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What's News

Business & Finance

Credit scores for U.S. consumers set a record high this spring while the share of consumers deemed the riskiest hit a new low. **A1**

◆ **Elliott lost** a legal battle to oust Akzo's chairman, boosting pressure on PPG to make a hostile bid for the Dutch firm or drop its pursuit. **B1**

◆ **U.S. retail bankruptcies** have hit their fastest pace since the financial crisis, but "asset-based loans" have left banks unscathed. **B1**

◆ **Americans are using** mortgage refinancing to get access to cash at levels not seen since the fourth quarter of 2008. **B7**

◆ **BMW is slowing** or halting production of certain models due to a parts shortage caused by delivery problems from supplier Bosch. **B3**

◆ **British Airways said** a computer outage disrupted flights for a third day, but said operations were returning to normal. **B3**

◆ **Draghi said** underlying eurozone inflation was still too weak for the ECB to end its easy-money policy. **A5**

◆ **Out-of-pocket drug costs** for Medicare beneficiaries are rising sharply, taking a toll on U.S. seniors. **B1**

◆ **RBS investors agreed** to a $256 million settlement over allegations the bank misled them about a cash call during the financial crisis. **B7**

◆ **Shares in Italy** fell over election reports, while Indian stocks hit a record high. Trading elsewhere was quiet due to holidays. **B7**

World-Wide

◆ **Merkel softened** her criticism of the U.S. as a not-always-reliable ally, saying the trans-Atlantic link is of "paramount importance." **A1**

◆ **French President Macron** hosted Putin amid tensions over alleged Russian interference in French elections and differences over Syria. **A3**

◆ **Mueller quickly** got to work as special counsel overseeing the investigation into Russian meddling in the 2016 U.S. election. **A7**

◆ **U.S. Sen. McCain** said Russia is a bigger security threat than Islamic State due to election meddling. **A4**

◆ **Ukraine has shut down** two Russian social-media platforms, saying they were vehicles for pro-Moscow propaganda and hacking. **A4**

◆ **North Korea test-fired** a third missile in three weeks, likely complicating the new South Korean leader's bid to engage with Pyongyang. **A4**

◆ **Britain's MI5** has launched an internal probe into how it handled intelligence about the Manchester suicide bomber who killed 22. **A3**

◆ **The U.S. may ban** laptops from cabins on all airline flights in and out of the country, the chief of Homeland Security said. **A7**

◆ **South African President** Zuma survived another ANC effort to oust him, despite allegations of influence-peddling and corruption. **A5**

◆ **Congo approved** the use of a new experimental Ebola vaccine, nearly three weeks after health officials announced a new outbreak. **A5**

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Tensions Loom Over Putin-Macron Meeting

STEPHANE DE SAKUTIN/PRESS POOL

SUMMIT: Russian President Vladimir Putin, left, visited with French counterpart Emmanuel Macron at the Palace of Versailles. The meeting came amid differences over Syria, allegations of Russian interference in France's elections and increasingly fragile trans-Atlantic relations. **A3**

Merkel Softens Her Tone On U.S.

By Anton Troianovski

BERLIN—A day after she referred to the U.S. as a not-always-reliable ally, German Chancellor Angela Merkel on Monday offered an addendum, saying the trans-Atlantic alliance is "of paramount importance."

In doing so, Ms. Merkel modulated her earlier comments, which had sparked talk in the U.S. of a strategic realignment by Germany but which a person close to her said had been largely targeted at a domestic audience.

Ms. Merkel, speaking Monday at a conference on sustainable development in Berlin, repeated the implicit criticism of President Donald Trump that she delivered at a beer-tent campaign event in Munich on Sunday, but she leavened it with a more emphatic commitment to partnership with the U.S. The world leaders' meetings of recent days, she said, had shown her that "the times in which we can completely rely on others are partly over."

"We are and will remain convinced trans-Atlanticists," she said, "but we also know that we Europeans must truly take our destiny into our own hands."

The comments Monday shed light on the political waters the European Union's most powerful politician is navigating as she prepares to undertake her campaign for a fourth term. The election in Germany is in September.

On the one hand, Ms.

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Tax Plans Run Into Reality

Republicans' boldest ideas for changes to the tax code are on political life support

By Richard Rubin

WASHINGTON—There is a clear winner in this year's tax policy debate so far: the status quo.

Republicans are scouring the tax code, searching for breaks to eliminate to offset the deep rate cuts they desire. But the biggest tax breaks are surviving and the boldest ideas for change are on political life support or already dead.

Republican proposals for border-adjusting the corporate tax, ending the business interest deduction and making major changes to individual tax breaks for health and retirement all hit resistance within the GOP. The only big revenue-raising provision with anything close to Republican consensus is repealing the deduction for state and local taxes, and that faces objections from blue-state lawmakers in the party.

The GOP's dreams have collided with interest-group lobbying and the tax system's reality. Politicians all profess to hate the tax code, but they don't agree on exactly what they hate. Voters gripe about complexity but are wary of losing cherished breaks that are woven into the economy.

"Eventually you run out of ways to pay for your promises," said Alan Cole, an economist at the Tax Foundation, which favors a simpler code with lower rates. "There aren't any free obvious sources of money where you can just do the thing and nobody gets mad."

Republicans are still hunting for ideas to soften the revenue loss from their proposed tax-rate cuts, and party leaders say they will finish a historic tax-code revamp by year's end. President Donald Trump said on Twitter Sunday that the process was ahead of schedule and "moving along...very well."

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◆ Capital Journal: The decline of civil discourse.................... A2
◆ Republicans face rifts over spending bills........................... A6

Credit Scores Hit Record As Effects of Crisis Fade

By AnnaMaria Andriotis

Credit scores for U.S. consumers reached a record high this spring while the share of Americans deemed to be some of the riskiest borrowers declined to a record low—a potential boon for both lending and economic activity.

Consumers' improving fortunes reflect falling unemployment and continued, if lackluster, economic growth. An added benefit: The passage of time since the recession and housing meltdown are helping household balance sheets.

In ever-growing numbers, records of the worst personal financial setbacks, namely foreclosures and bankruptcies, are falling off Americans' credit reports. More than six million U.S. adults will have personal bankruptcies disappear over the next five years, according to a recent Barclays PLC report.

Wiping away such negative events also helps boost consumers' credit scores. Lenders rely on both the reports and scores when determining whether to approve consumers for loans.

"Higher scores lead to more available credit," said Cris deRitis, senior director in the economics group at Moody's Analytics. "We'd see more activity in terms of loan approvals and credit-card approvals, more spending and that would have a ripple effect across the economy, increasing aggregate demand for goods and services."

The average credit score nationwide hit 700 in April, up one point from last fall, according to new data from Fair Isaac Corp. That is the highest since at least 2005. That was the year Fair Isaac, the creator of widely used FICO credit scores that range from 300 to 850, began tracking the data.

Meanwhile, the share of consumers deemed to be riskiest, with a score below 600, hit a new low of roughly 40 million, or 20% of U.S. adults who have FICO scores, according to Fair Isaac. That is down

Please see CREDIT page A2

In Honor of Those Who Sacrificed

OLIVIER DOULIERY/PRESS POOL

REMEMBRANCE: Donald Trump took part in his first Memorial Day ceremony as president at Arlington National Cemetery in Virginia.

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CHARLES PLATIAU/REUTERS

BIG HOPES FOR APPLE PROMPT HUGE BETS

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AFP/GETTY IMAGES

THE UNRAVELING OF RETAIL

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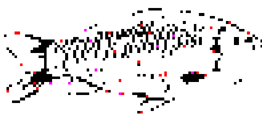
Karmic Battle Takes Place On Shanghai River

* * *

Buddhists and fishermen square off over the souls of fish

SHANGHAI—On many weekends along Shanghai's Huangpu River, crowds of devout Buddhists, some dressed in brown robes and carrying bells and incense, gather on a promenade.

Some also bring a truck, which contains stacks of blue plastic crates with tons of live fish (mostly carp), plus assorted snails and turtles purchased at markets.



Carp

After prayers, the Buddhists release the creatures into the river to swim free.

For centuries, the Buddhist faithful have performed this ritual, which in Chinese is called fangsheng or "life release." They believe the act can do everything from heal ailments to better the universe and improve one's next life.

But the huge quantities released in Shanghai also cost money—a multi-ton release can set fangshengers back more than $20,000.

So you can imagine how the Buddhists reacted a few years back when weekend fishermen began hovering nearby with nets affixed to long poles or hidden underwater to catch the liberated animals and sell them back to the markets or fry them up for dinner.

For a while, the Buddhists tried to reason with the fishermen and even convert them. It didn't work. Tempers flared and fights broke out.

While most releases go off peacefully, police have been called in on occasion to break up disputes, both releasers and catchers said. Police didn't respond to a request for comment. Last year, China's state-

Please see FISH page A2

Venezuela Gets a Lifeline From Goldman

By Kejal Vyas
And Anatoly Kurmanaev

CARACAS, Venezuela—Goldman Sachs Group Inc. bought about $2.8 billion in Venezuelan bonds that had been held by the oil-rich country's central bank, a lifeline to President Nicolás Maduro's embattled government as it scrambles to raise funds in the midst of widening civil unrest.

The New York-based bank's asset-management division last week paid 31 cents on the dollar, or about $865 million, for bonds issued by state oil company Petróleos de Venezuela SA in 2014, which mature in 2022, according to five people familiar with the transaction.

The price represents a 31% discount on the trading Venezuelan securities maturing the same year.

The investment comes as Mr. Maduro's detractors lobby hard to block Western financial institutions from doing transactions that support the cash-strapped government, which has been accused by the U.S. and other countries of widespread rights abuses.

Mr. Maduro's increasing authoritarianism, coupled with critical food and medicine shortages, have spawned two months of almost-daily street demonstrations, costing at least 60 lives. The economy also is suffering, having shrunk 27% since 2013. Venezuela is saddled with what the International Monetary Fund estimates will be an inflation rate

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Civil Discourse in Decline: Where Does It End?

CAPITAL JOURNAL
By Gerald F. Seib

A Republican congressional candidate body slams a reporter. A Democratic party state chairman hurls obscenities at both the president and dissidents in his own party at a public meeting.

Speakers are chased off college campuses by those who disagree with them. Lawmakers in both parties find they can barely hold town-hall meetings in their own districts because they are so likely to be shouted down by hecklers. Social media has become a forum where insults are the norm and outright threats not uncommon.

Such is the state of (un)civil discourse in America today. Politeness, decorum, respect—all seem to be endangered ideas. Anybody who isn't troubled isn't really paying attention.

The consequences of this trend are real, and visible every day in Washington and in state capitals. Lawmakers who are either engaged in or intimidated by the shout-fest that has become political debate find it harder to talk with each other, which means it's harder to find consensus or even compromise.

Whether the intense polarization that stands in the way of progress in Washington is the cause or the effect of this decline in civilized debate is almost beside the point. The dysfunction it produces in governance is the result either way.

More than that, though, the trend has spread more widely in society. Athletes ostentatiously celebrate their achievements—even the most routine ones—by mocking their opponents. It used to be called bad sportsmanship. It's now normal. One is left to wonder: What kind of behavior is society modeling for its youngest members?

Democracy, to be sure, has long been a rough-and-tumble affair, and excesses aren't a new thing. After all, one U.S. senator, California's David Broderick, was shot and killed by a political opponent—California's onetime chief justice, no less—in 1859. "He became the only sitting senator to die in a duel," the Senate's official website notes dryly.

More than a century ago, Finley Peter Dunne, the Irish-American satirist, first wrote that "politics ain't bean bag."

In the ensuing years, though, a more civilized version of political debate had become the norm, particularly as political parties worked past their differences to win two world wars, to prevail in a Cold War and to build the infrastructure that sustained the U.S. economic explosion.

Now, though, harsh has become the new norm. President Donald Trump has to shoulder a lot of the blame. He ran a campaign in which publicly insulting his opponents—"Lyin' Ted Cruz" and "Crooked Hillary"—was a regular occurrence. He introduced obscenities to public rallies, at one point saying he would bomb the "s— out of" Islamic State.

Early on, he identified the news media as an opponent, declaring at a Florida rally in March 2016 that journalists are "the most dishonest people on earth...disgusting, dishonest human beings." His crowds picked up the cue. He hasn't entirely tempered his approach since being elected; in a January tweet, he branded the Democratic leader of the Senate, Chuck Schumer, the "head clown."

But now it isn't just Mr. Trump. In their new "resistance" mode, Democrats have become just as nasty. Tom Perez, the Democrats' new national chairman, has already earned notoriety for his use of profanity at rallies. At some of them, he has trouble speaking because the anti-Trump heckling is so loud.

Similarly, Democratic activists at the party's recent California state convention were so raucous in demanding an end to corporate donations and a move to a single-payer health system that the state party chairman, John Burton, at one point told the crowd, "Hey, shut the f— up or go outside."

When journalists drop objectivity to become part of the shout-fest, and when grass-roots activists move beyond making voices heard to voicing threats against those with whom they disagree, they are adding to the problem.

Where does the incivility end? We may have gotten a hint of the answer when Greg Gianforte, a Republican technology executive who won a special House election in Montana last week, was charged with assault for his attack on a reporter there.

The bigger question may be: What can be done about it? Father John Jenkins, the president of the University of Notre Dame, has thought and spoken more than most about the trends in civil discourse. "The first thing is to recognize that it's a problem," he says. "My worry is that conversation has deteriorated to a point where we've just become accustomed to it."

The problem isn't "isolated," he adds. "I'm told by politicians that it doesn't help you to be civil. You want to appeal to your base and to fire them up and all that. I understand that....But at some point, some leaders are going to have to rise above and show us a different way and call us on these things."

J. SCOTT PARK/JACKSON CITIZEN PATRIOT/ASSOCIATED PRESS

Rep. Tim Walberg (R., Mich.) spoke as people stood in protest at a town hall in Jackson, Mich., in May.

CREDIT

Continued from Page One

from 20.5% in October and a peak of 25.5% in 2010.

As credit scores rise, banks and other lenders are likely to make credit more widely available, and at cheaper cost.

"The domino effect for lenders would be more consumers they can market to [and] more consumers who may be credit-eligible who weren't in last year's models," said Nidhi Verma, senior director of research and consulting at credit-reporting firm TransUnion.

In the wake of the downturn, financing didn't disappear completely for consumers with bankruptcies or foreclosures on their credit reports. But it became harder for them to get, as many lenders were lending only to consumers with pristine credit histories.

2.1M

Number of U.S. foreclosure starts in 2009, the peak of the crisis

With many lenders, that risk aversion extended to credit cards and auto loans. As a result, some consumers with black marks on their reports turned to cash for most expenses and held back on big-ticket purchases.

Laura Paolinelli of Round Hill, Va., filed for bankruptcy in 2012 after she stopped paying her mortgage. When she applied for an Amazon credit card late last year, Ms. Paolinelli, an auditor at a research firm, says she was rejected. In February, the defaulted mortgage and bankruptcy were again an issue when she applied for an auto loan: A loan officer told her she would have a better shot at getting a lower interest rate if her husband also signed as a borrower.

"I'm looking forward to that not to show up anymore," Ms. Paolinelli said. The foreclosure and bankruptcy occurred after she failed to sell her home, which had fallen by more than $200,000 in value, she said. "It's a little embarrassing when they run your credit and you know they're going to see that because it always comes up....It was once in my life."

Fresh starts for credit reports are likely to help boost originations of large-dollar loans for cars and homes. Consumers have more chance of getting approved if they apply after negative events fall off their reports, in particular from large banks that have stuck to strict criteria, says Morgan Whitacre, who oversees consumer-loan underwriting at Bank of America Corp.

Credit-card lending, already on the rise, could increase further as a result of fresh starts. Consumers who have one type of bankruptcy filing removed from their credit report experience a roughly $1,500 increase in spending limits and rack up $800 more in credit-card debt within three years, according to the Federal Reserve Bank of New York.

Geoffrey Page, of Rockford, Ill., is a potential beneficiary. The 59-year-old has nine months to go until his financial knocks from the downturn are wiped away.

Mr. Page filed for bankruptcy in 2008 after his house went into foreclosure. He has been rejected for a student loan for his son and for a car loan.

Already, though, he has a taste of what things could be like. Mr. Page, a quality coordinator at a hospital, says after the mortgage default fell off his credit reports, he began receiving more credit-card and personal-loan solicitations.

Mr. Page has been renting since he filed for bankruptcy. When that falls off his credit report as expected next year, he says he will likely look to buy a house.

Mortgage foreclosures stay on credit reports for up to seven years dating back to the missed payment that resulted in the foreclosure. Foreclosure starts, the first stage in the process, peaked in 2009 at 2.1 million, according to Attom Data Solutions. They totaled nearly 1.8 million in 2010 and remained above one million during each of the next two years.

Personal bankruptcies can stay on credit reports for seven to 10 years.

Consumers who filed in 2007 for Chapter 7 protection—the most common type of bankruptcy, in which certain debts are discharged and creditors can get paid back from sales of consumers' assets—are now starting to see those events fall off their reports. Some 500,000 Chapter 7 bankruptcy cases were filed in 2007, a figure that swelled to nearly 1.1 million in 2010, according to the Administrative Office of the U.S. Courts.

Chapter 13 bankruptcies, in which consumers enter a payment plan with creditors, usually stay on reports for at least seven years. Those filings reached a recent peak of nearly 435,000 in 2010 and are set to start falling off reports this year.

JOHN LYONS/THE WALL STREET JOURNAL

Buddhist practitioners of fangsheng, or life release, free a crate of carp into Shanghai's Huangpu River.

FISH

Continued from Page One

run People's Daily newspaper called on "relevant authorities" to ensure fangsheng ceremonies are conducted in an orderly way and avoid public nuisance or environmental impacts.

After getting pushed around by fishermen nearly a dozen times over the years, Fang Shengtian, a 68-year-old former math teacher who leads one of the city's biggest fangsheng organizations, said he decided it was time to do something.

He recruited fishmongers from the market to act as what he calls "life guardians." On release days, they patrol the promenade with walkie talkies, grappling hooks and razors to find and cut nets. He said the fish-release rites imbue the guardians with "invisible powers."

On a recent Saturday morning, Mr. Fang and about 150 followers arrived with a load of carp and began warming up with chants.

The guardians—led by Song Yaohua, a 49-year-old fish-market worker with a grappling hook—searched for fishermen.

Farther down the river, Mr. Song encountered a group he described as fisherman regulars. Some dozed. He suspected the men were sleepy because they likely arrived before dawn to set submerged nets.

Their leader, a stocky man with a buzzcut and a wry poker face who went by the nickname "Big Boss," claimed the group set no nets. Even so, Big Boss had a bucket, waders and other equipment needed for net fishing.

"If Big Boss has set nets, we will find out," said Mr. Song.

China's 1949 Communist revolution sent religion underground. Today, more Buddhists are practicing openly and fangsheng has grown in places like Shanghai, where several groups with thousands of followers host ceremonies. Fish make up the bulk of what the groups dump into the river.

The fishermen and other critics say many carp dumped into the river are farm-bred and can't hack life in the less-than-pristine Huangpu, where they die anyway. Others allege fangsheng leaders pocket part of the donations that fund the ceremonies.

Mr. Fang said he has never "taken a penny" for his fangsheng activities.

> *'Who would dump money into the river?' said one fisherman, shaking his head.*

The weekend fish-catchers—mainly poor laborers—say they are flabbergasted that the more well-to-do fangshengers dump tons of edible fish into the Huangpu.

"Who would dump money into the river?" one fisherman said recently, shaking his head as a fangsheng practitioner threw a colorful confetti of prayer papers into the water to protect fish she had just released.

To evade fishermen, one fangsheng group began hiring boats to release fish offshore, but authorities banned the practice when the boats created a hazard on the busy river. Another group says prayers, then departs in buses to liberate fish from an undisclosed location.

On a recent Friday night, Mr. Fang arrived at a sprawling market to buy fish for the release the next day.

Before arriving, he had collected around $13,000 in donations, and was seeking more. As he strolled the market, donations of $10 and $20 popped up on his smartphone. Bigger donations landed in one of three bank accounts. (A stock trader seeking good luck during a 2015 stock crash once donated $20,000, he said.)

Fish sellers, eager for his business, greeted him by putting their hands together in prayer. One called out, "Why are you ignoring me?" as he passed.

Mr. Fang favors pregnant fish, since that means saving the offspring, too. The species doesn't matter, he said, since all lives are equal in Buddhism. He bought 18,254 carp for $24,150 according to a report he sent followers later.

On release day, Mr. Fang arrived with carp in a truck. Fishermen cruised the promenade on electric scooters fitted with coolers and buckets.

Mr. Fang dispatched the guardians and soon they found a net tied to the promenade. Its owner, Zhang Jianquan, a 55-year-old dishwasher at a fancy restaurant, emerged in his white jacket and sheepishly hauled it in. "I was only trying to get one or two fish for dinner," said Mr. Zhang, a migrant worker. He said he had used some of his $400-a-month pay to buy the net.

Mr. Fang gave the order to release the fish. The faithful lined up two-by-two to haul crates, chanting and wearing white gloves to keep the fishy smell off their hands. Soon, schools of carp poked their round mouths from the water, seemingly gasping in the muddy Huangpu. Mr. Fang said the fish were showing gratitude.

Downstream, a guardian discovered another net, and after a brief bout of shouting and shoving, its owners dispersed.

Darkness and a chill mist descended on the river. Colored lights beaming from Shanghai's skyscrapers gave the mist an eerie neon glow. The promenade emptied out—except for Big Boss, who was still tooling around on his scooter.

Guardians donned waders to enter the Huangpu in search of submerged nets. They found eight nets holding a few dozen fish. The guardians said little prayers over the fish and set them free.

—John Lyons and Yifan Xie

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Macron, Putin Hold Tense First Meeting

New French leader stands firm on EU sanctions on Russia over Crimea annexation

By Stacy Meichtry And William Horobin

CHRISTOPHE ARCHAMBAULT/AGENCE FRANCE-PRESSE/GETTY IMAGES

France's Emmanuel Macron, right, hosted Vladimir Putin at the Palace of Versailles to mark 300 years of Franco-Russian diplomacy.

VERSAILLES, France—President Emmanuel Macron and his counterpart Vladimir Putin of Russia strained Monday to turn the page on allegations Moscow interfered in France's elections as well as their differences over Syria, with the French leader describing the alleged use of chemical weapons by the Assad regime as a "red line."

The newly elected French leader was hosting Mr. Putin at the Palace of Versailles to mark 300 years of Franco-Russian diplomacy that began under Czar Peter the Great.

Heightened tensions with Moscow loomed over the meeting as Mr. Macron and other European leaders have begun to weigh a geopolitical landscape defined by increasingly fragile trans-Atlantic relations. Last week U.S. President Donald Trump didn't reaffirm the principle of mutual defense at the heart of the North Atlantic Treaty Organization, to which the U.S. and 27 other nations belong. That prompted German Chancellor Angela Merkel to say this weekend it was time to "take our fate into our own hands."

"It was an extremely frank, direct conversation," Mr. Macron said in a joint news conference with Mr. Putin after their talks.

Any fissures in the NATO alliance provide Mr. Putin with an opening to drive a lasting wedge between the U.S. and its allies on a range of foreign policy fronts. Europe has often strained to show unity on defense and foreign policy, a struggle that risks being exacerbated without full-throated security assurances from the U.S. and the looming departure of the U.K. from the European Union.

On Monday, Mr. Macron stood firm on the European Union's sanctions on Russia over its annexation of Crimea as well as France's opposition to Syrian President Bashar al-Assad, whom the West has accused of carrying out chemical attacks against his own people.

"There is a very clear red line on our side," Mr. Macron said. "The use of chemical weapons by anyone—so any use of chemical weapons—will meet with retaliation and an immediate response."

Mr. Macron also said reopening France's embassy in Damascus was "not my priority."

Mr. Putin said attacks on the Assad regime would only strengthen militant groups like Islamic State.

The Macron-Putin meeting was also closely watched for signs of personal animus between the two leaders. Mr. Putin irked Mr. Macron's presidential campaign by hosting his rival, National Front leader Marine Le Pen, during a visit to Russia.

"If Ms. Le Pen asked to meet, why should we turn her down?" Mr. Putin said as Mr. Macron looked on.

The Russian leader also dismissed allegations by the Macron campaign that Kremlin-backed hackers and media outlets interfered in France's presidential election. Mr. Macron's party En Marche said in February its website was targeted by thousands of hacking attempts and that Kremlin-controlled outlets spread defamatory rumors about the candidate in an attempt to destabilize the campaign. In the final hours of official campaigning, Mr. Macron's party said it was hacked when thousands of emails and documents purportedly from the campaign were leaked on the internet.

"They say Russian hackers may have interfered," Mr. Putin said, referring to the Macron campaign. "Dear colleagues, how can you comment on such things?"

The remarks belied attempts by both leaders to play down the alleged interference.

That resolve wavered when a Russian journalist asked Mr. Macron why his campaign banned Russia Today and Sputnik from its headquarters.

"Russia Today and Sputnik did not behave like press organizations or journalists, they behaved like organizations of influence, of propaganda, and false propaganda," he said.

—Nathan Hodge in Moscow contributed to this article.

EUROPE

Continued from Page One

Merkel needs the votes of a domestic public in which Mr. Trump is unpopular. On the other, people close to her say, she continues to be persuaded that close ties with the U.S. are vital to European interests.

That is why allies of Ms. Merkel insisted Monday that the chancellor's tough words Sunday weren't signaling a turn from the U.S. alliance, as some international commentators had postulated. Instead, they said, the chancellor is playing a long game, rallying her domestic audience while also seeking to preserve trans-Atlantic institutions for a time after Mr. Trump.

In her Sunday beer-tent speech, Ms. Merkel had urged Europeans to unify in response to uncertainty from across the Atlantic. "The times in which we could rely on others completely—they are partly past," she said. "I experienced this in recent days. So I can only say: we Europeans must truly take our destiny in our own hands."

Some U.S. analysts described her comments as a paradigm shift in German policy. They were "a watershed" and something that the U.S. "has sought to avoid" since World War II, Council on Foreign Relations President Richard Haass posted on Twitter on Sunday.

The U.S. State Department declined to comment Monday.

Ms. Merkel chose her words carefully on Sunday and knew they would attract attention, a person close to Ms. Merkel said. Nevertheless, she was mainly addressing Germans, calling on them to stand together in the face of a new challenge.

"The trans-Atlantic alliance and its institutions are not in themselves in question—only Trump is putting them into question," said lawmaker Norbert Röttgen, an ally of Ms. Merkel and chairman of the parliament's foreign affairs committee.

"We must do all we can to make sure that they still exist and are in good shape even after the Trump presidency ends."

Mr. Trump's threats to exit from the Paris climate agreement and to punish German exports have rattled the public here, with faith in the U.S. as a reliable partner falling to 29% in April from 59% in early November.

KAY NIETFELD/DPA/ZUMA PRESS

Chancellor Angela Merkel

After Mr. Trump failed to commit to the Paris agreement at the Group of Seven meeting in Sicily last weekend, Ms. Merkel referred to the summit discussion on climate as "very unsatisfactory." Berlin has also been stung that Mr. Trump left unmentioned the U.S. commitment to defending its North Atlantic Treaty Organization allies if one of them is attacked.

On Monday, leading German politicians took turns criticizing the U.S. president.

Ms. Merkel's conservative parliamentary group issued a statement saying Mr. Trump had "placed into question the U.S.'s claim to leadership, undisputed for decades." Martin Schulz, the center-left challenger to Ms. Merkel in the September elections, in the Tagesspiegel newspaper described Mr. Trump's approach as "political extortion rather than international diplomacy." And German Foreign Minister Sigmar Gabriel described U.S. policy on migration, climate, and arms sales as standing "against the interests of the European Union."

"Those who don't counter this U.S. policy make themselves complicit in it," Mr. Gabriel said.

Still, Germany hopes that Mr. Trump's policies represent "a temporary phenomenon" in U.S. foreign policy, said Volker Perthes, head of the German Institute for International and Security Affairs. And while Ms. Merkel has been pushing for increased military spending since before Mr. Trump's election, German officials say they expect that Europe won't upstage the U.S. as a military power anytime soon.

As uncertainty with U.S. policy continues, Ms. Merkel is looking to strengthen cooperation with other countries including Canada and Australia, the person close to her said.

U.K. Security Service Begins Internal Probe

By Jenny Gross And Hassan Morajea

MANCHESTER, England—Britain's MI5 security service has launched an internal investigation into how it handled intelligence about Manchester suicide bomber Salman Abedi, who killed 22 people in an attack outside a pop concert last week, a U.K. security official said Monday.

Abedi, a 22-year-old British-born son of Libyan immigrants, had been reported to the authorities for espousing extremist sentiments, saw combat as a teenager in Libya's civil war and lived in a neighborhood that has produced recruiters and fighters for Islamic State.

Last week, Abedi, dressed in a puffy Hollister winter jacket, blue jeans and a gray baseball cap, walked into a crowd of concertgoers streaming out of a performance by American pop star Ariana Grande and detonated a shrapnel-filled explosive device in the deadliest terror attack in Britain since 2005.

British officials have said Abedi was "known" to security services. He was one of 20,000 suspected extremists MI5 has tracked in the past, but wasn't among 3,000 under active investigation by the agency at the time of the bombing, the official said.

"He was part of an investigation that was closed, when it was decided it was not necessary or proportionate to continue it," the official said. "We're reviewing things in the sense that we're looking back and want to learn lessons."

Police on Monday were holding 14 people—including Abedi's older brother and two cousins—as they tried to piece together what authorities have described as a possible "network" of accomplices that helped him prepare for and carry out the attack.

Abedi's father and younger brother, Hashem, were in the custody of a Libyan militia in Tripoli.

—Joshua Robinson contributed to this article.

Kiev Boosts Cyberdefense Against Moscow

By Thomas Grove

MOSCOW—Ukraine has taken a drastic step in a continuing cyberwar with Russia, its powerful, nuclear-armed neighbor: shutting down Russia's homegrown versions of Facebook.

The Ukrainian government earlier this month blocked Vkontakte and Odnoklassniki, Russian-language social-media platforms that are hugely popular across the former Soviet Union, saying they were serving as vehicles for pro-Russian propaganda. Cybersecurity experts say they pose a greater danger as launchpads for hacking attacks.

"This is not a matter of freedom of speech," former Ukrainian Prime Minister Arseniy Yatsenyuk said this month during a visit to Washington. "This is a national-security issue."

Advanced Persistent Threat 28—the allegedly Russian cyberespionage group, also known as Pawn Storm, that U.S. intelligence officials and cybersecurity experts say hacked the Democratic National Committee last year—has used social networking for deliberate attacks on Ukrainian targets and for so-called spear-phishing, in which individuals are induced to reveal confidential information.

"Whether it's spreading malware or harvesting important details to use in other spear-phishing attacks, social-networking sites have been very important for Pawn Storm," said Feike Hacquebord, researcher at cybersecurity firm Trend Micro.

Mail.Ru Group, which operates Vkontakte and Odnoklassniki, said that Ukraine's decision to block the services was purely a political one.

Social media, cybersecurity experts say, serve a twofold purpose for hackers. The sites can be used as tools for gleaning personal information on individuals the group wants to target, and as platforms for posting malicious software.

Ukraine has been besieged with what Ukrainian government officials and cybersecurity experts describe as a concerted Russian cyberoffensive.

Russian President Vladimir Putin says his government doesn't sponsor hacking. But a Russian political insider and the Moscow-based leader of an information-technology firm said most of Russia's security services outsource cyberattacks to third parties.

In Ukraine, such attacks have had potentially lethal effects. After fighting broke out in eastern Ukraine in 2014, the U.S.-based cybersecurity firm CrowdStrike identified how a group of Russian hackers believed to be linked to APT 28, also known as Fancy Bear, inserted malware in an Android application that was being distributed via Vkontakte.

