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What's News

Business & Finance

Morgan Stanley said second-quarter profit rose to $1.76 billion, beating forecasts, as the firm's traders delivered strong results. **B1**

◆ **Frankfurt is taking** an early lead in attracting banking business in anticipation of Britain exiting the EU. **B1**

◆ **A U.S. appeals court** overturned the convictions of two ex-Rabobank traders in the scandal over attempted Libor manipulation. **B1**

◆ **Univision has been** fielding interest from potential bidders, including cable mogul Malone, after the media firm's IPO was delayed. **B2**

◆ **McCormick agreed** to buy Reckitt's food division for $4.2 billion, the latest in a wave of deal activity in the packaged-foods sector. **B3**

◆ **Akzo said** its CEO resigned for health reasons and affirmed its plan to spin off its chemicals business. **B3**

◆ **Four smartphone makers** joined Apple in a suit against Qualcomm over the chip firm's licensing practices. **B4**

◆ **Wanda revised** its deal to sell theme parks and hotels after the sale came under fire from credit-rating firms. **B3**

◆ **Daimler said** it would tweak the engine software on diesel vehicles amid emissions-cheating probes. **B3**

◆ **Facebook is launching** an analytics tool to give news outlets data on how stories perform on the platform. **B4**

◆ **Robo adviser Betterment** plans to offer socially responsible investment options. **B5**

World-Wide

◆ **France's military chief** resigned in a public feud with Macron over the president's plans to slash military spending. **A1**

◆ **Trump issued** a rallying cry for Republican senators to come together behind the party's health bill, saying they were close to a deal. **A1**

◆ **Trump and Putin** held a second, previously undisclosed talk on the sidelines of the G-20 summit this month, the White House said. **A5**

◆ **The U.S. and Russia** failed to reach an accord over the return of Russian Embassy compounds that were seized last year. **A5**

◆ **Germany lashed out** at Turkey for jailing a German human-rights activist and suggested that EU aid to Ankara may be reviewed. **A3**

◆ **The Trump** administration launched its first economic talks with China, amid signs that new difficulties were emerging. **A4**

◆ **The Supreme Court** revised Trump's travel ban to allow more family members to enter the U.S. **A5**

◆ **The U.S. attorney general** ordered the Justice Department to resume participating in asset seizures by police. **A7**

◆ **Uruguay became** the first country to regulate and oversee the sale of marijuana, though under tight restrictions. **A4**

◆ **Indonesia banned** an Islamist group that has ambitions to include the country in a global caliphate. **A4**

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

U.S. and China Open Talks on Trade

YURI GRIPAS/REUTERS

BRASS TACKS: U.S. Treasury Secretary Steve Mnuchin, center left, arrives with Commerce Secretary Wilbur Ross, far left, and China's Vice Premier Wang Yang for the Trump administration's first economic talks with Beijing. **A4**

KISS SEALED SAUDI DRAMA

In marble palace room, a younger cousin brought a swift end to crown prince's long career

RIYADH, Saudi Arabia—After a wakeful night confined to a Mecca palace lounge, Saudi Arabian Crown Prince Mohammed bin Nayef emerged into a marble-walled room the morning of June 21.

By Justin Scheck, Shane Harris and Summer Said

The 57-year-old prince found a waiting crowd, cameras, a security guard with his hand on a gun—and his cousin Mohammed bin Salman, 31, the favored son of King Salman, newly installed as his successor as heir apparent and crown prince.

An inside look at how the drama unfolded—pieced together from interviews with people familiar with the royal court, including people aligned with each prince, and from videos of events—shows the extent to which the Saudi shuffle was a power grab by a self-declared reformer.

That June 21 morning, the older prince muttered a greeting to the younger, who approached in an ankle-length robe and red-and-white checked headdress, a video of the encounter shows. Mohammed bin Salman, known to many as "MBS," knelt and kissed his older cousin's hand.

At that point it would have been clear to Mohammed bin Nayef that his long career—in which he had gained the trust of American intelligence officials and become a crucial figure in the U.S.-Saudi relationship—was over, say people familiar with the royal court. "When MBS kisses you," says one of these people, "you know something bad will happen."

After the June 21 encounter between

Please see SAUDIS page A8

Military Chief Quits in Spat With Macron

By William Horobin

PARIS—France's top military officer resigned Wednesday in a public feud with President Emmanuel Macron over military spending, posing the first major test of the new leader's drive to invest his office with more authority.

The resignation of Gen. Pierre de Villiers marked the first time any chief of the country's armed forces has resigned since the post was created in the 1960s, historians said. It was the culmination of rising tensions between the general and the 39-year-old president, who refused to back down on plans to slash military spending by €850 million ($982 million) this year to plug holes in France's public finances.

"In the current circumstances, I consider I am no longer able to ensure the durability of the model of the army that I believe in to guarantee the protection of France and French people, today and in the future," Gen. de Villiers said.

Mr. Macron swiftly named Gen. François Lecointre, head of his prime minister's defense cabinet, to succeed Gen. de Villiers.

The spat with Gen. de Villiers illustrates the high stakes of what Mr. Macron has described as his "Jupiterian" approach to his office, a reference to the king of the gods in Roman mythology. Since coming to power in May, Mr. Macron

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TWO LIBOR CONVICTIONS OVERTURNED

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NEWCOMERS MOVE INTO BLUE-CHIP ART

LIFE & ARTS, A9

Stocks Defy Odds in Steady Rise

By Steven Russolillo

Stock markets go up and down: It is a fact of life. Except in 2017.

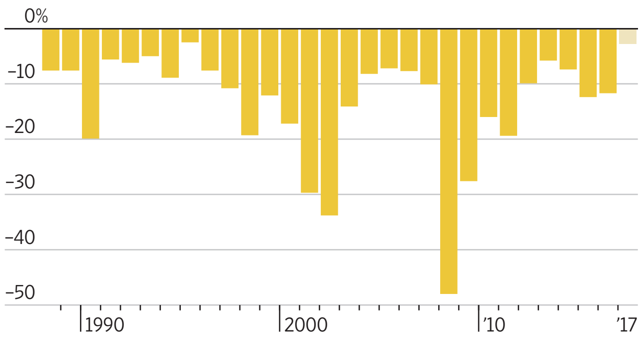
Three major stock-market benchmarks in the U.S., Europe and Asia have avoided pullbacks this year, commonly defined as 5% declines from recent highs. Never in at least the past 30 years have all three indexes—the S&P 500, MSCI Europe and MSCI Asia-Pacific ex-Japan—gone a calendar year without falling at some point by at least 5%.

In good years and bad, markets tend to fluctuate wildly, with stock indexes often falling by double-digit percentages before bouncing back.

That hasn't been the case this year, another reflection of the historically low volatility that has gripped the world. The CBOE Volatility Index, or VIX, finished Friday at its lowest since 1993.

No Dips to Buy

The S&P 500's biggest pullback each year



Source: LPL Financial

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Of course, 2017 is only a little more than half over, and plenty can change in the back half of the year. But the last time stock markets went this deep into a year without all three of those benchmark indexes suffering at least 5% pullbacks was nearly a quarter-century ago, in 1993, according to The Wall Street Journal's Market Data Group. All three finished that year with sharp gains.

Many investors say they are optimistic that the steady grind higher will continue and defy historical odds that suggest the markets should eventually falter. That is because earnings growth appears to be accelerating globally, economic growth is improving and central banks largely remain accommodative, even amid recent moves to tighten monetary policy.

The rise of quantitative trading and the flood of money into passive strategies such as exchange-traded funds have also reduced volatility, investors and strategists say. ETFs owned nearly 6% of the U.S. stock market in the first quarter, the highest share on record, according to an analysis of Federal Reserve data by Goldman Sachs

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No. 1 Rule on Tour de France: Don't Sneeze on the Buffet

* * *

Teams of tired riders battle colds with quarantines, garlic, ginger shots

By Joshua Robinson

ROMANS-SUR-ISÈRE, France—Two weeks into the biggest race on his calendar, pro cyclist Pierre Rolland was spending evenings in what he called Tour de France quarantine. At team hotels, he bunked alone in his single room. At meal time, he ate by himself or at the end of a table. When teammates were around, he was banned from shaking hands.

No one felt good about it, but he knew that cycling's answer to solitary confinement was the only solution at times like these. Because Mr. Rolland fell prey to one of the sport's greatest dangers: He got sick at the Tour de France.

Pierre Rolland

At this stage of the grueling three-week race, illness travels through the peloton faster than a juicy rumor. It may be July in blazing-hot France but immune systems are depleted. The riders are underslept. And everyone operates in close quarters all of the time. It all combines to turn the race into a petri dish of skinny, sniffly men trying not to cough on each other.

"I'm sanitizing my hands 15 times a day," said Mr. Rolland, who rides for the Cannondale-Drapac team and is showing signs of improvement. "And I do my best not to sneeze on the buffet."

All over the Tour, riders are

Please see TOUR page A8

Trump Urges Lawmakers To Finish Health Bill

WASHINGTON—President Donald Trump issued a rallying cry for Republican senators to come together behind the party's struggling health bill, telling them at a White House luncheon Wednesday they were close to a deal and couldn't give up or leave town for their summer break without one.

By Louise Radnofsky, Kristina Peterson and Stephanie Armour

Mr. Trump said Democrats wanted to defeat the Republican efforts so they could impose a single-payer health-care system, and that he was ready to promote the benefits of a GOP bill and punish Republican senators if they voted against it.

"We're a lot closer than

Please see TRUMP page A6

CAPITAL ACCOUNT | By Greg Ip

Markets to the Fed: Please Leave Us Alone

Bond yields around the world have surged since the European Central Bank hinted last month that its bond buying was coming to an end, a replay of the "taper tantrum" in 2013 when the Federal Reserve caught markets off guard.

Both episodes are fodder for a view widespread in markets, that bonds long ago ceased to be an independent reflection of economic fundamentals and are now just a giant bet on what central banks do with their securities portfolios. According to this view, quantitative easing (QE), as this bond buying is known, as well as zero to negative interest rates and detailed guidance on future monetary policy, amount to market manipulation on a grand scale. Whatever the theoretical benefit to the economy, such manipulation muffles market signals, misallocates capital and creates excesses that can come undone.

This critique has been around for years, but it stands to gain in prominence because it's shared by some of the people who may one day run the Federal Reserve. Janet Yellen's term as chairwoman expires in February, and if President Donald Trump doesn't reappoint her, there's a good chance her successor will come from the financial industry. A banker or trader would not necessarily prefer higher or lower interest rates than an economist, but would be much less trusting of economic models and unwilling to deploy the exotic tools the Fed has used since 2009.

The Fed has been led by economists almost continuously since 1970. Its last two chairmen, Ben Bernanke and Ms. Yellen, are prominent academic macroeconomists. Their economic training underpinned their use of QE, zero rates and forward guidance as a way of stimulating demand, getting unemployment down and holding inflation at its 2% target.

Economists have broadly praised these tools for helping bring the economy back from the brink of depression in 2008 to today's low unemployment and inflation. On Wall Street, though, opinion has been much more ambivalent. This divide was highlighted by the 2013 taper tantrum, which Mr. Bernanke later blamed on traders' "unreasonable and entirely inconsistent" belief that QE would go on forever. Traders, by contrast, say the Fed didn't appreciate how QE had forced so many investors into the same trade, who all headed for the door at the first sign of a shift.

ANDREW HARRER/BLOOMBERG NEWS

Gary Cohn is seen as a candidate to lead the Fed.

"Central bankers do not trust financial markets," James Bianco, head of the Chicago-based advisory firm Bianco Research, recently wrote to clients. They think they can fix every problem in the economy "except when those cretins in the financial markets go off half-cocked."

Indeed, many on Wall Street think central bankers have an exaggerated sense of their power. Last year, just before being named Mr. Trump's top economic adviser, Gary Cohn, then president of Goldman Sachs Group Inc., said the Fed was undercut by forces beyond U.S. borders: "They're constrained by the rest of the world and...the strength or weakness of your domestic currency." Mr. Cohn, who will lead the search for Ms. Yellen's successor, is widely considered a candidate.

Randal Quarles, a private-equity executive nominated as the Fed vice chairman for regulation, last year claimed that "years of near-zero interest rates have led to a rise in speculative positions across a wide range of asset classes, as all financial institutions find themselves under intense pressure to seek adequate returns."

Kevin Warsh, a former investment banker who served with Mr. Bernanke on the Fed until 2011 and now serves on an outside advisory council to Mr. Trump, is also considered a potential Fed chairman. Mr. Warsh, a scholar at the conservative Hoover Institution, has criticized the Fed for changing course too often in response to noisy economic data and swings in asset prices, for believing it can manage interest rates and the dollar so as to precisely target inflation, unemployment and economic growth, and for treating markets "as a beast to be tamed, a cub to be coddled, or a market to be manipulated."

A Fed under Mr. Warsh would presumably change course less often in response to new data or market movements, nor mind that inflation is a bit below 2% as it is now, and have a very high bar to engaging in QE or cutting interest rates to zero.

Yet these prescriptions may be at odds with the conditions in which the Fed operates. Donald Kohn, who was Fed vice chairman under Mr. Bernanke, says the Fed needs to operate through markets to achieve its goals of low unemployment and stable inflation and thus it will always have to care about stocks, bonds, and the dollar. "It was true when rates were 5%, and when they were 0.125%." Nor can the Fed ignore short-term data as noisy, because, he says, it may also contain a signal. And the Fed shouldn't forswear tools like QE because in the future, conventional tools may not be enough to restore full employment and 2% inflation.

And the Fed can point to its results. Unemployment is back to prerecession levels, and if unconventional monetary policy isn't the main reason why, it has hardly generated the calamities critics predicted. Inflation didn't skyrocket, no new financial crisis has come along, the dollar hasn't collapsed. Nor are Ms. Yellen and her colleagues oblivious to the distortions the Fed's balance sheet may cause. It's one reason they seem determined to start shrinking it in coming months.

Economists at the Fed do try to respect markets. Any financial pro who succeeds Ms. Yellen should have a corresponding appreciation for economics.

STOCKS

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Group Inc.

Market calm has prevailed despite political and monetary turmoil. The U.K. vote last year to withdraw from the European Union, President Donald Trump's election victory in November, the European Central Bank's signal last month that it would soon start winding down its bond-buying program—none produced the sustained market swings many expected. That has raised concerns there might be another, less-well-understood dynamic at play that has kept trading so tranquil.

The steady performance hasn't been universally celebrated. Some investors who have missed out on this year's rally are waiting for cheaper opportunities to get back in. Others are taking positions in the options market that protect themselves from large price swings.

MICHAEL NAGLE/BLOOMBERG NEWS

The S&P 500's worst peak-to-trough drop this year was 2.8%. Above, the New York Stock Exchange.

"We all want markets to go up forever and for there never to be any problems," said Daniel Morris, senior investment strategist at BNP Paribas Asset Management, which has about $661 billion in assets under management. "But this environment has been a challenge for equity investors who are looking for growth at a reasonable price."

The MSCI Asia-Pacific ex-Japan index, a benchmark that tracks big Asian companies listed globally, has surged 22% in 2017, propelled by strong rallies in tech companies such as Tencent Holdings Ltd. and Alibaba Group Holding Ltd.

The index's biggest peak-to-trough decline so far this year was 2%. If that performance continues for the rest of the year, it would be the smallest intrayear decline over at least the past three decades and a far cry from the index's average 20% pullback each year, according to analysts at J.P. Morgan Asset Management.

Indeed, there have been only three instances over the past 30 years in which the Asia index's biggest intrayear drop was less than 10%: 1991, 1993 and 2005.

Europe's performance, measured by the MSCI Europe Index, has also been steady. The index's biggest drop this year was 4%, far below its average intrayear decline of 16%, according to J.P. Morgan Asset Management.

And in the U.S., sharp gains in tech and consumer stocks, including Facebook Inc., Apple Inc., Amazon.com Inc., Netflix Inc. and Google parent Alphabet Inc., have propelled markets higher alongside shallow and brief dips.

The S&P 500 has gained 10% this year. Its worst peak-to-trough drop has been 2.8%. If it finishes 2017 that way, it would be the second-smallest decline in a calendar year over the past 60 years, according to LPL Financial Holdings Inc., an independent brokerage and investment firm.

The smallest decline was in 1995, when the index had a 2.5% fall. It surged 34% that year.

History suggests the stretch of calm won't last. The S&P 500 has avoided a 5% or more pullback in just five of the past 60 years, according to LPL.

But for now, the catalysts that have propelled the rallies and minimized the pullbacks remain in place, including low odds of an imminent recession and strong earnings growth. The ratio of analysts revising their global earnings estimates higher rather than lower recently jumped to its highest level in about five years, according to Richard Turnill, global chief investment strategist at BlackRock Inc., the world's largest money manager by assets.

"The reality is central banks continue to be accommodative, and the global earnings picture keeps on improving," said Ryan Detrick, senior market strategist at LPL Financial. "Those two things can make up for a lot of other sins."

ARMY

Continued from Page One

has announced plans to use special constitutional powers this summer to make changes to labor laws by decree, and he has repeatedly used the Palace of Versailles, favored by French kings, as a backdrop for key meetings.

Mr. Macron's opponents assailed him on Wednesday for confronting the military's top brass while France conducts operations in Iraq, Mali and other parts of Africa. Thousands of troops are also patrolling cities across France as part of the state of emergency, which Mr. Macron's predecessor declared and the new leader has upheld, to protect the country against terror attacks.

The French military has been a central part of the president's efforts to burnish his image as an authoritative leader. Mr. Macron rode down the Champs-Élysées, shoulder-to-shoulder with Gen. de Villiers in an open-top jeep, the day he was inaugurated. Last week he hosted U.S. President Donald Trump at a military parade featuring armored vehicles and flyovers to mark Bastille Day.

National Front leader Marine Le Pen, Mr. Macron's main challenger for the presidency in May's election, said the resignation showed "the very worrying limits of Mr. Macron's attitude and policies."

Lawmakers from the center-right Groupe Les Constructifs—which is in a loose alliance with Mr. Macron's party in parliament—called on the president to abandon or rethink his planned cuts to the defense budget, saying they endangered national security.

"Of course France should reduce its deficit, but France is also a country at war against Islamist terrorism," the lawmakers said.

The dispute began last week when Gen. de Villiers criticized the cuts in a closed-door hearing at the National Assembly that leaked to the French media, telling lawmakers he wouldn't let himself "get f—" by Mr. Macron's government.

"I considered it was my duty to share my reservations, on several occasions, behind closed doors, in complete transparency and truth," Gen. de Villiers said Wednesday in announcing his resignation.

After learning of the general's remarks to parliament, Mr. Macron delivered a speech to senior military leaders gathered on the eve of the Bastille Day parade as Mr. Trump was visiting France. Mr. Macron said a public debate on military finances wasn't dignified, adding he wouldn't tolerate dissent or other attempts to pressure his government.

"I am your boss," Mr. Macron told the military chiefs. Under France's constitution, the president is the commander in chief of the armed forces.

French government spokesman Christophe Castaner said Mr. Macron acknowledged Gen. de Villiers's service during a cabinet meeting Wednesday but told his ministers he was ready to replace any senior official who defied him.

"There is no place for uncertainties, ambiguities and doubts," Mr. Castaner said.

Mr. Macron praised the newly appointed Gen. Lecointre as "a hero" for his role rescuing soldiers held hostage in Sarajevo in 1995, according to Mr. Castaner.

The clash over military spending comes as the French president attempts to reconcile competing election promises. Mr. Macron said he would raise military spending to 2% of economic output by 2025, but would also cut overall spending by €60 billion to bring down France's deficit and comply with European budget rules.

Mr. Macron's budget plans ran into immediate hurdles when a report by the state auditor revealed a larger-than-expected budget gap. The cuts to military spending are part of a €4.5-billion plan his government hastily put together this month in an attempt to get back on track with deficit reduction this year.

Mr. Macron has also promised tax cuts for businesses and households to spur France's sluggish economic recovery. His government said last week it needed to find €20 billion of savings next year alone to meet its objectives.

The proposed cuts to the military budget this year amount to less than 5% of that total, and Mr. Macron says he plans to increase military spending in 2018.

Mr. Macron's policies are sparking opposition from other quarters too, opening up a divide between the state and local authorities who say they can't cut spending as the president has demanded.

"We've already tightened our belts a lot. Too much is too much," François Baroin, the head of France's association of mayors, said Monday.

Surveys show Mr. Macron's popularity has declined since his election. According to a poll of 1,007 people by BVA Monday and Tuesday, 54% of French people have a good opinion of Mr. Macron compared with 62% in May.

PATRICK KOVARIK/AGENCE FRANCE-PRESSE/GETTY IMAGES

Gen. Pierre de Villiers quit over a cut to military spending.

CORRECTIONS & AMPLIFICATIONS

Macy's Inc. held its investor day on June 6. A Business News article Tuesday about retailers' debt loads incorrectly said it was two weeks ago.

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

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WORLD NEWS

ECB's Draghi Seen Sticking to Tightening

Accelerating eurozone economy makes pullback on stimulus program more likely

BY TOM FAIRLESS

FRANKFURT—When European Central Bank chief Mario Draghi faces the media on Thursday after the bank's latest policy meeting, he is expected to let stand his hint three weeks ago on a possible reduction of the ECB's giant bond-buying program.

Mr. Draghi had rocked financial markets into buying euros and selling euro bonds by indicating in a June 27 speech in Sintra, Portugal, that the bank would start slowly winding down the program, known as quantitative easing, which has underpinned eurozone financial markets since its launch in early 2015.

Few investors think he will signal a change in that course on Thursday. Many argue that the ECB needs to adjust its policy mix soon anyway, in response to an accelerating eurozone economy. Mr. Draghi's speech in late June did part of the work in preparing financial markets for an imminent policy shift, they say.

Any backtracking now "would only cause confusion and unwelcome volatility given that financial markets have already positioned themselves" for a policy change, said Marco Valli, an economist with UniCredit in Milan.

Growth in the 19-nation bloc is expected to reach 3% in the second quarter on an annualized basis, the fastest pace in around a decade. Economic sentiment is close to a 10-year high, unemployment is falling rapidly, and bank lending is picking up strongly, according to ECB data published on Tuesday.

All that suggests the ECB can afford to take its foot off the gas. Its bond-buying program is currently due to run at €60 billion ($69 billion) a month at least through December.

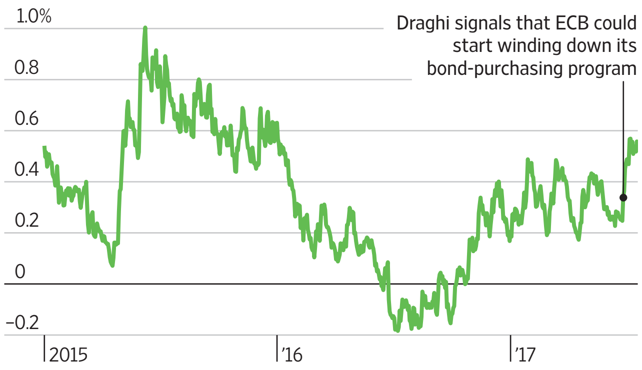
"With the eurozone cyclical recovery going strong and the bank lending channel mostly unclogged, the floor is clear for Draghi to tiptoe slowly in the general direction of the exit on Thursday," said Teunis Brosens, an economist with ING Bank in Amsterdam.

Despite its initial reservations about QE, the ECB has proceeded aggressively, boosting its balance sheet to around $4.9 trillion—larger than the U.S. Federal Reserve's.

Yield Surge

As prospects increase that the ECB will slowly wind down its bond-buying program, yields have risen significantly.

Germany's 10-year bond yield



Source: Tradeweb

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ECB officials have stressed that they will move very cautiously in winding down the program, wary of triggering an adverse market reaction that could upset the recovery. They have in mind the Federal Reserve's policy error four years ago, when a hint that its own QE program would end triggered market turmoil around the world and a surge of more than 1 percentage point in U.S. Treasury yields.

Recent market movements in Europe, though, are probably acceptable to the world's second-most-powerful central bank, analysts say. German 10-year government-bond yields have risen by about 30 basis points, or hundredths of a percentage point, since Mr. Draghi's speech last month, to around 0.6%.

"A little taper tantrum is fine. A fully fledged panic is clearly not," said Carsten Brzeski, an economist with ING in Frankfurt.

PETI KOLLANYI/BLOOMBERG NEWS

Mario Draghi's remarks in June sparked a strong market reaction.

One reason for the strong market reaction to Mr. Draghi's speech in Portugal is that investors had started to doubt whether the ECB would end QE at all, said Paul Mortimer-Lee, an economist with BNP Paribas in New York.

That was never likely given the controversy surrounding the program in parts of Europe, particularly Germany. Partly as a result of German objections, the ECB imposed strict limits on QE that could leave it struggling to find enough bonds to buy later next year.

But the ECB had lulled some investors into complacency earlier in June, Mr. Mortimer-Lee said, by reducing its inflation forecasts and taking only a tiny step toward ending QE.

ECB officials have since warned about the danger of moving too slowly, saying that could ultimately result in a sharper market reaction.

For now, Mr. Draghi is unlikely to say anything concrete about future policy steps beyond repeating that the ECB's stimulus will probably be wound down as the economy accelerates. The ECB might also drop a pledge to accelerate its purchases if the outlook darkens, though that is unclear.

A clearer signal might come in late August, when Mr. Draghi is scheduled to speak at the Fed's annual economic-policy conference in Jackson Hole, Wyo. That speech could lay the groundwork for a policy move two weeks later, at the ECB's Sept. 7 meeting.

Iceland Bank Chief Sees Boon in Cuts

REYKJAVIK, Iceland—Iceland's central bank chief expects his job to become easier if leading central banks make further moves to withdraw the stimulus they have provided since the global financial crisis.

A sharp rise in foreign visitors has spurred growth and investment in Iceland, pulling the economy out of a deep financial crisis. But it has also pushed the krona sharply higher against the U.S. dollar and the euro, in turn pressing down on import prices and keeping inflation below the central bank's target.

The central bank—trying to balance the effects of a rising krona and domestic demand pressures—cut its key interest rate to 4.5% in June.

In an interview, Mar Gudmundsson said the interest-rate differential with other advanced economies "complicates" Sedlabanki's monetary-policy conduct.

"It would ease our task a lot if interest rates in the rest of the world would come up," he said. "And we are seeing that now."

Mr. Gudmundsson is unlikely to be alone in welcoming signs that the ECB may soon ease back on its stimulus programs, since many other central banks around Europe that operate in its shadows have experienced similar problems. In most cases, they are having to keep policy loose to avoid currency gains that would lower inflation.

—Nina Adam

Germany Says Activist's Arrest Threatens Turkey Aid

BY ANDREA THOMAS

Germany lashed out at Turkey for jailing a German national and suggested the latest escalation in a growing feud between the two countries could cost Turkey billions of euros in European assistance.

Wednesday's threat came hours after Berlin summoned Turkey's ambassador to protest this month's arrest of German human-rights activist Peter Steudtner under Ankara's controversial antiterror laws.

The latest development in a lengthening string of disputes between Germany and Turkey, both members of the North Atlantic Treaty Organization, is putting pressure on German Chancellor Angela Merkel to put a stop to what critics of Turkey see as increasingly brazen provocations.

German Foreign Ministry spokesman Martin Schäfer said the Turkish ambassador was "told very clearly that the arrest of Peter Steudtner and other human-rights activists is neither understandable nor acceptable."

Ms. Merkel's spokesman said Turkey's accusations against the activist were a "transparent attempt to discredit and criminalize dissenters."

The spat broke out on July 5, when Turkish police arrested 10 Amnesty International activists, including Mr. Steudtner, who had gathered in Turkey for what the organization called a routine workshop.

Six of the rights activists, including Amnesty's Turkey director, have been jailed pending trial on charges of aiding a terror group. Prosecutors alleged that the director was linked to three unrelated terror organizations. The other four activists previously detained are on bail facing investigation.

"These activists are innocent. The decision to proceed shows that truth and justice have become total strangers in Turkey," said Amnesty International's secretary-general, Salil Shetty.

"We firmly believe that this arrest is absolutely unjustified," Ms. Merkel said late Tuesday. "We declare our solidarity with him and the other detainees and the German government, at all levels, will do everything we can to secure his release."

Spokesmen for Ms. Merkel and for German Foreign Minister Sigmar Gabriel said the government would consult on possible further action.

Ms. Merkel's spokesman said the European Union was due to re-examine this year its €4.5 billion ($5.2 billion) in aid to Turkey earmarked for measures to strengthen democracy, the rule of law, economic growth and competitiveness as part of the country's longstanding bid for EU membership.

"We think it would be right to review this [aid] now given the latest developments in Turkey," the spokesman said. It is unclear "whether this aid can achieve the desired result given the current situation," he added.

SEAN GALLUP/GETTY IMAGES

Chancellor Angela Merkel is weighing further action against Turkey.

A spokesman for Turkey's Ministry of Foreign Affairs didn't respond to a request for comment.

As the rapport between Berlin and Ankara has deteriorated, Ms. Merkel has sought to avoid an escalation, limiting herself to verbal protestations.

Berlin's room to maneuver is limited. Germany relies on a pact with Turkey that has drastically reduced the inflows of migrants from the Middle East since the summer of 2015, which caused a political crisis for the chancellor because Turkey is the main transit route to Europe.

Berlin officials have also been reluctant to take action that could further endanger nine other Germans detained since last July in Turkey under antiterror laws. And they are wary of inflaming passions among Germany's three million ethnic Turks—the largest Turkish diaspora in the world, where support for the Turkish regime is strong, according to recent surveys.

Also, the German military is stationed in Turkey as part of the international alliance against Islamic State in Syria and Iraq.

But the approaching September election in Germany, when Ms. Merkel will be seeking a fourth term, has made it more difficult for her to be seen as refusing to push back against what many in the West perceive as Turkish President Recep Tayyip Erdogan's increasingly authoritarian drift at home.

"This is a huge dilemma. Voters are clearly in favor of taking tougher actions against Erdogan…and if Erdogan continues to behave this way it can damage her during the election campaign," said Oskar Niedermayer, professor of political science at Berlin's Free University.

A recent survey conducted by YouGov showed that 84% supported the German government in banning Mr. Erdogan from speaking to supporters on the sidelines of the Group of 20 leading economies summit in Hamburg this month.

Martin Schulz, Ms. Merkel's main rival for the chancellery, on Tuesday said German citizens were "at risk of becoming a hostage to the politics of President Erdogan."

Deniz Yucel, a prominent German-Turkish journalist arrested in Istanbul in February under terrorism suspicions, remains in detention without charges despite repeated protests from Berlin. Mr. Yucel has denied any wrongdoing.

And after Turkey repeatedly barred German lawmakers from visiting troops stationed at the Incirlik air base in the country's south, Berlin said it would relocate the contingent to Jordan.

Ankara has previously said it had banned all foreign civilian dignitaries from visiting the base for security reasons.

This month, Turkey began barring lawmakers from visiting a separate German contingent at the NATO air base in Konya, prompting parliamentarians to demand its withdrawal, too.

A German pullout from Konya would be far more disruptive to the fight against Islamic State than the Incirlik move.

Turkey has accused Germany of being a haven for terrorists wanted by Ankara and has protested its decision to grant asylum to several individuals it believes were involved in last year's aborted coup attempt against Mr. Erdogan.

—Monica Houston-Waesch in Frankfurt contributed to this article.

International Arbitration System Emerges as Nafta Flashpoint

BY WILLIAM MAULDIN

WASHINGTON—A day after the Trump administration unveiled its objectives for renegotiating the North American Free Trade Agreement, U.S. businesses and a major labor coalition sparred over the merits of an international arbitration system embedded in the agreement with Canada and Mexico.

The arbitration provision, contained in Nafta's Chapter 11 and known as investor-state dispute settlement, allows an investor from one country to challenge regulations or actions of a government in another country through an international arbitration tribunal, potentially bypassing national courts. Its fate was left unclear in the document released by the Trump administration on Monday.

LUKE SHARRETT/BLOOMBERG NEWS

Some heads of U.S. businesses, including the chief executive of Kansas City Southern, voiced support for a Nafta arbitration process.

The Trump administration on Wednesday said the first round of talks would be held in Washington Aug. 16-20. U.S. Trade Representative Robert Lighthizer said John Melle, who oversees the agency's Western Hemisphere functions, would serve as chief negotiator.

