

# THE WALL STREET JOURNAL.

DOW JONES | News Corp

MONDAY, JULY 17, 2017 ~ VOL. XLI NO. 223

WSJ.com

ASIA EDITION

As of 4 p.m. ET

DJIA 21637.74 ▲ 0.39%

NIKKEI 20118.86 ▲ 0.09%

STOXX 600 386.84 ▲ 0.18%

BRENT 48.91 ▲ 1.01%

GOLD 1226.60 ▲ 0.85%

EURO 1.1455 ▲ 0.49%

DLR ¥112.64 ▼ 0.57%

## What's News

Business & Finance

China's efforts to open its finance and agriculture markets have yielded slow, modestly improved access in some sectors and lingering obstacles in others, U.S. firms say, as officials from both countries hold trade talks Wednesday. **A1**

◆ A \$2 billion fund managed by EnerVest that borrowed heavily to buy oil and gas wells before energy prices plunged is now worth essentially nothing. **A1**

◆ A still-challenging environment around lending and interest rates helped take some of the shine off solid results from J.P. Morgan, Wells Fargo and Citigroup. **B1, B5, B8**

◆ Samsung's Galaxy S8 is raising the design stakes with Apple as the iPhone's 10th anniversary nears. **B1**

◆ New jet makers from China, Russia and Canada are threatening Airbus and Boeing's global duopoly. **B1**

◆ Singapore's GrabTaxi is poised to get a huge cash injection that could help it in its home-region battle against Uber. **B4**

◆ Sprint Chairman Son met separately with Buffett and John Malone to talk about investing in the embattled wireless company. **B3**

◆ Americans' craving for bacon is pushing U.S. pork-belly prices to new highs. **B1**

◆ China's World Bank rival secured a AAA rating from Fitch after receiving the same from Moody's. **B5**

### World-Wide

◆ Trump's push to pass a new health-care law experienced another setback, as McCain underwent an unexpected surgery. **A1**

◆ The White House will embark on a three-week messaging campaign to refocus attention on Trump's agenda and frame a debate later this summer over rewriting the tax code. **A7**

◆ China's Communist Party placed under investigation a senior official once seen as a possible successor to Xi Jinping. **A4**

◆ The loss of Liu Xiaobo leaves China's fractured activist community at its weakest. **A4**

◆ Activists expressed concern for the wife of the deceased Chinese dissident, as she remained out of touch with friends despite Beijing saying she is "free." **A4**

◆ South Carolina reported nearly 150,000 hacking attempts on voter-registration on Election Day 2016. **A5**

◆ Venezuelans began voting in a symbolic, unsanctioned referendum to defy Maduro and his plans to rewrite the country's constitution. **A3**

◆ Prime Minister Sharif faces a fight for his political survival, as Pakistan's Supreme Court considers putting him on trial on corruption charges. **A3**

◆ Roger Federer won Wimbledon for a record eighth time. **WSJ.com**

CONTENTS Markets ..... B8  
Business News.... B3 Markets Digest ..... B6  
Crossword ..... A12 Opinion ..... A10-11  
Europe File ..... A12 Technology ..... B4  
Global Finance ..... B57 U.S. News ..... A57  
Head on Street... B8 Weather ..... A12  
Life & Arts... A8-9,12 World News ..... A2-4  
  
China: RMB28.00; Hong Kong: HK\$23.00;  
Indonesia: Rp25,000 (incl PPN);  
Japan: Yen620 (incl JCT); Korea: Won4,000;  
Malaysia: RM7.50; Singapore: \$5.00 (incl GST)  
KDN PP 9315/10/2012 (03275); MCI (P)  
NO. 066/01/2017; SK MENPEN RI. NO. 01/  
SK/MENPEN/SCJ/1998 TGL 4 SEPT 1998

ISSN 03779920 4.12.23  
9 770377992000  


Copyright 2017 Dow Jones & Company. All Rights Reserved

9 Copyright 2017 Dow Jones & Company. All Rights Reserved

9 Copyright 2017 Dow Jones & Company. All Rights Reserved

9 Copyright 2017 Dow Jones & Company. All Rights Reserved

9 Copyright 2017 Dow Jones & Company. All Rights Reserved

9 Copyright 2017 Dow Jones & Company. All Rights Reserved

9 Copyright 2017 Dow Jones & Company. All Rights Reserved

9 Copyright 2017 Dow Jones & Company. All Rights Reserved

9 Copyright 2017 Dow Jones & Company. All Rights Reserved

9 Copyright 2017 Dow Jones & Company. All Rights Reserved

9 Copyright 2017 Dow Jones & Company. All Rights Reserved

9 Copyright 2017 Dow Jones & Company. All Rights Reserved

9 Copyright 2017 Dow Jones & Company. All Rights Reserved

9 Copyright 2017 Dow Jones & Company. All Rights Reserved

9 Copyright 2017 Dow Jones & Company. All Rights Reserved

9 Copyright 2017 Dow Jones & Company. All Rights Reserved

9 Copyright 2017 Dow Jones & Company. All Rights Reserved

9 Copyright 2017 Dow Jones & Company. All Rights Reserved

9 Copyright 2017 Dow Jones & Company. All Rights Reserved

9 Copyright 2017 Dow Jones & Company. All Rights Reserved

9 Copyright 2017 Dow Jones & Company. All Rights Reserved

9 Copyright 2017 Dow Jones & Company. All Rights Reserved

9 Copyright 2017 Dow Jones & Company. All Rights Reserved

9 Copyright 2017 Dow Jones & Company. All Rights Reserved

9 Copyright 2017 Dow Jones & Company. All Rights Reserved

9 Copyright 2017 Dow Jones & Company. All Rights Reserved

9 Copyright 2017 Dow Jones & Company. All Rights Reserved

9 Copyright 2017 Dow Jones & Company. All Rights Reserved

9 Copyright 2017 Dow Jones & Company. All Rights Reserved

9 Copyright 2017 Dow Jones & Company. All Rights Reserved

9 Copyright 2017 Dow Jones & Company. All Rights Reserved

9 Copyright 2017 Dow Jones & Company. All Rights Reserved

9 Copyright 2017 Dow Jones & Company. All Rights Reserved

9 Copyright 2017 Dow Jones & Company. All Rights Reserved

9 Copyright 2017 Dow Jones & Company. All Rights Reserved

9 Copyright 2017 Dow Jones & Company. All Rights Reserved

9 Copyright 2017 Dow Jones & Company. All Rights Reserved

9 Copyright 2017 Dow Jones & Company. All Rights Reserved

9 Copyright 2017 Dow Jones & Company. All Rights Reserved

9 Copyright 2017 Dow Jones & Company. All Rights Reserved

9 Copyright 2017 Dow Jones & Company. All Rights Reserved

9 Copyright 2017 Dow Jones & Company. All Rights Reserved

9 Copyright 2017 Dow Jones & Company. All Rights Reserved

9 Copyright 2017 Dow Jones & Company. All Rights Reserved

9 Copyright 2017 Dow Jones & Company. All Rights Reserved

9 Copyright 2017 Dow Jones & Company. All Rights Reserved

9 Copyright 2017 Dow Jones & Company. All Rights Reserved

9 Copyright 2017 Dow Jones & Company. All Rights Reserved

9 Copyright 2017 Dow Jones & Company. All Rights Reserved

9 Copyright 2017 Dow Jones & Company. All Rights Reserved

9 Copyright 2017 Dow Jones & Company. All Rights Reserved

9 Copyright 2017 Dow Jones & Company. All Rights Reserved

9 Copyright 2017 Dow Jones & Company. All Rights Reserved

9 Copyright 2017 Dow Jones & Company. All Rights Reserved

9 Copyright 2017 Dow Jones & Company. All Rights Reserved

9 Copyright 2017 Dow Jones & Company. All Rights Reserved

9 Copyright 2017 Dow Jones & Company. All Rights Reserved

9 Copyright 2017 Dow Jones & Company. All Rights Reserved

9 Copyright 2017 Dow Jones & Company. All Rights Reserved

9 Copyright 2017 Dow Jones & Company. All Rights Reserved

9 Copyright 2017 Dow Jones & Company. All Rights Reserved

9 Copyright 2017 Dow Jones & Company. All Rights Reserved

9 Copyright 2017 Dow Jones & Company. All Rights Reserved

9 Copyright 2017 Dow Jones & Company. All Rights Reserved

9 Copyright 2017 Dow Jones & Company. All Rights Reserved

9 Copyright 2017 Dow Jones & Company. All Rights Reserved

9 Copyright 2017 Dow Jones & Company. All Rights Reserved

9 Copyright 2017 Dow Jones & Company. All Rights Reserved

9 Copyright 2017 Dow Jones & Company. All Rights Reserved

9 Copyright 2017 Dow Jones & Company. All Rights Reserved

9 Copyright 2017 Dow Jones & Company. All Rights Reserved

9 Copyright 2017 Dow Jones & Company. All Rights Reserved

9 Copyright 2017 Dow Jones & Company. All Rights Reserved

9 Copyright 2017 Dow Jones & Company. All Rights Reserved

9 Copyright 2017 Dow Jones & Company. All Rights Reserved

9 Copyright 2017 Dow Jones & Company. All Rights Reserved

9 Copyright 2017 Dow Jones & Company. All Rights Reserved

9 Copyright 2017 Dow Jones & Company. All Rights Reserved

9 Copyright 2017 Dow Jones & Company. All Rights Reserved

9 Copyright 2017 Dow Jones & Company. All Rights Reserved

9 Copyright 2017 Dow Jones & Company. All Rights Reserved

9 Copyright 2017 Dow Jones & Company. All Rights Reserved

9 Copyright 2017 Dow Jones & Company. All Rights Reserved

9 Copyright 2017 Dow Jones & Company. All Rights Reserved

9 Copyright 2017 Dow Jones & Company. All Rights Reserved

9 Copyright 2017 Dow Jones & Company. All Rights Reserved

9 Copyright 2017 Dow Jones & Company. All Rights Reserved

9 Copyright 2017 Dow Jones & Company. All Rights Reserved

9 Copyright 2017 Dow Jones & Company. All Rights Reserved

9 Copyright 2017 Dow Jones & Company. All Rights Reserved

9 Copyright 2017 Dow Jones & Company. All Rights Reserved

9 Copyright 2017 Dow Jones & Company. All Rights Reserved

9 Copyright 2017 Dow Jones & Company. All Rights Reserved

9 Copyright 2017 Dow Jones & Company. All Rights Reserved

9 Copyright 2017 Dow Jones & Company. All Rights Reserved

9 Copyright 2017 Dow Jones & Company. All Rights Reserved

9 Copyright 2017 Dow Jones & Company. All Rights Reserved

9 Copyright 2017 Dow Jones & Company. All Rights Reserved

9 Copyright 2017 Dow Jones & Company. All Rights Reserved

9 Copyright 2017 Dow Jones & Company. All Rights Reserved

9 Copyright 2017 Dow Jones & Company. All Rights Reserved

9 Copyright 2017 Dow Jones & Company. All Rights Reserved

9 Copyright 2017 Dow Jones & Company. All Rights Reserved

9 Copyright 2017 Dow Jones & Company. All Rights Reserved

9 Copyright 2017 Dow Jones & Company. All Rights Reserved

9 Copyright 2017 Dow Jones & Company. All Rights Reserved

9 Copyright 2017 Dow Jones & Company. All Rights Reserved

## WORLD NEWS

# Obstacles Muddle Ukraine's European Path



### EUROPE FILE

By Simon Nixon

When the leaders of Ukraine and the European Union met in Kiev for a summit last week, both sides had something to celebrate.

For President Petro Poroshenko, it was an opportunity to highlight the latest steps toward fulfilling Ukraine's European aspirations that had been such

an important feature of the Maidan revolution in 2013. European Council President Donald Tusk presented him with a copy of the EU-Ukraine Association Agreement, which the EU finally ratified last week, three years after it was first agreed to, having nearly been derailed last year by a referendum in the Netherlands. The agreement includes a free-trade pact that already has boosted exports

to the EU by 25% since being provisionally applied on Jan. 1. Since May, Ukrainians have also been able to travel to the EU without a visa.

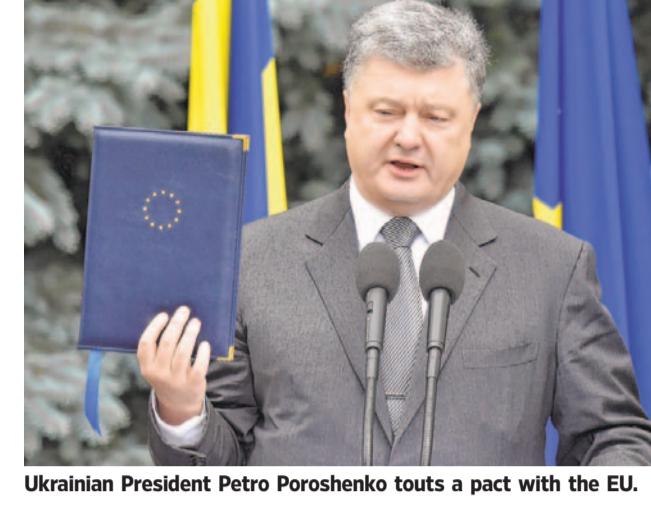
The summit also marked a victory of sorts for the EU. To the surprise of many, the EU has managed to maintain a united front in its policy toward Ukraine and Russia throughout the recent political turmoil across the continent. It has stuck by a sanctions regime which may not have succeeded in persuading Russia to abandon its illegal annexation of Crimea or withdraw its support for separatists in the Donbas region of southeast Ukraine but at least has helped deter Russian aggression elsewhere in Europe and prevented a tide of refugees from Donbas that might have further tested European unity.

In Eastern Europe in particular, where Ukraine's war is very much regarded as Europe's war, this is seen as an important success. Yet the warm words belied real anxieties. Kiev wanted the summit to end with a joint statement explicitly endorsing Ukraine's long-term aspiration to become an EU member. The EU's leadership wanted this,

too. The Estonian government, which now holds the EU's rotating presidency, pushed for a text that would welcome, acknowledge or even just take note of Ukraine's goal. But this was vetoed by the Dutch caretaker government, nervous of inflaming domestic opinion after last year's referendum rejecting the Association Agreement.

Instead, Mr. Tusk merely read out the preamble to the agreement, which "welcomed" Ukraine's "European choice," even though the European Council has stated that the agreement doesn't offer a path to EU membership in response to Dutch concerns.

Does the EU's refusal to hold out the prospect of membership matter? In the short term, perhaps not. All sides accept that it will be years—decades—before Ukraine is ready to join given the vast challenge of overhauling its economy and institutions. In the meantime, Brussels is continuing to provide Kiev with technical and financial assistance to deepen its integration with the EU, while Kiev consults with Brussels on all reforms to maximize compliance with EU rules. In time, there is no obvious reason



SERGEI SUPINSKY/AGENCE FRANCE PRESSE/GTET IMAGES

**Ukrainian President Petro Poroshenko touts a pact with the EU.**

why Ukraine shouldn't participate in EU arrangements such as its single market, customs union or even its Schengen passport-free travel zone, which are open to non-EU countries such as Norway and Switzerland.

Even so, the lack of a long-term EU perspective troubles Kiev. The Ukrainian government is trying to overhaul the country under challenging conditions. Following the Russian invasion in 2014, Ukraine's output slumped by nearly 17% and the currency lost 70% of its value against the dollar, causing inflation to hit

60%. That has created difficult political conditions under which to push through reforms such as the abolition of subsidized gas prices for businesses and households.

Meanwhile, Russia appears determined to raise the cost of Ukraine's reform program. Its continued destabilization of the Donbas, where violence has increased this year, and repeated cyberattacks against the government discourage investment and add to pressures on public finances.

Kiev believes Russian President Vladimir Putin's

goal is to turn Ukraine into a failed state which will in turn destabilize the whole of the EU.

Kiev has nevertheless chalked up important successes. It has nearly balanced the budget and has brought down inflation below 10%. The economy is growing again, and overhauls of the gas market, the banking system and public procurement have eased the pressure on government finances and reduced opportunities for corruption. Even so, every reform runs into resistance from vested interests, including Ukraine's powerful oligarchs. The government's capacity to implement its reforms is also weak, reflecting a public administration stripped of talent and still wedded to Soviet-era rule books.

To maximize Kiev's chances of success, the EU needs to find ways to lower the political cost of Ukraine's reforms. Kiev believes that offering a clear path to EU membership would strengthen its hand at home. Estonia will try again to convince EU leaders to send this signal at another summit in November. Not only the stability of Ukraine may be riding on the result.

## Turkey Marks One Year Since Failed Coup



**IN COMMAND:** In a photo released by state media Sunday, President Recep Tayyip Erdogan and his wife Emine attended a ceremony in Ankara commemorating the country's crushed coup.

## CHINA

Continued from Page One

fallen short of the spirit. Their assessment: slow, modestly improved access in some sectors, while lingering obstacles in others will continue to stymie foreign firms for years, even as specific targeted barriers have been removed.

"They've delivered on the promises by the date they've been required, but they could do more," said Jake Parker, vice president for the U.S.-China Business Council, which represents U.S. firms in China and has been monitoring the agreements. While the changes "indicate from the Chinese perspective that their market is open," Mr. Parker said, "whether foreign companies can actually operate there is still unclear" in some industries.

The success of those market-opening measures will be on the table when top economic officials from the two countries meet Wednesday to discuss trade and investment issues. Officials from both governments insist the pact has been successful.

"We hope to report further progress on...deliverables next week," a Commerce Department spokesman said Thursday, referring to actions taken under the May agreement.

"A number of early harvests' have been reaped," a Chinese foreign ministry spokesman said Friday, adding: "China's door to the world...will be opened wider."

The May announcement was portrayed as an early down payment on a general April agreement between President Donald Trump and Chinese President Xi Jinping to make progress toward reducing the \$347 billion bilateral trade imbalance that Mr. Trump regularly complains about.

In return for China's promises, the U.S. offered a couple of market-opening gestures as well and, in compliance with the pact, has issued rules allowing

ing previously blocked Chinese cooked-poultry imports.

In the May agreement, the Trump administration had marked five sectors—three in finance, two in agriculture—where U.S. firms had long been frustrated by perceived Chinese regulatory barriers.

Chinese agencies have made the specific changes promised in the written agreement. One resulted in clear, complete compliance: Beijing granted licenses promised to Citigroup Inc. and J.P. Morgan Chase & Co. to expand their bond-market activities in China.

In the other four, market gains seem limited or uncertain, business officials say.

### U.S. firms see slow improvement in some sectors, lingering roadblocks in others.

Consider the yearslong battle by Visa Inc. and Mastercard Inc. to get banks in China to distribute credit cards that run on their networks to Chinese consumers. China committed in May to issue any further necessary guidelines allowing U.S. firms to begin the licensing process, a crucial step that had long been stalled. The Chinese fulfilled that commitment on June 30. But while that step was aimed at leading "to full and prompt market access," according to a U.S. government press release, industry officials say it hasn't.

"All this does is allow companies to submit an application; it doesn't mean that a foreign card company can begin operating in the market," said Mr. Parker. Among other barriers, he said, the new rules require firms to submit to a national security review, without laying out the details of that process, and require foreign firms to build new data centers in China.

Visa and Mastercard spokespeople said they are reviewing

the guidelines, without offering a timetable for submitting applications.

A similar partial victory has been handed Moody's Investors Service, S&P Global Inc., and Fitch Ratings over Beijing's commitment to allow wholly owned financial-services firms in China to provide credit-rating services.

The Chinese government issued new rules effective July 10 removing foreign-ownership restrictions for credit-ratings services. Industry officials say that is a step forward, but uncertainty remains over the process and timing for receiving the licenses still required to issue domestic ratings.

"As a general matter we are encouraged by the policies of the Chinese government," Moody's said. S&P said it was still reviewing the new rules. Fitch declined to comment.

Uncertainty over approval processes is also a concern for American seed companies. In May, China promised by mid-July to grant approval for eight stalled applications for genetically modified crops for companies including Dow Chemical Co. and Monsanto Co., or at least offer a clear road map for how they could succeed.

Two approvals were granted in June, to Dow and Monsanto, and trade groups expect a couple more this week. But industry officials remain frustrated by the licenses that remain stuck and by the continued uncertainty over the requirements and timetable for the process. And they say they are still waiting for broader reforms showing that any future applications would be handled more transparently.

"All eight [approvals] are necessary to showcase that this was a success," said Matthew O'Mara of the Biotechnology Innovation Organization, a trade group representing seed makers.

Monsanto and Dow spokeswoman said they were pleased their products had received approvals and looked forward to more.

## FUND

*Continued from Page One*  
result," John Walker, Enervest's co-founder and chief executive, wrote in an email to The Wall Street Journal.

The outcome will leave investors in the 2013 fund with, at most, pennies for every dollar they invested, the people said. At least one investor, the Orange County Employees Retirement System, already has marked its investment down to zero, according to a pension document.

Though private-equity investments regularly flop, industry consultants and fund investors say this situation could mark the first time that a fund larger than \$1 billion has lost essentially all of its value.

EnerVest's collapse shows how debt taken on during the drilling boom continues to haunt energy investors three years after a glut of fuel sent prices spiraling down.

At its onset, the oil bust was expected to cause widespread losses for private-equity investors. While most funds have been able to navigate the downturn and are hanging on for higher prices, there have been pockets of acute pain. EnerVest's struggles have been among the most severe.

Only seven private-equity funds larger than \$1 billion have ever lost money for investors, according to investment firm Cambridge Associates LLC. Among those of any size to end in the red, losses greater than 25% or so are almost unheard of, though there are several energy-focused funds in danger of doing so, according to public pension records.

EnerVest has attempted to restructure the fund, as well as another raised in 2010 that has struggled with losses, to meet repayment demands from lenders who were themselves writing down the value of assets used as collateral, according to public pension documents and people familiar with the efforts.

Mr. Walker in an interview last year said he and his partners put \$85 million of their own money toward satisfying the banks, but it wasn't enough.

A number of prominent in-

stitutional investors are at risk of having their investments wiped out, including Caisse de dépôt et placement du Québec, Canada's second-largest pension, which invested more than \$100 million. Florida's largest pension fund manager and the Western Conference of Teamsters Pension Plan, a manager of retirement savings for union members in nearly 30 states, each invested \$100 million, according to public records.

The fund was popular among charitable organizations as well. The J. Paul Getty Trust, John D. and Catherine T. MacArthur and Fletcher Jones foundations each invested millions in the fund, according to their tax filings.

Michigan State University and a foundation that supports Arizona State University also have disclosed investments in the fund.

None of these investors commented. It is possible some of them earlier sold their stakes in the fund, paring losses.

In the earlier interview, Mr. Walker said the struggles of EnerVest's 2013 and 2010 funds had sparked ire among his investors: "We've had some chew us out and hang up on us."

EnerVest was launched in 1992 and says it operates more U.S. oil and gas wells than any other company. It started out investing for GE Capital, General Electric Corp.'s finance arm. Eventually it began pooling other big investors' cash, which it used to buy producing oil and gas wells. EnerVest hunted for fields already producing oil and gas but neglected by big oil companies. Once EnerVest bought them, it made improvements and drilled more to increase output.

The strategy isn't as risky as staking wildcatters or borrowing heavily to buy entire oil companies, but profits are usually lower. To juice returns, however, funds managed by EnerVest and rivals that shared the strategy borrowed

money as if they themselves were oil companies, encumbering all of the funds' assets with the same debt.

Doing that eliminates a key protection for private-equity investors, which generally finance each investment independently so that soured deals don't put good ones at risk. The use of fund-level debt effectively cross-collateralizes assets, meaning that good investments can be pulled down by bad ones.

Institutional investors were drawn to these so-called resource funds because they typically pay out steady streams of cash as soon as they make their first investments, unlike other private-equity investments that can take years to bear fruit, said Christian Busken, who advises endowments and other big energy investors as director of real assets for Fund Evaluation Group LLC.

"It shouldn't be something where you can be wiped out. But you are exposed to commodity prices," said Mr. Busken, who hasn't worked directly with EnerVest.

EnerVest's funds historically returned more than 30% or so, which enabled it to raise progressively larger pools of cash. In 2010, it raised about \$1.5 billion for its 12th fund and added \$800 million of debt. Three years later it raised \$2 billion for its next and borrowed \$1.3 billion. The fund bought wells in the Texas Panhandle, Utah, outside Dallas and elsewhere, according to securities filings from some of the sellers. The purchases were made largely as U.S. oil prices hovered in the \$100-a-barrel range and when natural-gas prices were higher.

## CORRECTIONS & AMPLIFICATIONS

**Former Google employee**  
Deven Desai said part of his job at the company was to compile a list of "all the major policy academics in intellectual property so" Google lobbyists could know whom to follow and potentially target for papers. A Page One article about the company's financing of academic research papers incorrectly presented some paraphrased wording in that sentence as a direct quote.

**Siemens AG** said it deliv-

ered gas turbines to a Russian customer in August 2016. A Business & Finance article in the Friday-Sunday edition about the transaction incorrectly said the turbines were delivered in June 2016 because of erroneous information from Siemens.

**The McLaren 720S** goes from 0 to 124 mph in 7.8 seconds. An Off Duty article in the Friday-Sunday edition that reviewed the sports car incorrectly said it was 9.8 seconds.

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

## THE WALL STREET JOURNAL.

Dow Jones Publishing Company (Asia)  
25/F, Central Plaza, 18 Harbour Road,  
Hong Kong  
Tel: 852 2573 7121 Fax 852 2834 5291

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

Hugo Restall, Editorial Page Editor

Mark Rogers, Advertising Sales  
Jacky Lo, Circulation Sales  
Toby Doman, Communications  
Simon Wan, Technology

Jonathan Wright,  
Managing Director Asia & Publisher

**Advertising** through Dow Jones Advertising  
Sales: Hong Kong: 852-2831 2504; Singapore:  
65-6415 4300; Tokyo: 81-3 269-2701;  
Frankfurt: 49 69 29725390; London: 44 207  
842 9600; Paris: 33 1 40 17 17 01; New York:  
1-212 659 2176.  
Or email: [MarkRogers@wsj.com](mailto:MarkRogers@wsj.com)

**Printers:** Hong Kong: Euro Limited, 2/F, Block 1,  
Tai Ping Industrial Centre, 57 Ting Kok Road, Tai  
Po, Hong Kong; Indonesia: PT Gramedia Printing  
Group, Jalan Palmerah Selatan 22-28, Jakarta  
10270; Japan: The Mainichi Newspapers Co., Ltd.,  
1-1 Hitotsubashi, Chiyoda-ku, Tokyo, 100-8051;  
Korea: JoongAng Ilbo, 100 Seomsom-ro, Jung-gu,  
Seoul, 100-814; Publisher: Song, Pil-Ho;  
Malaysia: Basak Cetak (M) Sdn Bhd, Lot 2, Jalan  
Sepana 15/3, Off Persiaran Selangor, Seksyen 15,  
4020 Shah Alam, Selangor, Malaysia (ROC No. 0488596);  
Singapore: Singapore Posts Holdings Limited, 62  
Genting Lane Media Centre Singapore 349567

Trademarks appearing herein are used under  
license from Dow Jones & Co.

©2017 Dow Jones & Company, All rights reserved.  
USPS 337-350; ISSN 0377-9920

Printers: Hong Kong: Euro Limited, 2/F, Block 1,  
Tai Ping Industrial Centre, 57 Ting Kok Road, Tai  
Po, Hong Kong; Indonesia: PT Gramedia Printing  
Group, Jalan Palmerah Selatan 22-28, Jakarta  
10270; Japan: The Mainichi Newspapers Co., Ltd.,  
1-1 Hitotsubashi, Chiyoda-ku, Tokyo, 100-8051;  
Korea: JoongAng Ilbo, 100 Seomsom-ro, Jung-gu,  
Seoul, 100-814; Publisher: Song, Pil-Ho;  
Malaysia: Basak Cetak (M) Sdn Bhd, Lot 2, Jalan  
Sepana 15/3, Off Persiaran Selangor, Seksyen 15,  
4020 Shah Alam, Selangor, Malaysia (ROC No. 0488596);  
Singapore: Singapore Posts Holdings Limited, 62  
Genting Lane Media Centre Singapore 349567

Trademarks appearing herein are used under  
license from Dow Jones & Co.

©2017 Dow Jones & Company, All rights reserved.  
USPS 337-350; ISSN 0377-9920

NEED ASSISTANCE WITH  
YOUR SUBSCRIPTION?

By web: <http://wsj-asia.com>

By email: [service@wsj-asia.com](mailto:service@wsj-asia.com)

By phone: Hong Kong: 800 901 216; Australia:  
000 800 32

# WORLD NEWS

## Pakistan to Open Sharif Hearings

Prime minister's political fate at stake as country's Supreme Court weighs case

By SAEED SHAH

ISLAMABAD—Prime Minister Nawaz Sharif faces a fight for his political survival this week, as Pakistan's Supreme Court considers disqualifying him from office or putting him on trial on corruption charges.

In hearings scheduled to begin Monday, Mr. Sharif is expected to confront questions over how his family acquired swank London apartments and an investigation ordered by the Supreme Court that accuses him and his children of living beyond their means, tax evasion and misdeclaration of assets as well as forgery and perjury in an attempted cover-up of the London property.

Mr. Sharif has denied the allegations and called the report "a collection of assumptions, accusations and slander." Aides have said he will continue to fight the allegations.

The showdown could be an important turning point for Pakistan's fragile democracy, and could also shake the hard-won political stability of the nuclear-armed nation. In any case, as the Trump administration considers sending thousands more troops to Afghanistan and seeks Pakistan's help in bringing peace there, Islamabad looks set to be convulsed in a prolonged political crisis. The prospect of talks with foe India, a major plank of Mr. Sharif's agenda, also sink further, according to analysts.

Even if Mr. Sharif escapes immediate disqualification by the court, Pakistan faces the prospect of seeing a sitting prime minister on trial.

Also caught up in the scandal is Mr. Sharif's political heir, his daughter Maryam,



Opponents of Pakistani Prime Minister Nawaz Sharif held placards in a protest on Sunday in Lahore.

and finance minister Ishaq Dar. They say they have done nothing wrong.

According to Mr. Sharif's critics, democracy will be bolstered from a prime minister being held to account by a "new Pakistan" of an independent judiciary, a freer media, and an emerging middle class demanding better governance.

"Pakistan is way ahead of other Muslim countries. This is a vibrant society," said Fawad Chaudhry, a senior member of the opposition party led by Imran Khan, which brought the court case. "The debate here has moved on from whether to have democracy, to the quality of that democracy."

However, Mr. Sharif's aides say that the judiciary, the media and opposition parties have merely been co-opted by the old Pakistan: the powerful mili-

tary establishment which has repeatedly undermined and ousted civilian governments.