The software, developed by Ukrainian artillery officer Yaroslav Sherstuk, was meant to help calculate targeting data for the Ukrainian military's Soviet-era D-30 howitzers. The malware, CrowdStrike concluded, could be used to reveal the location of Ukrainian artillery units, potentially exposing them to devastating fire.

Attacks in Ukraine have grown in sophistication. Late last year, hackers used cutting-edge cybertools to take down a power substation in the Ukrainian capital, Kiev, briefly leaving some of the city's largest neighborhoods without power.

Much as in the DNC hack, hacking groups in the Kiev attack worked in teams. One group used sophisticated tools to gain entry and clean away their digital fingerprints, while another used everyday IT tools to subvert the software and remain undetected, said Roman Sologub at Kiev-based ISSP, which is investigating the attack.

"The main question is if the attack reached its targeted goal or was just a preparation stage of another attack on bigger targets, as part of broad planned strategic cyberwar campaign," Mr. Sologub said.

The Ukrainian government's move to curtail domestic access to the two social-media sites provoked controversy. The advocacy group Human Rights Watch called the ban "a cynical, politically expedient attack on the right to information affecting millions of Ukrainians, and their personal and professional lives."

Hours after the decision was made public on May 16, Ukraine's presidential office said Russia had tried to take down its website by flooding it with data, in what is known as a distributed denial of service attack.

The attacks by Russian hackers on Ukraine's critical infrastructure have some experts worried the approach could be used elsewhere. The U.S. Department of Homeland Security didn't comment on the hack of the Ukrainian electricity grid until well after the fact, raising questions about whether the U.S. was prepared to defend against such an attack on its own infrastructure.

—Felicia Schwartz in Washington and Nathan Hodge in Moscow contributed to this article.

NURPHOTO/ZUMA PRESS

Ukraine's move to curtail domestic access to two social-media sites provoked controversy. In a May 19 rally, protesters demanded that the government reverse a ban on Russia's Vkontakte network.

McCain Sees Russia As Main U.S. Threat


LUKAS COCH/EUROPEAN PRESSPHOTO AGENCY

Sen. McCain on Monday

CANBERRA, Australia—Russia is a bigger security threat than Islamic State, based on its willingness to challenge the democratic foundations of the U.S. by interfering in elections, Sen. John McCain (R., Ariz.) said during a visit to Australia.

Mr. McCain, who was in Australia to discuss Asia-Pacific security issues, said Russian President Vladimir Putin was the premier challenge to American security.

"I think ISIS can do terrible things and I worry a lot about what is happening with the Muslim faith," he told Australian ABC state television on Monday. "But it's the Russians who tried to destroy the very fundamental of democracy, and that is to change the outcome of an American election."

Mr. McCain recently walked back comments that the controversy surrounding investigations into potential collusion between associates of President Donald Trump and the Russian government had reached "Watergate size and scale," saying he had seen no evidence Russia had succeeded in swaying the U.S. presidential-election process.

"But they tried and they are still trying," he said.

The visit to Australia by the chairman of the Senate Armed Services Committee was part of an Asia tour to outline a blueprint for the U.S. to invest nearly $8 billion bulking up its military presence in the region.

Mr. McCain's visit also was aimed at reassuring allies about U.S. willingness to remain engaged in Asia.

—Rob Taylor

Pyongyang's Continued Missile Launches Test Seoul

By Jonathan Cheng

SEOUL—North Korea's third missile firing in three weeks didn't appear to mark an advance in its capabilities—but it is likely to complicate the newly elected South Korean president's efforts to engage with Pyongyang.

The short-range ballistic missile was launched at 5:10 a.m. Monday from near the east-coast city of Wonsan, said Ramon Osorio, a spokesman for U.S. Pacific Command, and splashed down six minutes later between Korea and Japan.

South Korea's Ministry of National Defense said the missile flew 280 miles and reached a maximum altitude of about 75 miles.

While less dramatic than the prior weeks' longer-range tests—each demonstrating new capabilities, North Korea claimed—Monday's test showed leader Kim Jong Un isn't throttling back in his drive to perfect his growing arsenal, particularly to develop a long-range missile capable of carrying a nuclear warhead.

North Korea's launches were also interpreted as a potential headache for South Korean President Moon Jae-in, who has been riding a wave of popularity since he was sworn in on May 10, ending a political crisis capped by the impeachment and then arrest of his predecessor, Park Geun-hye.

But as North Korea continues its missile push, his pledge to seek more dialogue and economic cooperation with Pyongyang—Ms. Park was a hard-liner—is likely to run into growing concerns within South Korea and internationally about a softer policy.

"This is an embarrassment for Moon Jae-in, and sets a very high barrier to change on the policy towards North Korea," said Jung Kim, professor of political science at the University of North Korean Studies in Seoul. "Without at least a behavioral change by North Korea, it's very hard to justify any kind of departure from the status quo right now."

U.S. Sen. Cory Gardner (R., Colo.), chairman of the Senate Foreign Relations Committee's subpanel on East Asia, said Monday evening in Seoul that the missile launches underscored North Korea's indifference to the new Moon administration's attempts to pursue engagement with Pyongyang.

"If this administration is willing to take a different path than the previous administration, it apparently doesn't mean anything to North Korea because we've now seen a third missile launch since this president has been inaugurated," Mr. Gardner said.

U.S. President Donald Trump said on Twitter Monday morning that "North Korea has shown great disrespect for their neighbor, China, by shooting off yet another ballistic missile."

But Mr. Trump added that "China is trying hard!"—an apparent reference to Beijing's efforts to tighten sanctions enforcement on North Korea.

This year, China said it would suspend imports of coal from North Korea, in a move that would deprive the isolated country of a major source of income. The attempts to squeeze North Korea come as the country has shown off new capabilities with its recent launches.

Two weeks ago, Pyongyang test-fired a missile it later called the Hwasong-12, which analysts said could fly 2,800 miles—far enough to reach the U.S. military base on Guam. About a week later came the Polaris-2 missile, propelled by a solid rather than a liquid fuel—meaning it requires much less time to prepare for launch.

Mr. Kim last week declared the Polaris-2—unveiled about three months earlier—"very accurate," and ordered its mass production, North Korea's state media reported.

South Korea's national security chief convened a meeting on Monday to discuss the latest launch.

In Japan, Chief Cabinet Secretary Yoshihide Suga said the projectile had landed within 200 miles of the nation's coastline, meaning it had fallen within its exclusive economic zone. "We condemn these actions in the strongest manner," he said.

—George Nishiyama in Tokyo contributed to this article.

South Korean President Enjoys a 'Honeymoon'

'Unconventional and friendly' Moon Jae-in has 88% approval as he faces tasks such as nurturing a fragile economic recovery

By Min Sun Lee

SEOUL—Three weeks after President Moon Jae-in was elected South Korea's president, his morning coffee shop is suddenly drawing crowds. The attraction? The leader's preferred coffee, which has now been renamed Moon Blend on the menu.

"I came from an hour away to try this coffee," said 44-year-old Yun Jeong-hye. Ms. Yun didn't vote for Mr. Moon but his "comfortable and not authoritative" style has since won her over. "It's a pleasant democratic shift from senselessness to common sense," she said.

Many new leaders enjoy a honeymoon period in their first weeks of office. But in South Korea, unusual optimism surrounds Mr. Moon following a monthslong corruption scandal that darkened moods across the country and led to the ouster of his predecessor and that of a top corporate leader.

Mr. Moon won with just a 41.1% plurality of the vote. Yet a new opinion poll shows that 88% of South Koreans believe he will do a good job. The Bank of Korea's monthly consumer-sentiment index jumped to 108 in May, the highest since April 2014, with readings above 100 indicating optimism.

The enthusiasm can also be measured in surging sales of Mr. Moon's autobiography and of a Time magazine issue that features him on the cover—115,000 copies versus an average 3,000 run.

It can be seen in a sudden fivefold rise in inquiries to visit the Blue House, South Korea's presidential residence, to more than 100 a day. It is evident even in the popularity of Mr. Moon's favorite clothes.

Blackyak, an outdoors-clothing company that makes the orange jacket Mr. Moon wore in a well-publicized hike with reporters this month, is rolling out a 3,000-piece reissue of it after an initial 300-piece preorder sold out within an hour.

Dooresam, a company that sells items commemorating South Korea's claims to the disputed Dokdo island, said sales of a necktie that Mr. Moon wore for a press briefing last week suddenly sold out within two days. It rushed through a fresh order of 500 more.

Until recently, Mr. Moon, a former student activist and human-rights lawyer with a professorial demeanor, was few people's idea of a political rock star. Now Mr. Moon "is compared with the impeached former president in every way," said Park Sung-min, CEO of political consulting firm Min.

Where former President Park Geun-hye was the daughter of a dictator who ruled the country for almost two decades, Mr. Moon is the son of North Korea refugees. Where she was conservative, he is liberal. Where Ms. Park was viewed as aloof and corrupt, many view Mr. Moon as modest, informal and unreserved.

When Mr. Moon this month told Blue House workers he was going to have lunch with them they thought it was a joke, an official said.

"The president's unconventional and friendly manner paradoxically shows what we have been missing over the 10 years of conservative administrations in the past," said Lee Taek-gwang, a communications professor and culture critic at Kyung Hee University.

Mr. Moon's continued popularity depends on his success on a number of fronts. His most urgent tasks include keeping alive a fragile economic recovery, alleviating high youth unemployment, overhauling the powerful South Korean conglomerates that economists say curtail growth potential and innovation, and managing a crisis brewing over the growing threat from North Korea's missile and nuclear programs.

Mr. Moon advocates for closer relations with North Korea but Pyongyang has offered no sign of reciprocation, test-launching a series of missiles in recent weeks, including one on Monday morning.

"If reform and changes don't happen as people expected, this excitement can end in the early stage of the administration," said Yoon Sang-woo, sociology professor at Dong-A University.

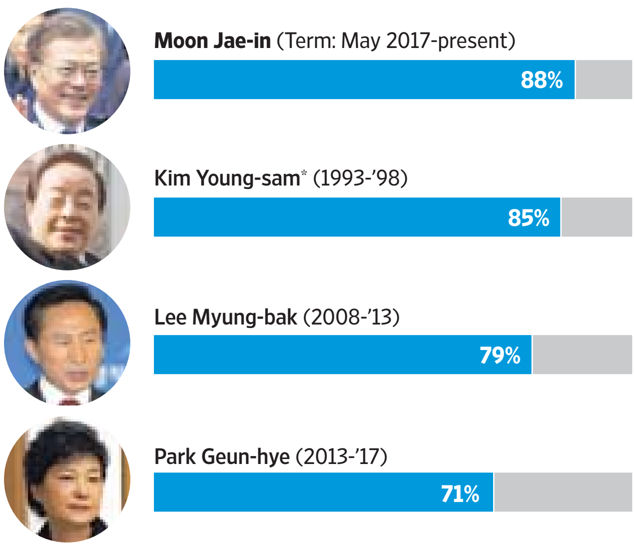

YONHAP/REUTERS

People take selfies with South Korean President Moon Jae-in.

Moon Glow

Optimism surrounding South Korean President Moon Jae-in is high.

The percentage of people surveyed within first three weeks of presidential terms who said their leader would do a good job.



Photos (top to bottom): Zuma Press; European Pressphoto Agency; Reuters (2)
Note: 1,003 people interviewed with random digital dialing; sample error +/–3.1 percentage points *Two of his successors were asked a different question.
Source: Gallup

THE WALL STREET JOURNAL.

KIM LUDBROOK/EUROPEAN PRESSPHOTO AGENCY

A man protesting a lack of housing and government services fueled a burning barricade during a demonstration in Johannesburg's Eldorado Park on May 8.

Zuma Beats South Africa Ouster Bid

By Gabriele Steinhauser

JOHANNESBURG—South African President Jacob Zuma survived another revolt against his leadership from within his own party, underlining the control he exerts over the African National Congress despite accelerating allegations of influence-peddling and corruption.

A three-day meeting of the ANC's National Executive Committee was the second time in six months that Mr. Zuma has faced calls for his resignation in the party's top decision-making panel. But like in November—shortly after a report from the country's official corruption watchdog alleged that Mr. Zuma had allowed a controversial business family to direct cabinet appointments and gain overly lucrative government contracts—this weekend's attempt to force the president's early exit failed.

Since then, opposition to the president, whose term expires in 2019, has escalated. Mr. Zuma's decision in late March to oust his popular finance chief and several other ministers was condemned by three of the ANC's top six officials and led the party's allies, the Communist Party and the powerful Congress of South African Trade Unions, to demand the president step down. Cyril Ramaphosa, South Africa's deputy president and a candidate to succeed Mr. Zuma as party leader in December, warned that the country must avoid turning into a "mafia state."

The cabinet shuffle also prompted two ratings firms to downgrade the country's debt to junk as well as mass protests against Mr. Zuma over the bad performance of Africa's most developed economy and allegations of widespread corruption within his government.

"There was a call made in the NEC for the president to consider stepping down as president of the Republic," the ANC's secretary-general, Gwede Mantashe, said on Monday. He declined to say how many within the 107-member-strong committee spoke out against the president or how many came to his support. "Many more were neither in favor nor against the appeal but emphasized the need for unity within the organization," he said.

On Monday morning, a jovial Mr. Zuma opened a meeting of indigenous and traditional leaders without mentioning the weekend's discussions.

Opposition to the president, whose term expires in 2019, has escalated.

A spokesman for the president didn't answer requests for comment on the calls for his resignation.

The 75-year-old, who spent 10 years in the notorious Robben Island prison, has survived a raft of scandals and challenges during his long political career—including a rape trial in which he was eventually acquitted and a finding by South Africa's top court that he had violated the constitution when he refused to repay public money spent on upgrades to his private home. He has since repaid the money ordered by the court.

Mr. Zuma's opponents marked a small victory, with the committee backing the establishment of a commission of inquiry to investigate whether certain businesses are wielding undue influence over government. November's corruption report, dubbed "State of Capture," had called for such a commission, but Mr. Zuma is currently challenging that demand in court, arguing that only the president has the right to set one up. He has also said there is no proof for the allegations against him.

When, and how, a commission of inquiry will be set up—and what results it will yield—remains up in the air. Mr. Mantashe said the commission should investigate possible "state capture" reaching as far back as 1994 and declined to say whether the president had agreed to the NEC's request.

He also declined to say how the party would respond to local media reports on leaked emails, which appeared to show how the Gupta family, owners of a business empire stretching from mining to media, paid for hotels and travel for several cabinet members and executives at state-owned enterprises and received confidential government information. A lawyer for the Guptas on Sunday said he couldn't comment on the leaked emails because he hadn't seen them.

Opposition parties quickly seized on the divisions within the ANC. "I worry for South Africa, that institutional democracy will become something that we will have a facade of," the Democratic Alliance's Mmusi Maimane said.

Mr. Maimane asked ANC lawmakers to support the establishment of an ad hoc committee in parliament to investigate the allegations against Mr. Zuma and side with opposition parties in a vote of no confidence against the president.

Congo Clears Use Of Vaccine For Ebola

KAMPALA, Uganda—The Democratic Republic of Congo approved the use of a new experimental Ebola vaccine, nearly three weeks after health officials announced the latest outbreak of the deadly virus along the country's northeastern border.

By Nicholas Bariyo in Kampala, Uganda, and Betsy McKay in Atlanta

The approval was granted by Congo's health ministry on Monday, spokesman Simba Kai said. The ministry must now decide whether to use the vaccine, which was developed by **Merck** & Co.

The ministry, the World Health Organization and the medical-aid organization Doctors Without Borders were discussing plans for the vaccine, Mr. Kai said.

A spokeswoman for Merck said the company "stands ready to ship vaccine, if and when" Congo decides to use it.

There have been only two confirmed cases of Ebola in the latest flare-up, and at least three more people who likely had it. It isn't clear if the virus is still spreading.

While some 52 cases have been registered, most have been designated as potential cases and are under investigation.

Experts from the WHO said the delays in Congo's approval of the vaccine have been an impediment to efforts to contain the latest eruption of the disease, which was confirmed May 12.

The current outbreak in Congo is the first since 2014-16, when at least 28,600 people were infected in West Africa, including 11,310 who died—by far the largest Ebola outbreak in history.

Reports in the aftermath of that epidemic called for major overhauls in global health financing and in the WHO, which took on most of the blame for a delayed response. Since then, it has established new guidelines and procedures for responding to reports of symptoms.

Monday's announcement that the vaccine had been approved for use in Congo came after Congolese experts finished a review of the protocol for using the vaccine, Mr. Kai said.

Merck said this month that it was ready to release the vaccine, but because the serum isn't yet licensed, it can only be administered under a clinical study, which must be approved by government. The company has agreed with the international vaccine alliance GAVI to ship doses of the vaccine to the location of the latest outbreak.

CHRISTOPHER BLACK/WORLD HEALTH ORGANIZATION/AFP/GETTY IMAGES

Ebola has hit Congo for years.

DEBT

Continued from Page One

of 720% this year.

The people familiar with the deal said it is part of the asset manager's steady increase in Venezuelan holdings. They said Goldman is betting that a change in government could more than double the value of the debt, which trades at deeply discounted rates with yields around 30% due to chronic default fears.

A senior Venezuelan finance official confirmed the deal but declined to give more details. Goldman didn't negotiate the transaction with the government but instead bought the bonds through an unnamed broker, said three of the people familiar with sale.

LUIS ROBAYO/AGENCE FRANCE-PRESSE/GETTY IMAGES

An antigovernment demonstrator stands next to the Venezuelan flag during a protest on Saturday.

But detractors said participating in any financial deals would give much-needed funding to the Maduro administration, which polls show has the support of only one in five Venezuelans. The government has shelved elections and is overhauling the constitution, which opposition leaders say will end the few constitutional protections Mr. Maduro's political opponents have.

"Goldman is putting itself on the wrong side of history with this deal," said opposition lawmaker Angel Alvarado, who is a member of the Venezuelan congressional finance committee, calling it "a grave reputational error."

"This is a bad decision not just from the ethical, but also from the business perspective," he said. Mr. Alvarado added that an opposition-led administration, if it were to take power, would refrain from doing business with Goldman, whose asset-management branch manages $1.3 trillion, of which about $40 billion is dedicated to emerging markets.

Venezuelan bonds are widely traded because of their hefty returns and Mr. Maduro's relentless commitment to make good on debt obligations despite difficulties in paying for food imports.

The country's debt securities also form a large portion of the bond indexes that major fixed-income funds measure their performance against. Venezuela has to pay $4.6 billion to service its debt for the remainder of the year. To make the payments, the government has had to resort to ad hoc measures, including mortgaging Citgo Petroleum Corp., its U.S.-based oil refinery network.

Ricardo Hausmann, a former Venezuelan planning minister and a critic of the Maduro government, last week urged J.P. Morgan Chase & Co. to remove Venezuelan bonds from its benchmark emerging-market debt index. That would permit investors who trade entire asset classes to avoid holding debt issued by a government accused of rights abuses, the Harvard University economist said in an essay published on the website Project Syndicate.

The PdVSA 2022 bonds purchased by Goldman last week had until recently been in the possession of Venezuela's central bank. The Central Bank of Venezuela said its international reserves jumped $442 million to $10.8 billion on Thursday, the day the bond deal was completed.

—Liz Hoffman in New York contributed to this article.

WORLD WATCH

EUROZONE

ECB Chief: Europe Still Needs Stimulus

European Central Bank officials signaled the bank isn't ready to wind down its large monetary stimulus, dashing hopes in Northern Europe that the era of ultralow interest rates might be drawing to a close.

Testifying Monday at the European Parliament, ECB President Mario Draghi acknowledged the region's economic recovery was solidifying and broadening. But he warned underlying inflation was still too weak to justify any change in policy. "It's still very, very early to make us think we are going to change the monetary policy stance," he said.

—Tom Fairless

GREECE

Athens Wants Its Debt In Bond-Buy Program

Greek Finance Minister Euclid Tsakalotos said the European Central Bank should include Greek debt in its program of bond purchases, known as quantitative easing or QE, to help the country return to bond markets and end its reliance on bailout loans from European governments.

A decision by the ECB to buy Greek debt would boost investors' confidence in Greece and could be a turning point in its eight-year debt crisis, Athens believes. The ECB previously has said it won't add Greece to its QE program until the International Monetary Fund says its debt is sustainable.

—Nektaria Stamouli

SRI LANKA

Recovery Efforts Continue After Floods

Soldiers on Monday unearthed a motorbike, pieces of furniture and clothes, the only signs of homes that stood on Kiribathgala Hill a few days ago.

Helicopters searched elsewhere for people still marooned after floods and mudslides inundated villages last Thursday, killing at least 169 people and leaving 102 others missing, officials say.

The rains caused part of Kiribathgala Hill, some 75 miles southeast of Colombo, to come crashing down, burying 15 homes and their 26 inhabitants, a village officer said. Soldiers have recovered 12 bodies. The others remain missing.

—Associated Press

PRESIDENT MEDIA/REUTERS

A flooded highway exit in Matara, Sri Lanka. Heavy rains have devastated parts of the country.

U.S. NEWS

Republicans Are Divided Over Spending

To avoid a shutdown, GOP needs support from the Democrats; some fear more debt

By Kristina Peterson

WASHINGTON—When President Donald Trump's proposed budget was released with fanfare last week, lawmakers were already engaged in a debate over actual spending levels for the next fiscal year.

Republicans agree that the president's budget—while indicative of the White House's priorities—can't realistically be translated into the spending bills that keep the government running until current funding expires at the end of September.

But they disagree internally over how to craft those spending bills, which will need support from Democrats to avoid a partial government shutdown on Oct. 1. The looming fiscal uncertainty adds to the challenges Republican leaders already face trying to steer sweeping health-care and tax legislation through Congress.

The spending debate is a recurring dilemma for lawmakers, but they haven't had to fully wrestle with where to set overall government spending since the fall of 2015, when former House Speaker John Boehner (R., Ohio), Senate Majority Leader Mitch McConnell (R., Ky.) and former President Barack Obama reached a two-year budget deal to boost federal spending above limits established in a 2011 deal that had been in effect since 2013.

TOM WILLIAMS/CONGRESSIONAL QUARTERLY/NEWSCOM/ZUMA PRESS

MICHAEL REYNOLDS/EUROPEAN PRESSPHOTO AGENCY

Senate Majority Leader Mitch McConnell (R., Ky.), left, says the GOP will hold talks with Democrats, including Sen. Dick Durbin (D.,Ill).

That 2015 deal ends this September, leaving lawmakers grappling with whether to leave federal spending at the limits established in 2011 or raise them, potentially adding to the federal deficit. There is no consensus over what to do now, even among Republicans.

"We've got defense hawks, we've got deficit hawks, we've got moderates concerned about draconian cuts," said Rep. Steve Womack (R., Ark.) "We've got all comers weighing in on the budget process and—kind of like health care—there's no real simple solution."

Some lawmakers say that with Republicans now in control of both chambers of Congress and the White House, there is less reason to look at easing the spending limits, as lawmakers did under previous deals because of a more divided political environment.

"My concerns with the past years is that, in a bipartisan fashion, we're kicking the can down the road and adding to the debt," said Rep. Dave Brat (R., Va.) "When you win the House and the Senate and the White House and you're the small-government party...if we do more status quo, the same old thing after winning, we're going to lose our brand in rapid order."

Still, Democrats do retain some leverage in the complex process. A budget resolution can pass both chambers with just a simple majority, as well as certain legislation tied to it. That is the process Republicans hope to use to pass partisan overhauls of the health-care system and tax code. But the spending bills that actually fund the government require 60 votes in the Senate and the Republicans hold only 52 of the chamber's 100 seats.

And then there is Mr. Trump, who ultimately needs to sign any spending bill for it to become law and who has proven to be an unpredictable force in legislative affairs in the first few months of his administration.

Mr. McConnell, the Senate leader, acknowledged that Democrats will play a part in determining where overall spending levels will be set for the next fiscal year.

"We'll have to negotiate the top-line with Senate Democrats, we know that," Mr. McConnell told reporters last week. "They will not be irrelevant in the process and, at some point here in the near future, those discussions will begin."

Democrats used their leverage earlier this month to block Mr. Trump from getting funding to build a wall along the southern border with Mexico in an interim spending bill and will try later this summer to prevent deep spending cuts to government programs, including student-loan programs and food stamps.

Republicans "ought to take an honest look at where we are in some areas," said Sen. Dick Durbin (D., Ill.).

Some Republicans, especially those focused on the military, have been among the most vocal champions of raising spending above the current limits, which they say have impinged on the country's military readiness.

"Keeping caps in place disproportionately hurts defense," said House Armed Services Committee Chairman Mac Thornberry (R., Texas). Like many Republicans, he would like to see spending trimmed on the big federal safety-net programs, but Mr. Trump has been unwilling to touch Social Security or Medicare for retirees.

At a closed-door meeting of House Republicans on Thursday, House Speaker Paul Ryan (R., Wis.) gave his rank and file an assessment of the fiscal issues looming over the next few months, according to GOP lawmakers and aides.

In addition to funding the government for the 2018 fiscal year by October, Congress will also have to raise the federal government's borrowing limit, known as the debt ceiling, sooner than many had expected, because tax revenue has come in slower than anticipated.

The government officially hit its borrowing limit in mid-March, but the Treasury Department has been employing cash-conservation measures to keep funding itself.

Analysts had expected the measures would allow the Treasury to keep paying its bills until the fall, but Treasury Secretary Steven Mnuchin suggested last week that lawmakers should act before the end of July.

TAXES

Continued from Page One

But a fruitless revenue quest may lead the GOP to second-tier options. And congressional scorekeepers aren't likely to give them as much credit for spurring faster economic growth as they desire.

One possibility is a temporary tax cut that would expire to comply with rules preventing long-run deficits.

"Permanent is better than temporary and temporary is better than nothing," Treasury Secretary Steven Mnuchin told the House Ways and Means Committee last week.

Another path is settling for a 25% corporate rate instead of the 20% backed by House Republicans or the 15% proposed by Mr. Trump.

"I hope we don't have to," said Rep. Kevin Brady (R., Texas), chairman of the House Ways and Means Committee.

Republicans started 2017 with high tax-policy ambitions. They hoped for a quick repeal of the 2010 Affordable Care Act and a fast pivot to taxes.

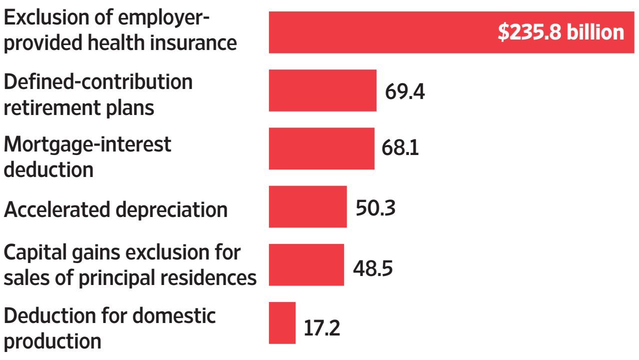
Instead, the health bill moved slowly, and during that debate, Republicans talked briefly about limiting favored status for employer-sponsored health insurance, the largest tax break for individuals. That idea collapsed. Now, the tax bill isn't written and must wait for the health bill and budget.

JOSHUA ROBERTS/REUTERS

House Ways and Means Committee Chairman Kevin Brady.

Tough Breaks

Selected large tax breaks and how much revenue they would represent in fiscal year 2018, according to the Tax Policy Center



Source: Tax Policy Center calculations of Treasury Department data

THE WALL STREET JOURNAL.

Republicans are working off the blueprint Mr. Brady released in June 2016. They saw what it took former Chairman Dave Camp (R., Mich.) to get to a 25% corporate tax rate. And they saw how his proposed bank tax and stretched-out depreciation cycles made his plan flop on arrival.

Their plan relies on enormous changes, each raising about $1 trillion over a decade. Each percentage-point reduction in the 35% corporate tax rate cuts federal revenue by about $100 billion over a decade, and independent analyses show economic growth can't cover all the costs of rate cuts.

One proposed change that has met wide resistance is border adjustment, taxing imports and exempting exports.

Big retailers such as **Target** Corp. and **Wal-Mart Stores** Inc. launched a lobbying campaign to portray border adjustment as an existential threat to their businesses and a price increase for consumers.

Senate Republicans, parts of the Trump administration and some House Republicans now agree, imperiling the idea and leaving Republicans $1 trillion in the hole and without a new plan to prevent companies from taking advantage of lower tax rates abroad.

Jason Pye, director of public policy at FreedomWorks, which supports conservative activists, said Republicans need to make a yes-or-no call soon on border adjustment.

"Early on, nobody knew what the hell it was. Now, everybody has a general concept and they don't like it," Mr. Pye said.

Mr. Brady hasn't given up on border adjustment, in part because of the lack of a Plan B. Senate Republicans haven't coalesced around a plan and the Trump administration has released one page of goals.

"If someone's got a better solution," he said, "bring it."

Next up is the interest deduction for businesses. Republicans would deny the deduction while letting companies write off capital costs immediately.

Mr. Mnuchin told lawmakers he prefers to leave the interest deduction alone. He cited concerns of small businesses and the real-estate industry that rely on debt financing. That would also leave a $1 trillion hole. A cap instead of repeal is possible, which would soften the impact but yield less money.

The Trump administration has taken more items off the table. The president promised to protect the tax breaks for mortgage interest and charity, though his proposed expansion of the standard deduction would limit such benefits for many middle-income households.

The administration also ruled out a carbon tax and a value-added tax and said it wouldn't touch 401(k) retirement plans.

Under questioning from Sens. Sherrod Brown (D., Ohio) and Bob Casey (D., Pa.) last week, Mr. Mnuchin seemingly took more tax breaks off the table. He said the administration wasn't considering changing last-in, first-out accounting, the New Markets Tax Credit that provides assistance in struggling areas and the low-income housing tax credit. He said he would prefer to retain the exemption for municipal bonds.

People's assets—from their homes to their retirement plans—are closely tied to tax preferences, and that makes voters and industries resistant to change, said Lily Kahng, a tax-law professor at Seattle University.

"Once you extend some kind of tax preference to people, it becomes almost like an entitlement and people are really protective of it," she said.

Georgia House Race on Track to Be Priciest in History

By Cameron McWhirter

JOHNS CREEK, Ga.—The special election in Georgia's Sixth Congressional District is on its way to being the most expensive U.S. representative's race in history, already exceeding $37 million with several weeks still to go before the runoff vote on June 20.

Two candidates, Democrat Jon Ossoff, who has never held elected office, and Republican Karen Handel, a former Georgia secretary of state, are spending millions in this suburban Atlanta district of about 700,000, flooding airwaves, boxing out commercial advertisers and, in some cases, saturating voters.

"Normally the budget sets the priorities," said Jeff DeSantis, a prominent Georgia Democratic political consultant not affiliated with the Ossoff campaign. "Here it's 'Oh my God, we have all this money, how do we spend it?' "

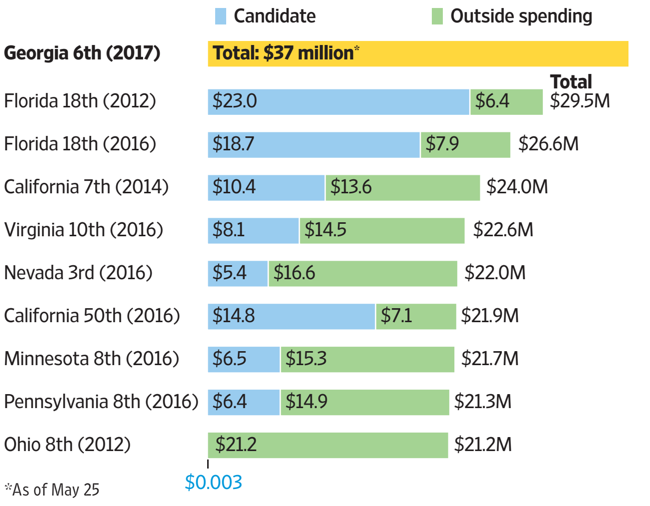
Chip Lake, a Republican Georgia consultant unaffiliated with the Handel campaign, said the contest "doesn't even come close to resembling any race I have ever seen."