In its negotiating blueprint, the administration said it wanted not only to secure rights for U.S. investors in Canada and Mexico, but also to prevent investors from those countries from gaining rights in the U.S. that domestic firms don't have. The document didn't specify what should happen to the current system, and a spokeswoman for Mr. Lighthizer had no comment.

At a House subcommittee hearing on Tuesday, businesses and the AFL-CIO, America's largest labor federation, pointed to the ambiguity in the administration's blueprint. Corporate executives pressed to retain the current settlement process as a way to defend their investments abroad, while the AFL-CIO urged removing the provision, which they say favors companies over workers and undermines national court systems.

American businesses point to research saying they sometimes face discriminatory treatment abroad, compared with local businesses, and therefore require an international arbitration system.

"It's not academic, it's for real," Dennis Arriola, executive vice president for strategic development at **Sempra Energy**, told the House hearing on Tuesday. "We had an experience in Argentina where overnight the government changed the rules and regulations." Sempra challenged Argentina under a similar provision in a bilateral pact with that country.

The chief executives of railroad **Kansas City Southern** and engine maker **Cummins** Inc. also backed the arbitration process in the hearing as a way to protect their investments in Mexico.

Labor leaders and some Democratic lawmakers see the arbitration as a green light that encourages American companies to invest in production—and create jobs—abroad because they are exposed to fewer legal risks.

"I see no evidence that we can't trust Canadian courts," Celeste Drake, an AFL-CIO trade expert, told a House trade panel on Tuesday. The Sierra Club also said Monday it opposed the arbitration provision.

The U.S. has never lost an arbitration with a foreign investor under the Chapter 11 provision. Canada's **TransCanada** Corp. used the provision to sue the U.S. after the Obama administration didn't grant a permit for the Keystone XL pipeline.

TransCanada suspended that case after President Donald Trump lifted U.S. objections to the project. Companies can sue governments for monetary damages but can't overturn laws or regulations through the process.

Early Win for India's Tax Revamp

Journey times plunge for truckers who no longer have to stop to pay state levies

MUMBAI—Until recently, truck driver K Shaji often waited for hours at various checkpoints to pay state taxes on his cargo as he journeyed from India's south to the country's financial capital, Mumbai.

By Corinne Abrams, Debiprasad Nayak and Anant Vijay Kala

No more.

Such dragnets disappeared this month after the government overhauled its tax system, allowing Mr. Shaji and millions of truck drivers to motor past what used to delay their trips by hours. The delays and tax fees—plus widespread bribes—drove up costs and added to inefficiencies in the economy.

JAIPAL SINGH/EPA/REX/SHUTTERSTOCK/EUROPEAN PRESSPHOTO AGENCY

Trucks at the Lakhanpur toll plaza, near Jammu. The goods-and-services tax took effect July 1, effectively unifying revenue collection.

The result is an early success for a major economic initiative by Prime Minister Narendra Modi: replacing a tangle of state and federal levies with a new goods-and-services tax—a type of value-added tax. Some economists say the so-called GST, which kicked off July 1, may add nearly 1 percentage point to GDP growth.

Still, the new system has teething pains.

Many of India's millions of small-business owners say they haven't had enough time to prepare. They don't know which of the many rates to pay or understand how to file their invoices. Many lack the internet connection needed to file.

The textile industry, India's second-largest employer after agriculture, has had disruptions as traders adjust. It and other industries have organized strikes and protests against the plan, saying they weren't ready.

The big test comes on Sept. 5 when businesses are required to file their first tax returns. It will then also become clear whether the government tax portal vital to the plan is ready to upload and process them.

But many experts are encouraged by the process so far, the culmination of a decade of wrangling between states and the central government.

"Generally things have gone smoother than expected," said Sachin Menon, KPMG partner and national indirect tax head.

Almost seven million of the eight million VAT and service-tax taxpayers under the old system have registered for GST, and more than 560,000 businesses have signed up to pay tax for the first time, the government says. The government hopes that many more small businesses will register over time as the benefits of a tax-credits system—and the threat of penalties—lures them in.

Meanwhile, the logistics industry is showing the first visible signs of the transformation the tax could deliver by easing some of India's biggest economic drags—corruption and bureaucracy.

The industry contributes about 13% to the country's GDP but is still underdeveloped, according to financial-services provider Avendus Capital Pvt. Ltd. Before GST was implemented, it would take 11 days for a container to travel from Shanghai to Mumbai, but almost double that to get from Mumbai to Delhi, the World Bank said in a report. Up to a quarter of journey time was spent at checkpoints.

By eliminating those, logistics costs could fall by as much as 20%, CRISIL Research, the Indian Unit of Standard & Poor's, said in a report.

Trucking companies say while shipping orders are down as companies get used to GST, the elimination of border tax posts in most Indian states has expedited the movement of goods and cut fuel and labor costs.

CORINNE ABRAMS/THE WALL STREET JOURNAL

K Shaji, left, and his co-driver AP Sunil Kumar at a depot.

"Implementation of GST is already showing significant efficiency gains in supply chain and transportation," a spokesman for Wal-Mart India said.

Experts say Indian economic growth may be lifted by reduced transportation times and increased compliance that will boost revenue for the government that could be spent on infrastructure, sanitation and education.

"Before the GST, some companies had multiple warehousing across different states only because they didn't want to move goods across state borders," said Rajiv Biswas, an economist at IHS Markit.

Mahesh Fogla, chief financial officer of Mumbai-based Patel Integrated Logistics, said he expected the tax revamp to save his company up to the equivalent of $620,000 annually and yield a 25% increase in profit. Antique Stock Broking Ltd., a Mumbai financial-services company, estimated in a report that drivers will save up to about $115 in bribes on each trip in checkpoint graft.

However groups of officials known as "flying squads," who carry out spot checks to examine paperwork, still demand payments, said Navin Gupta, secretary-general of industry lobby the All India Motor Transport Congress.

At the deserted checkpoint in Mankhurd just outside Mumbai, where Mr. Shaji and other drivers previously had to stop to enter the megacity, one official said 2,500 vehicles would pass through daily to be assessed for taxes.

The 43-year-old Mr. Shaji, who has been driving for 25 years, said that before the GST he would have to wait for hours as hundreds of items were checked and the tax calculated at three tax points along the route.

"Now we can pre-calculate our travel time," he said, relaxing with a cigarette after a long drive. "I am free of tension and I can spend more time with my family and friends."

Chinese, U.S. Talk Economics Guardedly

By Jacob M. Schlesinger

WASHINGTON—The Trump administration launched its first economic talks with China, amid signs that new difficulties were emerging in the friendly dialogue the two governments have been holding over the past three months.

"The fundamental asymmetry in our trade relationship and unequal market access must be addressed," Commerce Secretary Wilbur Ross said at the outset of the discussions Wednesday morning.

Mr. Ross praised as "significant" some sector-specific market-opening agreements reached between the two governments earlier this year, but added: "The hardest work remains to be done."

People familiar with the meetings said that, as of early Wednesday, U.S. officials were expecting a tough day of discussions and that considerable distance remained between the two sides over what kind of concrete agreement—if any—they hope to reach during the day.

As the opening ceremony for the daylong talks was winding down, the Treasury Department announced it was canceling a 5 p.m. news conference that had been scheduled for Mr. Ross and Treasury Secretary Steven Mnuchin, the U.S. co-chairmen of the talks. The Treasury didn't provide a reason for the cancellation, but the people familiar with the discussions said it may be intended to signal displeasure with the prospects for reaching any agreement Wednesday, or a sense that they may have nothing concrete to announce by day's end.

The Chinese government also canceled its planned news conference without offering an explanation.

During last year's presidential campaign, then-candidate Donald Trump regularly criticized Chinese trade policy, and China's $300 billion trade surplus with the U.S., vowing to take drastic unilateral action—such as across-the-board tariffs—to curb the imbalance. As president, he has taken a softer tone.

Uruguay Legalizes Sale of Marijuana

By Taos Turner

MONTEVIDEO, Uruguay—Tiny Uruguay embarked on an ambitious social experiment Wednesday by becoming the first country to regulate and oversee the sale of marijuana, a policy that has enthralled pro-pot activists and smokers abroad but has lukewarm support at home.

Under tight restrictions, the only establishments licensed to offer marijuana are pharmacies, 16 of which began to sell here in the capital. Pot connoisseurs lined up and then gushed about both buying marijuana legally and the product's quality.

"It tastes great," said Daniel Souza, 48 years old, a hospital worker who lighted up in front of city hall. "This kind of weed is great for creativity. It will be good for my guitar playing."

MATILDE CAMPODONICO/ASSOCIATED PRESS

A Uruguayan man showed two bags of pot he bought on Wednesday at a pharmacy in Montevideo.

The new policy comes as much of Latin America, Canada and numerous U.S. states have legalized marijuana partially, even as several countries continue to have tough interdiction policies against the cocaine trade.

Some leaders in the region on the front lines of the U.S.-backed war on drugs have increasingly voiced fatigue with those hard-line policies. But so far, Uruguay has most decidedly broken with the prohibitionist approach, making this country's experiment a test case that is being closely watched by governments and activists on both sides of the drug-legalization debate.

The move has also encouraged businesses, like Vancouver-based International Cannabis Corp., which has a license to harvest and export the marijuana it is producing in Uruguay.

"We are ready to start exporting to more than 12 countries, and we will do it with a seal of quality from the Uruguayan Health Ministry," said Alejandro Antalich, chief executive of the company.

Uruguay moved to legalize marijuana in 2013 under then President José "Pepe" Mujica. A former Marxist guerrilla, Mr. Mujica's approach aimed to hit drug traffickers where it hurt most, in their pocketbooks. Mr. Mujica gave the state a monopoly on the market by offering pot prices so low it would undercut street vendors and give regional drug cartels less incentive to operate in Uruguay.

His successor was an unlikely proponent of pot, President Tabaré Vázquez, an oncologist and antitobacco crusader. But under him, Uruguay now has done what no other country has even tried, controlling the production, distribution and commercialization of recreational marijuana.

Supporters include Sebastian Suarez, 22, a window cleaner who smoked pot a friend had bought on Wednesday. "This definitely has an effect," said Mr. Suarez after having a smoke. "I won't be smoking it before I hang outside buildings to clean their windows."

That plan, though, has never had strong support here, even though Uruguay has long been socially liberal, legalizing abortion, recognizing gay civil unions and adoption by same-sex couples. Indeed, 62% of Uruguayans oppose legalization, while only 29% support it, according to an Equipos poll published this week.

"If people want to smoke pot, fine," said Sara Casalla, 88. But she said pharmacies shouldn't be selling it. "They should be selling health-care products. I don't like this."

Pharmacists, to be sure, have been the most unnerved, saying selling pot could put them in competition with illegal pot dealers or that smokers might try to steal their pot stash.

"You have to worry about street vendors, like those we have here around the corner," said Javier Ponce, 61, who works at Farmacia Yaro.

Martín Alvarez, head of San Roque, one of Uruguay's biggest pharmacy chains, noted that the government-set price of $1.30 per gram barely covers operating costs. "There is nothing profitable about any of this," he said.

The government, to be sure, is doing everything to keep this country of 3.4 million from becoming a pot mecca—and making it tough for these companies to make much money from this tiny market. Only Uruguayan citizens or permanent residents can buy. And those who buy have to register their names in a national database and scan their fingerprint. Sales are capped at 10 grams a week per person.

WORLD WATCH

INDONESIA

Jakarta Decree Bans Islamist Organization

The government banned an Islamist group with ambitions to include the country in a global caliphate, the first use of a new executive decree signed by President Joko Widodo last week.

Freddy Haris, a director-general at Indonesia's justice ministry, said Wednesday that the Hizbut Tahrir organization was outlawed to help preserve national unity.

However, civil-rights groups have criticized the move, saying the Widodo administration and future governments could use the new legal powers to arbitrarily ban other activist groups.

Hizbut Tahrir vowed to challenge the legality of the presidential decree by seeking a judicial review in Indonesia's Constitutional Court. The group was previously outlawed in several other countries.

The growing influence of hard-line Islamist groups in Indonesia in recent months has undermined the country's reputation for practicing a moderate, tolerant form of the faith.

—James Hookway

SAUDI ARABIA

Woman in Skirt Goes Free Without Charge

The government said police released a woman who had been taken into custody for wearing a short skirt and a crop top, an act of defiance that provoked anger in the conservative kingdom.

A video of the woman in the skirt walking in a deserted alley of a historic town had in recent days gone viral on social media in Saudi Arabia, triggering a debate among Saudis, with some wanting her punished and others defending her.

Her release represents a small but symbolic step toward loosening the kingdom's strict social strictures. The debate sparked by the video reflects broader domestic tensions about the future of the kingdom.

Saudi Arabia espouses an ultraconservative interpretation of Sunni Islam and applies some of the world's tightest restrictions on women. Under the country's dress code, women wear all-covering loose gowns known as abayas, usually in black.

The woman in the video, who hasn't been identified, was briefly detained and questioned on Tuesday before police released her later that night, the Saudi Ministry of Interior said on Wednesday.

"She was released without charge and the case has been closed by the prosecutor," it said in a statement. The woman told authorities the video was published without her knowledge.

—Margherita Stancati

EUROZONE

House-Price Growth Slowed in 1st Period

The housing market cooled in the first three months of the year, as declines in German prices eased worries that a long period of very low interest rates risked fueling a bubble.

The European Union's statistics agency said Wednesday that house prices in the three months through March were up 0.4% from the final quarter of 2016, and 4.0% from a year earlier. That was the smallest quarter-to-quarter rise since the end of 2015.

Eurostat's figures showed German house prices fell by 1% in the first three months of the year, following a series of strong rises. Prices also continued their decline in Italy, while there were sharp increases in Spain and France.

—Paul Hannon

U.S. NEWS

Trump, Putin Held Second Talk at G-20

Previously undisclosed private conversation took place at state dinner for world leaders

By Rebecca Ballhaus

WASHINGTON—U.S. President Donald Trump and Russian President Vladimir Putin held a second, previously undisclosed talk on the sidelines of the Group of 20 summit in Hamburg earlier this month, a White House official said Tuesday.

The conversation took place on the same day that the two leaders met earlier for more than two hours in what Secretary of State Rex Tillerson called an "extraordinarily important meeting."

The White House disclosed the conversation after it was reported by Ian Bremmer, president of the Eurasia Group, a political risk advisory group. He wrote about the meeting in a company newsletter and spoke about it in a television interview Tuesday.

The two leaders spoke during a state dinner for the world leaders and their spouses.

The White House official said Mr. Trump spoke with many leaders during the dinner and said the president "spoke briefly" with Mr. Putin, who was seated next to first lady Melania Trump, toward the end of the evening.

Mr. Bremmer said the two spoke for about an hour, joined by Mr. Putin's translator.

EVAN VUCCI/ASSOCIATED PRESS

Russian President Vladimir Putin and U.S. President Donald Trump at the G-20 Summit in Hamburg, Germany.

The White House official said Messrs. Trump and Putin used the Russian translator because the American translator accompanying Mr. Trump spoke only English and Japanese. Mr. Trump had been seated next to Japanese Prime Minister Shinzo Abe.

"The insinuation that the White House has tried to 'hide' a second meeting is false, malicious and absurd," the White House official said. "It is not merely perfectly normal, it is part of a president's duties, to interact with world leaders."

In the meeting earlier in the day, Mr. Trump pressed Mr. Putin on what the intelligence community says was an extensive campaign by the Russian government to meddle in last year's election.

Mr. Trump told him that Americans are upset about Russia's actions and want them to stop, Mr. Tillerson told reporters in a briefing. Mr. Putin denied that Russia played a role, and the two leaders agreed not to "relitigate" the past, Mr. Tillerson said.

Russian Foreign Minister Sergei Lavrov, who was also in the meeting, told reporters afterward that Mr. Trump accepted Mr. Putin's contention that Russia didn't interfere in the campaign.

In an interview with The Wall Street Journal, Mr. Bremmer said he learned about the second Trump-Putin talk from participants at the dinner, which was attended only by world leaders and their spouses.

Mr. Bremmer said the participants described the talk as "very animated" and "very friendly."

Mr. Trump said it was already known that he would be attending a dinner with the Russian president and 18 other world leaders. "Fake News story of secret dinner with Putin is 'sick,'" he tweeted Tuesday evening. "All G 20 leaders, and spouses, were invited by the Chancellor of Germany. Press knew!"

The dinner was closed to the news media, and White House officials hadn't provided details of the president's interactions during the event before Tuesday.

The news that Mr. Trump had a talk with Mr. Putin that the White House didn't initially disclose comes as special counsel Robert Mueller investigates Russia's efforts to interfere in the 2016 U.S. presidential election, and whether Trump associates colluded with Moscow in that effort.

Mr. Trump has expressed skepticism about U.S. intelligence agencies' consensus that Russia sought to meddle in the election, saying days before his meeting with Mr. Putin, "Nobody knows for sure." He has repeatedly denied any collusion by his campaign.

Since his meeting with Mr. Putin, the president's eldest son, Donald Trump Jr., has released an email chain showing that he helped arrange a meeting last June to discuss allegedly damaging information about former Democratic presidential nominee Hillary Clinton. In that email chain, the younger Mr. Trump was told that the information was gathered as part of a Russian government effort to help his father.

Also on Tuesday, the White House announced its intent to formally nominate Jon Huntsman—former governor of Utah and ambassador to Singapore under President George H.W. Bush and to China under President Barack Obama—as ambassador to Russia.

U.S., Russia Remain at Odds Over Seized Compounds

By Paul Sonne

WASHINGTON—U.S. and Russian diplomats failed to come to an agreement over the return of Russian Embassy compounds that were seized by the Obama administration in late December as punishment for Moscow's alleged interference in the 2016 presidential campaign.

U.S. Undersecretary of State Thomas Shannon and Russian Deputy Foreign Minister Sergei Ryabkov met in Washington on Monday to discuss the matter and other bilateral issues, but didn't come to a deal. Russia last year held off from responding in kind after the Obama administration seized the New York and Maryland properties and expelled 35 Russian diplomats accused of operating as spies. The Kremlin bridled its response amid hope that incoming President Donald Trump might reverse the moves, which came in the final weeks of the Obama administration.

Any reversal now looks fraught for the White House, given sentiment in Congress in favor of new sanctions against Russia and a special-counsel investigation into whether the Trump campaign colluded with Russia. The Trump administration likely would need to receive something of clear value to the U.S. in exchange for returning the compounds, or risk opprobrium from U.S. lawmakers from both parties concerned about any moves seen as capitulation to Moscow.

Russian officials have been airing increasingly vocal threats since Mr. Trump met Russian President Vladimir Putin at the summit of leaders from the Group of 20 nations in Hamburg this month.

Russia has denied meddling in the U.S. election, and Mr. Trump and his representatives have said there was no collaboration.

"We warned that we have a way to respond, and American interests in the Russian Federation could suffer if our diplomatic property isn't returned without conditions," Mr. Ryabkov said in an interview Tuesday with the Russian news agency Interfax after his meeting with Mr. Shannon.

Mr. Ryabkov said Russia and the U.S. so far hadn't reached a common understanding on the issue but efforts were continuing.

Mr. Ryabkov said Russia fundamentally rejects any attempts by the U.S. to formulate conditions for the return of the diplomatic compounds, which he said were seized illegally. He said such attempts would be doomed to fail and would bring Russia closer to taking reciprocal measures.

Kremlin spokesman Dmitry Peskov said Tuesday that Russia's patience on the issue was running out. "We are counting on prudence from our American colleagues to put the situation back on track in accordance with international law," Mr. Peskov said, according to Interfax.

The State Department released a statement about the talks Tuesday that made no mention of the controversy over the Russian recreational compounds, sometimes referred to as embassy dachas.

State Department spokeswoman Heather Nauert said it would take time to arrive at any agreement. "Nothing is coming together anytime soon," she said.

President's Supporters Still Have His Back, Poll Finds

By Michael C. Bender

People in counties that propelled President Donald Trump's election victory see him as the change agent needed to shake up political and economic systems that they said are stacked against them, a new Wall Street Journal/NBC News poll found.

The president's job performance and his handling of the economy are viewed more favorably in these so-called Trump counties than in the rest of the nation, helping to overcome doubts some people have about the president's personal qualities and some of his policy decisions.

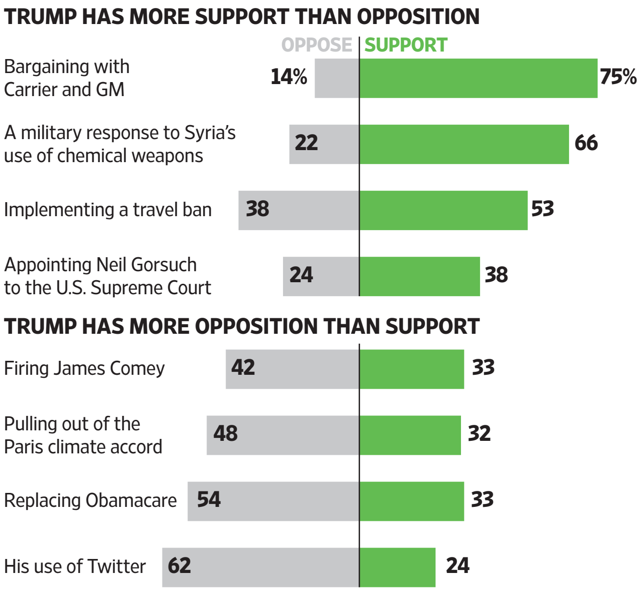
The GOP president draws wide support in these counties for bargaining with employers to keep jobs in the U.S., with 75% of residents supporting those efforts and 14% opposing.

More than two-thirds of respondents in those counties back his signaling that he is willing to take action if North Korea goes further in developing long-range missiles and nuclear weapons, and a similar share backs his military response in April to Syria's use of chemical weapons. A majority supports his push for a ban on entry into the U.S. residents of some countries.

In these counties, 50% said they approve of Mr. Trump's job performance, compared with 46% who disapprove, the survey found. That is a stronger showing than the 40% in a

How Trump Counties View the President

In counties that fueled President Donald Trump's election victory, residents strongly support some of his economic and foreign-policy actions. His decisions on climate change and firing the FBI director draw less support.



Source: WSJ/NBC News telephone poll of 600 adults in Trump-supporting counties in 16 states conducted July 8-12; margin of error: +/-4 percentage points

THE WALL STREET JOURNAL.

nationwide Journal/NBC survey from last month who approved of Mr. Trump's performance in office.

The survey underscored many of the themes that led to Mr. Trump's surprising victory in November, most notably the resonance of his call to protect U.S. jobs and the unfavorable view that many voters took of Democratic presidential nominee Hillary Clinton.

The survey, conducted July 8-12, included 600 adults in some of the president's strongest bastions: Counties that flipped from favoring former President Barack Obama, a Democrat, in 2012 to backing Mr. Trump in November, and counties in which Mr. Trump's support in the November election surged at least 20 percentage points higher than GOP presidential nominee Mitt Romney drew in 2012.

The interviews were conducted in 16 states: Colorado, Florida, Georgia, Indiana, Iowa, Maine, Michigan, Minnesota, Missouri, Nevada, New Hampshire, North Carolina, Ohio, Pennsylvania, Virginia and Wisconsin.

According to the poll, 42% in these counties disapproved of his firing of James Comey as director of the Federal Bureau of Investigation, with 33% approving. Nearly half disapproved of Mr. Trump's decision to pull the U.S. out of the Paris climate-change accord, with about one-third approving of that action.

More than half disapprove of Mr. Trump's push to replace the Affordable Care Act, and more than six in 10 disapprove of his use of Twitter.

Views of Mrs. Clinton were unfavorable in the counties surveyed.

Travel Ban's Scope Revised

By Brent Kendall

WASHINGTON—The Supreme Court reinstated part of the Trump administration's latest plans for implementing its temporary travel ban, a second compromise action by the justices in the hot-button case.

The court, in a one-page order Wednesday, prohibited the Trump administration from banning travel by people from six Muslim-majority countries who are grandparents, aunts, uncles and other extended family members of residents in the U.S. That part of the order was a setback for President Donald Trump and signaled administration officials might have adopted too narrow a reading of the high court's ruling on the issue last month.

But in a partial victory for the president, justices said his administration could move ahead for now with plans to impose the ban on a broad group of refugees.

The court's move marked the second time in recent weeks the justices have given Mr. Trump temporary leeway to impose travel restrictions on at least some people. In addition to suspending U.S. entry by refugees, the president has sought to bar travelers from Iran, Libya, Somalia, Sudan, Syria and Yemen.

The justices on June 26 allowed the president to temporarily bar travel to the U.S. by people from the countries if they had no connection to the U.S., but it said travelers with close connections to people or organizations in the U.S. couldn't be barred for now.

When the Trump administration began implementing the Supreme Court's guidance a few days later, the state of Hawaii, which had sued the president, argued that he was imposing the ban more strictly than the justices allowed.

Trump officials said extended family members weren't close enough relatives to be exempt from the ban. The administration also said only a limited pool of refugees qualified for travel under the Supreme Court's terms. The administration argued Hawaii's interpretation of the high-court ruling would render the ban largely meaningless.

Mr. Trump has said the ban, which he signed in a March executive order, is needed to help protect the U.S. from terrorist threats.

The Supreme Court will give a full review of the travel ban on Oct. 10.

Court rulings so far on Mr. Trump's travel restrictions haven't been final decisions on whether they are legal. Judges instead have been considering whether the ban could go into effect while the litigation continued on the underlying merits of the executive order.

The court in its brief order didn't explain its reasoning.

Like its ruling last month, the court again found some ideological common ground for its action. No justice registered a dissent to the court's move to allow Mr. Trump's ban implementation plans against refugees.

However, three conservative justices—Clarence Thomas, Samuel Alito and Neil Gorsuch—said they would have allowed the president to bar travel by extended family members.

JAMES LAWLER DUGGAN/REUTERS

The high court said the Trump administration couldn't bar extended family members of residents.

Hospitals Fight to Keep Drug Subsidies

Trump administration proposal would curb Medicare payments to some facilities

BY MELANIE EVANS

Fresh from battling the White House and Republicans in Congress over a now-sidelined repeal of the Affordable Care Act, U.S. hospitals are ramping up for a new fight to keep lucrative pharmaceutical subsidies.

A Trump administration proposal that could take effect in 2018 would cut a subsidy Medicare has given certain hospitals for drugs they buy and administer to patients, such as cancer medications. The subsidy is designed to help hospitals that serve a large number of uninsured patients. The Trump administration said the cut would reduce what Medicare and its enrollees pay for drugs by an estimated $900 million annually, according to a draft of the regulation published last week.

The American Hospital Association and industry executives argue the loss would harm many hospitals currently eligible for the subsidy, including rural and cancer hospitals, which rely on the money to help finance operations.

"This is a drastic cut," said Roy Guharoy, chief pharmacy officer for Ascension, the nation's largest nonprofit hospital operator, with 141 hospitals and operations across 22 states. Ascension's advocacy team will coordinate efforts to lobby Congress by executives at 42 Ascension hospitals that qualify for the subsidy, he said. Mr. Guharoy also contacted the American Society of Health System Pharmacists within a day of the proposal's release to coordinate lobbying efforts, he said.

The subsidy program, known as 340B and created in 1992, is one of several ways the federal government pays for health care for the uninsured indirectly through entitlements. Hospitals eligible for the program buy drugs from pharmaceutical companies at a steep discount, and are reimbursed by Medicare at a rate a

ILENE OLSON/ASSOCIATED PRESS

A pharmacist working at a hospital in Lovell, Wyo., last year.

certain percentage above what would be the average sale price. Hospitals keep the difference, which they use to finance operations or expand services to patients, said Tom Nickels, executive vice president for government relations and public policy at the American Hospital Association.

But critics of the program say the significant margin on the drugs incentivizes hospitals to overuse certain drugs or choose high-price options. A Government Accountability Office report in 2015 found substantially higher drug spending per Medicare beneficiary at hospitals that received the subsidies.

Under the new proposal, hospitals would still be able to buy the drugs from pharmaceutical companies at the discounted price, but Medicare would make a steep cut to the price it pays to reimburse hospitals.

Because Medicare beneficiaries pay a percentage of what Medicare itself pays for the cost of their drugs, the proposed price cut means their out-of-pocket costs would drop, the Trump administration said, estimating Medicare beneficiaries would ultimately save $180 million annually.

"We are proud to be working to ensure the Medicare program provides the drugs seniors need at a price they can afford," said Health and Human Services Secretary Tom Price, announcing the proposal.

Adam Fein of Philadelphia-based Pembroke Consulting, which tracks drug distribution, agreed the proposal would lower costs for seniors and other Medicare patients. Sales of drugs eligible for subsidies totaled $16.2 billion in 2016, though that number excludes some spending, Mr. Fein reported in May.

The AHA blasted the proposal as "misguided" in an email to its members last week. America's Essential Hospitals, which represents public and nonprofit hospitals, denounced it in a statement as "deeply damaging." Cuts threaten critical services at hospitals in medically underserved communities, said Bruce Siegel, president and chief executive of America's Essential Hospitals.

The Affordable Care Act expanded the number of hospitals eligible for the subsidy, helping boost participation in the already-expanding 340B program.

Because of that growth "we believe it's timely to re-examine the appropriateness" of the subsidies, the administration said in its proposal, citing recent federal audits and reviews of the 340B program. The administration is concerned the program could lead to unnecessary use of drugs, the proposal said.

—Joseph Walker contributed to this article.

TRUMP

Continued from Page One

people understand," Mr. Trump told the senators. "We're in this room today to deliver on our promise to the American people to repeal Obamacare and deliver the health care they need."

He added, "I'm ready to act, I have pen in hand, believe me, I'm sitting in that office. You've never had that before."

Asking if Republican moves in Congress to repeal the Affordable Care Act when his Democratic predecessor, Barack Obama, was in office were for show, Mr. Trump said, "For seven years, you've had an easy rap: 'We'll repeal, we'll replace, and he's never going to sign it.'"

The White House has maintained a bill can still be passed since Monday, when two GOP senators—Mike Lee of Utah and Jerry Moran of Kansas—said they were joining Sens. Susan Collins of Maine and Rand Paul of Kentucky, both Republicans, in withholding support for a revised measure rewriting the 2010 Affordable Care Act.

"I will be having lunch at the White House today with Republican Senators concerning healthcare. They MUST keep their promise to America!" Mr. Trump tweeted Wednesday morning before the lunch. "The Republicans never discuss how good their healthcare bill is, & it will get even better at lunchtime. The Dems scream death as OCare dies!"

GOP leaders had hoped a bill could squeak through the upper chamber this week. They were already hobbled by the absence of John McCain (R., Ariz.), who is recovering from surgery. The defections of four GOP senators was a serious blow because Senate Majority Leader Mitch McConnell (R., Ky.) can lose only two

SAUL LOEB/AGENCE FRANCE-PRESSE/GETTY IMAGES

GOP senators including Senate Majority Mitch McConnell, second from right, at a meeting with President Donald Trump on Wednesday.

votes and still have the bill pass.

The defections caught many in Washington by surprise.

"I don't think they anticipated that Sen. Moran and Sen. Lee were going to express their opposition," said Sen. John Hoeven (R., N.D.), who had met Monday night with Seema Verma, the administrator of the Centers for Medicare and Medicaid Services, to discuss the bill. "I think they do want to pitch a few more ideas," he said of the White House.

The GOP currently holds 52 seats in the Senate, leaving the party vulnerable to defections from conservatives, centrists or any senator with a home-state concern. Democrats have remained unified in their desire to preserve Mr. Obama's health law, under which about 20 million Americans have gained coverage.

In the face of those obstacles, the White House has weighed an array of options. One is a vote to repeal the health law, reminding 49 current Republican senators that they voted to do so in the past. But three GOP senators—Ms. Collins, Lisa Murkowski of Alaska and Shelley Moore Capito of West Virginia—have said they don't support that idea.

The White House also hasn't given up on the idea that it can win back Messrs.

Democrats have said Mr. Trump's warnings he could let the law disintegrate are irresponsible.

Lee and Moran, and that it can ameliorate other Republicans' concerns. Administration officials are contemplating changes in the bill they hope can attract the two senators, for example by addressing Mr. Moran's worries about the bill's potential negative impact on Kansas.

Mr. Trump has at times suggested he would be open to letting the 2010 law collapse as premiums rise and insurers pull out of some of the exchanges.