"The establishment has taken over this case and turned it into a witch hunt," said Daniyal Aziz, a lawmaker with Mr. Sharif's Pakistan Muslim League-N party. "Their aim is to rig the 2018 election and get a hung parliament."

Mr. Sharif's party currently has a majority in parliament. With a cloud over Mr. Sharif, the next election looks likely to be more closely fought with Mr. Khan's party.

Mr. Sharif has rejected calls from the opposition for his resignation. "Should I resign because a band of anti-democracy conspirators says so?" Mr. Sharif told a Cabinet meeting Thursday, according to his office.

"We will not allow the journey of progress and development to be derailed. Paki-

stan paid a heavy price for such stunts in the past. This should stop."

Mr. Sharif has clashed repeatedly with the military, in particular over his outreach to India. Washington blames Pakistan's military for supporting the Taliban insurgency in Afghanistan, a charge it denies.

Two of the six officials who carried out the investigation for the court came from the military. Maj. Gen. Asif Ghafoor, the military's chief spokesman, said the officers were provided for the probe at the court's request. "The army has no direct involvement in this," he said.

Mr. Sharif warned that the advances under his government—a pick-up in economic growth, large-scale infrastructure building and a reduction in terrorism—are in peril.

The corruption allegations stem from the massive leak of

documents from a Panamanian law firm last year that exposed the offshore assets of thousands of politicians, entrepreneurs and celebrities around the world. Among the disclosures was that some of Mr. Sharif's children, who are adults, own four apartments in London's Mayfair area.

The Supreme Court has already expressed frustration that the Sharifs have not been able to provide a "money trail" for the acquisition of the property.

Mr. Sharif says his children, not him, were given the apartments in settlement of an old family business deal with a Qatari prince. He also says there is no proof of kickbacks or money laundering. The investigation report concluded that Mr. Sharif is "most likely" the owner of the London apartments.

## WORLD WATCH

ISRAEL

### Jerusalem Holy Site Reopens After Attack

Israel reopened the Temple Mount for worshipers amid heightened security, two days after closing access to the revered and highly sensitive site following an eruption of violence in Jerusalem's Old City.

Two entrances, where metal detectors have been placed, are open to allow afternoon prayers on the Mount, police said, adding that other gates will be re-opened as security measures are installed. About 200 Muslims already have entered the site for prayers, the police said.

Three gunmen—Arab citizens of Israel—killed two Israeli police officers near the entrance of the Temple Mount on Friday before being shot dead.

In a rare move that drew protests from some Palestinians, Israel canceled Friday prayers at the mosque after the attack and banned all Palestinians living in the West Bank and holding permits to enter Jerusalem from entering Israel.

—Nancy Shekter-Porat

CANADA

### Thousands Evacuated Amid Forest Fires

Authorities in the Canadian west-coast province of British Columbia issued evacuation orders this weekend for thousands of people as raging forest fires threatened to spread with high winds were set to hit the province's central region.

Of 10 evacuation orders issued as of Saturday night, the biggest community affected is Williams Lake, British Columbia, roughly 375 miles north of Vancouver and with a population of 25,000 that covers the city and surrounding area.

Before Saturday orders, British Columbia officials estimated roughly 17,400 people had been evacuated.

—Paul Vieira



People queued at polling stations in Carabobo Square in Caracas during an opposition-organized poll.

## Venezuelans Hold Symbolic

## Vote Against Maduro Move

BY JUAN FORERO  
AND KEJAL VYAS

Venezuelans at home and abroad began voting Sunday in an unauthorized referendum staged by government opponents to defy Venezuelan President Nicolás Maduro and his plans to rewrite the country's constitution.

Organizers want the referendum to serve as a mass repudiation of the government's planned national election on July 30 to pick a 545-member special assembly that would have the power to draw up a new constitution.

That body is widely expected to remake the political system, giving what critics call an increasingly authoritarian president more power while possibly dissolving the opposition-controlled congress, the National Assembly.

Mr. Maduro has said the new assembly would help resolve the country's deepening political and economic crisis by giving him the powers to take decisive action. Opposition members say his disguised purpose is to expand power.

The symbolic referendum on Sunday was open to Venezuelans inside and outside the country, taking in a large community of exiles who have in recent years fled the violence and economic chaos of their homeland for the U.S., Spain, Colombia and other countries.

"This is a proud moment for those of us who had to flee the country," said Edward Triana,

*Organizers want referendum to serve as rejection of plan to rewrite constitution.*

a 31-year-old engineer who worked on an oil refinery in Venezuela until arriving in Colombia three months ago. "We want this disaster to end as quickly as possible," he said after he cast his vote in a tent in front of Colombia's congress. The vote came in the midst of more than three months of unrest in Venezuela in which nearly 100 people have been

killed, the vast majority of them young antigovernment demonstrators.

With Venezuelans enraged about everything from a deep economic crisis to the government's plans for a new constitution, opposition leaders were hoping that upward of 10 million Venezuelans would vote against the government Sunday.

Casting paper ballots in boxes, voters were being asked to reject the so-called constituent assembly Mr. Maduro would use to rewrite the constitution. They could also respond to two more questions: whether they wanted presidential elections now and to call on the armed forces to adhere to the current constitution.

The government countered Sunday with a dry-run simulation of the vote that Mr. Maduro has scheduled for July 30.

The Maduro administration doesn't recognize the referendum, saying it is not sanctioned by electoral officials.

—Mayela Armas and Anatoly Kurmanov contributed to this article.

# We like to take a different path. Yours.



**EFG** Entrepreneurial thinking.  
Private banking.

[efginternational.com](http://efginternational.com)

EFG International's global private banking network operates in around 40 locations worldwide, including Zurich, Geneva, Lugano, London, Madrid, Milan, Monaco, Luxembourg, Hong Kong, Singapore, Shanghai, Taipei, Jakarta, Miami, Bogotá and Montevideo. In Singapore, EFG Bank AG's principal place of business is located at 25 North Bridge Road, #07-00 EFG Bank Building, Singapore 179104, T +65 65954888. EFG Bank AG, Singapore Branch (UEN Number: T03FCG6371I) is authorized as a licensed bank by the Monetary Authority of Singapore pursuant to the Banking Act (Cap. 19) and is an Exempt Financial Adviser as defined in the Financial Advisers Act (Cap 110). In Hong Kong, EFG Bank AG's principal place of business is located at 18th Floor, International Commerce Centre, 1 Austin Road West, Kowloon, Hong Kong, T +852 2298 3000. EFG Bank AG, Hong Kong Branch (CE Number: AFV863) is authorized as a licensed bank by the Hong Kong Monetary Authority pursuant to the Banking Ordinance (Cap. 155) and is authorized to carry out Type 1 (dealing in securities) and Type 9 (asset management) regulated activities in Hong Kong.

## WORLD NEWS

# China's Democracy Dream Flickers After Liu's Death

By JOSH CHIN  
AND EVA DOU

**BELJING**—Nearly three decades after a bloody military assault ended student demonstrations in Tiananmen Square, China's democracy movement faces a new reckoning.

The loss of the country's most prominent dissident, Nobel Peace Prize winner Liu Xiaobo, who died of cancer under police guard at a Shenyang hospital on Thursday, leaves China's fractured activist community at its weakest in a generation as the Communist Party tightens its grip on society.

A steady shrinking of space for political action that began in late 2008 with the arrest of Mr. Liu for helping to draft and promote a pro-democracy manifesto has intensified under President Xi Jinping.

As Mr. Liu and other activists have disappeared behind bars, lawyers and legal workers

who had picked up the torch have faced mass detentions. Some are still in prison. Labor-rights campaigners have been detained, and popular critical voices on social media have been silenced.

On Saturday, Xu Zhiyong, the founder of a loosely organized civic group called the New Citizens Movement, was released from prison after completing a four-year sentence for "gathering crowds to disturb public order," according to his lawyer. Mr. Xu is a legal scholar some consider Mr. Liu's successor as head of the threadbare movement.

The government, which rejects Western democracy as unsuited for the country, has depicted human-rights lawyers and activists as tools of foreign governments threatened by China's rise.

The ground has shifted so much since Mr. Xi's crackdown began that some veteran mem-

bers of the democracy movement say they don't know how to move forward.

"It's been 28 years since the '89 democracy movement. That's an entire generation," said Liu Suli, a Tiananmen participant and founder of an independent bookstore in Beijing who befriended Liu Xiaobo in 1989.

Over the years, he said, the Communist Party has grown both more confident on the world stage and more fearful of instability at home. "Under these conditions, if you play the political game using traditional methods, you'll lose," he said.

Such attitudes are a far cry from 2010, the year Liu Xiaobo was awarded his Nobel. Chinese activists saw the award as a signal of international support and vindication. Some portrayed Mr. Liu as a Mandela-like figure who would emerge from his 11-year prison

sentence to take the reins of a new, multiparty China.

Instead, China moved in the opposite direction. Mr. Liu's name was erased from the internet by censors and his family members were muzzled. Activists who had been criticized by others in the movement for being too moderate suddenly found themselves in prison.

That was the case with Mr. Xu. A former visiting scholar at Yale University, he stopped short of Mr. Liu's calls for a complete overhaul of China's political system.

Instead, he organized protests and dinner discussions aimed at cultivating a "citizen consciousness," which he believed could be used to pressure the Communist Party to abide by China's constitution,

which guarantees freedom of speech and assembly.

Mr. Xu and more than a dozen other activists affiliated with the New Citizens Move-



People sign a book of condolences for Liu Xiaobo in Hong Kong.

ment were arrested in the first half of 2013 in Mr. Xi's first major strike against dissent. Lawyers, scholars, writers and women's-rights activists were detained over the following years, some of them shown confessing to crimes in jailhouse videos broadcast on state TV.

Some activists in China's democracy movement blame their predicament partly on withering support from Western countries afraid to confront Beijing over human-rights abuses, given China's growing economic sway.

The hopes of many Chinese democracy advocates have shifted in recent years to Hong Kong. However, the city has increasingly felt the presence of the Chinese security apparatus, including with the abduction of employees of a Hong Kong store selling books critical of China's leaders.

"If they think China's human-rights abuses stay inside China's borders, they have not been paying attention," said Sophie Richardson, China director at Human Rights Watch, of the silence of foreign leaders.

—Li Yuan and Charles Rollet contributed to this article.

## Party Investigates Xi Jinping Rival

By CHUN HAN WONG  
AND LINGLING WEI

**BELJING**—China's Communist Party placed under investigation a senior official once seen as a possible successor to President Xi Jinping, people familiar with the matter said, in a change that allowed the Chinese leader to promote an ally.

A hastily arranged meeting of party officials on Saturday in the city of Chongqing announced that Sun Zhengcai, the city's top official, was being replaced and investigated, a person familiar with the matter said. A second person corroborated the investigation. No further details of the investigation were given, the people said.

State media announced Mr. Sun's removal but didn't provide a reason or mention an investigation. Replacing Mr. Sun as party secretary is Chen Min'er, who was party chief for the southern province of Guizhou, state media reported.

Calls to the Party's personnel and investigative agencies, as well as to the Chongqing government, were unanswered after business hours. Mr. Sun couldn't be reached for comment; he had been recalled to Beijing ahead of Saturday's meeting, one of the people said.

The removal of Mr. Sun comes as the party gears up for

a pivotal congress this fall, providing President Xi a chance to pack top leadership bodies with allies.

President Xi, who appears assured of gaining a second five-year term as party general secretary at the congress, is also trying to sideline rivals, party insiders and analysts said.

Some party insiders have said Mr. Xi may also be trying to block promotion of anyone who could be seen as a potential successor—a move that would enhance his authority and boost his chances of remaining in office after his second term expires in 2022.

Mr. Sun is a member of the party's Politburo—its top 25 officials—and had been regarded by party insiders and analysts as a strong contender for promotion to the Politburo Standing Committee, the party's top decision-making body, or even as a possible successor to Mr. Xi.

Mr. Sun is one of two current Politburo members who are in their 50s, making them young enough to be considered candidates for helming China's next generation of leaders after Mr. Xi. The other is Hu Chunhua, party chief of the affluent southeastern province of Guangdong.

The official replacing Mr. Sun in Chongqing, Mr. Chen, is one of Mr. Xi's allies.



Sun Zhengcai, bottom center, was dropped as Chongqing party chief.



Liu Xia watches as the ashes of her husband, Liu Xiaobo, are spread at sea, in a photo provided by the Shenyang municipal government.

## Dissident's Widow Slips From View

By EVA DOU  
AND JOSH CHIN

**BEIJING**—Activists expressed concern for the wife of deceased Chinese dissident Liu Xiaobo, as she remained out of touch with friends despite the government saying she is "free."

Mr. Liu's brother, Liu Xiaoguang, was the only family member to appear publicly Saturday. At a government-organized press conference, he thanked officials for their care of Mr. Liu, who succumbed to liver cancer under police guard on Thursday. He said that Mr. Liu's wife, Liu Xia, was "too weak" to appear.

One of China's most prominent democracy activists, Mr. Liu was the first Nobel Peace Prize laureate to die in state custody since Carl von Ossietzky, who died in a prison hospital in Nazi Germany in 1938.

Since Mr. Liu's death, the U.S. and other governments have

called for Beijing to allow his wife and other relatives to travel overseas.

China's Foreign Ministry dismissed the calls Friday as meddling in the country's internal affairs.

Mr. Liu was cremated Saturday and his ashes scattered at sea, according to China's official Xinhua News Agency. The government has sought to erase Mr. Liu's legacy and mentions of his name have long been scrubbed from China's internet; the scattering of the ashes means he won't have a grave where supporters can gather.

The government of the Chinese city Shenyang released photos Saturday of Ms. Liu and other family members at a closed-door funeral, an apparent effort to show the relatives are well treated.

"Liu Xia is free so far, and we want her to avoid trouble because she was in a grief," Xinhua quoted a Shenyang government spokesperson as saying.

Activists and friends of Ms. Liu questioned the government account, saying they believe she remains under close watch, her movements restricted.

"None of her close friends could reach her and her family," said Patrick Poon, a researcher at Amnesty International. "It is incomprehensible how her situation could be described as 'free.'"

Liu Xiaoguang, the elder brother, praised the government multiple times at the press conference Saturday and said officials had followed all the family's wishes for funeral arrangements.

"This has shown the advantages of the socialist system," said Liu Xiaoguang. "I would like to express my heartfelt thanks to the party and government."

Activists criticized his appearance as political theater, saying it was impossible to verify if there was coercion.

Friends say they have been unable to contact Liu Xia and other relatives.

Wu Yangwei, a family friend and writer known by the pen name Ye Du, said he has been unable to contact Ms. Liu in recent days.

"If she is free, then what have these years of house arrest and monitoring been about?" said Mr. Wu.

Mr. Liu was sentenced to 11 years of jail in 2009 for his calls for China to adopt democracy. He was awarded the Nobel Peace Prize the next year, a decision that infuriated Beijing. His wife has been under house arrest since then, though she hasn't been charged with a crime.

Following Mr. Liu's death Thursday from liver cancer, the U.S., European Union and other governments called for Beijing to allow Ms. Liu to travel overseas.

—Chao Deng contributed to this article.

## HOST

*Continued from Page One*  
rules, including refusing the cash tips in red envelopes that are ubiquitous in China.

Langyi scores hosts on stage presence and other attributes, and will dock a host's pay for garbling the name of the happy couple or other infractions.

Host Wang Gang, 27 years old, said he does vocal exercises at least four times a week to keep his speaking voice strong. For inspiration, Mr. Wang watches American romance movies that celebrate the triumph of love, such as "The Notebook," and memorizes verses from love songs to recite at weddings.

"It's a mode of life," he said.

These days, divorce rates in China are rising and social media is filled with lascivious tales of rich businessmen and slinky mistresses. Cynicism abounds, but Mr. Wang brims with sincerity.

"It's a hard line of work if you don't believe in love," said Mr. Wang. "You'd feel like a quack."

Mr. Mao also tries to heighten the emotion of the ceremony, especially if the guests are all close friends. "You have couples reciting 'I do' without feeling, but I want to put them in the mood, to have them really experience the moment," he said.

Host Zhang Lei, 35, said she began her career after seeing a young wedding host with "the aura of a movie star" charm the crowd.

"The bride and groom are like a bottle of red wine, and I'm a bottle opener," she said.

For most of Chinese history, weddings were about carrying on family lines and were typically arranged by parents. In the traditional Confucian ceremony, the couple first bowed to the heaven and earth, then to their ancestors and parents, and finally to each other.

Brides wore a veil of red silk and didn't speak. A re-

spected elder or village leader would officiate.

Under Chairman Mao, arranged marriages were banned. Women, he proclaimed, "hold up half the sky" and should have consent.

Still, the Communist Party had the power to approve or reject marriages in order to serve the state's agenda. Celebrations became austere, and many traditions were abandoned.

Today, as China has become more open to the West, young couples with the means are filling that vacuum by opting for fancy affairs in hotels or special venues.

On a recent Sunday, Mr. Mao, 35, took charge at Bride Elysee, a wedding venue with eight banquet halls and four ornate rooms resembling chapels. The constellations of the zodiac, illuminated in purple lights, lined the walls. A wedding ceremony and lunch for 100 people starts at about \$18,000.

The ceremony launched at 10:28 a.m.—the number 8 is considered lucky.

"Please take your seats," rang out Mr. Mao's voice over the microphone, echoing up to the ceiling of decorative arches.

Professional photographers dashed around to clear the aisle, a glass floor lighted with blue lights and sprinkled with rose petals. Chattering guests, without a clear dress code,

For most of China's history, weddings were about carrying on family lines.

wore everything from dark suits and cocktail dresses to shorts and flip flops.

The doors swung open for the groom, Zhang Zheng, and Mr. Mao began to narrate what was happening and cue the next action: "He's by his parents' side, receiving their warm hugs."

The bride, Qian Yaping, en-

tered next, escorted by her father. Mr. Mao, who also served as officiant—most Chinese don't practice organized religions with clergy—led the couple through an exchange of vows and rings. The couple then signed a ceremonial marriage certificate with white feather pens.

Then it was on to the adjoining banquet hall for lunch, where tables were laden with platters of fried shrimp, lobster, braised beef and fried rice. Red wine and sodas flowed.

The entertainment began. It included three young women in short skirts and knee-high boots dancing first to Vivaldi, and later to the pop song "Can I Be Your Plus One."

Mr. Mao grimaced from the sidelines—China's wedding hosts aren't involved in traditional wedding planner duties on music, food or flowers. "Le-oh!" he sighed, using Chinese slang meaning "low class."

Soon, Mr. Mao's portion of the entertainment began, and he came back to the stage to

lead a game of "Name That Tune," handing out stuffed animals to participants.

The previous day, at the outdoor wedding, Mr. Mao had focused on getting the couple to share stories about themselves.

The groom, Zhang Chen, met his bride, Yun Qing, through mutual friends three years ago. Mr. Mao tells the crowd that the groom worked up the courage to call Ms. Yun on the pretense of learning how to make fried rice with eggs.

Mr. Mao, a former electronics-equipment salesman who has been a wedding host for nearly a decade, soon gets the groom to reveal where he asked for a first kiss—in Beijing's 798 Art District—and then gets Ms. Yun to describe her emotions when Mr. Zhang proposed.

"My heart was jumping in the moment," she said.

All this had at least one bridesmaid breaking down in tears of joy. Mr. Mao beamed with satisfaction. "That's real emotion."

## U.S. NEWS

# South Carolina Shows Scale of Hacking

State reports nearly 150,000 attempts on voter-registration on Election Day 2016

By ALEXA CORSE

To understand the scale of the hacking attempts against election systems in the 2016 presidential election, consider South Carolina.

On Election Day alone, there were nearly 150,000 attempts to penetrate the state's voter-registration system, according to a postelection report by the South Carolina State Election Commission.

And South Carolina wasn't even a competitive state. If hackers were that persistent against a state that President Donald Trump won comfortably, with 54.9% of the vote, it suggests they may have targeted political swing states even more.

In harder-fought Illinois, for instance, hackers were hitting the State Board of Elections "5 times per second, 24 hours per day" from late June until Aug. 12, 2016, when the attacks ceased for unknown reasons, according to an Aug. 26, 2016, report by the state's computer staff. Hackers ultimately accessed approximately 90,000 voter records, the State Board of Elections said.

Unlike in Illinois, South Carolina didn't see evidence that any attempted penetration succeeded, said Chris Whitmire, the State Election Commission's director of public information and training, last week. Most of the attempted intrusions in that state likely came from automated computer bots, not thousands of individual hackers.

"Security has been a top priority for the [State Election Commission] since implementing the statewide voting system in 2004," Mr. Whitmire said about South Carolina.

"However, events leading up to the 2016 General Election, in-



Judy Watson, right, helped her husband Joseph vote in the U.S. general election on Nov. 8, 2016, at a polling place in Dillon, S.C.

to The Wall Street Journal by Frank Heindel, an activist who has advocated for improving South Carolina's election security for nearly a decade.

Also in early September, South Carolina used an expedited process to hire Soteria, a private cybersecurity firm, Mr. Whitmire said. The South Carolina National Guard's cybersecurity specialists also conducted on-site security assessments at county election offices, he said.

On Sept. 18, DHS officials remotely completed an initial "cyber-hygiene scan" for South Carolina. The scans examined the state agency's website and office network, checking for vulnerabilities using a federally-maintained database. The scan didn't examine vote-tabulation machines, which aren't connected to the internet, or the statewide voter-registration database.

The DHS discovered 55 vulnerabilities—the virtual equivalent of unlocked doors—across four internet-connected devices used by the State Election Commission, according to a copy of the DHS report. Two of them were classified as "critical," the highest level of severity.

"Those are the vulnerabilities that can be translated into remote exploitation of the database," said Curtis Dukes, executive vice president of the nonprofit Center for Internet Security, which provides cybersecurity for private and public entities.

In the week of Sept. 26, Soteria, the private cybersecurity firm, started its work on South Carolina's election system.

Twenty-five days passed before the majority of the vulnerabilities, including the two most severe ones, were fixed, DHS reports show.

"I would tell you: up to three weeks to patch a vulnerability, that's too long," said Mr. Dukes, who was director of the National Security Agency's Information Assurance Directorate until January.

cluding the breaches of other states' voter-registration systems, created an election-security environment that was very different," he added.

South Carolina's and Illinois's cases aren't unique, as many states faced virtual threats.

There is evidence that 21 states were potentially targeted by hackers, said Jeanette Manfra, acting deputy undersecretary for cybersecurity and communications at the U.S. Department of Homeland Security, at a Senate Intelligence Committee hearing last month.

There is consensus among U.S. intelligence agencies that Russia attempted to interfere in the 2016 election with the intent of helping Mr. Trump's

campaign. Special counsel Robert Mueller and Congress are investigating whether members of the Trump campaign colluded with Moscow.

Those hackers were at work months before some of their targets, and the American public, knew. The Democratic National Committee didn't kick out suspected Russian hackers for 11 months, until June 2016, according to a report issued by U.S. intelligence agencies. Also in June, the Democratic Congressional Campaign Committee learned that suspected Russian hackers had breached its network at least two months earlier. Russian President Vladimir Putin has denied any government role in either hack.

In Illinois, the computer staff at the State Board of Elections noticed on July 12 that the activity of its server for the voter-registration database "had spiked to 100% with no explanation," according to the state's report.

The next day, Illinois took its voter-registration database and public-facing website offline for a week, but the hackers already had accessed roughly 90,000 voter records. No records were altered, according to the state's report, and the issue was resolved before Election Day. Those hackers haven't been identified, said Ken Menzel, general counsel for the Illinois State Board of Elections.

The DNC, DCCC and Illinois

breaches caught the attention of the Federal Bureau of Investigation, which on Aug. 18 sent the first of two "flash" alerts to state election officials, warning about attempts to hack election infrastructure. Also that week, the DHS offered cybersecurity help to election officials statewide, with 33 states and 36 cities and counties ultimately accepting aid.

In South Carolina, state election officials met with FBI and state law-enforcement officials, according to public meeting minutes from August.

On Sept. 6, Marci Andino, the state's executive director for elections, requested assistance from the DHS, according to emails in documents provided

## HEALTH

Continued from Page One  
to 10 Republicans had "deep concerns" about the bill, even after a new version was unveiled last week to address issues raised by some GOP senators.

"I think it would be extremely close," she said when asked whether Mr. McConnell had the votes for passage.

Mr. Paul said that Mr. McConnell didn't appear to have the votes and proposed that Republicans repeal the entire 2010 health-care law, also known as Obamacare, and debate what should replace it separately.

"The real problem we have is we won four elections on repealing Obamacare. But this bill keeps most of the Obamacare taxes, keeps most of the regulations, keeps most of the subsidies," said Mr. Paul on Fox Sunday.

Senate leaders said they were confident that they could hold the procedural vote as soon as Mr. McCain was back in the Senate.

"I believe as soon as we have a full contingent of senators, we'll have that vote. It's important we do so," said Sen. John Cornyn of Texas, the second-ranking Republican in the Senate.

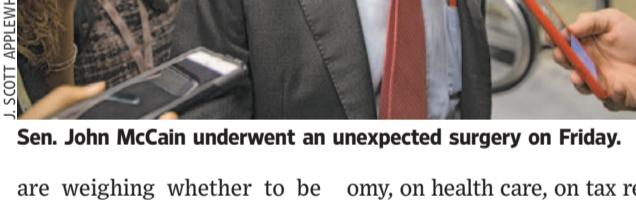
The White House declined to comment at length on the setback Sunday. "We wish Sen. McCain a speedy recovery," said spokeswoman Helen Aguirre Ferré.

The outcome of the health-care debate will be the clearest verdict yet on the GOP's ability to govern when the party controls the institutions at either end of Pennsylvania Avenue.

While they differ, sometimes strongly, on what should be in the bill, Republicans across the spectrum agree on the high stakes.

"I think the consequences of failing to deliver on our promise to repeal Obamacare would be disastrous," Sen. Ted Cruz (R., Texas) said in an interview. "I think not being able to deliver on that promise would do serious and long-lasting damage to the credibility of Republicans."

Some GOP lawmakers, especially those in swing states,



Sen. John McCain underwent an unexpected surgery on Friday.

are weighing whether to be guided by the appeals for party unity if the health-care bill is unpopular among their constituents. On Sunday, Ms. Collins said the policy in the bill was misguided and harmful in particular to rural states.

"This bill would make sweeping and deep cuts to the Medicaid program, which has been a safety net program on the books for more than 50 years....It would also jeopardize the very existence of our rural hospitals and our nursing homes," she said. Conservative lawmakers say the financing for Medicaid as now configured is unsustainable.

Mr. Trump has offered little room for a soft landing for Sen. McConnell.

Mr. Trump has at times advocated forcefully for the health-care legislation. He made an aggressive push when the House struggled with similar divisions and found itself initially unable to pass a bill earlier this year. He is now seeking to maintain a policy-oriented focus amid new allegations almost daily about Russian interference in the 2016 election.

"The president is, I would say, frustrated with the process of the fact that this continues to be an issue," White House spokeswoman Sarah Huckabee Sanders said recently. "He would love for us to be focused on...the econ-

omy, on health care, on tax reform, on infrastructure. And that's the place his mind is."

Mr. Trump has offered little room for a soft landing if Mr. McConnell can't pull off a task that Mr. Trump has conceded is difficult, comparing it earlier to seeking peace between Israelis and Palestinians. The White House itself has largely hung back, leaving the deal-making to senators themselves.

Instead, the president and White House have been cheerleading from the sidelines and are adopting anew a message they used ahead of the spring's first scheduled health vote in the House: Failure isn't an option. That is ratcheting up the pressure in a way they expect to be effective, but which bears a risk of ugly fallout if it is not.

"After all of these years of suffering thru ObamaCare, Republican senators must come through as they have promised," Mr. Trump tweeted Friday morning from Paris, where he had kept up a steady drumbeat of exhortations throughout his visit with French President Emmanuel Macron.

While Republicans hope the furor surrounding Russian meddling in the 2016 election won't undermine the health bill, supporters of the Affordable Care Act, including Democrats who view it as a signature achievement of President Barack Obama, fear distraction from the Russia stories in their own way. They say they are worried their own allies are paying too little attention to trying to defeat the GOP health overhaul.

—Kristina Peterson  
contributed to this article

## THE WORLD CLASS

WHERE GLOBAL EXPERTISE  
IGNITES *global leadership*

The premier Kellogg Executive MBA Global Network is the largest and most immersive global network with seven campuses across the globe. We empower leaders to grow through cross-cultural collaboration and immersive learning from renowned faculty worldwide. Here, elite executives from around the world exchange ideas about doing business and forge powerful connections. As a result, you'll gain the insights and cutting-edge perspective needed to lead on a global scale.



No. 1 in the world (7 times in the past 10 years)

Source: Financial Times (2007-2016)

No. 1 in the world, No. 1 Joint Program

Source: Quacquarelli Symonds (2017)

Meet with us to find out how you can realize your potential

HONG KONG Aug 29 & Sep 7, 2017	TAIPEI Jul 17 – 18, 2017	JAKARTA Jul 25 – 26, 2017	SHENZHEN Jul 27, 2017
SEOUL Aug 1 – 2, 2017	SHANGHAI Aug 29, 2017		

[www.emba.ust.hk](http://www.emba.ust.hk)

The Kellogg-HKUST EMBA Program is an exempted course under the Non-local Higher and Professional Education (Regulation) Ordinance Cap 493 (the Ordinance) of Hong Kong. It is a matter of discretion of individual employers to recognize any qualification to which this course may lead.

Kellogg HKUST

EXECUTIVE MBA GLOBAL NETWORK

# HOUSE

Continued from Page One

brother called a "whitewash."

"In any other imaginable circumstance than this, I would have sued immediately," Prime Minister Lee told lawmakers. He and other leaders have previously won defamation cases against opposition politicians and others. But the prime minister said he's reluctant to take his siblings to court, as it would "besmirch" his parents' names and prolong the dispute.

A spokeswoman said the prime minister wasn't available for interviews.

Previously undisclosed emails and other correspondence reviewed by The Wall Street Journal show the siblings began fighting in private at least two years ago, eventually communicating only through emails and lawyers, with each accusing the other side of misrepresenting their late father's wishes.

The dispute has prompted many Singaporeans to openly criticize the Lee family on social media and question Singapore's ruling party, whose success was built in part around the belief that Singapore's leaders were above reproach.

Lee Kuan Yew created a nation built around the notions of "meritocracy and governance integrity," said Garry Rodan, a professor at Australia's Murdoch University who follows Singapore affairs closely. "Yet now so many of the claims about meritocratic rule and governance integrity are being challenged from within his family."

## Many Singaporeans want to preserve Lee Kuan Yew's house, like Mount Vernon.

A government spokesman dismissed concerns over the feud's impact, saying Singapore is "highly rated on international assessments of governance."

