THE WALL STREET JOURNAL.

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WSJ.com

EUROPE EDITION

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What's News

Business & Finance

The eurozone enjoyed solid growth last quarter, with GDP rising 1.8%. Surveys point to a further acceleration this quarter. **A1**

◆ **Puerto Rico** was placed under bankruptcy protection, setting up a showdown with Wall Street firms owed billions of dollars. **A1**

◆ **China's HNA raised** its stake in Deutsche Bank to almost 10%, making it the lender's top shareholder. **B1**

◆ **Shale producers**, many of which rely extensively on debt, face the threat of higher interest rates. **B1**

◆ **Big banks** are pulling back from car loans, helping drive down sales and raising fears of a deeper slump. **B1**

◆ **VW said** quarterly profit soared 45% despite continued fallout from the emissions scandal and confirmed its full-year outlook. **B3**

◆ **Tesla's loss** widened as it boosted spending before attempting a shift to become a mainstream auto maker. **B3**

◆ **Wall Street advisers** are pouring cold water on a U.S. Treasury plan to issue 50-year and 100-year bonds. **B1**

◆ **Facebook's revenue** surged 49% last quarter as more advertisers flocked to the platform. **B1, B4**

◆ **The U.S. Treasury named** an acting comptroller to head the OCC, the top national banking regulator. **B5**

◆ **J.P. Morgan will move** 500 to 1,000 jobs out of London as the bank begins to implement post-Brexit plans. **B5**

World-Wide

◆ **May accused** EU politicians and officials of issuing threats against Britain, saying that they were willing Brexit talks to fail. **A1**

◆ **Macron and Le Pen** squared off in a live French presidential debate, pitting a staunch EU defender against a nationalist critic. **A3**

◆ **North Korea accused** China of "insincerity and betrayal," as it sought to stave off pressure from Beijing on its weapons programs. **A4**

◆ **A U.S. citizen** detained in North Korea is being investigated for seeking to overthrow the government. **A4**

◆ **The Fed held** rates steady and indicated it would stick with its plans to proceed with gradual rate increases this year. **A5**

◆ **The House passed** a $1.1 trillion spending bill that funds the U.S. government through September and averts a shutdown. **WSJ.com**

◆ **House Republicans** are working on changes to their health-care bill, hoping to bring the measure up for a vote this week. **A5**

◆ **FBI chief Comey** defended his decision to alert Congress about a Clinton email probe less than two weeks before the election. **A5**

◆ **Clinton took** the blame for her election defeat but said sexism, Russian interference and Comey's letter helped sink her candidacy. **A5**

◆ **Venezuela's district** attorney condemned state violence against protesters and praised the constitution. **A4**

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May Accuses EU of Swaying Vote

British prime minister's comments come as bloc official toughens negotiating position

By Laurence Norman and Valentina Pop in Brussels and Jason Douglas in London

Tensions between the U.K. and the European Union escalated Wednesday after British Prime Minister Theresa May accused European politicians and officials of issuing threats against Britain.

Hours after the EU's chief negotiator, Michel Barnier, detailed far-reaching demands for the Brexit deal, Mrs. May said they represented a hardening of the bloc's negotiating stance.

In a televised speech to voters ahead of a June 8 general election, she accused "some in Brussels" of willing the Brexit talks to fail. "Threats against Britain have been issued by European politicians and officials," she said, without being specific.

The threats "have been deliberately timed to affect the result of the general election," she said.

The raised tensions followed a dinner with Mrs. May and European Commission President Jean-Claude Juncker a week ago.

After the meeting, EU officials warned that the British government still had illusions about what it could gain from the Brexit negotiations, and reports of what was described as a disastrous meeting appeared in the German press. Mrs. May said European press reports had misrepresented the British negotiating position.

The ratcheting-up of the rhetoric shows how the negotiations over Brexit, which have yet to formally begin, have the capacity to fall prey to sour relations between the two sides. Nonetheless, Mrs. May may see an electoral advantage in depicting the impending negotiations as requiring an unyielding response.

Please see BREXIT page A2

Brighter Growth Outlook For Europe

Signs of economic revival in the euro currency zone are multiplying, indicating that Europe is finally healing from a crisis-racked decade.