The White House has long cited insurance-market turbulence as proof the law is failing. Democrats counter that Mr. Trump's administration has taken steps to sabotage the markets, which would have turned around this year but for him.

Democrats have said Mr. Trump's warnings that he could let the law disintegrate are irresponsible.

"Elections do have consequences, and one of the consequences, Mr. President—one of the consequences, Mr. Trump—is that you're in charge and you've got to make things better, not simply point fingers and tweet," said Sen. Chuck Schumer of New York, the chamber's Democratic leader, on Wednesday.

For months, lobbyists, GOP strategists and White House officials have described the GOP health bill in vivid metaphors, ranging from the biblical resurrection of Lazarus to the bathtub scene in "Fatal Attraction," where an apparently vanquished villain roared back to life.

Heading into this week, a senior White House official predicted, "This bill will have been declared dead once, and resurrected, at least once." Officials have also regularly cited their ability get health legislation passed in the House after it was pulled from the floor in March and declared over by Speaker Paul Ryan (R., Wis.) as proof they can do so again.

In addition, the White House has said it may have been outflanked by Democrats in terms of public communication on the bill.

"The left I think has been more organized in their messaging on this than collectively Republicans have as far as advocating for the benefits of the bill," Marc Short, the White House director of legislative affairs, said last week.

Mr. McConnell had been planning to hold a vote on a health-care measure this week, despite the defections, but the White House urged him to defer it until next week to give Mr. Trump time to lobby the holdouts, said people familiar with the talks.

Senators including Ms. Capito have protested the bill's cuts to Medicaid. The Trump administration is assuring Ms. Capito and others with similar concerns that it would approve Medicaid waivers to help provide coverage to low-income residents, people familiar with the matter said. The pitch is being made by Health and Human Services Secretary Tom Price and Ms. Verma.

Mr. McConnell's plan is to hold a procedural vote that would launch debate on the health bill passed by the House, and then quickly offer an amendment to repeal the law. People familiar with the discussions said that once debate begins, there would be a tactical opening to then revive the Senate GOP bill if the repeal legislation doesn't pass.

Mr. Trump's immediate challenge is mustering the 50 GOP Senate votes needed to adopt the motion to proceed. It isn't clear how many Senate Republicans, if any, oppose the GOP bill beyond the ones who have publicly come out in opposition, but Senate Republicans said they were willing to let the White House make a final push to revive it.

Republicans Turn to Tax Policy After Health-Care Setback

BY RICHARD RUBIN

WASHINGTON—Republicans, after a six-month effort to rewrite health-care law that appears to be ending in defeat, are hoping tax policy can deliver them a landmark victory.

They have a huge incentive to succeed after the health-care fumble, lawmakers say, but they acknowledge a tax overhaul won't be quick or easy.

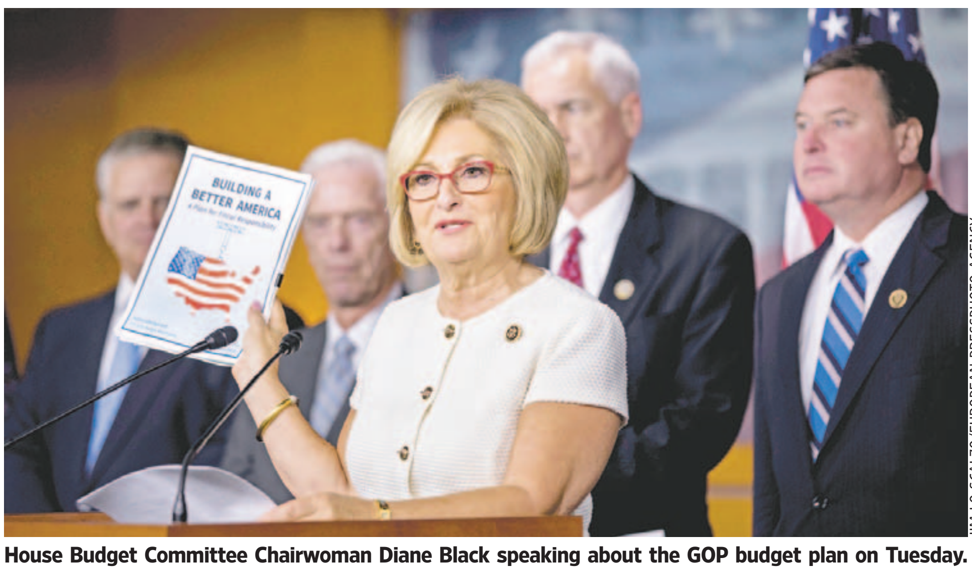
The party's goal of a once-in-a-generation tax-code revamp is at best months from completion. The GOP has yet to write a budget that will be used as a framework for advancing a tax overhaul. Party leaders also haven't agreed on key policy objectives, although top leaders from the House, Senate and White House are trying to finish a blueprint.

"It ratchets up pressure on us to get something done. It also makes it difficult to move forward with anything controversial because of a fear of it falling apart," said Rep. Tom MacArthur (R., N.J.) "We have to get things done that matter to the American people, and tax reform is one of them."

The tax plan will absorb policy fights left unresolved from health care. Republicans had counted on the health bill to repeal investment and payroll taxes and taxes on health industries created in the 2010 Affordable Care Act. Repealing those items in the tax bill would make it harder to cut other taxes and hit fiscal targets, while leaving them in place would upset business groups and others.

Politically, Republicans need momentum coming out of health care. But the same narrow vote margins and procedural technicalities that bedeviled them on health care could reappear.

Aspects of tax policy could unite Republicans. Party members generally agree that lower marginal rates on corporate taxes can increase investment and spur economic growth. President Donald Trump has shown more enthusiasm for a tax rewrite than health care. Moreover, the party isn't faced with the prospect of taking away popular health benefits, as they were in the Obamacare rewrite, which stymied them in attempting the health overhaul.



JIM LO SCALZO/EUROPEAN PRESSPHOTO AGENCY

House Budget Committee Chairwoman Diane Black speaking about the GOP budget plan on Tuesday.

"After health care, taxes are going to be so easy," Mr. Trump said this month on the Christian Broadcasting Network. "If we get what we want, it will be the biggest tax cut and the greatest tax reform in the history of our country."

The House Budget Committee was taking the first step toward a tax bill Wednesday, considering a fiscal-2018 budget plan that will serve as a blueprint for a tax-code rewrite. If the House and Senate agree on a budget, they can advance a subsequent tax bill that avoids a Senate filibuster and passes with only Republican votes.

The House budget calls for tying the tax bill to at least $203 billion in deficit-reduction measures, which may include changes to medical-malpractice law and federal employees' retirement benefits. That bill, like health-care legislation, would face procedural constraints and couldn't increase budget deficits after 10 years, a factor that potentially ties Republican hands.

So far, the House doesn't appear to have enough votes to pass a budget measure. House members are scheduled to leave Washington next week and not return until September.

Rep. Dave Brat (R., Va.), said conservatives want larger spending cuts and are wary of backing the budget without more clarity on taxes.

"We did that last time on health care—we opened the gate for a free-market health-care piece. We didn't get that," he said. "I don't want to make that mistake again."

Other internal divides loom. The party is split between members who prioritize rate cuts and those more concerned about the distribution of the tax burden. There is also a split between lawmakers who want tax cuts and those worried about budget deficits.

"The GOP is likely to pivot away from a fully revenue-neutral bill towards a bill that is deficit-financed over the first 10 years," said Jon Lieber of the Eurasia Group consulting firm. "It is getting to be crunch time."

Sen. Ben Cardin (D., Md.) said he thought the parties could find agreement on tax policy if they worked together.

—Byron Tau and Kate Davidson contributed to this article.

BROOKS KRAFT/GETTY IMAGES

The Federal Reserve is expected to keep interest rates steady at its policy meeting next week.

Fed Faces Inflation Riddle

Some officials have started to express concern about weak price pressures

By Nick Timiraos

The Federal Reserve is likely to stand pat on policy when it concludes a two-day meeting next week, but it faces a debate about the future path of interest-rate increases because of a deepening puzzle over inflation.

Officials will likely leave short-term rates unchanged and wait until September before announcing plans to slowly shrink their $4.5 trillion portfolio of bonds and other assets.

They face a dilemma, however, because the two sets of economic indicators they most closely monitor are sending conflicting signals about the urgency of additional rate increases.

The unemployment rate, which hit a 16-year low in May, shows labor markets are tightening. That argues for the Fed to keep lifting interest rates to prevent the economy from overheating. But inflation is drifting away from the central bank's 2% target, suggesting borrowing costs should stay low to strengthen price pressures.

Moreover, the recent inflation weakness appears more broadly based than it did when officials met last month and Fed Chairwoman Janet Yellen dismissed it as largely due to one-off price declines for a handful of items. She cited, for example, price discounts for wireless-phone plans in March and a drop in drug prices in April.

Data since then show housing costs rose 3.4% over the year ended May, but have increased at a 2.7% annualized rate over the past three months, a sign rising inventories of newly built apartments have weakened landlords' pricing power. While consumers would welcome a respite from rising rents and home prices, those costs have been a key reason inflation hasn't been even weaker in recent years.

Likewise, growing inventories of used cars have weighed on their sales prices.

"Many of these things—airfares, apparel, autos—you expect to pick up as the business cycle lengthens, and they're going in the wrong direction," said Omair Sharif, senior U.S. economist at Société Générale.

Moreover, structural changes at retailers, which face growing competition from online sellers, "mean you're getting a lot of cut-rate pricing by traditional retailers to maintain market share," said Michael Gapen, chief U.S. economist at Barclays.

Economists at Goldman Sachs have cited quality adjustments for health-care services as another potential cause of future one-off price declines.

After touching the Fed's 2% annual target earlier this year, inflation has been weak for three consecutive months, according to the Fed's preferred gauge, the Commerce Department's personal-consumption-expenditures price index. Inflation has been soft for four months by a separate Labor Department measure.

2%

The central bank's inflation target.

Top Fed officials have recently questioned, but not scrapped, their expectation that the inflation weakness will prove transitory. Ms. Yellen last week told lawmakers "there may be more going on" than a series of idiosyncratic price declines, but she also said it was "premature" to conclude underlying inflation was falling well short of 2%. "We have quite a tight labor market, and it continues to strengthen," she said.

Fed officials, relying on traditional forecasting models, expect tight labor markets to eventually drive faster wage growth, which should push up service-sector prices. Goods prices are expected to firm, because the impact of a stronger dollar has faded, curbing declines in import prices.

Projections released last month by the Fed forecast that inflation will return to the 2% target by the end of 2018. But some officials are doubtful.

"My inflation outlook is not quite as sanguine as this projection," Chicago Fed President Charles Evans said in a speech released last week.

The Fed has raised its benchmark short-term interest rate three times in as many quarters, to a range between 1% and 1.25%. At their last meeting, officials penciled in one more quarter-point increase this year.

The inflation weakness hasn't moved the Fed off this course yet, but it could be harder for Ms. Yellen to maintain agreement now that the unemployment and price data are pointing interest-rate policy in different directions.

Meantime, most officials have indicated they're ready to start shrinking the Fed's bondholdings in coming months—though not as soon as next week.

—Eric Morath contributed to this article.

U.S. Will Resume Asset Seizures With Local Police

By Aruna Viswanatha

Attorney General Jeff Sessions ordered the Justice Department to resume participating in asset seizures by local police, one of several Obama-era policies the agency has reversed.

Officials said the move was part of an effort to combat recent increases in drug abuse and violent crime. The Justice Department in 2015 largely ended the property-seizure program after critics said it allowed local law-enforcement officials to take cash and other assets from individuals without proving they had done anything wrong.

In a briefing with reporters on Wednesday, Deputy Attorney General Rod Rosenstein said the agency was reinstating the practice with additional safeguards. Mr. Rosenstein said this would "empower police and prosecutors" with "an important tool that can be used to combat crime."

The program had allowed local law enforcement to retain a greater portion of any seized assets—such as cash or other valuables—than under many state laws. Local officials have argued that ending it removed a key source of funding that helped them pay for necessary equipment and upgrades.

While asset seizures were meant to target drug traffickers and other criminals, they became increasingly controversial as people complained that their money, cars and other property were seized without evidence that they had committed any crime. Conviction of a crime requires proof beyond a reasonable doubt, but officials could take an individual's goods after showing only that a "preponderance of the evidence" suggests they were ill-gotten.

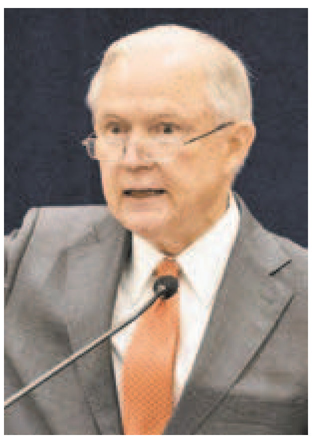
The Justice Department's 2015 decision to end the practice met with bipartisan praise, and at least one Republican lawmaker questioned Mr. Sessions' decision to reinstate it.

"This is a troubling decision for the due-process protections afforded to us...as well as the growing consensus we've seen nationwide on this issue," Rep. Darrell Issa said.

Civil-liberties groups also attacked the change. "Civil asset forfeiture is tantamount to policing for profit, generating millions of dollars annually that the agencies get to keep," said Kanya Bennett, the legislative counsel for the American Civil Liberties Union.

Prosecutors applauded the move. The president of the National Association of Assistant U.S. Attorneys, Lawrence Leiser, said the asset-forfeiture change was "necessary to protect our citizens while depriving criminals of their ill-gotten gains."

Under procedures called "adoptions," local police agencies could seize property in accordance with federal law and ask the federal government to "adopt" the forfeiture.



JERRY HOLT/STAR TRIBUNE/ASSOCIATED PRESS

Attorney General Jeff Sessions

The U.S. would then sell the assets and return about 80% of the proceeds to the state or local agency. The tools can be used, for example, to seize illicit drugs, bundles of cash or weapons from suspected drug dealers or gang members.

The Justice Department said that in reviving the program, it would enact additional safeguards. The head of the department's money-laundering and asset-recovery section, Deborah O'Connor, said in a memo that state and local officials would now need to fill out a form with additional information about the evidence justifying the seizure.

"There is going to be scrutiny to make sure every adoption is going to comply with the Fourth Amendment," Mr. Rosenstein said, referring to the right to be free from unreasonable seizures.

U.S. WATCH

GOVERNMENT TRANSACTION

U.S. Has $2.39 Million Trump Tower Lease

The U.S. government is paying more than $130,000 a month to lease space in Trump Tower for the military office that supports the White House, even though Donald Trump hasn't spent a night at the New York skyscraper since becoming president.

The government signed a $2.39 million lease to rent a 3,475 sq. ft. space in the building for the military from April 11, 2017, to Sept. 30, 2018, nearly 18 months in total, according to lease documents that The Wall Street Journal obtained through a freedom of information request.

The government agreed to pay $180,000 for the last 20 days of April 2017 and $130,000 a month thereafter, according to the contract released by the General Services Administration, the agency that negotiates office space agreements for the government.

The GSA redacted large portions of the lease, including the name of the person who owns the Trump Tower space the government is renting. A Pentagon official wrote in a letter seen by the Journal that the space is owned privately by someone unaffiliated with the Trump Organization and that the department sees no way in which Mr. Trump can benefit from the rent money. Records indicate the owner is Joel R. Anderson, Mr. Trump's neighbor.

The military's lease in Trump Tower puts the space far above market rate for similarly sized apartments in the luxury high rise market and makes it one of the most expensive residential rentals in Manhattan.

The U.S. military uses the White House Military Office to provide medical, food, transportation and communications services that by regulation need to be close to the president at all times. The military also ensures that the so-called nuclear football—the briefcase that allows the president to authorize a nuclear attack—accompanies the commander in chief during his travels. Its operations are separate from those of the Secret Service.

The rental figure, which hasn't been disclosed previously, is only for the Defense Department. Other agencies, such as the U.S. Secret Service, also face increased costs stemming from Mr. Trump's frequent visits to his other properties and his large family.

—Paul Sonne

SENATE

Panel Advances Labor Board Nominees

The Senate's labor committee approved two Republicans whom President Donald Trump nominated for vacant spots on the National Labor Relations Board on a party-line vote Wednesday.

Attorneys Marvin Kaplan and William Emanuel were both advanced on 12-11 votes for seats on the five-member board that referees disputes between unions and employers. Both men still face a confirmation vote in the full Senate, but the committee vote suggests they will face little resistance in the Republican-controlled Senate.

Democrats, who hold two of the three currently filled seats on the board, still control the body. Mr. Trump has elevated the sole Republican, Philip Miscimarra, to chairman. That move slowed issuance of agency decisions, since Mr. Miscimarra can control which cases are decided but lacks the votes to win rulings.

Mr. Kaplan is counsel at the independent Occupational Safety and Health Review Commission. Previously, he worked as counsel for House Republicans on the Education and the Workforce Committee. Mr. Emanuel is a Los Angeles attorney at the Littler Mendelson law firm who mainly represents large employers.

Some business groups have expressed concern about lingering vacancies on the board, one of several Washington bodies without a full complement of appointed officials. Board decisions during President Barack Obama's tenure resulted in some big victories for labor unions, including an easier path for employees at franchise businesses and contractors to join unions. The board's position in the months ahead will shape how far these efforts go, with big implications for chains like McDonald's Corp. and others.

—Eric Morath

CONSUMER PROTECTION

GOP Lawmakers Aim To Kill Arbitration Rule

Congressional Republicans by mid-August hope to overturn a rule put in place by a consumer regulator that could make it easier for consumers to band together and sue banks to resolve disputes.

Sen. Tom Cotton (R., Ark.) said he is working to get enough Senate votes to kill the arbitration rule under a legislative tool called the Congressional Review Act. Mr. Cotton is a leader in the party's efforts to thwart the Consumer Financial Protection Bureau rule, which bans fine print in financial services contracts requiring arbitration. The CFPB rule will become effective in 60 days and binding in March next year.

Mr. Cotton said he was "pretty hopeful" the Senate will pass the resolution before its summer recess, currently expected to start in mid-August. The House is expected to approve its version of the bill next week.

—Yuka Hayashi

ECONOMY

Housing Starts Jumped in June

U.S. housing starts rebounded in June, promising to help ease a national shortage of single-family homes and restrain price growth in the coming months.

Housing starts rose 8.3% in June from the previous month to a seasonally adjusted annual rate of 1.215 million, the Commerce Department said Wednesday.

Residential building permits, which can signal how much construction is in the pipeline, increased 7.4% to an annual pace of 1.254 million last month. That was the largest one-month jump since November 2015.

"This is one of the best new housing construction reports that I've seen in a while," said Ralph McLaughlin, chief economist at Trulia.

—Laura Kusisto and Sarah Chaney

JOSH EDELSON/AGENCE FRANCE-PRESSE/GETTY IMAGES

AFTERMATH: Over 1,400 firefighters have been battling the Detwiler Fire in Mariposa, Calif., that has burned more than 45,000 acres, forced hundreds to evacuate and destroyed at least eight structures. Above, evacuees camping at a Red Cross center in Oakhurst, Calif.

SAUDIS

Continued from Page One

the two princes, the royal court announced Mohammed bin Salman's elevation. Mohammed bin Nayef disappeared from public view. He has been at his Jeddah palace with his movements restricted, say those people, overseen by guards loyal to Mohammed bin Salman.

A royal-court official, in a written response to questions about the shuffle, said Mohammed bin Nayef was "deposed."

"The reasons of his deposition are very confidential and no one has the right to disclose them," he said, adding that the decision to do so "was for the sake of the national interest." The former crown prince has daily visitors, he said, "and has visited the king and the crown prince more than once."

The younger prince's ascent marks a reordering of power with profound implications for one of the world's wealthiest and most secretive countries. With King Salman ailing, the new crown prince could soon be in charge of one of the world's last remaining absolute monarchies, a kingdom that ranks among the planet's largest oil producers and importers of arms, and that uses its vast resources to boost its sway in the Middle East.

Saudi Arabian succession is governed by a malleable set of rules and family customs, and involves input from a council of about 35 top princes representing descendants of the kingdom's founder. The June 21 move amounted to one faction's deposing of another, in the most jolting succession fight since King Saud was forced from the throne by his brothers 53 years ago.

That has left some royal-court insiders concerned about further upheaval, worrying another group could plot a move, say some of the people familiar with the royal court. "Now it's the precedent," one of them says.

The royal-court official declined to make Mohammed bin Salman available to comment and said Mohammed bin Nayef declined to comment.

Mohammed bin Salman in recent years has made bold promises of change, pledging to modernize and open Saudi Arabia's economy and culture. His plan focuses on listing shares in the state-owned oil company on a public exchange and investing the proceeds to diversify the economy. He has also taken an aggressive approach to foreign policy and has worked to form close ties with the Trump White House.

His older cousin is a low-key official who has made relatively few public appearances and has followed a slow-moving approach to governance over the years. He had widespread support among older Saudi princes who have backed his more conservative approach to foreign affairs. Through his years of working on antiterrorism initiatives, he had longstanding relationships with career U.S. security officials who have sometimes been at odds with the current White House.

Saudi princes gathered on June 21 to pledge allegiance to Mohammed bin Salman, successor to Crown Prince Mohammed bin Nayef.

SAUDI PRESS AGENCY/EUROPEAN PRESSPHOTO AGENCY

Some Saudis and Saudi watchers have expressed hope that economic liberalization will lead to more political and cultural liberalization, and that Mohammed bin Salman will emerge as a force for such change. His planned economic overhaul includes a push to bring more women into the workforce and improve education levels.

Discord between the two princes stretched back to 2015, in the early part of King Salman's reign, when he made Mohammed bin Nayef crown prince and installed his own son, Mohammed bin Salman, as deputy crown prince. King Salman's later moves to give his son power over foreign affairs, the military and the economy fueled speculation the king could move him up in the succession order.

The Qatar rift

A debate over how to handle the confrontation with Qatar that began in June, over accusations by Saudi Arabia and other Arab countries that the Persian Gulf neighbor supported terrorism, among other factors, heightened the sense of urgency over the rift between the princes, say several of the people familiar with the royal court. The older wanted a diplomatic solution rather than economic coercion and threats of violence, say some of the people familiar with the royal court. The younger adopted a more hawkish stance, supporting the economic blockade of Qatar that prevailed and remains in place.

"Mohammed bin Nayef did not oppose any measures taken against Qatar," the royal-court official said.

King Salman's deteriorating health fed concerns in Mohammed bin Salman's camp that time was growing short, say some of the people familiar with the royal court. The young prince began to lobby his father to choose him as successor.

"The King's health is excellent," the royal-court official said of the 81-year-old monarch. "He performs his daily, varied routines in an active and energetic manner. In the Kingdom of Saudi Arabia, the King is a King until death."

Mohammed bin Salman, 31 years old, right, was installed as heir apparent.

The royal court recorded a video in recent weeks in which the king says it is time for Mohammed bin Salman to become king, say several of the people familiar with the royal court. They say the unpublished video could be used upon the king's death or as a public abdication announcement.

The royal-court official, without directly addressing the video, said: "Any country that abandons its leader in his last days for a critical health condition is a country with no dignity and prestige."

As the young prince laid his plan, he notified the Trump administration. The week before the power shuffle, say several of the people familiar with the royal court, Mohammed bin Salman dispatched a young official named Turki al Sheikh to Washington.

President Donald Trump had met Mohammed bin Salman in Riyadh and Washington in recent months. Mr. al Sheikh, a poet and writer of patriotic songs with no foreign-policy experience, had been moved by Mohammed bin Salman recently to a prominent role in the royal court.

On his June trip to Washington, Mr. al Sheikh notified the White House that Mohammed bin Salman was ready to oust his older cousin, these people say.

A White House official, referring to the Saudi leadership change, said the U.S. government "sought not to intervene or to be seen as intervening in such a sensitive internal matter," and "we consistently stressed our desire to maintain cooperation" with Saudi leadership.

The royal-court official said: "With regard to Minister Turki Al-Sheikh, he did not meet any U.S. official at all. Neither the U.S. nor any other country has been directly or indirectly informed about the matter, for this is an absolute sovereign matter."

Mohammed bin Salman's plan began playing out soon after Mr. al Sheikh returned to Saudi Arabia, in a drama described to The Wall Street Journal by people familiar with the royal court.

On June 20, Mohammed bin Nayef was getting ready for a relaxed Eid, the big celebration at the end of the Muslim holy month of Ramadan. He headed that night to the palace in Mecca for a routine gathering of senior officials.

For months, he had known his cousin could move against him. Within the three weeks leading up to Eid, people close to Mohammed bin Nayef warned him Mohammad bin Salman was likely preparing to oust him. But, Mohammed bin Nayef dismissed their concerns as conspiracy theories. Mohammed bin Nayef "thought why do it now, because it was the last three days before Eid," says one of the people familiar with the royal court.

Guards loyal to Mohammed bin Nayef were replaced by others loyal to Mohammed bin Salman. The royal-court official said this was normal procedure and that additional royal guards have been assigned to the older prince, adding that they don't control his movements.

Mecca's black-and-white Al Safa palace looms about 10 stories over the Kabaa, Islam's holiest site. Videos show that when the king and his entourage are present, as they were June 20, its carpeted meeting rooms buzz with ministers, staffers and servers carrying trays of coffee to dignitaries in green velour armchairs.

Palace intrigue

The crown prince wasn't set to arrive at the palace until nighttime, after Tarwieh prayers—an hour when many gatherings of high-level officials happen in the scorching Saudi summer. After dark, Mohammed bin Nayef's motorcade set out for the palace through Mecca's busy streets.

When he arrived at the palace that evening, he was told to proceed alone, without his security detail.

"Once he went from one room to another they took the weapons, the phones, everything from everyone" in his entourage, says one of the people familiar with the royal court.

Guards ushered Mohammed bin Nayef upstairs, through the palace's flower-patterned hallways to a small lounge. They closed the doors, leaving him alone. It was close to midnight by then, and the crown prince wouldn't leave until morning.

While Mohammed bin Nayef waited, Mohammed bin Salman had calls put out to members of the Allegiance Council, the group of about 35 sons and grandsons of the kingdom's founder who weigh in on leadership structure. They were told the king wanted Mohammed bin Salman to be crown prince and asked for their support. The Saudi government says 31 members approved.

In that room, Mohammed bin Nayef was told of his fate: The kingdom's senior princes wanted his cousin as crown prince.

Mohammed bin Nayef "was horrified," says one of the people familiar with the royal court. He was asked to sign a resignation letter and a pledge of loyalty to Mohammed bin Salman, this person says. The crown prince resisted.

Over the next several hours, royal-court officials visited him, urging him to reconsider. An emissary from the king told him to sign the resignation letter or face serious consequences.

Mohammed bin Nayef held firm. But by dawn he was exhausted. He knew there was no way out. He made the only compromise he could—he agreed to give an oral pledge of allegiance.

The royal-court official said: "The pledge of allegiance made to the Crown Prince was made willingly."

It was about 7 a.m. when Mohammed bin Salman's men let the crown prince out. Mohammed bin Nayef didn't expect to confront the man taking over his title immediately.

After exiting the room, though, he was surprised to hear a crowd. He walked from the corridor to the marble-walled room and saw video cameras and photographers. A guard—not one of his—stood with his hand on a holstered gun, in what people familiar with the royal court's traditions say is a violation of protocol around the crown prince.

Then he saw Mohammed bin Salman coming quickly toward him. There was the kiss and muttered pledge of allegiance.

It took about 15 seconds. Then a guard wrapped a black cloak around Mohammed bin Nayef's shoulders and led him off to his Jeddah palace.

TOUR

Continued from Page One

succumbing to bugs. New Zealander George Bennett had to quit Tuesday with a fever. On Wednesday, colds caught up to Frenchman Thibaut Pinot, and German Marcel Kittel fell ill and had to abandon the sprinters' green jersey after a crash.

For the vast majority, the Tour's third week is no longer about winning. It's about making sure everyone survives till the finish line on the Champs-Élysées on Sunday. This is where team doctors and chefs earn their money, applying everything from preventive strategies inspired by hospitals to homespun remedies to keep their pedaling germaphobes healthy.

CHRISTOPHE ENA/ASSOCIATED PRESS

JOSHUA ROBINSON/THE WALL STREET JOURNAL

Chris Froome, wearing the leader's yellow jersey, rides for Team Sky, which models its hygiene practices on hospital operating rooms.

"After two weeks of racing your body gets tired," said Team Lotto-Soudal rider Jurgen Roelandts, who is in the late stages of a bronchitis-related cough, and was also quarantined for a few days. "Every little thing, in a team of 40 or 50 people, can be contagious. And it spreads quite quickly."

So the teams don't take chances. They go through hand sanitizer like it was free. The Cannondale-Drapac outfit instructs coaches to douse their hands in gel any time they pass a drink bottle from the car to a rider mid-stage. (Never mind that the hygienic advantage is often undone the moment the rider tucks the bottle inside his jersey.)

Team Sunweb, meanwhile, is one of several at the Tour to haul its own mattresses, pillows and anti-allergenic sheets all over France, no small feat when you're staying in a different room every night for three weeks.

But perhaps no one has formalized its germ protocol as meticulously as Team Sky, known for its extreme attention—critics say absurd—to detail. The richest team in cycling modeled its hygiene practices on hospital operating theaters. If it's good enough for brain surgeons, it's good enough for the three-time Tour de France champion Chris Froome.

Sky's germaphobia involves, for instance, dispatching an advance team to every hotel at the Tour armed with antibacterial wipes and vacuum cleaners before the riders arrive.

"They clean all the TV controls, the taps, the toilets, all the areas that are vulnerable to touch," Team Sky manager Dave Brailsford said. "They Hoover the rooms. They Hoover under the beds. They give it a good old clean."

While that's happening, other Sky staffers are tasked with rubbing down every seat and surface on the team bus from the moment the riders start a stage. Then, once they cross the finish line, Sky's *soigneurs,* who help look after team members, are on hand to cart off their race clothes to nine separate washing machines—one for each rider. The idea is to further decrease the chances of saddle-sore infections being transmitted from one set of shorts to another. Sanitary instructions are posted all over the bus so everyone remembers what the stakes are.

"We set it in context and say, 'Guys, listen. How would you feel if on the eve of the last day of the Tour, we lost it because Chris got ill and it was you who gave it to him?' " Mr. Brailsford said.

The other half of pro cycling teams' war on germs is waged in their mobile kitchen units.

The Orica-Scott team likes to joke that the peloton smells them from a mile away because their chef adds a dose of healthy garlic to everything. And to make sure Mr. Rolland's fate doesn't befall anyone else on the team, Cannondale-Drapac chef Sean Fowler feeds riders daily ginger shots—a fifth of an ounce of pure, zinging, pulverized ginger, believed to boost immune response, cut with orange or grapefruit juice. "It's pretty concentrated," he said. "So it's not for everyone."

Mr. Fowler stirs all manner of herbal remedies into his riders' food. Rose hip is a special favorite for vitamin C. Dried thyme goes in the food most days for its anti-bacterial and anti-inflammatory properties. And for those with respiratory troubles, Mr. Fowler turns to pine syrup, which he calls a "natural expectorant."

Team Sunweb's doctor, Anko Boelens, likes to ply his team with multivitamins, fish oil and other natural supplements before they get sick, because treatment options are limited. Many common cold and flu drugs contain substances, such as steroids, that are banned in competition.

If his riders do catch something, Dr. Boelens's approach is simple: Just double the dosage on the vitamins.

"A lot of those things are not terribly scientific," he said. "The most important thing is, if you get a virus, let your body do the work. It's perhaps also a little bit a Dutch thing where we are pretty conservative with handing out antibiotics."

One thing Sunweb isn't conservative about, however, is quarantine. When rider Roy Curvers felt poorly earlier in the Tour, Dr. Boelens immediately conducted a physical and deemed him ill enough to serve a few nights in bike-racing solitary.

"We have a single room anyway," Dr. Boelens said. So, right now, "anyone even with a blocked nose goes in quarantine."

Riders can request special dispensation from race officials to use stronger prescription drugs, which must be approved by an independent doctor. But "therapeutic use exemptions" are a source of intense controversy in the sport. Over the weekend, Mr. Roelandts's Lotto-Soudal teammate Tim Wellens preferred to drop out with his throat problem rather than ask for permission to use an otherwise banned substance.