Prime Minister Lee's siblings called for a truce in recent days, but threatened to resume public criticism if a settlement isn't reached. The premier responded by saying he too wants to resolve the dispute privately.

That would please many in the political establishment. "Stop your family quarrel," Goh Chok Tong, who served nearly 14 years as prime minister between the two Lees, told parliament this month. "If that is not immediately possible, at least stop making things worse."

Lee Kuan Yew repeatedly said he wanted his house torn down after he died, lest it become a symbol of a personality cult that could retard Singapore's political development. His two younger children say he referenced the Percy Bysshe Shelley poem, "Ozymandias," about an Egyptian pharaoh whose works crumbled in the desert.

Many Singaporeans want to preserve Mr. Lee's house anyway, like George Washington's Mount Vernon. In emails between Mr. Lee and his family, reviewed by the Journal, the patriarch acknowledged that Singapore's government could block his wishes, as it has the power to take over private property in the public interest.

Mr. Lee first moved into the home at 38 Oxley Road, built in an area once home to nutmeg plantations and fruit orchards, in 1945.

He hosted discussions in the basement dining room that led to the 1954 founding

of the People's Action Party, which has controlled Singapore since it became self-governing in 1959.

As prime minister from 1959 to 1990, Mr. Lee combined pro-business policies with zero tolerance for corruption to transform Singapore into one of the world's richest countries.

He also implemented what foreign media described as a paternalistic style of governance, including a ban on the sale of chewing gum, relaxed slightly in 2004. Western critics said his policies stifled political opposition and turned Singapore into a "nanny state."

At home, he was simply "Papa," raising a family imbued in his values of thrift, hard work and excellence.

Lee Hsien Loong, whose given name means "illustrious dragon," was born in 1952, followed by sister Lee Wei Ling in 1955 and brother Lee Hsien Yang in 1957. Photos and writings of their childhood showed a close-knit family playing chess and spending holidays at Malayan hill stations.

Discipline was kept by their mother, sometimes with a cane. The children didn't have friends over for birthdays and received only books as gifts, Lee Wei Ling recalled in a local newspaper column.

Lee Hsien Loong graduated from Cambridge as the top mathematician of his class before returning to Singapore, where he held ministerial portfolios in trade and finance before becoming premier in 2004.

"I think he got the best combination of our two DNAs," Lee Kuan Yew said in an interview published in 2011, referring to Lee Hsien Loong and his parents.

Lee Wei Ling, a self-described tomboy who earned a black belt in karate, graduated at the top of her medical-school class in Singapore and became director of the city-state's National Neuroscience Institute.

Described by her father as "intense," she never married and still lives at 38 Oxley Road. For exercise, she'd jog up and down a corridor hundreds of times, covering up to 20 kilometers over several hours—a regimen she conceded was "a little mad," in remarks published in the local Straits Times newspaper.

Lee Hsien Yang followed his brother to Cambridge and earned an engineering degree with high honors. He was "playful and did not study too hard," with "a calmer temperament," his sister wrote.

He was chief executive of local telecommunications firm SingTel from 1995 to 2007 and became chairman of Singapore's civil-aviation authority in 2009.

As adults, the siblings lunched with their parents at Oxley Road on Sundays.

Shortly after his wife's death, in 2010, Lee Kuan Yew wrote a letter to Singapore's cabinet saying the house "should not be kept as a kind of relic." He said he'd seen the final residence of Indian Prime Minister Jawaharlal Nehru, which was kept as a monument "with people tramping in and out" and "became shabby."

### 'Exasperated'

Cognizant that many Singaporeans wanted 38 Oxley Road saved, Prime Minister Lee Hsien Loong invited his father to a July 2011 cabinet meeting to discuss the property's fate, and then recused himself from the debate, according to the premier and other officials.

Cabinet members told the elder Mr. Lee the bungalow shouldn't be destroyed, officials said later. That evening, Lee Kuan Yew appeared "sad and exasperated," according to his daughter, who greeted him at home.

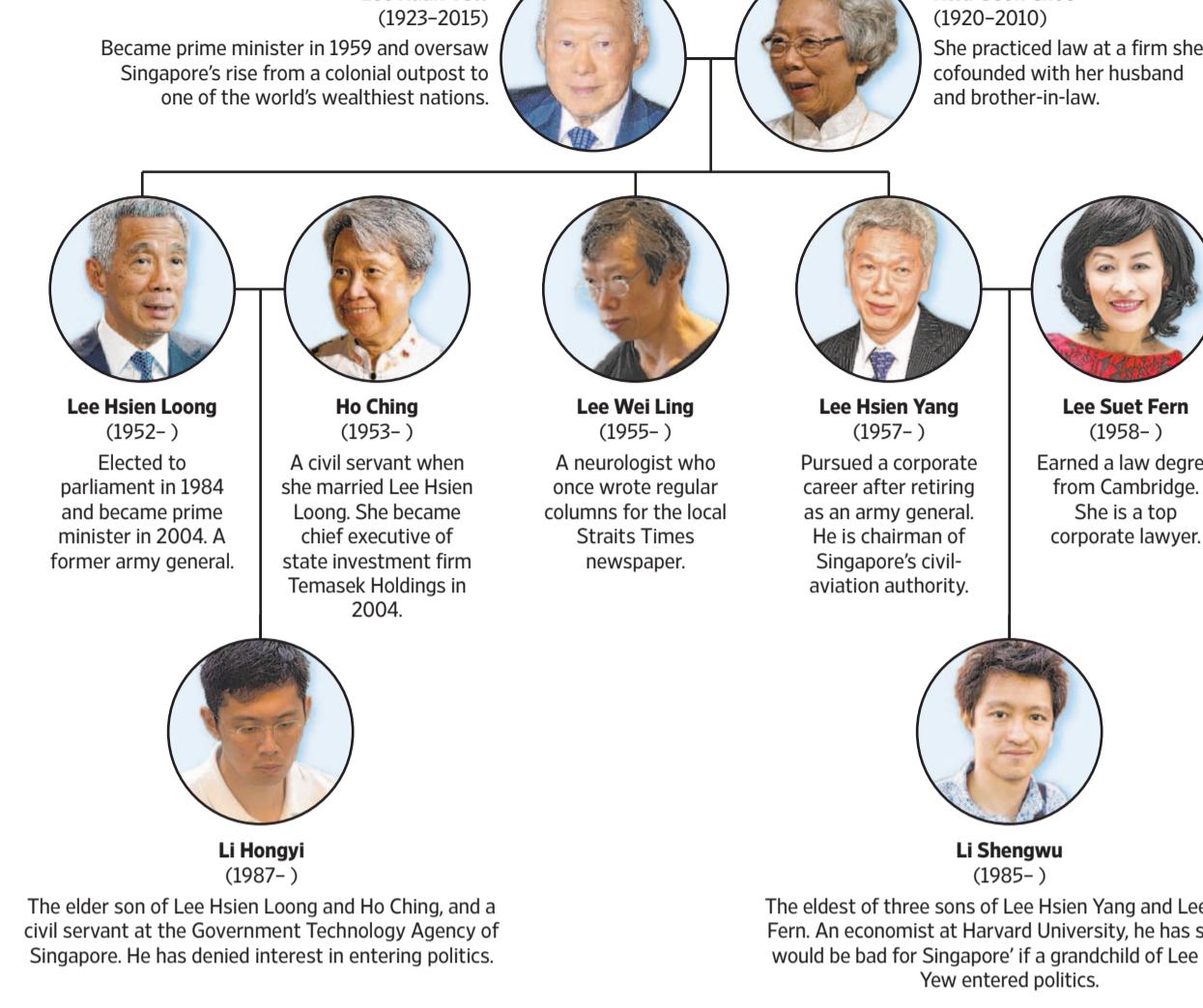
A month later, Lee Kuan Yew signed a will saying the house should be torn down after his death, unless his daughter wanted to remain there, in which case it should be demolished after she's gone. If Singaporean law prevented demolition, the will said, the house should "never be opened to others" except his children, along with their families and descendants.

Mr. Lee then told the cabinet in a December 2011 letter that if the government decided to preserve his house, it should be refurbished and remain a residence. The patriarch later approved a renovation plan for the property, though in an email to family members, seen by the Journal, he suggested the proposal could be irrelevant since the government seemed

## IN DEPTH

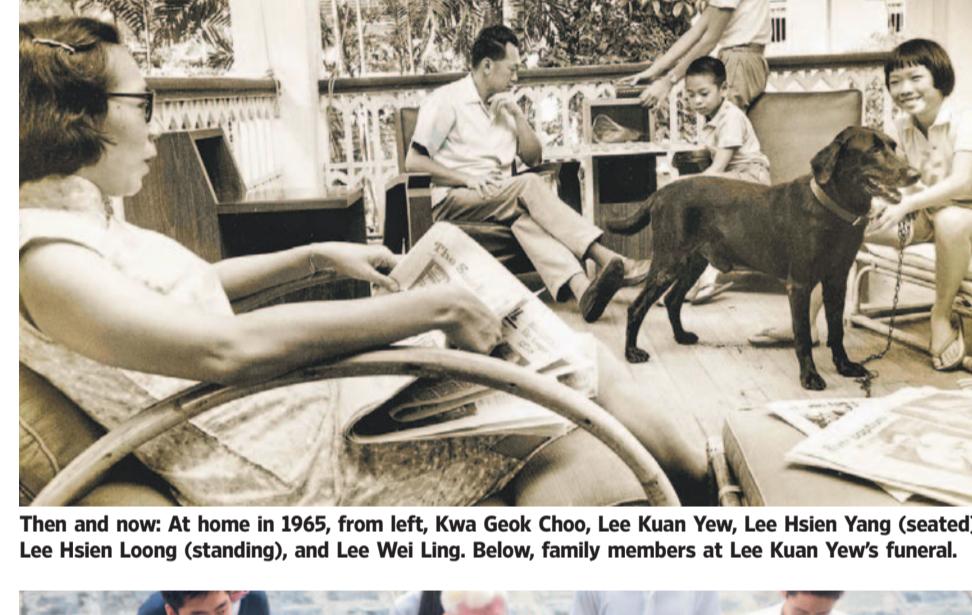
### Family Affair

The family of Lee Kuan Yew has been a pillar of Singapore's establishment for decades.



The elder son of Lee Hsien Loong and Ho Ching, and a civil servant at the Government Technology Agency of Singapore. He has denied interest in entering politics.

Photos: Associated Press; Agence France-Presse/Getty Images (3); European Pressphoto Agency; Getty Images (2); the Lee Family (2)



Then and now: At home in 1965, from left, Kwa Geok Choo, Lee Kuan Yew, Lee Hsien Yang (seated), Lee Hsien Loong (standing), and Lee Wei Ling. Below, family members at Lee Kuan Yew's funeral.



JOSEPH MARIA/ASSOCIATED PRESS; THE LEE FAMILY

**'In any other imaginable circumstance than this, I would have sued immediately.'**

Prime Minister Lee Hsien Loong, speaking of his siblings' allegations

likely to take over his property.

In late 2012, Mr. Lee removed from his will his wish to demolish the house or limit access should it be preserved. Correspondence between Mr. Lee and his personal lawyer before the revision, reviewed by the Journal, suggest the patriarch believed his home was already being designated as a heritage site, or soon would be—something his lawyer later confirmed hadn't happened.

Prime Minister Lee in parliament this month denied allegations made by his siblings that he deceived his father over the property's fate. He said he merely told Lee Kuan Yew that many Singaporeans and cabinet ministers supported preservation, and explained that it would be difficult for him, even as prime minister, to override those wishes.

The demolition clause, including what's to be done if the house can't be razed, reappeared in the final will Mr. Lee signed in December 2013, according to a copy reviewed by the Journal. Prime Minister Lee

has raised concerns about that change, saying it was made with help from Lee Hsien Yang and his wife, who sent text via email for Lee Kuan Yew to sign.

Prime Minister Lee said he wasn't copied on the emails and didn't learn of the changes until after his father died. Lee Hsien Yang said there was nothing improper with the revised will, and that his father had wanted it settled quickly.

Lee Kuan Yew died in March 2015 at age 91. Three weeks later, his survivors gathered at 38 Oxley Road for a reading of the last will.

Almost immediately, the siblings started arguing. At one point, the younger siblings allegedly issued what Prime Minister Lee called "an ultimatum" to him ahead of a September 2015 election, according to statements made by the premier, who said he perceived a threat to take the dispute public during the campaign.

Lee Hsien Yang said the younger siblings had been exchanging legal correspondence with Prime Minister Lee for

months and didn't intentionally time any for the electoral season. The ruling PAP won nearly 70% of the vote and 83 seats in an 89-member parliament.

Public signs of the family crackup surfaced months later, in April 2016. Dismayed by what she considered hagiographic state-backed efforts to commemorate her late father, Lee Wei Ling published on Facebook email exchanges with a local newspaper editor in which she called her elder brother a "dishonorable son" attempting to "establish a dynasty."

That same day, Prime Minister Lee's wife, Ho Ching, posted on Facebook an image of a monkey extending a middle finger. The image reinforced speculation in local media of a feud. Ms. Ho, who is chief executive of state investment firm Temasek Holdings, later deleted the image and apologized for what she called an accidental post.

In mid-2016, the government established a ministerial committee to consider options

for 38 Oxley Road, including turning it into a memorial park if the house is demolished. Prime Minister Lee later said he had no role in setting up the committee, doesn't participate in its discussions, and gives no instructions to its members, since he has recused himself from government deliberations on the house.

The four-member panel queried Lee Hsien Yang and Lee Wei Ling about preparations for Lee Kuan Yew's last will, prompting them to accuse Prime Minister Lee of using the panel to question their father's wishes. They allege that was an abuse of power because the committee comprises the prime minister's subordinates and inquired about a family dispute the siblings believe should be heard in court.

Deputy Prime Minister Teo Chee Hean, who chairs the committee, later said it isn't trying to investigate the will's validity. He said its role is to come up with options for the Oxley Road house to facilitate a future government's decision on its fate.

### 'Grave concerns'

The will was deemed valid by a Singapore court in October 2015. Prime Minister Lee didn't raise objections during that process, but later told the committee he had "grave concerns" about the will's preparation.

Frustrated by the committee's work, Lee Wei Ling and Lee Hsien Yang escalated matters, publishing a six-page statement on Facebook June 14.

In it, they accused the prime minister of harboring "political ambitions" for one of his sons and said he was trying to "milk" their father's legacy.

Lee Hsien Yang said he would leave Singapore for the "foreseeable future" because of his elder brother, though he hasn't set a date.

Prime Minister Lee responded by releasing a 3,900-word statement outlining concerns over his father's last will and dismissed claims he was grooming his son for public office. The son has denied interest in entering politics.

In parliament, Prime Minister Lee rejected claims he was motivated to save the home for political purposes. "If I needed such magic properties to bolster my standing after 13 years as your prime minister, I must be in a pretty sad state," he said.

Prime Minister Lee's supporters have suggested his brother wants to demolish the property—worth an estimated \$17 million including land—so it can be redeveloped for the brother's profit. The brother says that's untrue and that a major redevelopment would require zoning changes approved by government.

Officials have offered compromise proposals, including preserving only the basement dining room, while adding a heritage center. No decision is necessary as long as Lee Wei Ling continues living there, and she said she plans to do so. She is 62 years old.

### Asian Values

Lee Kuan Yew's leadership helped turn Singapore into one of the world's wealthiest nations.

#### Gross domestic product per capita

\$60,000



Note: Not adjusted for inflation

Source: World Bank

THE WALL STREET JOURNAL

## U.S. NEWS

THE OUTLOOK | By Bob Davis

# Global Trade System Checks Protectionism



President Donald Trump has looked to make protectionism respectable again, citing Abraham Lincoln's embrace of tariffs, pulling the U.S. out of a Pacific trade pact and preparing tariffs on steel imports. But changes in the international economy and the institutions governing trade are acting as constraints on what Mr. Trump can achieve.

Gone are Mr. Trump's campaign threats to hit China with 45% tariffs and Mexico with 35% levies. Steel tariffs could come in a matter of days, but steel lobbyists worry they will be more limited in magnitude than similar actions taken in the past. Meanwhile, Mr. Trump's commerce secretary says talks to update the North American Free Trade Agreement, which commence in August, will be guided by the principle, "Do no harm."

"The interests of companies and sectors are making it very difficult to go through with the extreme (measures) Trump proposed," says Brandeis University trade economist Peter Petri.

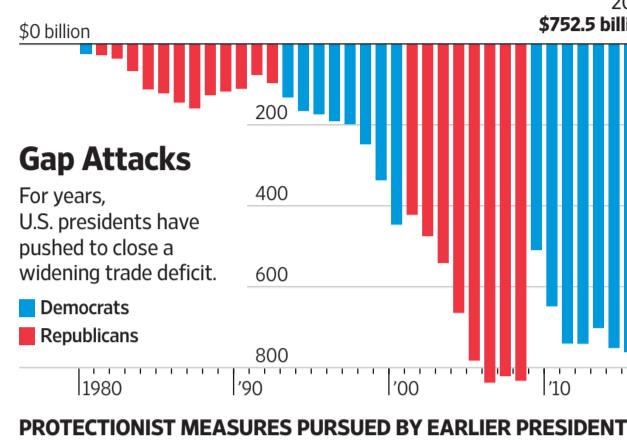
During the campaign, Goldman Sachs estimates, markets

were betting that Mr. Trump's trade policies would lift tariffs by about 10 percentage points—enough to jolt the global economy. Now Goldman estimates the impact of Mr. Trump's more limited efforts at a 1 percentage point tariff increase. "Market expectations of major trade policy changes now appear to have completely reversed," Goldman economists Daan Struyven and Ben Snider write.

**M**r. Trump has taken the opposite approach of some recent White House predecessors. He threatens protection but so far has acted modestly. They praised free trade but pushed protection.

Richard Nixon imposed a 10% import surcharge to press trading partners to revalue their currencies. Ronald Reagan started more than a decade of pressure on Japan, whose imports battered U.S. industries, much as China's do today. He imposed stiff tariffs on Japanese electronics, and forced Japan to limit exports of cars to the U.S. and buy U.S. semiconductors. George H.W. Bush continued the semiconductor deal and pressed Japan to buy more U.S. auto parts.

Even Bill Clinton, seen now



### PROTECTIONIST MEASURES PURSUED BY EARLIER PRESIDENTS

#### RONALD REAGAN

- ◆ Tariffs on Japanese electronics
  - ◆ Quotas on Japanese cars
  - ◆ Quotas on steel imports
- #### GEORGE H.W. BUSH
- ◆ Pushed Japan to buy U.S. semiconductors
  - ◆ Pushed Japan to buy U.S. auto parts
- #### BILL CLINTON
- ◆ Threatened tariffs on Japanese luxury cars
  - ◆ Pushed Japan to buy U.S. auto parts
- #### GEORGE W. BUSH
- ◆ Imposed steel tariffs
- #### BARACK OBAMA
- ◆ Imposed tariffs on Chinese tires

Source: Census Bureau

as an avatar of free trade for his passage of Nafta and a deal that let China join the World Trade Organization, badgered Japan on cars, auto parts and computer chips throughout his first term. He threatened tariffs on luxury Japanese automobiles, calling off the levies at the last mo-

ment after Japan agreed to expand U.S. auto production.

Later presidents had their protectionist moments too, with George W. Bush imposing tariffs on steel imports and Barack Obama singling out Chinese tire imports.

Past presidents used protection in part to give them

domestic political cover to push for overall trade liberalization. From Nixon's term through the end of Clinton's, the U.S. negotiated two global trade pacts, Nafta and the creation of the WTO, among other international trade deals. Now those trade deals limit Mr. Trump's maneuvering room.

Many of the unilateral actions that Mr. Reagan used to punish Japan now would be handled as trade cases at the WTO, which generally frowns on protection and takes years to make decisions. Deals to reserve parts of a foreign market for U.S. companies are forbidden by WTO rules.

Industries that once lobbied heavily for protection have become more international, making them less likely to push for restrictions.

**W**hen the U.S. and Japan fought over Japanese car imports, for instance, it may have made sense to put quotas on Japanese automobile imports. But that logic doesn't work for the U.S. and Mexico. U.S.-based car makers—some of them Japanese owned—ship parts both ways across the border to build a car cooperatively.

The textile industry, long one of the most aggressive voices for trade protection, has become a defender of Nafta, because of how international the industry has become.

On steel tariffs, Mr. Trump is using a rationale, national security, that President Nixon cited as a reason for his across-the-board import surcharge.

This time, the steel industry is asking the administration to use tariffs for a more limited objective—to prod China to cut back its vast steel excess capacity. The administration, steel industry officials say, is looking at how to apply tariffs without prompting widespread retaliation.

None of this means that a new era of trade liberalization is at hand. It's been 23 years since the last global trade deal and none is on the horizon. Tariff cuts are slowing around the world, according to the International Monetary Fund, as are the number of free-trade deals being signed annually.

But the architects who built the international trading system over the past half-century created a structure resistant to dramatic change. Over time Mr. Trump may find himself ensnared by it.

# Housing Growth Stalls Out In Wealthy Urban Enclaves

BY LAURA KUSISTO

riod, according to Mr. Romem's analysis.

Venice Beach is an extreme example of what has been happening in wealthy urban enclaves across the U.S. that have been resisting new housing development in recent years.

Apartment developers have stepped up production focused largely on the inner cores of big U.S. cities, where millennials are flocking for high-paying jobs and easy commutes, and where development is often welcomed. Meanwhile, surrounding low-rise neighborhoods—many filled with older structures and historical character—are keeping developers out.

Residents of these older urban neighborhoods generally have resisted newcomers, complaining about congestion on roads and public transportation and seeking to preserve architecture, sunlight and views.

Yet if U.S. cities want to ease housing-price pressures, Mr. Romem said, they will have to relax zoning restrictions and al-

low tall new buildings across the majority of neighborhoods, not just in concentrated downtown areas. "If you want to stink this housing affordability crisis, you need to rewrite the rules," Mr. Romem said. "If you don't open the floodgates, things won't improve."

After Venice Beach, the second most difficult place to build was Prospect-Lefferts Gardens in Brooklyn, a park-side section of limestone row houses that is popular with young families priced out of other Brooklyn neighborhoods. The third-toughest place to build was the Fishtown section of Philadelphia—a city few think of as hostile to development.

In Venice Beach, the total number of housing units permitted now under zoning rules is half the number permitted in the late 1950s, according to an analysis by Dario Alvarez, president of community planning firm Pacific Urbanism. Developers said even projects that require only minimal changes to



Graffiti-covered abandoned beachfront houses are seen in the Venice Beach section of Los Angeles.

the rules encounter such stiff community opposition they often lose momentum and die.

Opponents "object all the way through and then they'll take every appeal that they can," said Frank Murphy, who has been a developer in the area for 40 years.

The population of Venice Beach is shrinking even as the local economy has boomed. The neighborhood had some 3,800 fewer residents in 2015 than in

2000, according to U.S. Census data. At the same time, the ZIP Code has added 4,000 new jobs, according to Jed Kolko, chief economist at employment website Indeed.

A proposal to build what developers say is the neighborhood's first 100% affordable housing project in 15 years, is meeting stiff opposition. Becky Dennis, executive director of the project, Venice Community Housing, said land prices in the

neighborhood have risen such that it is virtually impossible to build affordable housing there.

Ms. Dennis said her group could build 260 units on the site but has voluntarily scaled it back to 140 apartments after encountering opposition.

"They're planning a structure of mind-boggling proportions," said Zelda Lambrecht, a local homeowner and founding member of Venice Vision, a neighborhood advocacy group.

# White House Wants Focus Shifted to Trump's Agenda

BY MICHAEL C. BENDER



President Donald Trump in New Jersey on Saturday

taking over the podium for news briefings, the White House officials said.

But the team's biggest hurdle may be inside the Oval Office. Mr. Trump, who often says he is his own best adviser on politics and communications, frequently strays from the White House's script and has fought attempts to tone down his Twitter persona, of which many top aides—and a majority of the American public—say they disapprove. Several senior administration officials privately complain that the White House's main problem is decision-making, not public relations.

The current health-care de-

bate has underscored the White House's conundrum, said Newt Gingrich, who remains a political adviser to Mr. Trump. He cautioned that the White House team is "still learning" about its own power but said it was unclear what the Trump White House wanted to accomplish in the health-care debate.

"Coke believes that after 130 years, consumers still need to hear about Coke seven days a week to be reminded to buy it," Mr. Gingrich said. "Brute repetition is the only way to break through, and it's hard to know right now what [the White House is] supposed to be selling."

### Political Base Remains Strong

President's approval rating in counties he won stands at 50%

**W**ASHINGTON—President Donald Trump's political base is sticking with him, according to a Wall Street Journal/NBC News poll, despite no major legislative victories in Congress after six months in office and an expanding federal probe into potential connections between his campaign and Russian attempts to influence the election.

In counties Mr. Trump won during the presidential election, 50% of adults approve of his job performance while 46% disapprove, the poll of 600 adults taken July 8-12 showed. In a

Sean Spicer, the White House press secretary, said the White House is pushing to expand access to health care and lower costs for U.S. workers. "We have utilized all of the resources of the administration to advance the president's goal of repealing and replacing Obamacare with a patient-centered health-care system," he said.

The Senate plans to vote on an overhaul of health-insurance laws soon, the Republican-controlled chamber's second attempt to do so. The outcome remains uncertain, yet the White House's marketing effort this week is "Made in America," not health-care reform.

The push for theme weeks

nationwide Journal/NBC survey taken last month, the president had a 40% approval rating, while 55% disapproved.

The new poll showed a significant split between the counties Mr. Trump easily won, and those that backed the Republican candidate after voting for President Barack Obama, a Democrat, in 2012. That divide showed that while Mr. Trump's strongest supporters remain solidly behind him, he is weaker in swing counties.

In counties where Mr. Trump's election-day support was at least 20 percentage points higher than what Republican Mitt Romney drew in his 2012 White House bid, the president's approval rating is now 56%, 16 percentage points higher than his disapproval rating.

In counties that voted for

Mr. Obama in 2012 but supported Mr. Trump in the 2016 election, the president's approval is 44%, 7 percentage points lower than his disapproval.

In nationwide polls, voters have soured on Mr. Trump, saying they have negative views of his temperament, trustworthiness and level of knowledge needed for the job. Asked last month about the source of his problems, half of adults said Mr. Trump doesn't have the competence and experience needed to change Washington.

The Wall Street Journal/NBC News poll was based on telephone interviews in a broad cross-section of counties that Mr. Trump won during the election. It has a margin of error of plus or minus 4 percentage points.

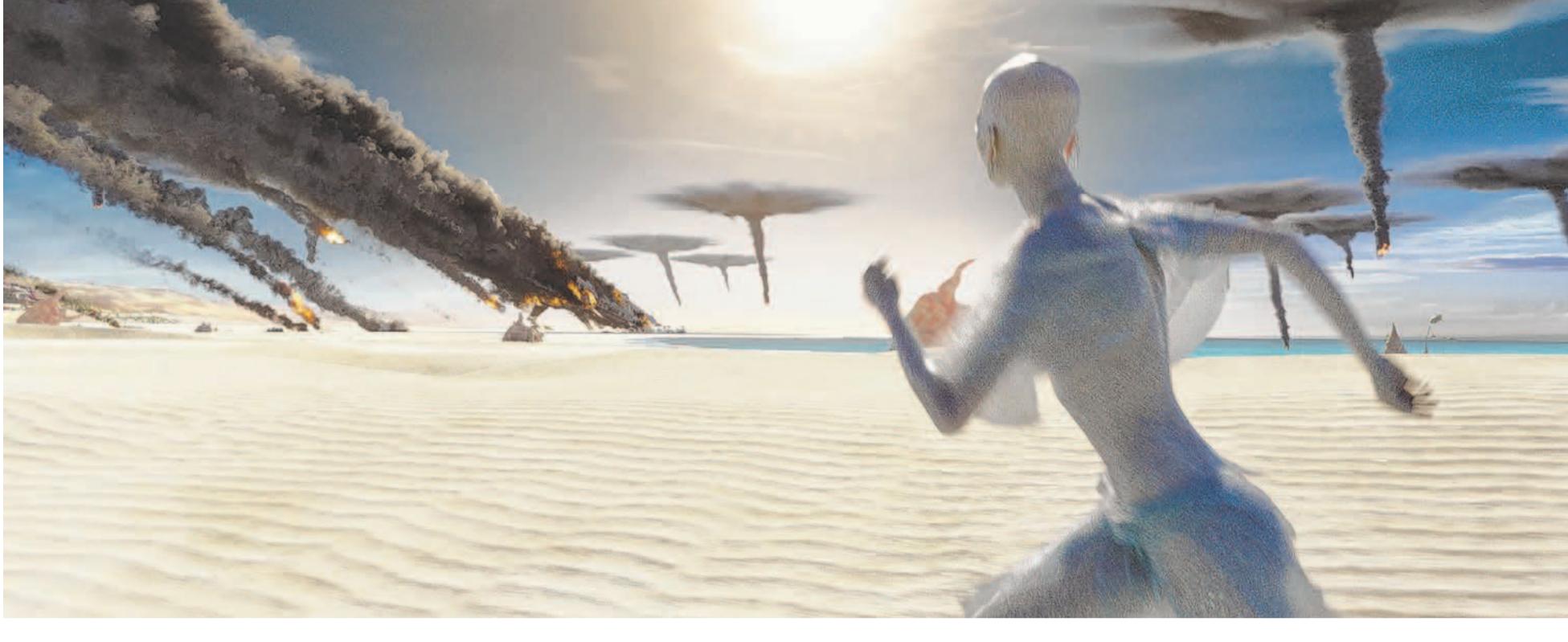
—Michael C. Bender

On Monday, the president will tour a display of American-made products inside the White House and on the South Lawn. He will also make remarks to the media about the administration's commitment to American-made products and the workers and companies who make them.

The plan, Mr. Spicer said, is to build a foundation for the president's argument for tax reform, identifying the workers and companies that would benefit from Mr. Trump's "America first" approach.

Mr. Trump can then return to one of the issue that, unlike health care, truly animates him—tax reform.

# LIFE & ARTS



BY ERICH SCHWARTZEL

*Los Angeles*  
**THE NEW** science-fiction spectacle "Valerian and the City of a Thousand Planets" opens with a memorable montage of intergalactic communities joining to form a giant space colony, all set to the tune of David Bowie's "Space Oddity."

"Under Pressure" would have worked, too.

"Valerian" arrives in theaters on July 21 already boasting an unusual, and high-stakes, record: It is believed to be the most expensive film in history that wasn't made by one of the six major studios. Its \$180 million production budget is in line with costly competitors like "Spider-Man: Homecoming," but its production company, Paris-based EuropaCorp, is a fraction of the size of Hollywood's major players.