By Marcus Walker in Berlin, Jeannette Neumann in Madrid and Nick Kostov in Paris

The 19-country eurozone enjoyed a second successive quarter of strong growth in early 2017, outpacing the U.S. Business surveys point to a further acceleration in the current quarter. Markets are rising strongly as confidence in the economic outlook swells. Corporate earnings are rising briskly from a year ago.

Eurozone politics also appear headed for greater stability than looked likely only a few months ago, although the outcome of Sunday's French presidential election remains a risk. Investors, however, are confident that pro-European Union centrist Emmanuel Macron will beat anti-EU nationalist Marine Le Pen.

Gross domestic product in Europe's single-currency bloc grew at an annualized pace of 1.8% in the first quarter, the EU said, maintaining an acceleration over the past year. The purchasing-managers index in April hit a six-year high, suggesting more improvement to come. Economists say the eu-

Please see EUROPE page A2

Presidential Hopefuls Square Off in French Debate

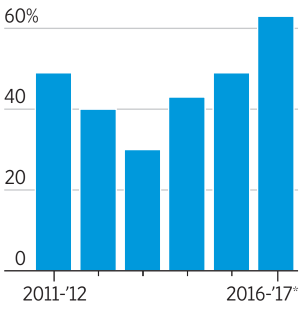
ERIC FEFERBERG/AGENCE FRANCE-PRESSE/GETTY IMAGES

HEAD TO HEAD: Marine Le Pen, left, went on the offensive in the only live one-on-one TV debate in the French presidential race, saying rival Emmanuel Macron, right, is the candidate of globalization. Mr. Macron leads Ms. Le Pen in the polls by 20 percentage points. **A3**

World of Difference

More U.S. business schools are reporting a drop in international applications to full-time two-year programs. **B3**

Percent of schools with falling applications from abroad



*Through mid-February

Source: Graduate Management Admission Council (GMAC) Application Trends Survey and the Association to Advance Collegiate Schools of Business

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DRUG-PRICE FUROR PRODS A PIONEER TO CASH OUT

$89,000 muscular-dystrophy treatment was shamed, then sold

By Joseph Walker

Entrepreneur Jeffrey Aronin said a few years ago he hoped to eventually sell Marathon Pharmaceuticals LLC, which he controls and runs, for billions of dollars, according to a person who heard the comment. Some employees have said they now expect him to shut down the company.

His deflated ambition is a sign of the increasingly hostile reaction to drug companies that specialize in sharply raising the prices of old medications. Mr. Aronin did that over and over again for 15 years, most recently after Marathon won approval in February to sell a drug for muscular dystrophy in the U.S.

Marathon set the price at $89,000 a year. Some families were paying about $1,200 a year to buy the drug, a steroid called deflazacort, from an online pharmacy in the U.K.

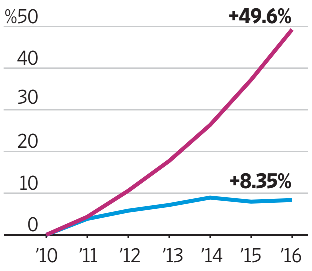
Instead of conducting large clinical trials to test its safety and effectiveness, which might have cost tens of millions of dollars, Marathon spent about $370,000 to license data produced in earlier clinical trials.

It took only a month for sticker shock to cascade into criticism from families of patients with Duchenne muscular dystrophy, a rare and fa-

Please see DRUGS page A8

Climbing Fast

Since 2010, prices received for U.S.-made pharmaceuticals have increased about six times as much as goods and services overall.



Note: Price changes are based on the Producer Price Index. 2016 data are preliminary.

Source: Bureau of Labor Statistics

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Puerto Rico Bankruptcy Kicks Off A Showdown

By Andrew Scurria

Federal officials placed Puerto Rico under bankruptcy protection, setting up a showdown with Wall Street firms owed billions of dollars in the largest-ever U.S. municipal debt restructuring and further complicating the U.S. territory's efforts to pull itself out of a financial mess.

A federal oversight board installed by Congress invoked a special type of bankruptcy that puts Puerto Rico's standoff with creditors before a federal judge in San Juan.

The decision marks the start to what could be a lengthy legal fight as Wall Street watches to see how other indebted municipal governments may fare in confrontations with investors.