Messrs. Roelandts and Rolland considered doing this same. In fact, if this hadn't been the Tour, Mr. Rolland said he would certainly be in bed, because racing without the use of his nose is too brutal.

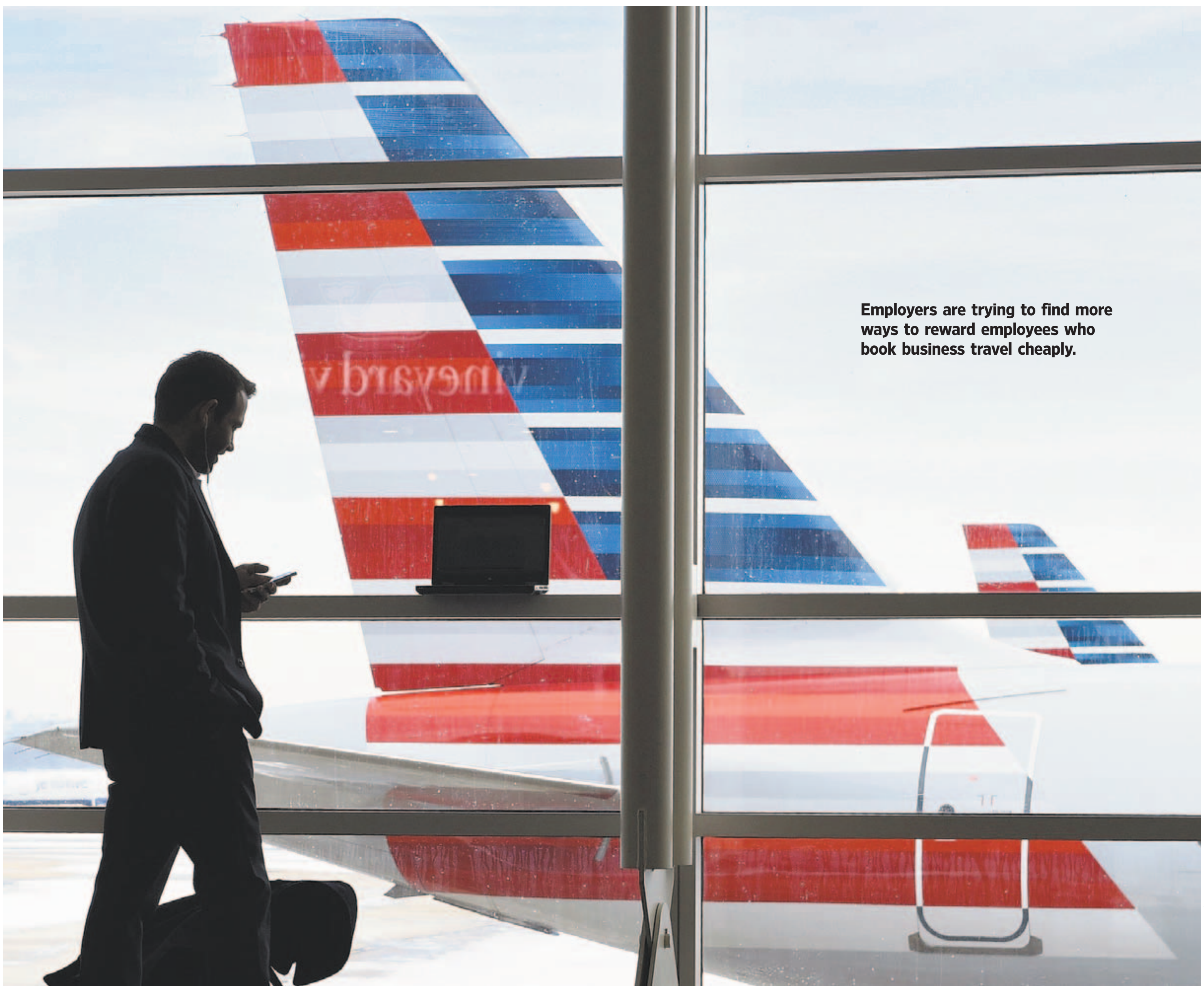
"As soon as I have to pick up speed, I've got no oxygen going to my muscles and that's the ultimate suffering," he said, before his bronchitis improved. "But this is the Tour de France and you don't quit the Tour de France."

LIFE & ARTS

THE MIDDLE SEAT | By Scott McCartney

A Perk for Frugal Business Fliers

Upside, a company from Priceline's founder, bets you'll book their flight and hotel packages if there's a form of cash in it for you



Employers are trying to find more ways to reward employees who book business travel cheaply.

SUSAN WALSH/ASSOCIATED PRESS

TERESA ROEBUCK booked three business trips in a month and got the flights, hotels—and the $700 laptop computer—she wanted. By booking through a new site called Upside Travel, the education consultant was rewarded with $1,000 in gift cards and still figures she saved money for her company.

"I felt like I was cheating," she says.

Upside is the new venture from Priceline founder Jay Walker backed by some big names in finance and travel. It brings basics from vacation-oriented Priceline, such as unpublished discount prices bundled into one package, to higher-dollar business travel. It can be useful for well-heeled vacationers looking for bargains on first-class travel or flexible coach tickets, too.

Upside, aimed mostly at self-employed and small-business travelers, gets discounted flexible fares and room rates from airlines and hotels. Since individual prices are hidden—buyers see only one Upside package price—competitors can't match the rates and discounts get targeted to bargain-hunters without broadly lowering prices.

The package price is lower than published rates, so companies save money on their employees' travel expenses. But those published rates are higher than what Upside is paying the airline and hotel. That lets Upside rebate gift cards to travelers.

Those cards arrive once the trip is completed. Customers select from more than 50 different national retailers and restaurants, or leave the money on account at Upside for future use.

"Interests are aligned. You're getting a share of the savings that you voluntarily make on behalf of your company," Mr. Walker says.

There are drawbacks. Choice of airlines and hotels can be limited and hotels don't award loyalty points on Upside bookings. (Airlines do award miles.) There also may be cheaper airfares and hotel rates out there, but they're likely to carry so many restrictions, Upside figures they're not useful for business travelers.

The arrangement works, Mr. Walker says, because business travelers want flexible bookings, which are more expensive, and airlines and hotels are willing to discount high-dollar rates to land business travelers. Upside has no use for the new category of Basic Economy fares that lack advance seat assignments, for example, or nonrefundable hotel commitments.

"We're not here to save $22 on the Best Western," he says.

In spot checks, Upside prices often appear to be the lowest alternative. A three-day New York-to-San Francisco trip with Virgin America flights and a room at the Westin St. Francis, for example, cost $2,390 if booked directly with the airline and hotel. Upside's package price was $2,180. So the business saves $211, plus the traveler gets a $238 gift card. Upside's price was also lower than an Expedia package for the same flights and hotel.

Many times cheaper deals can be found. Upside priced a Chicago-New Orleans trip at $796 with flights on American, a room at the Hilton Garden Inn near the French Quarter and an $85 gift card. Yet the flights and hotel booked separately cost $600, and Expedia had a package price of $472. The difference: Upside priced only first-class seats on American, ignoring cheaper coach seats with heavy restrictions.

On other days for that route, Upside comes out ahead. Another search for a booking close to departure found the lowest economy fare available, $612 on United, and total cost of $1,062. Upside's package price of $992 was lower than Expedia's package price, saved $70 off published rates and gave the traveler a $106 gift card.

Historically, companies have tried to control travel spending by always booking the cheapest coach ticket or only using preferred airlines and hotels.

Now some are trying carrots in addition to the sticks by rewarding employees for frugal business trips. Some let employees bank part of the savings on trips to use toward upgrades on future trips, or return some of the savings in bonus cash or time off. A New York startup called Rocketrip benchmarks what trips should cost and tallies savings when expense reports come in below targets.

Many booking sites offer their own rewards such as points or free nights. None has gone as far as gift cards that kick back a sizable portion of the purchase.

Upside, based in Washington, D.C., started selling tickets publicly six months ago. For now, it offers bookings only on flights that originate in the U.S. Not every airline participates; Mr. Walker says the company can't disclose airline arrangements. Browsing the site shows inventory on American, United, Virgin America, JetBlue, Alaska and many international airlines. No trips on Delta showed up in a set of spot searches. Delta didn't respond to questions about Upside.

Upside built its own search engine that scores flight and hotel choices based on parameters the traveler sets, like time of departure, desired hotel location and hotel star rating, and factors in things like connection time and reliability. The site shows only a handful of choices based on those scores. After a traveler picks flights and a hotel, Upside offers similar alternatives that can yield bigger savings and gift cards.

Ms. Roebuck, the education consultant from Little Rock, Ark., saw a social media ad for Upside that prompted her to try it. She's received $4,200 in gift cards for her first 10 trips she booked. A one-week trip to Chicago to train teachers scored a $700 gift card to **Lowe's** that she used to replace a bedroom air conditioner.

She used to book Delta flights regularly, but now finds American or United flights on Upside. She says the biggest drawback is not getting Marriott points, but the gift cards have more buying power.

Chris Lanci, a Philadelphia sales executive for a startup chemicals company, says he finds Upside often beats Orbitz prices. And he's collected $1,200 in gift cards.

Mr. Lanci says you have to be willing to make concessions at times, since Upside doesn't offer every flight and every hotel. "I'll go earlier or later if I get $300 in my pocket," he says.

AUCTIONS

NEWCOMERS IN THE HIGH END

BY KELLY CROW

2017 THE ESTATE OF JEAN-MICHEL BASQUIAT/ADAGP, PARIS/ARS

Sotheby's sold Jean-Michel Basquiat's untitled turquoise painting of a skull to Japanese collector Yusaku Maezawa for $110.5 million in May.

COLLECTORS SPOOKED by last year's economic and political tumult are filtering back to the big auction houses, where they are vying with an influx of newcomers for blue-chip art.

The resulting global market looks increasingly healthy, although categories such as rare books and Russian art are in less demand than hot commodities like contemporary and Asian works.

On Tuesday, London-based auction house Christie's International offered further proof of the market's strength when it said it sold £2.4 billion (roughly $3 billion) of art during the first half of 2017, up 14% in pounds from a year ago but flat when converted to U.S. dollars. Christie's auctioned $2.8 billion in art, also up 14% from the first half of last year. Christie's additionally sold $155.4 million worth of art in privately brokered deals.

Rival Sotheby's, based in New York, said it auctioned $2.5 billion in art during the first half, up 8% from the year before. Both auction houses said the six-month totals represented sales through June 30. Sotheby's is scheduled to release its consolidated sales, which include private art sales, next month.

Both houses had an easier time wrangling masterpieces to sell this season, with Christie's selling 38 works for more than £10 million apiece, or $13 million, during the first half of the year, compared with 14 during the same period the year before. Christie's also said it saw a 29% boost in the number of new collectors who paid seven figures or more for a single work of art, suggesting new buyers are muscling swiftly toward the upper reaches of the market.

Christie's priciest work during the first half was Constantin Brancusi's $57.4 million bronze head, "Sleeping Muse," which sold in May to art adviser Tobias Meyer. Also in May, it also sold Cy Twombly's abstract, "Leda and the Swan," for $52.9 million. In June, it sold Vincent van Gogh's 1889 "The Reaper (After Millet)" for $30.9 million.

Sotheby's sold Jean-Michel Basquiat's untitled turquoise painting of a skull to Japanese collector Yusaku Maezawa for $110.5 million in May, the most expensive painting auctioned during the first half of the year. The work also set a new auction record for a U.S. artist. Sotheby's other hits included a $24 million Roy Lichtenstein 1995 portrait of a "Nude Sunbathing" and a 59.60-carat oval pink diamond. The gem sold to Hong Kong jeweler Chow Tai Fook for $71.2 million, a record for a diamond at auction.

Collectors are showing renewed confidence by taking home a higher-than-usual percentage of the goods on offer at both houses. Typically, an auction is considered successful if at least 80% of the offerings find buyers. This spring, Christie's said it found buyers for 81% of its goods across the board, compared with a 79% sell-through rate for the first half of 2016. Sotheby's said it found takers for a robust 90% of its offerings in its $151.5 million jewelry sale in Geneva in May.

Both houses continue to persuade collectors to bid online, with Christie's conducting 35 online-only sales during the first half of the year. The web auctions were led by a $3 million sale of American art in May that drew 14,000 viewers. Chief Executive Guillaume Cerutti said 44% of those viewers were new to his company, making these online-only sales "a primary channel for recruiting new clients."

Among the categories, Christie's $770 million in contemporary art exceeded Sotheby's $767 million in new art sales for the first half. However, Christie's lost some ground by canceling its traditional June sale of contemporary art in London. Mr. Cerutti said the decision "will pay off" if the staff can renew its efforts to sell more art in Hong Kong, its third art hub after New York and London.

Christie's excelled in other areas. It said it sold $889 million worth of impressionist and modern art, American art, modern British art and Latin American art during the first six months of 2017. The sm represents a 43% jump from last year but is down from $1.3 billion two years ago. Sotheby's didn't give a combined total for these categories but said it had sold $701 million worth of impressionist and modern art alone in the first half of 2017, up 25% from a year ago.

OPINION

REVIEW & OUTLOOK

The ObamaCare Republicans

U.S. Senate Republicans killed their own health-care bill on Monday evening, and some are quietly expressing relief: The nightmare of a hard decision is finally over, and now on to supposedly more crowd-pleasing items like tax reform. But this self-inflicted fiasco is one of the great political failures in recent U.S. history, and the damage will echo for years.

The proximate cause of death was Mike Lee of Utah and Jerry Moran of Kansas linking arms and becoming the third and fourth public opponents. The previous two public holdouts were Susan Collins of Maine and Rand Paul of Kentucky, and Majority Leader Mitch McConnell could lose only two GOP Senators. But this defeat had many authors, some of whom are pictured nearby and all of whom hope to evade accountability for preserving the ObamaCare status quo.

But this wasn't the inevitable result of some tide of progressive history. These were choices made by individuals to put their narrow political and ideological preferences ahead of practical legislative progress. The GOP's liabilities now include a broken promise to voters; wasting seven months of a new Administration in order to not solve manifest health-care problems; less of a claim to be a governing party; and the harm that these abdications will wreak on the rest of the Republican agenda and maybe their hold on Congress.

* * *

The ObamaCare Republicans come from both the conservative and moderate wings, but all of these Senators campaigned for nearly a decade on repealing and replacing ObamaCare. Now they finally have a President willing to sign literally any bill that lands on his desk, but in the clutch they choked. Some wouldn't even allow a debate on the floor and the chance to offer amendments.

The ObamaCare Republicans ran on fiscal discipline but they rejected the best chance for entitlement reform in a generation. They campaigned against deficits—and some like Mr. Moran and Nevada's Dean Heller have endorsed a balanced-budget amendment—yet they dismissed a $1.022 trillion spending cut. They denounced ObamaCare's $701 billion in tax increases but then panicked over repealing "tax cuts for the rich."

Conservatives like Ted Cruz and most GOP Senators played constructive roles, but a question for the ages is which cargo cult Messrs. Lee and Paul have joined. They pose as free-market purists but reject progress toward a freer market. Their claim that the bill didn't do enough to reduce insurance premiums is risible given that Mr. Cruz's deregulation amendment was adopted and the alternative is ObamaCare's even higher rates and fewer choices.

Mr. Lee opposed the first draft of the bill in part because it "included hundreds of billions of dollars in tax cuts for the affluent." He opposed the new version for "not repealing all of the ObamaCare taxes."

Messrs. Lee and Paul will try to absolve themselves by voting to move to a debate about straight repeal with no replacement, but no one should believe the ruse. They want to vote against anything that can pass lest they have to take responsibility. By the way, Mr. Lee's stunt of holding hands with Mr. Moran so neither was the deciding killer vote is a political-evasion classic on par with Arlen Specter voting "not proved" on Bill Clinton's impeachment.

Voters may repeal and replace the Senators who broke their promise.

The same applies to the centrists who behind the scenes formed a death panel for the bill. No concession was ever satisfactory, and their demands watered down reform. Yet they wouldn't defend their own compromises, or even try to rebut the media-Democratic caricature of the bill as a human-rights violation.

West Virginia's Shelley Moore Capito came out against the bill with a statement that began: "As I have said before, I did not come to Washington to hurt people." Does she honestly think so little of her colleagues, and the party she chose to affiliate with, to insult them so casually? This moral grandstanding would be more persuasive if Ms. Capito hadn't pledged to "turn the tide from a Washington that tells us who our doctors are and delivers a lower quality of care" at the 2016 GOP convention.

The moderates will now say that failure can be redeemed with bipartisanship, and watching them beg to be rescued by Democratic Leader Chuck Schumer will be instructive, not least for exposing the futility of a good-faith health deal. Mr. Schumer will offer to enshrine ObamaCare and bail out the insurance companies in return for Democratic votes. If such a bill did pass the Senate, it would put the House in a bind and make Speaker Nancy Pelosi more likely.

Top row from left: Sens. Dean Heller (Nev.), Susan Collins (Maine), Shelley Moore Capito (W.Va.). Middle row: Sens. Rob Portman (Ohio), Jerry Moran (Kansas), and Gov. John Kasich (Ohio). Bottom row: Sens. Rand Paul (Ky.), Mike Lee (Utah), Bill Cassidy (La.).

ASSOCIATED PRESS (1), GETTY IMAGES (2), REUTERS (2), EPA (2), ZUMA PRESS (2)

Mr. McConnell says he will hold the repeal-only vote, and Americans should understand that any Senator who votes against moving to the floor is voting to preserve ObamaCare. If the moderates really want a bipartisan solution, they will vote for repeal with a delayed replacement fuse and then try to persuade Democrats. But they don't want that amount of political responsibility.

* * *

If the ObamaCare Republicans now get primary opponents, they have earned them. In two weeks nobody will recall this or that grievance about the Senate bill, but GOP voters will wonder about the bill of goods they were sold.

The damage to the GOP's political image will radiate in ways that are hard to predict. If Republicans can't be trusted to fulfill a core commitment to voters—whether repeal and replace, or simply to reduce the burden of government—then what is the point of electing Republicans? "Sorry, it was too hard" isn't a winning 2018 message, and botching health reform will add to the betrayal narrative that has so inflamed conservative politics. In this case the critics will have a point.

Perhaps this Congress can recover with a rewrite of the tax code. But failure tends to compound, and this show of dysfunction will make Senators even edgier about taking difficult votes.

The coming days will see more than a few liberal tributes to the invincibility of the entitlement state, and how Republicans miscalculated by declining to accommodate ObamaCare. Entitlements by their nature are hard to reform once they've gained a constituency, but what these odes will omit is how close Republicans came. They had the power to reverse the march toward single-payer health care, and most wanted to use it but were blocked by a few feckless deserters.

The ObamaCare Republicans are betting voters won't remember, but implosions this consequential take a long time to forget.

Judging Poland's Democracy

Good news from Poland: Democracy lives despite an uproar over the judiciary. That's something to note for critics who see a threat to European values in the current ruckus in Warsaw.

The ruling Law and Justice (PiS) party has embroiled itself in efforts to rein in judges since winning 2015's election. Its latest gambit is to try to fire all the Supreme Court justices, giving the Justice Minister authority to rehire its favorites. PiS also last week passed a law giving Parliament final say over membership of the National Judiciary Council (KRS), the independent body that nominates judges.

PiS says unaccountable judges thwart the will of voters by nixing laws passed by Parliament—including PiS initiatives the last time the party held power from 2005 to 2007. That's debatable, but it doesn't help that the departing Civic Platform leadership in 2015 tried to rush a series of lame-duck appointments to the Supreme Court, handing PiS an early opportunity to stir public frustration with the judiciary.

Such debates are as old as the hills—judicial power, appointments and tenure preoccupied America's Founders—and some perspective would help. Foreign activists and the European Commission in Brussels fret that PiS is a threat to democracy. They're right that the proposals are heavy-handed. Yet there's no perfect method for balancing judicial independence and democratic sovereignty. Brussels doesn't have a democratic mandate to impose its view, which leans more toward judicial independence than democratic oversight.

Protesters do what the EU can't and force their leaders to U-turn.

More important are the protests from thousands of Poles in Warsaw telling their government that PiS's court plans don't represent the balance those voters want. The uproar has caused President Andrzej Duda, a former PiS politician whose office is usually ceremonial, to threaten to veto the Judiciary Council law.

Mr. Duda's proposed compromise would require a two-thirds parliamentary majority to approve nominations to the commission, depriving PiS of its ability to stack the body with the simple majority it won in 2015 with less than 38% of the vote. Now Parliament, and voters, will decide.

It's hard to find examples in history of independent judiciaries thwarting determined tyrants. What matters more is resistance from citizens demanding democratic rights. By that standard, this week's peaceful protests—which led to Mr. Duda's U-turn—show Polish democracy is resisting PiS's overreach.

The Result of GOP Failure

BUSINESS WORLD
By Holman W. Jenkins, Jr.

It's no excuse for Republican ineptitude, but there is little market in America, and none in the GOP apparently, for coherent health-care policy, to the modest degree that such a description can even apply in Washington.

Republicans, and arguably American voters, don't want an individual mandate. They do want coverage of pre-existing conditions.

There is a term for a system in which you are covered if you are sick, but you don't need to buy coverage and the government promises to make it affordable. It's health care on demand, with taxpayers footing the bill. It's single-payer—at least for the sizable portion of the population who can't be induced through a giant tax incentive to accept insurance from their employer, or who aren't already under some version of proto-single-payer such as Medicare, Medicaid, etc.

ObamaCare was a dog's breakfast, but at least it was coherent on this fundamental point.

Here's how health care would sooner or later (most likely sooner) come to work in a system in which pre-existing conditions are covered but there is no individual mandate, as the GOP bill proposed.

You develop a symptom. You show up at the doctor and, in addition to the other forms, you fill out a form applying for insurance, which you cancel as soon as your treatment is complete.

If this is insurance, the cost is identical to the cost of treatment, which for some reason your insurance company fingers briefly (and takes a cut) before passing along to your doctor.

This is not insurance. Nor is it a viable business model for insurance companies, except as a receptor into which to pour taxpayer money to cover the cost of everyone's health care. Now it can be told: The GOP plan that almost certainly now is dead would have been more of an express route to single-payer than ObamaCare ever was.

Republicans, though inconvenienced by John McCain's keyhole craniotomy, could have passed something. It would have made no sense, except for the highly useful GOP curbs on Medicaid—which were worth the price of admission.

Every administration passes a health-care bill, knowing it won't be the last word, certain in the knowledge they haven't fixed anything fundamental in American health care. Reagan gave us Cobra to allow certain employees to keep their insurance after leaving their jobs. Clinton failed to give us HillaryCare but gave us the Children's Health Insurance Program. George W. Bush gave us the Medicare drug entitlement. Obama gave us you-know-what.

Only George H.W. Bush failed to enact the obligatory expansion of health-care entitlements for somebody somewhere. He was a one-term president.

Were a rational, coherent health-insurance law the apple of my eye, were legislators interested in serving up to the American people a system that would actually be viable and stable, what would it look like?

It would repeal and replace everything that isn't ObamaCare. The bill would have 19 words: "All government programs and health care-related tax benefits are null and void, except for the Affordable Care Act."

Then would come the much more tractable and cognizable job of fixing ObamaCare. The rational brain could actually get itself around it.

Pre-existing conditions without an individual mandate was a time bomb.

Which old people cast adrift from Medicare should receive ObamaCare subsidies, and how much? And how should incentives be structured so young and middle-age people, via ObamaCare, start financing their own old-age health consumption?

How should pre-existing conditions be financed? By rolling the cost into everybody's premiums, or by a separate taxpayer subsidy so individual premiums could be more actuarially based and attractive to most users?

Pre-existing conditions inevitably become a mere transitional problem when the individual mandate is fully institutionalized.

We could go on. Correcting the distortions and cross-subsidies that make ObamaCare such a morass, a death spiral in waiting, is not actually a hard job. A properly fixed ObamaCare would be the only health-care program Americans need.

This won't happen, of course. Neither will single-payer. America's jumble of health-care programs will just be increasingly poorly financed, with longer waits and fewer available providers. The rich, and those with good jobs in corporate America, will benefit from concierge health care in which all the frills and finery are available at a price. It will be expensive. But it will be a hell of lot better than Medicaid.

In the meantime, the Trump administration is becoming incalculable. Will it survive? In 16 months, after disastrous GOP midterms, will Mr. Trump announce he's now a *Democratic* president? In return for what does Chuck Schumer throw him a lifeline? The people who put him in office would applaud and say that's our Trump, even if the media would be completely nonplussed.

Germany Should Say *Danke* for U.S. Oil

By Isaac Orr

German Chancellor Angela Merkel used her closing speech at the recent Group of 20 summit to chide President Trump for withdrawing the U.S. from the Paris climate accord. Yet the German people will benefit far more from the American president's focus on facilitating U.S. energy production and boosting exports than from Mrs. Merkel's climate policies, which have increased residential electricity prices for German households and failed to achieve any meaningful reductions in fossil-fuel consumption or carbon-dioxide emissions.

Germany has developed a reputation as a green-energy superpower, but in many respects it isn't. Of all the energy used in Germany in 2016, 34% came from oil, 23.6% from coal, 22.7% from natural gas, 7.3% from biomass, 6.9% from nuclear, 2.1% from wind power and 1.2% from solar.

Waste, geothermal and hydropower accounted for the remaining 2%.

All told, Germany derived more than 80% of its total energy consumption from fossil fuels. That's bad news for a country that depends on imports. About 97% of the oil, 88% of the natural gas and 87% of the hard coal Germans consume are imported.

Though they may find it difficult to swallow, the German people will benefit from Mr. Trump's efforts to make energy resources accessible and affordable. Germans spent $73.5 billion on imported oil in 2013, when the price of Brent crude averaged approximately $108 a barrel. Since then, the U.S. embrace of hydraulic fracturing—also known as "fracking"—has resulted in a surge of U.S. crude oil on the world market, causing global oil prices to fall to about $47 a barrel. Some back-of-the-envelope math suggests Germans may now pay $41.5 billion less a year for their oil imports, for an average savings of around $1,107 for each of Germany's 37.5 million households.

Ms. Merkel's climate and energy policies have caused residential electricity prices in Germany to spike by approximately 47% since 2006, costing the average German household about $380 more a year.

The higher prices are largely due to a 10-fold increase in renewable-energy surcharges that guarantee returns for the wind and solar-power industries. These surcharges now make up 23% of German residential electric bills.

Angela Merkel's slaps at Donald Trump don't help her country's cause. America's frackers do.

The German people are paying far more for their household energy needs under Ms. Merkel, yet they have little to show for it. Since 2009, when Germany began to pursue renewables aggressively, annual CO_2 emissions are down a negligible 0.1%.

Meanwhile, the U.S. experienced year-over-year reductions in CO_2 emissions in 2015 and 2016, and CO_2 emissions have fallen a dramatic 14% since 2005. This has mostly been made possible by fracking, a practice banned in Germany.

Fracking has allowed the U.S. natural-gas industry to compete with coal in a way that wasn't previously possible, lowering costs for everyone.

Slapping around Mr. Trump, who is deeply unpopular in Germany, might score Ms. Merkel some domestic political points. But if the German leader really wants to help the environment, she might consider scaling back the attacks.

Without American energy production and exports, Germany—and the world—would be a dirtier, darker and less efficient place.

Mr. Orr is a research fellow at the Heartland Institute.

OPINION

Turns Out Governing Is Hard

POLITICS & IDEAS
By William A. Galston

At a meeting with GOP senators on Monday night, President Trump reportedly said that Republicans would look like "dopes" if they couldn't pass a health-care bill. "If the Republicans have the House, the Senate and the presidency and they can't pass this health-care bill, they are going to look weak," Politico reports Mr. Trump said. "How can we not do this after promising it for years?"

Republicans can win big majorities, but running the country is another story.

I don't often agree with Mr. Trump, but I do this time. He has posed a fair question that requires an answer.

Here's my crack at an explanation: Campaigning is one thing, governing another. Opposing isn't the same as legislating.

Republicans had seven years to coalesce around a replacement for ObamaCare, and they wasted them. The bill they passed in 2015 was for show; they knew that President Obama would veto it and that they wouldn't have to take responsibility for its consequences. Republicans are a majority party, but they have yet to prove that they are a governing party.

After Senate Majority Leader Mitch McConnell's effort to broker a compromise collapsed Monday evening, the president tweeted that "Republicans should just REPEAL failing Obamacare now & work on a new Healthcare Plan that will start from a clean slate." In a burst of enthusiastic fantasy, he added that "Dems will join in!"

No, they won't, and some Republicans won't either. Just hours after Mr. McConnell declared his intention to bring the bill the House passed earlier this year to the floor and then move the 2015 bill as the first amendment, Republican Sens. Susan Collins of Maine, Shelley Moore Capito of West Virginia and Lisa Murkowski of Alaska announced their opposition, refusing to repeal ObamaCare without simultaneously replacing it.

"I did not come to Washington to hurt people," Ms. Capito said. "I cannot vote to repeal ObamaCare without a replacement plan that addresses my concerns and the needs of West Virginians."

Although these three senators were out in front, I doubt they were speaking only for themselves. In 2015 the Congressional Budget Office estimated that the ObamaCare repeal plan passed by the Senate would result in lost insurance coverage for 22 million Americans if enacted. Republicans are already concerned about the coverage losses their current proposals would produce. Why would they back repeal legislation that would do no better while throwing the entire health-care sector into turmoil until they were able to agree on a replacement?

ASSOCIATED PRESS

Sen. Shelley Moore Capito on Capitol Hill in Washington on Jan. 20, 2015.

There is a way forward, and Mr. McConnell has pointed to it. Republicans and Democrats could sit down together to negotiate much-needed fixes to ObamaCare's troubled health-insurance exchanges. With even a modicum of goodwill on both sides, this would not be "Mission: Impossible."

Along with bipartisanship, Mr. McConnell should do what he promised—return the Senate to regular order. Explaining his decision to deliver the coup de grâce to the McConnell bill, Kansas Sen. Jerry Moran criticized the "closed-door process" that had produced the bill and called on his party's leaders to "start fresh with an open legislative process." I suspect the American people would welcome this shift.

This episode reveals some larger truths. One is that the Republican coalition disagrees on fundamentals. Small-government conservatives want to reduce spending and cut regulations as a matter of principle, and they are willing to accept the human and political consequences. Others—for whom Sen. Capito spoke—focus on the needs of their constituents. Although they prefer market solutions, they are willing to accept public-sector action when markets fail—even if this means a permanent expansion of government.

Last month the Urban Institute estimated that more than 200,000 of Ms. Capito's constituents would lose access to health care if the Senate bill became law. The bill's draconian cuts to Medicaid would have driven these losses, and the working-class West Virginians who voted for Donald Trump in droves would have been hit the hardest.

Low-income Americans just don't earn enough to purchase health insurance in the private market. This reality—not abstractions about the role of government—drove her choice.

In addition, the U.S. has an aging population. In the coming decades, tens of millions more elderly Americans will need help with the normal activities of daily life, and many will end up in nursing homes.

Most Americans of average income will be unable to save enough to afford more than a few months in such institutions, let alone the years that many end up staying. This is why Medicaid finances a large share of nursing-home costs—and why these outlays are bound to rise for the foreseeable future.

Yes, reforms are possible. But more than anything else, it is hard-to-change economic realities and immutable demographic trends that drive federal government expenditures. Sooner or later, Republicans will have to make their peace with these stubborn facts.

The President's Base vs. the Republican Party

UPWARD MOBILITY
By Jason L. Riley

The GOP's inability to scrap ObamaCare this week means, among other things, that President Trump will end his first six months in office without a major legislative accomplishment. And one question is how much his supporters care.

Recent Wall Street Journal/NBC News polling gives the president a 40% job-approval rating among all voters, while 55% disapprove. In counties Mr. Trump won last year, however, voters still back him by 50% to 46%.

Similar results come from a Washington Post/ABC News survey released Sunday, which found that the president's approval rating had slid to 36% from 42% in April, while his disapproval rating had climbed five points to 58%. Yet among Republican voters over the same period, Mr. Trump's favorability has barely budged and remains above 80%.

Moreover, these polling results reflect voter sentiment since news broke that Donald Trump Jr. met during the campaign with a Russian lawyer who claimed to have dirt on Hillary Clinton. According to the Post/ABC poll, 41% of all voters believe that the Trump campaign helped Russia try to influence the election, but that belief is shared by fewer than one in 10 Republican voters. The average Trump supporter's concern about Russia roughly matches the concern about the president's unreleased tax returns or witching-hour tweets.