A 3-D extravaganza that's been called a cross between "Avatar" and "Star Wars," "Valerian" will have to overcome a host of obstacles to turn a profit. Released in the most competitive part of the summer movie season, it's the only big budget movie that isn't based on characters or franchises already well known to audiences. There's also the foreign nature of the name itself, "Valerian," based on a French comic book. "To a U.S. audience, that is an unfamiliar name," acknowledges EuropaCorp Chief Executive Marc Shmuger.

Though early footage of the film has set science-fiction blogs abuzz, reviews so far have been mixed, with critics praising the movie's kaleidoscopic visuals but saying its stars Dane DeHaan and Cara Delevingne are miscast in the lead roles.

The film has become a case study in whether a globally ambitious movie from outside Hollywood's main studios can perform well in the current environment dominated by franchise films.

A hit would transform EuropaCorp, a small studio founded by "Valerian" director Luc Besson in 2000. Mr. Besson, a favorite among the Comic Con crowd because of the science-fiction classic "The Fifth Element," is one of the few directors working today whose reputation could justify

## FILM The Most Expensive Indie Ever

With a budget of \$180 million, the 3D spectacle 'Valerian' will need to win over global audiences to make money



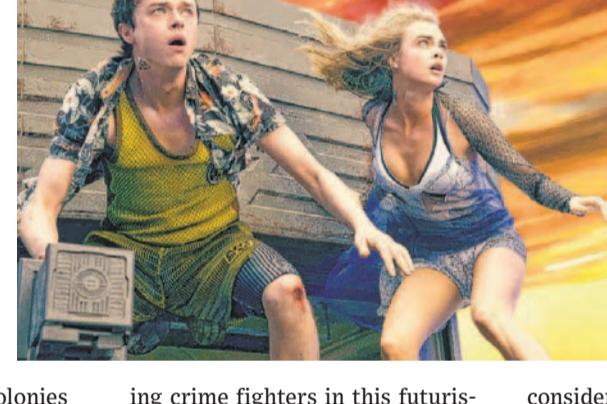
Scenes from 'Valerian and the City of a Thousand Planets' starring Rihanna, above, Dane DeHaan and Cara Delevingne, below from left.

lion Euros (\$136 million) for the 2017 fiscal year. Though the company is open to building "Valerian" into a sequel-spawning franchise, executives say they plan to primarily stick with their usual projects: Modestly budgeted action thrillers like the "Taken" and "Transporter" franchises that continue to make up the bulk of its release slate.

Crafty financing has limited the company's risk on "Valerian." To raise the \$180 million for the movie, Mr. Besson adopted a financing structure common with independent films, offsetting the cost of production by selling distribution rights in more than 65 countries and bringing on about a dozen equity partners. Ultimately, the patchwork of financing left EuropaCorp responsible for about 10% of the budget. "For the cost of a small to modest-sized film [for EuropaCorp], Luc was able to realize the largest production in the history of continental Europe," said Mr. Shmuger.

"Valerian," a comic that Mr. Besson says he has obsessed over since childhood, has been the director's quixotic project for years. The 2009 blockbuster "Avatar," with its computer-generated Na'vi appearing alongside human actors, convinced him the technology had caught up with the storyboards in his head.

The movie is expected to perform better overseas. French moviegoers are most excited for "Valerian," where the film is projected to gross between \$50 million and \$100 million, above typical grosses in the relatively small market.



such a massive undertaking without traditional studio support.

"The first 'Star Wars' wasn't a franchise. 'Avatar' wasn't a franchise," said Mr. Besson. The movie marquee needs to have some fresh ideas from time to time, he added. "It's like never changing the water in the aquarium."

Set in the 28th century, "Valerian" imagines a universe where the Space Race never stopped, and sprawling colonies formed across galaxies. Alpha, where much of the movie takes place, is a cross-galaxy United Nations, like a metropolis populated by regulars of the "Star Wars" Mos Eisley cantina. Mr. DeHaan and Ms. Delevingne star as bicker-

ing crime fighters in this futuristic world, home to alternate dimensions, alien creatures and a shape-shifting cabaret performer named Bubble (Rihanna).

Mr. Besson rose to fame with contemplative thrillers like "La Femme Nikita" and "Léon: The Professional" in the 1990s before becoming known for his science-fiction epics. The director has a fervent fan base, but box-office analysts are skeptical U.S. moviegoers will show up in the droves needed for a film of this size. The director's last movie, "Lucy" starring Scarlett Johansson, grossed \$463 million worldwide, and EuropaCorp says it may consider sequels to "Valerian" if its global haul lands above the \$350 million range, which is plausible but far from certain.

For EuropaCorp, the timing for a high-risk release comes at a precarious moment. The studio last month posted a loss of 119.9 mil-

### PLAYLIST: ELIZABETH STROUT

## FINDING MEANINGS IN 'BLOWIN' IN THE WIND'

Elizabeth Strout, 61, is the Pulitzer Prize-winning author of six novels, including her latest, "Anything Is Possible" (Random House). She spoke with Marc Myers.

Growing up in Harpswell, Maine, I was always conscious of the wind. The Atlantic Ocean was our front yard, and our house was completely exposed. Even playing in the woods as a child, I thought the wind was trying to tell me something.

I first heard Bob Dylan's "BLOWIN' IN THE WIND" in 1973, during my last year in high school. Someone played it for me. Even though the song had come out 10 years earlier, when I was 7, I never owned the record as a young person. I didn't have the money, and I didn't have anything to play the record on.

As a child, I sensed the wind had a restless, secretive quality. The song's argument that the answers to life's vexing questions are blowing around in the wind and that you just have to listen to hear them resonated with me.

From the start, I knew that "Blowin' in the Wind" was a protest song, that the wind was a metaphor for a rising countercultural move-

ment in the '60s. But for years, I heard the song solely as a lyric.

Now I experience the song differently when I hear it on my iPhone and put the lyric in today's context. After Dylan's acoustic guitar opens the song, his voice is remarkably melodic and softly insistent.

As he sings, the line that catches my ear reminds me not to overlook what's right in front of us:

"Yes, 'n' how many times can a man turn his head / and pretend

that he just doesn't see?"

Many of us walk past people living on the sidewalk asking for money and either ignore them or never see them. That's what makes the song so special: The words constantly take on fresh meaning.

But much depends on where you hear them. In 1978, I went to my first Dylan concert in Augusta, Maine. He performed "Blowin' in the Wind," but it wasn't quite the same as hearing his original recording.

There were too many people there for the song to be personal, and the song's intent was brought down to an earthly level. Like the wind, the song is best experienced alone.



Bob Dylan in the 1978 film 'The Last Waltz.'

## LIFE & ARTS

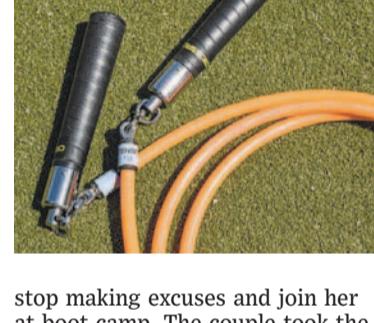
WHAT'S YOUR WORKOUT? | By Jen Murphy

# A Routine That Gets Him Jumping for Joy

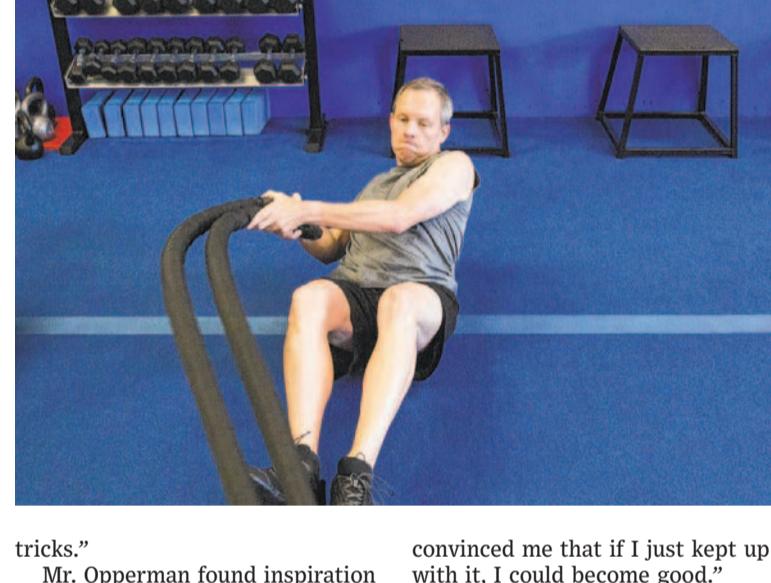
Jump ropes turned out to be just what an executive needed to make exercise fun



JASON HENRY FOR THE WALL STREET JOURNAL



Grant Opperman uses a 1-pound jump rope, above, for agility and speed. He also works out at a boot camp gym in Dublin, Calif., with a battle rope, below.



**WHAT DOES** a 10-year-old have in common with a pro boxer? Both jump rope with ease, says Grant Opperman. "Boxers, some of the fittest athletes in the world, work cardio, reflexes and coordination by performing an activity most of us did as children," he says. "And even though it's grueling, there's also something really fun about jumping rope."

Mr. Opperman, the 52-year-old founder of the Microburst Group, a Bay Area communications and strategy consultancy, began his search for a sustainable workout in 1996. "I was 31 years old then, so I wasn't feeling the effects of an unhealthy lifestyle, but in the span of a few years my pants size went from a 32 to a 34," he says. Having climbed to 187 pounds despite being just 5-foot-9, he was scared into a gym membership after an instructor in a yoga class warned him he was on the road to heart disease. Even with regular, hourlong sessions of cardio and weights, he didn't feel any fitter. "I blamed it on my metabolism slowing with age," he says.

In 2014, his wife told him to

stop making excuses and join her at boot camp. The couple took the burpee exercise, their least favorite in class, and turned it into an at-home challenge. "We tried to do 100 burpees a day for one month," he says. "You get addicted to improving, and soon I was doing 150 or 200, and by the last day I did 400 burpees," he says.

He began to take other exercises from class—pull-ups, push-ups—and turn them into monthly challenges. Last year he took on jump rope. "There was nothing enjoyable about burpees," he says. "But with jump rope, I was constantly amusing myself by trying new

tricks."

Mr. Opperman found inspiration on the Zen Dude Fitness YouTube channel. "It's two young guys with six packs who created the ultimate jump rope tutorial," he says. "They

convinced me that if I just kept up with it, I could become good."

The combination of jump rope and boot camp has helped Mr. Opperman drop to 155 pounds. "I have a leaner, stronger build than I

ever believed possible," he says. "I'm still not a master of jump rope, but I love that there's always a new move to learn."

### The Workout

Six days a week Mr. Opperman rises at 4:45 a.m. He starts the day by jumping rope for 15 minutes. He uses a light rope for fancy footwork like side swipes, boxer skips and double unders, which require him to jump higher and spin the rope faster so that it passes twice before he touches the ground. He uses a heavier rope for endurance and strength.

"You have no idea the pain that you can achieve jumping rope until you've jumped for a minute with a 1-pound rope," he says. "It works the arms, chest and back muscles." Some days he does a circuit, performing one minute of basic bounce jumping, followed by a 30-second rest, one minute of mountain climbers, and a 30-second rest, then one minute of push-ups.

At home, he jumps in his garage or in his backyard. On the road he jumps in the hotel gym or parking lot. "I've even jumped in front of the LAX airport," he says.

After his jump rope routine, he drives to Fit Body Boot Camp near his home in Dublin, Calif., for a 6:30 a.m. circuit class for 30 minutes. After boot camp he does 50 burpees.

### The Diet

Mr. Opperman eats an energy bar pre-workout and drinks a protein shake after boot camp. He makes lunch at home, usually some variation of sautéed spinach, peppers, broccoli and sweet potato mixed with black beans, two eggs and sometimes brown rice.

"As I've gotten older, my body doesn't process carbs as well, so I've cut back," he says. If he's eating out, he'll order a burger in a lettuce wrap or a bowl at Chipotle rather than a burrito. His wife might make steak or chicken with roasted vegetables for dinner. "Chocolate and ice cream are problems in my life," he says. "Particularly when I'm stressed or tired."

### The Gear & Cost

Mr. Opperman initially resisted buying a good jump rope. "In my mind, a jump rope should cost \$5, not \$50," he says. "But like any other piece of athletic equipment, you pay for quality. Half the reason people can't jump rope is because 90% of jump ropes are miserable." He purchased a Crossrope starter set, which includes a 1/4-pound agility rope and a 1-pound intensity rope.

He wears Under Armour Micro G Optimum sneakers, which are lightweight but cushioned for support. He bought his for \$59 on Amazon. He says the minimalist nature of Inov-8 Bare-XF 210 sneakers (retail \$110) are great for working on footwork. He pays \$150 a month for his boot-camp membership.

### The Playlist

"When you jump rope, it's not about what music you like or don't like, it's about the rhythm," he says. "Some of the best music to jump to is from singers who are also dancers, like Justin Timberlake, Michael Jackson or Usher."

FROM LEFT: PROCTER & GAMBLE; ISTOCK

## HOME PRODUCTS

# BUGS, THE NEW FRONTIER IN HOUSECLEANING

BY ELLEN BYRON

**YOUR FLOOR IS SCRUBBED,** the bathroom gleams, dishes are washed and the laundry is done. But have you captured your home's flying bugs?

Procter & Gamble Co. wants to add a step to your cleaning routine. The consumer-product company, already known for Tide laundry detergent, Mr. Clean disinfectant and Swiffer mops, in April introduced Zovo, an indoor trap for winged insects including flies, mosquitoes, gnats and moths.

After cleaning tubs, floors, clothes, hair and skin, bugs offer a new frontier, and a potential opportunity as P&G looks to reverse years of lackluster sales. "Another dirt for P&G are those insects around your home," says Jane Welling, a scientist for P&G's Ventures unit, which pursues new business opportunities.

"When flying insects come in, they seem to multiply and ruin everything that makes your house a home," an online Zovo ad says. "If you have pets and kids that are constantly going in and out of the house, then Zovo is a must-have."



is one way P&G is trying to turn around its business, which has struggled as consumers cut back spending and small, upstart brands have eaten into its dominance of shaving, cleaning and beauty products. Sales in P&G's most recent quarter ended March 31 fell 1% to \$15.6 billion. Its fabric & home care division posted sales and profit declines over the same period.

The strategy isn't new. P&G for generations has excelled at convincing consumers of problems they didn't realize they had. Febreze captures household odors you may have become accustomed to but guests might detect. Crest teaches consumers that teeth should be white, not just cavity-free. Pantene sells the notion that healthy hair should always shine. Olay wants aging consumers to fight dull skin tone as well as wrinkles. Downy says washing clothes also requires fiber protection, softening and fragrance.

P&G is taking a relatively quiet approach to its Zovo launch. Unlike the blockbuster store roll outs P&G's giant brands usually stage for a new product, Zovo is sold via its folksy website and Home De-



The mosquito is a target for P&G's new Zovo indoor insect trap, left.

pot's stores and site. The Zovo site includes photos of the P&G team that created the product, including a mosquito-masked employee named "Mosquito Joe," whose title is "chief test subject." Zovo's packaging includes a thank-you note.

Zovo, which resembles a plug-in air freshener, uses a combination of blue and UV light to attract flying insects onto a sticky cartridge that ensnares and ultimately kills them.

Developers borrowed know-how from across P&G's businesses, including device technology from Febreze, adhesive capabilities from

Always sanitary pads and the replaceable-cartridge business model from Gillette razors. A starter kit, which includes a device and two trap cartridges, costs \$12.99 and two refill cartridges cost \$5.99.

P&G considered at least 50 iterations of the device as it looked for the right cover for the sticky cartridge—it needed to have openings wide enough for insects to see the blue light and fly through it to be captured, yet not so revealing that consumers could see too many dead bugs.

"We didn't want the consumers to get totally grossed out," says

Ms. Welling.

Still, seeing how many dead bugs are snagged during the cartridge's 45-day or so lifespan helps persuade consumers they need the device, P&G says. During a four-week test in Orlando, chosen because of its bug-friendly climate, consumers involved initially were skeptical they had a bug problem. "But then looking at their cartridge, they said, 'oh, I did need that,'" says Ms. Welling.

P&G uses gruesome facts to describe why winged insects are more than just a household nuisance. Twice as many germs are carried by house flies than cockroaches and flies spit, throw up and defecate on food they land on, P&G says in its marketing materials. Some 1.6 million gallons of American blood is sucked by mosquitoes each year, and fruit flies can lay 500 eggs on your fruit in less than 10 days, P&G says.

Still, except for mosquito-borne diseases like the West Nile and Zika viruses, flying insects don't usually pose a health hazard in the U.S., says Joshua Benoit, an entomologist and assistant professor of biology at the University of Cincinnati, who is involved in Zovo's development.

P&G says they aren't replacing the capabilities of an exterminator, but rather helping to alleviate an annoyance without chemicals or swatters.

## OPINION

### REVIEW & OUTLOOK

#### China's Empty Nobel Chair

Liu Xiaobo, the 2010 Nobel laureate, died on Thursday, only weeks after he was moved to hospital from a prison cell. The Chinese government bears responsibility for failing to competently diagnose and treat his liver cancer. To Beijing's shame, the only other Peace Prize winner to die in custody was Carl von Ossietzky, a prisoner of Nazi Germany who won in 1935 and died in 1938.

Liu played a pivotal role in the 1989 student protests in Tiananmen Square, helping to negotiate the peaceful departure of the last students to occupy the square. He kept the spirit of that movement alive in 2008 when he helped to write Charter 08, a democracy manifesto. Shortly thereafter he was sentenced to 11 years in prison for "subversion."

China's rulers have worked hard to make sure their citizens learned little about Liu's ideas. That fear of one man's courage testifies to the illegitimacy of their power. Liu could have played an important role in China's trans-

sition to democracy, but his example will serve as an inspiration to future generations.

Beijing has used the fruits of economic reforms started by Deng Xiaoping in 1979 to prolong authoritarian rule far longer than most thought possible. But its obsession with social control is hampering further moves toward a free-market

economy. The resulting tensions are building and increase the risk of instability.

At the Nobel prize ceremony in 2010, Liu was represented by an empty chair. His death is a reminder of the world's obligation to keep attention on China's rights abuses.

Without political reform, China will continue to use its growing economic and military clout to spread its authoritarian model. Pressuring Beijing to free the imprisoned human-rights lawyers who have taken up Liu's freedom fight would serve the interest of China's people, as well as the rules-based international order that its undemocratic government seeks to subvert.

**Liu Xiaobo dies in Beijing's custody, an example to the world.**

#### Jamie Dimon Goes Off

Jamie Dimon sure knows how to liven up an earnings call. While reporting quarterly results on Friday, the J.P. Morgan Chase CEO let loose with a high-quality harangue against the political class and Washington gridlock that drives down economic growth and hurts the people at the bottom of the income ladder.

"Since the Great Recession, which is now eight years old, we've been growing at 1.5% to 2% in spite of stupidity and political gridlock," said the dean of Wall Street CEOs, who was just warming up. "We are unable to build bridges, we're unable to build airports, our inner city school kids are not graduating."

"I was just in France, I was recently in Argentina, I was in Israel, I was in Ireland. We met with the prime minister of India and China. It's amazing to me that every single one of those countries understands that practical policies to promote business and growth is good for the average citizens of those countries, for jobs and wages, and that somehow this great American free-enterprise system, we no longer get it."

The banker who was once a target of Obama regulators must feel liberated because he even dared to defend tax cuts for business: "Corporate taxation is critical to that, by the way. We've been driving capital earnings overseas,

which is why there's \$2 trillion overseas benefiting all these other countries and stuff like that. So if we don't get our act together—we can still grow."

Tell us how you really feel, Jamie: "I don't buy the argument that we're relegated to this forever. We're not. If this administration can make breakthroughs in taxes and infrastructure, regulatory reform—we have become one of the most bureaucratic, confusing, litigious societies on the planet."

"It's almost an embarrassment being an American citizen traveling around the world and listening to the stupid s— we have to deal with in this country. And at one point we all have to get our act together or we won't do what we're supposed to [do] for the average Americans."

"And unfortunately people write about this saying like it's for corporations. It's not for corporations. Competitive taxes are important for business and business growth, which is important for jobs and wage growth. And honestly we should be ringing that alarm bell, every single one of you, every time you talk to a client."

Mr. Dimon has said he's a Democrat, and some of his friends say he might be looking to run for President. If Republicans can't rally the nerve to pass their agenda, he might find a receptive constituency.

#### ObamaCare Moment of Truth

Rеспublican leaders unveiled a revised health-care bill on Thursday, setting the stage for a Senate watershed soon.

**GOP moderates get all they want and they still won't commit to yes.**

appy, boost public-health education, stockpile the anti-overdose medicine naloxone, deter fentanyl trafficking, expand needle-exchange programs and make sundry grants to law enforcement and rural communities. The Senate bill is 40 times as large. Don't believe anyone who claims this isn't enough money, because it probably

reaches the limit of what government can do to mitigate the crisis.

The most important residual virtue of the McConnell rewrite, and the main reason it is still worth passing, is that it maintains the original Medicaid reform. This would transition the program to per capita block grants and equalize payments for the poor and the disabled compared to ObamaCare's Medicaid expansion population of able-bodied adults. The revision is too generous in the early years and has a long runway to give Governors time to plan and adjust, but it shifts to a budget growth rate in a decade that is fiscally sustainable.

Moderates intensely opposed this transformation, but structural changes are the only way to make the entitlement state even remotely affordable. The discipline will save \$772 billion over 10 years.

Conservatives gained a modest expansion of Health Savings Accounts and a version of Ted Cruz's "freedom option," which would allow insurers that sell ObamaCare-compliant plans to also sell deregulated plans. Combined with state waivers, this could lead to significantly lower premiums for most consumers.

The Senate bill has never been the "root and branch" repeal that some Republicans overpromised, but any legislation with a chance of passing must negotiate both political reality and health-care conditions that have developed over decades. The bill is now a pragmatic, modest compromise that tries to satisfy all camps.

Most Senate conservatives like Mr. Cruz are warming to the bill despite previous concerns about ObamaCare Lite, and we'll support it too despite its watered-down tax cuts and reform. Moderates now have to decide if they can say the same, having extorted almost everything they asked for and then some.

Moderates never objected to the repeal-and-replace agenda and surely benefitted from the slogan politically, yet some are still threatening to vote against even allowing a debate. If what they really want is ObamaCare, they should have said so earlier, though now at least they'll be accountable for their true position. Mr. McConnell is right to hold a vote to force Republicans to honor their avowed principles—or betray them.

The priority has to be growth and increasing incomes, not the short-term politics. Or maybe Republicans could do a better job making a political argument about jobs and wages instead of nothing. Any reform worth passing is difficult, and Republicans have sent a signal they'll give up at the first whiff of grapes.

The new bill uses the revenue from the investment tax to pay for spending the moderates favored, which might once have been called tax-and-spend liberalism. This includes

expanding eligibility for insurance subsidies, increasing subsidies for out-of-pocket expenses and higher up-front spending in Medicaid, such as for hospitals that provide uncompensated care for the uninsured.

Financing for high-risk pools and insurance market stability is tripled.

It also dispenses \$45 billion for heroin and opioid abuse treatment. In February 2016, President Obama proposed a \$1.1 billion plan that would increase access to addiction ther-

#### On Donald Trump Jr., The Media Can't Help Itself



**BUSINESS WORLD**  
*By Holman W. Jenkins, Jr.*

We'll admit to being gobsmacked by the latest revelation. We always assumed that it would be somebody like Carter Page who'd eventually be discovered to have participated in an ill-advised email chain showing that even Team Trump noticed the Hindenburg-size fact of Russian delight in the Trump phenomenon.

Now the press has its gotcha, and it's Donald Trump Jr. Golly.

Yet, after the first flush of hysteria, Don Jr. may be only half a rube for not being more sensitive to the Russian connection, which would explode in Hindenburg fashion only with the DNC email hack a few days later.

What's more, Bloomberg News suggests that lawyer Natalia Veselnitskaya wasn't offering secrets gleaned from a Russian "prosecutor," but news she read in the Russian press. Not the Russians but a Russian was trying to peddle this info to Trump Tower as a pretext to lobby on behalf of a wealthy Russian client.

And it wasn't any Russian but a tubby British music publicist who babbled fourth-hand, or perhaps was apple polishing all on his own, in claiming "Russian government support" for the Trump effort.

The farcical element continues to predominate in Russiagate, including with the mostly ignored Russian influence on FBI chief James Comey's actions.

But real trouble can flow even from a farce. Thinkers for whom Russia was just one problem in a world full of problems, who previously didn't identify Moscow as the No. 1 enemy, now do so, vociferously, for fear of being lumped in with Mr. Trump as a traitor to America or some such.

A mob is a machine for mass-producing cowards and bullies. That's where we are now. Just turn on cable TV.

Even the estimable Anne Applebaum, author of a book on the Soviet gulag, fulminates in the Washington Post against every recent president for failing to heed Russia's "peculiar dangers." With all due respect, U.S. presidents are better informed than anybody about the nature of the Russian regime. They read the intelligence. George W. Bush looked in Mr. Putin's eyes and didn't see his soul. He saw a potential nightmare that would have to be managed somehow. Ditto President Obama.

But neither are U.S. presidents equipped with magical powers to make such facts go away. The world is stuck with Mr. Putin, an authoritarian who cannot afford to modernize, whose quest for survival inevitably drives him down a funnel of deepening hostility toward a superpower where the rule of law prevails.

In the U.S. election, what began as Mr. Putin's vendetta against Hillary morphed into his cynical promotion of Mr. Trump, and now is coming up roses a third time as a way to discredit the U.S. government and its new president.

A respected Russian journalist, Mikhail Zygar, in the New Yorker, dismisses the idea of some Putin "master plan.... There is no plan—it's chaos."

Another, Roman Shleinov, apropos of supposed payoffs to Mr. Trump via his real-estate business, explains that it has nothing to do with Trump: "Money is fleeing Russia in all directions, people are trying to invest anywhere they can, to get their assets out."

If there was a conspiracy to put a Trump in the White House, let's face it, Don Jr. would never have been fielding a blind email about it in June 2016 from a Miss Universe hanger-on.

**The Trump-Russia conspiracy meme is a farce, not a scandal.**

Here's another secret: Most U.S. reporters know they are overplaying the Trump-Russia connection, even as they revel in the Don Jr. gotcha moment, even as they play up the circus of legal and political jeopardy the administration has created for itself.

That is, except for John Harwood of CNBC for whom the Don Jr. revelations on Tuesday explained everything. President Trump's every word and deed, he argued on-air, must now be understood as payback to Russia for helping him get elected.

Uh huh. One lesson voters may have to stick in their back pocket from all this: The U.S. can't afford a president with as much baggage as Mr. Trump, even if there's a lot to be said for opening up the elite to fresh, more-lively blood.

Another lesson concerns the people who used to be called editors and were played in the movies by Jason Robards. If there was ever a need to rein in the supercritical hysteria that the websites of the New York Times and the Washington Post and MSNBC on-air feed when their competitive dander is up, Tuesday showed it.

To their credit, all three have since calmed down. Or maybe it's postcoital lassitude. (Mr. Harwood is probably virtually comatose from it.) Scoops are overrated—the public isn't worse for learning the news at 6:30 p.m. instead of 11:30 a.m., especially if somebody with a brain has had a chance to reflect on its presentation. At least scoops are overrated in every way except in the race for clicks, which we're guessing played a bigger role in last week's Don Jr. bacchanal than any news organization would be proud to admit.

#### Why Amazon Gets Special Delivery

**By Josh Sandbulte**

In my neighborhood, I frequently walk past "shop local" signs in the windows of struggling stores. Yet I don't feel guilty ordering most of my family's household goods on Amazon. In a world of fair competition, there will be winners and losers.

But when a mail truck pulls up filled to the top with Amazon boxes for my neighbors and me, I do feel some guilt. Like many close observers of the shipping business, I know a secret about the federal government's relationship with Amazon: The U.S. Postal Service delivers the company's boxes well below its own costs. Like an accelerant added to a fire, this subsidy is speeding up the collapse of traditional retailers in the U.S. and providing an unfair advantage for Amazon.

This arrangement is an underappreciated accident of history. The post office has long had a legal monopoly to deliver first-class mail, or nonurgent letters. The exclusivity comes with a universal-service obligation—to provide for all Americans at uniform price and quality. This communication service helps knit this vast country together, and it's the why the Postal Service exists.

In 2001 the quantity of first-class mail in the U.S. began to decline thanks to the internet. Today it is down 40% from its peak levels, according to Postal Service data. But though there are fewer letters to put into each mailbox, the Postal Service still visits 150 million residences and businesses daily. With less traditional mail to deliver, the service has filled its spare capacity by delivering more boxes.

Other companies, such as UPS and FedEx, compete with the Postal Service to deliver packages. Lawmakers, to their credit, wanted a level playing field between the post office and its private competitors. The 2006 Postal Accountability and Enhancement Act made it illegal for the Postal Service to price parcel delivery below its cost.

But with a networked business using shared buildings and employees, calculating cost can be devilishly subjective. When a U.S. postal worker delivers 10

letters and one box to our home, how should we allocate the cost of her time, her truck and the sorting network and systems that support her? What if the letter-to-box ratio changes?

In 2007 the Postal Service and its regulator determined that, at a minimum, 5.5% of the agency's fixed costs must be allocated to packages and similar products. A decade later, around 25% of its revenue comes from packages, but their share of fixed costs hasn't kept pace.

First-class mail effectively subsidizes the national network, and the packages get a free ride. An April analysis from Citigroup estimates that if costs were fairly allocated, on average parcels would cost \$1.46 more to deliver. It is as if every Amazon box comes with a dollar or two stapled to the packing slip—a gift card from Uncle Sam.

Amazon is big enough to take full advantage of "postal injection," and that has tipped the scales in the internet giant's favor. Select high-volume shippers are able to drop off presorted packages at the local Postal Service depot for "last mile" delivery at cut-rate prices. With high volumes and warehouses near the local depots, Amazon enjoys low rates unavailable to its competitors.

My analysis of available data suggests that around two-thirds of Amazon's domestic deliveries are made by the Postal Service. It's as if Amazon gets a subsidized space on every mail truck.

I don't know which stores in my neighborhood will be gone five years from now, but I'm certain my household will continue to receive numerous boxes from Amazon. I also believe that society would be better off if competing retailers, online or brick-and-mortar, continue to thrive.

Congress should demand the enforcement of the Postal Accountability and Enhancement Act, and the Postal Service needs to stop picking winners and losers in the retail world. The federal government has had its thumb on the competitive scale for far too long.

*Mr. Sandbulte is co-president of Greenhaven Associates, a money-management firm that owns FedEx common stock.*

## OPINION

# Putin's Dangerous New Ukraine Doctrine

By Adrian Karatnycky

**S**anctions were not discussed at my meeting with President Putin," Donald Trump tweeted Sunday. "Nothing will be done until the Ukrainian & Syrian problems are solved!" Hours before the two presidents met, U.S. Secretary of State Rex Tillerson underlined this tough line on sanctions by appointing Russia hawk Kurt Volker as chief U.S. envoy on Ukraine.