While exact expenditures so far in the race are difficult to determine, a review by The Wall Street Journal of records compiled by the Center for Responsive Politics, a nonpartisan Washington group that tracks election spending, found that from April to last week, additional invoices, contracts and orders for ad spending filed with the Federal Communications Commission totaled more than $27 million.

That comes on top of $10.5 million that federal records show was spent by candidates and outside groups on the race from the first of year to the end of March, making a total of more than $37 million with about three weeks before the election. The most expensive congressional race on record, $29.5 million, occurred in Florida when Democrat Patrick Murphy defeated incumbent Republican Allen West in 2012, according to the Center for Responsive Politics.

Top Dollars

The special election this year in Georgia's 6th District now ranks as the most expensive Congressional races going back to 1990.



*As of May 25

Source: Center for Responsive Politics and WSJ analysis of documents provided by the Center

THE WALL STREET JOURNAL.

The Georgia race—viewed as a proxy referendum on President Donald Trump, who won the district in his November defeat of Democratic candidate Hillary Clinton—is garnering attention and contributions from around the country. Mr. Trump has endorsed Ms. Handel and attacked Mr. Ossoff. Democrats hope an Ossoff win in the area held by Republicans for decades would energize the party nationally ahead of the 2018 midterm elections.

In another special election for a Montana House seat, Republican Greg Gianforte handily defeated his Democratic opponent Thursday.

The district opened up when former Rep. Tom Price resigned in February to become President Trump's Health and Human Services secretary. Eighteen candidates competed in an initial "jungle primary" vote April 18, with Mr. Ossoff receiving about 48% of the vote and Ms. Handel receiving about 20%.

A recent poll of 549 likely voters by polling firm SurveyUSA for Atlanta television WXIA found 51% of those surveyed supported Mr. Ossoff and 44% backed Ms. Handel. Six percent were undecided. The survey had a credibility interval, which is a statistical assessment of accuracy, of 4.3%.

Mr. Ossoff, 30 years old, has raised large amounts of money outside of Georgia, including from Democratic strongholds like Los Angeles, San Francisco and New York, according to Federal Election Commission records. Ms. Handel, 55, is personally calling Republican donors in Washington and elsewhere to raise cash. She also sent out an email to potential donors around the country saying this House race will be the most expensive in history and that her opponents were seeking to "embarrass President Trump."

Kate Constantini, a spokeswoman for Ms. Handel, said the Republican is trying to focus on issues important to local voters, but national attention is helping Ms. Handel raise money. The race "is bigger than just us," Ms. Constantini said.

Sacha Haworth, an Ossoff spokeswoman, said the Ossoff campaign has "benefited from an enormous amount of attention," and it is using campaign dollars strategically to win the race. Most people they have contacted "have been extremely supportive and enthusiastic about our message," she said.

Mueller Off to Fast Start in Russia Probe

By Aruna Viswanatha

Robert Mueller III quickly got to work as special counsel overseeing the investigation into Russian meddling in the 2016 election: building a team, designing a budget and forcing the Federal Bureau of Investigation to withhold from Congress documents he may be interested in—all in his first full week on the job.

Mr. Mueller's team has been assigned office space in a nondescript building in downtown Washington that is home to the Justice Department's civil-rights and environment and natural-resources divisions. Mr. Mueller and his colleagues have been spotted using their badges to enter the office, conspicuous for their formal attire amid the other department employees, who adhere to a more casual dress code.

Mr. Mueller is known for wearing a suit with a white shirt and red or dark blue tie throughout his career, from his time as a homicide prosecutor to his 12-year stint as director of the FBI.

Deputy Attorney General Rod Rosenstein named Mr. Mueller special counsel on May 17, citing the need for Americans "to have full confidence in the outcome" of the investigation, which is also probing any potential coordination between Russia's efforts and the Trump campaign.

President Donald Trump has rejected suggestions that he or his associates have any ties to Russia, and the Kremlin has denied interfering in the U.S. election.

The appointment of Mr. Mueller suggests the investigation is in the early stages, and it could take years to conclude. Clashes between the special prosecutor investigation and parallel inquiries by Congress are likely just beginning.

The FBI told Congress on Thursday that it would withhold for now memos written by former FBI Director James Comey about his interactions with Mr. Trump, as it evaluates whether it can turn them over in light of Mr. Mueller's appointment.

The chairman of the House Oversight Committee, which had requested the memos, responded by renewing his request for all of Mr. Comey's notes on meetings with the White House and senior Justice Department leaders, though he extended his deadline until June 8.

"I am seeking to better understand Comey's communications with the White House and Attorney General in such a way that does not implicate the Special Counsel's work," Rep. Jason Chaffetz (R., Utah) wrote in his request.

Under regulations that govern a special counsel appointment, Mr. Mueller has 60 days from his appointment to develop a proposed budget, to be approved by Mr. Rosenstein. His office is working on that task, according to Justice Department officials.

"We work with them on their expected estimates…and that's all under way," the Justice Department's top official responsible for its budget, Lee Lofthus, said at a budget briefing with reporters May 23.

Special counsels like Mr. Mueller aren't funded from the regular Justice Department budget but through a separate Treasury account known as permanent indefinite appropriations, which don't require a specific budget request to Congress. "The reason they call it permanent indefinite is that they make sure that it's funded with what is needed," Mr. Lofthus said.

Such arrangements reflect an attempt to allow the special counsel a good deal of independence to investigate politically sensitive matters, while assuring he doesn't operate without reasonable restraints.


ALEX WONG/GETTY IMAGES
Robert Mueller III, above in 2013, hit the ground running in his first week as special counsel.

Mr. Mueller brought two attorneys with him from his former law firm, WilmerHale, and he is expected to recruit additional lawyers from within the Justice Department as he staffs his operation.

Earlier in the week, the Justice Department said its ethics experts had determined Mr. Mueller didn't need to recuse himself from any matters within his purview. WilmerHale represents several people who are expected to be examined by investigators, including Mr. Trump's former campaign manager, Paul Manafort, and Mr. Trump's son-in-law, Jared Kushner, who is also a senior White House aide.

FBI agents would eventually like to speak to Mr. Kushner about meetings he held in December with the Russian ambassador and a Russian banker and any other interactions he may have had with Russians linked to intelligence services, The Wall Street Journal reported on Thursday.

Investigators have also sought Mr. Manafort's bank records, the Journal reported this month.

Under local rules, Mr. Mueller can work on matters that involve WilmerHale clients as long as he didn't represent them himself and wasn't privy to any confidential client information.

But where his investigation goes, and what it produces, is still an open question. Mr. Mueller is required to provide a confidential report to Mr. Rosenstein at the end of his work explaining any decisions he reached on whether or not to charge anyone with a crime.

Under the rules, Mr. Rosenstein may be able to make it public if he determines that "public release of these reports would be in the public interest." Mr. Rosenstein is ultimately in charge of the special counsel investigation because Attorney General Jeff Sessions recused himself from the investigation into Russian interference after reports emerged that he may have misled Congress about his contacts with a Russian official during the campaign.

Creating Cooks at Chicago's Cook County Jail

By Shibani Mahtani

CHICAGO—Marcus Clay had never learned to cook until he was incarcerated two years ago on an armed robbery charge.

At a basement culinary school adorned with hand-painted murals beneath Cook County Jail's Division 11, the 21-year-old tosses pizza dough until it is perfectly round, sprinkles on cheese and toppings, and carefully slides it into a donated wood-fired pizza oven.

Mr. Clay is part of an enrichment program at the jail that is turning inmates into budding chefs. Under the mentorship of Chef Bruno Abate, who runs an upscale Italian restaurant in Chicago's Wicker Park, those selected for the program learn how to make fresh pasta, gelato, omelets and a range of other dishes.

For the 200 or so who have been through the program in the past five years, it is about more than the food.

"My mind-set is completely changed," Mr. Clay said. "I've learned how to make plans—and you need an eye to a plan when you get out of here, so you don't go back to what you did before."

Last month, the jail started selling the wood-fired pizza to other inmates at prices between $5 and $7. The entire program—including the $16,000 oven—is funded by donations rather than taxpayer dollars, and the inmates pay for the pizzas through money in their personal jail accounts. Orders come in daily and are delivered to inmates in their cells the next day.

ROB HART FOR THE WALL STREET JOURNAL
Chef Bruno Abate, center, offers pizza instructions at Cook County Jail, as part of a program called Recipe for Change in Chicago.

Cook County Sheriff Tom Dart said the program is one of several at the jail designed to give inmates a greater sense of purpose and marketable skills, reducing the risk of recidivism.

"There's a sense of accomplishment here that is very real," Mr. Dart said. "This is not just about a GED test, this is advanced cooking."

Other programs for the nearly 8,000 people awaiting trial in the jail include guitar lessons, a community garden project, and chess lessons, which culminate with a tournament with inmates in other jails across the world. A recently launched program helps inmates write their memoirs, teaching writing skills while encouraging them to reflect on their childhoods, their families and what got them into jail.

The pizza program is among the most popular, with a waiting list of more than 1,700 inmates. For now, only those from Division 11 are eligible to join, a ward that houses mostly medium to maximum security inmates.

Participants must have a history of good behavior in the jail and good personal hygiene and write a letter to Chef Bruno explaining why they would like to join.

The jail plans to start selling the pizzas in food trucks near the facility and at the neighboring county criminal court, where restaurant options are scarce.

"We are trying to get out to the general public that the majority of people in jail are people who made mistakes, people who have had limited opportunities and poor judgment, and we owe them a second chance," Mr. Dart said.

For 28-year-old Kareem Joiner, who was booked a year ago on aggravated battery charges, the biggest takeaway from the program was that people were invested in him and wanted him to turn his life around.

"I've learned to see my time here as a blessing in disguise," Mr. Joiner said while creaming butter and sugar to make chocolate-chip cookies. "God puts us through things to make us better."

Ban on Laptops in Airplanes May Grow

By Beth Reinhard

Homeland Security Secretary John Kelly said he may ban laptops from cabins on all international flights in and out of the U.S. to prevent terrorist attacks in the air.

In March, the U.S. banned passengers from carrying most electronics larger than a cellphone into the cabin on flights from 10 airports in the Middle East and North Africa. The U.K. followed with a ban for flights from six countries, not all matching the U.S. restrictions.

Asked in an interview Sunday with Fox News if he would expand the ban to include all international flights, Mr. Kelly said, "I might…. there's a real threat." He added, "That's really the thing that they are obsessed with, the terrorists, the idea of knocking down an airplane in flight."

The Department of Homeland Security said this month that an expanded ban "is under consideration." U.S. authorities are concerned that an explosive device hidden in an electronic device could be manually triggered in the cabin, or detonated using power sockets onboard, according to people familiar with airline security plans.

The International Air Transport Association, a global trade group, in March called on governments to work with the aviation industry to keep flights safe "without separating passengers from their personal electronics." The Airline Passenger Experience Association, a trade group, called in early May for governments to hold off on a ban expansion.

The group conducted a survey last year that showed 43% of world-wide airline passengers bring a tablet aboard, and 70% of those fliers use them in-flight. The study also found that 38% of global passengers bring laptops on board, and 42% of those use them.


MICHAEL REYNOLDS/EUROPEAN PRESSPHOTO AGENCY
Secretary Kelly said he may expand the plane laptop ban.

U.S. WATCH

NEW YORK

Navy Probes Death In Parachute Jump

The U.S. Navy is investigating the death of a Navy SEAL whose parachute malfunctioned during a Fleet Week demonstration over the Hudson River on Sunday.

The man was conducting a parachute jump with three other SEALs near Jersey City, N.J., when his parachute failed to open, military officials said.

He was pulled from the water by members of the U.S. Coast Guard, officials said Monday.

The SEAL was taken to Jersey City Medical Center, where he was pronounced dead, officials said.

"Our hearts and prayers go out to his family, and I ask for all of your prayers for the Navy SEAL community who lost a true patriot," Navy Commander Rear Admiral Jack Scorby said in a statement.

The name of the SEAL hadn't yet been released Monday. Navy officials said they would wait to do so until 24 hours after they had notified his family.

He was a member of the Leap Frogs, an elite Navy SEAL parachute team.

The coordinated jump took place over Memorial Day weekend, as hundreds braved unseasonably chilly temperatures to watch the Leap Frogs parachute from helicopters with the New York City skyline behind them.

—Mara Gay

FLORIDA

Tiger Woods Faces Drunk-Driving Charge

Golfer Tiger Woods was arrested Monday morning for driving under the influence of alcohol, according to the Palm Beach County, Fla., sheriff's office.

Jail records show he was booked for driving under the influence early Monday and released at 10:50 a.m. under his own recognizance.

A lawyer for Mr. Woods couldn't immediately be reached for comment.


PALM BEACH COUNTY SHERIFF/ZUMA PRESS
Tiger Woods was arrested in Palm Beach County, Fla.

The former world champion golfer lives in Jupiter Island, Fla., close to where the arrest was made.

Mr. Woods, 41 years old, has won 14 major championships and returned to professional golf late last year after a series of back injuries.

—Shibani Mahtani

CHICAGO

Police Crack Down Over Holiday Period

Increased police presence and raids targeting gangs helped drive a reduction in violent crime across Chicago, authorities said, with less than half the number of people shot than during the holiday weekend last year.

As of 1 p.m. Monday, 25 people had been shot in 19 incidents since Friday evening, compared with 53 people shot in 35 incidents over the same period last year.

Last year's violence over the Memorial Day weekend was the start of a bloody summer in the nation's third-largest city.

The year ended with more than 4,000 shootings and 762 homicides, the largest single-year increase in violent crime that any of the five largest American cities had experienced in at least 25 years.

The relative calm this holiday weekend suggests police are having initial success in bringing down violent crime through stepped-up enforcement and co-operation with federal agencies.

Police Superintendent Eddie Johnson said Friday the main difference is seeing police on the streets.

About 1,300 additional officers were deployed to patrol over the long weekend, compared with 880 in 2016.

"We have a small subsection of individuals that refuse to play by society's rules," said Mr. Johnson on Friday. "We've put everything in place to ensure public safety…if they [commit a violent act] we'll be there to hold them accountable for it."

Chicago police have invested heavily in high-tech tools for predictive policing, which they say will help them head off violence before it happens in specific neighborhoods.

Academics have expressed skepticism of such tools, saying the data are too imprecise for researchers to know if the strategy is having the intended impact on violent crime.

—Shibani Mahtani

Rural America Is the New 'Inner City'

Small counties have replaced large cities as America's most troubled areas by key measures of socioeconomic well-being

By Janet Adamy
And Paul Overberg

TY WRIGHT FOR THE WALL STREET JOURNAL

Father Dave Young prays in the pews at Immaculate Conception Church in Kenton, Ohio. He said he still has hope for his parishioners.

At the corner where East North Street meets North Cherry Street in the small Ohio town of Kenton, the Immaculate Conception Church keeps a handwritten record of major ceremonies. Over the last decade, according to these sacramental registries, the church has held twice as many funerals as baptisms.

In tiny communities like Kenton, an unprecedented shift is under way. Federal and other data show that in 2013, in the majority of sparsely populated U.S. counties, more people died than were born—the first time that's happened since the dawn of universal birth registration in the 1930s.

For more than a century, rural towns sustained themselves, and often thrived, through a mix of agriculture and light manufacturing. Until recently, programs funded by counties and townships, combined with the charitable efforts of churches and community groups, provided a viable social safety net in lean times.

Starting in the 1980s, the nation's basket cases were its urban areas—where a toxic stew of crime, drugs and suburban flight conspired to make large cities the slowest-growing and most troubled places.

Today, however, a Wall Street Journal analysis shows that by many key measures of socioeconomic well-being, those charts have flipped. In terms of poverty, college attainment, teenage births, divorce, death rates from heart disease and cancer, reliance on federal disability insurance and male labor-force participation, rural counties now rank the worst among the four major U.S. population groupings (the others are big cities, suburbs and medium or small metro areas).

In fact, the total rural population—accounting for births, deaths and migration—has declined for five straight years.

"The gap is opening up and will continue to open up," said Enrico Moretti, an economist at the University of California, Berkeley, who has studied the new urban-rural divide.

Just two decades ago, the onset of new technologies, in particular the internet, promised to boost the fortunes of rural areas by allowing more people to work from anywhere and freeing companies to expand and invest outside metropolitan areas. Those gains never materialized.

As jobs in manufacturing and agriculture continue to vanish, America's heartland faces a larger, more existential crisis. Some economists now believe that a modern nation is richer when economic activity is concentrated in cities.

In Hardin County, where Kenton is the seat, factories that once made cabooses for trains and axles for commercial trucks have shut down. Since 1980, the share of county residents who live in poverty has risen by 45% and median household income adjusted for inflation has fallen by 7%.

At the same time, census figures show, the percentage of adults who are divorced has nearly tripled, outpacing the U.S. average. Opioid abuse is also driving up crime.

Father Dave Young, the 38-year-old Catholic priest at Immaculate Conception, was shocked when a thief stole ornamental candlesticks and a ciborium, spilling communion wafers along the way.

Before coming to this county a decade ago, Father Young had grown up in nearby Columbus—where for many years he didn't feel safe walking the streets. "I always had my guard up," he said.

Since 1980, however, the state capital's population has risen 52%, buoyed by thousands of jobs from J.P. Morgan Chase & Co. and Nationwide Mutual Insurance Co., plus the growth of Ohio State University. Median household income in Columbus is up 6% over the same span, adjusted for inflation. "The economy has grown a lot there," said Father Young. "The downtown, they've really worked on it."

Meanwhile, as Kenton—population 8,200—continues to unravel, he said he has begun always locking the church door. Again, he finds himself looking over his shoulder.

"I just did not expect it here," he said.

In the first half of the 20th century, America's cities grew into booming hubs for heavy manufacturing, expanding at a prodigious clip. By the 1960s, however, cheap land in the suburbs and generous highway and mortgage subsidies provided city dwellers with a ready escape—just as racial tensions prompted many white residents to leave.

Gutted neighborhoods and the loss of jobs and taxpayers contributed to a socioeconomic collapse. From the 1980s into the mid-1990s, the data show, America's big cities had the highest concentration of divorced people and the highest rates of teenage births and deaths from cardiovascular disease and cancer. "The whole narrative was 'the urban crisis,'" said Henry Cisneros, who was Bill Clinton's secretary of housing and urban development.

To address these problems, the Clinton administration pursued aggressive new policies to target urban ills. Public-housing projects were demolished to break up pockets of concentrated poverty that had incubated crime and the crack cocaine epidemic.

At that time, rural America seemed stable by comparison—if not prosperous. Well into the mid-1990s, the nation's smallest counties were home to almost one-third of all net new business establishments, more than twice the share spawned in the largest counties, according to the Economic Innovation Group, a bipartisan public-policy organization. Employers offering private health insurance propped up medical centers that gave rural residents access to reliable care.

By the late 1990s, the shift to a knowledge-based economy began transforming cities into magnets for desirable high-wage jobs. For a new generation of workers raised in suburbs, or arriving from other countries, cities offered diversity and density that bolstered opportunities for work and play. Urban residents who owned their homes saw rapid price appreciation, while many low-wage earners were driven to city fringes.

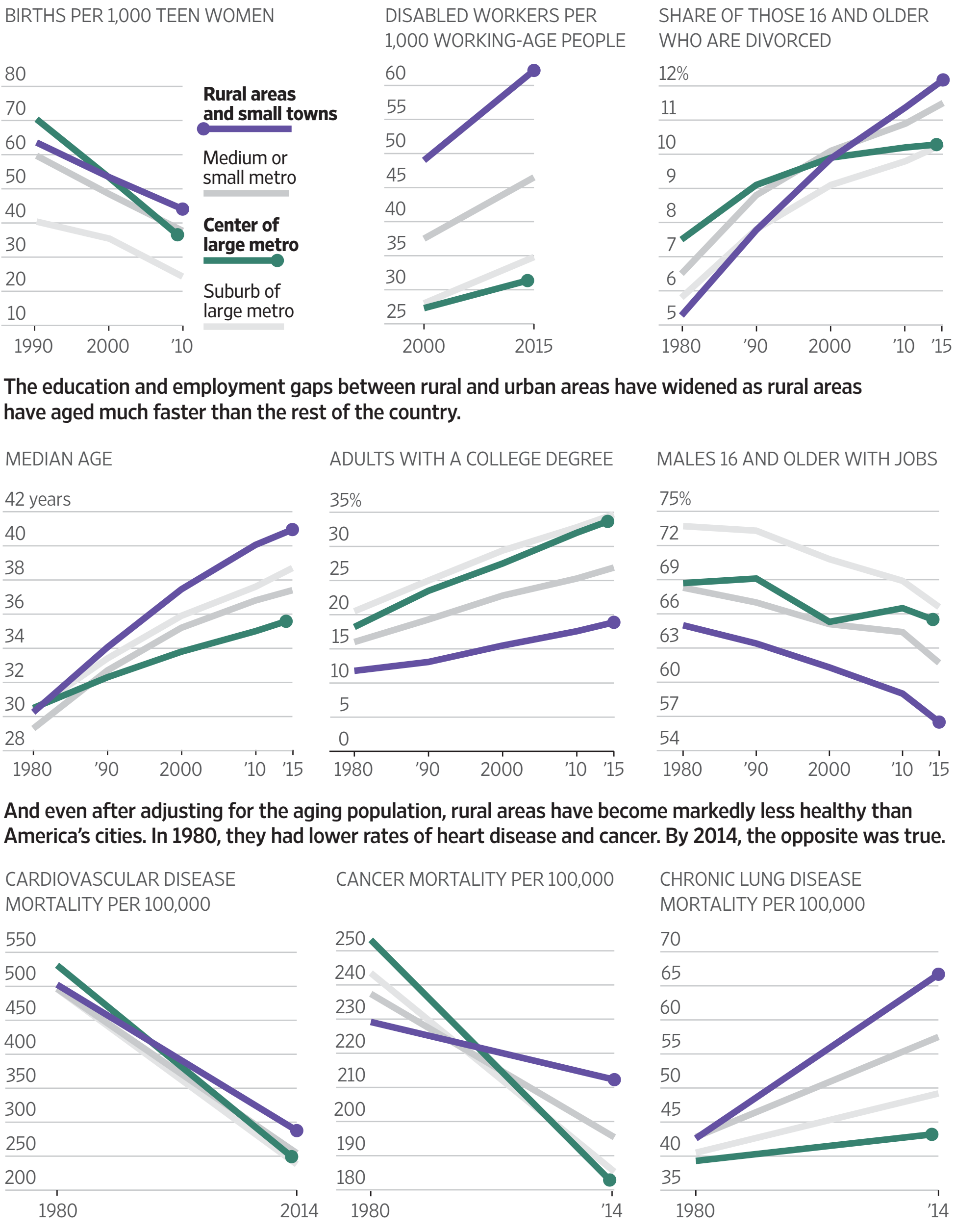
As crime rates fell, urban developers sought to cater to a new upper-middle class. Hospital systems invested in sophisticated heart-attack and stroke-treatment protocols to make common medical problems less deadly. Campaigns to combat teenage pregnancy favored cities where they could reach more people.

As large cities and suburbs and midsize metros saw an improvement in key measures of quality of life, rural areas struggled to find ways to harness the changing economy.

Starting in the late 1990s, Amazon.com Inc. began opening fulfillment centers in sparsely populated states to help customers avoid sales taxes. One of those centers,

From Breadbasket to Basket Case

In the 1980s, rural Americans faced fewer teen births and lower divorce rates than their urban counterparts. Now, their positions have flipped entirely.



Note: The centers of large metros are core counties of metropolitan areas with more than 1 million people. Their suburbs are the other counties in those metros. Medium or small metros are anchored by a city of at least 50,000. The remaining counties are small towns and rural areas.

Sources: WSJ analysis of Census Bureau data, in some cases via National Historical Geographic Information System at University of Minnesota (divorce, age, education, employment); National Campaign to Prevent Teen and Unplanned Pregnancy analysis of National Center for Health Statistics data (teen pregnancy); Social Security Administration (disability); Institute for Health Metrics and Evaluation at University of Washington of NCHS data (mortality rates)

Andrew Van Dam, Paul Overberg and Janet Adamy/THE WALL STREET JOURNAL.

established in 1999, brought hundreds of jobs to Coffeyville, Kan.—population 9,500.

Yet as two-day shipping became a priority, Amazon shifted its warehousing strategy to be closer to cities where its customers were concentrated, and shut the Coffeyville center in 2015.

An Amazon spokeswoman said that last year it opened one of two planned fulfillment centers near Kansas City that will create more than 2,000 full-time jobs.

Just as Amazon closed down, so did the century-old hospital in nearby Independence, population 8,700.

The nearly one-million-square-foot Coffeyville warehouse Amazon rented has been empty since it went on the market for $35 million, and was recently repossessed at a value of $11.4 million after the building owner filed for chapter 11 bankruptcy protection.

Coffeyville officials said the area's problem isn't a lack of jobs—it's a shortage of qualified workers. After Amazon said it would close, economic-development leaders held an employment fair expecting to get up to 600 job seekers. Fewer than 100 showed up, said Trisha Purdon, executive director of the Montgomery County Action Council.

In the late 1990s, convinced that technology would allow companies to shift back-office jobs to small towns, former Utah Republican Gov. Mike Leavitt pitched outposts in his state to potential employers. But companies were turned off by the idea of having to visit and maintain offices in such locations, he said. Eventually, many of the call centers he landed moved overseas where labor was even cheaper.

From the 1980s into the mid-1990s, 'the whole narrative was the urban crisis.'

Although federal and state antipoverty programs weren't limited to urban areas, they often failed to address the realities of the rural poor. The 1996 welfare overhaul put more city dwellers back to work, for example, but didn't take into account the lack of public transportation and child care that made it difficult for people in small towns to hold down jobs, said Lisa Pruitt, a professor at the University of California, Davis School of Law.

Rhonda Vannoster of Independence, Kan., who is 25, has four children with a fifth on the way. She is divorced and jobless and doesn't own a car, which limits her work options. She said she wants to get trained as a nursing aide but struggles to make time for it. "There just aren't a lot of good jobs," she said.

There has long been a wage gap between workers in urban and rural areas, but the recession of 2007-09 caused it to widen. In densely populated labor markets (with more than one million workers), Prof. Moretti found that the average wage is now one-third higher than in less-populated places that have 250,000 or fewer workers—a difference 50% larger than it was in the 1970s.

As employers left small towns, many of the most ambitious young residents packed up and left, too. In 1980, the median age of people in small towns and big cities almost matched. Today, the median age in small towns is about 41 years—five years above the median in big cities. A third of adults in urban areas hold a college degree, almost twice the share in rural counties, census figures show.

Consolidation has shut down many rural hospitals, which have struggled from a shortage of patients with employer-sponsored insurance. At least 79 rural hospitals have closed since 2010, according to the University of North Carolina. Rural residents say irregular care and long drives for treatment left them sicker, a shift made worse by high rates of obesity and smoking. "Once you have a cancer diagnosis...your probability of survival is much lower in rural areas," said Gopal K. Singh, a senior federal health agency analyst who has studied mortality differences.

The opioid epidemic—and a lack of access to treatment—have compounded the damage. In Hardin County, prosecutor Brad Bailey said drug cases, which accounted for less than 20% of his criminal cases a decade ago, have surged to 80%.

The epidemic is spawning more thefts, including a rash of stolen air-conditioners, said Dennis Musser, Kenton's police chief. Linda Martell, 69, who moved to Kenton from outside Cleveland a decade ago to be near her daughter, was surprised a chain saw and heavy tools were stolen from her garage. When she was a young adult, she said, "All the problems were in the big cities."

In November's presidential election, rural districts voted overwhelmingly for Donald Trump, who pledged to revive forgotten towns by scaling back regulations, trade agreements and illegal immigration and encouraging manufacturing companies to hire more American workers. A promised $1 trillion infrastructure bill could give a boost to many rural communities.

Lawmakers in both parties concede they overlooked escalating rural problems for years. "When you have a state like Florida, you campaign in the urban areas," said former Florida Republican Sen. Mel Martinez. He recalls being surprised in the mid-2000s that small towns, not cities, were the center of an emerging methamphetamine epidemic.

During the Bush administration, lawmakers were preoccupied with two wars, securing the homeland after the Sept. 11 terrorist attacks and rebuilding New Orleans after Hurricane Katrina. Barack Obama's administration tried to lift rural areas by pushing expanded broadband access, but found that service providers were reluctant to enter sparsely populated towns, said former Agriculture Secretary Tom Vilsack.

Since the collapse of the housing market, real-estate appreciation in nonmetropolitan areas has lagged behind cities, eroding a primary source of wealth and savings.

"We didn't really have much of a transformation strategy for places where the world was changing," Mr. Vilsack said.

Meanwhile, major cities once considered socioeconomic laggards are thriving. In St. Louis, which has more than 30 nearby four-year schools, the percentage of residents with college degrees tripled between 1980 and 2015—creating a talent pool that has lured health care, finance and bioscience employers, officials say. Instead of people moving where the jobs are, "jobs follow people," said Greg Laposa, a local chamber of commerce vice president.

In many cities, falling crime has attracted more middle- and upper-class families while an influx of millennials delaying marriage has helped keep divorce rates low.

Maria Nelson, a 45-year-old media company manager who came to Washington, D.C. after college, assumed she would someday move to the suburbs. A generation of heavy federal spending helped raise the city's median household income to $71,000 a year in 2015, a 51% increase since 1980, adjusted for inflation. Ms. Nelson was able to buy a brick row house in 2002. Now she said she worries how younger colleagues will manage. "The whole area just seems to be out of range for most people," she said.

Despite their troubles, Father Young said he is optimistic about his Kenton parishioners. Some tell him they worry about what will happen when they die because they still provide for their adult children.

He likes to say there is always hope. "They can find a job," he said. "Columbus is close enough."

LIFE & ARTS

PARAMOUNT PICTURES (2)

FILM REVIEW | By Joe Morgenstern

This One Can't Be Rescued

Despite the presence of Dwayne Johnson, the big-screen version of 'Baywatch' flounders on the shore

IN “BAYWATCH,” a cellulite-free saga of hard bodies and soft heads, the way of all flesh is a progression from sand to surf. At its best, this big-screen version of the *fin de siècle* TV series evokes the rapture of the shallows. At its worst, where to begin? A repurposing of the Heimlich maneuver for inclusion in a new edition of the Kama Sutra? A portrait of the antihero as serial vomiter? I'd vote for the graphic frontal nudity of a male corpse during an autopsy performed by lifeguards and trainees investigating a crime. The movie is a minor crime, a meandering misdemeanor that's neither soft-core nor hardcore but no core, with no consistent style and minimal content. (So minimal that the official website wisely omits a synopsis, or any other information, and offers only two options: Watch Trailer or Get Tickets.)

The first scene promises more. From his perch in Station One, Lt. Mitch Buchannon, an eagle-eyed, quick-witted lifeguard played by Dwayne Johnson, spots a parasail canopy all aflutter and threatening to dump its Icarus into the bay. Intuiting the kite's trajectory—after foreseeing trouble clairvoyantly—Mitch vaults over a railing onto the beach, races into the water and makes the first of the movie's many epic saves. It's a charming piece of parody, a sign that the film will take itself with more than a few grains of sea salt.