Six months into the Trump presidency, the media by and large remain unable or unwilling to understand what drives his blue-collar supporters. Journalists continue to prioritize their own political concerns and play down those of the nearly 63 million people who pulled the lever for him in November.

In her new book, "White Working Class: Overcoming Class Cluelessness in America," Joan C. Williams writes that "during an era when wealthy white Americans have learned to sympathetically imagine the lives of the poor, people of color, and LGBTQ people, the white working class has been insulted or ignored during precisely the period when their economic fortunes tanked."

In an essay on the rising rate of premature deaths from suicide, opioids and alcohol poisoning primarily among less-educated whites, Carol Graham of the Brookings Institution observes that "poor blacks and Hispanics are much more optimistic about their futures than are poor whites and, in turn, mortality rates have not increased the same way among minorities." She adds: "A critical factor is the plight of the white blue-collar worker, for whom hopes for making it to a stable, middle-class life have largely disappeared. Due in large part to technology-driven growth, blue-collar jobs in the traditional primary and secondary industries—such as coal mines and car factories—are gradually disappearing."

Trump voters care more about having a leader who understands them than about quick policy wins.

Mr. Trump's ability to appeal to these voters is the reason he won and the reason his base isn't abandoning him, with or without a significant legislative victory at the six-month mark. Emily Ekins, a Cato Institute scholar who is part of a politically diverse team of academics and pollsters in the process of analyzing the 2016 election, told me on Monday that Trump supporters are less concerned about his policy agenda and more interested in having someone who understands them occupy the Oval Office.

The president's relentless rhetoric about the "costs" of illegal immigration and free trade, his attacks on outsourcing, and this week's White House "Made in America" stunt are all of a piece.

"I think there's a lot of evidence to support the idea that Trump's main appeal was validating the fears and concerns of a certain segment of Americans who felt they were being ignored by elites in the media, elites in politics, elite Republicans," said Ms. Ekins. "My reading of the data is that he's not on a timer or a clock. And it's not clear to me that his supporters are waiting for him to achieve X, Y and Z policy goals. That's an example of the press imposing their expectations on voters."

This is of little comfort to Republicans in Congress. Unlike the president, GOP lawmakers must face voters next year and desperately want some legislative victories to campaign on.

For them, a president this far under water in national polls is cause for concern, given that the party in control of the White House usually drops seats in midterm elections.

What the president's fans and foes alike want to see is economic growth and job creation, and a Bloomberg poll released Monday showed that a plurality of voters approve of Mr. Trump's performance in both categories.

For now, Mr. Trump can count on his base. The bigger question might be how long he can count on his caucus.

A Bomb Without Bombast, in Contrast With Kim Jong Un

By Bob Greene

'There was no celebration. You were trained not to do something like that."

The voice belonged to Theodore "Dutch" Van Kirk, navigator of the Enola Gay, the U.S. B-29 that in 1945 dropped the world's first atomic bomb on Hiroshima, Japan.

I've been thinking a lot about the crew of that plane as ominous talk of atomic warfare is suddenly in the air. The provocative actions and boastful threats out of North Korea have rekindled the specter of the once all but inconceivable: atomic strikes.

North Korea's chest-thumping notwithstanding, I can tell you one thing for a fact: The men who actually dropped that first atomic bomb didn't preen and they didn't brag. There was an air of solemnity to them about the task they had been asked to carry out.

In the spring of 1999 I went on a vacation trip to Branson, Mo., with Van Kirk and two of his oldest friends and Enola Gay crewmates: Paul Tibbets, the pilot, and Tom Ferebee, the bombardier. It was the last reunion they would have; all three men have since died.

I was with Van Kirk in his room when I asked whether he and the crew had celebrated their role in the end of the war.

"I don't think that people back then were as demonstrative as they are today," he said. "And we certainly were trained not to be that way on our missions. Think about the era we grew up in. Babe Ruth would hit a home run and he would run around the bases, and that would be it. You didn't brow much. You took pride in being disciplined."

There may, understandably, have been drunken joy in Times Square and around the U.S. after the atomic bombing of Hiroshima and Nagasaki brought World War II to an end. The dropping of the bombs was later selected by the Associated Press as the No. 1 news story of the 20th century. But no one, before or since, had seen what the men in those B-29s witnessed, and they were in no mood to laugh or dance.

"I would hate to think about someone in my family being down there," the bombardier, Ferebee, told me. "Parts of buildings were coming up the stem of the bomb—you could tell that something strange was going on, because you could see parts of the city, pieces of the buildings, like they were being sucked up toward us."

He had done his somber job flawlessly, but he didn't feel particularly heroic. As a boy in North Carolina, he said, "I wanted to play baseball. That was my dream. I went down to Florida with the St. Louis Cardinals for spring training in 1939. . . . I wasn't good enough, yet. And then the war came. . . . I would rather have helped the Cardinals win a World Series. That's all I ever wanted."

In Branson we would go to dinner in chain restaurants and the other customers would have no idea who the three elderly men were—or what their country once asked of them.

Tibbets, who invited me to come on the trip, had been consistent since the end of the war in publicly saying he slept well because he knew how many lives, American and Japanese, his mission had saved by at last bringing the conflict to a close and preventing a land invasion of Japan.

The men who ended World War II didn't preen. They did the job perfectly and barely talked about it.

But in quiet moments, he said he fully understood the anguish of people who disagreed with him. "I had a different relationship to that day than they do," he told me. "But that doesn't make them wrong. I don't know who's wrong or what's wrong. I don't know that I'm right. . . . Just because I never was emotional and I never burst into tears doesn't mean I don't feel certain things inside me."

As I hear bombastic voices making dark and terrible threats, I think of those men. The three of them seemed, with some sadness, to understand: In the long march through history, going to war is easy. Peace is hard.

"I don't think we were violent people," Van Kirk told me in a soft voice. "I was 24 when I flew the mission, and to the best of my memory, I had never had a fist-fight in my life."

He said he hoped that what he and the crew did assured a future with no taste for nuclear weapons: "Then I think people will look back at the atomic bomb and think of it as something that helped the world evolve toward a lasting peace."

And if, after he was gone, ours was not a planet that cherished peace?

"If it isn't," he said, "people will be tossing atomic bombs around like they're going out of style."

Mr. Greene's books include "Duty: A Father, His Son, and the Man Who Won the War," about his father and Paul Tibbets.

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Notable & Quotable: An Unhealthy Wage

From "Minimum wage and restaurant hygiene violation: Evidence from food establishments in Seattle," a working paper by Subir K. Chakrabarti, Srikant Devaraj and Pankaj C. Patel, SSRN.com, June 27:

We assess the effects of rise in minimum wages on hygiene violation scores in food service establishments. Using a difference-in-difference analysis on hygiene rating of food establishments in Seattle [where minimum wage increased annually between 2010 and 2013] as the treated group and from New York City [minimum wage was constant] as the control group, we find an increase in real minimum wage by $0.10 increased total hygiene violation scores by 11.45 percent. Consistent with our theoretical model, an increase in minimum wage in Seattle has no influence in more severe (red) violations, and a significant increase in less severe (blue) violations. Our findings are consistent while using an alternate control group—Bellevue City, King County, located near Seattle. . . .

Faced with an increase in real minimum wage, restaurants could lay off staff and/or cut their hours; resulting in higher task demands on the continuing staff. These increased task demands could lower hygiene levels in the food establishments and could have a significant impact on public health.

MUSIC REVIEW

The Return Of An Old Friend

Cornelius is back with his first solo album in 11 years—more of a pop work than in the past

Keigo Oyamada, aka Cornelius, whose new album is 'Mellow Waves'

MASAYOSHI SUKITA

BY JIM FUSILLI

It's been 11 years since Keigo Oyamada issued a solo album under his Cornelius moniker, but that doesn't mean the extraordinary musician and composer hasn't been busy. He wrote and recorded soundtracks for the Japanese TV program "Design A" and the anime series "Ghost in the Shell: Arise"; toured with the Yellow Magic Orchestra; joined the reformed Plastic Ono Band with Yoko Ono, her son, Sean Lennon, and others; recorded the joyous full-length disc "S(o)und(d)beams" with J-Pop singer Salyu; and issued a series of remix albums featuring his interpretations of tracks by Beastie Boys, Beck, Blur, James Brown, K.D. Lang and many more.

Nevertheless, his "Mellow Waves" (Rostrum), out on Friday, feels like the return of an old, welcome friend. Mr. Oyamada's new music is a bridge to his earlier Cornelius work, thus not only reconnecting listeners to some of the most inventive and accessible experimental rock and pop but also revealing how his approach has developed in the span of time. On "Mellow Waves," Mr. Oyamada demonstrates his grand capability for creating something new out of what's familiar.

Speaking by phone from Tokyo last week, Mr. Oyamada said he wasn't well-known enough in the States to have been missed during his decade-long absence. If his American fan base isn't as large as his music warrants, it has had the pleasure of a long, satisfying journey with a significant talent. His breakthrough here, such as it was, came with his 1997 album "Fantasma," in which he created a mélange of styles that brought to mind for American audiences Brian Wilson, Disney film scores, the Dust Brothers' production for the Beastie Boys and Beck, post-punk noise rock, and lush pop. When he toured here last year to promote a "Fantasma" reissue, including a memorable performance at the Eaux Claires Music & Arts Festival, he showed how vital and free of convention that music remains.

But Mr. Oyamada departed from the dense, glitchy arrangements of "Fantasma" for his subsequent albums. Released first in Japan in 2006, "Sensuous" emphasized his skills on many instruments, most notably guitar, as he played cutting-edge folk, funk and New Wave rock while alluding to bossa nova, all with clarity and precision. The album is finely wrought, harmonically pure, thoroughly whimsical pop of the highest caliber.

As is "Mellow Waves." Here Mr. Oyamada, who plays all the instruments, taps into many streams: On "The Rain Song," he employs layers of acoustic guitars to blend folk and bossa nova. "Sometime/Someplace" springs from a syncopated guitar pattern reminiscent of "Message in a Bottle" by the Police; later in the piece, Mr. Oyamada discharges a raw, squealing electric guitar solo. Knotty guitar and bass figures are the foundations of "Mellow Yellow Feel" and "The Spell of a Vanishing Loveliness." The latter is a bittersweet duet by Mr. Oyamada and Miki Berenyi, a member of the British band Lush.

For the most part, Mr. Oyamada was spot on when he told me "Mellow Waves" was more pop and more melodic than past works. Songs like "If You're Here" and "In a Dream" saturate the midrange with wistful keyboards. But Mr. Oyamada also offers his take on experimental electronics with "Helix/Spiral," a richly textured piece of crisscrossing synthesizers, and "Surfing on Mind Wave (Pt. 2)," in which the sustained swell of a synthetic orchestra washes over sound effects.

When juxtaposed with his subtle acoustic-guitar performances such as "Crépuscule," the album closer, these complex performances not only confirm his range but indicate a willingness to reach beyond his core capabilities to communicate.

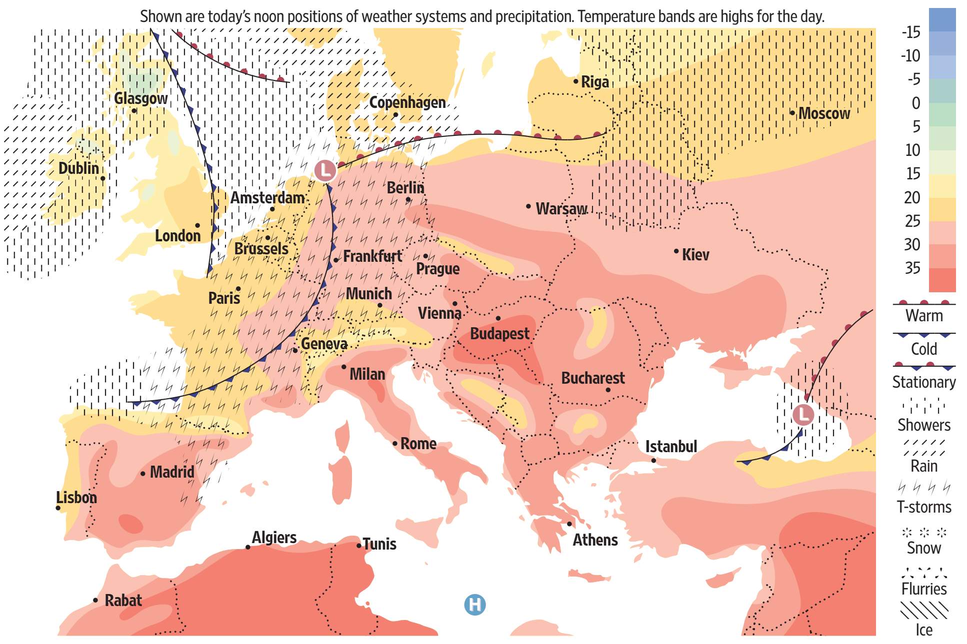
Mr. Oyamada said he hadn't realized how long he had been away from his solo work. His other projects had consumed his attention and creativity. When an artist announces he will reconnect after a lengthy sabbatical, the hope always is that he will return with the kind of integrity and invention Mr. Oyamada delivers here. Whether it serves as an introduction or resumes a relationship that had been delayed, "Mellow Waves" is an invigorating delight that celebrates the return of Cornelius and also the joys inherent in pop without borders played with free-wheeling expertise.

—Mr. Fusilli is the Journal's rock and pop music critic. Email him at jfusilli@wsj.com and follow him on Twitter @wsjrock.

Weather

AccuWeather.com

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

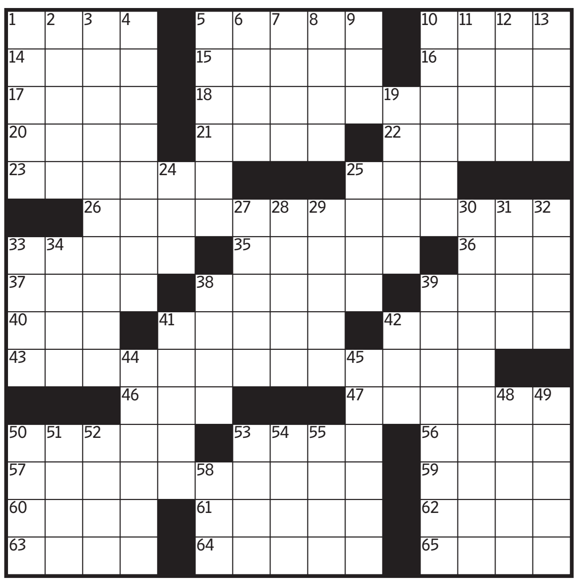


Global Forecasts

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	23	14	t	22	15	pc
Anchorage	19	13	c	19	12	pc
Athens	31	23	s	32	23	s
Atlanta	34	23	s	34	23	s
Baghdad	45	29	s	47	31	s
Baltimore	35	23	pc	36	24	pc
Bangkok	32	25	t	32	25	t
Beijing	33	24	t	25	22	r
Berlin	27	17	t	24	16	pc
Bogota	19	9	pc	19	9	r
Boise	33	16	s	33	15	s
Boston	32	21	pc	31	21	s
Brussels	24	11	t	24	15	pc
Buenos Aires	15	5	pc	17	7	pc
Cairo	34	24	s	35	25	s
Calgary	27	11	pc	22	10	pc
Caracas	31	27	c	31	26	pc
Charlotte	35	22	s	36	24	s
Chicago	32	22	t	29	23	t
Dallas	37	27	s	37	27	s
Denver	35	18	s	32	17	t
Detroit	31	20	t	30	21	t
Dubai	45	33	s	43	34	s
Dublin	17	10	sh	16	10	r
Edinburgh	17	10	sh	18	11	r
Frankfurt	27	15	t	27	17	pc
Geneva	27	17	t	27	16	t
Hanoi	31	25	t	31	25	t
Havana	33	23	pc	34	22	pc
Hong Kong	32	27	r	32	27	t
Honolulu	31	24	sh	31	24	pc
Houston	35	24	s	34	25	t
Istanbul	28	22	s	28	23	s
Jakarta	32	25	t	32	24	t
Johannesburg	20	1	s	20	3	s
Kansas City	36	25	s	37	27	s
Las Vegas	39	29	t	41	29	s
Lima	21	15	s	21	15	pc
London	22	14	pc	20	14	r
Los Angeles	29	18	s	29	18	pc
Madrid	33	18	pc	33	18	pc
Manila	31	26	t	32	26	t
Melbourne	10	3	pc	14	6	s
Mexico City	24	12	pc	23	11	pc
Miami	32	27	pc	33	26	t
Milan	31	20	s	31	20	pc
Minneapolis	31	20	c	27	22	t
Monterrey	35	21	pc	36	20	pc
Montreal	28	17	c	27	17	pc
Moscow	21	12	pc	21	11	r
Mumbai	29	24	r	29	25	r
Nashville	36	24	s	37	25	s
New Delhi	36	28	t	34	28	c
New Orleans	33	25	pc	33	24	pc
New York City	33	24	s	32	24	pc
Omaha	37	26	pc	39	26	pc
Orlando	32	23	t	33	23	t
Ottawa	27	15	sh	27	15	pc
Paris	24	14	t	26	16	pc
Philadelphia	34	26	pc	35	25	pc
Phoenix	39	28	s	39	26	t
Pittsburgh	31	22	pc	31	22	pc
Port-au-Prince	37	21	s	35	23	pc
Portland, Ore.	25	14	c	28	15	s
Rio de Janeiro	24	18	s	27	19	s
Riyadh	44	29	pc	44	27	s
Rome	29	19	s	31	22	s
Salt Lake City	35	24	t	35	21	t
San Diego	25	20	pc	25	20	pc
San Francisco	21	13	pc	22	13	pc
San Juan	31	26	pc	32	26	pc
Santiago	22	5	s	22	4	s
Santo Domingo	34	23	s	32	23	pc
Sao Paulo	21	13	pc	24	13	s
Seattle	23	13	c	23	14	pc
Seoul	33	25	pc	32	26	c
Shanghai	38	29	pc	40	29	s
Singapore	29	26	c	31	26	pc
Stockholm	21	10	pc	21	10	pc
Sydney	17	8	s	17	7	s
Taipei	37	26	pc	37	26	pc
Tehran	37	24	s	38	25	s
Tel Aviv	30	25	s	31	25	s
Tokyo	31	26	pc	31	27	pc
Toronto	26	18	t	29	18	pc
Vancouver	21	13	pc	21	14	c
Washington, D.C.	36	27	pc	36	26	pc
Zurich	26	16	t	27	16	t

The WSJ Daily Crossword | Edited by Mike Shenk



AM TOO! ARE NOT! | By Joe DiPietro

Across

1 Party leader
5 Fare indicator
10 With 5-Down, "The Producers" actor
14 Resident of the Realm of the Four Quarters
15 Corundum, e.g.
16 "Tristia" poet
17 Break a yuletide rule
18 Only seedy bar in a northwest capital?
20 Air
21 Revenuers, for short
22 Enticed
23 Morphine, e.g.
25 Cuban Missile Crisis org.
26 Where kids are sent to disappear?
33 Suitor
35 Invoice word
36 Where Katie Ledecky won four Olympic gold medals
37 Go in separate directions
38 Spicy Chinese cuisine
39 Trumpet feature
40 Number that can never decrease
41 "The pines," in sports lingo
42 Setting filler
43 Coil-shaped sausage links?
46 Crew implement
47 Yet to be broken
50 Cut off
53 Pay tribute to
56 Lay out
57 Primates who specialize in prodding?
59 Bruiser
60 Cracked
61 He was sworn in by Roberts in January 2006
62 Sister of Emily and Charlotte
63 Goofball
64 Holyfield rival
65 Time for a revolution?

Down

1 Aware of
2 Outdo
3 Highway pull-off attraction
4 Lose money
5 See 10-Across
6 Word with eye or makeup
7 Patio piece
8 Tree of life setting
9 "Shiny Happy People" band
10 Twins' set
11 Good combatant
12 Tear asunder
13 Wolfed down too much of, with "on"
19 Fleet
24 Altoids holder
25 Change for the better?
27 Rummy
28 Name on a 2016 winning ticket
29 Birthplace of Gerald Ford
30 "Can anybody hear us?"
31 Big victory margin
32 Market research tool
33 Most of it is filtered these days
34 Conduct
38 Name in a will
39 Honor for "Oslo"
41 Couleur du lait
42 Garfield's owner
44 Person dealing with bull?
45 Northwest Passage seeker
48 Mountain, in Hawaiian
49 Sign of welcome
50 Fix
51 Roadside chain, familiarly
52 "If you say so"
53 Symbol of purity
54 "London Fields" novelist
55 Scheming
58 This might go over your head

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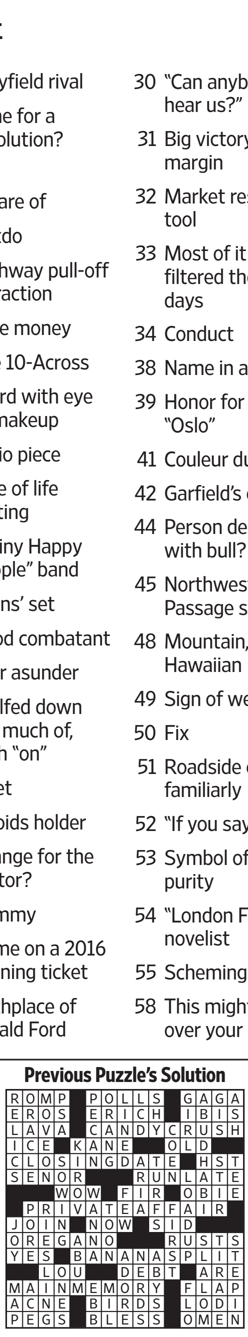
Previous Puzzle's Solution



BUSINESS & FINANCE

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Euro vs. Dollar 1.1518 ▼ 0.32% | FTSE 100 7430.91 ▲ 0.55% | Gold 1241.20 ▲ 0.01% | WTI crude 47.12 ▲ 1.55% | German Bund yield 0.543% | 10-Year Treasury yield 2.268%

Morgan Stanley's Shift Pays Off

BY LIZ HOFFMAN

Morgan Stanley said its second-quarter profit rose to $1.76 billion as the Wall Street firm's traders delivered strong results, topping rival **Goldman Sachs Group** Inc. for the second straight quarter.

Its shares were up 3.4% in late trading Wednesday as earnings and revenue beat the expectations of analysts on Wall Street.

"We feel good about the decisions we've made," Chief Financial Officer Jonathan Pruzan said. "To put up those numbers across the board, in a quarter where we saw fewer market events, less client activity, feels good."

Morgan Stanley reported earnings of 87 cents a share. Analysts had expected 76 cents, up from 75 cents a year ago. Revenue of $9.5 billion was up from $8.91 billion in the second quarter of last year, and well ahead of analyst expectations of $9.09 billion.

The bank, run by Chairman and Chief Executive James Gorman, is in the late stages of a multiyear turnaround that deemphasizes volatile trading businesses in favor of more stable assets and wealth management. With the big pieces in place—buying Citigroup Inc.'s Smith Barney brokerage, slashing risk-weighted assets and firing hundreds of fixed-income traders—the challenge now is to produce higher returns.

Mr. Gorman has promised a 10% return on equity by year-end. The figure stood at 9.1% in the quarter.

"With the firm now on solid footing, performance could still materially improve in the years ahead, assuming constructive markets," Mr. Gorman said, adding that the business could also be aided by relaxed capital requirements, higher interest rates and lower U.S. corporate taxes.

Morgan Stanley is the last of the large U.S. banks to report earnings for the second quarter, a three-month stretch of calm markets that did little to jolt Wall Street businesses. Big banks including Goldman, J.P. Morgan Chase & Co. and Citigroup Inc. offset trading declines with gains in businesses such as commercial lending or private-equity investing.

SHANNON STAPLETON/REUTERS

Morgan's quarterly profit rose.

Morgan Stanley reported a 2.1% drop in trading revenue, the smallest decline reported by any big bank this quarter. At Goldman, whose securities business most closely resembles—and competes with—Morgan Stanley's, trading revenue was off by 17%.

The figure that stands out is $1.24 billion from trading debt, currencies and other fixed-income products. That business is traditionally a laggard for Morgan Stanley, with its smaller balance sheet and history of bungling risk.

But it has been performing better over the past year following a leadership shake-up

Please see MORGAN page B2

Frankfurt Is Poised To Gain In Brexit

BY PATRICIA KOWSMANN

FRANKFURT—Germany's financial hub is taking an early lead in attracting banking businesses in anticipation of Britain exiting the **European Union**. Its main asset: stability.

Banks from Japan's **Nomura Holdings** Inc. and **Sumitomo Mitsui Financial Group** Inc. to the U.S.'s **Citigroup** Inc. are shifting some business to Frankfurt given the possibility that the U.K. will be left out of the single market once it leaves the EU. This would prevent banks in London from being able to serve customers across the Continent, known as passporting rights.

Following U.K.'s Brexit referendum in June 2016, many European capitals began lining up to woo some of these firms. In meetings with regulators and at cocktail gatherings with visiting banking officials, those countries have been dangling sweeteners.

France has promised changes to cut labor costs, and Italy is changing its tax policies to make it less burdensome for bankers and other professionals. Spain's markets regulator is trying to make Madrid more international by hiring native English speakers to revise and edit all communications the agency sends out in English. But it is Frankfurt with its low-key approach that has been getting the biggest response.

"Stability is the one thing all banks are looking for, and in this regard Germany, with its stable economy and politics, is a winner," said an official at a bank that is shifting some of its business to Frankfurt.

Detmar Loff, a partner at law firm **Ashurst**, which is advising banks on their Brexit choices, also points to a well-educated workforce that speaks English, reasonable costs and a reliable regulatory environment as reasons for the German city's early success. Frankfurt is also home to the eurozone's banking supervisor, the **European Central Bank**, which often summons bankers to discuss their businesses. Being close to the ECB, bankers say, makes that relationship easier.

Paris, which many touted as a big contender for Brexit businesses, has suffered from political uncertainty surrounding this year's elections. Emmanuel Macron, France's new pro-business president, is stepping up efforts to bring firms to the capital, but it has secured only one big bank. **HSBC Holdings** PLC has said it would transfer about 1,000 jobs to France, where it already has a retail presence.

Please see BANKS page B2

HEARD ON THE STREET
By Paul J. Davies

Transparent Is the Word On Loans

A major improvement in how European banks account for loan losses is coming in January, which could give clues to how a similar change will affect American peers. But the greater transparency won't come free.

During the last financial crisis, investors were left guessing what losses banks would have to take on loans. A change in an international accounting rule will lead European banks to provision for loan losses on a real-time basis. U.S. investors must wait until 2020 when accounting standards are slated to change.

Banks traditionally booked loan losses when they happened or became very likely to happen. But after the crisis, rule makers decided that banks should book losses on an "expected basis."

This is more like marking assets to market. In simple terms, investors should expect banks' loan portfolios to behave more like bonds. Rising interest rates will, in effect, hurt loan values because higher debt-service costs mean some borrowers will struggle.

Some banks will lose equity when the new policy kicks in, but, more important, bank earnings will become volatile in the future because changes in economic conditions will be felt in loss provisions right away.

Furthermore, banks will have to take provisions on all loans from the day they are made. Borrowers don't have to have missed any payments for there to be an expected loss on a book of good loans.

When the new rules go live, some banks will have to book new expected losses immediately.

European regulators are giving banks up to five years to fully recognize the cost of this in capital ratios, so there isn't likely to be a wave of forced equity issues.

Europeans are forecast to lift provisions by 13% on average, which would cut 0.35 percentage point from their common equity capital ratios, according to the **European Banking Authority**'s impact study, released last week. Smaller banks will likely be hit hardest.

In a bad year, the increase in European provisions could be more than 50% higher than under current rules, according to **Deutsche Bank** estimates. That, though, is surely better than what Europe saw after the last crisis: years of banks failing to come clean about losses and some countries that are only now beginning to make proper repairs.

WESLEY HITT FOR THE WALL STREET JOURNAL

Wal-Mart and other U.S. retailers are increasing their use of self-checkout lanes. Economists say many retail jobs are ripe for automation.

Robots Pick Up More Retail Work

Wal-Mart, others call upon machines to handle rote tasks amid pressure from online rivals

BY SARAH NASSAUER

Last August, a 55-year-old Wal-Mart employee found out her job was being taken over by a robot. Her task was to count cash and track the accuracy of the store's books from a desk in a windowless backroom. She earned $13 an hour.

Instead, **Wal-Mart Stores** Inc. started using a hulking gray machine that counts eight bills per second and 3,000 coins a minute. The Cash360 machine digitally deposits money at the bank, earning interest for Wal-Mart sooner than if sent by armored car. And the machine uses software to predict how much cash is needed on a given day to reduce excess.

"They think it will be a more efficient way to process the money," said the employee, who has worked with Wal-Mart for a decade.

Now almost all of Wal-Mart's 4,700 U.S. stores have a Cash360 machine, making thousands of positions obsolete. Most of the employees in those positions moved into store jobs to improve service, said a Wal-Mart spokesman. More than 500 have left the company. The store accountant displaced last August is now a greeter at the front door, where she still earns $13 an hour.

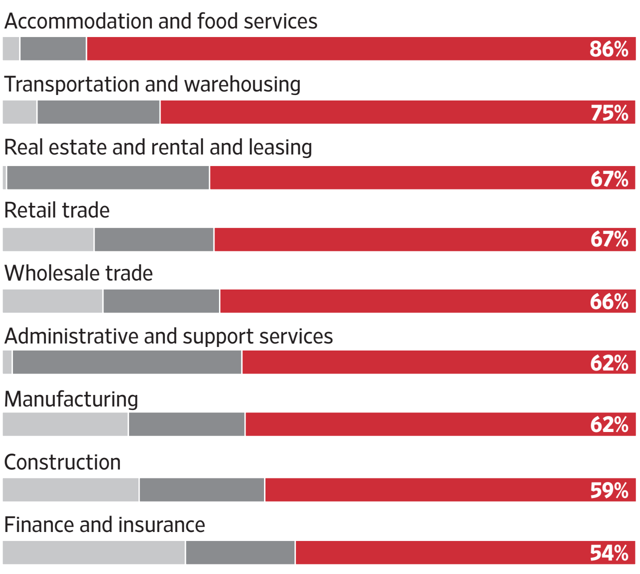
"The role of service and customer-facing associates will always be there," said Judith McKenna, Wal-Mart's U.S. chief operating officer. But, she added, "there are interesting developments in technology that mean those roles shift and change over time."

Shopping is moving online, hourly wages are rising and

Please see JOBS page B4

Occupational Hazards

The following industries may see the highest worker displacement due to automation by 2030.



Sources: Citi Research, Oxford Martin School

THE WALL STREET JOURNAL.

U.S. Court Overturns Convictions Tied to Libor Scandal

ANDREW KELLY/REUTERS (2)

The appeals court ruled that charges against Anthony Conti, left, and Anthony Allen were tainted.

BY MICHAEL RAPOPORT

A federal appeals-court panel has overturned the convictions of two former Rabobank traders in the scandal over attempted manipulation of the London interbank offered rate, saying the men's Fifth Amendment right against self-incrimination had been violated.

The three-judge panel of the Second U.S. Circuit Court of Appeals in New York dismissed the charges against Anthony Allen and Anthony Conti, both former traders for the Dutch bank, who were convicted on conspiracy and wire-fraud charges in November 2015.

In a Wednesday ruling, the panel said the convictions of Messrs. Allen and Conti were tainted because a witness against them had reviewed and may have been influenced by testimony that the two men had been forced to provide to authorities in their native U.K. about their actions regarding the London interbank offered rate, or Libor. Without the evidence supplied by that witness, it isn't clear whether the two traders would have been indicted to begin with, the judges said.

Compelled testimony "cannot be used to secure a conviction in an American court," Judge Jose Cabranes wrote in the unanimous 81-page ruling. "This is so even when the testimony was compelled by a foreign government in full accordance with its own law."

Michael Schachter, Mr. Allen's attorney, called the ruling "a tremendous relief for Tony Allen and his family"

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LIBOR

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and said they "now look forward to putting this stressful chapter of their lives behind them."

Mr. Conti's attorney, Aaron Williamson, said, "I'm thrilled, and I've just called my client and he's thrilled as well."