Puerto Rico and its agencies owe $73 billion to creditors, dwarfing the roughly $18 billion owed by Detroit when it entered what was previously the largest municipal bankruptcy in 2013. The territory racked up its tremendous debt load during a decadelong re-

Please see DEBTS page A6

Fidget Spinners Confound Teachers, And...Sorry, I Got Distracted

* * *

Toy meant to help pupils focus spins out of control in classrooms; 'mesmerizing'

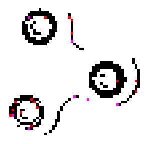
By Anne Marie Chaker

Well-meaning adults decided a good prescription for schoolchildren with attention issues was a toy that promised to divert nervous energy. They called it the "fidget spinner."

What they never imagined is that these spinners would become hot items in American classrooms, and that all the fidgeting with them would someday create an epidemic of mass distraction.

Bill Mosher, a fifth-grade teacher at Spring Hill Elementary in McLean, Va., says he started seeing fidget spinners in class a few weeks ago, after spring break.

They were flat two-headed or three-headed tops that fit in the palm. The user typically pinches a fidget spinner at its central bearing, then sets it spinning in a fast, smooth and oddly satisfying way—sometimes releasing it on its gyroscopic force like a classic top.



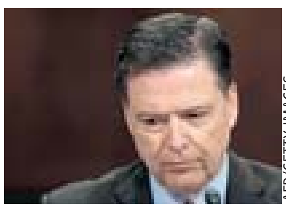
Fidget spinner

"It started with two or three kids in class," Mr. Mosher says. "Now a third of the class has them." His pupils used them for a bit more than self-focus—showing them off, passing them around, "holding it up and letting it 'tap-tap-tap' to a pencil."

He wrote to parents saying he supported the toys' use if it helped children focus on lessons. "We have had a few instances already where these toys have become more of a distraction than an aid,"

Please see FIDGET page A8

INSIDE



AFP/GETTY IMAGES

COMEY DEFENDS CONDUCT IN CLINTON PROBE

U.S. NEWS, A5

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FED STAYS ON TRACK FOR RATE RISES

U.S. NEWS, A5

CAPITAL ACCOUNT | By Greg Ip

Why Rising Bank Stocks Should Worry Fed

When the Federal Reserve raises interest rates, the stock market usually takes it badly. These days, though, one big sector is praying for tighter monetary policy: banks.

Lenders' stocks have been on a tear, rising 24% since the November election, and not just on hopes the Trump administration will reduce regulation. After all, banks have rallied almost as much in Europe.

Rather, it reflects two Federal Reserve rate increases, expectations of more, and confidence the European Central Bank won't push rates further into negative territory or expand bond buying.

That is the opposite of the usual relationship. Rising rates typically hurt banks by raising their cost of funds and damping demand for loans.

The inversion of this historic relationship is ominous. It suggests that central banks' use of interest rates near or below zero to revive stagnant economies can backfire by undermining bank profits and capital and, thus, their ability to lend. Two Princeton University economists, Markus Brunnermeier and Yann Koby, have coined the term the "reversal rate" for the rate at which easy-monetary policy switches from stimulative to contractionary.

The idea is controversial. Fed officials have disputed the link, and in Europe, banks report that while low rates have hurt profits, they have also helped lending. Nor is the U.S. now near such a reversal rate. The economy is growing solidly and the Fed has signaled it hopes to raise short-term rates this year by another half percentage point from the current target of between 0.75% and 1%.

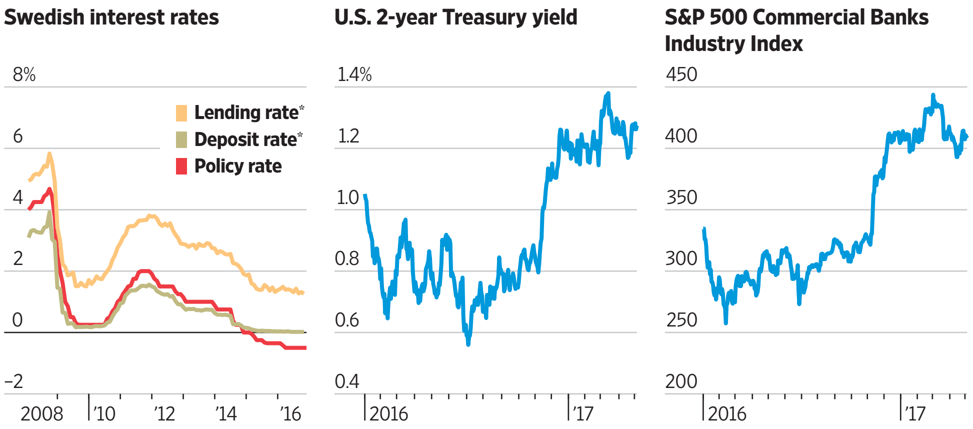
But the reversal rate, if it does exist, casts a large shadow over the future. Structural forces, such as weak productivity growth and a glut of global savings, likely mean central banks will have to push rates close to zero more often than in the past. There may be circumstances when this does more harm than good.