And this singular star has the requisite comedy chops. In the role originated by David Hasselhoff (who turns up on screen as more or less himself), Mr. Johnson makes Mitch a figure of mountainous probity, a tough taskmaster but also a good-hearted role model for young trainees hoping to join Mitch's elite lifeguard team. He's the adult of the group, which includes Zac Efron's Matt Brody, an arrogant Olympic swimmer who has tarnished his gold medals by vomiting in a pool. (The main figures of the gorgeousness contingent—“Charlie's Angels” as mermaids—are played by Alexandra Daddario, Kelly Rohrbach and Ilfenesh Hadera. Jon Bass is Ronnie Greenbaum, clownishly addled by testosterone.)

Once more onto the beach. Top, left to right: Kelly Rohrbach, Alexandra Daddario, Ilfenesh Hadera, Dwayne Johnson, Zac Efron and Jon Bass. Left, Priyanka Chopra.

But the director, Seth Gordon, and the writers, Damian Shannon and Mark Swift, don't sustain the parody, or settle on any other tone for longer than a scene or two. “Baywatch” soon devolves into an amateurish murder mystery, and lifeguards and trainees turn into junior detectives on the trail of vile connivers who want to besmirch the bay with a real-estate development. That's a puzzlement, since the area already seems as overdeveloped as everyone's abs.

THEME PARKS

A FIRST LOOK AT DISNEY'S 'WORLD OF AVATAR'

BY BEN FRITZ

Orlando, Fla.

“SUBTLE” ISN'T a word normally associated with **Disney** theme parks or James Cameron movies.

But if anything is likely to surprise visitors to Pandora—The World of Avatar, the theme-park area that opened here Saturday at Disney's Animal Kingdom park, it is the absence of loud music, bright lights and attention-grabbing signs.

It is “Avatar” turned down to 1. Perhaps it's because children won't enter Pandora desperate to see their favorite “Avatar” character the way they search for Elsa at Frozen Ever After or Chewbacca in the Star Wars Launch Bay. Most people would probably be hard-pressed to name a character from the 2009 blockbuster, even though it grossed a record-breaking $2.7 billion world-wide.

The landscape in Pandora isn't a setting, it's a character, said Joe Rohde, designer for Disney's Imagineering unit. While the new area has a thrill ride that blows everything else in its category away, it stands out mostly by not announcing itself.

Visitors enter Pandora by crossing a bridge from Animal Kingdom into 13 acres of natural plants mixed with “alien” (a.k.a. man-made) ones. Two rides are hidden inside a rock wall framed by giant mountains that almost seem to float, thanks to engineering feats that Imagineers needed a year to pull off, during the project's five-plus year design and construction.

DISNEY

In the Na'vi River Journey ride, above, at Pandora—The World of Avatar, visitors float through a glowing rainforest.

The effect is striking at night, when the man-made plants and trees and even leaf-shaped indentations in the ground glow. The lighting slowly increases as darkness falls, referencing the bioluminescent plants in “Avatar” and stepping up the appeal of Animal Kingdom—which people tend to visit during the day—after the sun sets.

Disney aimed for “complete immersion” with Pandora, said the company's parks and resorts chief Robert Chapek. Every element of the land makes sense for the story of people visiting the planet a generation after the movie and its coming sequels. An old spaceship is encrusted in plants that appear to have been growing for decades; Pandoran biology books can be spotted in the display along the ride queue lines. The sole souvenir shop and restaurant are in a plant-free zone said to have been colonized and pillaged by humans. There's also a tiki-style bar allegedly founded by a human expat who stayed behind on a military mission long ago.

Among the area's handful of rides is the Na'vi River Journey, a slow meander through a Pandoran rainforest surrounded on all sides and above by glowing plants and, via projection screens, “native” wildlife. It culminates in one of Disney's most advanced audio-animatronic characters: a 10-foot tall Na'vi “shaman” from the film.

The Flight of Passage ride offers a contrasting, bracing experience, using the most advanced flight simulator to date in any theme park to replicate the experience of riding one of the movie's dragon-like banshees. Riders don 3-D glasses and lean forward on a motorcycle-like seat as they are hoisted in the air on mechanisms that tilt and blow air in time with images on a giant movie screen.

Mr. Cameron, on hand to promote the opening, suggested that the ride could be updated with content from a quartet of movie sequels scheduled for release between 2020 and 2025.

As Disney focuses on movie-inspired lands in its theme parks—ones featuring Toy Story, Star Wars and Marvel characters are in the works—“Pandora” signals the company's priorities, Mr. Chapek said. Instead of rides that replicate a big-screen story and characters doing meet-and-greets on generic sidewalks, Disney wants visitors to feel they are spending a few hours inside their favorite cinematic universe, from the largest landmark to the smallest detail.

REVIEW & OUTLOOK

Angela Merkel's Lament

A difference on climate doesn't mean a U.S. retreat from Europe.

Angela Merkel's declaration on the weekend that Germany and continental Europe will have to depend more on themselves is being portrayed as the Donald Trump-inspired end of American leadership in Europe. But if that's true, and we have heard this dirge before, the erosion of U.S. leadership hardly began with Mr. Trump. It started under Barack Obama, whose failure to lead was reinforced by his main partner in Europe, Mrs. Merkel.

"All I can say is that we Europeans must really take our destiny into our own hands," the German leader told a crowd of some 2,500 during a re-election campaign event at a beer tent in Bavaria. "The times in which we can fully count on others are somewhat over, as I have experienced in the past few days."

That was widely perceived as the German Chancellor's reaction to last week's NATO and G-7 summits, when the new U.S. President challenged NATO members to spend more on defense and refused to sign on to the climate-change policies of the other six leaders.

Mrs. Merkel seemed especially peeved about Mr. Trump's decision not to embrace the Paris climate accord that Mr. Obama signed in his final year as President. "The whole discussion about climate has been difficult, or rather very unsatisfactory," Mrs. Merkel told reporters. "Here we have the situation that six members, or even seven if you want to add the [European Union], stand against one.'

But wait. Since when is a difference of opinion the end of an alliance? And if Mr. Trump demurred on the obligations of Paris—he says he'll decide this week—is that really a failure of leadership? Mrs. Merkel's comments suggest that she is most upset because Mr. Trump declined to follow *her* leadership on climate.

And Mr. Trump should if he wants to fulfill his campaign promises to lift the U.S. economy. Mrs. Merkel's embrace of green-energy dogmas has done enormous harm to the German economy. She reacted to the Fukushima meltdown by phasing out nuclear power, and her government has force-fed hundreds of billions of dollars into solar and wind power that have raised energy costs. As Der Spiegel once put it, electricity is now a "luxury good" in Germany.

It's not surprising that Mrs. Merkel and the Europeans should want to shackle the U.S. with similarly high energy costs, and Mr. Obama was happy to oblige. But Mr. Trump was elected on a promise to raise middle-class incomes, and domestic energy production is essential to that effort. Mrs. Merkel also doesn't care if Mr. Obama committed the U.S. to Paris without any Congressional approval, but Mr. Trump has to take that into account.

The U.S. natural-gas fracking revolution also has the benefit of reducing fossil-fuel emissions by reducing reliance on coal. To the extent U.S. energy production can supplant Russian natural-gas supplies to Europe and keep the price of oil low, it also undermines Vladimir Putin at home and abroad.

As for fading U.S. leadership in Europe, we wish the German Chancellor had prodded Mr. Obama to do more after Russia snatched Crimea from Ukraine. We're still waiting for the Germans to support arming Ukraine so it can impose higher costs on Russia's military incursions. Then there's the failure of the U.S. and Europe to stop the Syrian civil war, which contributed to Brexit by sending millions of refugees into Europe without border controls.

Mr. Trump is undiplomatic, and often crude, as he showed with his rush to push aside Montenegro's prime minister. This behavior is as embarrassing to Americans as it's offensive to Europeans. His ignorance about trade economics is also dangerous (see nearby).

But then Mr. Trump has abandoned his campaign bluster that NATO is obsolete, and he signed onto the G-7 communiqué language vowing to fight protectionism. The President's challenge to Europe to spend more on its own defense may also be the kind of leadership the alliance needs, since Mr. Obama's pleading failed to work. That's especially true for Germany, which spends a mere 1.2% of GDP on the military and whose public takes an increasingly pacifist view of global conflict, in contrast to the British and French.

Mrs. Merkel's German opponents claim she is too accommodating to Mr. Trump, and her weekend remarks are in part a bow to that domestic politics. She is generally pro-American and an admirable leader. Mr. Trump shouldn't overreact to her weekend comments any more than Europe should overreact to some of his. The Atlantic alliance might even benefit from more such candid talk on both sides.

Driving Under a Bad Influence

Trump needs a tour of foreign-owned auto plants in the U.S.

President Trump can't seem to stop himself from popping off on trade, but can he at least do a little homework? The German newspaper Der Spiegel reported last week that Mr. Trump called out German car makers in a meeting with European Union leaders in Brussels. "Look at the millions of cars that they sell in the U.S. Terrible. We're going to stop that," ostensibly through tariffs. The White House has not denied the report.

Some basic facts: Last year BMW produced more than 400,000 cars at its $7 billion plant in . . . South Carolina. About 70% of the cars were exported, which makes BMW the top automotive exporter in the U.S. Last year a Mercedes plant in Alabama made 300,000 cars. Foreign-based auto makers (including Mitsubishi, Toyota and others) produced 5.5 million cars in America last year and have invested $75 billion in U.S. operations.

That translates to thousands of jobs, mostly in states with right-to-work laws, which tend to be run by Republicans and voted for Mr. Trump. The BMW plant in South Carolina employs 8,800 people, and Mercedes has invested more than $4.5 billion in Tuscaloosa County, Ala. Of the top 10 states for employment by an international auto maker, Mr. Trump carried nine.

Yet Mr. Trump is fixated on a $15.4 billion automobile trade deficit with Germany. This is a meaningless statistic, not least because the inputs are produced along a global supply chain. Mr. Trump has some dim sense that no one drives Chevys in Hamburg, but one reason is that Europe distorts its market with emissions rules and high fuel taxes.

Mr. Trump is known to sound off and then ditch some of his worst ideas, and perhaps here he'll do the same. But he could do much more for U.S. manufacturing by passing tax reform and dropping out of the Paris climate accord than with ill-informed tirades on trade.

Trump Sells Out NATO!

Well, no, but a Trump speech triggers another overwrought uproar.

Donald Trump creates many of his own problems, but sometimes he can't win no matter what he does. Consider the uproar on Thursday because the President supposedly didn't explicitly endorse NATO's Article 5 commitment that an attack on one ally is an attack on all.

Nicholas Burns, a Harvard professor and beating heart of the U.S. diplomatic establishment, followed Mr. Trump's speech with a Twitter barrage that included: "Every US President since Truman has pledged support for Article 5—that US will defend Europe. Not so Trump today at #NATO. Major mistake." The herd of independent media minds then stampeded with the theme that Mr. Trump had deliberately failed to commit the U.S. to defending Europe against attack.

But is that really what happened? Mr. Trump was speaking, briefly, at an event at NATO headquarters in Brussels unveiling the Article 5 and Berlin Wall Memorials. The Article 5 Memorial commemorates the only time that NATO has triggered Article 5, which came after al Qaeda's attack on the U.S. on 9/11. The Memorial includes a remnant of the World Trade Center's North Tower.

Here is what Mr. Trump said in the third paragraph of his speech: "This ceremony is a day for both remembrance and resolve. We remember and mourn those nearly 3,000 innocent people who were brutally murdered by terrorists on September 11, 2001. Our NATO allies responded swiftly and decisively, invoking for the first time in its history the Article 5 collective defensive commitments."

So let's see: By speaking at an event commemorating Article 5, and explicitly citing and praising Article 5's invocation on 9/11, Mr. Trump was really trying to send a message that he doesn't believe in Article 5? Who knew Mr. Trump was capable of such messaging subtlety?

Mr. Trump did follow his reference to Article 5 with blunt demands for NATO burden sharing. Critics say this implied that the U.S. won't come to Europe's defense until all of NATO's members spend at least 2% of their national GDP on the military, as NATO's guidelines demand.

But if that's what he was trying to say, consider Mr. Trump's reference in his speech that "the NATO of the future must include a great focus on terrorism and immigration, as well as threats from Russia and on NATO's eastern and southern borders." The reason that Article 5 was included in the NATO charter in the first place is the threat from Russia, and Mr. Trump mentioned that threat.

Mr. Trump started his credibility problem on NATO with his campaign comments that the alliance was "obsolete." We criticized him at the time. But as President he has walked at least 90% of that back—by supporting Montenegro's entry into the alliance despite Russia's furious opposition; by following through with new NATO deployments on the alliance's eastern front, including a U.S.-led battalion; and this week with a new NATO commitment to join the coalition against Islamic State.

It's fair to whack Mr. Trump if he indulges his many bad instincts, but it serves no one other than Vladimir Putin to suggest without evidence that the U.S. won't honor its NATO commitments—or to drive a wedge between allies simply to make Mr. Trump look bad.

Obama's European Legacy

EYE ON EUROPE
By John Vinocur

Tens of thousands of Germans cheered at Berlin's Brandenburg Gate last week when Barack Obama appeared at an open-air event sponsored by an association of protestant churches.

For a faraway television viewer, this thought came to mind: Could Mr. Obama (or the beatific crowd, or Angela Merkel, his beaming co-star) have read what Joschka Fischer, with remarkable fierceness, said about the failure of the Obama presidency? Not likely.

According to Germany's former foreign minister, the White House was responsible for "a tragic moment in early 21st-century American history when there had not only been a bad U.S. Iraqi intervention, but a bad U.S. *nonintervention* in Syria."

As a man of the left, here's how in 2015 Mr. Fischer described to this newspaper the global price of Mr. Obama's fade in 2013 from his own red lines on attacking Syria: "What there is of world order disappears because the last world power can no longer be taken seriously."

Obama-made tragic history? There's almost no such notion in a Germany whose contradictions make it the world's third-largest arms dealer, but with a chancellor who, in her reluctance to talk of the use of force anywhere, can sound like Obama's doppelgänger.

After all, it was the former U.S. president who saw no existential threat for Europe in Russia's seizure of Crimea and incursions into Ukraine; had the same no-problem response concerning a confrontation between the U.S. and Islamic State's barbarity; swerved around speaking of the West's triumph in the Cold War (no victories, please); and stated that Americans were more likely to die from a slip in a bathtub than terrorism.

The most recent fallout from the Obama years of botched leading-from-behind was unveiled in a poll two days before the former president's Berlin outing. A Pew Research report found that Germans, turned isolationists, replied no by a 53-40 margin when asked whether their country should intervene if Russia attacked a neighboring NATO member. Majorities in Canada, France, the Netherlands, Poland and the U.S. were ready for a fight.

Ms. Merkel, running for re-election in September, sat next to Mr. Obama at the Brandenburg Gate. His proximity served her as an instant antidote to charges by her Social Democratic opponents that she had crept too close to Donald Trump, who has turned out to be neither Master of the West nor the regenerator of America's spirit.

Because Ms. Merkel probably considers Mr. Trump impossible to predict for the next five months, the chancellor seemed to refresh the Obama the Messiah myth that survived in Germany even when the U.S. was accused of tapping her cellphone.

How did Mr. Obama get involved in the Berlin show? He was described in the Frankfurter Allgemeine Zeitung as agreeing to the protestant group's invitation on condition he appear with Ms. Merkel.

But her own calculation didn't meet with hoped-for cool from Mr. Trump. The current U.S. president, speaking at the NATO summit in Brussels on the same day as the Berlin event, commented harshly on Germany's roles in the alliance and world economy. France's President Emmanuel Macron, meanwhile, chose to massage Mr. Trump as "pragmatic" and "open to dialogue."

The Continent's still recovering from the mistakes that he made.

The fact is, a number of European leaders and their highest advisors in recent years came to regard Mr. Obama as abandoning America's postwar role as the West's ultimate recourse against chaos and injustice.

During Mr. Obama's final months in office, one of those advisers told me that America's credibility as a reliable guardian was broken. "The damage is done," he said.

More recently, France's then-president François Hollande was quoted as saying Obama's America had no strategy, that its flight from attacking Syria over its chemical-weapons violations (the French would have participated) led to the expansion of Islamic State, and put into Iran's mind that there is no military risk for the mullahs in eventually reasserting their nuclear drive.

This past weekend, Han ten Broeke, president of the Dutch Parliament's armed-services commission—and no admirer of Mr. Trump—observed that the new president's realignment with the Saudis and other Sunnis in the Middle East put an end to the Obama period's "strategic ambivalence." This ambivalence, he said, "was not a good idea for many in the world looking for American leadership and clarity."

Unfair to Mr. Obama, considering the lurching foreign-policy influence of his successor? Contrast the former president's Russia strategy, described in a 2014 New York Times article as isolating President Vladimir Putin while turning his country into a pariah state, with Monday's reality of the strongman's visit to the sunny splendor of the Palace of Versailles for a conversation with Mr. Macron. For someone condemned to ignominy by Barack Obama, Mr. Putin looked in relaxed, good cheer.

LETTERS TO THE EDITOR

MFN Rule Hurts Importers, Limits U.S. Trade

Chad P. Bown and Alan O. Sykes's "The Trump Trade Team's Vocabulary Problem" (op-ed, May 16), while arguing to the contrary, points out exactly why the Most Favored Nation (MFN) clause at the World Trade Organization impedes free trade, rather than fostering it.

The authors admit that because U.S. auto tariffs are so much lower than those of other countries, the only way U.S. trade negotiators can get trading partners to reduce their tariffs is by giving concessions against other U.S. industries. This, then, requires the U.S. government to pick winners and losers in its own economy. Worse yet, we must do so in the context of tariffs that we've unilaterally lowered repeatedly in the past. This is the reality U.S. negotiators face in contrast to the convenient hypotheticals put forward in the op-ed.

MFN also interacts with free trade agreements (FTAs) in unfortunate ways. The U.S.-Mexico FTA eliminated all automotive tariffs in both directions. Mexico's separate FTA with Europe eliminated tariffs on auto exports to the EU, and Mexico has similar deals with dozens of other countries. Because the U.S. doesn't have an FTA with Europe, the EU collects a 10% duty on American automobile imports. These tariff differentials are $4,000 on a $40,000 car exported to Europe—far more than the $1,500 labor savings in Mexico.

These trading inequities are a reality. MFN is of no help. If instead we could tell the Europeans that unless they drop their tariff on autos from the U.S. to our rate of 2.5%, we will raise the tariff on their autos to match their 10%, the likely result would be a 2.5% tariff in both directions. Since MFN prohibits this, it is a barrier to free trade, not a help toward achieving it.

The U.S. has no tariffs on steel imports. China's steel tariffs average 4% to 5%. The result: Our only defense against subsidized foreign steel imports is to bring specific trade cases against individual foreign producers with the hope of prevailing years later.

But then when the U.S. does win a trade case, the country dumping the steel can often bypass the remedy. It can process the steel in a slightly different manner, allowing it to be relabeled in a product category not subject to duties; it can make transshipments to the U.S. through other countries; or it can otherwise camouflage its exports.

Even though the U.S. has successfully prosecuted 152 steel cases, the dumping hasn't stopped. There are an additional 33 steel-trade cases now pending. MFN is no help against serial dumpers.

An ideal global trading system would facilitate adoption of the lowest possible level of tariffs. Countries with the lowest tariffs would apply reciprocal tariffs to those with the highest and then automatically lower that reciprocal tariff as the other country lowers theirs. This leveling technique could be applied product by product or across the board. Such a modification would motivate high-tariff countries to reduce their tariffs on imports.

A second modification would be to suspend MFN rules for countries that repeatedly dump products onto the global market. If a country successfully prosecutes five or more cases against an individual trading partner for a class of similar products, then MFN should be suspended for those products lines for an initial period of five years.

The existing MFN clause was intended to bar untoward behavior by importers, and it did so effectively. But it also encouraged inappropriate behavior by exporters.

The conceptual approach at the WTO of favoring the interest of exporters over countries overwhelmed by imports is rampant and unfair. The WTO's most recent annual report laments the increasing number of trade cases as being a global shift toward more protectionism, ignoring the fact that rule-breaking behavior by exporters is the reason more cases are being filed. The WTO should be independent, not biased toward exporters as it is now.

WILBUR ROSS
U.S. Secretary of Commerce
Washington

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How Nationalism Can Solve the Crisis of Islam

By Sohrab Ahmari

Paris

Last week President Trump stood before Muslim leaders in Riyadh and declared: "America is a sovereign nation, and our first priority is always the safety and security of our citizens. We are not here to lecture. We are not here to tell other people how to live, what to do, who to be, or how to worship."

Amid the journalistic uproar that greets nearly everything Mr. Trump says, few noted the connection he made between these two concepts: We are sovereign, and we don't want to lecture. By putting them together, the president scrambled the pattern that has long shaped the West's relations with Islam.

For decades, the West has seen itself as an empire of rights and liberal norms. There were borders and nations, but these were fast dissolving. Since rights were universal, the empire would soon encompass the planet. Everyone would belong, including Muslims, who were expected to lose their distinctness.

Transnational liberalism breeds resentments and anxieties that are only beginning to surface across the developed world.

It didn't work, as the latest jihadist attack in Manchester attests. So it makes sense to consider alternatives. Judging by his Saudi speech, Mr. Trump wants to revive the nation-state as the primary political vehicle for encountering Islam. The nation has clear—and limited—territorial and cultural boundaries. It says we are *this*, and you are *that*.

To the French philosopher Pierre Manent, such thinking is the beginning of wisdom. "We have a big problem with Islam," he tells me. "And it's impossible to solve it through globalist, individualist, rights-of-man mantras."

I meet Mr. Manent, 68, in his office at the School for Advanced Social Studies in Paris. For years he has been associated with the school's Raymond Aron Center for Political Research, named for the Cold War liberal who denounced Soviet tyranny even as most French thinkers grew addicted to what Aron called the "opium of the intellectuals"—Marxism and radicalism. Aron was Mr. Manent's mentor.

Although Mr. Manent has retired from teaching, he still writes and lectures across Europe, mainly on how to preserve political freedom and liberal order in the face of globalization, mass migration and Islam. His ideas have wide application in the West.

Here in France, the government has vowed to counter Islamist terror with a military and intelligence surge. But newly elected President Emmanuel Macron generally eschews the more profound, unresolved questions of community and belonging that haunt French society. "There is no such thing as a single French culture," he said in February. "There is culture in France, and it is diverse."

These glib assertions lead Mr. Manent to conclude that Mr. Macron has fully imbibed the "acceptable opinions, or the PC opinions," about Islam and nationhood that prevail among trans-Atlantic elites. In these circles, even to suggest a problem with Islam is to invite "scowls," he says. "Everything they say about the situation is determined by their purpose, which is to prove that there is no problem with Islam—against their own anxiety." Not to mention the evidence.

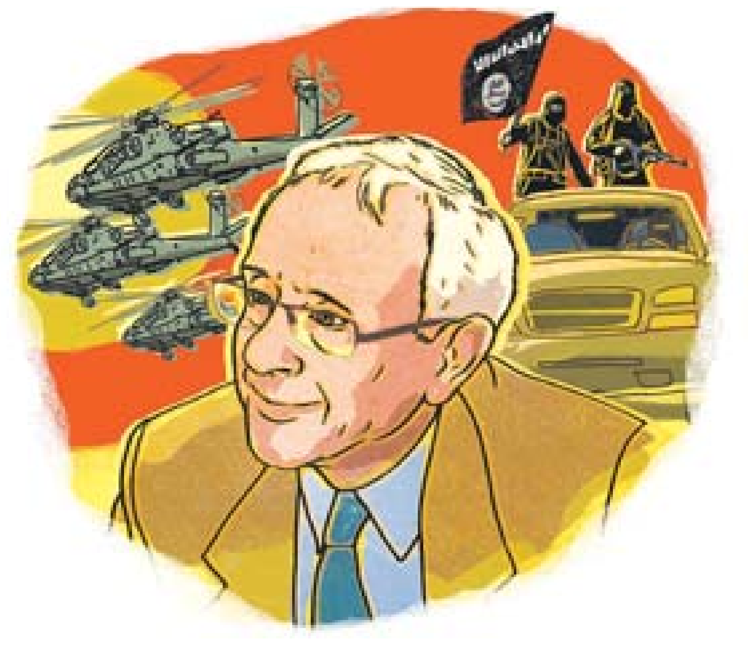
Mr. Manent regards Islam as a powerful and "starkly objective" faith. Wherever it spreads, it brings a set of "authoritative mores," whose adherents constitute the faithful community, or *ummah*. This is in contrast to Christianity, with its emphasis on subjective, inner assent to the Redeemer, distinctions between the visible and invisible church, Caesar and God, and so on.

Islam instead rests on a political geography that divides the world, Mr. Manent has written, between the "house of submission," where the faith reigns, and the "house of war," where it doesn't. As a political form, Islam thus most closely resembles an empire, he argues. The trouble, for Muslims and the West, is that since the Ottoman collapse in 1924, it "has been an empire without an emperor."

Meanwhile, the liberal West has grown tired of the older forms of "communion" that used to define it. Liberals in Europe, and to a lesser extent the U.S., wish to dispense with both the modern nation-state, the political communion that once gave concrete shape to the open society, and Judeo-Christianity, the sacred communion that used to provide the moral and spiritual frame.

For the West's professional classes, Mr. Manent contends, the only acceptable sources of political communion are the autonomous individual, on the one hand, and humanity as a whole, on the other. He understands the jet-setters' impulse: "We can go anywhere on the planet, work anywhere on the planet—these new liberties are inebriating." Better, then, "to be a citizen of the world."

But Mr. Manent, a Catholic and classical liberal in the tradition of Alexis de Tocqueville, thinks this attitude breeds resentments and anxieties that are only beginning to surface across the developed world.



ZINA SAUNDERS

For most people everywhere, humanity is "too large and too diverse" to provide meaningful communion. "I cannot prove that the nation-state is the only viable form," he says. "But what I'm sure about is that to live a fully human life, you need a common life and a community. This is a Greek idea, a Roman idea, a Christian idea."

It's why 19th-century liberals such as Tocqueville were so enthralled by the modern democratic nation-state. It was committed to universal human rights, but it housed them within a pre-existing "sacred community" that had its own inherited traditions and boundaries.

It's also why in the 21st century, Mr. Manent says, the "small, damaged" nations of Central Europe react most viscerally against transnational liberalism. Hungary fears "it couldn't have endured and would have disappeared," he continues, if it faced the same multicultural pressures as France. The European Union's efforts to punish voters in such countries for electing the wrong kind of government will therefore intensify the backlash.

But there is a bigger wrinkle in the transnationalist pattern: It isn't universalistic at all. When the house of Islam looks at Europe, it doesn't see a union with procedural norms, trade ties and kaleidoscopic lifestyles. It sees a collection of particular nation-states. More important, it sees the cross.

In its communiqués claiming credit for terror attacks, Islamic State never fails to mention that the "soldiers of the Caliphate" targeted this or that nation, which "carries the banner of the cross in Europe." Such statements puzzle secular Europeans, Mr. Manent says, because they think: "Well, perhaps the Americans who intervened in Iraq, but we French are not Crusaders."

The West has relegated faith to a purely private sphere. But to adherents of Islam, Christianity's public, political dimension still shines forth. This leads to another turn in Mr. Manent's thought: "In the present circumstances, relations between Europe and the Muslim world will be less fraught if we accepted this Christian mark, while of course guaranteeing that every citizen, whatever his religion and lack of religion, has equal rights." In other words, the Muslim world would more easily come to terms with the West if Westerners acknowledged who they are.

Take Turkey's accession to the EU. European leaders for decades have contorted themselves to justify their reluctance to admit Ankara. If it were purely a matter of "rights," then Ankara would be correct to demand entrance immediately. But, says Mr. Manent, "Europe" is also a cultural and political community, and it matters that Turkey is a large Sunni Muslim nation with Turkish mores. By being honest about these differences, the West could clarify the terms of the encounter and ease tensions.

As for the West's often ill-assimilated native Muslim populations, here too Mr. Manent prefers a "national solution." For starters, he says, "we must accept that the Muslims who are among us will remain Muslims." It follows that the West must "do things so that Muslims feel that they can be reasonably happy Muslims" in a non-Muslim environment.

The basic bargain: "We accept Muslims, but they also have to accept us." In France that might mean dialing back *laïcité*, the official secularist dogma that restricts many public expressions of faith. "We won't bother you about your veils or the way you eat," Mr. Manent says. "In school lunches, meat without pork will be available. It's silly and mean to say, 'They will eat pork or they won't eat.' Muslims shouldn't always be under suspicious eyes."

But then, he continues, the French would demand reciprocity of Muslims: "You really belong to France. You turn toward it and your life will be centered on this European country, which is not and will never be a Muslim country."

What he wants to combat is the widespread sense of alienation, particularly among young Muslims who are "paper French," citizens without political attachment. In practice, this would involve the government's insisting that mosques and cultural associations cut their ties with Algeria, Tunisia and other foreign countries and instead actively promote an indigenous French Islam.

His grand-bargain vision has detractors on the left, who call it discriminatory, and the right, who find the offer too generous. Others think it's too late. But Mr. Manent is optimistic that the combination of political liberty and nationalism is more resilient than most people suppose.

Then again, the 19th-century marriage of liberalism and nationalism ended in a very ugly divorce in the first half of the 20th century. What about the dangers of reviving nationalism today? "There is no a priori guarantee that it could not devolve into something nasty," Mr. Manent says. "But if we don't propose a reasonable idea of the nation, we will end up with an unreasonable idea of the nation. Because simply: However weakened the idea of the nation, nations do not want to die."

Then there is the example across the Atlantic. Like Tocqueville, Mr. Manent sees much to admire in the American experiment. Even as Europeans have sought to pool or even abandon their sovereignty, he says, "Americans remained very much attached to the idea of a people making its laws to protect itself."

True, "this people was open to the world, since of course it was formed by immigration. But people came from all over the world, not to be *human beings* but to be *citizens of the United States*, which had a keen sense of its exceptionalism and unique character." In the Second Amendment, the persistence of the death penalty, and the reluctance of U.S. courts to follow foreign precedents, Mr. Manent sees "not a proof of American barbarism" but of democratic vigor.

And realism. Europeans, he says, imagined the world was so safe for liberty that they could discard the harsh, Hobbesian elements of power. Americans recognize that the modern world still has one foot in the state of nature, and this calls for the sovereign prerogatives of self-preservation: We are sovereign—we don't lecture.

Mr. Ahmari is a Journal editorial writer in London.

Trump Faces the Fury of a Scorned Ruling Class

By George Melloan

A lobbyist friend who visited Capitol Hill recently came away horrified. "I now am ready to believe that the partisanship is so unhinged that it's a threat to the Republic," she writes in an email.

This Washington hysteria comes at a time of full employment, booming stocks, and relative peace. What's the fuss about?

We all know the answer: Donald Trump. The Washington body politic has been invaded by an alien presence and, true to the laws of nature, that body is feverishly trying to expel it. These particular laws of nature demand rejection of anything that threatens the livelihoods and prestige of the permanent governing class.

The "threat" that has Washington quaking is the first serious effort in a long time to curb federal regulatory power, wasteful spending, and a propensity to run up mountainous budget deficits and debt. That's presumably what the voters wanted when they elected Mr. Trump. Democrats—accurately regarded as the party of government—seem to fear that Mr. Trump might actually pull it off.

The Washington Post, the New York Times and other apostles of the Democratic Party have apparently set out to prove that despite their shaky business models they can still ignite an anti-Trump bonfire. A recent headline in the Post. asserted that "Trump's scandals stoke fear for the 2018 midterms among Republicans nationwide."

What scandals would those be? There was the firing of FBI Director James Comey. Democrat Hillary Clinton went on television to claim that Mr. Comey cost her the election. Mr. Trump fired Mr. Comey. Did Democrats praise the president? No, they want him impeached. Devious logic, but devious is a good descriptor of much of what goes on in this fight.