A spokeswoman for the Justice Department declined to comment.

While Wednesday's ruling focused narrowly on the Fifth Amendment issue, it amounts to a blow to authorities' attempt to pursue the traders and bankers involved in the scandal over Libor, an interest rate that international banks charge each other and a global benchmark underpinning the costs of hundreds of trillions of dollars of financial products. More than a dozen big banks have acknowledged rigging Libor to benefit themselves and have paid billions of dollars in fines and settlements.

Messrs. Allen and Conti are the only defendants who have gone to trial on Libor-related charges in the U.S., though at least 11 others have been convicted or pleaded guilty in the U.S. and the U.K., and cases against other defendants are pending.

Rabobank agreed in 2013 to pay more than $1 billion in settlements to U.S., U.K. and Dutch authorities, including a $325 million settlement with the Justice Department. A Rabobank spokesman declined to comment.

Mr. Allen is Rabobank's former global head of liquidity and finance; Mr. Conti is a former Rabobank senior trader. Both are U.K. citizens, but they waived extradition to come to the U.S. and fight the allegations.

They were convicted on charges that they participated in a scheme to rig U.S. dollar and Japanese yen Libor rates to benefit Rabobank's trading positions. Prosecutors said they didn't submit honest estimates about Rabobank's costs to the British Bankers' Association, which calculates Libor based on banks' estimates.

Both men denied wrongdoing. Mr. Allen testified at trial that he didn't accommodate requests from Rabobank traders to submit Libor estimates favorable to their trading positions.

After their convictions, Mr. Allen was sentenced to two years in prison and Mr. Conti to a year and a day, though they have been free on bail pending the appeal.

The appeal hinged on testimony that Messrs. Allen and Conti gave to U.K. regulators in their own investigation of Libor manipulation. The U.K. gave them a form of immunity for that testimony, so they could have been imprisoned under U.K. law if they refused to testify.

BUSINESS WATCH

GLAXOSMITHKLINE

Drugmaker to Sell Its Horlicks Brand

Drug and health-care products company **GlaxoSmithKline** PLC said Wednesday that it plans to sell its Horlicks drinks brand in the U.K. and cut about 320 jobs in the country.

Glaxo said it would seek to sell Horlicks in the U.K. and close the site in Slough, England, where the malted drink is made.

It also plans to sell its Maxi-Nutrition brand in the U.K. and outsource some manufacturing activities currently undertaken at its site in Worthing, England.

The combined annual U.K. sales of Horlicks and MaxiNutrition are around £30 million, or roughly $39 million, Glaxo said.

Glaxo also sells Horlicks in other markets, including India.

The proposed sales and outsourcing are likely to result in 320 job losses over the next four years, the company said.

—Rory Gallivan

IBM

Firm Posts Declines In Profit and Sales

International Business Machines Corp. on Tuesday reported falling quarterly profit and sales, adding to doubts about Chief Executive Ginni Rometty's lengthy effort to reinvent the 106-year-old technology company.

The 4.7% drop in second-quarter revenue, to $19.3 billion, marked the 21st consecutive quarter of declining sales at IBM. Profit margins also narrowed across all business units, including the divisions for the company's main cloud-computing and Watson artificial-intelligence operations—two areas Ms. Rometty is counting on to propel the company's turnaround.

Profit fell 6.9% from a year earlier. Earnings results exceeded analysts' expectations. Still, revenue came in below forecasts.

—Ted Greenwald

UNITED

New Fares and Fees Push Revenue Higher

United Continental Holdings Inc. said profit and revenue rose in the second quarter, the latest airline to find success offering a wider range of fare categories and fees.

The U.S.'s No. 3 airline by traffic said Tuesday that despite higher fuel and labor costs, its net income rose 39% from a year earlier. Excluding items, United said earnings came to $846 million on a strong 6.4% gain in revenue. United's unit revenue was up 2.1% in the June quarter year over year.

—Susan Carey

BUSINESS & FINANCE

Old Woes for New GE Boss

Group's profit target and cash flow will be focus of quarterly results due out Friday

BY THOMAS GRYTA

MARTIN DIVISEK/BLOOMBERG NEWS

Technicians worked on an aircraft engine at a GE plant in Prague last year. The U.S. company's shares are off 15% so far this year, pressuring GE to defend its conglomerate model to investors.

GE's quarterly results, due Friday, will give the company's incoming boss a taste of what he is up against: concerns about long-term profit goals and generating cash in the short term.

John Flannery's appointment as **General Electric** Co. chief executive, a post he assumes on Aug. 1, has stoked some optimism about the company, but not enough to buoy the stock. Shares of the giant industrial company are down 15% so far this year, through Tuesday's close, while the S&P 500 index is up 9.9%.

The divergence is forcing GE to defend its conglomerate model to investors. The Boston company worked with activist **Trian Fund Management** earlier this year to set new cost-cutting targets. But Wall Street is still bracing for GE to lower its long-held 2018 profit target of $2 a share.

"Investors have come to realize that $2 of earnings power in 2018 is simply not on the table," said Morgan Stanley analyst Nigel Coe. In May, current CEO Jeff Immelt said the goal was at the high end of expectations, warning that GE would need additional cost cuts to make it.

On average, analysts expect earnings per share of $1.81 in 2018—down from an average estimate of $1.89 calculated in late May—and generally expect the company to lower the target either on Friday or in the months after Mr. Flannery, head of GE's health-care business, takes the reins.

For the second quarter, Wall Street expects GE to report earnings of 25 cents a share, down about 50% from a year earlier, with revenue declining about 13%. The decline is largely attributable to a year-ago gain from GE selling its appliances business.

Thomson Reuters says GE will be the biggest drag on S&P 500 profits, which are expected to rise 8.5% in the quarter from a year earlier. Excluding GE, S&P 500 profits are forecast to climb 9.5%.

In the first quarter, GE reported a higher profit but Wall Street was blindsided by a negative cash flow of $1.6 billion from industrial operating activities. The company blamed the shortfall on the timing of inventory and orders. It reiterated its goal of $12 billion to $14 billion of positive industrial cash flow by year-end, up from $11.6 billion in 2016.

Chief Financial Officer Jeffrey Bornstein said in April that cash from operating activities would be "sequentially much better in the second quarter than the first."

GE has taken steps to retain cash by cutting the time its customers have to pay their bills, while extending the time it has to pay its own suppliers. In May, GE's Power division sent notices to some U.S. suppliers that it was lengthening the payment window and giving itself a discount if it pays those suppliers early.

The worries about cash center on the company's dividend, which costs about $8 billion a year to fund. Deutsche Bank, one of the few brokerages with a "sell" rating on the company, warned in May that GE might have trouble covering the dividend after capital spending and pension payments.

In an interview last month, Mr. Flannery said the dividend is "safe" and reducing it won't be considered. He has promised to review the entire GE portfolio and produce recommendations by the fall.

Citigroup analyst Andrew Kaplowitz is confident that cash generation will improve in the second quarter but is doubtful the negative sentiment around GE will improve until there is more clarity about Mr. Flannery's strategy.

"We think investors could largely take a wait-and-see approach to GE until new management begins to communicate its key priorities," Mr. Kaplowitz said.

Univision Fields Bidder Queries

Univision Communications Inc., the owner of the dominant Spanish-language broadcaster in the U.S., has been fielding interest from potential

By Matt Jarzemsky, Arian Campo-Flores, Sarah Rabil and Joe Flint

bidders after the media company's initial public offering was delayed, according to people familiar with the matter.

Among the suitors has been cable mogul John Malone, some of the people said. Mr. Malone and Greg Maffei, chief executive of Mr. Malone's **Liberty Media** Corp. holding company, held talks with Univision's owners about the possibility of acquiring a significant stake, the people said.

Mr. Malone and Mr. Maffei met with Univision backers billionaire Haim Saban and **Providence Equity Partners'** Jonathan Nelson at the Sun Valley media conference this month, the people said.

However, the two sides were far apart on valuation, and it is unclear if a deal—with Mr. Malone or anyone else—could be reached. It is also unclear what terms were discussed.

Univision's owners also haven't ruled out an IPO in the first half of next year, some of the people said.

Boutique investment bank **LionTree** is among the advisers that have been working with Univision to help evaluate interest from possible bidders, some of the people said.

Univision's owners, which include several private-equity firms, have been searching for an exit for years. The $13.7 billion purchase of Univision a decade ago was one of the biggest deals to be announced during the leveraged-buyout boom, right before the financial crisis. Private-equity firms often seek to sell out of their investments after three to five years and are usually loath to sell for much less than what they paid.

Univision's backers have been aiming to launch an IPO since registering with regulators in 2015 but have repeatedly postponed going public because of weak performance among media-company stocks and a rocky market for first-time share sales in general.

In 2007, Univision was taken private by investors including Saban Capital Group, Madison Dearborn Partners, Providence Equity Partners, TPG and Thomas H. Lee Partners. The deal saddled the media company with billions in debt, hampering the stakeholders' ability to find an exit.

A significant player in any deal would be Mexican TV giant **Grupo Televisa** SAB. The world's biggest producer of Spanish-language television programming is a minority investor in Univision and has a longstanding programming relationship with the media company.

Televisa is considered a potential buyer of Univision if regulators relax restrictions on foreign ownership, people close to the company said.

BANKS

Continued from the prior page
It is too early to tell how many financial firms—and people—will converge on the German city of 730,000, which gets sleepy on weekends when many expat workers go home while others retreat to the residential suburbs in the surrounding hills.

Sumitomo Mitsui Financial, Nomura and **Daiwa Securities Group** Inc. separately said they would set up subsidiaries in Germany, but didn't provide staffing figures. Citigroup is planning to make Frankfurt its broker-dealer business hub outside London by adding about 150 positions in its business already set up in the city, according to a person familiar with the plan.

Morgan Stanley is close to picking Frankfurt as its EU hub, according to a person familiar with the plan. But both Citigroup and Morgan Stanley are also expected to shift some jobs to other capitals.

Frankfurt Main Finance, the group that is promoting the financial center, estimates that more than 10,000 jobs will come to the city in the next six years as a result of Brexit, adding to the existing 75,000. That is still a fraction of the more than 700,000 people who work in financial and related services in London.

The group points to plenty of high-quality office space and lower rents than in Paris and Dublin as some of the reasons banks should move to the city. In its Brexit promotional booklet, the group also boasts about Germany's soccer league, nearby golf courses and "events like the European Cultural Days of the ECB."

Hubertus Väth, managing director of Frankfurt Main Finance, acknowledged Frankfurt's subdued reputation, particularly among bankers looking to spend their money.

"At the end of the day, we live in a world of preconceived notions," Mr. Väth said. "But we are also in a position where it is extremely easy to surprise positively."

—Max Colchester in London, Jeannette Neumann in Madrid and Giovanni Legorano in Rome contributed to this article.

ANDREAS ARNOLD/DPA/ZUMA PRESS

'Stability is the one thing all banks are looking for,' says one banker about moving some business operations to Frankfurt.

MORGAN

Continued from the prior page
that saw its top stock trader, Ted Pick, take over all of sales and trading. This marks the fifth straight quarter of $1 billion-plus revenue, a bar set by Mr. Gorman last year, and once again tops Goldman Sachs, which continues to struggle in fixed-income trading and posted a 40% decline in that business Tuesday.

At Morgan Stanley, fixed income was down just 4% over last year, the smallest decline among all big banks in a tough quarter. Mr. Pruzan said currencies were stronger, credit "hung in there" and commodities were weaker.

Revenue was flat in stock trading, Morgan Stanley's strength. The firm has outmaneuvered peers in courting business from so-called "quant" hedge funds that trade huge volumes of stocks in fractions of a second.

Morgan Stanley's wealth-management business, which manages about $2.2 trillion in client assets, took in a best-ever $4.15 billion in revenue last quarter. The unit's profit margin hit 25%, the high end of a goal set last year by Mr. Gorman, as it continues to sweep in client cash and find more profitable uses for it, such as lending.

Loans to wealth clients hit a record $74 billion as of June 30, with gains across all three major products: mortgages, securities-backed loans and tailored lending, Mr. Pruzan said. As interest rates rise, Morgan Stanley is hustling to lend out a surfeit of deposits it picked up in the multiyear acquisition of Smith Barney.

In investment banking, where Morgan Stanley is generally a top-three player, revenue rose 28%, as big gains in stock and debt underwriting overcame flat merger fees.

Morgan Stanley's smallest division, investment management, reported revenue of $665 million, up 14% from a year ago. The business manages about $435 billion, making it about one-tenth the size of index-fund giant Vanguard Group.

Unlike rivals, Morgan Stanley offers no index funds that simply mirror the performance of certain corners of the stock market. Instead, it is betting on active stock pickers who can beat the market—a tall order lately as stock prices have churned indiscriminately higher.

McCormick & Co. Buys Food Brands

By Chip Cummins
And Keith Collins

Turns out, there is some appetite for all that packaged food for sale.

McCormick & Co. said it agreed to acquire **Reckitt Benckiser Group** PLC's food division, whose brands include French's mustard, for $4.2 billion, the latest in a wave of deal activity in the global packaged-foods sector.

The transaction comes three months after the U.K. company put its food unit up for sale. Analysts at the time estimated that it could be worth $2.5 billion to $4 billion.

The agreement also comes amid a flurry of planned sales or strategic reviews of well-known packaged food brands across an industry looking to cut costs and insulate itself from slowing sales. Many companies are trying to change their product mixes as consumers move to healthier or locally produced options. Low inflation has made it difficult to raise prices to make up for sluggish volume growth in many markets.

That has triggered a number of strategic reviews among big food firms. **Unilever** PLC, the Anglo-Dutch consumer-goods behemoth that this year rejected Kraft Heinz Co.'s $143 billion takeover bid, has said it is planning to unload its margarine-and-spreads business. Switzerland's Nestlé SA last month put its U.S. confectionery business up for sale.

All of those assets on the market—at a time when the global packaged-food industry is facing headwinds on several fronts—raised questions about whether sellers might be able to unload their businesses at attractive prices.

But recent deals—including the agreement late Tuesday—suggest there are still plenty of strategic buyers willing to pay top dollar for good assets.

In April, cereal giant Post Holdings Inc. agreed to buy Weetabix Food Co., maker of the breakfast brand, for £1.4 billion ($1.83 billion). Post faced several other bidders for the brand, which China's Bright Food Group Co. and Baring Private Equity Asia had put on the block.

Bright bought its 60% stake in Weetabix in 2012 for £1.2 billion but never succeeded in turning it into a hit in Asia. Still, the price Bright ultimately got from Post translated into a higher multiple over adjusted earnings than some had expected.

Reckitt's food business, called **RB Foods**, was seen as one of the most attractive on the block in recent months. French's is America's best-selling yellow mustard. RB Foods' other brands include Frank's RedHot sauce and Cattlemen's barbecue sauce.

Reckitt said it wasn't core, as it puts more emphasis on its home and personal-care offerings. In February, Reckitt agreed to acquire baby-food maker **Mead Johnson Nutrition** Co. for $16.6 billion.

RB Foods generated just £411 million of Reckitt's overall revenue of £9.89 billion in 2016. But its operating margins—considered close to 27% last year—are considered high for packaged food.

Sparks, Md.-based McCormick, whose current brands include Lawry's and Grill Mates, said it expects combined 2017 annual net sales of about $5 billion. It also projects the deal will generate cost savings of around $50 million, the majority of which will be achieved by 2020.

Though McCormick's leverage ratio will increase because of the deal, the company plans to maintain its investment-grade credit rating, it said. Reckitt said it intends to use the proceeds from the deal to reduce its debt.

RICHARD B. LEVINE/LEVINE ROBERTS/NEWSCOM/ZUMA PRESS

Reckitt owns French's mustard.

Firms Go Public, And Board Is a Boys' Club

By Joann S. Lublin

Despite aggressive efforts to place women on corporate boards, few newly public companies heed the call.

Nearly half of the 75 biggest initial public offerings of the last three years involved companies that lacked female directors when they went public, a new analysis found. Most of those 37 concerns still have all-male boards, concluded 2020 Women on Boards, an advocacy group.

Board members of newly public companies can reap sizable rewards.

"We didn't expect it to be that bad," said Malli Gero, the organization's president. Her group aims to increase women's board representation by 2020.

Board members of newly public companies can reap sizable rewards. About 42% of 236 major concerns with IPOs in 2014 and 2015 gave new directors an initial equity grant, worth an average of $347,000, according to a review of 2016 proxy statements by Equilar Inc. That compares with 19% of more established firms, where initial stock awards averaged $185,000.

2020 Women on Boards examined U.S. companies with the largest market capitalization on the day their shares began trading between 2014 and 2016. This represents the first research about boards' gender makeup at newly public U.S. businesses, Ms. Gero noted.

"Three fourths of companies with the largest IPOs went public with one or no women on their boards," its report said. Two-thirds of such businesses had the same scant representation within two years of going public.

Plenty of women would be interested in board spots if recently public companies bothered to look, Ms. Gero said.

For instance, former publishing executive Marjorie Scardino took a board seat at Twitter Inc. a week after the social-media company went public in November 2013. Twitter now has three female directors.

Many of the 21 tracked companies that currently lack female directors operate in male-dominated industries such as energy. Some focus on individual consumers, such as Red Rock Resorts Inc. A spokeswoman for the Las Vegas casino operator, which went public last year, didn't return calls for comment.

Others have continued to add male directors. **Seres Therapeutics** Inc., a biopharmaceutical concern, this month announced the appointment of industry executive Willard Dere as its eighth male director. A Seres spokesman declined to comment.

WU HONG/EUROPEAN PRESSPHOTO AGENCY

The combined value of the revised deal, excluding debt, is nearly $9.45 billion. Entertainers at a Wanda theme park in Harbin, China.

Wanda Reworks Asset Sale

New buyer for hotels emerges, leaving theme-park portion of deal to Sunac

By Wayne Ma
And Dominique Fong

BEIJING—**Dalian Wanda Group**'s plan to sell theme park and hotel assets took a big turn Wednesday after last week's deal came under fire from major credit-ratings firms.

The Chinese property and entertainment giant brought in a new buyer for the hotels, **Guangzhou R&F Properties** Co., which will get 77 properties for 19.91 billion yuan ($2.95 billion). Wanda will also sell a 91% stake in its theme park and tourism projects—there are four completed, and nine planned—to **Sunac China Holdings** Ltd., for 43.84 billion yuan. Sunac had originally planned to buy both the hotels and parks.

The move came after S&P Global Ratings placed the corporate credit rating of Wanda's main property arm on CreditWatch with negative implications, saying the sale could weaken its business.

All three major ratings firms flagged risks to Sunac's debt profile after Sunac disclosed in regulatory filings that it would procure a loan from Wanda to pay for the theme-park assets.

The combined value of the revised deal, before including debt, is now 63.75 billion yuan, slightly higher than the original deal terms. Including debt, which was disclosed Wednesday, the deal's combined value balloons to 109.15 billion yuan.

Wanda, controlled by billionaire Wang Jianlin, has made a series of overseas acquisitions that have caught the attention of Chinese regulators, including its purchase of Hollywood film production and finance company Legendary Entertainment last year for $3.5 billion.

Regulators met with executives at China's big state-owned lenders last month and advised them to halt financial assistance to Wanda for six past and pending overseas deals and place some restrictions on Wanda's borrowing, The Wall Street Journal reported Monday.

In Beijing Wednesday, Mr. Wang told reporters that the revised deal, in which Sunac buys Wanda's theme parks at a higher price but doesn't buy its hotels, was more cost-effective. Previously Sunac, which itself is highly leveraged, was going to receive a loan from Wanda itself to pay for the assets. "Sunac doesn't have to complete the deal by borrowing money from Wanda," Mr. Wang said.

Mr. Wang also said the renegotiation of the deal was friendly. "No glasses were smashed," he said.

Sunac's chairman, Sun Hongbin, told reporters that the revised deal would give the company better liquidity and wouldn't add as much debt as the original deal entailed. However, Sunac will still assume all the debt associated with the theme parks, revealed Wednesday to be 45.4 billion yuan.

That could add to investor worries that Sunac will land in the cross hairs of Chinese regulators concerned about the risks of rising debt. Shortly after Wanda's borrowings related to overseas deals came under scrutiny, Sunac's own debt began drawing attention.

Sunac has said banks were conducting checks of loans made to the company for possible credit risks.

The hotel buyer, Guangzhou R&F, is an indebted midsize property developer in China that owns the soccer team Guangzhou R&F F.C. The company didn't specify whether it would take a loan to purchase the 77 hotels from Wanda.

Most of Guangzhou R&F's net profit comes from building homes, while its hotel operations recorded net losses in 2015 and 2016, according to regulatory filings. The company didn't respond to requests for comment.

—Yang Jie contributed to this article.

Akzo CEO Resigns Due to Health

By Ben Dummett

Dutch paint giant **Akzo Nobel** NV said Wednesday its chief executive has resigned for health reasons, while also affirming its plan to spin off its chemicals business to appease shareholders after rejecting a $28 billion takeover bid from U.S. rival **PPG Industries** Inc.

Ton Büchner's decision to step down comes after a monthslong battle to fend off both PPG and a campaign by **Elliott Management** Corp., a U.S. activist investor and one of Akzo's largest shareholders, to push the company into sale talks.

Thierry Vanlancker, the head of Akzo's chemicals business, was named as his successor.

Akzo didn't disclose the details of Mr. Büchner's health issues, but said the executive believed that he would "endanger" his health if he continued in the position.

"This is a very recent development. This is not about weeks ago, but is about days ago," Akzo Chairman Antony Burgmans told reporters on a conference call Wednesday. In 2012, Mr. Büchner, 52 years old, took a leave of absence as chief executive for about two months, citing fatigue.

Elliott, which launched a legal challenge earlier this month to remove Mr. Burgmans, declined to comment on Mr. Büchner's resignation.

Akzo is in the process of spinning off its specialty-chemicals business from its paints-and-coatings operations, either through an initial public offering or a sale. The Amsterdam-based company is under pressure from shareholders to complete the deal, after promising such a move would generate more value than selling itself to PPG.

Mr. Vanlancker, who said on Wednesday he has no plans to divert from the current strategy, joined Akzo in 2016. He was previously a senior executive for Chemours Co., a Wilmington, Del.-based chemicals company spun off from DuPont Co. in 2015.

Pittsburgh-based PPG dropped its takeover bid for Akzo in June after two increases to its initial bid in March failed to draw its target into talks. Akzo, led by Messrs. Büchner and Burgmans, rejected the offers as too low and argued that completion of the tie-up was far from certain given the complex and lengthy antitrust review a deal would likely face. The company is betting that a spinoff of the chemicals business and a plan to boost dividend payouts will generate more value.

JASPER JUINEN/BLOOMBERG NEWS

Ton Büchner in April. Akzo said his health became an issue recently.

Elliott had argued Akzo couldn't make that decision until first determining if the company could negotiate a better deal through negotiations with PPG.

In May, Elliott, which currently owns 9.5% of Akzo, lost an initial legal battle in the Netherlands to try to remove Mr. Burgmans, whom Elliott regarded as an impediment to merger talks. Even though PPG has since dropped its bid, Elliott still wants the Akzo chairman removed because of the board's handling of PPG's overture. Earlier this month, it filed a joint petition to convene a general meeting of shareholders to vote on Mr. Burgmans's dismissal.

Daimler Readies Emissions Software Fix

By William Boston

BERLIN—**Daimler** AG on Tuesday said it would tweak the engine software on more than three million diesel vehicles to improve emissions amid probes in the U.S. and Europe into allegations that the maker of Mercedes-Benz cars cheated on emissions.

Daimler didn't call its "service action" a recall, but the move is reminiscent of **Volkswagen** AG's recall of nearly 11 million vehicles world-wide in the wake of its emissions-cheating scandal. The Volkswagen scandal raised awareness of toxic pollution from diesel vehicles, leading more European cities to weigh banning diesel vehicles.

The move also comes as regulators and criminal investigators on both sides of the Atlantic are scrutinizing Mercedes-Benz on suspicion that some of its diesel vehicles used illegal defeat devices, an allegation raised by environmental groups that Daimler has repeatedly denied.

In Germany, public concern about diesel bans has led to a sharp drop in diesel sales and forced Chancellor Angela Merkel's government to create a round table to encourage the auto industry to adopt voluntary measures to curb diesel pollution and prevent cities from banning diesel vehicles.

"The public debate about diesel engines is creating uncertainty—especially for our customers," Daimler Chief Executive Dieter Zetsche said in a statement. "We have therefore decided on additional measures to reassure drivers of diesel cars and to strengthen confidence in diesel technology."

Daimler first began updating software on some diesel vehicles in March but is now dramatically expanding the program. Daimler said the update would cost about €220 million ($254 million) but would be free of charge to car owners. The repairs would begin in the coming weeks and are expected to continue for months.

Volkswagen eventually pleaded guilty to conspiracy to defraud the U.S. government and U.S. consumers, agreeing to pay penalties, fines and compensation to consumers of more than $22 billion.

Daimler is under investigation in Germany and the U.S. but hasn't been charged with any wrongdoing. The company denies using defeat devices. The probes continue, but there is no evidence so far that Daimler engaged in the kind of intentional criminal activity and long years of coverup that characterized the Volkswagen scandal.

A German government report published in 2016 concluded that many European car makers, including Daimler, used a loophole in regulations to reduce emissions controls to protect the engine.

In Europe, a Privacy Test

EU court to decide if 'right to be forgotten' extends beyond bloc; Google calls for limits

By Nick Kostov
And Sam Schechner

BENOIT TESSIER/REUTERS

Google is embroiled in a dispute with France's privacy regulator. A Google workshop in Paris in June.

PARIS—The European Union's top court is set to decide whether the bloc's "right to be forgotten" policy stretches beyond Europe's borders, a test of how far national laws can—or should—extend when regulating cyberspace.

The case stems from France, where the highest administrative court on Wednesday asked the EU's Court of Justice to weigh in on a dispute between **Alphabet** Inc.'s Google and France's privacy regulator over how broadly to apply the right, which allows EU residents to ask search engines to remove some links from searches for their own names.

At issue: Can France force Google to apply it not just to searches in Europe, but anywhere in the world?

The case will set a precedent for how far EU regulators can go in enforcing the bloc's strict new privacy law. It will also help define Europe's position on clashes between governments over how to regulate what happens on the internet—from political debate to online commerce.

France's regulator says enforcement of some fundamental rights—like personal privacy—is too easily circumvented on the borderless internet, and so must be implemented everywhere. Google argues that allowing any one country to apply its rules globally risks upsetting international law and, when it comes to content, creates a global censorship race among autocrats.

"Each country should be able to balance freedom of expression and privacy in the way that it chooses, not in the way that another country chooses," said Peter Fleischer, Google's global privacy counsel. "We look forward to making our case at the European Court of Justice."

The case exposes a deep trans-Atlantic divide over the role of regulations in everything from antitrust to personal-privacy issues. In the U.S., the First Amendment forces officials to give broad leeway for free expression, even if objectionable. That makes it difficult for individuals to remove personal information gathered and published online by a slew of companies.

By contrast, Europe's experience from World War II has led to laws banning Holocaust denial and hate speech. More recent experiences with East Germany's police state have turned privacy into a fundamental right that can at times trump free expression.

The May 2014 decision granting the right to be forgotten reflects that division.

The decision created a right for any EU resident to ask search engines to remove links from searches for their own names, if the information is old, irrelevant or infringes on their privacy. Google and other search engines vet requests, considering privacy rights against the public interest in having that information tied to the person's name.

After the decision, Google quickly applied the right in Europe, removing about 590,000 links from some searches in the past three years, according to its transparency report.

In 2015, France's privacy regulator ordered Google to go further: applying its right-to-be-forgotten removals to all of its websites wherever they are accessed, arguing that it is simple for internet users to mask their location using proxy services. After the regulator fined Google €100,000 ($115,000) last year for violating the order, Google appealed to France's Conseil d'Etat, the highest administrative court.

Google's lawyer, Patrice Spinosi, argued to the Conseil d'Etat that Google's current system for applying the right to be forgotten in Europe "is perfectly effective unless you want to be a fraudster," saying the court should reject the French position on more fundamental grounds, without even asking the EU court.

On Wednesday, however, the Conseil d'Etat said "the scope of the right to be forgotten poses several serious difficulties in the interpretation of European Union law."

Phone Makers Fight Qualcomm

By Tripp Mickle

A group of leading smartphone manufacturers joined **Apple** Inc. in a legal battle against **Qualcomm** Inc., claiming that the chip maker charges excessive patent licenses and violates antitrust laws.

Taiwan-based contract manufacturers **Compal Electronics** Inc., Foxconn Technology Group, **Pegatron** Corp. and **Wistron** Corp. filed a lawsuit against Qualcomm late Tuesday night in U.S. federal district court in San Diego, according to Theodore J. Boutrous, an attorney at **Gibson, Dunn & Crutcher** LLP who is representing the four.

The companies, which assemble iPhones and iPads for Apple and other gadgets for other brands, broadly challenged Qualcomm's licensing practices with them as illegal, according to a draft copy of their complaint.

Apple, which is covering legal fees associated with the manufacturers' defense, said it filed a separate motion Tuesday to consolidate the manufacturers' countersuit and its own suit against Qualcomm. Apple also pointed back to comments it made in June, when it said Qualcomm's licensing practices were harming the smartphone industry.

Qualcomm General Counsel Don Rosenberg said the counterclaim and Apple's support of it demonstrated how the iPhone maker has been "pulling the strings" for the contract manufacturers and hindering them from paying the royalties owed Qualcomm under contract.

Separately, Qualcomm said Wednesday it filed lawsuits against Apple in Germany alleging that the device maker infringes its patents. Those suits aim to stop "Apple's sale and importation of the latest iPhones in Germany," according to Mr. Rosenberg, mirroring the chip maker's moves earlier this month to block imports of some Apple devices into the U.S.

Apple didn't respond to a request for comment about the lawsuits filed in Germany.

The moves come after a series of escalating legal blows between Apple and Qualcomm, which sells chips used in many smartphones and licenses technology used in nearly all of them.

Apple sued Qualcomm in January in the U.S. claiming unfair business practices, and the four contract manufacturers—which have the direct licensing agreements with Qualcomm that cover iPhones and iPads—later stopped paying royalties on Apple's behalf.

Qualcomm sued the four in May over the nonpayment, setting up their countersuit Tuesday. Qualcomm has said that its licensing agreements with the contract manufacturers are independent of Apple. Qualcomm also has asked federal trade authorities to block imports of some iPhones and iPads as part of the broader dispute.

Qualcomm says its licensing practices are fair, and that Apple is merely trying to reduce its costs at a time of slowing iPhone shipments. At a conference Monday, Qualcomm Chief Executive Steve Mollenkopf said he expects the dispute to be settled out of court.

The four companies' countersuit was filed just ahead of Qualcomm's quarterly financial report Wednesday afternoon.

—Ted Greenwald contributed to this article.

JACK TAYLOR/GETTY IMAGES

Apple sued Qualcomm in January claiming unfair practices. Four smartphone manufacturers have joined Apple's fight.

Samsung's Bixby Takes On Siri in the U.S.

By Timothy W. Martin

SEOUL—Bixby, **Samsung Electronics** Co.'s voice-activated virtual assistant, may be late to the party, but its U.S. launch Wednesday presents a new contender to **Apple** Inc.'s Siri in the race to make smartphones smarter and more user-friendly.

The English-language version of Bixby, an artificial-intelligence service used to field tasks, had suffered a string of delays despite Samsung's vows that it would be available this spring.

Samsung executives had touted Bixby's potential in the buildup to the April release of the Galaxy S8—the company's first flagship smartphone since last year's Galaxy Note 7 debacle.

The Wall Street Journal previously reported that the virtual assistant wouldn't likely be ready until the second half of July, and that the service had struggled to comprehend English syntax and grammar during internal tests.

The South Korean technology giant said Wednesday that Bixby would offer full integration across its core Samsung apps, promising that almost anything that users could do by touching or typing could now be accomplished with a voice command. It is capable of multiple tasks with a single voice command, such as locating a nearby steakhouse and hailing a taxi, Samsung said.

Bixby had been available months earlier in Korean in Samsung's home market, and the world's largest smartphone maker had been piloting an "early access" program for Bixby's English-language version since last month, enlisting tens of thousands of U.S. consumers.