Messrs. Trump and Putin made limited progress on Syria, but Moscow has been intensifying its efforts to destabilize Ukraine. Mr. Pu-

### Russia tries to absorb breakaway regions while stepping up terror in Kiev and elsewhere.

tin has been reluctant to deploy large military forces, but fighting in Eastern Ukraine claims five or six lives a week. Of late the Kremlin has escalated its aggression with military attacks on civilian targets, assassinations, cyberattacks to cripple the state and economy, and the economic and partial political integration of the occupied region into Russia.

Mr. Putin's war against Ukraine has boomeranged. His aggression has consolidated popular opinion, with one recent poll showing that 92% of those on territory controlled by Kiev now see themselves as Ukrainians.

A decade ago that number stood at 75%. While a portion of this shift is attributable to the absence of data from occupied portions of Ukraine,

most of it comes from shifting public attitudes. Mr. Putin is further stymied by Ukraine's growing military capability and frustrated by signs of its economic recovery, both results of President Petro Poroshenko's reforms.

For Mr. Putin, this is unacceptable. Russia is paying a large economic price because of Western sanctions. It also faces a growing threat of social discontent in the impoverished parts of Ukraine it controls. With 1.8 million residents internally displaced on Ukraine-controlled soil and 600,000 resettled in Russia, the self-styled Donetsk and Luhansk "peoples republics," known by the acronyms DNR and LNR, have a combined population of more than 3.5 million. Many are retirees dependent on Ukrainian state pension payments. Others are miners and industrial workers whose plants were deeply integrated into the Ukrainian economy.

Mr. Putin's response has been to step up the aggression. The first five months of 2017 saw a steep increase in attacks on hospitals, schools, factories and other civilian targets, resulting in 44 fatalities. Terrorist bombings and assassinations in Kiev and elsewhere have become commonplace. On June 27 and 28 car bombs killed two colonels from Ukraine's security service. On June 1 a Russian citizen posing as a correspondent for the French newspaper *Le Monde* shot but failed to kill a Chechen volunteer in the Ukrainian militia. In late March an assassin from Russian-annexed Crimea killed a former Russian parliamentarian and Putin critic who had received asylum in Ukraine.

Russia is also accelerating the integration of occupied Donbas into Russia. On Feb. 18, Mr. Putin issued a decree enabling Russian state and



TASS/ZUMA PRESS

Presidents Putin and Trump meeting in Hamburg on July 7.

private institutions to accept passports and other identity documents issued by the self-styled DNR and LNR. The Russian press widely promoted the view of Luhansk separatist leader Igor Plotnitsky that the decree is a "step along the path of international recognition of our sovereignty."

The DNR and LNR economies have begun rapidly converting to the Russian ruble. A further step came on March 5, with the confiscation by the "republics" of some 40 major privately held Ukrainian companies. These enterprises had provided employment for locals while paying taxes to Kiev and scrupulously withholding them from the renegade authorities.

Although these "nationalizations"—a war crime under the Geneva Conventions—had been accelerated by an unofficial embargo of trade with the region started by Ukrainian civic activists in January,

the swiftness of the confiscations suggested they had long been planned. On the day of the takeovers, senior Russian managers appeared at the "nationalized" workplaces to announce they were taking charge.

In mid-March, Kremlin-controlled media publicized the launch of a "Committee for the Integration of the Donbas and Russia" in Russian-annexed Yalta, Crimea. The Russian media trumpeted a call there by Mr. Plotnitsky for a referendum on the accession of the LNR to Russia.

In early April, Vladimir Pashkov, a former deputy governor of Russia's Irkutsk region, arrived to administer Eastern Ukraine's key industrial holdings, according to Russia's RBK news agency. On April 25 came news that the Russian Parliament was readying legislation backed by Foreign Minister Sergei Lavrov to simplify the procedure for granting Russian passports to residents of the

occupied Donbas. A group of lawmakers called the Russian Friends of the Donbas announced they would set up centers to assist in the naturalization process.

Russia is also escalating its interference in the internal political life of the rest of Ukraine, including cyberattacks against government and business targets and the use of fifth columns. These steps come from the well-known playbook that Russia used to foment separatism in Georgia's Abkhazia and South Ossetia regions. There, too, Russian military forces helped seize territory from a sovereign state, installed Russian advisers and distributed Russian passports. The Kremlin now recognizes both entities as independent states.

None of this means the Kremlin is irrevocably committed to the permanent separation of the DNR and LNR from Ukraine. What Mr. Putin wants above all is to ensure that whatever the future status of these regions, Moscow, not Kiev, will call the shots. Still, the radical steps Russia is taking, including terrorism, make clear that Mr. Putin seeks to derail the 2015 Minsk II process, even as he points the finger at Ukraine for lack of progress toward peace.

The U.S. and Europe must respond forcefully to this new intensification in Russia's hybrid war. The engagement of Mr. Volker to shape diplomacy on the Russia-Ukraine conflict signals that the U.S. will adopt a pragmatic hard-line policy. It is a welcome sign that the personal chemistry between Messrs. Trump and Putin won't override the physics of power politics and diplomacy.

Mr. Karatnycky is Senior Fellow at the Atlantic Council and co-director of its Ukraine in Europe initiative.

## Has Trump Flipped on Financial Regulation?

By Peter J. Wallison

President Trump showed his independence at the Group of 20 meeting in Hamburg earlier this month by opposing an international consensus on climate change. Yet in another area, the G-20's attempt to regulate global finance, Mr. Trump signed on to a communiqué that runs counter to his promises on the campaign trail and in office.

The summit's official statement lauds the Financial Stability Board's "considerable progress" in developing new international regulations. It says G-20 leaders "welcome the FSB assessment of the monitoring and policy tools available to address risks from shadow banking."

The FSB is a group of central bankers and regulators deputized by the G-20 in 2009 to set up an international system to supervise

finance. The U.S. is represented on the board by the U.S. Treasury Department, the Federal Reserve and the U.S. Securities and Exchange Commission. But most of the FSB's members are European officials. It is difficult to understand how Mr. Trump, who has promised to reduce financial regulation in the U.S., could possibly endorse the FSB's effort to create an even more stringent global system of financial regulation.

Once the FSB received its mandate in 2009, it moved aggressively—with the full support of the Obama administration—to create a regulatory structure covering all financial services and institutions in developed countries, including the U.S.

As the G-20 communiqué suggests, the FSB's particular focus has been developing a framework to

capture what it calls "shadow banks," which it broadly defined as any financial firm engaging in "credit intermediation" outside the

### Let's hope that the G-20 communiqué the president signed was a mistake.

regulated banking system. That includes, according to a 2013 FSB statement, "securities broker dealers, finance companies, asset managers and investment funds, including hedge funds."

During the previous administration, it was realistic to believe that the U.S. would join this scheme.

President Obama was a supporter of the G-20's international regulatory program. Not only that, in the

U.S. the Dodd-Frank Act created the Financial Stability Oversight Council, which was given the power to regulate and prohibit "activities" it judged as a threat to financial stability. This power alone would enable it to impose in the U.S. virtually all the regulations the FSB might develop.

The FSB's rules weren't intended to be voluntary. The group's chairman, Bank of England Gov. Mark Carney, made clear in memorandums to other FSB members that all G-20 countries, including the U.S., were expected to adopt its regulations in their own jurisdictions. Compliance, he said, would be monitored.

It isn't difficult to see that this is a power grab by the regulators who sit on the FSB. They are trying to leverage an international agreement to create a closed, uniform, global

system of financial regulation and supervision. Trapping American firms in this kind of complex web is clearly inconsistent with President Trump's promise to deregulate the financial system and put the American economy first.

Unfortunately, the G-20 communiqué has now created the impression—mistaken, one hopes—that Mr. Trump favors the FSB's program. If he doesn't, he should make his position clear by withdrawing the U.S. from the FSB. Then he should restrict the Financial Stability Oversight Council to acting only as a consultative body for financial regulators, with no special powers to regulate or prohibit financial activities. That's the way to get America back to business.

Mr. Wallison is a senior fellow at the American Enterprise Institute.

## My Old Friend Liu Xiaobo

By Bei Ling

*Editor's note: This op-ed was originally published on Oct. 19, 2010. We reprint it today in memory of Liu Xiaobo, who died on July 13 in Chinese custody.*

When I first met Liu Xiaobo in the early 1980s, we were both just out of university and he was living around the corner in Beijing. We became close friends and drinking buddies; at night we used to open bottles of beer and discuss the exciting changes taking place in our society.

Beijing at that time was a heady place for young intellectuals. After the death of Chairman Mao Zedong and the fall of the Gang of Four, it felt like a dark cloud had lifted and all sorts of ideas could be discussed freely for the first time in decades.

Xiaobo and I started a literary salon at Beijing Foreign Studies University. We gathered with fellow underground writers and discussed topics ranging from ancient Greek

philosophy to seminal Chinese figures like Wang Guowei, the scholar credited with setting China on the course to modernity in the early 20th century.

Xiaobo is a real Renaissance man.

He read voraciously—from the Chinese classics to Schopenhauer—and would quote texts from memory as we bicycled through Beijing's back alleys, passionately discussing the fate of our nation.

It did not surprise me when Xiaobo rose to literary stardom with the publication of two books that sold out several printings: "Critique of Choices: Dialogue With [traditional philosopher] Li Zehou" and "Aesthetics and Human Freedom." He penned five more books in a prolific burst that became known as the Liu Xiaobo Phenomenon. His work focused on the terrible toll taken on Chinese scholars by dictatorship, first under the emperors, then Nationalists, and continuing with Communist rule.

Xiaobo is an iconoclast. He pulls no punches and has little regard for

"face," once flippantly commenting that China would benefit from "300 years of colonization by the West." He didn't mean this literally, of course. It was an ironic allusion to the even greater damage centuries of authoritarian rule inflicted on the culture, but his critics seized on the remark as evidence of his "reactionary" nature.

They can't comprehend how Xiaobo wields ironic humor to play down how passionately he cares about the fate of our country. I remember one evening he swore to me, "I'll never let fear of criticism or punishment stifle my speaking out. And I'll struggle for the right of others to free expression, even if their views don't agree with mine. That's the price of freedom." If only he knew what a high cost he would pay for this ideal.

Xiaobo is the farthest thing from the typical effete Confucian scholar. He's a guy's guy. He drinks, smokes and tells bawdy political jokes. I remember one time he recounted an especially raunchy anecdote about Mao's wife, Jiang Qing, that made me blush and cannot be repeated in a family newspaper.

His reputation for insolence is well deserved. He doesn't suffer sycophants or ideologues gladly, which has not aided him in his interactions with the Communist authorities or his critics, and he has made a lot of enemies. But there is a compassionate, loyal side to Xiaobo that his friends and family know well. When I was imprisoned briefly in 2000, he worked tirelessly to secure my release, forgoing sleep to solicit the assistance of anyone who could help me.

When I think of Xiaobo I remember countless summer nights spent over pots of tea or bottles of warm beer, talking, laughing and planning for the important roles we intended to play as China's reforms progressed. Warm as Xiaobo is personally, he is uncompromising on points of principle. This trait has enabled him to sur-

vive years in prison with his intellect and convictions intact.

His literary reputation soaring, in the late 1980s Xiaobo accepted an invitation to teach at Columbia University. I too went to New York. Reunited with exiled scholars like the political activist Hu Ping and the artist Ai Weiwei, we continued our salons in the States, debating how best to continue our work when we returned to Beijing.

**'I'll struggle for the right of others to free expression, even if their views don't agree with mine.' If only Liu knew the price he would pay for this ideal.**

Then came the student protests of 1989. In New York, we watched television day and night. We saw the millions take to the streets to demonstrate for a better future for China. The students were so sincere, their idealism so moving. We had to go back to our city to be with them. Xiaobo called and told me he'd purchased a return ticket, paying cash so that he couldn't change his mind. I said, "Xiaobo, I'm proud of you. Go ahead, I'll follow." He stammered and said, "I'm frightened, but we can't sit in New York while our compatriots need us. Haven't we been preparing for this moment all our lives?"

Xiaobo didn't know if he would be arrested immediately upon arriving in Beijing, but the authorities had bigger concerns. He made it to Tiananmen Square and spent weeks living in a tent and standing shoulder to shoulder with his former students, emerging as the chief spokesperson for the protesters in the final days before June 4.

He stood his ground the night of the massacre, ultimately negotiating

with the martial-law troops for the safe passage of hundreds of remaining student protesters out of Tiananmen Square. For this action Xiaobo came to be known as one of the "noblemen of Tiananmen Square." If not for his intervention, hundreds more young lives would have been tragically and needlessly lost.

After the crackdown Xiaobo was arrested. He had no illusions about how a scholar would be treated in prison. "Willingness to endure punishment and even death is the price that must be paid for liberty," he told me, just before he turned himself in. I would not see my friend again for two years.

He was sent to China's Bastille, Qinching Prison, on the charge of "instigating counterrevolutionary behavior." After his release in 1991, he was again arrested in 1995. This time he spent four years in a labor camp for calling on the government to overturn its verdict on Tiananmen and acknowledge its tragic mistake in violently suppressing the peaceful, patriotic student movement.

The last time I saw Xiaobo was Christmas 1999. We sat on the back porch of my parents' apartment, sipping beer and reminiscing about the old, carefree days of our 20s. "I wonder if we'll ever again see the kind of freedom and open debate that we experienced in China in the 1980s," he sighed. I raised my glass and said, "I know we will."

I miss my old friend Xiaobo. But his Nobel Peace Prize brings comfort and encouragement to me, and the millions of others who have sacrificed so much for the cause of freedom in China. I know that this is what Xiaobo was referring to when he dedicated the prize to the victims of Tiananmen.

Mr. Bei is a writer in Bonn, Germany. This op-ed was translated from Chinese by Scott Savitt, a former foreign correspondent and author of a forthcoming memoir (*Atlas & Co.*).

## THE WALL STREET JOURNAL.

PUBLISHED SINCE 1889 BY DOW JONES & COMPANY

Rupert Murdoch  
Executive Chairman, News Corp

Gerard Baker  
Editor in Chief

Matthew J. Murray  
Deputy Editor in Chief

DEPUTY MANAGING EDITORS:

Michael W. Miller, Senior Deputy;

Thorold Barker, Europe; Paul Beckett,

Washington; Andrew Dowell, Asia;

Christine Glancey, Operations;

Jennifer J. Hicks, Digital;

Neal Lipschutz, Standards; Alex Martin, News;

Shazna Nessa, Visuals; Ann Podd, Initiatives;

Matthew Rose, Enterprise;

Stephen Wisniewski, Professional News

Paul A. Gigot, Editor of the Editorial Page;

Daniel Henninger, Deputy Editor, Editorial Page

WALL STREET JOURNAL MANAGEMENT:

Suzi Watford, Marketing and Circulation;

Joseph B. Vincent, Operations;

Larry L. Hoffman, Production

**DOW JONES**  
News Corp

EDITORIAL AND CORPORATE HEADQUARTERS:

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

Telephone 1-800-DOWJONES

## LIFE & ARTS

### ART REVIEW

# Reassessing a Mythic Painter

BY RICHARD B. WOODWARD

*Chadds Ford, Pa.*  
**IS IT OK TO LIKE** Andrew Wyeth again?

One of the country's most respected artists for most of his life, the first living American painter to have a retrospective at the Metropolitan Museum of Art, he became a victim of his own mass acclaim. The critical backlash against his so-called Helga series—"secret" nudes of his young blond and buxom neighbor that were disclosed in 1986-87 and inflated by lucrative media hype—severely marred his reputation. It never recovered.

Since his death in 2009, his precisionist vision of rural America has seemed increasingly outmoded. Unlike his older friend Edward Hopper, he is not exalted as a prophet of film noir and contemporary unease. Sophisticates continue to dismiss Wyeth as a regional nostalgic.

On the centenary of his birth, the Brandywine River Museum of Art has opened "Andrew Wyeth: In Retrospect," a tightly edited exhibition (with catalog from Yale University Press) that seeks to present new facets of the artist. The co-curators, Patricia Junker from the Seattle Art Museum (the show's next and final venue) and Audrey Lewis from the BRMA, view Wyeth as a death-haunted magical realist, whose portrayal of his stark surroundings in Chadds Ford, Pa., and the islands of Maine was more mythic than documentary.

Wyeth's obsession with World War I is one surprising theme of the show. Not only did he collect military miniatures from the period and portray aging men in their old uniforms (U.S. and German), he also developed an un-



Wyeth's 'Winter 1946' (1946)  
foreclosure ("Public Sale," 1943). Electricity is in short supply. The sources of illumination in his paintings are usually sunlight or kerosene lamps. Stoves burn wood.

What invigorates Wyeth's fossilized aesthetic is his undeniable skill as a draftsman and painter. The panoramic "Hoffman's Slough" (1947) is a masterwork that should be more famous. Rendered in deep shadow, with mottled reds among the browns and greens, the valley still holds slivers of water in its hollows. The sentimental grip of a place where the artist skated as a child is conveyed in a design that is as abstract as it is realistic. It could almost be a Clifford Still.

Wyeth's standing has suffered from his position apart from both pure abstraction and Pop. MoMA, for example, doesn't know what to do with "Christina's World" and has

2017 ANDREW WYETH/ARTISTS RIGHTS SOCIETY (ARS)/NORTH CAROLINA MUSEUM OF ART, RALEIGH

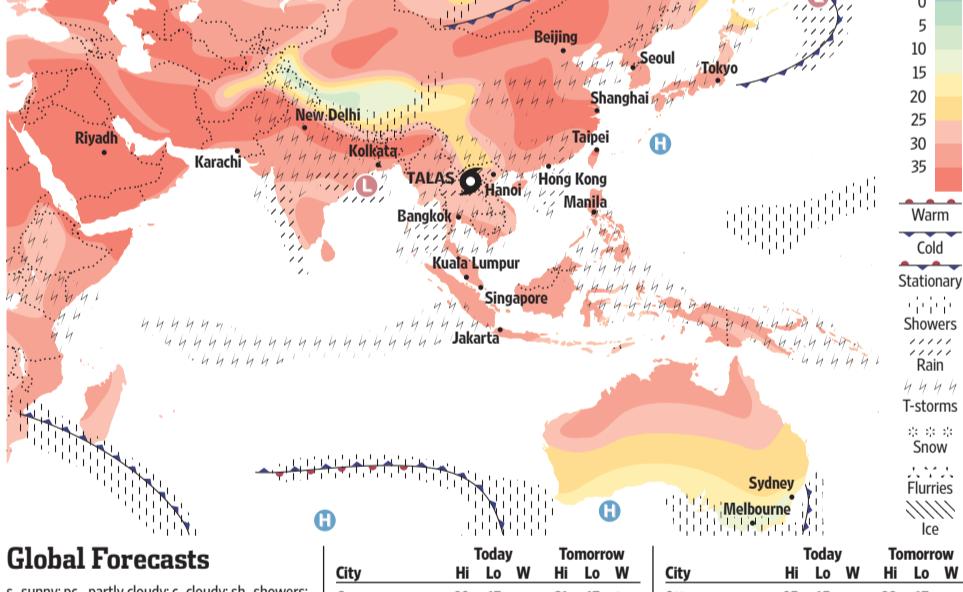
stuck it in a corridor by the escalators. Among contemporary art stars, only James Welling has been brave enough to cite Wyeth as an early inspiration. His 2010-12 series of photographs in the landscapes of Chadds Ford and Maine is an unironic homage.

If Norman Rockwell can be rehabilitated for today's art world, Wyeth can be, too. He was a more complicated and blood-stirring artist than his detractors have led us to believe.

**Andrew Wyeth: In Retrospect**  
Brandywine River Museum of Art, through Sept. 17

**Mr. Woodward is an arts critic in New York.**

### Weather

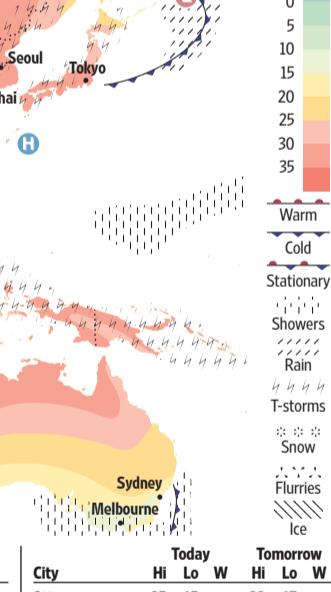


### Global Forecasts

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

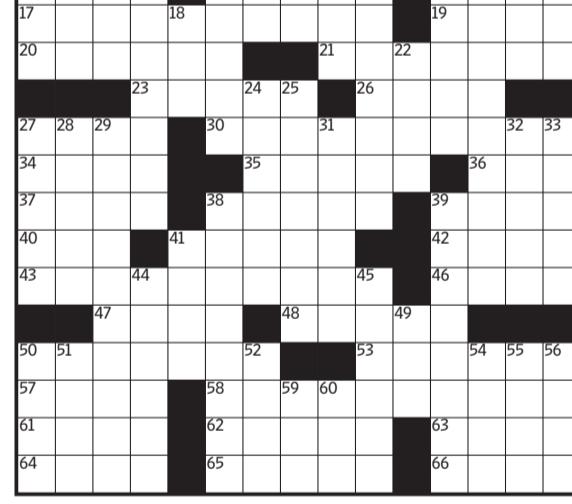
City	Today			Tomorrow		
	Hi	Lo	W	Hi	Lo	W
Amsterdam	22	13	pc	24	18	pc
Anchorage	18	13	c	16	12	r
Athens	27	20	t	27	21	t
Atlanta	31	22	t	31	22	t
Bahrain	49	31	s	50	31	s
Baltimore	32	21	pc	32	22	pc
Bangkok	30	26	t	35	25	sh
Beijing	34	25	pc	33	25	pc
Berlin	21	11	pc	23	14	pc
Bogota	19	10	r	17	10	c
Boise	34	16	s	35	17	s
Boston	28	19	s	28	20	pc
Brussels	23	14	t	27	18	t
Buenos Aires	9	-1	s	12	2	s
Cairo	39	27	s	40	26	s
Calgary	22	8	s	24	9	t
Caracas	31	27	pc	32	25	pc
Charlotte	31	21	pc	32	21	t
Chicago	26	16	s	31	22	s
Dallas	35	25	pc	35	25	pc
Denver	35	17	pc	35	18	pc
Detroit	27	16	pc	29	19	s
Dubai	43	34	pc	42	35	pc
Dublin	21	12	s	21	15	pc
Edinburgh	21	9	s	22	13	pc
Frankfurt	26	16	t	29	18	pc

### AccuWeather.com



City	Today			Tomorrow		
	Hi	Lo	W	Hi	Lo	W
Ottawa	25	15	pc	28	17	pc
Paris	30	20	pc	33	19	pc
Philadelphia	31	22	pc	31	24	pc
Phoenix	37	28	t	36	28	t
Pittsburgh	29	18	pc	30	18	pc
Port-au-Prince	35	24	pc	35	23	pc
Portland, Ore.	27	13	s	29	13	s
Rio de Janeiro	30	20	s	22	18	sh
Riyadh	45	28	pc	45	28	c
Rome	31	19	s	30	18	s
Salt Lake City	37	24	pc	37	25	pc
San Diego	26	21	pc	26	22	pc
San Francisco	22	13	pc	20	13	pc
San Juan	31	26	pc	31	27	sh
Santiago	16	3	s	20	4	s
Santo Domingo	32	23	pc	33	24	pc
Sao Paulo	25	10	s	11	9	sh
Seattle	24	12	s	27	13	s
Seoul	31	28	t	31	24	pc
Shanghai	36	28	pc	38	29	t
Singapore	30	24	pc	30	25	pc
Stockholm	22	11	t	22	11	pc
Sydney	19	11	pc	22	10	s
Taipei	36	26	pc	37	26	pc
Tehran	36	25	s	36	24	s
Tel Aviv	34	24	s	34	25	s
Tokyo	33	26	c	31	26	pc
Toronto	26	16	pc	28	18	pc
Vancouver	22	12	pc	22	13	s
Washington, D.C.	33	24	pc	33	24	pc
Zurich	28	14	pc	30	16	t

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



### BODY LANGUAGE | By Daniel Hamm

Across	Down
1 Scorch	28 "Shut up!"
5 Make sense	29 To some extent
10 Places to get body wraps and massages	31 Resolute
14 Exfoliation target	32 Playful mammal
15 DeVito of "Taxi"	33 Kin of crannies
16 Mexican money	38 Fair
17 Body of water comprising tresses?	39 Dentist's directive
19 Heaps	41 Animal on Sri Lanka's flag
20 Bubble's shape	44 Baja buddies
21 Take the stand	45 Awkward
23 Clear as ___,	49 Walk-(nonspeaking roles)
26 Free of clutter	50 "The Jellicle Ball" musical
27 Harry Potter feature	51 Sunscreen ingredient
30 Division of a body of water?	52 iPhone assistant
34 Awkward fellows	54 Polo shirt brand
35 Umbrella brand	55 Stereotypical techie
36 Ear: Prefix	56 June 6, 1944
37 Cost of a hand	59 Watchdog warning
38 Lecture attendee's jottings	60 Ultrapopular

**Previous Puzzle's Solution**  
PAPAPANTS LEWD  
AMEN ALOHA ECHO  
RICKASTLEY DREW  
ASS ANNAGUNN  
PARSE ONE  
NOLAN LAC GRIST  
ADEN FORAGE COY  
RIP ALUNSER ELL  
CUP RADIAS RAVE  
SMORE SEA AUGER  
USS LAUDER  
PATBOONE BRO  
ELIO NANCY ALLEN  
GOLF INDUS POLO  
SELF CASES HYMN  
The contest answer is MIDAS. The initials of each theme entry are also the symbol for a chemical element whose name appears elsewhere in the grid with one letter changed (to the bracketed letter in the theme clue). The letters that were changed, in order of the theme clues, spell the contest answer.

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

The News You Need.  
Straight to Your Inbox.

Stay informed on your busiest days with targeted email alerts and newsletters.

Sign Up Now: [wsj.com/newsletters](http://wsj.com/newsletters)



THE WALL STREET JOURNAL.

Read ambitiously

© 2017 Dow Jones & Co. Inc. All rights reserved. 6DJ5548

# BUSINESS & FINANCE

© 2017 Dow Jones & Company. All Rights Reserved.

THE WALL STREET JOURNAL.

Monday, July 17, 2017 | B1

**Yen vs. Dollar** 112.6390 ▼ 0.57%

**Hang Seng** 26389.23 ▲ 0.16%

**Gold** 1226.60 ▲ 0.85%

**WTI crude** 46.54 ▲ 1.00%

**10-Year JGB yield** 0.080%

**10-Year Treasury yield** 2.319%

## Banks' Results Raise Red Flags

Earnings are solid at three big U.S. lenders, but concerns over loan growth hurt shares

BY EMILY GLAZER  
AND PETER RUDEGEAIR

A still-challenging environment around lending and interest rates, along with frustration voiced over Washington gridlock, took some of the shine off otherwise solid financial results from three of the biggest U.S. banks.

**J.P. Morgan Chase & Co.**, the biggest U.S. bank by assets, led the way with record profit in the second quarter of \$7.03 billion. Even so, executives on Friday cut their projections for lending growth in 2017 as well as for interest income. Shares

in the bank and other lenders fell in response, reflecting investors' worries that economic growth might not be strong enough to fuel further gains in bank shares given their post-election run-up.

The KBW Nasdaq Bank Index is up about 28% since last November's election, nearly double the performance of the S&P 500 during that time. On Friday, shares of J.P. Morgan dropped 0.9%, while shares in the other two big banks that reported results, **Wells Fargo & Co.** and **Citigroup Inc.**, fell 1.1% and 0.5%, respectively.

Investors' excitement over policy changes that could benefit banks has also cooled amid uncertainty around issues such as a tax-code overhaul or infrastructure spending. Frustration on that front was expressed by J.P. Morgan

Chief Executive James Dimon, who challenged Washington to do more to boost the economy.

In doing so, he struck a tone more downbeat than the hopeful one many bankers adopted after President Donald Trump's election. "It's just unfortunate, but it's hurting us, it's hurting the body politic, it's hurting the average American," Mr. Dimon said of Washington inaction. "We have become one of the most bureaucratic, confusing, litigious societies on the planet. It's almost an embarrassment to be an American citizen traveling around the world and listening to the stupid shit we have to deal with in this country."

"We have to get our act together," he added.

Mr. Dimon's remarks came shortly after the bank said it expected to increase its net in-

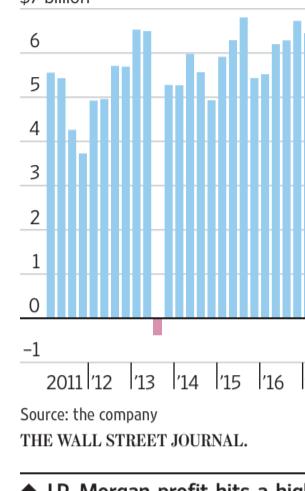
terest income by \$4 billion this year, down from an earlier projection of \$4.5 billion. A big driver of the reduction has been persistent low yields on longer-term bonds, which reflects skepticism about long-term prospects for economic growth and inflation.

Long-term yields are moribund despite four increases in short-term rates by the Federal Reserve since late 2015. That combination weighs on bank profits because it narrows the difference between short- and long-term rates—a flattening of the yield curve, which is often seen as a negative sign for economic growth.

Despite such factors, second-quarter results from J.P. Morgan, Wells Fargo, Citigroup and **PNC Financial Services Group Inc.** beat Wall Street expectations.

### Record Breaker

J.P. Morgan's quarterly net income



Source: the company

THE WALL STREET JOURNAL.

◆ J.P. Morgan profit hits a high, but challenges emerge..... B5

## Samsung Battles Apple on Design

BY TIMOTHY W. MARTIN  
AND TRIPP MICKLE

**Samsung Electronics** Co.'s newest flagship smartphone owes a lot to scuba diving.

Samsung design chief M.H. Lee wanted to give consumers the weightless sensation of being underwater when they held the Galaxy S8, which hit shelves in April and is the South Korean tech giant's first premium device after last year's costly Galaxy Note 7 recall.

The Galaxy S8 grew longer and slimmer, and it dropped most of the frame surrounding the display, for a sleek design many in the tech industry contend has bested **Apple Inc.**'s iPhone—some would say for the first time.

Ten years after Apple launched the first iPhone, the smartphone war is shifting to how a phone looks and feels. Smartphone innovation has plateaued in the eyes of many consumers, who now see incremental changes instead of

Ten years after the first iPhone, the focus is shifting to how a phone looks and feels.

game-changing features, like a front-facing camera or a crisper-looking display, that they once lined up for.