Mr. Comey retaliated by leaking a "big scoop" to the Times—notes taken when Mr. Trump allegedly asked him to back off on the investigation of national security adviser Mike Flynn. But let's recall the circumstances of this "investigation." The Obama administration—possibly the FBI—tapped a phone conversation between Mr. Flynn and Russian Ambassador Sergey Kislyak. Then Mr. Obama's minions used the raw data to "unmask" Mr. Flynn and get the retired general fired for not giving a full account of the discussion. Given that sorry record of political involvement, was Mr. Trump so wrong if he asked Mr. Comey to go easy?

The 'threat' that has elites quaking is his serious attempt to curb federal power and cut spending.

Then there was the Post's "shocking" revelation that the president gave classified information to Russia's foreign minister. The president is commander in chief of the U.S. military and conducts foreign policy. The intelligence agencies work for him, and he is responsible for using what they provide to further U.S. interests. Is it so unlikely that a friendly tip to Russian Foreign Minister Sergei Lavrov about an Islamic State tactic was calculated to earn trust? A more interesting question is who walked out of the room and illegally handed the Post this "scoop."

Russians aren't popular in the U.S., for many good reasons. That has its uses for Trump baiters. Democratic claims that Mr. Trump conspired with the Russians to swing the November election led the Justice Department to appoint a special prosecutor to investigate. But is this claim even slightly plausible? So far all we have are anonymous officials who claim that intelligence agencies know of individuals with connections to the Russian government who supplied WikiLeaks with hacked emails from the Democratic National Committee and John Podesta's accounts. But these officials are still unwilling to go on the record.

The Washington community knows how to fight back when it feels threatened. Leakers are having a ball, even if it has taken a lot of journalistic imagination to turn the most notorious leaks into "scandals."

Almost everyone in town has a stake in fending off the Trump threat: government workers and the businesses that serve them, public unions, lobbyists and their clients, journalists whose prestige derives from the power center they cover, academics who show politicians how to mismanage the economy, real-estate agents feeding on the boom. It's a good living, and few take kindly to a brash outsider who proclaims it is his mission to drain the swamp.

Mr. Trump is on the attack and Washington is fighting back. Is the Republic in danger? Another question is how much danger will it be in if Mr. Trump loses?

Mr. Melloan is a former deputy editor of the Journal editorial page and author of "When the New Deal Came to Town," (Simon & Schuster, 2016)."

You're a Canadian Now, Charlie Brown

By Todd Buchholz And James Carter

It's been a tough year for Charlie Brown. First MetLife dumped him, seeking a more youthful image than a perpetual 8-year-old. Then earlier this month Iconix, the U.S.-based company that owns the rights to Charles Schulz's comic characters, announced it will sell them to Canada's DHX Media. That makes Charlie Brown America's latest expatriate. U.S. corporate taxes are nudging business elsewhere.

The Peanuts brand generated some $95 million in sales in 2016. The 2015 "Peanuts Movie" sold almost $250 million in tickets, about half from outside the U.S. The Japanese are among the biggest fans these days.

Iconix, facing debt-management problems, needed cash, and DHX bid highest. But why? In part because the U.S. corporate-tax system hampers U.S.-based businesses by subjecting them to world-wide taxation. Canada's aggregate corporate taxes are about 10 percentage points lower.

When a Japanese girl buys her Snoopy backpack in Tokyo, DHX won't pay taxes to both Tokyo and Ottawa. If DHX racks up exactly the same revenues and costs as Iconix, with the same global distribution, it will enjoy greater after-tax earnings.

Taxes aren't everything. Many owners of iconic cartoon characters, from Marvel to Disney, manage to keep their crown jewels under the American flag. But it becomes tougher as other nations develop a critical mass of talent, especially in intellectual-property fields.

Hollywood has been struggling to maintain its grip as it faces the labor and tax advantages of British Columbia, London and even former Soviet Georgia. For four years in a row, the Oscar for visual effects has gone to firms based in London. There are also some unexpected advantages you might not find along Hollywood Boulevard. The head of Georgia's film rebate program explained recently that "we have many derelict, abandoned small villages or factories. They are mostly state-owned still, and you can easily just blow [them] up."

Still, America's high corporate-tax rate and its practice of taxing international income is out of step with the rest of the world. The solution is clear: Cut tax rates and adopt a system for taxing international income that more closely resembles those used by the country's international competitors.

Mr. Buchholz is author of "The Price of Prosperity: Why Rich Nations Fail and How to Renew Them" (HarperCollins 2016). Mr. Carter served as the head of tax-policy implementation on President Trump's transition team.

GETTY IMAGES

YOUR HEALTH | By Sumathi Reddy

Just One Drink Can Harm

Researchers find a link between 10 grams of alcohol and an increased risk of breast cancer

BOTTOM'S DOWN: A new report finds that drinking even one glass of alcohol a day increases the risk of developing breast cancer.

The type of alcohol doesn't matter—wine, beer and hard liquor all pose the same risk.

The report, a joint effort of the **American Institute for Cancer Research** and the **World Cancer Research Fund**, was a review of 119 studies looking at how diet and physical activity impacts the risk of developing breast cancer in pre- and postmenopausal women.

The studies included data on 12 million women and 260,000 breast cancer cases. The studies don't show that alcohol causes breast cancer, but they show an association or link.

A small glass of wine or beer a day—with about 10 grams of alcohol content—increases the risk of premenopausal women developing breast cancer by 5% and postmenopausal women by 9%, the authors concluded. A standard drink has 14 grams of alcohol.

"One thing that surprised me was that even at such a low level, drinking alcohol was statistically significant," said Anne McTiernan, a cancer prevention researcher at Fred Hutchinson Cancer Research Center in Seattle, and lead author on the report.

Experts aren't clear on why alcohol increases the risk of breast cancer. One theory is that alcohol increases the levels of estrogen in the blood, which is a risk factor. Also, alcohol can damage DNA, which is a precursor to cancer.

Susan K. Boolbol, chief of breast surgery at Mount Sinai Beth Israel in Manhattan, noted that pooling many studies can lead to an imperfect analysis. The studies are retrospective so they involve asking women how much they drank, which isn't always reliable data.

She said the important message is that all types of alcohol are equally harmful. "I have this discussion with patients all the time," she said. "They say, 'I only drink wine, or I only drink beer, and that doesn't count.' This was very, very specific that it does."

> Vigorous and moderate exercise lowers women's risk of developing breast cancer.

Still, she said it is unrealistic to recommend to patients that they completely abstain from alcohol. "Once we start saying "don't do this, don't do that,' we lose patients," she said. "They stop listening. It's about moderation."

Other takeaways from the report: Vigorous exercise lowered the risk of developing breast cancer by 17% in premenopausal women and 10% in postmenopausal women compared with women who were the least active.

Even general physical activity, such as gardening, helps. Postmenopausal women who were active were linked to a 13% lower risk of developing breast cancer, whereas there was no statistically significant benefit for premenopausal women.

The differences in the benefits of exercise for pre and postmenopausal women surprised Therese Bevers, medical director of the cancer prevention center at **MD Anderson Cancer Center** in Houston. "I even found myself giving a different recommendation yesterday to one of my patients who is premenopausal," said Dr. Bevers. She told the patient that really vigorous exercise is linked to reducing the risk of breast cancer whereas moderate exercise may not confer the same benefit.

Being overweight or obese was associated with a greater risk of breast cancer in postmenopausal women, according to the study.

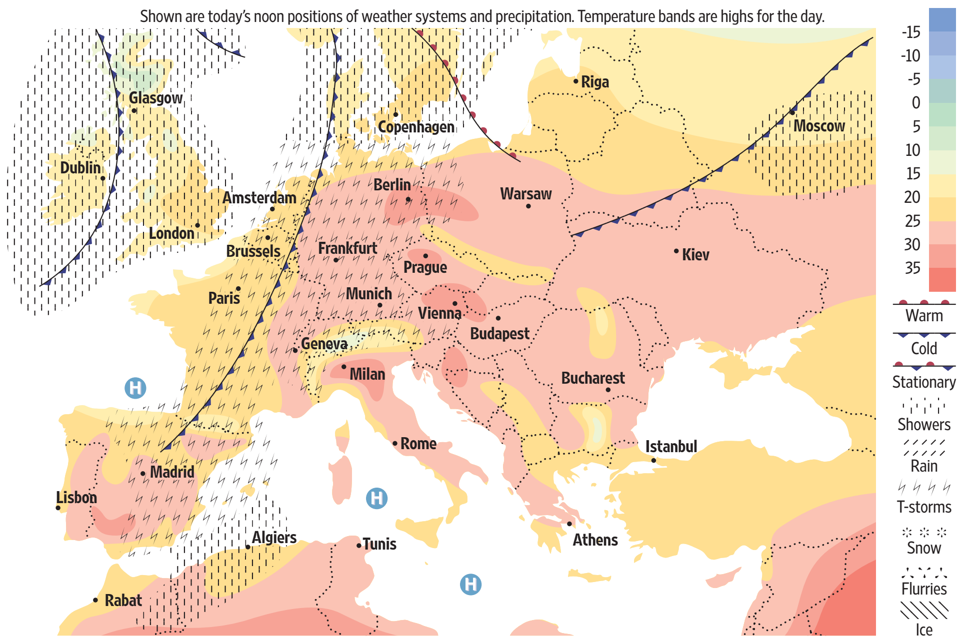
In premenopausal women, overweight and obese women had a decreased risk of developing breast cancer.

But experts say that doesn't translate into recommending weight gain for such women, which comes with increased risks for many other health conditions.

Weather

AccuWeather.com

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

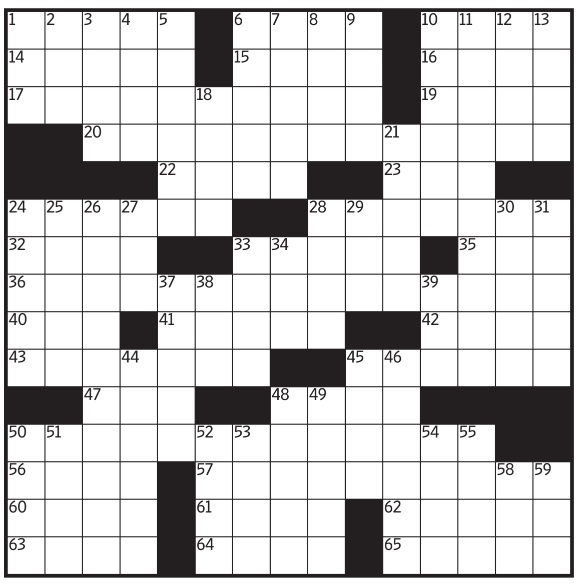


Global Forecasts

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

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

The WSJ Daily Crossword | Edited by Mike Shenk



AYE AYE, SIR! | By Zhouqin Burnikel

Across

1 Easy targets
6 Gulf States VIP
10 Hydrochloric, e.g.
14 Seize by force
15 Titled lady
16 Capitol capper
17 *Kachina doll maker
19 Lena of "Havana"
20 *Like many 2016 election votes
22 Power poker pair
23 Weight room unit
24 Like the Chrysler Building
28 Cocktails served with an onion garnish
32 Coal or gas, e.g.
33 Riyadh resident
35 Youngster in Winnie-the-Pooh stories
36 *Figure on a major case
40 Without exception
41 Vertical graph line
42 Fast period
43 Not contrary to law
45 Beltway environs
47 GI's mail drop
48 "Not guilty," often
50 *Knowledgeable mogul navigator
56 ___ mater
57 Public speaker's asset, and a phonetic hint to a feature of the starred answers
60 Within earshot
61 Org. for Lexi Thompson
62 Bug exterminator?
63 Refuse
64 Some summer babies
65 Toddler's training site

Down

1 "How stupid of me!"
2 GI support group
3 Butterfly-to-be
4 Fox sidelines reporter Andrews
5 Show disrespect for
6 Money of music
7 Large water pipes
8 Device available with a Fusion Drive
9 Lens solution brand
10 Sun-baked houses
11 "Night and Day" songwriter
12 "Sounds like a plan!"
13 Nick's relative
18 Pleasant
21 Mob leader
24 Butcher's scraps
25 Tip in a Russian restaurant
26 "American Gods" author
27 Foreman foe
28 Prerequisite to glory
29 Despot played by Forest
30 To whom a despot answers
31 "Yes and no"
33 Hot
34 "Do ___ say!"
37 Camping tent fabric
38 Kilmer of "The Doors"
39 In the way of
44 Queen's realm
45 Style of the Chrysler Building
46 Tabby's treat
48 Ragu rival
49 "Star Wars" creator
50 Zen garden grains
51 "Twittering Machine" artist
52 Hawk
53 Question for a blood donor
54 Fitting name for a mechanic
55 Deeply engrossed
58 Obsolete PC monitor
59 Item from Santa's sack

▶ Solve this puzzle online and discuss it at **WSJ.com/Puzzles.**

Previous Puzzle's Solution

U	T	A	H		B	E	D	B	U	G		S	K	I
N	O	S	E		A	R	O	U	S	E		H	I	S
U	N	H	I	P	B	R	E	Y	E	R		O	L	E
S	I	E	G	E				S	F	O		O	N	E
	C	S	H	A	R	P	S		U	N	I	T		
			T	R	I	B	E	F	L	I	P	P	E	R
P	A	W	S		C	A	R	O		M	A	O	R	I
A	D	O		C	O	N	B	R	I	O		O	I	L
T	A	M	P	A		D	I	T	Z		G	L	E	E
S	M	A	R	M	Y	J	A	W	O	H	L			
		N	O	P	E		N	O	D	O	U	B	T	
A	H	H		I	L	L				S	T	R	I	P
M	A	O		E	L	E	G	Y	V	E	T	O	E	S
P	H	O		S	E	N	T	U	P		O	K	R	A
M	A	D		T	R	O	O	P	S		N	E	S	T

The contest answer is GUMMI BEARS. The theme answers hide eight three-letter body parts (unHIP brEYEr, tRIBe fLIPper, smARMy JAWohl, eLEGy veTOEs). The last two remaining three-letter body parts GUM and EAR are found in the contest answer.

TECHNOLOGY: CEOS MUST GRASP TECH LIKE NEVER BEFORE B4

BUSINESS & FINANCE

THE WALL STREET JOURNAL. | Tuesday, May 30, 2017 | B1

Euro vs. Dollar 1.1180 ▼ 0.02%	FTSE 100 (7547.63) Closed	Gold (1267.60) Closed	WTI crude (49.80) Closed	German Bund yield 0.326%	10-Year Treasury Closed (2.248%)

Akzo Defeats Activist in Court

By Natalia Drozdiak
And Ben Dummett

U.S. activist investor **Elliott Management** Corp. lost a legal battle Monday to remove **Akzo Nobel** NV's chairman, increasing pressure on **PPG Industries** Inc. to make a hostile bid for the rival Dutch paint and chemicals giant or abandon its monthslong takeover pursuit.

Earlier this month, Elliott took Akzo to court in the Netherlands to force Akzo to hold a special shareholder meeting on the dismissal of Antony Burgmans. Akzo, citing Dutch law, previously rejected the shareholder request for such a meeting.

Elliott claimed that Mr. Burgmans failed to "discharge his fiduciary and corporate governance duties" after the Amsterdam-based company rejected PPG's latest, sweetened offer of €24.6 billion ($29.49 billion) without first attempting to negotiate a deal.


KOEN VAN WEEL/EUROPEAN PRESSPHOTO AGENCY
Akzo Nobel Chairman Antony Burgmans, second from left.

Akzo, which supports Mr. Burgmans, argues its standalone strategy to boost dividend payouts and spin off its specialty-chemicals business and return the bulk of the proceeds to shareholders will generate more value. In defending its position, the paint maker has said its actions have met the highest standards of corporate governance in the Netherlands and complied with Dutch law.

Siding with Akzo, the Dutch business court rejected Elliott's request to allow for the vote to take place. The court said Akzo had analyzed PPG's bids "seriously" and that the dismissal of the company's chairman is a matter of strategy, which is for the management and supervisory board to decide—not the shareholders.

Elliott can appeal the decision to the Dutch Supreme Court. A spokeswoman said Elliott was "surprised and disappointed" with the ruling. "Elliott is considering the implications of this judgment for shareholder rights in the Netherlands and for its next steps in relation to Akzo Nobel," she added.

"AkzoNobel is very pleased that the [court] has decided that its boards have acted in accordance with the highest standards of Dutch corporate governance and it confirms the position and actions of the Chairman," said Akzo spokesman Andrew Wood. "The company will continue to engage in a constructive dialogue with its shareholders, he added.

In its ruling on Monday, the Dutch court also warned Akzo that it can't afford to ignore the rift with some of its shareholders over the company's

Please see AKZO page B2

HEARD ON THE STREET
By Dan Gallagher

Big Hopes For Apple Prompt Huge Bets

Can **Apple**'s coming "supercycle" actually deliver? Investors already have bet nearly $200 billion that it can.

That is how much Apple's market value has risen just since the first of the year. And while the company has other appealing qualities—such as a growing high-margin services business and a swelling cash hoard—the iPhone remains its primary profit driver.

The next iPhone is still likely months away, but Apple's annual developers' conference next week will give some hints of what the new device will bring. Investors are already giddy; Apple's stock is up 33% so far this year.

That sets high expectations for the next iPhone to deliver, and Apple investors aren't the only ones on the hook. Shares of key chip suppliers such as **Broadcom**, **Qorvo** and **Skyworks** are up more than 36% since the start of the year—well ahead of the PHLX Semiconductor Index. Taiwanese companies such as iPhone assembler **Hon Hai Precision Industry**, also known as Foxconn, and **Largan Precision** also have tallied strong gains this year in part on hopes for the next iPhone.

Wall Street is projecting 241 million iPhone units to sell in Apple's 2018 fiscal year, which would be anchored by the new device. That is 11% higher than unit sales projected for the current fiscal year that ends in September.

It is a plausible goal, particularly since more iPhone users have held on to older versions, leaving a large user base ready for an upgrade this year.

And Apple commands strengthening loyalty rates among its users. A recent Morgan Stanley survey found that 92% of current iPhone owners planning an upgrade in the next 12 months intend to stick with Apple, up from 86% at this time last year.

So investors in Apple and some of its key suppliers will need to steel themselves from here. The next few months will likely be filled with rumors of design leaks and component shortages that will make trading more volatile. Apple's shares are still likely to make gains over that time.

Beyond that, investors had better hope the next iPhone makes a strong connection.

WeChat Woos Luxury Brands

France's Longchamp and the U.K.'s Burberry are now selling goods on the popular messaging app

ANTHONY KWAN/BLOOMBERG NEWS
Cartier opened a full store on WeChat. Upscale brands are rethinking their digital strategies amid a tough environment for luxury sales.

By Kathy Chu

HONG KONG—China's **Tencent Holdings** Ltd. is using its vast social-media network to attract luxury-fashion brands to its WeChat app, potentially opening a new frontier in online retail.

France's Longchamp and the U.K.'s **Burberry Group** PLC have begun selling handbags and clothes on WeChat, China's most popular messaging app. **LVMH Moët Hennessy Louis Vuitton** SE's Givenchy and Dior brands are testing demand for their goods through flash sales on the platform.

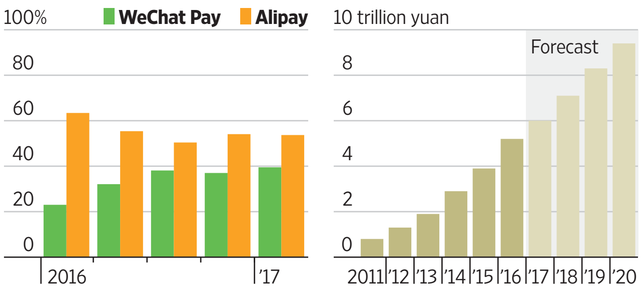
The move signals a challenge to **Alibaba Group Holding** Ltd., the dominant player in e-commerce in China, where online transactions are expected to reach 6 trillion yuan ($870 billion) this year, according to consulting firm **Bain** & Co. Alibaba's Chinese retail sites processed more than $547 billion in transactions in the fiscal year ended in March, which analysts say is more than eBay Inc. and Amazon.com Inc. combined.

While luxury sales on WeChat are in their infancy, Tencent's courting of high-end fashion brands is part of a widening battle between China's internet companies. Alibaba, Tencent and search engine Baidu Inc. are venturing beyond their traditional business lines into payments, social media and e-commerce.

"Customers have responded very well" to Longchamp's limited handbag sales on WeChat, said Jean Cassegrain, chief executive of the luxury brand, which is considering expanding its product lineup on the app. "One way or the other, [WeChat] will significantly contribute to our sales."

Clash of the Titans

Tencent is already making inroads into Alibaba's online-payment business; now it's moving into e-commerce.



Note: 10 trillion yuan = $1.45 trillion
Sources: Analysys (mobile payment); Bain (online retail)
THE WALL STREET JOURNAL.

Upscale brands are rethinking their digital strategies amid a tough environment for luxury sales. Global sales of personal luxury goods were flat in 2016, at €239 billion ($267 billion), while global spending on luxury by Chinese consumers fell for the first time last year, ac-

Please see WECHAT page B4

Pain Up As Cost Of Drugs Surges

By Joseph Walker

Carole Siesser, a retiree in Delray Beach, Fla., started taking a bone-growth drug made by **Eli Lilly** & Co. after she fell and fractured her spine. After two years, the medicine helped to heal her back.

It also cost her $5,600 of her own money to help cover the roughly $26,000 annual price, even though she has Medicare, the U.S. federal health-care insurance program for people age 65 and older.

"They really take advantage of the seniors," Ms. Siesser, 79 years old, said of pharmaceutical companies. "There's no competition, so they can charge what they want."

An analysis of government data by The Wall Street Journal found expensive medicines are increasingly denting the pocketbooks of U.S. seniors and other beneficiaries in Medicare's prescrip-

Expensive medicines are increasingly denting the wallets of U.S. seniors.

tion-drug program, known as Part D, despite legislation meant to reduce out-of-pocket costs and drugmakers' increasing discounts.

The median out-of-pocket cost for a drug purchased through Part D was $117 in 2015, up nearly half from $79 in 2011, in inflation-adjusted dollars, the Journal's analysis found. The analysis excluded low-income patients whose copays are paid primarily by the government.

Some 220 Part D drugs had annual out-of-pocket costs of $1,000 or more in 2015, up 86% from 118 drugs in 2011.

Factors driving the trend include sharply rising drug prices, which grew by an average 14% a year from 2011 to 2015, and the introduction of new medicines with prices that commonly exceed $50,000 annually, according to the Journal's analysis. In addition, the complicated design of Part D requires patients to pay a percentage of their drugs' total retail price, a particular burden for those who use expensive medicines.

"We agree that the pain patients are experiencing with drug prices is real and serious," said Jane Norris, a spokeswoman for the Centers for Medicare and Medicaid Services. "Enhancing competition and eliminating unnecessary government regulation

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U.S. Bankruptcies Leave Lenders Unscathed

By Lillian Rizzo
And Rachel Louise Ensign

When oil prices tumbled to multiyear lows in 2016, the pressure quickly spread to banks that lent to energy companies.

This year, a far different story is playing out for banks as the U.S. retailing industry endures a major shake-up that has led to a spike in bankruptcy filings.

Changing shopper habits and the increasing dominance of **Amazon.com** Inc. have led retail bankruptcies to hit their fastest pace since the financial crisis—21 this year through Tuesday, according to data from S&P Global Market Intelligence. In recent months, retailers **Payless ShoeSource** Inc., **BCBG Max Azria Group** LLC and **Limited Stores** Co. have all filed for bankruptcy.

While many of these companies are saddled with a variety of debt, the "asset-based loans" popular with banks are among the safest. That is because the loans are typically backed by stores' inventories or accounts receivable.

Banks have made asset-based loans to 15 of the 21 retailers that filed for bankruptcy since the beginning of 2017, according to a Wall Street Journal review of court filings and the S&P data. But those loans are all repaid or expected to be repaid, according to bankruptcy documents.

RICHARD B. LEVINE/LEVINE ROBERTS/NEWSCOM/ZUMA PRESS
A Payless store. The company filed for bankruptcy this year.

That has led bank executives and other industry observers to shrug off the risks these distressed retailers pose. The industry's troubles are "bad for retail, but not so bad for banks," said Glenn Schorr, a bank analyst at Evercore ISI.

On a conference call last month, **J.P. Morgan Chase** & Co. Chief Executive James Dimon played down the risks of retailers to the nation's largest bank. "There'll be something there, but it's nothing that will be dramatic when it's

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INDEX TO PEOPLE

BUSINESS & FINANCE

Politics at Forefront of Book Show

By Jeffrey A. Trachtenberg

Politics will be front and center at BookExpo, the book-publishing industry's annual trade show that opens Wednesday in New York.

Former Democratic presidential candidate Hillary Clinton, whose untitled memoir about her experiences on the 2016 campaign trail will be published in the fall by Simon & Schuster, will headline the book show Thursday evening at Manhattan's **Javits Center**. The convention space was the site of the spoiled Election Night celebration for her supporters last November.

THE WEEK AHEAD


CHRIS KEANE/REUTERS

Hillary and Chelsea Clinton are expected to appear at BookExpo.

A spokesman for Simon & Schuster said he expects Mrs. Clinton to discuss her coming book and her writing process during an onstage conversation with an interviewer who hasn't yet been named.

Mrs. Clinton has made relatively few public appearances since the election. But she returned to the political fray during a commencement speech at Wellesley College on Friday and earlier this month launched a new political group called Onward Together that supports progressive values.

She won't be the only Clinton at the Javits Center. On June 4, daughter Chelsea Clinton is expected to appear at BookCon, an offshoot of BookExpo that sells tickets to the general public. She will sign copies of her new children's title, "She Persisted: 13 American Women Who Changed the World," in which her mother makes a cameo alongside featured women like Harriet Tubman, Oprah Winfrey and Sonia Sotomayor.

As President Donald Trump continues to dominate the national conversation, the political thread at this year's BookExpo appears thinner than ever.

"The show is responding to the zeitgeist," said Michael Cader, owner of Publishers Lunch, a book industry newsletter and website. "There's a reason why 'Brave New World' shot up the bestseller list earlier this year." Aldous Huxley's 1932 novel is considered a dystopian-fiction classic.

This year's show will feature 194 exhibitors, up from 190 in 2016, said a BookExpo spokesman. Publishers promote their coming titles to booksellers and librarians, with author events often attracting long lines of people seeking autographs.

For publishers, the year appears off to a solid start. Three major houses reported revenue gains for the quarter ended March 31, a period that usually sees fewer major title releases. Current top-selling political titles include "Democracy" by Condoleezza Rice, "Hillbilly Elegy" by J.D. Vance and "The American Spirit" by David McCullough.

On the retail front, bookstore sales declined 1% to $2.84 billion in the first quarter compared with the same period a year ago, according to preliminary estimates released by the U.S. Census Bureau. "A 1% decline for the quarter isn't the end of the world, especially when you consider how many people are staying home and watching the new administration's goings on," said Jim Milliot, editorial director of Publishers Weekly.

Political titles that will be featured at the show include an essay collection by Ta-Nehisi Coates titled "We Were Eight Years in Power: An American Tragedy," and NBC News correspondent Katy Tur's "Unbelievable: My Front-Row Seat to the Craziest Campaign in American History."

Also being promoted is "Obama: An Intimate Portrait: The Historic Presidency in Photographs" by Pete Souza that will be published by Lagardere SCA's Little, Brown & Co. in November. Mr. Souza, a former chief official White House photographer, is expected to participate in a breakfast panel on Thursday.

Elsewhere, Harper, an imprint of HarperCollins Publishers, is promoting Sharyl Attkisson's "The Smear: How Shady Political Operatives and Fake News Control What You See, What You Think, and How You Vote." The book, which publishes in June, attacks the Clinton campaign, said a spokeswoman for Harper. HarperCollins Publishers, like The Wall Street Journal, is owned by News Corp.

Also being promoted will be conservative radio host Laura Ingraham's "Billionaire at the Barricades: The Populist Revolution from Reagan to Trump" being published in October by All Points Books, an imprint of St. Martin's Press.

AKZO

Continued from the prior page

strategy.

"A constant lack of confidence from a substantial part of the shareholders is detrimental for Akzo Nobel and all its shareholders," the court said.

The court said it would continue to assess whether it needs to call for an independent investigation into Akzo over whether the company has been sufficiently transparent with its shareholders about the process it took when rejecting the PPG proposals.

Akzo argues its stand-alone strategy will generate more value.

With its court challenge, Elliott was betting that a favorable shareholder vote—or the threat of one—to remove an important opponent to PPG's offer, could pressure the board to bow to deal talks.

At the hearing PPG Chief Executive Michael McGarry also urged the Dutch court, known as the Enterprise Chamber, to "do all that is necessary" to require Akzo to enter into negotiations, according to a transcript of the executive's statement. PPG said Monday that it remains open to deal talks with Akzo, but "without productive engagement, PPG will assess and decide whether or not to pursue an offer for Akzo Nobel."

The Pittsburgh-based paint maker, under Dutch law, must decide by June 1 whether to present its offer directly to Akzo shareholders, a move tantamount to launching a hostile bid. Its alternative is to shelve its bid for at least six months. PPG has appealed to the Dutch securities regulator to delay the cutoff date to June 14 or June 15.

Hostile takeover attempts are considered risky because they create a conflict for shareholder support. The acquiring company also doesn't have the benefit of due-diligence on the target company's operations that is typical in friendly transactions.

The Elliott-led investor group pushing Akzo to enter into talks could embolden PPG to attempt a hostile bid because the investors together own more than 10% of Akzo shares.

But that prospect still may not be enough of an incentive because Akzo's corporate structure could allow a group of current directors to thwart a takeover, even if PPG won over investors to complete a deal. That's because the Dutch company's controlling foundation and its four directors, including Mr. Burgmans, Akzo's chairman, retain exclusive rights to nominate replacement Akzo directors.

COSTS

Continued from the prior page

are important steps that will also help resolve the drug pricing issue."

Medicare patients taking high-price drugs don't benefit directly from the rebates that pharmaceutical companies often give to insurers. Instead, patients pay a portion of the drug's sticker price at the pharmacy, "without regard to rebates and other price concessions," CMS said in January. Rebates and discounts totaled $23.63 billion, or 17% of gross drug costs, in 2015, up from $9.76 billion and 12% of gross costs in 2011, according to CMS.

"There are a lot of patients who aren't able to afford prescription drugs in Medicare," said Tim Gronniger, who oversaw drug-spending issues as deputy chief of staff at CMS until he left this past January.

Instead of using rebates to reduce patients' cost-sharing on expensive drugs, insurers use them to reduce monthly premiums for all beneficiaries, according to CMS.

"How savings are delivered to the consumer shouldn't distract from the fact that savings are delivered to the consumer," said Cathryn Donaldson, a spokeswoman for America's Health Insurance Plans, an industry trade group. The discounts that insurers receive from drugmakers "are passed on to members."

But Mr. Gronniger said the relatively small premium savings aren't worth the extremely high costs some patients bear. "You're effectively trading off the financial well-being of a sick person who has a lot of other medical costs against an average enrollee's premium," Mr. Gronniger said.

Medicare's drug program is unique among Medicare benefits for being administered entirely by private insurers. Lawmakers have praised the program for keeping spending well below initial estimates.