Samsung has devoted significant resources to developing and promoting Bixby, and has a button on the side of the Galaxy S8 dedicated to activating the virtual assistant. Users can also summon the service by saying "Hi Bixby" or "Hello Bixby."

Bixby's English-language stumbles have also tripped up Samsung's development of a voice-activated speaker, a project code-named "Vega" that has been in the works for more than a year, the Journal previously reported. The speaker, similar to Amazon.com Inc.'s Echo, will be powered by Bixby.

Samsung and its rivals envision a future filled with devices underpinned by artificial intelligence, where consumers can talk to and listen to their devices. In addition to Siri and Bixby, Alphabet Inc.'s Google Assistant and Amazon's Alexa are major players in voice AI.

RICHARD DREW/ASSOCIATED PRESS

The Galaxy S8 launch in April included a Bixby demonstration.

Facebook Offers Tool To News Publishers

By Lukas I. Alpert

In its continuing efforts to sell publishers on the benefits of Instant Articles, **Facebook** Inc. is launching a new analytics tool in partnership with Nielsen that will give news outlets more data on how their stories perform on the platform.

Facebook also confirmed it is working on a subscription feature that would allow publishers to charge for access to their articles. The paywall product, first reported by The Wall Street Journal in June, will be available through Instant Articles starting in October. The paywall will likely kick in after a user reads 10 articles in a month, a person familiar with the matter said.

Facebook has long argued that stories posted through its fast-loading Instant Articles program have led to greater engagement from readers, but some publishers have remained unconvinced given the lack of specific-enough data.

In the past, Facebook has made available performance data aggregated across the 10,000 or so publishers who have tried the program. The new tool will now allow individual publishers to see how their news stories as a whole perform on Instant Articles, providing a comparison with the use of traditional links to send readers to a mobile webpage.

"This insight provides an important signal publishers can use to make informed business decisions about how they share content on Facebook," said Facebook product manager Mona Sarantakos.

At the beginning, the tool will provide publishers with a very basic overview of the performance of their own content, but there are plans to add layers of detail—such as country-by-country data—going forward. The new data won't, at least for now, provide information on each individual story posted to Instant Articles.

Kim Lau, vice president of digital and head of business development at Atlantic Media, which posts almost all its stories on Facebook using Instant Articles, said the move wasn't necessarily a game changer, but was a positive sign that Facebook is trying to accommodate publishers.

"It helps us understand the trade-offs we are making and to better understand what the benefits are," she said. "We have been asking for this from the beginning."

JOBS

Continued from page B1

retail profits are shrinking—a formula that pressures retailers, ranging from Wal-Mart to Tiffany & Co., to find technology that can do the rote labor of retail workers or replace them altogether.

As **Amazon.com** Inc. makes direct inroads into traditional retail with its plans to buy grocer **Whole Foods Market** Inc., Wal-Mart and other large retailers are under renewed pressure to invest heavily to keep up.

Economists say many retail jobs are ripe for automation. A 2015 report by Citi Research, co-authored with researchers from the Oxford Martin School, found that two-thirds of U.S. retail jobs are at "high risk" of disappearing by 2030.

Self-checkout lanes can replace cashiers. Autonomous vehicles could handle package delivery or warehouse inventory. Even more complex tasks like suggesting what toy or shirt a shopper might want could be handled by a computer with access to a shopper's buying history, similar to what already happens online today.

"The primary predictor for automation is how routine a task is," said Ebrahim Rahbari, an economist at Citi Research. "A big issue is that retail is a sizable percentage of the workforce."

Nearly 16 million people, or 11% of nonfarm U.S. jobs, are in the retail industry, mostly as cashiers or salespeople. The industry eclipsed the shrinking manufacturing sector as the biggest employer 15 years ago. Now, as stores close, retail jobs are disappearing. Since January, the U.S. economy has lost about 71,000 retail jobs, according to data from the Bureau of Labor Statistics.

"The decline of retail jobs, should it occur on a large scale—as seems likely long-term—will make the labor market even less hospitable for a group of workers who already face limited opportunities for stable, well-paid employment," said David Autor, an economist at the Massachusetts Institute of Technology.

Autonomous vehicles could handle package delivery or warehouse inventory.

Earlier this year, Beverly Henderson took a pay cut and gave up her health-care benefits when she left Wal-Mart in the wake of the back-office changes. "I'm 59 years old," she said. "I never worked on the floor. I've always worked office positions and I had no desire."

She is now an office manager at a local business she says can't afford to give her the same perks or $16.75 an hour she made after 16 years with Wal-Mart.

"I would have never left Wal-Mart. They were paying me decent," said the Southport, N.C., resident.

At Wal-Mart, Ms. Henderson managed store invoices, a job the company used technology to mostly centralize.

Automation is filtering through many parts of retail. Tiffany is using machines to polish basic pieces, like silver jewelry, during the production process. **Home Depot** Inc. now has self-checkouts in most stores and is testing adding scanner guns to make them useful for shoppers buying bulky products like lumber.

"We want to simplify the stores so that we can free up our associates...so they can focus on selling," Carol Tomé, Home Depot's chief financial officer, said in an interview.

Wal-Mart has long squeezed efficiency out of its business, both in stores and throughout its vast supply chain. Although it employs 1.5 million people in the U.S., it has around 15% fewer workers per square foot of store than a decade ago, according to an analysis by The Wall Street Journal.

Some Wal-Mart stores are experimenting with touch screens to let shoppers process returns. Self-checkouts are becoming a larger percentage of its total registers, according to a person familiar with company strategy.

Several of Wal-Mart's published patent applications propose technology to improve customer service. One describes a system that uses facial recognition to detect customer dissatisfaction and adjust staffing accordingly. In addition, jobs at hundreds of stores are shifting to support new services such as grocery pickup for digital orders.

The Cash360 machines in the back of stores allow cashiers to process the money for electronic depositing, after scanning their hands for unique vein patterns.

The goal isn't to reduce a retailer's staff, said Brian McCabe, the president of the subsidiary of security firm G4S PLC that developed the cash-management system with Bank of America Corp. "We can optimize labor," he said. "How a given retailer exercises that benefit or opportunity is up to them."

‘Robo’ Advisers Add Socially Responsible Investing

By Anne Tergesen

Two pioneers of computer-driven “robo” advice are joining an industrywide trend toward offering socially responsible investments.

Betterment LLC announced Wednesday that it would offer portfolios that favor companies with strong records on the environment, corporate governance, human rights, and health and safety, among other factors. Rival **Wealthfront** Inc. earlier this month announced similar plans to introduce socially responsible investing options later this year.

“It’s something there has been a lot of pent-up demand for,” said Dan Egan, vice president of behavioral finance and investing at Betterment. “We have been hearing requests for years both from existing customers and prospective clients.”

The two companies are taking different approaches. New York-based Betterment is using exchange-traded funds that track socially responsible indexes. Wealthfront, of Redwood City, Calif., says it will give clients the flexibility to invest directly in stocks or avoid ones that don’t meet their criteria.

Over the past year, a small but growing number of robo investment services have introduced or announced plans to include socially responsible investments in their offerings. They include investing giants TIAA and Morgan Stanley and a handful of smaller independent firms with names such as Wealthsimple, Prophecy Impact Investments LLC and OpenInvest.

Industry titan Vanguard Group, which had $80 billion in its Personal Advisor Services as of June 30, offers one socially responsible fund—the Vanguard FTSE Social Index Fund—in that service. A spokeswoman said the company has no current plans to add others.

Driving the trend is a desire on the part of individuals to spend and invest in ways that are consistent with their values. Data also show that socially responsible investments can outperform over the long run; since 1990, the MSCI KLD 400 Social Index has returned an average of 8.4% a year, versus 7.6% for the S&P 500 index.

Jon Hale, director of sustainability-investing research at Morningstar Inc., said it makes sense for robos to offer socially responsible investing since their target market—millennials—often expresses a strong interest in the investment style.

Mr. Egan said Betterment is jumping into the fray now because the trading volumes for two socially responsible ETFs that invest in U.S. large-cap stocks have improved enough to drive down the costs associated with them.

Wealthfront plans to allow people who want a socially responsible investment portfolio to use its direct indexing platform, in which clients hold individual stocks in the Dow Jones U.S. Total Stock Market Index rather than the ETF. While that service is currently open to people with balances of $100,000 or more, the company has yet to decide what the minimum required investment will be for its socially responsible portfolios, said spokeswoman Kate Wauck.

Wealthfront plans to give clients the option to screen out four sectors: fossil fuels, deforestation, weapons and tobacco. In addition, it will let clients eliminate individual stocks they wish to avoid.

BENJAMIN C. TANKERSLEY/THE WASHINGTON POST/GETTY IMAGES

JBG Smith Properties owns the Atlantic Plumbing mixed-use redevelopment in Washington, D.C.

REIT Makes Pure Play on Washington

By Peter Grant

Steven Roth, chief executive of **Vornado Realty Trust**, made a bold prediction this year about the firm’s plans to spin off its Washington, D.C., portfolio and merge it with a local company.

“JBG Smith has the potential to be the fastest-growing real-estate company in the nation,” Mr. Roth said of the merged company in February on a conference call with analysts.

On Tuesday, Wall Street gave a stamp of approval to this prediction for **JBG Smith Properties**, the largest real-estate investment trust with a Washington, D.C., focus. It was the first day of regular trading following the closing of the merger of Vornado’s Washington portfolio and JBG Cos. The new company has more than $8 billion in assets.

JBG Smith shares closed at $37.24 on the New York Stock Exchange, above the upper end of the $33 to $36.50 range that analysts predicted. The value was still well below the $41.75 a share the company’s assets are worth, according to analysts.

75

The rough percentage of JBG Smith’s portfolio in office property.

JBG Smith is launching when major office markets throughout the country are grappling with anemic growth in occupancies and rents, which is unusual for this late in the economic cycle. They are being hurt by tepid job growth, increased efficiency by tenants and in some cases new supply. As a result, most office REITs are trading below the net value of their assets.

JBG Smith executives said they are going to need to prove themselves to public market investors.

“Nobody is just going to give us the benefit of the doubt,” said CEO W. Matthew Kelly in an interview Tuesday.

The office market in the Washington, D.C., region has been hurt by years of government downsizing. Budget cuts by the Trump administration are expected to damp demand further from most nondefense-related government agencies.

About 75% of JBG Smith’s portfolio is office property. Most of the rest consists of rental apartments.

“Not only is competition among new product growing but existing product is also facing challenges from a demand perspective,” said real-estate services firm JLL in a report on Washington’s second-quarter office market.

Mr. Kelly agreed the Washington office market has been hurt by government cutbacks in recent years. But lately trends have become more positive thanks partly to population growth and the high education level of the region’s workforce, he said.

“There’s still some digging out that needs to happen” from the “terrible run” the Washington office market has had, Mr. Kelly said. “But we view the market bottom as behind us,” he said.

The merged company achieves longtime goals for Vornado, which is contributing about $5 billion of property, and JBG Cos., a 57-year-old real-estate firm based in the Washington region. For more than three years, Mr. Roth has been trying to simplify Vornado as a New York-focused office and retail company by selling many of its other assets. A Vornado spokesman declined to comment.

JBG Cos., meanwhile, has been looking for a way to tap the public stock markets and give some of its investors an opportunity to cash out. An effort by JBG to merge with New York REIT Inc. in a proposed $8.4 billion deal collapsed last year following strong objections by New York REIT shareholders.

JBG Cos. won’t be contributing all its property to the merged company. About $3 billion of properties—including buildings in Pennsylvania and Baltimore—will be managed but not owned by JBG Smith because they don’t fit into the new company’s strategy. The management team plans to sell the other property over four to six years. But that has raised some concerns about a possible conflict of interest.

“Only the original JBG partners stand to profit from the sale of these assets,” Green Street Advisors said in a report. “This...could distract the team from running the REIT’s owned portfolio.”

Mr. Kelly said JBG is “staffed appropriately to tackle everything that’s on our plate.”

The merged company owns close to 19.5 million square feet of office space, 1.4 million square feet of retail and more than 11,000 rental apartments. Its well-known properties include the Warner Building, on Pennsylvania Avenue near the White House, and the Atlantic Plumbing redevelopment of a former industrial property into residential and retail space.

In land and developments in the pipeline make up more than 15% of JBG Smith’s assets, one of the largest amounts in the REIT sector. That is one of the reasons that Mr. Roth and others at Vornado believe the company has growth potential.

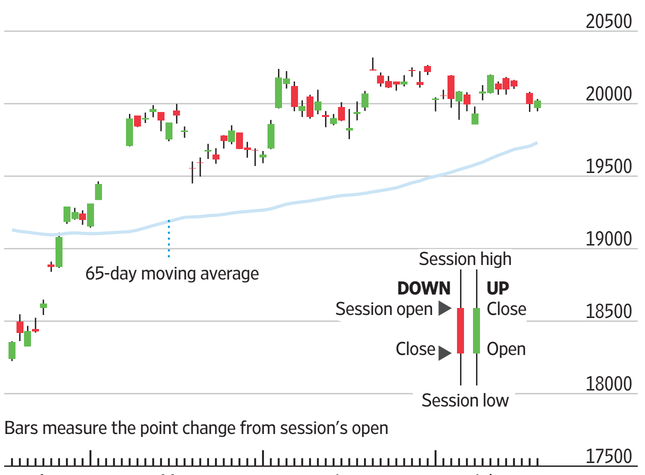
MARKETS DIGEST

Nikkei 225 Index

20020.86 ▲20.95, or 0.10%

High, low, open and close for each trading day of the past three months.

Year-to-date	▲4.74%	
52-wk high/low	20230.41	16083.11
All-time high	38915.87	12/29/89



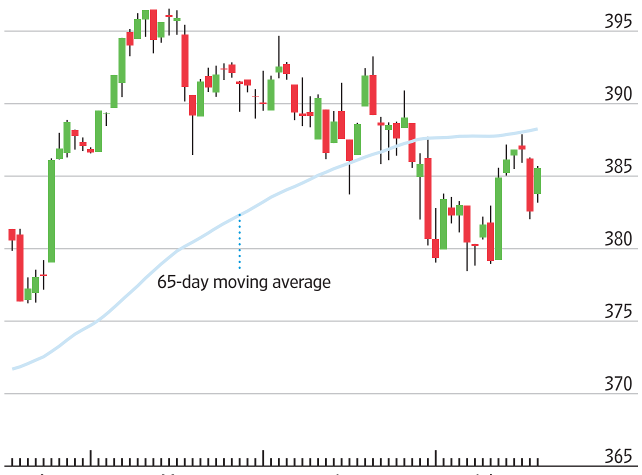
Bars measure the point change from session's open

STOXX 600 Index

385.54 ▲2.96, or 0.77%

High, low, open and close for each trading day of the past three months.

Year-to-date	▲6.67%	
52-wk high/low	396.45	328.80
All-time high	414.06	4/15/15



S&P 500 Index

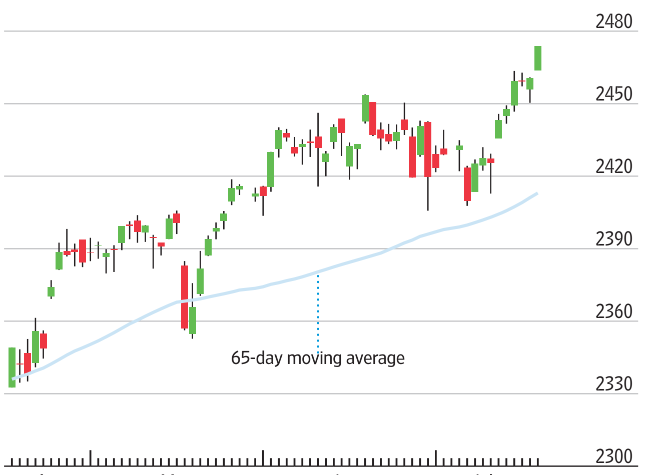
Data as of 4 p.m. New York time

2473.83 ▲13.22, or 0.54%

High, low, open and close for each trading day of the past three months.

	Last	Year ago
Trailing P/E ratio	24.29	24.85
P/E estimate *	18.80	18.37
Dividend yield	1.99	2.13
All-time high:	2473.83, 07/19/17	

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**	2836.20	9.39	0.33	2384.24	2836.33	12.2
	MSCI EAFE	1924.93	3.88	0.20	1471.88	1956.39	12.2
	MSCI EM USD	1059.78	6.55	0.62	691.21	1062.35	33.4
Americas	**DJ Americas**	595.85	3.50	0.59	503.44	595.86	10.3
Brazil	**Sao Paulo Bovespa**	65103.11	−234.56	−0.36	55695.52	69487.58	8.1
Canada	**S&P/TSX Comp**	15250.51	100.94	0.67	14319.11	15943.09	−0.2
Mexico	**IPC All-Share**	51069.31	−30.40	−0.06	43998.98	51364.19	11.9
Chile	**Santiago IPSA**	3824.21	−4.80	−0.13	3120.87	3837.15	18.6
U.S.	**DJIA**	21640.75	66.02	0.31	17883.56	21681.53	9.5
	Nasdaq Composite	6385.04	40.74	0.64	5034.41	6387.73	18.6
	S&P 500	2473.83	13.22	0.54	2083.79	2473.83	10.5
	CBOE Volatility	9.79	−0.10	−1.01	9.37	23.01	−30.3
EMEA	**Stoxx Europe 600**	385.54	2.96	0.77	328.80	396.45	6.7
	Stoxx Europe 50	3155.79	26.96	0.86	2720.66	3279.71	4.8
Austria	**ATX**	3193.29	1.19	0.04	2166.58	3212.50	22.0
Belgium	**Bel-20**	3901.39	28.95	0.75	3362.71	4055.96	8.2
France	**CAC 40**	5216.07	42.80	0.83	4293.34	5442.10	7.3
Germany	**DAX**	12452.05	21.66	0.17	9991.65	12951.54	8.5
Greece	**ATG**	853.54	5.47	0.64	546.95	859.78	32.6
Hungary	**BUX**	35789.28	−114.94	−0.32	27001.48	36280.07	11.8
Israel	**Tel Aviv**	1455.44	2.47	0.17	1372.23	1490.23	−1.0
Italy	**FTSE MIB**	21478.95	120.75	0.57	15923.11	21828.77	11.7
Netherlands	**AEX**	524.25	6.08	1.17	436.28	537.84	8.5
Poland	**WIG**	62533.46	201.96	0.32	46052.49	62761.44	20.8
Russia	**RTS Index**	1043.13	4.68	0.45	898.05	1196.99	−9.5
Spain	**IBEX 35**	10588.10	63.60	0.60	8229.40	11184.40	13.2
Sweden	**SX All Share**	578.54	0.91	0.16	483.91	598.42	8.2
Switzerland	**Swiss Market**	9024.32	46.34	0.52	7585.56	9148.61	9.8
South Africa	**Johannesburg All Share**	54091.11	829.47	1.56	48935.90	54716.53	6.8
Turkey	**BIST 100**	107417.52	1699.21	1.61	70426.16	107563.95	37.5
U.K.	**FTSE 100**	7430.91	40.69	0.55	6615.83	7598.99	4.0
Asia-Pacific	**DJ Asia-Pacific TSM**	1665.94	6.88	0.41	1405.52	1668.56	17.1
Australia	**S&P/ASX 200**	5732.10	44.70	0.79	5156.60	5956.50	1.2
China	**Shanghai Composite**	3230.98	43.41	1.36	2953.39	3288.97	4.1
Hong Kong	**Hang Seng**	26672.16	147.22	0.56	21574.76	26672.16	21.2
India	**S&P BSE Sensex**	31955.35	244.36	0.77	25765.14	32074.78	20.0
Japan	**Nikkei Stock Avg**	20020.86	20.95	0.10	16083.11	20230.41	4.7
Singapore	**Straits Times**	3325.07	18.99	0.57	2787.27	3325.07	15.4
South Korea	**Kospi**	2429.94	3.90	0.16	1958.38	2429.94	19.9
Taiwan	**Weighted**	10506.10	24.84	0.24	8902.30	10513.96	13.5

Source: SIX Financial Information; WSJ Market Data Group

Global government bonds

Latest, month-ago and year-ago yields and spreads over or under U.S. Treasurys on benchmark two-year and 10-year government bonds around the world. Data as of 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
2.750	**Australia** 2	**1.907**	**55.1**	55.4	32.6	**87.8**	**1.906**	1.686	**1.568**
2.750	10	**2.732**	**46.1**	49.3	22.5	**37.6**	**2.754**	2.417	**1.930**
3.000	**Belgium** 2	**-0.500**	**-185.6**	-184.9	-192.3	**-126.4**	**-0.497**	-0.563	**-0.574**
0.800	10	**0.816**	**-145.5**	-141.8	-158.6	**-131.7**	**0.843**	0.605	**0.238**
0.000	**France** 2	**-0.412**	**-176.8**	-175.0	-184.1	**-121.7**	**-0.398**	-0.481	**-0.527**
1.000	10	**0.798**	**-147.3**	-143.1	-155.9	**-134.5**	**0.829**	0.633	**0.209**
0.000	**Germany** 2	**-0.636**	**-199.2**	-199.1	-203.2	**-132.4**	**-0.640**	-0.672	**-0.634**
0.500	10	**0.543**	**-172.8**	-170.3	-190.9	**-158.0**	**0.557**	0.282	**-0.026**
0.050	**Italy** 2	**0.059**	**-129.7**	-129.8	-166.8	**-75.4**	**0.054**	-0.308	**-0.064**
2.200	10	**2.192**	**-7.9**	-6.7	-23.8	**-31.6**	**2.193**	1.954	**1.239**
0.100	**Japan** 2	**-0.109**	**-146.5**	-145.8	-147.7	**-101.8**	**-0.106**	-0.117	**-0.328**
0.100	10	**0.075**	**-219.6**	-219.1	-213.6	**-178.5**	**0.069**	0.056	**-0.231**
4.000	**Netherlands** 2	**-0.608**	**-196.4**	-196.5	-199.8	**-126.6**	**-0.613**	-0.638	**-0.576**
0.750	10	**0.661**	**-161.0**	-158.0	-170.6	**-146.5**	**0.681**	0.486	**0.090**
4.750	**Portugal** 2	**0.051**	**-130.5**	-128.4	-136.1	**-2.5**	**0.068**	-0.001	**0.665**
4.125	10	**3.044**	**77.3**	78.2	66.1	**151.8**	**3.043**	2.853	**3.073**
2.750	**Spain** 2	**-0.285**	**-164.1**	-164.5	-167.5	**-82.9**	**-0.293**	-0.315	**-0.139**
1.500	10	**1.545**	**-72.5**	-71.4	-74.9	**-36.5**	**1.546**	1.443	**1.190**
4.250	**Sweden** 2	**-0.699**	**-205.5**	-203.4	-207.1	**-132.8**	**-0.683**	-0.711	**-0.638**
1.000	10	**0.646**	**-162.5**	-160.2	-173.4	**-138.3**	**0.658**	0.458	**0.172**
1.750	**U.K.** 2	**0.277**	**-107.9**	-108.8	-117.9	**-51.6**	**0.264**	0.182	**0.174**
4.250	10	**1.197**	**-107.4**	-105.2	-115.9	**-75.4**	**1.208**	1.033	**0.801**
1.250	**U.S.** 2	**1.356**	...	...	...	...	**1.352**	1.360	**0.690**
2.375	10	**2.271**	...	...	...	...	**2.260**	2.192	**1.555**

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 7/18/2017

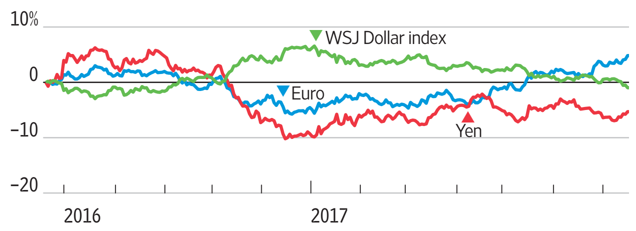
Commodity	Exchange	Last price	One-Day Change Net	Percentage	Year high	Year low
Corn (cents/bu.)	CBOT	383.25	6.25	1.66%	404.75	364.50
Soybeans (cents/bu.)	CBOT	1012.00	10.25	1.02	1,047.00	907.00
Wheat (cents/bu.)	CBOT	504.25	0.50	0.10	574.50	430.75
Live cattle (cents/lb.)	CME	118.975	2.100	1.80	122.850	99.125
Cocoa ($/ton)	ICE-US	1,943	32	1.67	2,281	1,767
Coffee (cents/lb.)	ICE-US	135.90	1.00	0.74	163.75	115.50
Sugar (cents/lb.)	ICE-US	14.58	0.48	3.40	20.50	12.74
Cotton (cents/lb.)	ICE-US	68.10	-0.12	-0.18%	75.72	66.15
Robusta coffee ($/ton)	ICE-EU	2112.00	-19.00	-0.89	2,286.00	1,885.00
Copper ($/lb.)	COMEX	2.7080	-0.0225	-0.82	2.8495	2.4850
Gold ($/troy oz.)	COMEX	1241.00	-0.90	-0.07	1,300.30	1,155.00
Silver ($/troy oz.)	COMEX	16.275	0.007	0.04	18.780	14.340
Aluminum ($/mt)*	LME	1,907.00	-18.00	-0.94	1,972.00	1,688.50
Tin ($/mt)*	LME	19,975.00	-5.00	-0.03	21,225.00	18,760.00
Copper ($/mt)*	LME	5,973.00	-12.00	-0.20	6,156.00	5,491.00
Lead ($/mt)*	LME	2,278.00	-48.00	-2.06	2,445.00	2,022.00
Zinc ($/mt)*	LME	2,776.50	-46.50	-1.65	2,958.50	2,450.50
Nickel ($/mt)*	LME	9,650.00	5.00	0.05	11,095.00	8,780.00
Rubber (Y.01/ton)	TCE	207.70	6.20	3.08	n.a.	n.a.
Palm oil (MYR/mt)	MDEX	2538.00	8.00	0.32	2966.00	2390.00
Crude oil ($/bbl.)	NYMEX	47.33	0.74	1.59	58.36	42.29
NY Harbor ULSD ($/gal.)	NYMEX	1.5560	0.0411	2.71	1.8065	1.3703
RBOB gasoline ($/gal.)	NYMEX	1.5780	0.0372	2.41	1.8366	1.3805
Natural gas ($/mmBtu)	NYMEX	3.057	-0.016	-0.52	3.5490	2.8300
Brent crude ($/bbl.)	ICE-EU	49.72	0.88	1.80	60.18	44.60
Gas oil ($/ton)	ICE-EU	459.75	12.75	2.85	532.25	405.50

Sources: SIX Financial Information; WSJ Market Data Group

Currencies

London close on July 19

Yen, euro vs. dollar; dollar vs. major U.S. trading partners



Country/currency	Wed in US$	Wed per US$	US$ vs, YTD chg (%)
Americas			
Argentina peso-a	0.0578	17.3000	**9.0**
Brazil real	0.3171	3.1538	**−3.1**
Canada dollar	0.7943	1.2590	**−6.3**
Chile peso	0.001530	653.60	**−2.4**
Colombia peso	0.0003325	3007.95	**0.2**
Ecuador US dollar-f	1	1	**unch**
Mexico peso-a	0.0572	17.4864	**−15.7**
Peru sol	0.3084	3.2422	**−3.3**
Uruguay peso-e	0.0349	28.640	**−2.4**
Venezuela bolivar	0.100060	9.99	**−0.01**
Asia-Pacific			
Australia dollar	0.7945	1.2587	**−9.4**
China yuan	0.1481	6.7538	**−2.8**
Hong Kong dollar	0.1281	7.8085	**0.7**
India rupee	0.0156	64.2669	**−5.4**
Indonesia rupiah	0.0000751	13317	**−1.5**
Japan yen	0.008946	111.78	**−4.5**
Kazakhstan tenge	0.003064	326.34	**−2.2**
Macau pataca	0.1243	8.0432	**1.6**
Malaysia ringgit-c	0.2333	4.2865	**−4.4**
New Zealand dollar	0.7351	1.3604	**−5.8**
Pakistan rupee	0.0095	105.205	**0.8**
Philippines peso	0.0197	50.812	**2.4**
Singapore dollar	0.7308	1.3684	**−5.5**
South Korea won	0.0008898	1123.90	**−7.0**
Sri Lanka rupee	0.0065045	153.74	**3.6**
Taiwan dollar	0.03293	30.370	**−6.4**
Thailand baht	0.02976	33.600	**−6.2**
Europe			
Bulgaria lev	0.5888	1.6985	**−8.6**
Croatia kuna	0.1553	6.439	**−10.2**
Euro zone euro	1.1518	0.8682	**−8.7**
Czech Rep. koruna-b	0.0441	22.659	**−11.8**
Denmark krone	0.1549	6.4569	**−8.7**
Hungary forint	0.003764	265.68	**−9.7**
Iceland krona	0.009454	105.77	**−6.4**
Norway krone	0.1240	8.0629	**−6.7**
Poland zloty	0.2734	3.6571	**−12.7**
Russia ruble-d	0.01696	58.967	**−3.8**
Sweden krona	0.1207	8.2861	**−9.0**
Switzerland franc	1.0472	0.9549	**−6.3**
Turkey lira	0.2838	3.5240	**0.0**
Ukraine hryvnia	0.0385	25.9425	**−4.2**
U.K. pound	1.3032	0.7673	**−5.3**
Middle East/Africa			
Bahrain dinar	2.6515	0.3772	**−0.01**
Egypt pound-a	0.0558	17.9097	**−1.2**
Israel shekel	0.2804	3.5667	**−7.3**
Kuwait dinar	3.3039	0.3027	**−1.0**
Oman sul rial	2.5967	0.3851	**0.04**
Qatar rial	0.2717	3.680	**1.1**
Saudi Arabia riyal	0.2667	3.7502	**−0.01**
South Africa rand	0.0773	12.9345	**−5.5**

	Close	Net Chg	% Chg	YTD % Chg
WSJ Dollar Index	86.94	...	unch.	**−6.45**

Sources: Tullett Prebon, WSJ Market Data Group

Cross rates

London close on Jul 19

	USD	GBP	CHF	JPY	HKD	EUR	CDN	AUD
Australia	1.2587	1.6399	1.3179	0.0113	0.1612	1.4493	0.9998	...
Canada	1.2590	1.6406	1.3182	0.0113	0.1612	1.4498	...	1.0003
Euro	0.8682	1.1316	0.9092	0.0078	0.1112	...	0.6897	0.6898
Hong Kong	7.8085	10.1752	8.1772	0.0699	...	8.9934	6.2024	6.2038
Japan	111.7790	145.6700	117.0500	...	14.3150	128.7300	88.7900	88.8300
Switzerland	0.9549	1.2445	...	0.0085	0.1223	1.0999	0.7586	0.7588
U.K.	0.7673	...	0.8035	0.0069	0.0983	0.8839	0.6095	0.6097
U.S.	...	1.3032	1.0472	0.0089	0.1281	1.1518	0.7943	0.7945

Source: Tullett Prebon

Key Rates

	Latest	52 wks ago
Libor		
One month	**1.22889%**	0.48740%
Three month	**1.30722**	0.70160
Six month	**1.45322**	1.02020
One year	**1.73344**	1.34490
Euro Libor		
One month	**-0.39786%**	-0.36857%
Three month	**-0.37643**	-0.30357
Six month	**-0.30329**	-0.19271
One year	**-0.18486**	-0.06571
Euribor		
One month	**-0.37300%**	-0.37100%
Three month	**-0.33200**	-0.29700
Six month	**-0.27400**	-0.18900
One year	**-0.15100**	-0.05600
Yen Libor		
One month	**-0.02836%**	-0.08071%
Three month	**-0.00971**	-0.03636
Six month	**0.00771**	-0.03307
One year	**0.11757**	0.06143
	Offer	**Bid**
Eurodollars		
One month	**1.3100%**	1.2100%
Three month	**1.3500**	1.2500
Six month	**1.5000**	1.4000
One year	**1.7700**	1.6700
	Latest	**52 wks ago**
Prime rates		
U.S.	**4.25%**	3.50%
Canada	**2.70**	2.70
Japan	**1.475**	1.475
Hong Kong	**5.00**	5.00
Policy rates		
ECB	**0.00%**	0.00%
Britain	**0.25**	0.50
Switzerland	**0.50**	0.50
Australia	**1.50**	1.75
U.S. discount	**1.75**	1.00
Fed-funds target	**1.00-1.25**	0.25-0.50
Call money	**3.00**	2.25
Overnight repurchase rates		
U.S.	**1.05%**	0.42%
Euro zone	**n.a.**	n.a.