Standard economics says that as interest rates drop, they increase the demand for credit and investment, raise stock prices and thus wealth, and weaken the currency exchange rate, which is good for exports.

In theory, interest rates shouldn't lose their potency as they fall below zero. Yet a study presented at the International Monetary Fund last fall found some evidence that they do.

The Low-Rate Squeeze

In Sweden, negative interest rates were passed on to commercial-bank lenders but not depositors. In the U.S., higher rates have cheered bank investors.



*For nonfinancial businesses Sources: Riksbank; WSJ Market Data Group (bond yield, index) THE WALL STREET JOURNAL.

Precisely why is unclear, but the likeliest culprit is the impact on commercial banks. They profit from the margin between what they charge on loans and what they pay depositors for the funds they lend out. When central banks push their policy rates below zero, commercial banks are reluctant to impose that on their depositors by charging them a negative rate on their accounts.

For example, between early 2015 and mid-2016 Sweden's Riksbank pushed its policy rate from zero to minus 0.5%. Loan rates by commercial banks also dropped, but not as much, and their deposit rates, which were already at zero, barely fell at all.

This also affects bank profits. A study by two Chicago Fed economists found that lower interest rates tend to depress banks' returns on assets.

That study did find that this effect was more than offset by stronger loan growth, more fee income and lower loan-loss provisions. Moreover, the value of banks' bondholdings rises as rates drop.

But those offsets may diminish over time. Research by the Swiss-based Bank for International Settlements found that in 2009 and 2010, falling interest rates bolstered bank profits, but from 2011 to 2014 they had the opposite effect. The BIS also looked at 108 global banks and found that as interest rates drop, lending rises—until rates reach very low levels, when lending starts to shrink.

When interest rates dropped to zero, central banks turn to another tool for stimulating demand: buying bonds, which reduces long-term rates. This compresses the spread between long-term and short-term interest rates, i.e. the yield curve. Because loans are linked to long-term rates and deposits to short-term ones, a flatter yield curve also erodes profits, a finding confirmed by both the Chicago Fed and BIS studies.

The BIS authors caution that it is difficult to disentangle any negative effects of low interest rates and a flatter yield curve on banks from the overall weak economic environment, which both keeps rates low and hurts the demand for credit.

With economic growth now picking up around the world, central banks don't have to worry as much about the health of commercial banks. Nonetheless, they may need to keep the unusual dynamics that occur at low rates in mind.

The longer the ECB keeps rates negative, the harder it will be for commercial banks to recover.

For its part, the Fed, which is debating when to start shrinking its balance sheet, may want to consider the effect on banks. Selling some of its $4 trillion in bonds should push up long-term rates, which would restrain growth, but in the other direction it would steepen the yield curve and bolster banks' incentives to lend. That should provide some comfort as the Fed slowly returns monetary policy to normal.

EUROPE

Continued from Page One

rozone could grow by close to 2% this year, a fast pace by the region's standards.

At advertising giant Publicis Groupe SA, sales in France grew 12% in the first quarter. The company tends to be a useful bellwether for the French economy, because its clients are a diverse set of French businesses.

Publicis Chief Executive Maurice Lévy said the "excellent growth" in early 2017 was particularly surprising given that companies tend to withhold ad spending in the run-up to presidential elections. "This time we didn't have a period where clients adopted a wait-and-see attitude towards investment because of the uncertainty," he said.