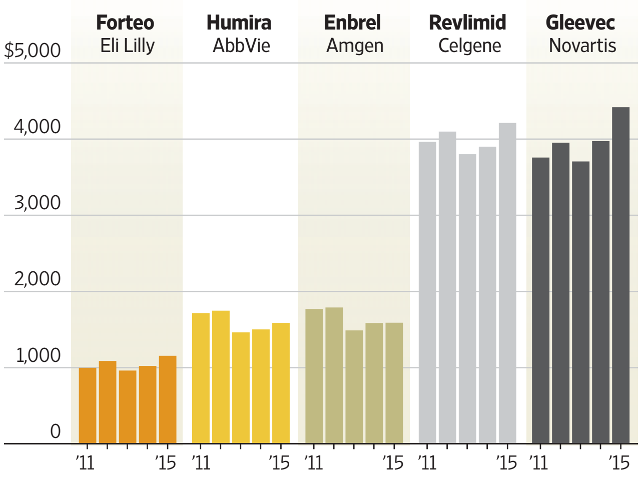
But spending on the drug program has soared in recent years. The uptick in spending has caused concern among government officials and analysts about Part D's sustainability and the financial burden that higher drug prices are putting on patients.

The Affordable Care Act contains a provision meant to address patients' costs. Before 2011, Medicare enrollees paid 100% of brand-name drug costs when spending exceeded an initial coverage limit and before emergency insurance coverage kicked in—a period known as the coverage gap or doughnut hole. The ACA gradually lowers the percentage that beneficiaries pay during the coverage gap to 40% this year, and to 25% in 2020 and after. The remainder of costs in the coverage gap is covered by a 50% discount from drugmakers and government subsidies. Patients pay 5% of costs after their emergency coverage begins.

Burden on Patients

The median out-of-pocket cost in 2015 for the top 100 drugs by total spending in Medicare Part D was up 32% to $376 from 2011. Here is what patients spent for five expensive medicines.

OUT-OF-POCKET COSTS (2011-'15)



	Forteo	Humira	Enbrel	Revlimid	Gleevec
MEDICARE SPENDING, 2015	$0.43B	$1.66B	$1.39B	$2.08B	$1.23B
UNIT PRICE CHANGE, 2011-'15	+79.6%	+70.2%	+70.9%	+26.7%	+76.7%

Note: Out-of-pocket costs exclude patients who receive low-income subsidies. All spending figures are adjusted for inflation, 2015 dollars. Unit prices reflect retail costs, prior to discounts and rebates.
Source: Centers for Medicare and Medicaid Services THE WALL STREET JOURNAL.


CARRIE ANTLFINGER/ASSOCIATED PRESS

The drug imatinib mesylate, also known as Gleevec, is used to treat chronic myelogenous leukemia, or CML.

Even so, rising prices are offsetting the benefit of the reduced cost-sharing for many drugs. Medicines with annual out-of-pocket costs of $1,000 or more represented a quarter of the program's total gross spending in 2015, or some $35.15 billion, up from $8.34 billion, or 9% of gross spending, in 2011, according to the Journal's analysis.

Ms. Siesser and her husband, Paul Siesser, order many of their prescriptions from an online pharmacy that says it is based in Canada, but the site didn't sell the Lilly bone-growth drug, Forteo.

The couple's total drug costs skyrocketed in recent years, jumping from $980 in 2014 to $5,565 in 2015, after Ms. Siesser began taking Forteo. Last year, their spending came down a bit to $4,815 after she finished the treatment.

Forteo's monthly price jumped 80% to $1,970 in 2015 from $1,100 in 2011, according to the Journal's analysis.

"The high cost-sharing benefit design of Medicare Part D has a significant impact on patients who need specialty medications," an Eli Lilly spokesman said in a written statement, adding that "list prices are much higher than the net prices ultimately paid by private insurers."

LENDERS

Continued from the prior page

happening," he said, adding that J.P. Morgan has scrutinized its exposure to retailers, as well as property occupied by them and vendors who sell to them.

Still, the troubled industry has the potential to cause other headaches, particularly for smaller banks that do a lot of commercial real-estate lending.

"This issue clearly isn't going away," Christopher E. McGratty, an analyst at Keefe, Bruyette & Woods Inc., said. He expects smaller banks, some with 20% of their commercial-real-estate exposure focused on retailers, will start to give more disclosure soon on different types of borrowers they serve, from strip malls to big-box stores.

Overall, Keefe, Bruyette estimates that banks have $270 billion of retail-related commercial real-estate loans.

Banks have taken on some of their most direct exposure to retailers through asset-based loans, which typically get paid back before those to other lenders. Asset-based "lenders historically have recovered 100% of their exposure" in retail bankruptcies, said David M. Hillman, a restructuring partner at Schulte Roth & Zabel LLP.

Commercial loans to retailers are larger than energy exposure at many banks. Retailers represent Bank of America Corp.'s third-biggest industry exposure in its commercial-lending book, for instance, and the bank extended $41.6 billion to the sector at the end of 2016. By contrast, the bank lent $19.7 billion to the energy industry.

Bank of America or Wells Fargo & Co. were lenders in nine of the 21 recent retail bankruptcies. The two banks have also lent money to troubled retailers that haven't filed for bankruptcy protection, like **Sears Holdings** Corp. and **BonTon Stores** Inc.

Banks generally take reserves against potential losses when they see borrowers that might be at risk. In the case of retailers, the amounts generally haven't been big enough to show up in broader reserve levels at big banks, Mr. Schorr said. That is a contrast to last year, when energy lending led banks to post large increases in reserves broadly.

One reason for the difference: In energy, the commodity-price declines were felt widely across the industry. Loans to troubled retailers, on the other hand, are balanced out by online stores and other chains that are performing better.

Another distinction is that the value of the retailers' collateral underlying the loans has held up better than in energy. "The inventory and accounts receivable value doesn't fluctuate as much as commodities' prices do," Mr. Hillman said.

A Parts Shortage Slows Down BMW

By William Boston

BERLIN—**BMW** AG, the German luxury-car maker, is slowing or halting production of certain models in response to a shortage of parts caused by delivery problems from supplier **Bosch** GmbH.

The hiccups in the normally smooth operation show how dependent manufacturers are on a global, smoothly running supply chain. Even small disruptions anywhere along the line can cascade into delays in getting the company's big moneymaking products off the assembly line and into showrooms.

In BMW's case, the culprit is a "Lenkergetriebe," or steering gears manufactured by Stuttgart-based auto-parts giant Bosch and used in BMW's 1-Series, 2-Series, 3-Series and 4-Series compact cars.

"Our supplier Bosch is not currently able to provide us with a sufficient number of steering gears," said Markus Duesmann, BMW board member in charge of purchasing and supplier network.

Bosch, in turn, said the trouble arose when a supplier in Italy experienced difficulties in delivering the casing for the steering gears. Bosch declined to identify the supplier.

As a result of the shortages, production is restricted at several BMW plants in Germany, the Tiexi plant in Shenyang, China, and at the company's plant in Rosslyn, South Africa, a BMW spokesman said.

"Automotive value chains are international. An interruption in delivery of parts from a partner in Europe can therefore also have implications in China," said Mr. Duesmann.

"The vehicle is not complete until all parts, most of which are supplied 'just-in-time,' are installed. It is, therefore, understandable how a missing part—even if only a small one, as in this case—can have a major impact."

BMW shares were trading about 0.25% higher at €84.52 in late afternoon in Frankfurt. Analysts at Equinet, a brokerage, said the costs to the company were likely manageable unless the interruption of production continued for several days.

"Bosch is working urgently in a task force together with BMW and the supplier to relieve the supply squeeze as soon as possible and keep the impact as limited as possible," Bosch said in a statement.

BMW said it doesn't know the extent of the financial damage or impact on production and sales caused by the break in production.

A spokesman said the company hoped to restart assembly at the plants next week, but wasn't certain that would be possible.

BMW's plant in Leipzig in eastern Germany has been shut down since Friday. Plants in China and South Africa have brought forward planned production breaks and extended their duration.

GUENTER SCHIFFMANN/BLOOMBERG NEWS

A production line at the BMW factory in Regensburg, Germany.

Third Day of Delays for BA

By Robert Wall

TOLGA AKMEN/LONDON NEWS PICTURES/ZUMA PRESS

Passengers waited for their flights at London Heathrow Airport Monday during a period of turmoil.

LONDON—**British Airways** on Monday said a far-reaching computer outage disrupted flights for a third day and pledged to avoid a repetition of the events that led to hundreds of canceled flights over the weekend.

British Airways Chief Executive Officer Alex Cruz said the carrier still doesn't fully know why a power surge caused its IT system to fail and take flight, baggage, and customer-communication systems offline. Systems at 170 airports in 70 countries were affected, he said, and a backup system also failed.

British Airways said about 75,000 passengers had flights canceled Saturday and Sunday though most eventually made it to their destinations.

The disruption hit British Airways during one of the U.K.'s busiest travel weekends, with a public holiday on Monday and the long Memorial Day break in the U.S. A power surge early Saturday knocked out computer systems, affecting the carrier's operations, call centers and website.

The system outage again puts a globally known airline in the spotlight for IT problems with far-reaching implications affecting hundreds of flights and thousands of passengers. **Delta Air Lines** Inc. in January grounded flights for hours because of a technology outage affecting multiple systems. It followed an August breakdown that led to flight cancellations spurred by an electrical problem that appears similar to what BA experienced.

Last July, **Southwest Airlines** Co., the No. 4 U.S. carrier, canceled 2,300 flights over four days after a computer problem. **United Continental Holdings** Inc. in January also was forced to suspend flights because of technical issues.

Airlines in the U.S. are under scrutiny after a serious of missteps in how they treat customers, causing lawmakers to threaten to impose new regulations on passenger rights. The IT issue is more expansive, though. Airlines often struggle with operating a mix of new computer equipment, introduced to ease travel and improve operations, and legacy systems that have been in place for years. The series of malfunctions spurred some airlines to review the resilience of their systems.

"A power-supply issue should not bring an airline to its knees," said Gil Hecht, CEO of consultancy Continuity Software. Still, he said, recovery can be time consuming because it isn't always clear where the failure occurred or data has been corrupted.

British Airways Monday said operations were returning to normal. All long-haul flights should operate at the airline's busy London Heathrow Airport hub, the carrier said, "as our IT systems move closer to full operational capacity."

The airline said it expected to operate 95% of its planned schedule, though some short-haul flights would be canceled. British Airways said all flights should operate at Gatwick Airport, south of the capital, where services also were affected when computer systems were knocked offline.

The airline said it would meet its obligations under passenger-rights rules. Under European Union passenger-rights rules, the airline is liable for payments to those whose travel plans were disrupted

British Airways hasn't given a cost for the disruption. Goodbody analysts estimate the cost of the IT outage may be around €82 million ($92 million), or 2.7% of estimated 2017 operating profit, from passenger claims and lost sales.

A power surge early Saturday knocked out computer systems at British Airways.

Mr. Cruz apologized on Sunday and Monday for what was a "horrible time" for customers who have seen vacation plans spoiled and others stranded for long periods on planes. Efforts to restore operations to normal took longer than expected. The airline canceled departures for most of Saturday from Heathrow and Gatwick.

British Airways, a unit of International Consolidated Airlines Group SA and the biggest trans-Atlantic carrier on routes between Britain and the U.S., canceled about half its services Saturday, or more than 400 flights, according to FlightAware.com, and an additional 145 on Sunday. More than 600 flights were delayed over the two days. FlightAware.com showed 27 cancellations for Monday. Many passengers whose travel plans were disrupted also were separated from their bags.

The airline Monday asked passengers again to check their flight status before setting out for the airports, which were crowded over the weekend with so many flights canceled and delayed.

The carrier said it was refunding or rebooking passengers, though those efforts also had been hobbled by the computer outage.

British Airways has suffered multiple problems in recent months with its computer system. A new check-in system introduced last year experienced multiple failures, leading to flight delays and angering passengers.

"Across IAG material operational failures seem to have become a recurring topic," said Damian Brewer, an analyst at RBC Capital.

At China Dairy, Top Ranks in Disarray

By Wayne Ma And Joanne Chiu

One of China's largest dairy companies is facing a corporate-governance meltdown: All of its board members except its chairman have left since a fateful day in March, when the company's shares plunged 85% in a single trading session.

The departures come as **China Huishan Dairy Holdings** Co. battles allegations of financial irregularities, including claims made last year by short-selling firm Muddy Waters Research that the company inflated profits—claims that Huishan denied. Shares of Huishan, listed in Hong Kong, have been suspended since their price collapsed on March 24, erasing $4.1 billion in market value.

Huishan said late Friday in a regulatory filing to the Hong Kong stock exchange that its second-to-last remaining board member, Ge Kun, was removed after she became unreachable for more than two months. Together with Chairman Yang Kai, Ms. Ge owns more than 70% of Huishan's shares through a private company, according to filings. Mr. Yang, who founded Huishan and owns 90% of the private company, has pledged virtually all of these shares to creditors, according to filings.

Efforts to contact Huishan's investor-relations offices in Shenyang and Hong Kong on Monday were unsuccessful.

Huishan's recent troubles have echoes of events at another Chinese company listed in Hong Kong, solar-equipment maker Hanergy Thin Film Power Group Ltd. Both companies rode a wave of government support for their industries, landed in the crosshairs of short sellers, had their founders pledge shares to creditors, and endured a collapse in share price followed by a trading suspension and the departure of board members. Hanergy's shares have remained suspended for more than two years; its chairman has stepped down.

The company has denied corporate wrongdoing. Efforts to reach Hanergy were unsuccessful.

Huishan, based in the northeastern Chinese city of Shenyang, says it is involved in all aspects of the dairy-supply chain, from growing feed and raising cows on its own farms to producing dairy products. It is one of the biggest dairy-farm operators in China, according to filings, and said in its initial-public-offering prospectus that unlike its competitors, it grows its own alfalfa for cattle feed.

In addition to questioning Huishan's bookkeeping, Muddy Waters's report in December said the alfalfa claim didn't bear out, based on visits to 35 farms and five production facilities as well as drone flyovers of select Huishan sites. Huishan disputed the report at the time, saying its financial statements are accurate, and it produces about 90% of its own alfalfa.

Ms. Ge oversaw sales, government affairs and human resources at Huishan, according to filings. Huishan said in filings Ms. Ge notified the chairman March 21 that she would take a leave of absence because of work-related stress and didn't want to be contacted. Huishan said in filings it later filed a missing-person's report in Hong Kong, where she was last known to be, "out of concern for her whereabouts." Efforts to reach her through the company have been unsuccessful.

Ms. Ge's removal came after eight other board members resigned over a two-month period. Since mid-April, Huishan's board of directors has lacked the minimum number of three members required by the company's articles of association to make decisions, filings show.

Huishan said none of the executives who resigned from their board posts had disagreements with the board, and there were "no other matters" that had to be brought to the attention of shareholders.

In March, after Huishan's shares plunged, the company also denied what it described in filings as market rumors that Bank of China had conducted an audit after finding that its chairman had used company funds to invest in real estate using fake invoices. However, Huishan said it had missed some bank-loan payments and that it was working with creditors and the government of its home province of Liaoning to help service the loans.

WANG DENGHU/IMAGINECHINA/ASSOCIATED PRESS

Huishan milk on sale at a supermarket in Shenyang, China.

'Pirates,' Nearly Washed Up in U.S., Snatches Loot Abroad

By Ben Fritz

Johnny Depp and his "Pirates" crew took on water during a slow Memorial Day weekend at the domestic box office but found treasure overseas.

"Pirates of the Caribbean: Dead Men Tell No Tales," the fifth entry in **Walt Disney** Co.'s $4 billion franchise, opened to a soft $77 million over the long holiday weekend in the U.S. and Canada, according to studio estimates. It is a lower start than that of any prior "Pirates" movie since the 2003 original.

A flop from the weekend's other new release, "Baywatch," brought the overall holiday weekend box office in the U.S. and Canada to $176 million, making it a dismal No. 18 of the 24 Memorial Day weekends recorded by comScore since 1994.

However, the new "Pirates" was launched with an impressive $208.4 million internationally, which Disney said was 17% more than 2011's "Pirates of the Caribbean: On Stranger Tides," the most recent sequel, made in the same markets at current exchange rates.

"On Stranger Tides" grossed $804.6 million overseas and $241.1 million domestically. "Dead Men Tell No Tales" looks as if it will be even more lopsided.

Mr. Depp, whose performance as pirate Jack Sparrow made the first franchise entry a word-of-mouth phenomenon, has had several recent flops in the U.S., including "Alice Through the Looking Glass" and "Mortdecai," but remains popular overseas.

After its world premiere at Shanghai Disneyland, "Dead Men Tell No Tales" posted a strong $67.8 million opening in China. That is higher than the total gross of any prior "Pirates" film in the country. In Russia, its $18.1 million debut was the biggest for any movie in history, Disney said.

PETER MOUNTAIN/ASSOCIATED PRESS

Johnny Depp, right, in the latest 'Pirates of the Caribbean' film.

Other strong markets included South Korea, Brazil and Mexico.

Though box office in the U.S. and other developed Western nations is ultimately most profitable for Hollywood studios, as it leads to follow-on revenue from DVD sales and television licensing, the new "Pirates" looks as if it will be a solid if not massive success for Disney, given its $230 million production budget. It is expected to be the final film in the series.

"Outside of how did we do relative to the last one domestically, this is a win," said Disney distribution chief Dave Hollis. "The bottom line is we're making a movie for a global audience."

"Pirates" is one of several major franchises that have recently been losing steam with U.S. audiences but prospering in developing foreign markets, including "Fast and Furious" and "Transformers."

Paramount Pictures' "Baywatch," an adaptation of the 1990s television series, grossed an estimated $27.6 million from its Wednesday night debut through Monday. That is a weak start for a movie led by A-list star Dwayne Johnson and with a $70 million production budget.

The **Viacom** Inc.-owned studio had hoped a mixture of raunchy R-rated comedy, action, and a beloved brand name would replicate the success of 2012's "21 Jump Street," which grossed $201.6 million globally and spawned a sequel. But audiences weren't drawn to "Baywatch," perhaps in part because of weak reviews.

So far "Baywatch" has opened in only one foreign market, Taiwan, and the studio is hoping for better results overseas, thanks to the popularity of the TV show and Mr. Johnson, said Paramount marketing and distribution President Megan Colligan. The movie will have a premiere in Berlin on Tuesday.

In the U.S., "Baywatch" was likely hurt by weak reviews that spread quickly among young moviegoers on social media, Ms. Colligan said.

KEYWORDS | By Christopher Mims

Wall Street to CEOs: Innovate Now

Investors and boards long obsessed with quarterly profits are now hunting for leaders to make big, fast bets to fend off upstarts shooting for the moon.

Ford Motor Co.'s recent decision to boot then-Chief Executive Mark Fields, a 28-year veteran of the company, exemplified a shift in the priorities of big companies across the U.S. The message is simple: In an age of rapid disruption by the software and tech industries, a leader has to pick up the tempo and make riskier bets sooner... or else.

To make things worse for established players, investors aren't comparing them to their traditional rivals, but to quick-moving Silicon Valley startups that are poised to make them irrelevant.

For pretty much any industry you can name—not just autos but other manufacturing, logistics, finance, media and of course retail—there are tech startups purporting to have better ideas, ones they say they don't need decades to make into realities. It isn't as if all these industries will see massive CEO turnover, but it does mean established companies need to consider drastic measures. They must be willing to tell their stakeholders they may have to lose money and cannibalize existing products and services, while scaling up new technologies and methods.

"Ten years ago, innovation was based on features and functions," says William Ruh, chief digital officer at General Electric. "Now it's about your business model and transforming your industry."

Before, companies could innovate by acquiring tech startups. But the top disrupters now grow so quickly and capture so much market share, they become too valuable to buy or are unwilling to sell. "It's now a battle to the death," says Mr. Ruh.

Mr. Fields did much that was good for Ford, returning consistent profits. But as it became clear the automotive market was entering a revolution of electric vehicles, self-driving technology and ride-sharing—with stars like Uber, Tesla, Lyft and Waymo starting to shine—Ford's stock sank. The share price is off 40% from when Mr. Fields took over three years ago.

Mr. Fields even set a course for adopting these emerging technologies. He just couldn't do it fast enough for Ford and its shareholders.

Other CEOs are being dismissed as their businesses post losses in the face of tech-heavy competition. In the past year alone they include Ronald Boire of Barnes & Noble, GNC Holdings' Mike Archbold and top executives at three of the six major Hollywood studios.

Mickey Drexler, CEO of beleaguered J. Crew, admitted that if he could go back 10 years, he might have done things differently, to cope with the rapid transformation of retail by e-commerce. Who then would have predicted that in 2017 the No. 1 online retailer of clothing to millennials would be Amazon?

CEO turnover isn't the only solution on the table, says Horace Dediu, a fellow at the Clayton Christensen Institute for Disruptive Innovation, a think tank based in the San Francisco Bay Area. Companies also have to incubate potentially disruptive startups within their own corporate structures. This means protecting them as they develop, and being willing to absorb their losses for as long as their competitors do. Consider, for example, that Amazon made almost no profit for its first 20 years.

Another retailer, Amazon rival Wal-Mart Stores, recently has seemed to be managing this transition well. In its most recent quarter, Wal-Mart's e-commerce division increased sales 29% from a year earlier. Many analysts thought the company overpaid for Jet.com, which cost it $3.3 billion in August 2016. But the acquisition brought e-commerce veteran Marc Lore, who became chief executive of Wal-Mart's online operations and quickly replaced existing executives with members of his own team. Importantly, Wal-Mart credits its recent growth in online sales to "organic" growth of its Walmart.com operations—the division Mr. Lore heads.

Even companies that have long depended on in-store, analog experiences are following this playbook. Luxury brand company **LVMH Moët Hennessy Louis Vuitton**, for example, hired Ian Rogers, the former CEO of headphone maker Beats and a former Apple Music executive, to build an e-commerce portal for its high-end brands.

To the extent that an executive shake-up brings in leaders who can nurture disruptive business models, the new leaders must be part of a team with the rare skill of maintaining an existing business at the same time. It's a skill that GE Chief Executive Jeff Immelt, for one, has mastered.

GE has seen steady growth as its core businesses expand while it adds new product lines. It can't just innovate; it has to deliver innovations at scale. Before we give up on every company that doesn't have an eccentric, hard-charging founder and technologist at its helm, remember the advantage big companies like GE do have over upstarts: the manufacturing and logistics infrastructure sufficient to deliver new products globally.

To return to automobiles, consider General Motors. It's possible, albeit unlikely, that GM could become merely a supplier to transportation-service providers like Uber. To counter that threat, GM is investing in companies such as Lyft, while also experimenting with its own ride-sharing services. Should GM buy Lyft, perhaps Logan Green, chief executive of Lyft, could take a high post at the car maker—even the CEO job. It would certainly make sense in a future where auto makers sell subscriptions to transportation instead of cars.

Sound outlandish? Ford didn't think so. Its new CEO, Jim Hackett, was previously head of the company's Smart Mobility division, which works on autonomous cars.

DANIEL BECERRIL/REUTERS

Jeffrey Immelt has been adept at adding new product lines while maintaining GE's core businesses.

BUSINESS WATCH

EDF

EU Regulator Clears Areva Nuclear Deal

Électricité de France SA's purchase of **Areva** SA's nuclear-reactor business was cleared by the European Union's antitrust regulator on Monday, a step that is likely to help Areva gain access to funding by the French government.

The European Commission said plans by EDF to acquire as much as 75% of Areva's nuclear-reactors business New NP wouldn't raise competition concerns.

The EU in January approved plans by the French government to grant Areva a capital injection of €4.5 billion ($5 billion) on the condition the deal to sell Areva's reactors business was cleared.

The regulator also stipulated a positive conclusion to tests conducted by the French Nuclear Safety Agency of the Flamanville III nuclear reactor vessel, which is supplied by Areva.

—Natalia Drozdiak

JBS

Firm Moves Closer To a Settlement

The holding company of **JBS** SA and federal prosecutors in Brazil moved closer toward a settlement amount for corruption charges against the country's largest meatpacker.

Prosecutors said on Sunday that they rejected an offer from holding company J&F in the past few days doubling the amount it was willing to pay under a leniency agreement to eight billion reais ($2.45 billion) from four billion reais. They have proposed a reduced fine of 10.99 billion reais to J&F from the 11.2 billion reais they were seeking last week.

J&F declined to comment.

The company is negotiating a settlement with Brazilian authorities after its owners agreed to cooperate with local authorities, admitting they paid millions of dollars in bribes to government officials over several years.

On Monday, the company's shares rose less than 1% to $7.77 reais.

—Luciana Magalhaes

Hotels Take Aim at Travel Websites

BY CHRIS KIRKHAM

Major hotel chains are engaging in an online turf war with the very travel sites that have helped drive their businesses.

Marriott International Inc., **Hilton Worldwide Holdings** Inc. and **InterContinental Hotels Group** are using extensive marketing campaigns to claw back business from **Expedia** Inc., **Priceline Group** Inc. and other travel-booking sites, which steer customers to hotel properties but also take commissions of as much as 30% for each reservation. The chains are starting to treat these sites less as valuable business partners and more as gatekeepers standing between them and their customers.

Many large hotel brands are offering lower nightly rates and other perks to loyalty members who book directly through their sites instead of online travel agencies.

The industry effort faces an uphill climb, however, as travel portals have become ubiquitous tools for planning a trip. Online travel agencies were responsible for $99 billion of world-wide hotel bookings last year, according to travel industry-research group Phocuswright.

A survey conducted by travel-data firm Adara Inc. showed that 52% of U.S. travelers between the ages of 18 and 34 prefer booking hotels through online search engines as opposed to brand websites, compared with 37% age 35 and older. Younger travelers are also less likely to participate in hotel-rewards programs, the survey found, raising questions about how much brand loyalty matters to price-sensitive customers. Many prefer third-party sites because they show an array of options and allow customers to package airfare or car rentals.

"I always want to find the good deal, and see what all my options are first," said Nicole Leffew, a 28-year-old bartender and fashion blogger from Ohio. She said she rarely consults the hotels' websites because she feels "they don't have that much."

PATRICK T. FALLON/BLOOMBERG NEWS

A Marriott hotel in Los Angeles. Many large hotel brands are offering lower nightly rates and other perks to loyalty members.

The new battle is the latest episode in a two-decade "frenemy"-style relationship between online travel agencies and the hotel industry. Sites such as Expedia and Priceline were crucial for hotels during down periods such as after 9/11, but they have gradually eaten into the share of overall bookings ever since.

For major airlines, the battle with booking portals isn't as pronounced because there are far fewer airlines than hotel chains. But hotels are facing a conundrum that frustrates many industries in the internet age, from Hollywood to the music industry: Online middlemen deliver a vital stream of customers, but end up taking a cut of profit.

The 10% to 30% commissions that online travel agencies charge for each night represent an expensive customer pipeline for hotel owners who already pay fees to major brands such as Hilton and Marriott.

Commissions associated with online travel agencies cost the U.S. hotel industry an estimated $4.5 billion for the 12 months ended last June, according to research from hotel industry consultant Kalibri Labs.

"It's always been a thorn in our side," said Mark Ricketts, president and chief operating officer of McNeill Hotel Co., which owns and operates more than a dozen Hilton- and Marriott-affiliated hotels in seven states.

Chris Silcock, Hilton's executive vice president and chief commercial officer, said a goal has been "educating customers" and changing their behavior.

"There had been this perception that to get the best price, you book through a different channel than going direct," he said. "That's never actually been the case."

Hotel bookings are the biggest source of growth for online travel agencies. Last year, the value of hotel bookings through third-party travel agencies in the U.S. grew to $31.4 billion, surpassing direct hotel online bookings for the first time since the data was tracked beginning in 1998, according to Phocuswright.

The sites spend heavily on marketing: The more than $8.5 billion spent globally on sales and marketing by Expedia and Priceline Group alone last year is likely on par with the entire world-wide hotel industry, the group estimated.

Hotels have responded with advertising campaigns such as "Stop Clicking Around," Hilton's largest-ever marketing effort, and Choice Hotels International Inc.'s "Badda Book. Badda Boom" effort.

Brands have been tweaking their loyalty programs to extend immediate benefits to casual travelers, not just frequent business travelers.

Brian King, global sales officer at Marriott International, said the goal is to convert casual customers into loyal guests who "stay the most, and they pay the most."

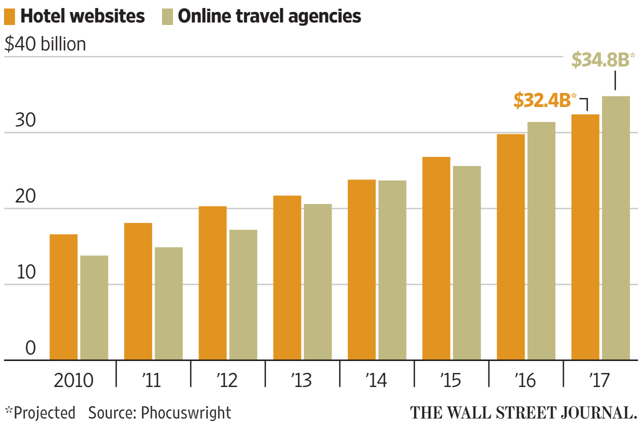
Online travel-agency executives said their platforms draw customers who might not otherwise think to book with a particular chain.

"Free is best. Everyone would like people to come direct to their business," said Glenn Fogel, chief executive of Priceline Group. "That's not the way the world works, though."

Expedia CEO Dara Khosrowshahi added: "We just want to get you to the right hotel, whereas the chain wants to get you to their hotel."

Extended Stay

U.S. hotel gross bookings by online travel agencies compared with hotel websites/apps



*Projected Source: Phocuswright THE WALL STREET JOURNAL.

Burberry's DK88 handle bag.

WECHAT

Continued from page B1

cording to Bain. Even so, luxury brands are seeing a pickup in mainland China as brands lower prices there and Beijing encourages consumption at home.

In the U.S., a small number of luxury labels have tested sales on social media, including chat apps. But Tencent in China is making inroads with luxury brands by taking advantage of the massive online ecosystem it has built around WeChat, whose more than 900 million users book movie tickets, hail rides and pay for utilities without leaving the app.

WeChat is "increasingly playing an important role in the commercial world," said Tencent President Martin Lau this month.

The online sales are also fueling WeChat's mobile wallet, WeChat Pay, against market leader Alipay, launched by Alibaba's Ant Financial in 2009. Only WeChat Pay can be used on Tencent's platform. As recently as 2014, Alipay commanded nearly 80% of China's mobile payments market, but its share slipped to 54% by the first quarter of this year. Tencent's payment system, including WeChat Pay, had 40% in the first quarter, according to research firm Analysys.

The online sales are also fueling WeChat's mobile wallet, WeChat Pay.

Alibaba has been trying to get luxury brands online for years. Last year, Alibaba joined with Mei.com—which received a $100 million investment from Alibaba in 2015—to offer flash sales from labels that might not have their own shops on Alibaba's site.

The e-commerce giant is also relying on big data to clean up counterfeit goods listed on its platform. Alibaba is the "world's leading fighter on counterfeits," founder Jack Ma said last year.

In the past year, Alibaba has reduced the number of third-party product listings of goods made by the top 10 luxury fashion brands by an average of 73%, according to L2 Inc., a digital consulting firm.

Affordable brands such as watchmaker Tag Heuer, jeweler Pandora and cosmetics companies have opened on Tmall, Alibaba's platform for mostly large brands. But most luxury fashion brands remain wary of open platforms such as Alibaba and rival JD.com because they fear losing their aura of exclusivity, according to Danielle Bailey, head of research in Asia Pacific for L2. Burberry is an exception, opening a store on Tmall in 2014.

Xia Ding, president of JD Fashion, said the e-commerce platform understands luxury brands' desire for exclusivity and plans to unveil measures this year to address these concerns.

Counterfeit listings are also a growing problem for social-media sites such as WeChat.