Sources: WSJ Market Data Group, SIX Financial Information, Tullett

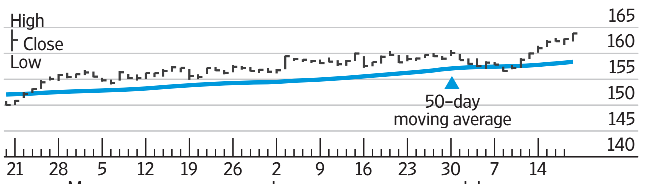
Top Stock Listings

4 p.m. New York time

Cur	Stock	Sym	Last	% Chg	YTD% Chg
	Asia Titans				
HK$	AIAGroup	1299	58.35	-0.68	33.37
¥	AstellasPharma	4503	1367.50	2.24	-15.77
AU$	AustNZBk	ANZ	29.41	3.92	-3.32
AU$	BHP	BHP	24.83	-1.08	-0.92
HK$	BankofChina	3988	3.77	0.27	9.59
HK$	CKHutchison	0001	100.10	-0.40	13.88
HK$	CNOOC	0883	8.71	0.23	-10.21
AU$	CSL	CSL	127.99	-0.29	27.47
¥	Canon	7751	3795.00	0.03	15.17
¥	CentralJapanRwy	9022	17795	-0.17	-7.46
HK$	ChinaConstructnBk	0939	6.40	0.16	7.20
HK$	ChinaLifeInsurance	2628	25.75	0.59	27.48
HK$	ChinaMobile	0941	82.90	0.42	0.85
HK$	ChinaPetro&Chem	0386	6.06	1.00	10.18
AU$	CmwlthBkAust	CBA	83.81	2.96	1.70
¥	EastJapanRailway	9020	10565	-0.61	4.60
¥	Fanuc	6954	22085	-0.85	11.46
¥	Hitachi	6501	722.20	-1.05	14.27
TW$	Hon Hai Precisn	2317	117.00	...	38.95
¥	HondaMotor	7267	3091.00	-0.16	-9.49
KRW	HyundaiMtr	005380	148500	0.34	1.71
HK$	Ind&Comml	1398	5.34	0.75	14.84
¥	JapanTobacco	2914	3813.00	0.03	-0.81
¥	KDDI	9433	2920.00	0.27	-1.33
¥	Mitsubishi	8058	2401.50	0.04	-3.55
¥	MitsubishiElectric	6503	1622.50	-1.25	-0.43
¥	MitsubishiUFJFin	8306	718.00	-0.50	-0.31
¥	Mitsui	8031	1607.00	0.03	...
¥	Mizuho Fin	8411	198.60	-0.35	-5.34
¥	NTTDoCoMo	9437	2631.50	0.46	-1.18
AU$	NatAustBnk	NAB	30.30	3.06	-1.21
¥	NipponTeleg	9432	5439.00	1.30	10.73
¥	NissanMotor	7201	1128.50	-1.18	-4.00
¥	Panasonic	6752	1505.00	-0.86	26.52
HK$	PingAnInsofChina	2318	58.80	0.09	51.55
$	RelianceIndsGDR	RIGD	47.05	0.11	49.13
KRW	SamsungElectronics	005930	2537000	-0.20	40.79
¥	Seven&I Hldgs	3382	4449.00	-0.43	-0.09
¥	SoftBankGroup	9984	9260.00	1.26	19.25
¥	Sony	6758	4497.00	-0.18	37.31
¥	Sumitomo Mitsui	8316	4272.00	0.09	-4.22
HK$	SunHngKaiPrp	0016	119.60	0.34	22.04
TW$	TaiwanSemiMfg	2330	214.50	0.23	18.18
¥	TakedaPharm	4502	5751.00	-0.21	18.95
HK$	TencentHoldings	0700	298.00	3.91	57.09
¥	TokioMarineHldg	8766	4728.00	-0.51	-1.42
¥	ToyotaMtr	7203	6128.00	-0.84	-10.90
AU$	Wesfarmers	WES	40.53	-0.42	-3.82
AU$	WestpacBanking	WBC	31.94	3.80	-2.02
AU$	Woolworths	WOW	26.25	...	8.92
	Stoxx 50				
CHF	ABB	ABBN	23.90	0.50	11.27
€	ASMLHolding	ASML	129.80	5.79	21.71
€	AXA	CS	24.96	0.71	4.09
€	AirLiquide	AI	109.25	0.69	3.41
€	Allianz	ALV	179.70	...	14.46
€	AB InBev	ABI	99.45	0.45	-1.09
£	AstraZeneca	AZN	5070.00	0.02	14.25
€	BASF	BAS	81.72	-0.07	-7.46
€	BNP Paribas	BNP	64.84	0.12	7.09
£	BT Group	BT.A	305.15	0.30	-16.83
€	BancoBilVizAr	BBVA	7.51	0.24	18.21
€	BancoSantander	SAN	5.66	-0.51	14.04
£	Barclays	BARC	206.30	0.61	-7.68
€	Bayer	BAYN	111.15	1.09	12.13
£	BP	BP.	445.95	0.11	-12.49
£	BritishAmTob	BATS	5288.00	0.97	14.42
€	Daimler	DAI	64.14	-0.05	-9.30
€	DeutscheTelekom	DTE	15.64	0.55	-3.38
£	Diageo	DGE	2289.50	0.13	8.51
€	ENI	ENI	13.13	-0.08	-15.13
£	GlaxoSmithKline	GSK	1610.50	0.66	3.10
£	Glencore	GLEN	322.00	0.23	16.10
£	HSBC Hldgs	HSBA	738.80	0.67	12.47
€	INGGroep	INGA	15.43	0.03	15.41
£	ImperialBrands	IMB	3445.00	0.55	-2.75
€	IntesaSanpaolo	ISP	2.86	-0.49	17.72
€	LVMHMoetHennessy	MC	222.25	1.48	22.52
£	LloydsBankingGroup	LLOY	68.08	1.76	8.91
€	LOreal	OR	185.25	0.95	6.83
£	NationalGrid	NG.	945.50	0.45	-8.92
CHF	Nestle	NESN	83.35	0.42	14.10
CHF	Novartis	NOVN	81.20	0.87	9.58
DKK	NovoNordiskB	NOVO-B	274.90	-0.33	7.93
£	Prudential	PRU	1773.50	1.23	8.97
£	ReckittBenckiser	RB.	7937.00	1.60	15.26
£	RioTinto	RIO	3446.50	-0.04	9.12
CHF	RocheHldgctf	ROG	244.10	0.37	4.94
£	RoyDtchShell A	RDSA	2061.50	0.07	-8.07
€	SAP	SAP	91.33	1.67	10.29
€	Sanofi	SAN	82.24	-0.42	6.94
€	SchneiderElectric	SU	68.44	0.60	3.52
€	Siemens	SIE	116.60	-1.14	-0.17
€	Telefonica	TEF	9.32	0.34	5.70
€	Total	FP	43.38	1.10	-9.16
CHF	UBSGroup	UBSG	16.95	1.01	6.27
€	Unilever	UNA	49.72	0.93	27.10
£	Unilever	ULVR	4314.00	0.55	31.03
€	Vinci	DG	78.38	1.59	21.14
£	VodafoneGroup	VOD	221.95	1.09	11.06
CHF	ZurichInsurance	ZURN	287.40	0.28	2.50
	DJIA				
$	AmericanExpress	AXP	85.91	0.46	15.97
$	Apple	AAPL	150.85	0.51	30.25
$	Boeing	BA	210.87	1.26	35.45
$	Caterpillar	CAT	107.81	0.69	16.25
$	Chevron	CVX	104.45	0.70	-11.26
$	CiscoSystems	CSCO	31.90	1.24	5.56
$	Coca-Cola	KO	44.83	0.36	8.13
$	Disney	DIS	106.83	1.02	2.50
$	DuPont	DD	85.32	1.57	16.24
$	ExxonMobil	XOM	80.81	0.26	-10.47
$	GeneralElec	GE	26.94	0.19	-14.75
$	GoldmanSachs	GS	222.87	-0.20	-6.92
$	HomeDepot	HD	153.22	0.69	14.28
$	Intel	INTC	34.56	0.09	-4.71
$	IBM	IBM	147.43	-4.27	-11.18
$	JPMorganChase	JPM	91.20	0.14	5.69
$	J&J	JNJ	135.21	0.56	17.36
$	McDonalds	MCD	153.81	-0.10	26.36
$	Merck	MRK	62.61	0.32	6.35
$	Microsoft	MSFT	73.86	0.76	18.86
$	Nike	NKE	57.75	0.17	13.61
$	Pfizer	PFE	33.62	0.78	3.51
$	Procter&Gamble	PG	88.32	0.42	5.04
$	3M	MMM	212.03	0.34	18.74
$	Travelers	TRV	126.45	0.73	3.29
$	UnitedTech	UTX	123.06	0.35	12.26
$	UnitedHealth	UNH	189.16	1.24	18.20
$	Visa	V	98.23	0.67	25.90
$	Verizon	VZ	43.45	0.21	-18.60
$	Wal-Mart	WMT	75.86	-0.45	9.75

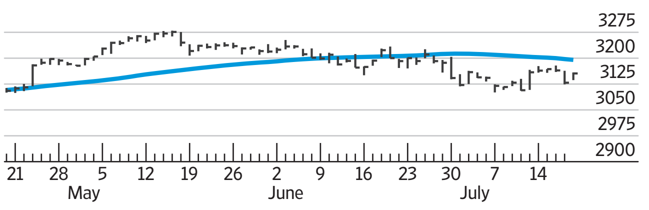
Asia Titans 50

Last: **163.85** ▲ 1.07, or 0.66% — YTD ▲ **16.2%**



Stoxx 50

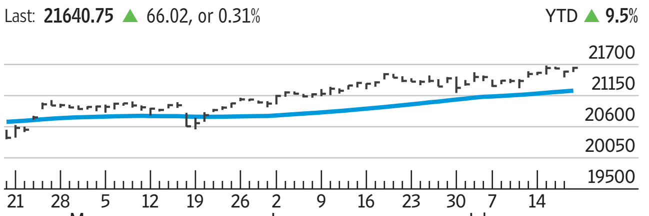
Last: **3155.79** ▲ 26.96, or 0.86% — YTD ▲ **4.8%**



Dow Jones Industrial Average

P/E: 21

Last: **21640.75** ▲ 66.02, or 0.31% — YTD ▲ **9.5%**



Note: Price-to-earnings ratios are for trailing 12 months.
Sources: WSJ Market Data Group; Birinyi Associates

Some Banks Are Upbeat on Policy

CEOs of U.S. Bancorp, Morgan Stanley cite hope for Washington, in contrast to Dimon

By Christina Rexrode

U.S. Bancorp, the largest regional bank in the country, is bullish on the regulatory outlook for banks.

In a call with analysts Wednesday to discuss second-quarter earnings, CEO Andrew Cecere said expected changes to bank regulation have "the promise to be conducive to growth."

"I just spent time in Washington last week and left very encouraged by the open and productive dialogue that is taking place," Mr. Cecere said.

Executives at **Morgan Stanley**, which reported second-quarter earnings Wednesday as well, were enthusiastic about prospects for regulation that would be more favorable to the industry. In a call with analysts, CEO James Gorman expressed hope for simpler regulation and lower corporate taxes to "allow U.S. banks to be greater engines of economic growth."

Their remarks stand in contrast to those made by **J.P. Morgan Chase** & Co. CEO James Dimon, who said last week that Washington gridlock has so hamstrung the U.S. economy that "it's almost an embarrassment" to be an American citizen.

MICHAEL NAGLE/BLOOMBERG NEWS

Morgan Stanley chief James Gorman expressed hope for simpler regulation and lower taxes.

While other banks want a lighter regulatory touch as well—one of the promises of the Trump administration—they have focused their recent remarks instead on Washington gridlock over health care, trade policy, tax policy and other issues.

U.S. Bancorp suffered from sluggish loan growth at the beginning of the year, but officials there said they expect loan demand to bounce back a bit in the third quarter. They also said they expect consumer lending demand to "remain fairly strong" for the rest of the year.

In an interview, Chief Financial Officer Terry Dolan said he was also optimistic about what policy makers in Washington could do for the economy. "There's a very strong focus on how we move the economy forward, how we're going to create jobs, what we can do within the banking industry in order for us to help stimulate that economic growth," he said.

Just last month, Mr. Cecere said a lack of clarity on tax policy, trade policy, health care and infrastructure spending was forcing corporate customers into a wait-and-see mode, wary about expanding until they knew what to expect. Mr. Dolan said Wednesday that the bank's large corporate customers are taking out loans for small acquisitions, not capital expenditures or business initiatives.

Darren King, the chief financial officer of **M&T Bank** Corp., based in Buffalo, N.Y., said in an interview Wednesday that Washington gridlock was keeping corporate customers from taking loans to grow their business.

"If you're in health care, it's uncertainty about the Affordable Care Act," Mr. King said. "If you're in construction or heavy equipment, it's uncertainty about whether we're going to have an infrastructure bill."

Donald Trump's election in November sent bank stocks soaring, with analysts expecting the new administration to pare back Obama-era regulations and boost the economy with infrastructure spending. Still, banks have been wondering if the Trump administration's deregulation promises will materialize. It also isn't clear if election-fueled optimism about the economy will translate into higher loan demand.

Mr. Dolan on Wednesday noted the report the Treasury Department released last month with proposals on remaking the regulatory landscape as one of the reasons for his bank's optimism.

"If you go back a quarter or so, the Treasury was asking a lot of questions and writing things down, but we didn't have a sense of whether they were really listening and hearing us out," Mr. Dolan said in an interview.

Regulator Embraces Licenses For Fintech

By Rachel Witkowski

WASHINGTON—The Trump administration supports giving national banking licenses to firms in the emerging financial-technology industry, acting Comptroller of the Currency Keith Noreika said.

"We all need the federal banking system to be more inclusive, to accommodate new banks, and to adapt to the changing needs of the marketplace, customers and communities," Mr. Noreika said Wednesday in a speech at the Exchequer Club in Washington.

Mr. Noreika threw his weight behind an initiative that started during the Obama administration under the prior head of the Office of the Comptroller of the Currency. The OCC's preliminary moves on fintech banking charters—for firms that typically offer online loans and mobile banking services—prompted lawsuits from state regulators, who argue the federal government doesn't have the authority to grant national licenses to such firms.

Mr. Noreika said his office will defend in court its authority to grant fintech licenses.

Two lawsuits brought by a group of state regulators and New York are in the beginning stages. While the litigation is pending, Mr. Noreika said his agency would look at ways to license the firms. "Suffice it to say, the agency is developing its litigation response and plans to defend this authority vigorously." Mr. Noreika said he wanted to set the record straight on accusations by the states that the OCC lacks the authority and could harm consumers. State regulators say they have stronger consumer financial-protection laws. He disputed those claims.

Crude Prices Rise After Inventories Decline

By Alison Sider

Oil prices climbed to a six-week high after a U.S. government report showed sharp drawdowns in oil and fuel stockpiles.

Both U.S. and global crude benchmarks had their biggest single-day gains since July 3 and settled at their highest level since June 6. U.S. crude prices settled up 72 cents, or 1.6%, at $47.12 a barrel on the New York Mercantile Exchange. Brent, the global benchmark, gained 86 cents, or 1.8%, to $49.70.

U.S. oil stockpiles fell by 4.7 million barrels last week, according to the U.S. Energy Information Administration. Total stockpiles of oil and petroleum products fell by 10.2 million barrels.

The declines in oil and fuel inventories helped bolster confidence that production cuts by the **Organization of the Petroleum Exporting Countries** and other major producers are having an impact on U.S. stockpiles. U.S. oil inventories have dropped in 13 of the past 15 weeks.

"This market, which has been so impatient in 2017 to see declines in inventories, is now finally seeing it," said Andy Lipow, president of Lipow Oil Associates in Houston.

Investors had been bracing for a possible rise in crude inventories after the **American Petroleum Institute** projected Tuesday that crude stocks had increased by 1.6 million barrels in the week ended July 14. Analysts surveyed by The Wall Street Journal anticipated that the amount of crude in storage fell by 3.1 million barrels, on average.

Wednesday's data also helped ease worries about demand that have dogged the market at times this year. Gasoline stockpiles fell by 4.4 million barrels a day last week. The amount of gasoline being stored in the U.S. now stands about 10 million barrels lower than this time last year, even as refiners have been churning out the fuel at high rates.

"We're absorbing as hard as these refiners are running; it's not accumulating at the moment," said Donald Morton, who oversees an energy trading desk as senior vice president at Herbert J. Sims Co.

Gasoline futures for August delivery rose 3.8 cents, or 2.4%, to $1.6169 a gallon.

MARKETS

Commodity Traders Stung

Banks, hedge funds faltered in first half amid weak oil prices and low volatility

By Stephanie Yang

Oil prices are having a tough year. So are some commodity traders.

Major commodity players such as banks and hedge funds have stumbled, as low volatility and a faltering oil recovery derailed returns during the first half. The S&P GSCI commodity index slumped 10.2% in that period, the worst first-half performance since 2010.

Part of the troubles come from a lack of volatility this year that has made trading more challenging, traders said. Range-bound markets offer little opportunity for investors and traders to profit from major price moves and arbitrage divergences.

Low volatility also leads to less demand from clients who want to lock in prices or investors looking to bet on market trends, both major components of banks' commodities businesses. While commodity prices have rebounded slightly in July—the S&P GSCI index is up 0.2% so far this month—a snapback in price swings hasn't occurred.

Goldman Sachs Group Inc., historically a major commodity trader, reported its worst-ever quarter for commodities trading in its earnings report Tuesday. "Commodities is a story of challenges on all fronts," Chief Financial Officer R. Martin Chavez said on a conference call after the release. When trading revenue fell during the first quarter from a year earlier, the bank had also blamed trading in currencies, commodities and corporate bonds.

Bank revenue from commodities broadly has been on a decline. Global revenue from commodities at the 12 biggest investment banks totaled $4.3 billion in the 2016 fiscal year, down from a peak of $14.5 billion in 2008, according to Coalition Development Ltd., which measures trading and financing revenue.

Increased regulation has caused Wall Street banks to retreat in recent years from commodities, including activities in physical oil and gas.

An unexpected drop-off in oil prices this year has contributed to the malaise, after many banks and hedge funds had expected gains.

Veteran oil traders such as Pierre Andurand and Andrew Hall, both hedge-fund managers, lost money this year after betting that production cuts among members of the Organization of the Petroleum Exporting Countries would boost oil prices, The Wall Street Journal has reported.

According to S&P Dow Jones Indices, energy's performance has lagged behind the returns in other commodities by the most in 27 years. The S&P GSCI Energy Total Return index lost 18.8% in 2017 through June 30, marking the sector's worst start to the year since 1998.

"Overall, the trading market is a little bit tricky right now," said Marc Fontaine, an independent consultant and former head of commodity derivatives for the Americas at BNP Paribas. "There is a lot less volatility, and that makes it much more difficult not just for the Goldman Sachs's of the world but the large merchants like Mercuria to trade and to trade well."

Returns from commodity-trading advisers, funds that trade futures including commodity contracts often based on market trends, have also suffered this year. Société Générale's SG CTA Index, which tracks performance of the funds, is down 3.45% this year through June, the worst first-half return since 2011. While CTAs trade futures in all asset classes, some in the sector attribute losses to a lack of major moves in commodities.

"You get a market where you're bullish at the top and bearish at the bottom. And those are tough markets to trade," said Tai Wong, head of metals trading at BMO Capital Markets.

Among longer-term investors, the lackluster returns in oil and other commodities have damped enthusiasm. While typically volatile, net flows into commodities in the first half totaled $9.5 billion, an 86% drop from the first half of 2016 when net inflows totaled $69.8 billion, according to RBC Capital Markets.

"As we see the oil price continue to decline…we definitely see a lot of negative sentiment in commodities," said Darwei Kung, portfolio manager of the $2.7 billion Deutsche Enhanced Commodity Strategy Fund.

Hedge funds and other speculative investors have pared their bullish bets on crude-oil futures after they reached a record high earlier this year.

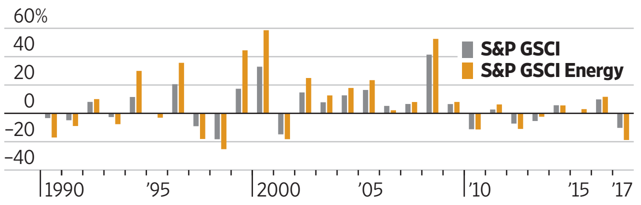
Ebele Kemery, head of energy investing at J.P. Morgan Asset Management, said the drop in oil prices has prompted clients to focus more on holding commodities as an inflation hedge and a tool for diversification, rather than look for price gains.

Ms. Kemery also sees more opportunities in soft commodities and industrial metals, which may benefit from an improved macroeconomic outlook.

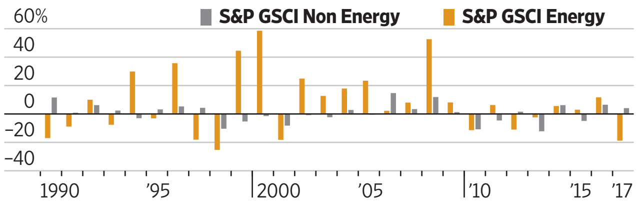
"What it has done is make our investors turn back to basics," she said.

Trouble in Commodities

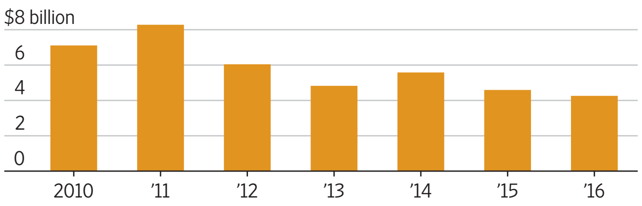
Returns from commodities during the first half of 2017 were the worst in seven years...



...as energy lagged other raw materials by the most in more than two decades.



Meanwhile, revenue at big Wall Street banks* from commodities has continued to shrink.



Note: Returns are for the first six months. *12 largest banks
Sources: S&P Dow Jones Indices (returns); Coalition (revenues)
THE WALL STREET JOURNAL.

U.S. Indexes Keep Hitting Records

By Riva Gold and Amrith Ramkumar

WEDNESDAY'S MARKETS

U.S. stocks gained Wednesday, as rising oil prices and corporate earnings drove some of the day's biggest moves.

The Dow Jones Industrial Average gained 66.02 points, or 0.3%, to 21640.75. The S&P 500 climbed 0.5%, and the Nasdaq Composite added 0.6%, with both indexes advancing to records.

In Europe, the Stoxx Europe 600 gained 0.8% to 385.54. Many investors are closely watching to see whether the European Central Bank's Thursday meeting provides clues about when it will exit from its huge stimulus program. ECB President Mario Draghi gave a speech in late June that many interpreted as a signal that ultra-loose monetary policy may come to an end.

"Draghi has been a wild card in the market," said JJ Kinahan, chief market strategist at TD Ameritrade. "People are really watching to see if he strikes a more dovish tone."

Despite already climbing to fresh records this year, U.S. stocks have continued to tick higher with reporting season in full swing. The biggest banks all posted quarterly earnings figures that beat Wall Street expectations, while several highflying technology firms are scheduled to report in the coming days, starting Thursday with Microsoft.

Stocks seem to have shaken off the recent failure of Senate Republicans to replace the Affordable Care Act, said Crit Thomas, global market strategist at Touchstone Investments. Many investors had previously considered the health-care bill's progress an indicator of the likelihood of Congress passing corporate-friendly policies later in the year.

Shares of energy and health-care companies were among Wednesday's biggest gainers.

U.S. crude for August delivery settled up 1.6% to $47.12 a barrel—its highest level since June 6—after a U.S. government report showed sharp drawdowns in oil and fuel stockpiles, boosting energy stocks. The S&P 500 energy sector was the index's best performer, gaining 1.4%.

Health-care stocks in the S&P 500 rose 0.7% and the Nasdaq Biotechnology Index added 1.4%. Vertex Pharmaceuticals shares jumped 21% after the company said three of its cystic-fibrosis drugs in development showed promise in early clinical trials treating the progressive lung disorder.

UnitedHealth Group rose 1% in late trading, among the largest percentage gains in the Dow industrials.

The S&P 500's information-technology sector added 0.6%, a day after streaming giant Netflix, technically a consumer stock that is often grouped with technology shares, exceeded its quarterly subscriber growth estimate and had its best day of 2017.

Morgan Stanley shares rose 3.3% in late trading after the bank released second-quarter earnings that showed revenue beat analysts' expectations, wrapping up the reporting season for big banks.

"We've seen quite a strong earnings period, not just in the U.S. but in Europe and emerging markets," said Mouhammed Choukeir, chief investment officer at Kleinwort Hambros.

The yield on the 10-year U.S. Treasury note rose to 2.268%, according to Tradeweb, from 2.263% Tuesday. Yields rise as prices fall.

HEARD ON THE STREET

Email: heard@wsj.com FINANCIAL ANALYSIS & COMMENTARY WSJ.com/Heard

The Last Market Betting on Trump

Investors in most markets don't expect as much from President Donald Trump and Congress as they did in January. There is still optimism in stocks, and that could lead to disappointment.

Republicans' failure this week to repeal and replace the Affordable Care Act raises fresh questions about whether they will enact the tax-cut and stimulus-spending promises Mr. Trump campaigned on. Not only did the health-care debate reveal sharp divisions that exist in the GOP, but it chewed up a half year of the legislative time clock. And because Congress will need to pivot to the budget and to raising the debt ceiling, there won't be much time to pass a tax overhaul before the midterm election campaign sets in.

The lower expectations for the passage of a tax-cut and spending package are reflected in all the Trump trades that have unwound since the start of the year.

The dollar, for example, shot higher following the presidential election on expectations that the U.S. economy would get a boost, but it is now trading below its November levels. Treasury yields have moderated since the start of the year despite two rate increases from the Federal Reserve. The same is true for stock-price declines this year in the shares of companies that would benefit from large-scale infrastructure projects, such as **Vulcan Materials** and **Granite Construction**.

More than infrastructure, however, it was the possibility of a tax revamp that got investors in the stock market excited. An index of shares of companies with high tax rates—the companies that should benefit most from a corporate tax cut—constructed by **Strategas Research Partners** moved up sharply relative to low-tax stocks following the election. But that outperformance has been erased this year.

Yes, the overall stock market by contrast, has held on to its postelection gains. That leads to the conclusion that the rally is due much more to healthy corporate earnings and solid global growth than to expectations for Mr. Trump's policies.

"We just believe the market has already been giving little credit to tax reform," says Strategas policy analyst Dan Clifton.

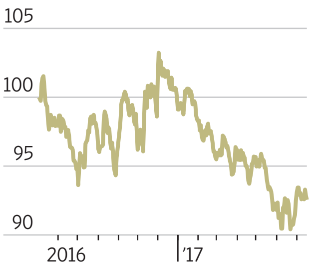
Still, the market's high valuation in the face of declining earnings growth and a tepid U.S. economy makes some of the rally was likely driven by policy expectations. More than half of the respondents to a survey of nearly 1,100 clients conducted by **Cornerstone Macro** last month said they expected Congress to pass a significant tax bill before the 2018 midterm elections.

The question to ask, says Cornerstone's Andy Laperriere, is what would happen to stocks if all investors gave up on a tax cut? The answer: They would probably fall.

—Justin Lahart

Taxing Problem

Share performance of companies with high tax rates relative to companies with low tax rates



Note: Indexed to 100 June 1, 2016
Source: Strategas Research Partners
THE WALL STREET JOURNAL.

Associated Press

OVERHEARD

Brother, can you spare a dime? The companies rated by Moody's almost certainly can. At the end of 2016, the cash holdings of about 1,700 nonfinancial companies across the U.S., Europe, the Middle East and Africa approached $3 trillion, the ratings firm says.

But there are some stark differences on each side of the Atlantic. U.S. corporate cash, while rising 9.2% in 2016 to $1.84 trillion on Moody's numbers, is highly concentrated. Roughly one-third is held by just five companies, all from the technology sector. The list is topped by **Apple** with $246 billion—almost double the amount held by Microsoft, in the No. 2 slot.

In Europe, where cash holdings climbed 6% to €974 billion ($1.1 trillion), the wealth is more spread out. The top five hold 13% of the total, with **Electricité de France** in first with €33 billion. The tech sector accounted for just 2% of 2016's cash pile. At least when it comes to cash, led by energy, autos and utilities, Europe is still the old world.

Microsoft Has to Make Heads Count

For **Microsoft**, the trick these days is growing the cloud without getting itself too puffed up.

The first objective has been progressing well. When Microsoft reports results Thursday, its cloud businesses should remain a big growth driver. The company's Intelligent Cloud segment is expected to boost revenue by 9% year over year, according to FactSet. The Productivity and Business Processes segment, which contains important cloud services, is expected to increase revenue 20%.

The second point has been more of a challenge. The acquisition of LinkedIn last year added more than 10,000 full-time employees to Microsoft's payroll. That brought the company's total head count to more than 121,000. Microsoft has been working to bring that number down without substantial job cuts because expanding its cloud business requires talent, and not the cheap kind.

So investors shouldn't expect Microsoft to get much smaller, despite new layoffs numbering "in the thousands" reported earlier this month. And it should be noted that Microsoft's efficiency hasn't been a big problem. Its annual revenue per employee still ranks well above that of many of its big tech peers.

Still, shifting to the cloud has trimmed the high gross margins of its legacy software business. That isn't a burden shared by its main cloud rivals **Amazon.com** and Google parent **Alphabet** Inc. Wall Street is expecting Microsoft's adjusted operating margin to make gradual improvements over the next two fiscal years after remaining flat around 30% for the last three. Expensive clouds need to show a silver lining.

—Dan Gallagher

Vertex Pharmaceuticals Shares Haven't Hit Their Apex

The party for **Vertex Pharmaceuticals** shareholders isn't over yet.

Investors in the biotechnology company hit the jackpot on Tuesday after it announced breakthrough results in early stage data for its new cystic fibrosis treatment. Studies found that patients using the Vertex drug combination experienced significant improvement in lung function with mostly mild side effects.

Shares were up 21% in trading Wednesday afternoon and have now more than doubled this year.

The ferocious rally will surely tempt some investors to exit. That may not be wise, though, as the Vertex rally is likely to continue.

Analyst expectations are high for the company, but not unrealistic. They expect nearly $6 billion in annual revenue by 2022 on average, according to FactSet. That is more than double this year's revenue forecast of $2.2 billion.

The company's legacy cystic fibrosis drugs treat only 50% of patients. Vertex thinks it will be able to treat 90% of patients including the new combination. Analysts at **Leerink Partners** expect the new combination treatment to hit the market in 2020. There is potential upside to that forecast, given that the Food and Drug Administration has prioritized helping rare disease therapies gain approval quickly.

And the bull case doesn't stop there. The sparkling clinical data will likely translate into improved patient adherence to treatment regimens. Slower-than-expected refills with the company's existing cystic fibrosis drug, Orkambi, have sometimes hampered the company's financial results in the past.

Meanwhile, the nature of cystic fibrosis—a chronic disease with patients diagnosed at birth—means that the new revenue base won't come with much more expenses because there likely won't be a need to expand the company's sales force to reach additional patients who can benefit from the new combination. Furthermore, this patient population will need treatment on a continuing basis. That means the revenue and cash flow generated from drug sales would have significant staying power.

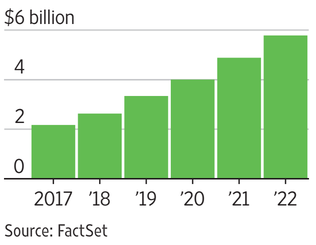
And while the trial results were early stage, early results have historically correlated well to later ones for the company. Betting on early data can be a leap of faith for investors. Making such a wager in this particular case looks reasonable, though.

"Buy the rumor, sell the news" goes the old stock-trading axiom. In the case of Vertex, however, investors ought to make an exception.

—Charley Grant

Step Function

Consensus revenue projections for Vertex



Source: FactSet
THE WALL STREET JOURNAL.