"Companies used to design phones to show off their technology," Mr. Lee, a 45-year-old executive, said in an interview, where he wore gold-colored sneakers and a Darth Vader T-shirt. "Now the focus is on designing a product that can be a buddy to the person, inseparable to them," Mr. Lee said.

Samsung, at least for now, is turning the tables on Apple with phone quality. Consumer Reports concluded when it ranked the Galaxy S handset the top smartphone on the market for the second straight year. Design earned praise alongside battery life and camera quality on the latest incarnation, the S8. Bragging rights matter more than ever as each company introduces fresh devices this year and vies for some of the record numbers of smartphone owners due for upgrades.

Samsung has been putting more effort into creating a strong design culture. It has put the spotlight on Mr. Lee, who has the nickname "Midas" in South Korea yet is relatively unknown internationally, and who took over mobile design at Samsung in 2014. In contrast, Apple's Jony Ive continues to enjoy star status in industrial design circles.

Apple declined to comment and didn't make Mr. Ive available.

Please see PHONE page B4



LIU KUN/XINHUA/ZUMA PRESS

## New Rivals Take On Boeing, Airbus

BY ROBERT WALL

LE BOURGET, France—**Boeing Co.** and **Airbus SE** suddenly have competition.

For nearly two decades, the two have had the global market for big commercial jets largely to themselves. That is all changing, with three new competitors—from China, Russia and Canada—rolling out their own entries into the so-called single-aisle market.

Orders for these new jets are few for now, and the Russian and Chinese makers won't deliver planes for years. It is also uncertain how popular they will become.

Boeing and Airbus, meanwhile, are selling plenty of their own tried and tested work horses in the category.

Still, if even one of these new competing jets is a hit, it could threaten one of the most lucrative sectors for Boeing and Airbus.

"I don't have any problem buying Russian or Chinese aircraft," if a viable model emerges, Akbar Al Baker, chief executive of Qatar Airways, one of the world's biggest jet buyers, said recently.

The sudden competition is unfamiliar for both jet makers, and it adds pressure on them as they face waning demand in other markets. Bigger, long-haul jets aren't selling nearly as well as single-aisle, or narrow-body, jets and both Boeing and Airbus have struggled recently with big cost overruns and delays for some of their military programs.

The narrow-body market has been the industry's sweet spot for years. Large airlines and rapidly growing budget ones love them for their size and fuel efficiency. At the Paris Air Show last month, Boeing introduced the latest and biggest version of its 737 Max, with 230 seats. Boeing has a backlog of over 3,600 orders for its 737 Max family of jets.

Airbus, meanwhile, has sold more than 5,000 of its A320neo family, the competitor to the 737 Max. It started delivering them to customers last year.

Amid that booming market, three new competitors have swept in: China flew its C919 narrow-body for the first time in early May. The Chinese jet, built by state-owned **Commercial Aircraft Corp.**, known as Comac, has secured more than 500 orders, mainly from Chinese buyers. First delivery is expected around 2020.

Comac didn't respond to requests for comment.

Russia's MC-21, which can seat as many as 211 passengers, also made its maiden voyage in May. The aircraft is manufactured by **Irkut Corp.**, which says it has taken in 175 orders and will deliver its first in 2019 as it prepares for further tests.

Canada's **Bombardier Inc.**, meanwhile, began delivering a 130-seat version of its CSeries plane in November. The CS300 competes with the smallest models of the Airbus and Boeing short-haul planes. It is al-

Please see PLANES page B2

Please see PLANES page B2

## U.S. Bacon Craze Pushes Pork-Belly Prices to New Highs

BY BENJAMIN PARKIN

A national craving for bacon is pushing U.S. pork-belly prices to record highs.

Prices for the part of a hog used to make bacon have risen around 80% this year, while frozen reserves are at a six-decade low. Americans bought around 14% more bacon at stores in 2016 than in 2013, according to market-research firm Nielsen.

"The consumer has simply woken up to the joy of having bacon on more and more things," said Arlan Suderman, chief commodities economist at INTL FCStone in Kansas City, Mo.

Once considered a more unhealthy byproduct of a hog

compared with prized cuts like pork chops and tenderloin, bacon has become a guilty pleasure amid a broader embrace of fatty meats.

In the past decade, bacon has popped up on menus far from BLT's and breakfast specials.

The craze has gained pace this year.

Fast-food chain **Arby's Inc.** last month introduced a series of "triple thick" bacon sandwiches. Brooklyn-based eatery Landhaus serves maple bacon on a stick. And bacon-themed summer festivals have sprung up in cities across the country.

"Everybody and their mother is coming out with a new bacon sandwich," said

Dan Norcini, a livestock trader in Coeur d'Alene, Idaho.

Appetite for beef and bacon typically swells ahead of a July 4 and Memorial Day grilling boost. Wholesale beef prices followed that seasonal trajectory this year, falling from a mid-June peak.

Some analysts say bacon, meanwhile, is becoming a yearlong staple that consumers are eager to procure. That voracious demand has left wholesalers in a squeeze.

Retailers "have turned hand-to-mouth, buying only what they need, waiting for production to increase and prices to decline," said Dennis Smith, a commodities broker at **Archer Financial Services**.

Please see BACON page B2



Americans bought 14% more bacon at stores in 2016 than 2013.

## INSIDE

MUSK SEEKS OVERSIGHT OF AI GROWTH

TECHNOLOGY, B4

CANADA FLAGS FRAUD AT SINO-FOREST

BUSINESS, B3

MACMAHON/EUROPEAN PRESSPHOTO AGENCY

Elon Musk, CEO of Tesla and SpaceX, speaking at a press conference.

He is seeking oversight of artificial intelligence growth.

Canada has flagged fraud at Sino-Forest.

Business section, page B3.

European Pressphoto Agency

JOE RAEDLE/GETTY IMAGES

## INDEX TO BUSINESSES

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

A	Deutsche Lufthansa...B2
Advance Publications...B3	Didi Chuxing Technology...B4
Airbus...B1	EnerVest...A1
Alibaba Group Holding...B8	Equitix Investment Management...B2
Amazon.com...B2	Fiat Chrysler Automobiles...B3
Apple...B1	General Electric...B2
Asian Infrastructure Investment Bank...B5	GIC...B7
AT&T...B3	Global Logistic Properties...B7
B	GrabTaxi Holdings...B4
Bain...B8	HCL Infrastructure...B2
Berkshire Hathaway...B3	Honeywell International...B2
BlackRock...B7	HS1...B2
Blackstone Group...B7	InfraRed Capital Partners...B2
Blue Apron Holdings...B3	IRKUT...B1
Boeing...B1	J.B. Hunt Transport Services...B2
Bombardier...B1	J.P. Morgan Chase...B1,B5,B8
Burberry...B8	
C	
Charter Communications...B3	Hung, Alfred...B3
C.H. Robinson Worldwide...B2	Ip, Albert...B3
Cie. Financiere Richemont...B8	Musk, Elon...B4
Citigroup...B1,B5,B8	R
CME Group...B7	Rein, Jerome...B2
Comcast...B3	S
Commercial Aircraft...B1	Lake, Marianne...B5
D	Mauro, Charles L...B4
Delta Air Lines...B2	Lee, M.H...B1
E	McNabb, F. William...B7
F	Yeager, Dave...B2
G	
H	
I	
J	
K	
L	
M	
N	
O	
P	
R	
S	
T	
U	
V	
W	
X	
Y	
Z	

## BUSINESS & FINANCE

# Trucking Is Primed for Rebound

BY JENNIFER SMITH

Improving freight demand could signal brighter days ahead for transportation companies—if they can persuade retailers and manufacturers to pay more for shipping.

Trucking and logistics firms should give their outlooks for the rest of the **THE WEEK AHEAD** year as they begin to report earnings this week, with investors watching for signs of a rebound from a two-year slump in freight rates.

**J.B. Hunt Transport Services** Inc., one of the largest U.S. freight carriers, is expected to announce its second-quarter earnings Monday. **C.H. Robinson Worldwide** Inc., the biggest freight brokerage, reports Thursday. Several large trucking companies report the following week.

The results come as bountiful produce harvests and increased shipping demand tied to **Amazon.com** Inc.'s Prime Day sales promotion have helped boost rates on the spot truckload market, where companies book freight transportation on a daily basis. The average rate for dry vans, the most common type of tractor-trailer used to ship consumer goods, rose 11% in June compared with the same month last year, according to DAT Solutions LLC, an online freight marketplace.

The recent lift has fueled hopes for a broader freight recovery, and transportation firms will be watching closely this month to see whether the upswing holds. Spot rates can be a leading indicator for contract rates, the long-term prices transportation firms negotiate with shippers. Big carriers do the majority of their



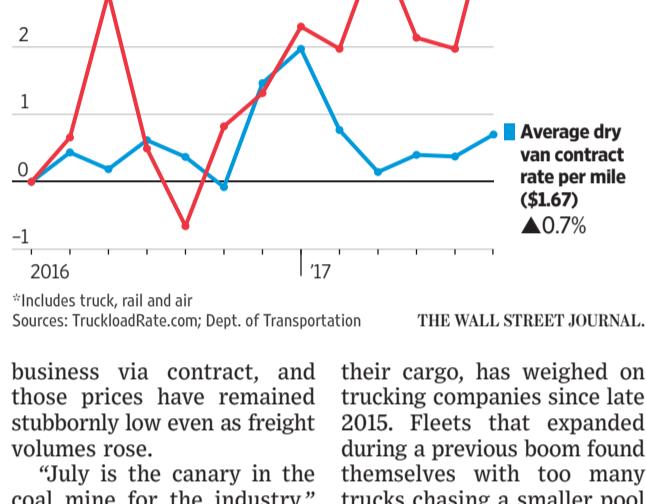
LUIKE SHARRETT/BLOOMBERG NEWS

J.B. Hunt is set to announce second-quarter earnings on Monday.

### Trailing Behind

Truckers are hauling more goods but that hasn't translated into higher prices for shippers.

Percentage change since May 2016



\*Includes truck, rail and air

Sources: TruckloadRate.com; Dept. of Transportation

THE WALL STREET JOURNAL.

rail and truck.

At **J.B. Hunt**, the largest U.S. intermodal carrier, second-quarter earnings are expected to hold steady at \$0.92 per share, according to a consensus of analysts via FactSet. "Moving into 2018, you got to believe that at some point truckload rates may improve, even if just slightly," Darren Field, **J.B. Hunt**'s senior vice president for the intermodal division, said at an industry conference last month.

Over the past 18 months large truckload operators have trimmed their fleets to reduce capacity and gain more leverage with shippers. Demand is also picking back up from manufacturers and retailers that cut back on shipping last year as they worked through excess inventory levels.

Still, it could be months before improvements in the spot market translate into broader pricing gains for most carriers, which often negotiate freight contracts in the first half of the year.

Rates may start to climb this year, and catch up in 2018, said Dave Yeager, chief executive of **Hub Group** Inc., an intermodal and brokerage provider that expanded its trucking portfolio this year with the \$306 million acquisition of **Estenson Logistics**.

The surging spot market could shrink profits for freight brokers, which use it to source most of their trucking capacity. Citi recently lowered its second-quarter and 2017 estimates for **C.H. Robinson**.

Even as some truckload carriers report freight demand is picking back up, analysts expect earnings for their most recent quarters to lag behind compared with the same period in 2016 because contract rates remain low.

view. At least nine analysts over the past month have lowered their projected iPhone sales for the current fiscal year that ends in September.

Most have shifted their forecasts into the next year. As a result, iPhone unit sales are expected to grow just 2% this year and 13% in fiscal 2018, according to FactSet.

That means Apple's forecast for the September quarter—expected when the company reports fiscal third-quarter results on Aug. 1—may not fully reflect this year's iPhone launch. And in the longer term, it is unclear how such an expensive phone will be received. Past iPhones have typically been priced in line with other premium smartphones. But Apple's customers are famously loyal. Goldman Sachs reported "surprisingly little sensitivity" to a \$999 starting price in its recent survey of more than 1,000 consumers.

That price wouldn't include incentives from carriers, which could offset the increase a bit. Still, Samsung's top-of-the-line Galaxy S8 starts at \$725. Arriving late and expensive, the new iPhone may test more than just the loyalty of its most ardent fans.

## HEARD

Continued from the prior page

to-edge OLED display similar to the Samsung Galaxy S8 that went on sale in April. This is becoming a popular way for smartphone makers to increase their display real estate without bloating the device's size farther. Counterpoint Research projects shipments of such OLED devices will hit 115 million this year and triple next year as OLED supply improves.

But such a design also obviates the need for the traditional "home" button, where the iPhone has typically placed its TouchID fingerprint scanner. Apple is reportedly having trouble getting the scanner to work under the display glass on the new design. That may add to the production bottleneck. Andy Hargreaves of Key-Banc Capital says Apple will need to order the necessary chips for the feature by next month in order to manufacture enough devices ahead of the holidays.

Wall Street has largely responded to the recent reports by taking the longer-term

## Belly Up

Pork belly prices soar as consumers embrace fatty meats.



Source: Department of Agriculture

## BACON

Continued from the prior page in Chicago.

Pig farmers are struggling to keep up with demand. The national hog herd rose to a seasonal record of 71.7 million head in early June, according to the **U.S. Department of Agriculture**, up 3% from a year earlier.

But it hasn't been enough to satiate bacon demand. Stocks of pork bellies in commercial freezers fell to 31.6

million pounds in May, down 59% from a year earlier and the lowest figure for the month since the USDA began keeping track in the 1950s.

The crunch pushed the price for a pound of wholesale pork belly to \$2.10 last week, the highest since the USDA began regularly tracking the market in 2013.

Analysts say prices are also at a record high compared with those reported voluntarily before then. Lean hog futures at the **Chicago Mercantile Exchange** hit a 2½-year high in early July.

## PLANES

Continued from the prior page ready in service with two European airlines. Bombardier so far has 237 orders for the jet.

**Deutsche Lufthansa** AG and Air Baltic executives have praised the plane's low noise and fuel efficiency.

"The interest level in the program continues to rise," said Bombardier's commercial airplanes boss Fred Cromer.

China and Russia have yet to win backing for their planes from big-name Western carriers. Many of those buyers aren't convinced the newcomers can in the near term provide the required globally available spare parts and repair services to keep operations humming.

The Chinese jet might be the most significant threat to Airbus and Boeing. Its ambitions are underpinned by the government's long-term focus and deep pockets and a domestic airline market large enough to keep local aircraft production busy.

"Are they a threat in the next five to 10 years to Airbus and Boeing? Probably not," said Airbus' chief plane salesman, John Leahy.

"In 20 years, I think they will be one of the big three

manufacturers of aircraft," Mr. Leahy added.

China has also been working closely with U.S. and European suppliers. The C919 is powered by engines made by a consortium of **General Electric** Co. and France's **Safran** and **Honeywell International** Inc. and **Rockwell Collins** Inc. are also partners.

The Chinese plane still lags behind the performance of the newest Boeing and Airbus jetliners. It is projected to have a shorter range and be less fuel-efficient. But industry officials believe that will change.

"The Chinese will drastically change the duopoly, but with the next aircraft, not the C919. With this one, they are

going to learn," said Jerome Rein, partner at Boston Consulting Group.

Boeing is moving some work completing aircraft to China to help maintain access to the rapidly expanding market. Airbus already assembles some of its single-aisle planes in Tianjin, near Beijing.

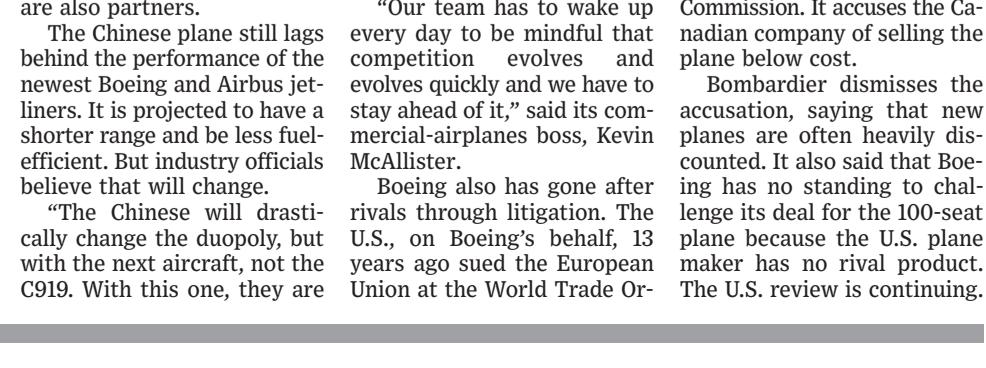
"Our team has to wake up every day to be mindful that competition evolves and evolves quickly and we have to stay ahead of it," said its commercial-airplanes boss, Kevin McAllister.

Boeing also has gone after rivals through litigation. The U.S., on Boeing's behalf, 13 years ago sued the European Union at the World Trade Org-

ganization for what it calls unfair European government support for Airbus. The case and a counterclaim remain under way.

This year, Boeing challenged Bombardier's sales of a smaller version of the CSeries, the CS100, to **Delta Air Lines** Inc. at the U.S. International Trade Commission. It accuses the Canadian company of selling the plane below cost.

Bombardier dismisses the accusation, saying that new planes are often heavily discounted. It also said that Boeing has no standing to challenge its deal for the 100-seat plane because the U.S. plane maker has no rival product. The U.S. review is continuing.



NOTICE INVITING FORMAL PROOF OF DEBT

## Arrium Group Companies

(All Subject to Deed of Company Arrangement)

The Deed Administrators are inviting unsecured creditors of the Arrium Group Companies to submit a Formal Proof of Debt.

Pursuant to clause 18.1 of the Arrium Distribution Deed of Company Arrangement, the Deed Administrators are formally requesting unsecured creditors prove their debt(s) or claim(s) by no later than 14 August 2017.

The failure to lodge a formal Proof of Debt prior to 14 August 2017 will result in:

1. The claim being excluded from the benefit of any distribution made before your debt or claim is proved or your priority is established.

2. The inability to object to the distribution.

For further information, or to receive a Formal Proof of Debt, please contact the Deed Administrators at [ariumpod@kordamentha.com](mailto:ariumpod@kordamentha.com)

KordaMentha Restructuring

[kordamentha.com](http://kordamentha.com)

## BUSINESS NEWS



'Last Chance U' is a behind-the-scenes sports series that Condé Nast's digital unit sold to Netflix in 2015.

# Publishers Turn to Video

As magazine print revenue weakens, new projects target online platforms like Facebook

By JEFFREY A. TRACHTENBERG

When Condé Nast launched its video hub, the Scene, in July 2014, it envisioned a sophisticated website that would showcase content from such titles as *Vogue*, *Vanity Fair* and the *New Yorker*, with media partners that included ABC News.

But the site offered so much choice that users found it more overwhelming than entertaining, and traffic eventually sank. Condé Nast didn't shut down the Scene; instead, it reoriented the platform as a vehicle to distribute videos on Facebook aimed at an 18- to 34-year-old audience, with the tagline "videos for women who get it."

"We learned you can't be all things to all people and expect people to come to you," says Dawn Ostroff, president of Condé Nast Entertainment, which like Condé Nast is owned by closely held Advance Publications Inc.

Condé Nast and other legacy magazine publishers are redoubling their efforts in online video after learning from their stumbles over the past few years. Those who tried unsuccessfully to build centralized destination websites for their brands are now more concerned with distributing their work on platforms like Facebook, YouTube, Snapchat and MSN. Publishers also are plowing cash into in-house

studios to increase production volume and quality, and they are getting more aggressive about developing TV series around their brands.

As magazine print advertising revenue continues to weaken, video has become more critical. Advertisers are expected to spend \$15.4 billion on video ads next year, according to *eMarketer*, up nearly threefold compared with 2014.

"If they miss the video market, what's left?" asks Jon Hammond, chief strategy officer for Galvanized LLC, a digital publisher and consultancy.

At Condé Nast, traffic at the Scene and its related branded-video channels de-

2015 and is producing two major movies based on stories that appeared in Condé Nast magazines.

Since late 2011, Condé Nast has invested between \$50 million and \$70 million in its video arm. Ms. Ostroff says the unit turned an operating profit in 2016.

Relying on Facebook for distribution can be a double-edged sword, presenting risks when the social network tweaks its news feed algorithm. And tech giants are competitors for video ad dollars in their own right, with Google's YouTube far and away the biggest player and Facebook ramping up its offerings.

*Time Inc.* live-streamed an open casting call for the Sports Illustrated swimsuit issue.

clined from a peak of 13.5 million unique visitors in October 2014 to 4.9 million unique visitors in June 2016, according to comScore Inc.

But the switch to publish and distribute stories on Facebook, mainly for young women, has worked. In May, the Scene attracted 98.3 million video views across Facebook, according to video analytics firm Tubular Labs—nearly triple the 36.4 million online video views the Scene generated in October 2016.

Condé Nast is also building up its long-form video. Its digital unit sold a behind-the-scenes sports series, "Last Chance U," to Netflix Inc. in

*Time Inc.*, like Condé Nast, created a centralized video destination called Daily Cut several years ago, but it never caught on and is now in the process of being closed.

The company is experimenting with different models to distribute its biggest brands on streaming-media platforms. The People/Entertainment Weekly Network—a free streaming service that the company says has more than 1.6 million downloads as an app—is advertiser-supported. Ian Orefice, *Time Inc.*'s head of programming, said a free service was the best strategy in a crowded entertainment media space.

*Time Inc.* will try to lure

paying subscribers for the coming Sports Illustrated video service it expects to launch in the fourth quarter. Mr. Orefice believes passionate sports fans will be willing to pay for the service, even though it won't have live sports programming at launch.

The publisher is learning how to program for a digital audience. Traditionally, Time Inc. would have treated its search for a new model for the next Sports Illustrated swimsuit issue as a closely guarded secret. Instead, this year the publisher live-streamed a three-day open casting call on Instagram, Mr. Orefice says. The company came up with the concept too late to sell advertising against the event.

*Time Inc.* also is tapping its vault of intellectual property for long-form video projects. This August, for example, ABC Entertainment will air a four-hour documentary about the life of Princess Diana, produced by *Time Inc.*. At least three *Time Inc.* magazines will publish related stories about Princess Diana, says Mr. Orefice.

"Princess Diana has been on the cover of *People* magazine more than anybody in the history of the magazine," he says.

Hearst later this year will open a 26,000-square-foot video studio around the corner from Manhattan's Hearst Tower. It is also building a video-first health-and-wellness brand, expected to launch later this year, and developing a TV series with the FYI television lifestyle network around Delish, its video-first food brand.

# Sprint Dials Up Buffett, Malone

By RYAN KNUTSON  
AND SHALINI RAMACHANDRAN

**Sprint Corp.** Chairman Masayoshi Son has engaged two of America's richest men, billionaire investor Warren Buffett and cable mogul John Malone, about investing in the embattled wireless company, people familiar with the situation say.

The Japanese billionaire met separately with the **Berkshire Hathaway** Inc. boss and Mr. Malone last week at an annual gathering of CEOs in Sun Valley, Idaho, the people said. Mr. Malone heads **Liberty Broadband Corp.**, which is cable provider **Charter Communications Inc.**'s biggest investor.

The contours of the deal the parties are discussing are unclear. The talks are at an early stage and may not result in an agreement, the people said, but one possibility would see Berkshire put more than \$10 billion into a transaction.

Mr. Son, who controls more than 80% of Sprint, has been exploring a deal to help the money-losing company saddled with more than \$32 billion in debt. In recent months, Sprint has also held merger talks with rival T-Mobile US Inc. and discussed a reseller agreement with cable providers, people familiar with the matter have said.

Sprint shares gained 4% Friday after The Wall Street Journal reported the discussions, ending the day with a market capitalization of about \$34 billion.

Since late May, Charter and Comcast Corp. have been in exclusive talks with Sprint about buying a stake in the wireless carrier or negotiating a favorable wholesale agreement that would allow them to resell wireless service under their own cable brands. The exclusivity window only lasts a few more weeks, people familiar with the matter have said.

Mr. Malone has been scouting for a deal that would bolster Charter's efforts to add wireless service to its cable TV and internet businesses, people familiar with the matter say.

Charter and Comcast struck a wireless partnership earlier this year, agreeing to seek the other's consent on any wireless deal. Charter would need

Comcast's approval to reach any such deal with Sprint or Mr. Buffett, but Mr. Malone's Liberty Broadband wouldn't if it were to act independently.

Comcast CEO Brian Roberts has been wary of buying into Sprint, people familiar with the matter have said. Comcast has more diversified holdings in entertainment and theme parks, and views the wireless business as an industry under great price competition. It has instead opted for a more cautious approach, using a reseller deal with Verizon Communications Inc. to add wireless to its bundle of services for Comcast customers.



Sprint Chairman Masayoshi Son

Messrs. Buffett and Malone have a history together and both are known for investing in companies that others view as distressed. Sprint, which has been unprofitable since Mr. Son took control of it in 2013 and has fallen to No. 4 in terms of U.S. subscribers, fits that bill.

Mr. Buffet has invested in some of Mr. Malone's companies in the past, including Charter and international cable operator Liberty Global PLC. Berkshire Hathaway currently holds 3.5% of Class A shares in Charter and 8.5% of Class A shares in Liberty Global, making it Liberty Global's largest Class A shareholder.

Berkshire held more than \$90 billion in cash at the end of the first quarter, and Mr. Buffet has been on the hunt for deals. Berkshire's utility unit agreed this month to buy bankrupt Energy Future Holdings Corp.'s Oncor for around \$18 billion, including debt.

—Dana Mattioli  
and Nicole Friedman  
contributed to this article.

## BUSINESS WATCH

ROKU

### Company Aims For IPO This Year

**Roku Inc.**, which makes streaming-media devices and software, is preparing an initial public offering it expects to launch before year-end, according to people familiar with the company's plans.

The Los Gatos, Calif., company recently hired Morgan Stanley, Citigroup Inc. and Allen & Co. as underwriters on the IPO, these people said. The company could file confidentially in the next few weeks, one of the people said.

Roku is seeking a valuation of roughly \$1 billion, a person with knowledge of the company's plans said. As of June 30, Roku said it had 15 million monthly active accounts, which was a 61% rise from the same time a year earlier.

—Maureen Farrell

FIAT

### Auto Maker Recalls 1.34 Million Vehicles

**Fiat Chrysler Automobiles** NV said Friday it would voluntarily recall 1.34 million vehicles across the globe, amid concerns component failures could lead to inadvertent air-bag deployments or be a potential fire hazard.

The auto maker said it was recalling 770,853 crossover vehicles after discovering wiring that chafes against steering-wheel trim pieces could cause a short circuit, triggering a process that could deploy the driver-side front air bag. Recalled vehicles include 2011-15 Dodge Journey crossovers in the U.S., Mexico and Canada, and 2011-15 Fiat Freemont crossovers outside of that region. Fiat also said it would recall 565,647 vehicles to replace alternators in an effort to prevent a potential fire hazard caused by premature diode wear.

—Ali Stratton

# Canadians Flag Fraud at Chinese Timber Firm

By JACQUIE McNISH

Canada's top securities watchdog ruled that **Sino-Forest Corp.** and four former top officials at the Chinese timber company engaged in fraud to mislead investors about its financial condition and timber assets.

The Ontario Securities Commission ruled in a 296-page decision Friday that the Toronto-based company knowingly committed fraud by overstating revenue and the value of its timber plantations in China. Sino-Forest raised about \$3 billion from investors

from 2003 to 2010, and the frauds, which led to the company's collapse, were among the largest in Canadian history, the regulator said.

The commission said in its decision that Sino-Forest's founder and chief executive, Allen Chan, was the architect of the fraud and was assisted by three vice presidents: Albert Ip, Alfred Hung and George Ho. Sino-Forest filed for bankruptcy protection in 2012 and its assets have since been sold.

Emily Cole, a lawyer for Mr. Chen, who lives in Hong Kong, said he "is obviously disappointed with the outcome." A lawyer for Messrs Ip, Hung and Ho declined to comment. The whereabouts of those three men isn't known.

The regulator is set to hold a hearing next month to consider regulatory sanctions, which could include penalties.

Sino-Forest was one of a number of publicly listed North American companies with Chinese operations that sustained billions of dollars of shareholder losses after they became ensnared in accounting debacles. American hedge-fund billionaire John Paulson was among investors who re-

ported significant losses when Sino-Forest filed for bankruptcy protection in 2012.

Muddy Waters Research, a U.S.-based analyst that conducts research on Chinese companies with an eye to engaging in short selling of the subjects' shares, said in 2011 that Sino-Forest had exaggerated its tree-plantation assets.

Shares of the company plunged more than 60% in the following week, which the Ontario Securities Commission said prompted its decision to launch an investigation. Sino-Forest disputed the short seller's allegations.

# AT&T Plans New Units After Time Warner Merger

By DREW FITZGERALD

AT&T Inc. plans to split the management of its telecom operations and its media assets if it clinches a takeover of **Time Warner Inc.**, putting veteran AT&T executive John Stankey in charge of the Time Warner business, according to people familiar with the matter.

The reorganization would create two divisions: One would contain AT&T's wireless business and its DirecTV satellite television business, the people said, while the other would comprise the Time Warner assets it aims to acquire, including HBO, Warner Bros. and the Turner cable unit that houses CNN. AT&T last year said it would take control of the entertainment company in a cash-and-stock deal worth about \$85 billion.

The new structure would keep AT&T Chairman and Chief Executive Randall Stephenson atop the company with two top lieutenants, in an organization that would resemble **Comcast Corp.** Brian

Roberts, Comcast's chairman and chief executive, has two segment chiefs: one in charge of the company's cable business and the other heading its NBCUniversal division.

The U.S. Justice Department is conducting an antitrust review of the AT&T deal, although President Donald Trump's pick for antitrust chief, White House deputy counsel Makan Delrahim, is awaiting Senate confirmation. The Senate is locked in a showdown over nominations, and it isn't clear when Mr. Delrahim might be confirmed.

Justice Department staffers have interviewed executives and collected information from the companies and rivals in the industry, but the process is in a holding pattern pending Mr. Delrahim's confirmation, according to a person familiar with the matter.

Mr. Stankey vowed to block the deal when he was still a candidate but hasn't commented on it since taking office. The combination of two distinct businesses—video and

the networks that distribute it—is considered unlikely to elicit an outright government challenge. But authorities have imposed conditions on similar tie-ups, including Comcast's takeover of NBCUniversal.

The administration's feud with Time Warner subsidiary CNN adds another wrinkle. White House officials have tangled with several

national media outlets, but Mr. Trump has hit hardest at the cable news network's coverage.

AT&T spokesman Larry Solmon said the company is still developing its integration plans and hasn't completed the new organizational chart.