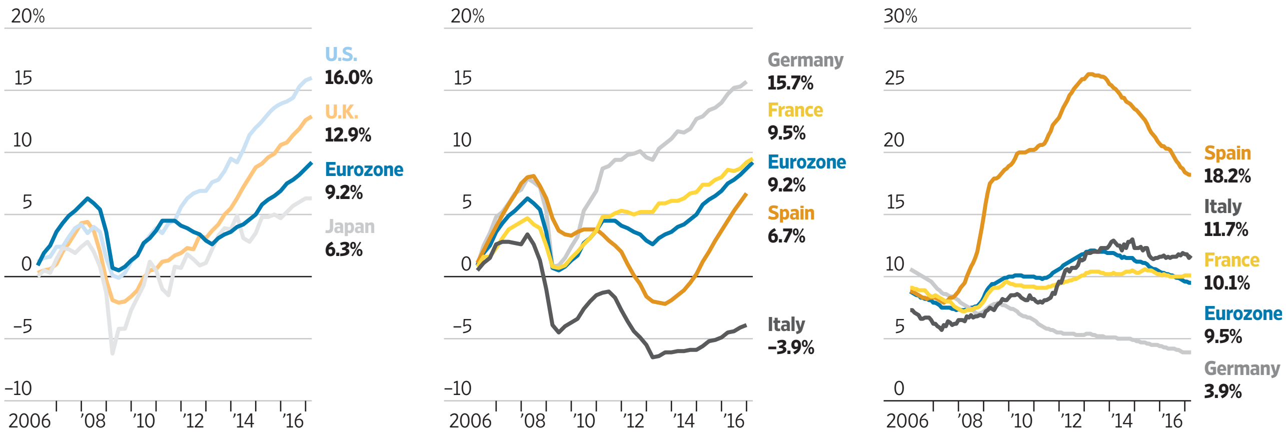
Growth is spread unevenly, with Italy in particular still struggling. Scars from the crisis years linger in swaths of the eurozone, ranging from high debts and unemployment to weak banks and a legacy of mistrust between creditor and debtor countries.

Still, fears that Europe had forgotten how to grow are quickly receding.

"The recovery feels broad-based, it feels resilient, and the pace is decent," said Greg Fuzesi, an economist at J.P. Morgan in London.

Persistently low oil prices have helped a continent that imports the bulk of its fuel. Eurozone governments, apart from Greece, have broadly stopped fiscal belt-tightening as bond markets have recovered from the eurozone crisis. Germany's government has raised spending to deal with the influx of refugees. Households and companies have paid down debt, opening the door to more consumption and investment.

Playing Catch-Up



Sources: Eurostat; OECD (U.S. and Japan GDP) THE WALL STREET JOURNAL

And the European Central Bank's assorted measures to cut the cost of credit appear to have made a difference, giving governments and other debtors breathing room, economists say.

Financial markets are embracing Europe's upbeat growth outlook.

In dollar terms, the Euro Stoxx 50 index is up almost 12.7% this year, nearly double the S&P 500's gains. The euro has also climbed against the dollar, trading at $1.09 compared with $1.05 at the start of the year, surprising analysts who predicted that the common currency would fall to parity with the greenback.

Car sales are rising. Italian-American car maker Fiat Chrysler Automobiles NV reported an 11% rise in first-quarter profit, aided by sales growth in Europe.

France is struggling for liftoff. The economy grew at an annualized 1% in the first quarter.

Many smaller businesses, which make up the backbone of France's economy, are still struggling to adapt to rising global competition. At Groupe Roux-Jourfier, a 160-employee engineering company that makes components for sectors including aerospace and energy, first-quarter sales were down over 5% from a year earlier. "It's getting harder and harder to make sales," said CEO Fabrice Roux. "I have incredible competition from countries that are considered low cost. That includes Spain, four hours' drive from me."

—Georgi Kantchev and Eric Sylvers contributed to this article.

Why Spain Is on Path to Recovery

Banking cleanup helped revive investment in small businesses

Many economists say Spain is benefiting from its restructuring of banks in 2012, when it closed or merged lenders and forced the survivors to beef up provisions for soured loans. The cleanup enabled Spanish banks to pass on to debtors the European Central Bank's measures to cut the cost of credit.

Spain's biggest scar from the crisis remains unemployment. At over 18%, it is the highest in the eurozone after Greece. Spanish employers are hiring workers rapidly again.

"The Spanish economy is recovering from the great crisis," said Christian Morales, a 33-year-old who is planning to open a restaurant in Madrid.

Mr. Morales is among the beneficiaries of Spain's tourism boom. A record 75.6 million people visited Spain last year. Safety concerns have led travelers to shift their vacations to Spain from other Mediterranean destinations.