Mr. Cassegrain, Longchamp's CEO, said, though, that WeChat's appeal is that it isn't an open platform where luxury goods can be sold along with everyday products. Users must follow Longchamp's account or scan a QR code to be taken into the brand's site.

We want to "convert our presence in social media into sales" through channels such as WeChat, Prada Chief Executive Patrizio Bertelli said in April.

But until more luxury brands open stores on WeChat rather than offering one-time sales, "it's difficult to say whether these online experiments are effective," Ms. Bailey said.

Burberry, along with watch and jewelry brands Cie. Financière Richemont SA's Cartier and IWC Schaffhausen, are among the few that have opened full stores on WeChat.

—Dan Strumpf contributed to this article.

INTELLIGENT INVESTOR | By Jason Zweig

How to Put Your Own Quant Skills to Use

You may already trust algorithms, or mathematical formulas that reduce the need for human judgment, more than you realize. Commercial airliners fly largely, and safely, on autopilot; **Netflix** Inc. and **Amazon.com** Inc. recommend purchases that can seem uncannily attuned to your tastes. Why not let computers pick all your investments, too?

Here are a few things to bear in mind.

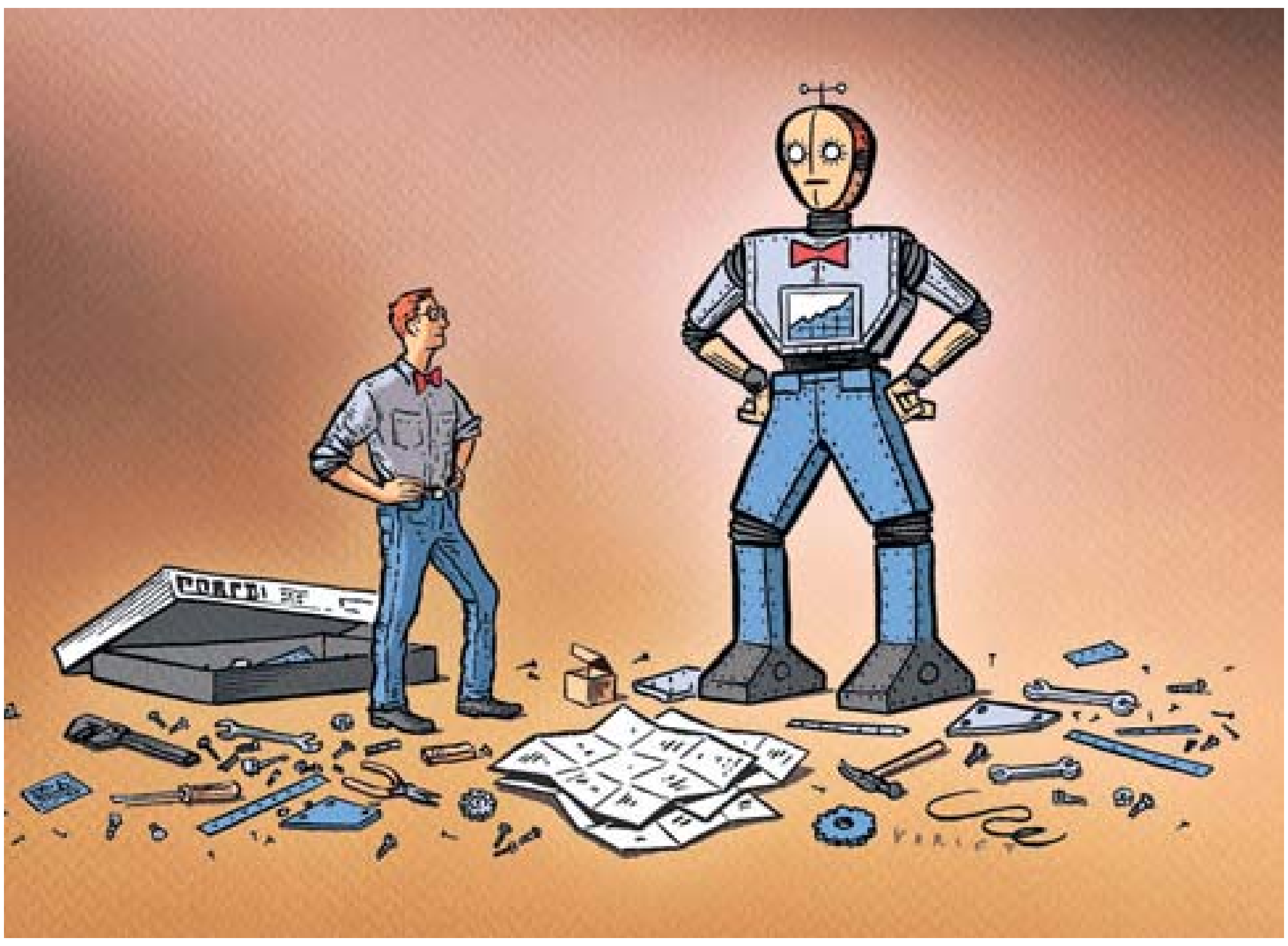
First, the early quant gets the worm.

Robert Jones, who founded **Goldman Sachs Asset Management**'s quantitative equity group in 1989, now runs **System Two Advisors** LP, an investment firm in Summit, N.J. "Fewer people were doing quant in the 1980s and 1990s," he says, "so it was fairly easy to add value."

In those days, Mr. Jones recalls, a computer model that picked stocks on which analysts were revising estimates of earnings upward could beat the market by 3 percentage points or more a year. "But as quant got bigger and bigger," he says, "the returns to quant have gotten smaller and smaller."

A group of researchers led by Campbell Harvey, a finance professor at Duke University, recently studied hedge-fund performance, after fees and adjusted for risk. From 1996 to 2014, systematic funds (which describe themselves with such words as "algorithmic," "computer-driven" or "statistical") performed about the same as traditional "discretionary" funds that claim to use human judgment to pick holdings.

Furthermore, says Prof. Harvey, funds that aren't primarily quantitative are pretending they are as a way of



CHRISTOPHE VORLET

THE QUANTS

attracting investors.

Perhaps it is cheaper to learn from the quants than to hire them.

Take a hint from hedge-fund manager **Magnetar Capital** LLC, which is seeking to "take what was in our head and our database and make rules out of it"—measuring intuitions, testing them for reliability and then basing decisions on them.

Likewise, since January, **UBS Group** AG has been exploring whether a computer model relying on various combinations of economic and company-specific information can match the accuracy of earnings forecasts by the investment bank's analysts.

Those analysts "are quite good, and we haven't beaten them yet," says David Jessop, global head of quantitative research at UBS. "If we talk to the analyst and ask, 'Which variables do you think are best?' and try to capture that in the model, that could improve the performance of our forecasts."

Such an approach could benefit any investor.

Human judgment is inconsistent. People are good at knowing what matters, but not very good at always looking at it the same way. Presented with identical information under different circumstances, we come to different conclusions about it. The judgments of everyone from accountants to physicians and weather forecasters will vary depending on such factors as mood, time of day and how many other demands they have on their attention.

Decades ago, the psychologist Lewis Goldberg showed that if you determine which factors experts consider most important in coming to a conclusion, you can program a computer to size up a decision based on those—and only those—factors. The computer's predictions using the experts' criteria turned out to be more accurate than the experts' own predictions, because the computer always interprets the same evidence the same way.

Another study gave a computer the economic, industry and company variables that analysts said they used to estimate the future returns on a set of stocks. Using the same information, the computer predicted those future returns more accurately than the analysts.

Although Wall Street's quants tend to rely on complicated algorithms, simple models may suffice. Research has shown that as few as a handful of variables can be enough to base predictions on.

If, for instance, you seem to have a knack for picking small stocks, first measure your returns against those of an index fund that holds most of the same companies. Then, if your results still look good, take the time to figure out what your winners—and losers—have had in common. Zero in on the handful of criteria that shaped your success: debt as a minimal percentage of total capital, low ratios of stock price to earnings or book value, or whichever standards have worked for you. Then score each prospective company on those criteria (on a scale of, say, 0 to 5) and pick those with the highest total score.

That approach will couple your human judgment about what works with a computer-like discipline of applying it.

If, instead, you are considering investing in a fund, apply the simplest possible quantitative tests.

First, ask whether the approach can be replicated with one or more market-tracking index funds at much lower cost.

Then look at the long-term return that the quant fund claims its strategy would have earned in excess of the index it compares itself with. (Such returns are often reported over periods before the fund even existed.) From those return claims, subtract the fund's average annual expenses and another 1% a year to cover its trading costs, which aren't always included in hypothetical past returns. Is the remaining extra return likely to be large enough in the future to be worth pursuing?

Finally, ask a representative of the fund how many strategies the firm tested before it settled on this one. If the person doesn't know or won't say, put your money elsewhere.

The Machines Still Can't Match the Insights of Humans

BY JOHN W. ROGERS JR.

ANALYSIS

Man vs. machine. It is an old, well-trodden debate. There is little question that technological advances have forever changed and improved our lives in ways big and small. But now, some are predicting that machines and their algorithms will supplant humans in the investment firm of the future.

I will be the first to admit that technology helps me do my job better. I still remember my days of skimming through S&P tear sheets to find new ideas. Now a phone in my pocket can provide everything from tick-by-tick stock quotes to pages upon pages of corporate filings.

But here is the thing: data alone isn't enough. As Albert Einstein once supposedly said, "Information is not knowledge." Those promoting artificial intelligence would lead one to believe it is all about replicating human judgment in a superior manner. The data part may be easy for machines but the human part isn't. This is where computers meet their limits and our brains can triumph. Much of the investment world is captivated by using quantitative models to solve math problems when so much of investment success involves untangling behavioral problems through slow, hard, qualitative analysis.

In the world of entertainment, computers can reproduce a realistic image of a person but only actors can capture all of our complex paranoias, eccentricities and distinct imperfections. Computers simply cannot mimic these idiosyncrasies. The same could be said of investing. Successful long-term investors exploit inefficiencies caused by human error and frailty.

Herein lies the difference between information and insight. The "art" part of investing is the insight. Great investors don't require great quantities of information. Not to mention, purely quantitative models can also be guilty of instilling a false illusion of precision. Many have been mistakenly led to believe that a valuation based upon a 20-page spreadsheet is automatically more accurate than a short, intuitive estimate of intrinsic value calculated on the back of an envelope. Just ask Warren Buffett, who certainly doesn't need reams of financial data to produce his remarkably simple and yet astute valuations.

The bottom line is that algorithms have their limits.

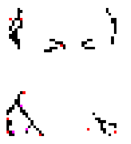
During the crash of 1987, computers couldn't handle the emotional irrationality exhibited by the market activity and ultimately exacerbated it. Meanwhile, some human investors saw the absurdity of the selloff and reacted intuitively without revising models and adjusting algorithms. Our strong results in 1988 were driven by the fact that we called our clients on Black Monday and asked for more money.

Sure, machines can be cheaper and maybe even easier to deal with than people. Computers are often right, but they also can fail spectacularly when things reach extremes or new patterns arise.

—John W. Rogers Jr. is chairman and chief investment officer of Ariel Investments LLC

At Last, a Shift Toward Scientific Method

BY DAVID SIEGEL



ANALYSIS

Among the biggest stories in asset management over the past decade or two has been the rise of so-called quantitative investing. I say "so-called" because the label can be misleading. Catchwords like "quantitative" and "systematic" are becoming more common—but these terms are nebulous. People use them to mean all kinds of things.

What matters more is firms' philosophical approach to the discipline of investment management. The most effective way to address hard problems like forecasting asset prices or optimizing portfolios is, in my view, the same as for any other complex challenge: Use the scientific method. Doing so not only brings greater rigor to the investment process, but it also helps us combat a wide range of harmful but common biases. The availability of massive amounts of data and cutting-edge technology only magnifies the power of a scientific approach.

The Information Age certainly is revolutionizing investment management, just as it has done in so many

RYAN CHRISTOPHER JONES FOR THE WALL STREET JOURNAL

Two Sigma employees take part in a hacker lab workshop.

other industries. The amount of data created in the world has been growing exponentially for years.

Handling all that data is a herculean task. Finding, ingesting, storing, parsing, normalizing and delivering it would be utterly impossible to do manually. Automating these processes clearly requires significant investment and innovation in engineering. Making efficient use of the output likewise requires significant research and expertise in data science, modeling and analytical techniques.

It may be tempting to take for granted our ability to do each of these well, but don't be fooled. Using the power of algorithms and data sets to uncover insights takes a classically scientific mind-set. That means basing the entire endeavor on the formulation of hypotheses, followed by a recurring process of measurement, learning, and adjustment.

Instilling a scientific mindset at an organizational level is more complex than it might seem, especially when an asset manager seeks to hire trained scientists to work alongside traditional industry professionals (as opposed to the reverse). The cultural challenges become evident even when the goal is machine-assisted human trading, but they become glaring when the goal is machine-driven trading with human assistance.

It is worth bearing in mind that not all quantitative strategies are scientific. For example, a manager might use algorithms to compute moving averages as part of a trading strategy. Without continually iterating through the steps of hypothesis formulation and testing, however, the exercise becomes less than empirical.

Ultimately, the greatest beneficiaries of a more scientific approach to investing are asset owners, be they individual retirees or large institutions. While the scientific method has been central to the advancement of human inquiry since the 17th century, investment managers have been a little slow on the uptake. The shifts we are seeing in the industry today represent a welcome, if overdue, move in that direction.

—David Siegel is the co-founder and co-chairman of Two Sigma Investments LP

FINANCE WATCH

MONTE DEI PASCHI DI SIENA

Exclusive Talks Begin On Sale of Bad Loans

The Italian lender **Banca Monte dei Paschi di Siena** SpA said it has entered into exclusive talks with a group of investors about selling them a giant portfolio of bad loans.

The sale is a key element of restructuring plan under which the Italian government would help fill a capital shortfall of €8.8 billion ($9.8 billion) at the lender, and become its biggest shareholder with a stake of around 70%. The bank asked to be rescued by the state at the end of last year, after it failed to plug a capital hole with private funds.

The bank said it has granted exclusivity until June 28 to the investors to negotiate the securitization and sale of €26 billion worth of toxic loans. The potential buyers include Quaestio Capital Management SGR SpA, which manages Atlante II, a rescue fund for banks financed mainly by healthier Italian lenders.

—Giovanni Legorano

EUROZONE

Lending to Firms Increases Slightly

Lending to companies in the euro area accelerated modestly in April, while loans to households grew at the same pace as in March, data from the European Central Bank showed.

Lending to companies grew by 2.4% from a year earlier in April, after expanding by 2.3% in March. The year-over-year increase in loans to households was 2.3%, unchanged from the March figure.

The ECB's broad monetary indicator, M3, grew by 4.9% from a year earlier in April, versus 5.3% in March. Economists polled by The Wall Street Journal had expected growth of 5.2%.

—Emese Bartha

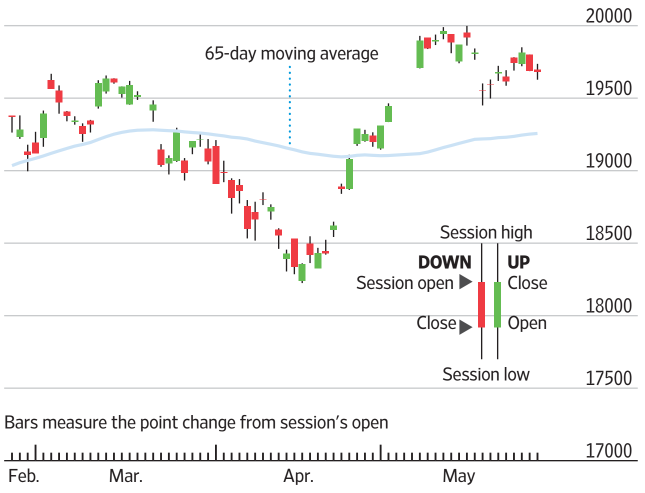
MARKETS DIGEST

Nikkei 225 Index

19682.57 ▼4.27, or 0.02%

High, low, open and close for each trading day of the past three months.

Year-to-date		▲ 2.97%
52-wk high/low	19961.55	14952.02
All-time high	38915.87	12/29/89



STOXX 600 Index

391.25 ▼0.10, or 0.03%

High, low, open and close for each trading day of the past three months.

Year-to-date		▲ 8.25%
52-wk high/low	396.45	308.75
All-time high	414.06	4/15/15

S&P 500 Index

Data as of 4 p.m. New York time

2415.82 Market Closed

High, low, open and close for each trading day of the past three months.

	Last	Year ago
Trailing P/E ratio	23.94	24.04
P/E estimate *	19.15	17.75
Dividend yield	1.95	2.19
All-time high:	2415.82, 05/26/17	

Weekly P/E data based on as-reported earnings from Birinyi Associates Inc.

International Stock Indexes

Data as of 4 p.m. New York time

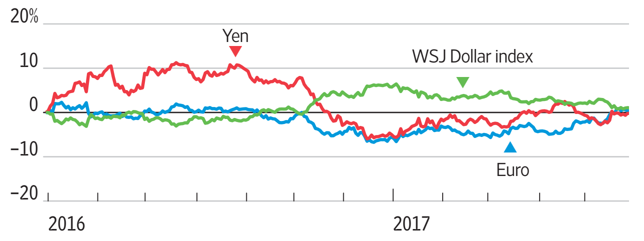
Region/Country	Index	Latest Close	NetChg	% chg	52-Week Range Low	Close	High	YTD % chg
World	**The Global Dow**	2766.04	–3.47	–0.13	2193.75		2773.08	9.4
	MSCI EAFE	1883.73	–1.64	–0.09	1471.88		1956.39	9.8
	MSCI EM USD	1014.88	–2.12	–0.21	691.21		1044.05	27.8
Americas	**DJ Americas**	579.85	–0.10	–0.02	480.90		580.46	7.3
Brazil	**Sao Paulo Bovespa**	63787.25	–298.16	–0.47	48066.67		69487.58	5.9
Canada	**S&P/TSX Comp**	15405.27	–11.66	–0.08	13609.58		15943.09	0.8
Mexico	**IPC All-Share**	49448.98	–225.94	–0.45	43902.25		50154.33	8.3
Chile	**Santiago IPSA**	3714.26	–0.09	–0.002	2998.64		3786.05	15.2
U.S.	**DJIA**	21080.28	...	Closed	17063.08		21169.11	6.7
	Nasdaq Composite	6210.19	...	Closed	4574.25		6217.34	15.4
	S&P 500	2415.82	...	Closed	1991.68		2418.71	7.9
	CBOE Volatility	9.81	...	Closed	9.56		26.72	–30.1
EMEA	**Stoxx Europe 600**	391.25	–0.10	–0.03	307.81		396.55	8.3
	Stoxx Europe 50	3231.19	2.93	0.09	2626.52		3279.71	7.3
Austria	**ATX**	3184.45	–25.13	–0.78	1981.93		3211.08	21.6
Belgium	**Bel-20**	3893.48	–7.45	–0.19	3127.94		4055.96	8.0
France	**CAC 40**	5332.47	–4.17	–0.08	3955.98		5442.10	9.7
Germany	**DAX**	12628.95	26.77	0.21	9214.10		12841.66	10.0
Greece	**ATG**	777.19	–1.16	–0.15	517.10		800.08	20.7
Hungary	**BUX**	34138.11	–220.82	–0.64	25126.36		34975.81	6.7
Israel	**Tel Aviv**	1419.36	0.77	0.05	1372.23		1490.23	–3.5
Italy	**FTSE MIB**	20783.82	–426.75	–2.01	15017.42		21828.77	8.1
Netherlands	**AEX**	527.73	–0.30	–0.06	409.23		537.84	9.2
Poland	**WIG**	60859.28	–48.47	–0.08	42812.99		62666.49	17.6
Russia	**RTS Index**	1085.75	12.71	1.18	874.88		1196.99	–5.8
Spain	**IBEX 35**	10884.00	–20.20	–0.19	7579.80		11184.40	16.4
Sweden	**SX All Share**	585.10	–1.67	–0.29	443.66		593.34	9.5
Switzerland	**Swiss Market**	9031.96	–10.07	–0.11	7475.54		9136.95	9.9
South Africa	**Johannesburg All Share**	53944.22	–51.92	–0.10	48935.90		54716.53	6.5
Turkey	**BIST 100**	97725.95	192.67	0.20	70426.16		98794.90	25.1
U.K.	**FTSE 100**	7547.63	...	Closed	5788.74		7554.21	5.7
Asia-Pacific	**DJ Asia-Pacific TSM**	1603.08	–2.77	–0.17	1308.52		1608.94	12.7
Australia	**S&P/ASX 200**	5707.10	–44.60	–0.78	5103.30		5956.50	0.7
China	**Shanghai Composite**	3110.06	...	Closed	2821.05		3288.97	0.2
Hong Kong	**Hang Seng**	25701.63	62.36	0.24	20038.42		25701.63	16.8
India	**S&P BSE Sensex**	31109.28	81.07	0.26	25765.14		31109.28	16.8
Japan	**Nikkei Stock Avg**	19682.57	–4.27	–0.02	14952.02		19961.55	3.0
Singapore	**Straits Times**	3214.55	–4.87	–0.15	2729.85		3271.11	11.6
South Korea	**Kospi**	2352.97	–2.33	–0.10	1925.24		2355.30	16.1
Taiwan	**Weighted**	10101.95	...	Closed	8458.87		10108.49	9.2

Source: SIX Financial Information;WSJ Market Data Group

Currencies

London close on May 29

Yen, euro vs. dollar; dollar vs. major U.S. trading partners



Country/currency	Mon in US$	Mon per US$	US$ vs, YTD chg (%)
Americas			
Argentina peso-a	0.0626	15.9800	**0.7**
Brazil real	0.3059	3.2686	**0.4**
Canada dollar	0.7445	1.3432	**–0.1**
Chile peso	0.001483	674.50	**0.7**
Colombia peso	0.0003435	2911.40	**–3.0**
Ecuador US dollar-f	1	1	**unch**
Mexico peso-a	0.0540	18.5042	**–10.8**
Peru sol	0.3049	3.2798	**–2.2**
Uruguay peso-e	0.0354	28.220	**–3.9**
Venezuela bolivar	0.098623	10.14	**1.4**
Asia-Pacific			
Australia dollar	0.7449	1.3425	**–3.3**
China yuan	0.1459	6.8556	**–1.3**
Hong Kong dollar	0.1283	7.7947	**0.5**
India rupee	0.0155	64.5399	**–5.0**
Indonesia rupiah	0.0000751	13322	**–1.5**
Japan yen	0.008985	111.29	**–4.9**
Kazakhstan tenge	0.003219	310.63	**–6.9**
Macau pataca	0.1241	8.0598	**1.8**
Malaysia ringgit-c	0.2339	4.2760	**–4.7**
New Zealand dollar	0.7063	1.4158	**–2.0**
Pakistan rupee	0.0095	104.835	**0.4**
Philippines peso	0.0201	49.722	**0.2**
Singapore dollar	0.7219	1.3852	**–4.3**
South Korea won	0.0008912	1122.13	**–7.1**
Sri Lanka rupee	0.0065449	152.79	**2.9**
Taiwan dollar	0.03313	30.183	**–7.0**
Thailand baht	0.02933	34.100	**–4.8**
Europe			
Bulgaria lev	0.5716	1.7496	**–5.9**
Croatia kuna	0.1508	6.632	**–7.5**
Euro zone euro	1.1180	0.8945	**–5.9**
Czech Rep. koruna-b	0.0422	23.704	**–7.7**
Denmark krone	0.1503	6.6548	**–5.9**
Hungary forint	0.003628	275.64	**–6.3**
Iceland krona	0.010022	99.78	**–11.7**
Norway krone	0.1190	8.4063	**–2.8**
Poland zloty	0.2672	3.7432	**–10.6**
Russia ruble-d	0.01776	56.310	**–8.1**
Sweden krona	0.1150	8.6948	**–4.5**
Switzerland franc	1.0250	0.9756	**–4.2**
Turkey lira	0.2795	3.5781	**1.5**
Ukraine hryvnia	0.0379	26.3550	**–2.7**
U.K. pound	1.2848	0.7783	**–3.9**
Middle East/Africa			
Bahrain dinar	2.6511	0.3772	**0.01**
Egypt pound-a	0.0552	18.1155	**–0.1**
Israel shekel	0.2807	3.5625	**–7.4**
Kuwait dinar	3.2929	0.3037	**–0.6**
Oman sul rial	2.5972	0.3850	**0.018**
Qatar rial	0.2746	3.642	**0.0**
Saudi Arabia riyal	0.2666	3.7507	**unch**
South Africa rand	0.0771	12.9664	**–5.3**

	Close	Net Chg	% Chg	YTD % Chg
WSJ Dollar Index	88.81	–0.04	–0.04	**–4.44**

Sources: Tullett Prebon, WSJ Market Data Group

Global government bonds

Latest, month-ago and year-ago yields and spreads over or under U.S. Treasurys on benchmark two-year and 10-year government bonds around the world. Data as of 3 p.m. ET

Coupon	Country/ Maturity, in years	Yield	Spread Over Treasurys, in basis points: Latest	Previous	Month Ago	Year ago	Yield: Previous	Month ago	Year ago
5.250	**Australia** 2	**1.590**	**29.3**	28.1	40.0	**71.4**	**1.582**	1.666	**1.628**
4.750	10	**2.421**	**16.3**	17.3	30.7	**41.8**	**2.421**	2.589	**2.269**
3.000	**Belgium** 2	**-0.572**	**-187.0**	-187.9	-182.2	**-141.7**	**-0.578**	-0.556	**-0.502**
0.800	10	**0.691**	**-156.7**	-156.2	-149.9	**-148.2**	**0.686**	0.782	**0.369**
0.000	**France** 2	**-0.480**	**-177.8**	-179.5	-172.2	**-135.0**	**-0.493**	-0.457	**-0.435**
1.000	10	**0.773**	**-148.5**	-148.5	-144.1	**-137.3**	**0.763**	0.841	**0.478**
0.000	**Germany** 2	**-0.732**	**-202.9**	-200.0	-199.3	**-141.7**	**-0.698**	-0.727	**-0.503**
0.250	10	**0.326**	**-193.2**	-191.6	-195.9	**-170.8**	**0.332**	0.323	**0.143**
0.300	**Italy** 2	**-0.183**	**-148.1**	-151.3	-134.8	**-95.8**	**-0.212**	-0.082	**-0.043**
2.200	10	**2.174**	**-8.4**	-15.0	0.1	**-49.0**	**2.098**	2.282	**1.361**
0.100	**Japan** 2	**-0.166**	**-146.4**	-147.2	-147.9	**-115.3**	**-0.171**	-0.213	**-0.238**
0.100	10	**0.039**	**-221.9**	-221.1	-226.7	**-196.8**	**0.037**	0.014	**-0.117**
4.000	**Netherlands** 2	**-0.643**	**-194.0**	-193.9	-192.5	**-144.5**	**-0.638**	-0.659	**-0.530**
0.750	10	**0.540**	**-171.8**	-170.9	-173.2	**-162.5**	**0.539**	0.549	**0.227**
4.750	**Portugal** 2	**0.213**	**-108.5**	-110.4	-90.3	**-70.7**	**0.198**	0.363	**0.208**
4.125	10	**3.136**	**87.8**	88.4	124.6	**118.0**	**3.132**	3.528	**3.031**
2.750	**Spain** 2	**-0.299**	**-159.7**	-160.0	-151.0	**-100.0**	**-0.298**	-0.244	**-0.086**
1.500	10	**1.538**	**-72.0**	-71.7	-64.6	**-35.5**	**1.531**	1.635	**1.496**
4.250	**Sweden** 2	**-0.721**	**-201.8**	-200.4	-194.1	**-133.8**	**-0.702**	-0.675	**-0.424**
1.000	10	**0.493**	**-176.5**	-173.7	-171.4	**-108.0**	**0.512**	0.567	**0.771**
1.750	**U.K.** 2	**0.098**	**-119.9**	-121.9	-119.2	**-45.1**	**0.083**	0.074	**0.464**
4.250	10	**1.042**	**-121.6**	-123.4	-119.3	**-41.3**	**1.014**	1.088	**1.438**
1.250	**U.S.** 2	**1.298**	...	...	...	...	**1.302**	1.266	**0.915**
2.375	10	**2.258**	...	...	...	...	**2.248**	2.281	**1.851**

Commodities

Prices of futures contracts with the most open interest 3:30 p.m. New York time

EXCHANGE LEGEND: CBOT: Chicago Board of Trade; **CME:** Chicago Mercantile Exchange; **ICE-US:** ICE Futures U.S.; **MDEX:** Bursa Malaysia Derivatives Berhad; **TCE:** Tokyo Commodity Exchange; **COMEX:** Commodity Exchange; **LME:** London Metal Exchange; **NYMEX:** New York Mercantile Exchange; **ICE-EU:** ICE Futures Europe. *Data as of 5/26/2017

Commodity	Exchange	Last price	One-Day Change Net	Percentage	Year high	Year low
Corn (cents/bu.)*	CBOT	373.75	-0.50	-0.13%	393.75	360.75
Soybeans (cents/bu.)*	CBOT	926.00	-0.50	-0.05	1,092.50	926.00
Wheat (cents/bu.)*	CBOT	438.75	0.50	0.11%	488.75	416.00
Live cattle (cents/lb.)*	CME	118.875	-0.075	-0.06	127.500	99.400
Cocoa ($/ton)*	ICE-US	1,914	3	0.16	2,270	1,756
Coffee (cents/lb.)*	ICE-US	131.05	-0.15	-0.11	161.55	127.15
Sugar (cents/lb.)*	ICE-US	15.04	-0.01	-0.07	20.81	15.01
Cotton (cents/lb.)*	ICE-US	72.81	0.02	0.03	75.72	69.81
Robusta coffee ($/ton)	ICE-EU	1983.00	49.00	2.53	2,283.00	1,871.00
Copper ($/lb.)*	COMEX	2.5700	0.0040	0.16	2.8400	2.4725
Gold ($/troy oz.)*	COMEX	1269.90	-1.50	-0.12	1,300.30	1,155.00
Silver ($/troy oz.)*	COMEX	17.400	0.077	0.44	18.725	16.060
Aluminum ($/mt)*	LME	1,953.50	-2.50	-0.13	1,972.00	1,688.50
Tin ($/mt)*	LME	20,355.00	-70.00	-0.34	21,225.00	18,760.00
Copper ($/mt)*	LME	5,689.00	1.50	0.03	6,156.00	5,491.00
Lead ($/mt)*	LME	2,098.00	18.00	0.87	2,445.00	2,022.00
Zinc ($/mt)*	LME	2,630.00	11.00	0.42	2,958.50	2,470.00
Nickel ($/mt)*	LME	9,045.00	-65.00	-0.71	11,095.00	8,980.00
Rubber (Y.01/ton)	TCE	213.00	...	...	n.a.	n.a.
Palm oil (MYR/mt)	MDEX	2,516.00	-39.00	-1.53	2,790.00	2,421.00
Crude oil ($/bbl.)*	NYMEX	49.99	0.19	0.38	58.15	44.13
NY Harbor ULSD ($/gal.)*	NYMEX	1.5717	0.0050	0.30	1.7901	1.3846
RBOB gasoline ($/gal.)*	NYMEX	1.6360	0.0099	0.61	1.8859	1.4543
Natural gas ($/mmBtu)*	NYMEX	3.212	-0.098	-2.96	3.5770	2.8880
Brent crude ($/bbl.)	ICE-EU	52.56	0.05	0.10	60.21	46.98
Gas oil ($/ton)	ICE-EU	463.50	2.50	0.54	529.00	415.75

Sources: SIX Financial Information; WSJ Market Data Group

Cross rates

London close on May 29

	USD	GBP	CHF	JPY	HKD	EUR	CDN	AUD
Australia	1.3425	1.7249	1.3759	0.0121	0.1722	1.5009	0.9996	...
Canada	1.3432	1.7255	1.3765	0.0121	0.1723	1.5015	...	1.0001
Euro	0.8945	1.1492	0.9167	0.0080	0.1147	...	0.6660	0.6662
Hong Kong	7.7947	10.0146	7.9896	0.0700	...	8.7148	5.8037	5.8062
Japan	111.2930	142.9900	114.0700	...	14.2780	124.4300	82.8700	82.9000
Switzerland	0.9756	1.2535	...	0.0088	0.1252	1.0909	0.7265	0.7268
U.K.	0.7783	...	0.7978	0.0070	0.0999	0.8702	0.5795	0.5798
U.S.	...	1.2848	1.0250	0.0090	0.1283	1.1180	0.7445	0.7449

Source: Tullett Prebon

Key Rates

	Latest	52 wks ago
Libor		
One month	**1.04467%**	0.45665%
Three month	**1.20178**	0.67305
Six month	**1.41378**	0.97810
One year	**1.72122**	1.31670
Euro Libor		
One month	**-0.39857%**	-0.35286%
Three month	**-0.36929**	-0.28171
Six month	**-0.28500**	-0.16129
One year	**-0.15543**	-0.03386
Euribor		
One month	**-0.37200%**	-0.34800%
Three month	**-0.32900**	-0.26100
Six month	**-0.25400**	-0.15100
One year	**-0.13100**	-0.01500
Yen Libor		
One month	**-0.01629%**	-0.04914%
Three month	**-0.01529**	-0.02493
Six month	**0.02300**	-0.00329
One year	**0.12500**	0.09143
	Offer	Bid
Eurodollars		
One month	**1.1000%**	1.0000%
Three month	**1.2000**	1.1000
Six month	**1.3500**	1.2500
One year	**1.6000**	1.5000
	Latest	52 wks ago
Prime rates		
U.S.	**4.00%**	3.50%
Canada	**2.70**	2.70
Japan	**1.475**	1.475
Hong Kong	**5.00**	5.00
Policy rates		
ECB	**0.00%**	0.00%
Britain	**0.25**	0.50
Switzerland	**0.50**	0.50
Australia	**1.50**	1.75
U.S. discount	**1.50**	1.00
Fed-funds target	**0.75-1.00**	0.25-0.50
Call money	**2.75**	2.25
Overnight repurchase rates		
U.S.	**0.93%**	0.32%
Euro zone	**n.a.**	n.a.

