman for Nasdaq said the problem was caused by test data being improperly disseminated by third-party vendors including Bloomberg.

However, a person familiar with one of the vendors said Nasdaq had changed its testing protocols but had not informed vendors ahead of time. Nasdaq said it had sent out a standard alert to the market on June 26 with the schedule for its data feeds for the early close on July 3.

A story that appeared early on Bloomberg's website Tuesday initially said a Nasdaq error had caused the faulty data. The story was later corrected to remove the reference to the Nasdaq error.

"This is a vendor issue, not a Nasdaq issue," said Nasdaq's Mr. Christinat, saying that others such as FactSet and even Nasdaq.com showed correct pricing data. That difference suggested that the faulty data issue was more the responsibility of some data providers.

In an emailed statement, a Google representative said, "We can confirm that our third-party finance data partner was providing some inaccurate information, which they received from Nasdaq."

"This is currently being fixed and we hope to update our stock price data shortly," Google said. According to the company's website, the closing prices on **Google Finance** are provided by **SIX Financial** Information and its intraday pricing data are provided by Interactive Data Real-Time Services. However, Google declined to confirm that those companies provide data to Google Finance.

A representative for SIX said its data feed wasn't the problem. "We checked our data and it was correct," the representative said. "No incorrect prices came from us."

Apple, Amazon and Microsoft didn't respond to requests to comment.

Stock markets in the U.S. were open for only a half-day session Monday and were closed Tuesday in observance of the country's Independence Day holiday.

HEARD ON THE STREET

Email: heard@wsj.com FINANCIAL ANALYSIS & COMMENTARY **WSJ.com/Heard**

What Do Lower Car Sales Mean?

Americans are buying fewer cars. Will they buy something else?

Pushing steel is getting harder. General Motors, Ford Motor and **Fiat Chrysler Automobiles** reported on Monday that their car, pickup and other light vehicle sales were down sharply in June from a year ago.

Japan's top sellers did better, but not enough to make up for Detroit's woes. At a seasonally adjusted, annual rate, auto makers sold 16.4 million light vehicles last month, according to WardsAuto, capping off the weakest quarter for sales since 2014.

Weakening auto sales have often been a prelude to the economy contracting. They began trending lower before the 2007 recession started, and were associated with the recessions of the 1970s and 1980s. The situation probably isn't so dire now, but unless consumers shift the money they have been using to purchase cars to other areas, overall spending could weaken.

One common factor in those past downturns was higher gasoline prices, which not only prompted people to forgo car purchases—in particular, lower mileage, made-in-America ones—but led them to cut back spending on other areas. With gasoline prices a bit lower than they were a year ago, that isn't a concern at the moment. With unemployment low and incomes rising, it isn't as if consumers have lost their ability to spend.

The recent decline in car sales stems in part from a drop in deliveries to rental-car companies, tighter lending standards and higher prices.

It also comes after a low-rate-induced uptick in sales of pricey SUVs and trucks, and as young people show less interest in cars than previous generations.

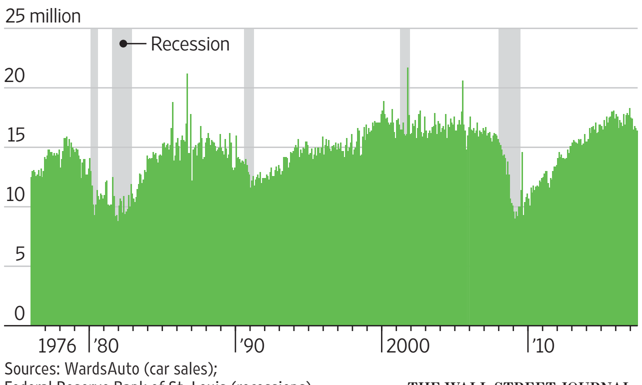
So Americans ought to have more to spend elsewhere, which would be good news for retailers, restaurants and other consumer-facing businesses with struggling sales. One hurdle to that, however, is that many people are still on the hook for the car they are driving. The length of a new-car loan reached a record 69.3 months last month, according to Edmunds.com, with average monthly payments rising above $500. The growing share of new cars that are leased leaves people with more monthly payments to meet.

The slip in auto sales is also reflective of the more frugal consumer behavior that emerged following the recession. If people are shying away from car purchases they don't see as strictly necessary, they are probably shying away from other purchases as well.

—Justin Lahart

Cars for Concern

Light-vehicle sales at a seasonally adjusted, annual rate



Sources: WardsAuto (car sales); Federal Reserve Bank of St. Louis (recessions)

THE WALL STREET JOURNAL.