—Laurence Norman, Valentina Pop and Jason Douglas

BREXIT

Continued from Page One

Earlier, in his first news conference since EU leaders last Saturday agreed to negotiating guidelines for him, Mr. Barnier repeatedly emphasized that Brexit would be painful and complicated.

He laid out new details of the bloc's opening negotiating stance that were in some respects tougher than previously advertised, including ensuring that EU citizens in the U.K. keep their welfare benefits and residency rights for their lifetimes. The more detailed stance must be signed off by EU governments later this month.

Wednesday's negotiating directives weigh in on the three key issues the EU wants settled upfront in the Brexit talks: EU citizens' rights, a British payment to cover past EU financial commitments and the status of the Northern Ireland border. They specifically avoid giving Mr. Barnier a mandate to discuss a future EU-U.K. trade agreement or even a transitional deal to smooth the economic disruption caused by Britain leaving the bloc.

The EU has insisted there can be no talks on these issues until the key divorce issues are tackled. Mr. Barnier said he hoped that could be done by October or November but that was in the U.K.'s hands.

"Some have created the illusion that Brexit would have no material impact on our lives or that negotiations can be concluded quickly and painlessly," Mr. Barnier said. "This is not the case."

Wednesday's paper said EU citizens in the U.K. and British citizens in the bloc should be guaranteed lifetime residency if they meet the EU's five-year residency requirement.

Those rights should be enforceable for EU citizens who have previously lived in the U.K. but since left and should continue to allow family members of an EU citizen residing in the U.K. to move to Britain in the future, it says.

EU citizens should also get the current broad range of housing, tax and other welfare benefits available, the paper argues.

Mr. Barnier said such rights should be directly enforced by the European Court of Justice, the EU's top court, giving it a role in Britain until "well after the U.K. leaves." Mr. Barnier said the court should also have a direct say over other aspects of the divorce deal, setting up a potential clash with the U.K. government which wants to be rid of EU courts' jurisdiction after leaving the bloc, due in March 2019.

The document also underscores the differences between the EU and the U.K. on the Brexit bill, or the sum the EU wants the U.K. to pay to honor its past spending pledges.

It says the U.K. will need to agree on an annual payments schedule, established in euros, meaning Britain will carry the exchange-rate risk. There will need to be specific arrangements on the U.K.'s contingent liabilities with the EU—for example, guarantees on loans made by EU bodies while the U.K. was a member—and Britain will still need to continue to make payments for specific funds like the EU's refugee payments to Turkey, the document says.

—Jenny Gross in London contributed to this article.

Jean-Claude Juncker, left, with Brexit negotiator Michel Barnier.

CORRECTIONS & AMPLIFICATIONS

Mylan Chairman Robert J. Coury received about $59 million in retirement benefits and other pay as part of his transition from executive chairman to a nonemployee chairman role, on top of nearly $100 million in disclosed compensation for 2016. That brought his total payday to just shy of $157 million. A Business & Finance article Wednesday incorrectly gave the amount for the retirement benefits and other pay as $66.3 million, and the article and headline incorrectly said his total payday was just shy of $164 million.

A chart with a Page One article about Greece's deal with international creditors showed 10-year bond yields from Greece, Portugal and Ireland beginning on Oct. 16, 2012. The chart incorrectly labeled the data as starting on Oct. 16, 2011.

U.S. taxpayers can itemize deductions even if the total is less than the standard deduction of $6,350 for individuals and $12,700 for married couples filing jointly. A Page One article in the Friday-Monday edition about a Trump administration proposal to repeal the deduction for state and local taxes incorrectly said that total deductions must exceed the standard deduction for taxpayers to itemize.

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

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WORLD NEWS

Top French Candidates Trade EU Barbs

By William Horobin

PARIS—Emmanuel Macron and Marine Le Pen squared off Wednesday in the only live head-to-head debate of the French presidential election, pitting a staunch defender of the **European Union** against a nationalist who wants to unravel it.

Seeking to close a 20-percentage-point gap in the polls before Sunday's vote, Ms. Le Pen went on the offensive in the prime-time show, saying Mr. Macron, a former investor banker, is the candidate of globalization.

"You are the France that submits to European demands," Ms. Le Pen said.

For Mr. Macron, who is running for elected office for the first time, the debate was a test of whether he can hold his footing under pressure from a battle-hardened **National Front** candidate who is tapping into deep resentment of globalization and the EU.