Mr. Stankey, a 30-year AT&T veteran, is currently head of AT&T's entertainment business, which includes Di-

rectTV and has offices near Los Angeles. He has previously served as the company's strategy chief and held various executive roles in its traditional telecom business.

He would head up the existing Time Warner business, but AT&T has indicated it would like to retain some top executives at Time Warner for their expertise, according to a person familiar with the matter. Time Warner CEO Jeffrey Bewkes has said he would stay on for an interim period to help with the transition.

Under the new structure, DirecTV would be combined with the company's telecom operations, which are run out of AT&T's Dallas headquarters and include both the wireless and landline business, the people familiar with the matter said.

News of planned executive changes were earlier reported by Bloomberg News.

recTV and has offices near Los Angeles. He has previously served as the company's strategy chief and held various executive roles in its traditional telecom business.

He would head up the existing Time Warner business, but AT&T has indicated it would like to retain some top executives at Time Warner for their expertise, according to a person familiar with the matter. Time Warner CEO Jeffrey Bewkes has said he would stay on for an interim period to help with the transition.

Under the new structure, DirecTV would be combined with the company's telecom operations, which are run out of AT&T's Dallas headquarters and include both the wireless and landline business, the people familiar with the matter said.

News of planned executive changes were earlier reported by Bloomberg News.

—Ali Stratton

### Still Divided

AT&T's plan for Time Warner involves keeping the telecom business separate from the smaller media business it is acquiring.

#### Time Warner revenue

\$50 billion  
Includes: Warner Bros., Turner, and HBO  
\$29B

\*Excludes international revenue

#### AT&T revenue\*

\$150 billion  
Consumer mobility  
\$33B

Entertainment (includes DirecTV)  
\$51B

Business solutions (includes wireless)  
\$71B

THE WALL STREET JOURNAL

# Musk Says AI Growth Requires Oversight

By TIM HIGGINS

Elon Musk warned a gathering of U.S. governors that they need to be concerned about the potential dangers from the rise of artificial intelligence and called for the creation of a regulatory body to guide development of the powerful technology.

Speaking Saturday at the National Governors Association meeting in Rhode Island, the chief executive of electric-car maker Tesla Inc. and rocket-maker Space Exploration Technologies Corp. laid out several worst-case scenarios for AI, saying that the technology will threaten all human jobs and that an AI could even spark a war. "It is the biggest risk that we face as a civilization," he said.

Mr. Musk helped create OpenAI, a nonprofit research group that aims for the safe development of the technology. He suggested to the governors that a regulatory agency needs to be formed to begin gaining insight into fast-moving AI development followed by putting regulations into place.

"Right now the government doesn't even have insight," he said. "Once there is awareness people will be extremely afraid, as they should be."

Proponents of AI say such concerns are premature. Arizona Gov. Doug Ducey, a Republican, questioned Mr. Musk, saying he was unsure what policy makers could do beyond pushing for a slowdown in development.

"For sure the companies doing AI—most of them, not mine—will squawk and say this is really going to stop innovation," Mr. Musk said. But he said he doubted that such a move would cause companies to leave the U.S.

# Rival to Uber in Asia Draws Funds

SHANGHAI—Uber Technologies Inc.'s biggest rival in Southeast Asia is poised to get a huge cash injection that could help it in its home-region battle against the U.S. ride-hailing company.

By Liza Lin,  
Julie Steinberg  
and Newley Purnell

Singapore-based GrabTaxi Holdings Pte. is raising as much as \$2 billion from Japan's SoftBank Group Corp. and Chinese ride-hailing company Didi Chuxing Technology Co., people familiar with the matter said.

The deal could be completed in the next few weeks and would value Grab, as it is known, at more than \$5 billion—making it the region's most valuable startup. Grab, which launched in 2012, operates in 65 cities across seven countries.

"We will not be commenting on any market rumors or

speculation," a Grab spokeswoman said.

A SoftBank spokesman declined to comment, as did a Didi spokeswoman.

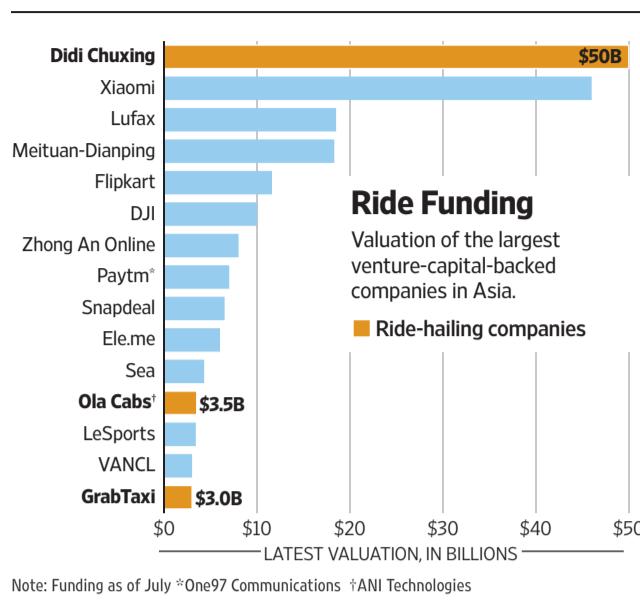
San Francisco-based Uber has spent billions of dollars to expand to more than 70 countries, fighting competitors with local ties and deep pockets along the way.

Last year, Uber sold its China unit to Didi in exchange for a 20% Didi stake and the promise of a \$1 billion investment, the companies said at the time.

On Thursday, Uber said it was combining its operations in Russia with Yandex.Taxi, the country's most popular ride-hailing firm.

Uber faces challenges at home, too, with a string of executive departures in the wake of an investigation into sexual harassment and sexism at the company.

Last month, co-founder Travis Kalanick relinquished his role as Uber's chief execu-



Note: Funding as of July \*One97 Communications ^ANI Technologies

Source: Dow Jones VentureSource

THE WALL STREET JOURNAL.

tive, although he remains a director.

Grab, whose previous investors include venture fund GGV Capital and Chinese investment fund Hillhouse Cap-

ital Group, most recently announced new fundraising last year, when it raised \$750 million in a round led by SoftBank.

Neither Grab nor Uber dis-

closes user numbers, but Grab's app is more popular than Uber's in many Southeast Asian markets, according to mobile-app analytics firm App Annie. Grab offers private-car, taxi, motorcycle, and carpool bookings in more cities throughout Southeast Asia than Uber.

In contrast to Uber, which has tangled with regulators and taxi unions globally, Grab has said it works closely with authorities and even has partnerships with local taxi companies.

It isn't a two-horse race in the region. In Indonesia, Grab and Uber face a fast-growing local startup called GoJek, which specializes in motorcycle taxis.

Southeast Asia's ride-hailing market could grow to \$13.1 billion by 2025, up from \$2.5 billion in 2015, according to a report last year by Alphabet Inc.'s Google and Singapore state-investment firm Temasek Holdings.

didn't respond to requests for comment on its pipeline.

Design has been a heated issue between the companies since 2011, when Apple filed suit against Samsung, accusing it of copying the iPhone and committing patent infringement—and seeking damages representing all of the South Korean firm's smartphone profits at the time. The U.S. Supreme Court in December ruled that a lower court should reconsider how much money Samsung owes Apple for alleged patent infringement relating to the iPhone's design.

Mr. Jobs made design central to Apple's identity at its formation in the 1970s, and he reinforced it upon his return to the company in 1997.

Samsung, traditionally known for semiconductor engineering and low-cost appliance manufacturing, began prioritizing design in 1996 under Chairman Lee Kun-hee. The company now employs 1,500 designers globally.

## PHONE

Continued from page B1  
able for comment.

How a smartphone looks now accounts for about half a consumer's purchase decision, with the assessment formed in roughly one second, according to Charles Mauro, president of MauroNewMedia, a product-design research firm that has done consulting work for Apple and Samsung. Mr. Mauro says peer-reviewed research reveals aesthetics matter much more than previously believed, as older surveys pegged looks as influencing only 7% of a phone purchase.

Consumers are upgrading en masse: Global smartphone shipments rose 5.6% for the first three months of 2017 versus the year-earlier period—representing the first sustained growth in two years, according to market researcher IHS Markit. The up-



The Galaxy S8 dropped most of the frame surrounding the display.

neath the display rather than a physical home button.

Apple pioneered modern smartphone design in 2007 with the original iPhone, popularizing the concept of the home button and the touch screen. Samsung distinguished itself by introducing a large 5.3-inch screen in 2011 and more recently by removing the horizontal frame around the Galaxy S8's display—a change analysts expect the new iPhone to adopt later this year.

Some design experts wonder if the Galaxy S8's visual leap says more about Apple and its chief executive, Tim Cook, whose operational skills contrast with the visionary talents of his predecessor, Steve Jobs. "It's not so much that Samsung has gotten better, but Apple has fundamentally changed,"

said Hugh Dubberly, a former Apple creative director and former member of Samsung's global design advisory board.

"The pipeline that Steve [Jobs] started is over." Apple

tick comes as a large number of consumers who have held on to their smartphones for two years—or more—are looking to upgrade their device.

Samsung says Galaxy S8 sales hit one million units in its home market in half the time it took for the prior year's model, the Galaxy S7,

now Samsung's best-selling smartphone.

The S8 is nudging the bar higher as Apple seeks to impress with its 10th anniversary iPhone this fall. For Apple to outdo Samsung on design, analysts said, it would need a new distinguishing feature, like a fingerprint sensor be-



## Before You Invest—Know Where They Rank

Introducing the daily Track the Markets feature—a simple, fast and easy way to follow the YTD and current quarter's performance of asset classes across the economic spectrum.

Learn more at [WSJ.com/TrackTheMarkets](http://WSJ.com/TrackTheMarkets)

THE WALL STREET JOURNAL.  
Read ambitiously

## GLOBAL FINANCE

# Citigroup Revenue Exceeds Estimates

By TELIS DEMOS

A softer-than-expected decline in trading revenue helped **Citigroup** Inc. defy Wall Street expectations and grow quarterly revenue by 2% from the year-earlier period.

After a late-June uptick in trading activity around global interest rates, the bank on Friday reported quarterly revenue of \$17.901 billion. Analysts had anticipated a drop to \$17.4 billion.

Quarterly profit at the New York-based bank was \$3.872 billion, down 3% from \$3.998 billion a year earlier, thanks in part to the overall trading decline during the quarter and higher costs associated with credit cards.

Citigroup's per-share earnings rose to \$1.28 from \$1.24 in the year-earlier period as the bank continued to buy back shares at a fast pace. Analysts, on average, had expected \$1.21 a share.

Citigroup's second-quarter trading revenue fell 7% to \$3.906 billion from \$4.208 billion a year ago.

Last month, Chief Financial Officer John Gersbach predicted trading revenue would be down by 12% to 13% from a year earlier.

Fixed-income trading was off by 6% from a year earlier, while equities trading dropped by 11%.

The decline halted momentum in Citigroup's relatively undersized stock-trading business, in which the bank has been investing heavily to bring it more in-line with rivals.

Citigroup reported a surge in investment-banking revenue as it stole share from rivals in the business of advising companies on mergers and underwriting stock and bond offerings.

The unit was up 22% from a year earlier to \$1.486 billion, the biggest quarterly haul in seven years.

The quarter's trading result is a blip on what is otherwise shaping up into a turnaround year for the New York-based bank.

Chief Executive Michael Corbat, who is seeking to convince investors that the bank is poised for sustained growth after years of treading water, has delivered on one major promise already—substantially increasing capital returns.

The bank received permission from the Fed, following its successful passage of the stress tests, to pay back \$19 billion to shareholders over the next year.

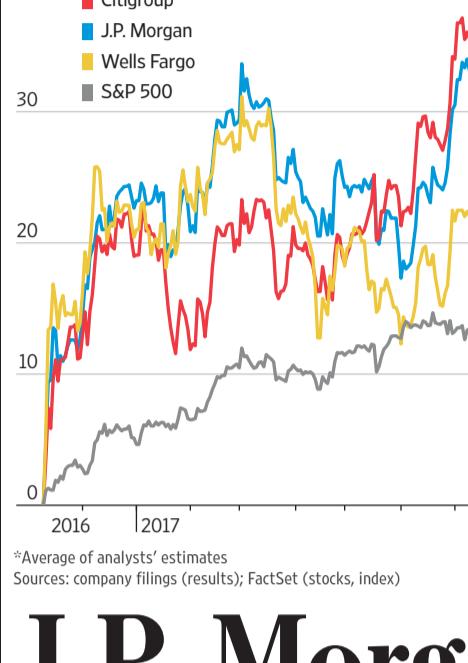
That was more than analysts were anticipating and a big boost from last year.

## Bank Account

J.P. Morgan, Wells Fargo and Citigroup posted solid earnings Friday. But shares fell, reflecting soft underlying returns and concerns that a postelection rally is vulnerable to a reversal.

### Stock and index performance

Change since the U.S. election



\*Average of analysts' estimates

Sources: company filings (results); FactSet (stocks, index)

# J.P. Morgan Net at Record

Bank rides wave of strong lending but now sees business faltering and its shares drop

By EMILY GLAZER

**J.P. Morgan Chase & Co.** posted a record profit for the second quarter as a lending boost in both its consumer and commercial businesses offset weaker trading results.

But the bank trimmed its full-year outlook for growth in lending and net interest income. That caused J.P. Morgan's shares to fall, despite it posting net income of \$7.03 billion, up 13% from a year earlier.

J.P. Morgan continued to increase revenue, which rose 4.7% from a year earlier to \$26.41 billion. That topped analyst expectations of \$24.96 billion.

Return on equity, a measure of profitability, was 12% in the second quarter compared with 10% a year earlier.

Earnings per share were \$1.82. Those were boosted by a legal benefit of \$406 million after taxes related to a settlement involving Washington Mutual, which the bank bought during the financial crisis. That helped boost earnings per share by 11 cents. Absent that, the bank would have posted \$1.71 a share in earnings. That, though, was still above expectations for \$1.58, according to analysts polled by Thomson Reuters.



Finance chief Marianne Lake trimmed the loan-growth forecast.

Total loans rose 4.1% from a year earlier to \$908.77 billion. Net interest income climbed 7.6% to \$12.21 billion.

Finance chief Marianne Lake trimmed forecasts for growth in both these areas, however. She said that loan growth, previously forecast at 10%, was likely to come in at 8% for the year as a whole.

Net interest income is now ex-

pected to rise by \$4 billion, Ms. Lake said, down from ear-

lier guidance of \$4.5 billion.

One area of weakness in the bank's results came from trading, which was hampered by a lack of volatility and customer activity. Trading revenue de-

creased 14% to \$4.8 billion.

The performance was dragged down by a 19% de-

cline in fixed-income trading

compared with the prior-year period.

The results, though, were

### J.P. Morgan

\$1.58  
Estimate\*  
\$1.82  
Actual

\$6.2B  
2Q '16  
\$7.0B  
2Q '17

\$25.2B  
2Q '16  
\$26.4B  
2Q '17

\$5.6B  
2Q '16  
\$4.8B  
2Q '17

10.0%  
2Q '16  
12.0%  
2Q '17

### Citigroup

\$1.21  
Estimate\*  
\$1.28  
Actual

\$4.0B  
2Q '16  
\$3.9B  
2Q '17

\$17.5B  
2Q '16  
\$17.9B  
2Q '17

\$4.2B  
2Q '16  
\$3.9B  
2Q '17

7.0%  
2Q '16  
6.8%  
2Q '17

### Wells Fargo

\$1.01  
Estimate\*  
\$1.07  
Actual

\$5.6B  
2Q '16  
\$5.8B  
2Q '17

\$22.2B  
2Q '16  
\$22.2B  
2Q '17

\$0.3B  
2Q '16  
\$0.2B  
2Q '17

11.7%  
2Q '16  
12.0%  
2Q '17

# Wells Fargo Earnings Rise Along With Rates

By PETER RUGEAR

Wells Fargo & Co. reaped the benefits of higher interest rates in the second quarter, which helped push profit at the third-largest bank in the U.S. up by 4.5%.

The San Francisco-based bank's shares fell 1.1% on Friday, however, as stagnant lending, weaker revenue in areas like mortgage banking and higher costs overshadowed progress on the bottom line.

Shares of Wells Fargo and other big banks had been on a tear since the U.S. presidential election as investors wagered that the Trump administration would take a more cordial approach to regulating Wall Street and fostering growth. But with little change to either the economic outlook and policy toward banks, it is unclear when banks' earnings potential will catch up to their higher valuations.

"Much of [the run-up in stocks] was probably aggressive or not fully warranted," said John Shrewsbury, Wells Fargo's finance chief, in an interview. "The realized outcome doesn't look any different than the realized outcome a year ago. So I think markets have to grapple with what does that actually mean."

Wells Fargo reported a profit of \$5.81 billion, or \$1.07 a share. That compares with \$5.56 billion, or \$1.01 a share, in the same period of 2016.

Analysts polled by Thomson Reuters had expected earnings of \$1.01 a share.

Conditions in the consumer bank were more challenging.

Profits fell to \$2.22 billion in the quarter, down from \$2.66 billion a year earlier.

J.P. Morgan extended \$23.9 billion in mortgages in the quarter, a decrease of 4.4% from the \$25 billion the bank extended a year earlier. Revenue in the bank's mortgage division, one of the largest in the U.S. by volume, was \$1.43 billion, down 26% from a year earlier.

Ms. Lake said the mortgage market is smaller and more competitive, and "fewer loans have met our hurdle rate."

Overall, J.P. Morgan set aside \$1.22 billion in the second quarter to cover loans that could potentially turn bad. That compares with \$1.4 billion in the second quarter of 2016 and \$1.32 billion in the first quarter of 2017.

The bank lost \$1.2 billion to loan defaults, or 0.56% of its overall portfolio, compared with a 0.79% charge-off rate in the first quarter of 2017.

The bank's provision for credit losses fell to \$1.22 billion from \$1.4 billion a year earlier.

Net interest margin, a measure of how profitably Wells can lend out its customers' deposits, rose to 2.9% from 2.86% last June, and its return on equity rose to 11.95% from 11.7%.

About \$110 million in additional charges related to remedying Wells Fargo's operations following the sales-practice scandal contributed to a 5.2% increase in expenses, which totaled \$13.54 billion.

# China's World Bank Rival Gets AAA Fitch Rating

By NINA TRENTMANN

China's rival to the **World Bank**, the **Asian Infrastructure Investment Bank**, is making headway in its quest to become an alternative provider of development finance.

The Beijing-based bank on Thursday secured an AAA rating by Fitch Ratings Inc. after receiving the same rating from Moody's Investors Service at the end of June.

"The rating is very critical for our positioning in international capital markets," said Soren Elbæk, treasurer of the AIIB. "It puts us at the very level of the World Bank and the IMF," Mr. Elbæk said. The ratings also ease concerns around the corporate governance of the bank, he added.

Set up in January 2016, the AIIB currently has 80 members, among them Canada, Germany and the U.K. Its mandate is to finance and co-finance international infrastructure projects. For that, the bank has around \$9 billion at its disposal, plus another \$73.6 billion in callable capital as of the end of March. A total of 17 projects with funding needs totaling \$2.8 billion has been approved. The U.S. hasn't joined the AIIB.

Fitch stated that the rating is based on both existing and expected strengths. The AIIB

has been endowed with a substantial capital base which will support the projected rapid expansion in lending," according to a statement by the rating firm.

The AIIB doesn't have a domestic credit rating in China yet, Mr. Elbæk said. The bank is now looking to register its bond and swap documents, to put IT systems in place and to grow the number of employees in its treasury department to 13 from four.

*The AIIB now plans to take the steps required for its first bond issuance.*

It now plans to take the steps required for its first bond issuance. Mr. Elbæk said it is too early to say how much the AIIB could raise.

The AIIB's sister bank, the New Development Bank in Shanghai, also is seeking international credit ratings. Both banks, alongside the so-called New Silk Road Fund, are part of a push by the Chinese government to increase its standing in international financial markets—and to challenge Western incumbents like the

"This could impact the NDB's credit rating and require more paid-in capital," said Horst Löchel, a professor at the Frankfurt School of Finance & Management.

Mr. Maasdorp denies this. "The fact that the international credit ratings of South Africa, Russia and Brazil have gone down will not have a material impact on the NDB," he said.

He said he was given assurance by international credit-rating firms—the names of which he didn't provide—that they would place less emphasis on the credit ratings of the founding members.

The NDB currently has paid-in capital of \$2.8 billion, a figure that is set to rise to \$10 billion within the next five years. The bank's callable capital is \$40 billion, he said.

The NDB currently has paid-in capital of \$2.8 billion, a figure that is set to rise to \$10 billion within the next five years. The bank's callable capital is \$40 billion, he said.

## INTERNATIONAL INVESTMENT FUNDS

[Search by company, category or country at [asia.wsj.com/funds](http://asia.wsj.com/funds)]

### MORNINGSTAR®

Data as shown is for information purposes only. No offer is being made by Morningstar, Ltd. or this publication. Funds shown aren't registered with the U.S. Securities and Exchange Commission and aren't available for sale to United States citizens and/or residents except as noted. Prices are in local currencies. All performance figures are calculated using the most recent prices available.

FUND NAME GF AT LB DATE CR NAV YTD 2-YR %RETURN

Chartered Asset Management Pte Ltd - Tel No: 65-6835-8866 Fax No: 65-6835-8866 CAM-CF Limited OT MUS 07/13 USD 0.00 3.6 -1.1

Value Partners Website: [https://www.valuepartners-group.com/Tel \(852\) 2143 0688](http://www.valuepartners-group.com/Tel (852) 2143 0688)

GC HI Yield Inc-Cls A MDLS AUD H OT HKG 07/13 AUD 13.60 15.4 15.4 1.1

GC HI Yield Inc-Cls A MDLS SGD H OT HKG 07/13 SGD 12.46 14.0 15.8 -2.0

GC HI Yield Inc-Cls A MDLS USD H OT HKG 07/13 CAD 12.54 14.8 14.2 -0.2

GC HI Yield Inc-Cls A EUR H OT HKG 07/13 EUR 13.11 14.5 13.3 -0.4

GC HI Yield Inc-Cls A GBP H OT HKG 07/13 GBP 12.81 14.1 12.9 1.0

GC HI Yield Inc-Cls A CNY H OT HKG 07/13 CNY 13.14 14.1 13.3 1.0

GC HI Yield Inc-Cls A NZD H OT HKG 07/13 NZD 13.12 14.3 19.7 8.7

GC HI Yield Inc-Cls A HKD H OT HKG 07/13 HKD 13.20 14.7 13.9 -2.2

GC HI Yield Inc-Cls A SGD H OT HKG 07/13 SGD 13.56 21.4 17.6 0.0

GC HI Yield Inc-Cls A GBP H OT HKG 07/13 NZD 13.40 15.5 15.9 1.3

GC HI Yield Inc-Cls A NZD H OT HKG 07/13 NZD 11.62 16.7 17.7 -3.6

GC HI Yield Inc-Cls A CNY H OT HKG 07/13 CNY 14.69 17.1 18.0 3.5

GC HI Yield Inc-Cls A USD H OT HKG 07/13 USD 13.46 20.9 16.9 -0.1

GC HI Yield Inc-Cls A GBP H OT HKG 07/13 GBP 13.35 14.9 14.6 0.4

China Greencap-A Units AS EQ CYM 07/13 HKD 13.23

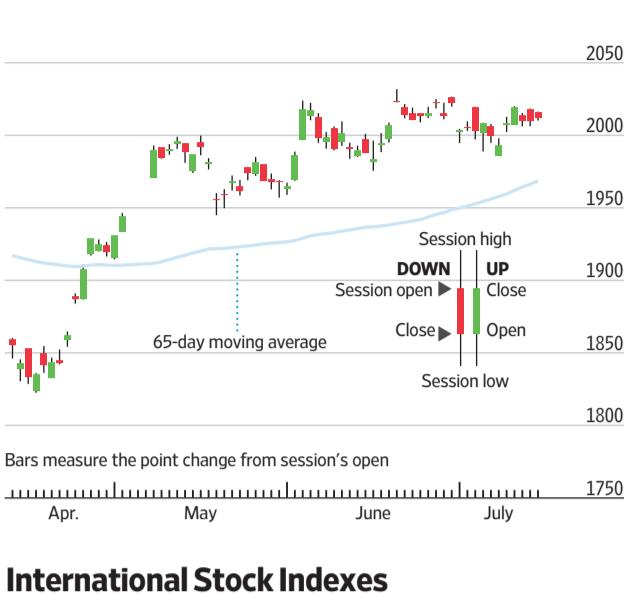
## MARKETS DIGEST

Data as of Friday, July 14, 2017

### Nikkei 225 Index

**2018.86** ▲ 19.05, or 0.09%

High, low, open and close for each trading day of the past three months.



Bars measure the point change from session's open

17500

Apr. May June July

### STOXX 600 Index

**386.84** ▲ 0.70, or 0.18%

High, low, open and close for each trading day of the past three months.



Data as of 4 p.m. New York time

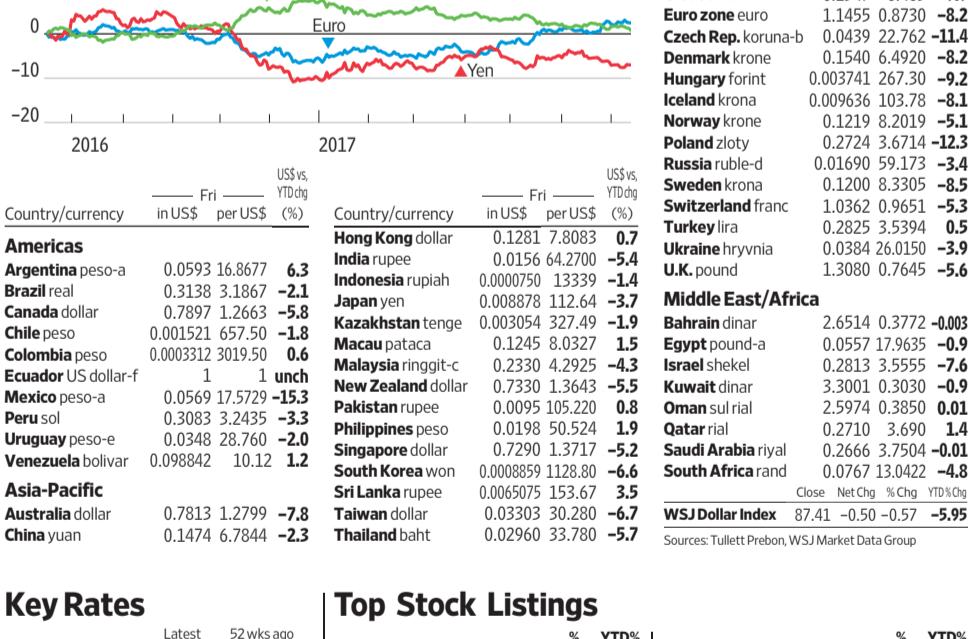
### International Stock Indexes

Region/Country	Index	Close	NetChg	% chg	52-Week Range	Low	Close	High	YTD % chg
<b>World</b>	<b>The Global Dow</b>	2829.44	17.46	<span style="color: green;">▲ 0.62</span>	2384.42	2829.44	2829.44	2829.44	11.8
	<b>MSCI EAFE</b>	1918.74	13.85	<span style="color: green;">▲ 0.73</span>	1614.17	1918.74	1918.74	1918.74	13.9
	<b>MSCI EM USD</b>	1047.05	6.33	<span style="color: green;">▲ 0.61</span>	838.96	1047.05	1047.05	1047.05	9.1
<b>Americas</b>	<b>DJ Americas</b>	592.00	2.90	<span style="color: green;">▲ 0.49</span>	503.67	592.00	592.00	592.00	9.6
Brazil	Sao Paulo Bovespa	65436.18	257.83	<span style="color: green;">▲ 0.40</span>	55578.24	65436.18	65436.18	65436.18	8.6
Canada	S&P/TSX Comp	15174.81	39.81	<span style="color: green;">▲ 0.26</span>	14349.10	15174.81	15174.81	15174.81	-0.7
Mexico	IPC All-Share	51162.23	193.47	<span style="color: green;">▲ 0.38</span>	44364.17	51162.23	51162.23	51162.23	12.1
Chile	Santiago IPSA	3799.13	10.63	<span style="color: green;">▲ 0.28</span>	3127.54	3799.13	3799.13	3799.13	17.9
<b>U.S.</b>	<b>DJIA</b>	21637.74	84.65	<span style="color: green;">▲ 0.39</span>	17888.28	21637.74	21637.74	21637.74	9.5
	<b>Nasdaq Composite</b>	6312.47	38.03	<span style="color: green;">▲ 0.61</span>	5029.59	6312.47	6312.47	6312.47	17.3
	<b>S&amp;P 500</b>	2459.27	11.44	<span style="color: green;">▲ 0.47</span>	2085.18	2459.27	2459.27	2459.27	9.8
	<b>CBOE Volatility</b>	9.51	-0.39	<span style="color: red;">▲ -3.94</span>	9.51	9.51	9.51	9.51	-32.3
<b>EMEA</b>	<b>Stoxx Europe 600</b>	386.84	0.70	<span style="color: green;">▲ 0.18</span>	328.80	386.84	386.84	386.84	7.0
	<b>Stoxx Europe 50</b>	3168.28	4.37	<span style="color: green;">▲ 0.14</span>	2730.05	3168.28	3168.28	3168.28	5.2
France	CAC 40	5235.31	-0.09	<span style="color: red;">▲ -0.002</span>	4321.08	5235.31	5235.31	5235.31	-0.6
Germany	DAX	12631.72	-9.61	<span style="color: red;">▲ -0.08</span>	9981.24	12631.72	12631.72	12631.72	-10.0
Israel	Tel Aviv	1456.12	...	<span style="color: green;">▲ Closed</span>	1378.66	1456.12	1456.12	1456.12	-1.0
Italy	FTSE MIB	21492.29	-29.62	<span style="color: red;">▲ -0.14</span>	16098.37	21492.29	21492.29	21492.29	-11.7
Netherlands	AEX	521.07	1.96	<span style="color: green;">▲ 0.38</span>	438.61	521.07	521.07	521.07	7.8
Russia	RTS Index	1044.27	14.38	<span style="color: green;">▲ 1.40</span>	903.04	1044.27	1044.27	1044.27	-9.4
Spain	IBEX 35	10655.10	-3.20	<span style="color: red;">▲ -0.03</span>	8263.50	10655.10	10655.10	10655.10	13.9
Switzerland	Swiss Market	9034.57	31.00	<span style="color: green;">▲ 0.34</span>	7593.20	9034.57	9034.57	9034.57	9.9
South Africa	Johannesburg All Share	53597.96	297.00	<span style="color: green;">▲ 0.56</span>	48935.90	53597.96	53597.96	53597.96	5.8
Turkey	BIST 100	105175.73	965.51	<span style="color: green;">▲ 0.93</span>	71594.98	105175.73	105175.73	105175.73	34.6
U.K.	FTSE 100	7378.39	-35.05	<span style="color: red;">▲ -0.47</span>	6634.40	7378.39	7378.39	7378.39	3.3
<b>Asia-Pacific</b>	<b>DJ Asia-Pacific TSM</b>	1650.86	12.49	<span style="color: green;">▲ 0.76</span>	1407.97	1650.86	1650.86	1650.86	16.0
Australia	<b>S&amp;P/ASX 200</b>	5765.10	28.30	<span style="color: green;">▲ 0.49</span>	5156.60	5765.10	5765.10	5765.10	1.8
China	<b>Shanghai Composite</b>	3222.42	4.25	<span style="color: green;">▲ 0.13</span>	2953.39	3222.42	3222.42	3222.42	3.8
Hong Kong	<b>Hang Seng</b>	26389.23	43.06	<span style="color: green;">▲ 0.16</span>	21574.76	26389.23	26389.23	26389.23	19.9
India	<b>S&amp;P BSE Sensex</b>	32020.75	-16.63	<span style="color: red;">▲ -0.05</span>	25765.14	32020.75	32020.75	32020.75	-20.3
Indonesia	<b>Jakarta Composite</b>	5831.80	1.75	<span style="color: green;">▲ 0.03</span>	5027.70	5831.80	5831.80	5831.80	10.1
Japan	<b>Nikkei Stock Avg</b>	20118.86	19.05	<span style="color: green;">▲ 0.09</span>	16083.11	20118.86	20118.86	20118.86	5.3
Malaysia	<b>Kuala Lumpur Composite</b>	1755.00	1.22	<span style="color: green;">▲ 0.07</span>	1616.64	1755.00	1755.00	1755.00	6.9
New Zealand	<b>S&amp;P/NZX 50</b>	7649.77	38.88	<span style="color: green;">▲ 0.51</span>	6664.21	7649.77	7649.77	7649.77	11.2
Pakistan	<b>KSE 100</b>	44337.44	553.89	<span style="color: green;">▲ 1.27</span>	39017.32	44337.44	44337.44	44337.44	-7.3
Philippines	<b>PSEI</b>	7885.90	-50.95	<span style="color: red;">▲ -0.64</span>	6563.67	7885.90	7885.90	7885.90	15.0
Singapore	<b>Straits Times</b>	3287.43	51.76	<span style="color: green;">▲ 1.60</span>	2787.27	3287.43	3287.43	3287.43	14.1
South Korea	<b>Kospi</b>	2414.63	5.14	<span style="color: green;">▲ 0.21</span>	1958.38	2414.63	2414.63	2414.63	19.2
Taiwan	<b>Weighted</b>	10443.91	-16.24	<span style="color: red;">▲ -0.16</span>	8902.30	10443.91	10443.91	10443.91	12.9
Thailand	<b>SET</b>	1577.79	-1.62	<span style="color: red;">▲ -0.10</span>	1406.18	1577.79	1577.79	1577.79	2.3

Source: SIX Financial Information/WSJ Market Data Group

### Currencies

Yen, euro vs. dollar; dollar vs. major U.S. trading partners



### Key Rates

	Latest	52 wks ago
<b>Liber</b>		
One month	1.22611%	0.48330%
Three month	1.30261	0.68785
Six month	1.45600	0.99380
One year	1.73983	1.30825
<b>Euro Libor</b>		
One month	-0.40000%	-0.37000%
Three month	-0.37586	-0.30429
Six month	-0.30471	-0.19243
One year	-0.18486	-0.06666
<b>Euribor</b>		
One month	-0.37300%	-0.37100%
Three month		

## GLOBAL FINANCE

# Xi Panel to Align Finance Oversight

By LINGLING WEI

BEIJING—President Xi Jinping announced the setup of a cabinet-level committee to coordinate China's financial regulation at a high-level meeting that ended Saturday, as Beijing focuses on keeping risks at bay ahead of a twice-a-decade leadership shuffle later this year.