Bullish Oil Shift Is Premature

Last week it was the oil bears burning and pillaging; this week it is the bulls.

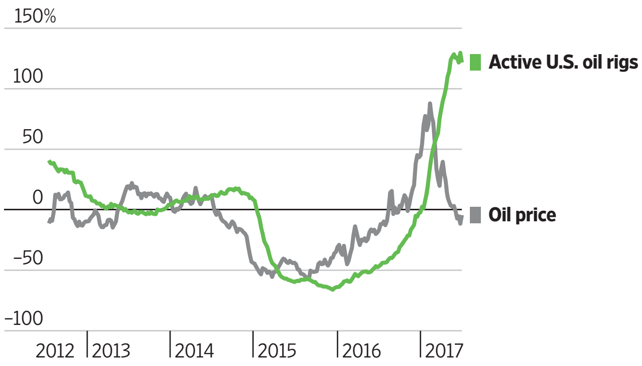
After a nasty 20% correction from February highs, which took oil into a bear market in late June, the black stuff rallied back 10% over eight consecutive sessions through Monday—its longest winning streak in half a decade.

Whiplashed oil investors could be forgiven a little skepticism. Bearish sentiment was clearly overdone in June given still-strong Chinese demand and signs of slowing supply. But the big swing back to bullishness also looks premature.

The main factor driving prices higher is the long-expected slowdown in U.S. supply growth: The number of active oil rigs in the U.S. ticked down for the first time since January last week, and oil output dipped in late June, too.

Peaks and Valleys

Change from a year earlier



Sources: Baker Hughes (rigs); FactSet (price)

THE WALL STREET JOURNAL.

But there are good reasons why a collapse in supply is unlikely. To begin with, the big rebound in shale production this year, while enough to give OPEC a headache, has been relatively cautious. There are many more oil rigs in play now than a year ago, but still only half the peak of 1,600 in late 2014. Drillers have improved their technology and been more selective about where to drill.

One of the big attractions of shale is that supply can be dialed up and down relatively quickly, because shale wells only produce large amounts of oil for a short time, unlike conventional wells. That should mean it's more difficult for oil prices to overshoot either on the up or downside. And despite the volatility of the past few months, prices have failed to break out of the $40-to-$60-a-barrel range: roughly where analysts believe most shale plays are profitable.

If oil heads higher, it will elicit a quick supply response—same on the downside. Nothing in the past six weeks has done much to change that equation.

—Nathaniel Taplin

Why J.P. Morgan May Warm Up to Deals

J.P. Morgan might be about to get back on the acquisition trail after what feels like forever. It is the relatively obscure business of payments technology and infrastructure that may have James Dimon's animal spirits flowing.

The U.S. banking giant has made an early approach for U.K.-based **Worldpay**, the target company said on Tuesday. And J.P. Morgan isn't alone: one of the U.S.'s leading payments companies, **Vantiv**, has also made a separate early approach, Worldpay added.

There were no details about what value either approach might put on Worldpay, or whether offers might be made in cash or stock, but under U.K. takeover rules both potential bidders now face a deadline of Aug. 1 by when they must either announce a firm intention to make an offer or walk away for six months. Worldpay's shares rose by more than a quarter on the news, sending its market capitalization to over $10 billion, indicating a chunky deal for the banking world, where activity has been scarce since the financial crisis.

The payments sector has been a hive of activity in recent years and is seen as ripe for consolidation. Companies like Worldpay are investing heavily in new technology to help retailers take money from customers.

One problem is that for all the excitement around new systems for retailers, the industry faces a major threat, especially in Europe. The payments market is about to be opened up to new competitors, known as Payment Initiation Service Providers, which will be able to entirely bypass the current pipework which links together banks, card networks and payment acquirers such as Worldpay.

This is the route through which all payments currently run. The new payments competitors will be able to enact a direct—typically free—transfer from one bank account to another.

The existing pipework collects revenues as a tiny percentage of the value of each card payment, which is split between a bank, the card network and the acquirer. A competitor that bypasses this setup could charge much less. J.P. Morgan is part of that and acquiring another section of the pipe could defend it against competition.

Mr. Dimon hasn't done a major deal since the financial crisis, when the bank acquired Washington Mutual and Bear Stearns, both aided by government bailouts. With little deal making since then, it has announced stock buybacks worth close to $60 billion. Now it may finally be finding a better use for its cash.

—Paul J. Davies

GIULIA MARCHI/BLOOMBERG NEWS

J.P. Morgan chief James Dimon