Sources: WSJ Market Data Group, SIX Financial Information, Tullett

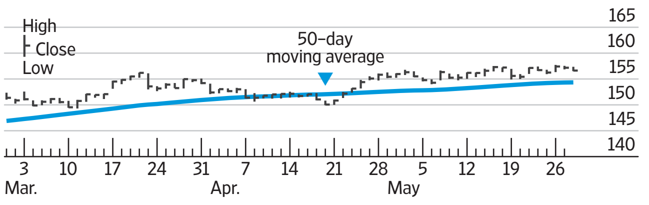
Top Stock Listings

4 p.m. New York time

Cur	Stock	Sym	Last	% Chg	YTD% Chg
Asia Titans					
HK$	AIAGroup	1299	54.75	...	25.14
¥	AstellasPharma	4503	1403.50	-0.43	-13.55
AU$	AustNZBk	ANZ	27.69	-1.88	-8.97
AU$	BHP	BHP	23.84	-0.71	-4.87
HK$	BankofChina	3988	3.90	0.26	13.37
HK$	CKHutchison	0001	101.80	-0.10	15.81
HK$	CNOOC	0883	9.02	-0.66	-7.01
AU$	CSL	CSL	132.88	0.60	32.34
¥	Canon	7751	3807.00	0.34	15.54
¥	CentralJapanRwy	9022	18245	-0.22	-5.12
HK$	ChinaConstructnBk	0939	6.49	0.46	8.71
HK$	ChinaLifeInsurance	2628	25.60	0.99	26.73
HK$	ChinaMobile	0941	86.20	0.06	4.87
HK$	ChinaPetro&Chem	0386	6.37	-0.16	15.82
AU$	CmwlthBkAust	CBA	78.89	-1.56	-4.27
¥	EastJapanRailway	9020	10700	0.52	5.94
¥	Fanuc	6954	21775	0.11	9.89
¥	Hitachi	6501	667.90	-0.37	5.68
TW$	Hon Hai Precisn	2317	104.50	-0.48	24.11
¥	HondaMotor	7267	3064.00	0.20	-10.28
KRW	HyundaiMtr	005380	162000	-0.92	10.96
HK$	Ind&Comml	1398	5.20	0.19	11.83
¥	JapanTobacco	2914	4203.00	0.74	9.34
¥	KDDI	9433	3060.00	-0.03	3.40
¥	Mitsubishi	8058	2229.00	0.02	-10.48
¥	MitsubishiElectric	6503	1549.50	-0.64	-4.91
¥	MitsubishiUFJFin	8306	697.90	0.39	-3.10
¥	Mitsui	8031	1496.00	-0.40	-6.91
¥	Mizuho Fin	8411	195.00	-0.10	-7.05
¥	NTTDoCoMo	9437	2720.00	0.29	2.14
AU$	NatAustBnk	NAB	29.27	-1.55	-4.56
¥	NipponTeleg	9432	5249.00	0.56	6.86
¥	NissanMotor	7201	1074.00	-0.19	-8.63
¥	Panasonic	6752	1376.00	-0.86	15.68
HK$	PingAnInsofChina	2318	50.35	0.70	29.77
$	RelianceIndsGDR	RIGD	41.50	2.09	31.54
KRW	SamsungElectronics	005930	2281000	-1.00	26.58
¥	Seven&I Hldgs	3382	4739.00	-0.21	6.42
¥	SoftBankGroup	9984	8732.00	-1.85	12.45
¥	Sony	6758	4038.00	0.72	23.30
¥	Sumitomo Mitsui	8316	4041.00	0.17	-9.39
HK$	SunHngKaiPrp	0016	115.20	0.35	17.55
TW$	TaiwanSemiMfg	2330	207.00	...	14.05
¥	TakedaPharm	4502	5791.00	0.42	19.77
HK$	TencentHoldings	0700	274.80	-1.15	44.86
¥	TokioMarineHldg	8766	4694.00	-0.13	-2.13
¥	ToyotaMtr	7203	5970.00	0.49	-13.20
AU$	Wesfarmers	WES	42.55	-0.16	0.97
AU$	WestpacBanking	WBC	30.02	-1.31	-7.91
AU$	Woolworths	WOW	25.88	-0.65	7.39
Stoxx 50					
CHF	ABB	ABBN	24.36	0.16	13.41
€	ASMLHolding	ASML	119.25	-0.46	11.81
€	AXA	CS	23.89	0.76	-0.42
€	AirLiquide	AI	110.70	-0.23	4.78
€	Allianz	ALV	171.60	0.32	9.30
€	AB InBev	ABI	105.05	-0.47	4.48
£	AstraZeneca	AZN	5227.00	0.35	17.79
€	BASF	BAS	84.70	1.00	-4.09
€	BNP Paribas	BNP	66.35	-0.06	9.58
£	BT Group	BT.A	313.80	0.13	-14.47
€	BancoBilVizAr	BBVA	7.49	0.47	17.86
€	BancoSantander	SAN	5.86	-0.05	18.25
£	Barclays	BARC	211.65	-1.12	-5.28
€	Bayer	BAYN	116.70	...	17.72
£	BP	BP.	474.55	0.31	-6.88
£	BritishAmTob	BATS	5591.00	1.75	20.98
€	Daimler	DAI	65.44	0.09	-7.47
€	DeutscheTelekom	DTE	17.95	0.20	9.72
£	Diageo	DGE	2337.00	0.54	10.76
€	ENI	ENI	14.28	-0.21	-7.69
£	GlaxoSmithKline	GSK	1643.50	1.58	5.22
£	HSBC Hldgs	HSBA	675.00	0.90	2.76
€	INGGroep	INGA	15.12	-0.53	13.09
£	ImperialBrands	IMB	3680.50	0.63	3.90
€	IntesaSanpaolo	ISP	2.57	-2.06	5.85
€	LVMHMoetHennessy	MC	227.00	-0.18	25.14
£	LloydsBankingGroup	LLOY	71.74	-1.86	14.77
€	LOreal	OR	189.40	0.16	9.23
£	NationalGrid	NG.	1091.00	0.60	5.09
CHF	Nestle	NESN	82.40	-0.54	12.80
CHF	Novartis	NOVN	78.50	-0.13	5.94
DKK	NovoNordiskB	NOVO-B	276.60	-0.14	8.60
£	Prudential	PRU	1748.10	0.32	7.41
£	ReckittBenckiser	RB.	7869.00	0.92	14.28
£	RioTinto	RIO	3190.00	0.77	1.00
CHF	RocheHldgctf	ROG	266.50	-0.04	14.57
£	RoyDtchShell A	RDSA	2118.00	0.31	-5.55
€	SAP	SAP	95.22	0.42	14.99
€	Sanofi	SAN	87.62	-0.14	13.94
€	SchneiderElectric	SU	68.85	-0.16	4.14
€	Siemens	SIE	126.60	0.44	8.39
CHF	Syngenta	SYNN	463.00	0.06	15.03
€	Telefonica	TEF	10.07	0.25	14.23
€	Total	FP	47.54	0.22	-1.45
CHF	UBSGroup	UBSG	15.90	0.32	-0.31
€	Unilever	UNA	50.41	-0.26	28.88
£	Unilever	ULVR	4310.50	0.96	30.92
€	Vinci	DG	76.90	-0.13	18.86
£	VodafoneGroup	VOD	230.20	0.92	15.19
CHF	ZurichInsurance	ZURN	285.50	-0.21	1.82
DJIA			Friday, May 26, 2017		
$	AmericanExpress	AXP	77.46	0.03	4.56
$	Apple	AAPL	153.61	-0.17	32.63
$	Boeing	BA	186.59	-0.26	19.85
$	Caterpillar	CAT	105.66	0.61	13.93
$	Chevron	CVX	104.72	-0.37	-11.03
$	CiscoSystems	CSCO	31.50	0.19	4.24
$	Coca-Cola	KO	45.39	-0.04	9.48
$	Disney	DIS	108.41	1.06	4.02
$	DuPont	DD	77.85	0.59	6.06
$	ExxonMobil	XOM	81.55	-0.24	-9.65
$	GeneralElec	GE	27.45	-0.15	-13.13
$	GoldmanSachs	GS	223.53	0.48	-6.65
$	HomeDepot	HD	154.90	-1.00	15.53
$	Intel	INTC	36.26	...	-0.03
$	IBM	IBM	152.49	-0.46	-8.13
$	JPMorganChase	JPM	85.36	0.01	-1.08
$	J&J	JNJ	126.92	-0.48	10.16
$	McDonalds	MCD	149.86	0.05	23.12
$	Merck	MRK	64.92	-0.18	10.28
$	Microsoft	MSFT	69.96	0.49	12.58
$	Nike	NKE	52.59	0.46	3.46
$	Pfizer	PFE	32.14	-0.06	-1.05
$	Procter&Gamble	PG	87.25	0.45	3.77
$	3M	MMM	200.67	0.57	12.38
$	Travelers	TRV	123.66	-0.05	1.01
$	UnitedTech	UTX	121.85	-0.33	11.16
$	UnitedHealth	UNH	177.50	-0.31	10.91
$	Visa	V	94.67	-0.39	21.34
$	Verizon	VZ	45.32	0.02	-15.10
$	Wal-Mart	WMT	78.13	-0.23	13.04

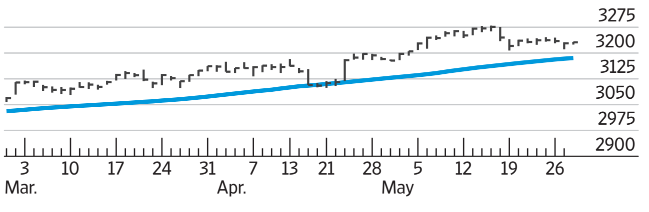
Asia Titans 50

Last: **156.63** ▼ 0.55, or 0.35% YTD ▲ 11.1%



Stoxx 50

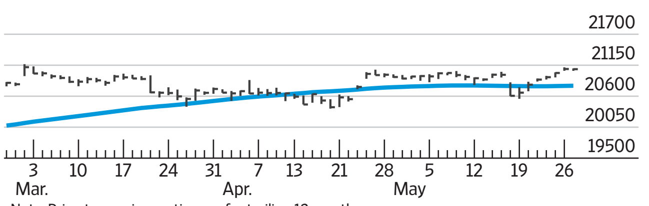
Last: **3231.19** ▲ 2.93, or 0.09% YTD ▲ 7.3%



Dow Jones Industrial Average

P/E: 21

Last: **21080.28** Market Closed YTD ▲ 6.7%



Note: Price-to-earnings ratios are for trailing 12 months
Sources: WSJ Market Data Group; Birinyi Associates

Americans Tap Homes for Money

More homeowners in the U.S. are using mortgage refinancing to get access to cash

By Christina Rexrode


KEITH SRAKOCIC/ASSOCIATED PRESS
Rising U.S. home prices have helped increase the equity that homeowners have in their houses.

Americans refinancing their mortgages are taking cash out in the process at levels not seen since the financial crisis.

Nearly half of borrowers who refinanced their homes in the first quarter chose the cash-out option, according to data released last week by Freddie Mac. That is the highest level since the fourth quarter of 2008.

The cash-out level is still well below the almost 90% peak hit in the run-up to the housing meltdown. But it is up sharply from the postcrisis nadir of 12% in the second quarter of 2012.

In a cash-out refi, a borrower refinances an existing mortgage with a new one, typically at a lower borrowing cost, that has a higher principal balance than the existing one. This allows the homeowner to pay off the old mortgage and still have cash left over for other uses.

The growing popularity of cash-out refis has helped buoy refinance activity. After booming for several years, demand for refinance mortgages had begun to slow as the Federal Reserve began increasing short-term interest rates and longer-term bond yields moved higher.

Mortgage rates remain low by historical standards, though. The average rate for a fixed, 30-year mortgage was 3.95%, Freddie Mac reported last week.

Meanwhile, rising home prices have helped increase the equity homeowners have in their houses. This allows more people to refinance to capture the benefit of lower mortgage rates.

And borrowers whose homes are rising in value are often more likely to be interested in refinancing for cash. For example, in Denver and Dallas, where home prices have jumped, more than half of refinancers opted for cash last year, according to Freddie Mac.

To some housing-market observers, the fact that more homeowners are tapping their homes for cash represents a healthy confidence in the economy. It comes against a backdrop of continued gains in employment.

At the same time, the increasing use of cash-out refis causes some concern because in the run-up to the financial crisis, borrowers used their homes like ATMs.

Len Kiefer, Freddie Mac's deputy chief economist, says this time has been different. Borrowers now are subject to stricter standards when they get a loan or refinance a mortgage. There is also less money at stake now than a decade ago.

Cash-out refis in the first quarter represented about $14 billion in net home equity compared with more than $80 billion in each of three straight quarters in 2006. On an annual basis, total home equity cashed out in 2016 was $61 billion, according to Freddie Mac, versus $321 billion in 2006.

And despite the recent increase in users, the proportion of refinancers opting for cash is much lower than in precrisis days, when it peaked at nearly 90% in mid-2006.

Furthermore, consumer balance sheets are far stronger than they were a decade ago. Mortgage debt-service payments as a percentage of disposable personal income fell to 4.4% in the fourth quarter of 2016, according to Federal Reserve data. That is the lowest level since early 1980.

"People have been using cash-out for years," Mr. Kiefer said. "From a personal-finance standpoint, it can make a lot of sense."

One example is a borrower using the cash from a refinance to consolidate credit-card debt that has far higher yields. That in many cases can produce a big savings in debt-servicing costs by replacing debt that has double-digit interest rates with a loan that has a rate in the low single digits.

Political Concerns Hit Stocks In Italy

By Giovanni Legorano And Debiprasad Nayak

Shares in Italy fell in response to reports over the weekend that an election there could be held as soon as September, while Indian shares gained for a third consecutive session, ending at a record high.

Trading elsewhere was quiet due to holidays in the U.S., U.K. and parts of Asia.

MONDAY'S MARKETS

Italy's FTSE MIB Index slid 2% as investors worried that an early election could usher in political instability. Bank stocks, which are heavily exposed to government bonds, led the losses.

Investors in India remained upbeat about a recovery in corporate earnings, while sustained flows of foreign money into the market helped to improve sentiment. The S&P BSE Sensex closed 0.3% higher at 31109.28.

Activity in other markets was muted as investors shrugged off political concerns emerging after a meeting of world leaders over the weekend and a missile launch in North Korea.

After the annual summit of the Group of Seven industrialized countries, German Chancellor Angela Merkel said Europe can no longer completely rely on other countries, underlining her frustration with U.S. President Donald Trump.

At the G-7 summit in Italy over the weekend, world leaders sought to convince Mr. Trump to keep the U.S. in the Paris climate agreement. Mr. Trump made no commitment.

The Nikkei Stock Average lost 4.27 points to 19682.57, and the Stoxx Europe 600 closed down 0.10 point at 391.25.

RBS Investors Take $256 Million Settlement

By Max Colchester

A group of **Royal Bank of Scotland Group** PLC investors Monday said they had accepted a £200 million ($256 million) settlement from the bank to end a protracted legal fight over allegations the lender misled them in the lead-up to an emergency rights issue during the financial crisis.

The dispute relates to a £12 billion cash call just before RBS was bailed out by taxpayers in 2008. Investors alleged they weren't informed of RBS's teetering finances before plowing more cash into the sinking bank. A trial was due to get under way imminently.

Organizers of the **RBoS Shareholders Action Group**, which includes 9,000 retail investors, said in a letter it had accepted a settlement with the bank of 82 pence per share. This is well below the £2 to £2.30 per share investors paid during the 2008 rights issue. An RBS spokeswoman declined to comment.

The settlement may spare RBS the prospect of seeing former Chief Executive Fred Goodwin cross examined in court. The Scot, who led the bank to a taxpayer bailout, hasn't spoken about the debacle for years.

Executives at RBS wanted to keep it that way. In the lead-up to a trial they doubled their offer to the RBoS action group. Despite the organizers of the RBoS group accepting the renewed offers, some shareholders may still seek to pursue the case, one person familiar with the matter said. Late in 2016, RBS set aside £800 million after settling with three-quarters of the shareholders suing the bank.

For RBS the case is an unwelcome distraction to a drawn-out restructuring plan. The bank, which remains more than 70% government owned, said it would make its first profit in nearly a decade next year. The turnaround has come at a steep price. RBS burned through the £45.5 billion of taxpayer money pumped into it during the crisis, paying off fines, firing staff and writing down bad loans.

MARKETS

THE DAILY SHOT | By Lev Borodovsky, Akane Otani and Chris Dieterich

Unraveling of the Retail Sector

Retail clothing sales are falling, forcing a deepening retrenchment at major retailers that is hammering their results and their shares.

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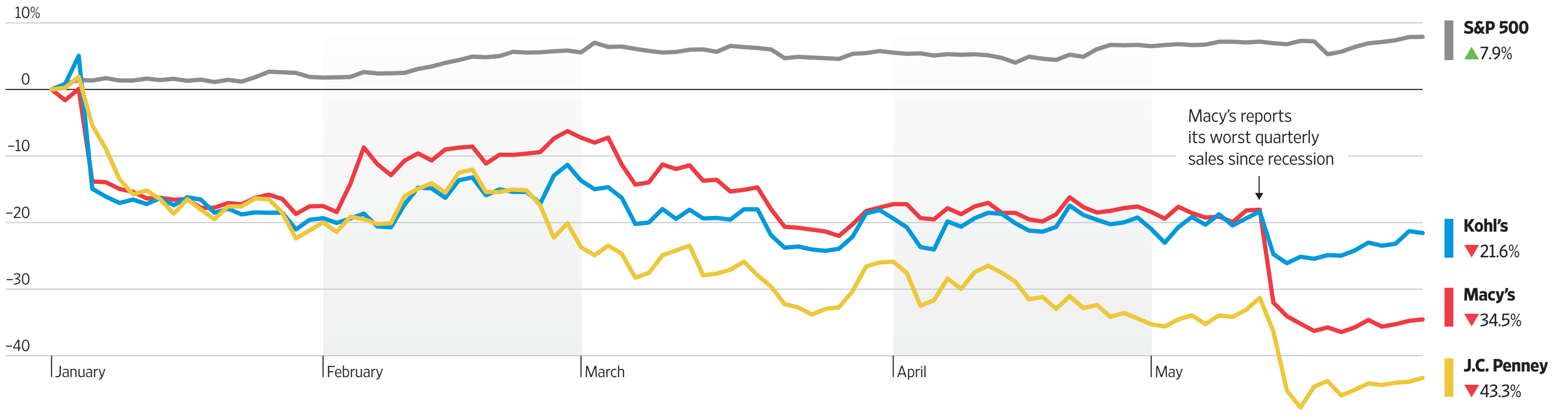
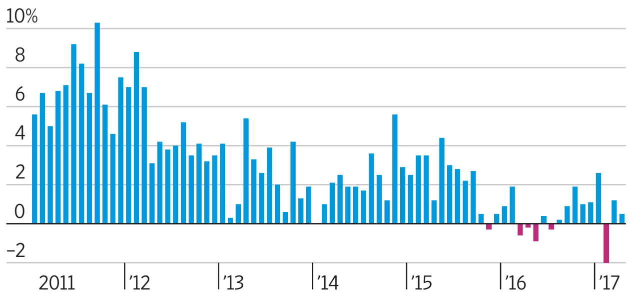
PERCENTAGE CHANGE SINCE 2016

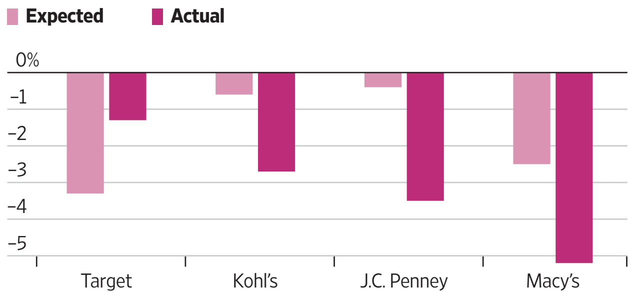


U.S. RETAIL CLOTHING SALES, CHANGE FROM A YEAR EARLIER



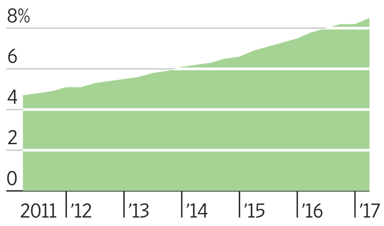
EMPLOYMENT AT U.S. DEPARTMENT-STORE RETAILERS, MONTHLY

SAME-STORE SALES, CHANGE FROM A YEAR EARLIER

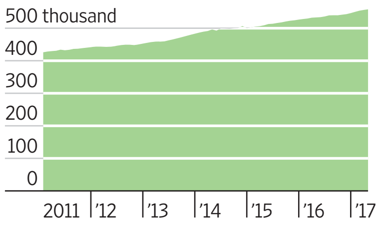


E-commerce firms are winning a larger share of the market, adding to the department stores' malaise...

U.S. E-COMMERCE SALES AS A SHARE OF TOTAL RETAIL SALES

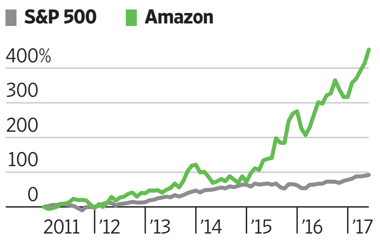


EMPLOYMENT AT U.S. NONSTORE RETAILERS, MONTHLY



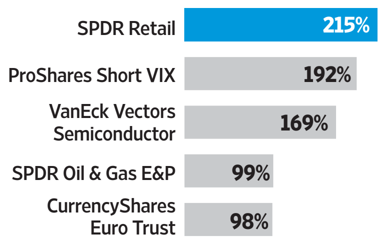
...and boosting the fortunes of Amazon.

PERCENTAGE CHANGE SINCE 2010



Sentiment has grown negative, however, creating opportunity for quick reversals and amplifying volatility in shares that have fallen.

MOST-SHORTED U.S.-LISTED ETFS*



SEARS HOLDINGS SHARE PRICE

*Shares sold short in bet value will decline, as a proportion of shares outstanding.
Sources: WSJ Market Data Group (stocks, indexes); Federal Reserve Bank of St. Louis (retail clothing sales, employment, e-commerce sales); the retailers (same-store sales); Morgan Stanley Wealth Management (most-shorted)

THE WALL STREET JOURNAL.

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Stocks and Bonds Pose A Puzzle

That didn't take long. Stocks have got their mojo back, with the mid-May wobble sparked by U.S. political turmoil fading from investors' attention. Perhaps more puzzlingly, bond investors are enjoying gains, too.

Indeed, there appears to be a fragile truce between asset classes. Bonds have kept their poise even as stocks have gained.

Many of the risks that investors were worried about at the start of the year have failed to turn into real problems, helping stocks to perform well. There has been little U.S. action on topics that might concern markets, such as greater barriers to trade. Europe's elections have offered no shocks, and the French vote was followed by a surge in risk appetite. Bonds have taken comfort from signals from central bankers that point to extremely gradual shifts in monetary policy.

But how long can this persist? The answer may lie more in the bond market than in the stock market, in which earnings have been strong, providing support. Bonds hardly look attractive, with long-dated yields still low versus prospects for nominal growth.

The path of inflation may hold the key. The pickup in inflation in advanced economies this year has been amplified by the recovery in the price of oil. That effect will diminish, and central bankers are concerned that inflation hasn't become self-sustaining. Both bonds and stocks can make a case for gains: Growth is decent, but inflation is quiescent.

So far, this year has been good for both bond and stock investors. To rely on that benign picture lasting looks risky. *—Richard Barley*

Natural Gas Remains in Demand

Just a decade or so ago, energy traders believed that using natural gas to generate electricity instead of coal was akin to bringing Dom Pérignon to a party where Budweiser would do.

Natural gas had certain environmental and compliance benefits, of course, and it was the best option for "peaker plants" that could be switched on to meet surges in demand on hot summer afternoons. But gas's cost per unit of energy was significantly higher. Furthermore, while the U.S. was dubbed the Saudi Arabia of coal, it was gearing up to import natural gas to offset an expected decline in supply.

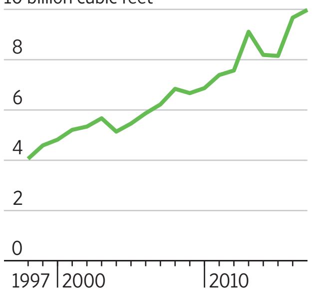
How times have changed. The country is several years into a natural-gas glut while several coal producers have gone bust.

Over the past 10 years, the amount of coal used to generate electricity has fallen by one-third while the quantity of natural gas has risen by two-thirds, according to the Energy Information Administration. Natural gas in underground storage last fall hit the highest ever level before the winter heating season.

Pop the Cork

U.S. natural-gas deliveries to electric-power consumers

10 billion cubic feet



Source: Energy Information Administration

THE WALL STREET JOURNAL.

ANDREW CULLEN/REUTERS

Like many economic trends, though, extrapolating an abundance of natural gas forever, along with very cheap prices in recent years, has changed economic behavior. Not only power generators but several industrial facilities were or are being built to use natural gas and related liquids. On top of that, growing pipeline gas exports to Mexico and the construction of more LNG export facilities will siphon off an increasing amount of the surplus gas. Additionally, Canadian exports to the U.S. have been falling as that country's domestic demand rises.

While supplies are by no means tight, the amount of gas in underground storage in the 48 contiguous states was recently 2.344 trillion cubic feet, or 13% below year-ago levels, even though the winter just ended was 13% warmer than the 10-year average. On a weather-adjusted basis, analysts at Raymond James estimate that net contributions to storage were 1.3 billion cubic feet a day lower than a year earlier in the four weeks though mid-May.

The upshot is that natural-gas prices should be fairly firm through the summer and fall, though perhaps not yet high enough to spur a big increase in gas-directed drilling activity. Benchmark Henry Hub futures are up 62% year over year and nearly double their 21st century low hit last March.

Raise a glass to supply and demand.

—Spencer Jakab

Riskier Lending Could Benefit Japan's Banks

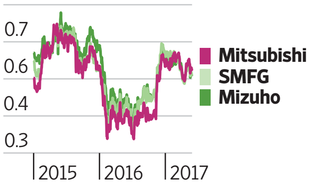
Japan's megabanks are finally feeling the winds of change. The likes of **Mitsubishi UFJ Financial Group**, **Sumitomo Mitsui Financial Group** and **Mizuho Financial Group** have long struggled with anemic loan demand and deteriorating net interest margins. Now there are signs they are changing their strategies to offset those problems. Investors should hope the pressure keeps rising.

One little-noticed recent shift is the banks' greater issuance of subordinated loans—riskier debt that puts lenders lower down the ranks of those who get repaid when a company goes bust. Japanese banks doled out $14 billion in such loans last year, according to

Wind-Tossed

Price-to-book value of Japan's megabanks

0.8 times



Source: FactSet

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Moody's Investors Service, almost equivalent to the combined total over the preceding four years. The trend has continued, with the top three banks behind all Japanese subordinated-loan issuance this year.

Because of the higher risk involved in subordinated debt, which is typically uncollateralized, banks can charge higher interest rates. If that means keeping some "zombie" companies on life support, at least the banks are getting better rewarded for their pains.

That isn't the only benefit: Big banks still often own large stakes in companies to which they lend.

In swapping old collateralized loans for subordinated loans to companies, the banks are taking the opportunity to talk companies into letting them sell down these piles of cross-shareholdings, which have long been an obstacle to reform. Companies can use the proceeds of the subordinated loans to buy back their shares from the banks, Moody's says.

If this trend continues at the current rate, banks could cull their holdings in companies by ¥3.7 trillion ($33.2 billion) over the next five years, Moody's reckons. That would help Japan's banks unleash trapped regulatory capital, improving their Tier 1 capital ratios by an estimated net 0.8 percentage point.

Previous bank strategies like ramping up overseas lending and buying assets with dollar deposits to fund such lending haven't brought much bang for the buck: Japan's lenders currently trade at 0.6 times their book value. The latest shift could raise their income while simultaneously helping reform Japan Inc. *—Anjani Trivedi*

S.F. Express Needs UPS To Deliver

One of the biggest Chinese companies you have never heard of wants to expand its U.S. presence. **S.F. Express**, a package-delivery company valued at $34 billion, is forming a joint venture with **United Parcel Service**. The strategy looks right, but deals like these will have to go very well for S.F. Express to justify its valuation.

S.F. Express's move overseas might look odd. The package-delivery market in China has been on fire, as ever more people shop online. More than 30 billion express parcels were sent in China last year, official data show, 51% more than in 2015.

But in April the growth rate was just half that, and rising labor costs and intense competition are squeezing margins. China's package-delivery market is highly fragmented, with companies often outsourcing the labor-intensive "last mile."

S.F. Express has taken a different approach by owning the whole delivery network, much as UPS does, and focusing on premium segments like delivering high-value items. That helps the company generate about $3.20 per package sent, around 10 times what its New York-listed local rival **ZTO Express** earns. Teaming up with UPS will allow S.F. Express to expand in the still more lucrative international delivery market: UPS made $28.10 per cross-border package delivery last quarter.

Still, at 53 times trailing earnings, S.F. Express's valuation is twice that of UPS. Its market value is only 20% less than that of DHL owner Deutsche Post, whose profit is five times as large. S.F. has found the right route, but it has much to do to deliver on its shareholders' expectations. *—Jacky Wong*