At the two-day gathering that sought to establish a broad framework to make China's regulatory system more cohesive, Mr. Xi said a new group, called the State Council Financial Stability and Development Committee, will be formed to make sure financial regulators can work better together. He said the central bank's role in preventing systemic risk will be strengthened, according to an official statement released at the conclusion of the meeting late Saturday.

No detail was given about the composition of the committee. According to people familiar with the matter, one option is for the group to be placed within the People's Bank of China and headed by its governor. Details are still being decided, the people said.

"Better regulatory coordination means better information-sharing among different regulators," one of the people said.

For years, China's central bank and regulators overseeing the banking, securities and

insurance industries have often acted in isolation and sometimes at cross-purposes. That has led to missteps that exacerbated a stock selloff in the summer of 2015 and has raised doubts around Beijing's management of the economy.

The plan laid out by Mr. Xi represents a much less radical version than previously envisioned by some officials and government advisers, who had urged centralizing oversight by putting all regulation under the PBOC. That proposal, according to Chinese officials, has met strong opposition from groups that could have been forced to cede power.

In the past few years, China already had created a so-called financial coordination mechanism that includes the chiefs from all the regulators. But that mechanism hasn't succeeded in improving coordination in any meaningful way, according to officials. "People just got together once a month, mostly for lunch," an official with knowledge of the mechanism said.

The two-day National Financial Work Conference is held every five years. Traditionally, it was presided over by the premier. This time it was Mr. Xi who gave the central speech and sat at the center of the podium with Premier Li Keqiang and other senior officials, further indication that Mr. Xi has consolidated control of economic matters in his own hands.

## Warehousing Firm GLP Gets Big Bid

By JAKE MAXWELL WATTS

SINGAPORE—A China-backed consortium made an offer for one of the world's largest warehousing companies, **Global Logistic Properties** Ltd., in what would be the biggest deal ever recorded in Southeast Asia.

The offer values the Singapore-listed firm at about 16 billion Singapore dollars (US\$11.6 billion), excluding debt. It would top a 2008 telecommunications deal in Malaysia that was valued at about US\$7.9 billion, excluding debt, according to data provider Dealogic.

Under the terms of the bid, the consortium—which includes GLP's chief executive and Chinese investors **Hillhouse Capital Group** and **Hopu Investment Management** Co.—would pay S\$3.38 a share for the warehousing firm, GLP said Friday.

The group was chosen by GLP's board over several other potential investors, including **Warburg Pincus** LLC and **Blackstone Group** LP, which both sought to bid for GLP.

The offer represents a premium of more than 25% to GLP's last quoted price of S\$2.70 a share before trading was halted Thursday. GLP shares have risen sharply

since the start of the year, when its largest shareholder, Singapore sovereign-wealth fund **GIC Pte Ltd.**, said it asked for a strategic review of GLP's options.

GIC, which owns 37% of GLP, has committed to vote in favor of the deal, according to stock-exchange filings, though it has wiggle room to accept a competing offer if one is made.

The deal must receive approvals from shareholders and the Singapore courts, which GLP said it would request.

GLP Chairman Seek Ngee Huat said the company chose the Chinese-backed consortium because it believed the offer was "compelling and value-enhancing for all shareholders."

The deal will include debt financing of just less than US\$5 billion, people familiar with the matter said. Citi-group Inc. and Goldman Sachs Group Inc. are arranging the debt financing. Citigroup, Morgan Stanley and Goldman Sachs advised the consortium on the deal.

GLP manages nearly US\$40 billion in logistics assets—a bit more than half the amount that No. 1 warehouse owner Prologis Inc. of the U.S. does.

—Julie Steinberg

contributed to this article.

## ICE Will Conduct Silver-Price Auctions

By ALEXANDER OSIPOVICH

### Intercontinental Exchange

Inc. will take over supervision of a key measure of silver prices, adding a new prize to the family of benchmarks run by the New York-based exchange operator.

ICE and the **London Bullion Market Association** said Friday that ICE, starting in the fall, would run the daily electronic auctions that determine the LBMA Silver Price. **CME Group** Inc. and **Thomson Reuters** Corp. have jointly run the benchmark since 2014.

The benchmark is used by miners, precious-metal refiners and commodity traders as a reference price in physical supply contracts. It is similar to the LBMA Gold Price, the former gold fix, which ICE has run since 2015.

Until several years ago, both the gold and silver fixes were set in daily conference calls held by a small number of bullion-trading banks. But the decades-old process was dropped

in favor of electronic auctions after it came under regulatory scrutiny. In 2014, U.K. regulators fined Barclays PLC £26 million (about \$34 million at current exchange rates) for failing to prevent one of its traders from manipulating the gold fix.

The Wall Street Journal reported in 2015 that U.S. officials were investigating at least 10 major banks over the possible rigging of precious-metals markets. No charges have been brought, and the current state of the investigation is unclear.

ICE has emerged as a main beneficiary of the push to clean up critical benchmarks. In 2014, it replaced the British Bankers' Association as the administrator of Libor, and it took over another troubled interest-rate benchmark, ISDAfix, now called the ICE Swap Rate.

ICE beat out the London Metal Exchange, owned by Hong Kong Exchanges & Clearing Ltd., which had also been seeking to run the LBMA's silver benchmark, a person familiar with the situation said.

# Vanguard Taps New Chief

By SARAH KROUSE

**Vanguard Group** named a new chief executive who will have to confront a challenge most companies wish they had: intense growth.

Mortimer J. "Tim" Buckley, a one-time assistant to the firm's founder, Jack Bogle, and currently chief investment officer, will succeed F. William McNabb III in January.

Vanguard, a pioneer of low-cost indexing mutual funds and the world's second-largest asset manager, has pulled in new assets at a record pace in recent years as investors lost faith in more-traditional money managers who hand-pick stocks and bonds.

Vanguard now has \$4.4 trillion in assets under management, trailing only **BlackRock** Inc. in total size.

Vanguard's dominance in the industry was perhaps most apparent last year as it attracted more new investor cash than all its rivals combined.

During the first six months of this year, it pulled in roughly \$214 billion in net new money. Industrywide, U.S. mutual funds and exchange-

traded funds attracted a net \$387.3 billion in the first half of the year, according to Morningstar Inc.

The new CEO isn't expected to take Vanguard in a new direction. But he will face a number of challenges as more rivals rush to match Vanguard in price, and stock pickers assert that passively managed shareholders like Vanguard have become too deferential to company management, a claim Vanguard executives reject.

Other tasks will be to expand overseas, attract more money to a relatively new financial-advisory service and improve customer services amid the company's meteoric rise. Some customers have complained of longer-than-normal customer wait times to speak with Vanguard representatives at call centers as assets have swelled.

Mr. Buckley, 48 years old, will also face pressure to keep Vanguard's fund fees low and control operational expenses.

Mr. McNabb, 60, started an internal campaign to reduce Vanguard's average asset-weighted fund fee to 0.10% by 2020. That figure stood at 0.12% at the end of 2016, a



CEO designate 'Tim' Buckley.

VANGUARD

spokeswoman said.

Continually lowering fund costs for the firm required both continued asset gathering and controlling spending. Head count has fallen more than 10% during Mr. McNabb's tenure.

Mr. McNabb revised Vanguard's strategy overseas, paring its network of offices and making the U.K. a bigger priority. Earlier this year, Vanguard began selling funds directly to investors there for the first time.

"I think that's the right amount of time for someone to

run an organization like Vanguard," said Mr. McNabb, referring to his tenure as CEO. "It's complex, it's all consuming, and it's good to get fresh perspective, even with the kind of continuity we have here."

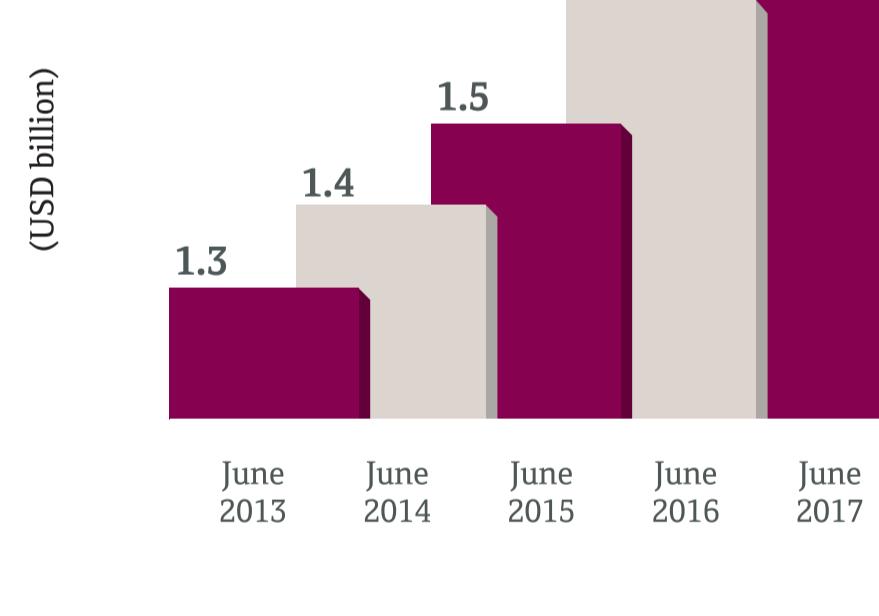
When asked if he would consider a role elsewhere in the money-management industry, he said: "All my money is at Vanguard. It will always be at Vanguard."

Mr. McNabb and Mr. Buckley are both longtime insiders at Vanguard who have worked together on a variety of firm-wide projects. Mr. Buckley started as an assistant to Mr. Bogle in 1991 and Mr. McNabb met him during his interview. Mr. McNabb began his career with Vanguard in 1986 and became CEO in 2008, when Vanguard had \$1.25 trillion in assets.

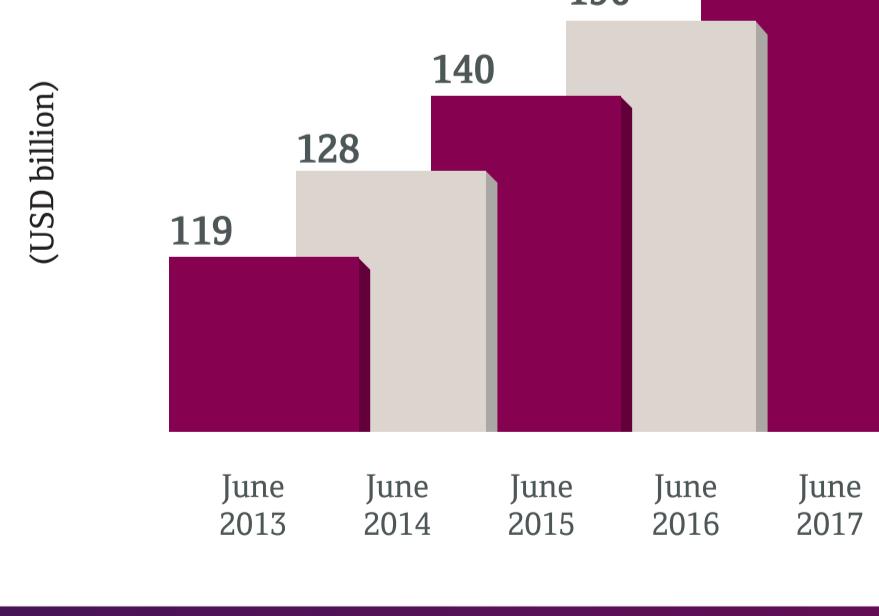
Mr. McNabb will remain as chairman next year and eventually pass that role to Mr. Buckley as well. After passing the chairman role to Mr. Buckley, Mr. McNabb says he plans to spend time with his family and on philanthropic work in addition to advising or teaching at universities he attended.

QNB Group affirms its position as the largest financial institution in the MEA region

Net Profit US\$1.8 billion, up by 7% on June 2016



Total Assets US\$211 billion, up by 11% on June 2016



**QNB**

QNB Group achieves record financial results for the period ended 30 June 2017.

• QNB Group, the largest financial institution in the MEA region, is currently present in more than 31 countries across three continents

• QNB Group staff exceeds 27,900 serving more than 21 million customers through 1,250 locations and 4,300 ATMs

• QNB Group enjoys one of the highest credit ratings: Capital Intelligence AA-, Fitch AA-, Moody's Aa3, Standard & Poor's A

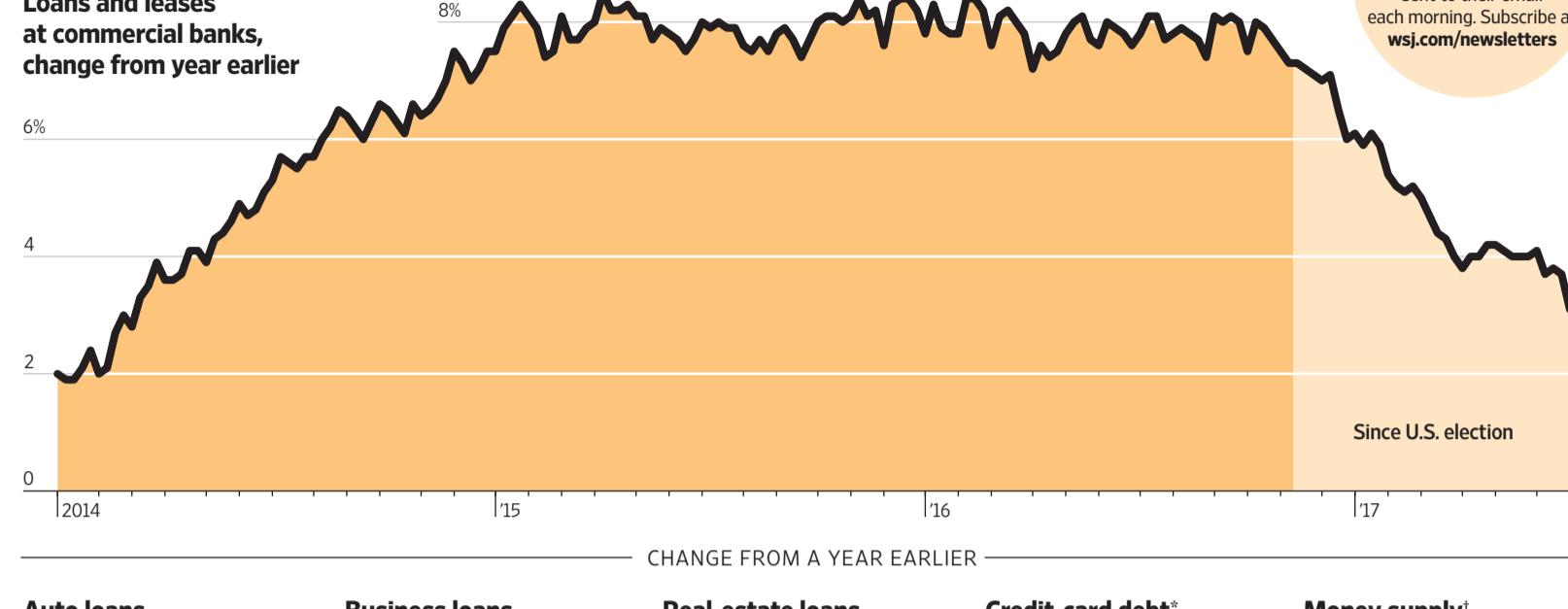
Call +974 4425 2444 or visit [qnbgp.com](http://qnbgp.com)

# MARKETS

THE DAILY SHOT | By Lev Borodovsky and Colin Barr

## Lending Slowdown Won't Derail U.S. Economy

**Loans and leases at commercial banks, change from year earlier**

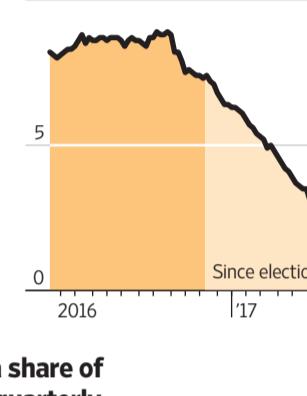


WSJ subscribers can get **The Daily Shot**—a chart-by-chart briefing on markets and economics—sent to their email each morning. Subscribe at [wsj.com/newsletters](http://wsj.com/newsletters)

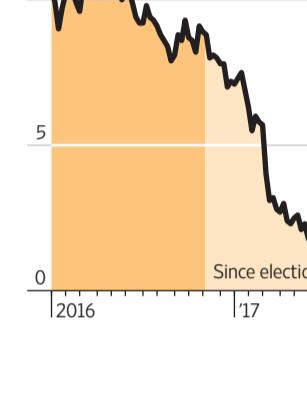
A broad slowdown in bank lending is the latest economic riddle to confront investors. Does a pullback in bank loans, the lifeblood of economic growth, herald the end of a tepid expansion well into its ninth year, with malign implications for stocks and many other assets? Or is the U.S. economy simply taking a welcome breather that will keep inflation low and restrain the Federal Reserve, setting the stage for a fresh 'goldilocks' advance in major stock indexes?

Though major categories from car and home loans to credit cards and business debt are all weakening, many analysts believe it's early yet to fret about recession. Booming capital markets and solid corporate earnings make it easy for companies to raise money, salving default fears. Hopes for a Republican rollback of corporate taxes and many regulations have been deferred rather than abandoned, lending support to stretched-looking valuations. Even the Fed is playing along for now, with quiet inflation data leaving the slow-and-steady outlook for rate increases intact. The party will end eventually, but don't bank on it just yet.

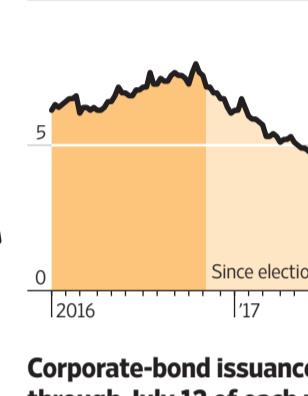
### Auto loans



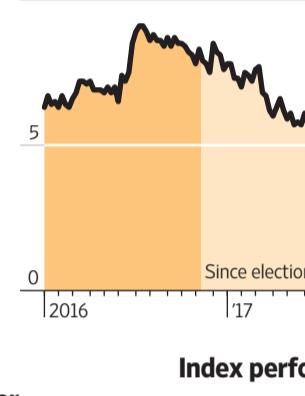
### Business loans



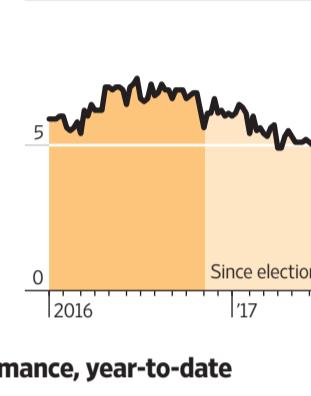
### Real-estate loans



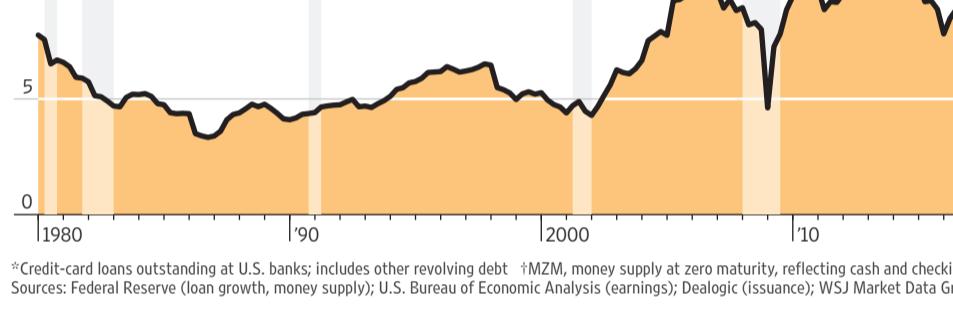
### Credit-card debt\*



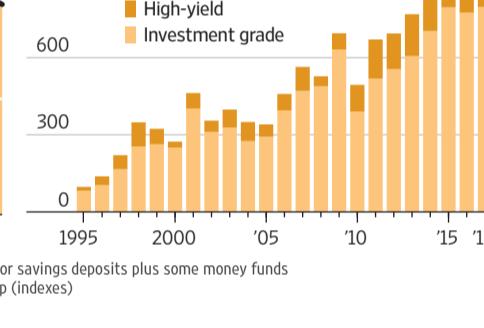
### Money supply†



### U.S. corporate profits as a share of annual economic output, quarterly



### Corporate-bond issuance, through July 12 of each year



### Index performance, year-to-date



\*Credit-card loans outstanding at U.S. banks; includes other revolving debt †M2, money supply at zero maturity, reflecting cash and checking or savings deposits plus some money funds

Sources: Federal Reserve (loan growth, money supply); U.S. Bureau of Economic Analysis (earnings); Dealogic (issuance); WSJ Market Data Group (indexes)

THE WALL STREET JOURNAL.

# HEARD ON THE STREET

Email: [heard@wsj.com](mailto:heard@wsj.com)

FINANCIAL ANALYSIS & COMMENTARY

[WSJ.com/Heard](http://WSJ.com/Heard)

## Retailers Can't Catch A Break

The price isn't right for retailers. Neither is much of anything else.

U.S. retail sales were weak last month. The Commerce Department on Friday reported that overall sales in June fell 0.2% on the month after slipping 0.1% in May. Compared with a year earlier, they were up just 2.8%.

Digging into the details of the report didn't make it look any better. Sales at department stores, restaurants and bars, grocery stores and clothing stores were among the categories that were down on the month, and growth in other categories, such as furniture stores, was anemic.

Part of the problem for retailers is that prices are weak. The Labor Department on Friday reported that its broad measure of consumer prices was unchanged on the month in June, putting it just 1.6% higher versus a year earlier. The news for goods rather than services was worse. Overall, goods prices were down 0.4% on the year.

One thing that makes price declines so pernicious for many retailers is that costs are going up. Wages are rising, albeit slowly. In some cases, wholesale costs are going up, too. The Labor Department on Thursday reported that producer prices for women's, girls' and infants' apparel were up 1% from a year earlier.

Even factoring in the retail price declines, the retail sales report looked weak, putting consumer spending on a poor trajectory heading into the current quarter. When low prices and a solid labor market aren't getting people to spend, it is a struggle to think of what would.

—*Justin Lahart*

## U.S. Banks Get a Wake-Up Call

When the industry leader hits sudden headwinds, it can be bad news for the whole sector.

Bank stocks, which have rallied in recent weeks, ran out of gas on Friday. **J.P. Morgan Chase**'s downgraded expectations explain why.

The bank reported earnings on Friday, along with rivals **Citigroup** and **Wells Fargo**. All three beat analyst expectations for earnings, but their stocks fell.

J.P. Morgan said it now expects net interest income to rise by about \$4 billion this year, down from its earlier expectation of \$4.5 billion, on slower loan growth and a decline in long-term interest rates during the second quarter.

J.P. Morgan's strong loan growth has stood out in recent quarters, even as lending has slowed nationwide. But in the second quarter its total loans were up just 4% from a year earlier, compared with 6% in the first

### Primed for Disappointment

J.P. Morgan Chase's price-to-book-value ratio



J.P. Morgan headquarters in New York

decline. That is what happened for most of the second quarter. There was some hope recently as yields jumped on 10-year Treasuries. But that reversed Friday when the yield fell following weak economic data, putting additional pressure on bank shares.

The fundamental direction for J.P. Morgan and its peers remains positive. The economy is healthy, and they were just granted permission by the Fed to boost their payouts to investors. If the Fed follows through with plans to keep raising rates and start shrinking its balance sheet later this year, the rate environment will improve further.

But bank shares aren't cheap. J.P. Morgan is trading at 1.4 times book value, compared with just one times book a year ago. Banks need to justify higher valuations with better growth. Any disappointment can hit shares hard.

—Aaron Back

## OVERHEARD

Of the many businesses spawned to serve millennials, Dr. David Shusterman's sperm-storage cryobank might require the most foresight from its clients.

Dr. Shusterman, the founder of NYUrology, says millennials are having children later in life, and men need to freeze sperm to boost their chances of having offspring and making sure they are healthy.

"For just \$2,000, you can freeze your future children, the fee also includes sperm viability testing," the company says. As with many marketing strategies aimed at young men, the payoff here is more women. "You can have an upper hand in the playing field as more women will be looking for men with frozen goods," the company says.

Millennials, those born in the 1980s and 1990s, have to hurry because, Dr. Shusterman says, the ideal age for freezing sperm is about 20 years old.

## Luxury Goods Are Selling Again, on Chinese Smartphones

Chinese buyers of designer handbags are back. But this time many of them are buying at home—and on their smartphones.

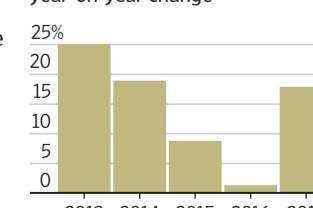
Luxury sales in China have picked up since the beginning of the year, underpinned by easy credit and a booming property market. The weaker yuan has also encouraged the Chinese to spend at home rather than on foreign shopping sprees.

**Bain** expects luxury sales to increase 6% to 8% in mainland China this year.

Luxury brands suffered in late 2015 and 2016, after China's anticorruption drive and currency devaluation hit sales. Luca Solca of Exane BNP Paribas estimates that between 70% and 80% of the sector's recent rebound in

### Shopaholic

Burberry's annual sales in China, year-on-year change



8.6%. Gucci launched an online shop there this month.

**Burberry** and Longchamp have also started selling handbags through WeChat, China's largest social media platform. Burberry's online direct sales to consumers in China doubled year over year last quarter, thanks to its marketing campaign on WeChat.

Makers of luxury goods have hesitated to go online, fearing it could cheapen their brands. Fakes in China make the problem worse, a complaint made by many retailers against China's dominant e-commerce marketplaces run by **Alibaba Group Holding**.

WeChat, which allows brands to directly send messages to users who follow them, seems an ideal tool for

marketing and sales. Users buy directly from their online shops without leaving the app. It is still early, but this is an important first step for **Tencent Holdings**, which owns WeChat, to challenge Alibaba's dominance.

Other incumbents are eyeing the opportunity, too. China's second-biggest e-commerce firm after Alibaba, JD.com, invested \$397 million into London-based Farfetch, an online marketplace for luxury goods. Alibaba has also made efforts to reduce fakes on its websites.

Alibaba could go further and buy into a specialist platform of its own. The stock price of Milan-listed **Yoox Net-a-Porter Group**, a large online marketplace for luxury, has risen 9% since

news of JD.com's investment, probably exacerbated by a short squeeze. Paris-listed LVMH Moët Hennessy Louis Vuitton last month launched its own multibrand website, 24sevres.com.

Luxury stocks, such as **LVMH**, **Cie. Financière Richemont** and **Burberry** have recovered smartly thanks to China. But they are also getting full credit for the rebound, trading near the top of their historical valuation ranges, above 20 times forecast earnings, according to FactSet.

Being big in China is important for luxury brands. But being online in China seems more important at the moment.

—*Jacky Wong and Stephen Wilmot*