Mr. Macron said Ms. Le Pen's anti-EU stance is defeatist and France can compete with European rivals by simplifying regulations for small business and making labor law more flexible.

"Confronted with this mind-set of defeat, I represent the mind-set of conquest," Mr. Macron said.

The debate was watched closely by investors, who sold French assets when Ms. Le Pen polled high ahead of the April 23 first-round vote. If Ms. Le Pen can turn the table on Mr. Macron during the debate, it could cast renewed doubt over the outcome of an election that is crucial for the future of the EU.

Ms. Le Pen proposes pulling France from the euro and a radical overhaul of the EU to repatriate powers in Paris and implement protectionist trade policies. Mr. Macron, however, embraces the EU and prescribes labor overhauls to help France compete in global markets.

The debate, which started at 9 p.m. local time, was expected to draw millions of viewers, as 34% of France's 47.6 million registered voters said they were sure to tune in and a further 31% saying they probably would, according to a survey by polling company BVA.

In the 2012 election, more than 17 million watched the duel between current President François Hollande and his predecessor, Nicolas Sarkozy.

With polls consistently showing Mr. Macron on track to win 60% of votes Sunday, Ms. Le Pen has a mountain to climb in the debate.

To stand a chance of rivaling Mr. Macron, the National Front candidate needs to pick up supporters from both conservative and far-left candidates who were knocked out in the first round of voting.

In an attempt to cross the political spectrum, Ms. Le Pen went after blue-collar votes last week by making an impromptu appearance at a factory scheduled for closure just before her rival was due there. She also has attempted to tap center-right voters by lifting sections on French identity from a speech by mainstream conservative François Fillon, who was knocked out in the first round.

Beyond the result itself, Sunday's vote will be key to determining the strength of the two candidates' parties in legislative elections in mid-June.

Even as Mr. Macron is likely to win on Sunday, a margin below 20 points would sap the momentum his upstart party En Marche—On the Move—needs to win a majority, said Adélaïde Zulfikarpasic, an analyst at BVA.

Around a third of voters intending to cast their ballot for Mr. Macron are doing so because he is seen as the "least bad" of the candidates and another third to block the path of Ms. Le Pen, according to a survey by BVA.

"Macron tonight faces the challenge not only of securing his election but getting well elected to push a dynamic that is favorable for his presidency," Ms. Zulfikarpasic said.

BOB EDME/ASSOCIATED PRESS

"You are the France that submits to European demands," Marine Le Pen told rival presidential candidate Emmanuel Macron in Wednesday's debate.

Left and Far-Right Vie for German Workers

By Anton Troianovski

ESSEN, Germany—Guido Reil, a foreman in a coal mine and longtime union member, has been marching on May Day for better pay and working conditions for three decades.

But as soon as he arrived at this week's parade, dozens of fellow marchers surrounded him to try to separate him from the column, chanting "Shut up!" and "Get out!"

The reason: Mr. Reil, for years a member of the labor-aligned Social Democrats, quit the party last year to join the anti-immigrant Alternative for Germany. As elections approach here, he and others like him are at the focal point of an intensifying battle between left and right for the votes of the German working class.

"We do not want to provoke," Mr. Reil said, referring to himself and a handful of other AfD backers with him. "We simply want to show that we are normal people."

A protester right behind him held aloft a sign: "Voting AfD is so 1933."

In Germany, exit polls from recent state elections show that working-class voters are more likely than the rest of the population to vote for the AfD, mirroring the preferences of their peers in America's Rust Belt for President Donald Trump and in France for nationalist Marine Le Pen.

"We must recognize that we have AfD sympathizers and AfD voters in our own ranks in rather large numbers," said Alfons Rüther, secretary for Essen of Germany's main metalworkers union, IG Metall. "We aren't reaching them.... The fear of losing one's job and the fear of foreigners are more powerful."

Much of the recent political upheaval in Western Europe has stemmed from the weakness of the center-left as working-class voters forge new allegiances. In March, the Dutch Labor Party withered in national elections, drawing less than 6% of the vote and coming in fourth. Last month, 39% of factory workers in France sided with Ms. Le Pen in the first-round presidential election, compared with 21% of all voters, according to pollster Ifop.

Disappointed blue-collar voters are looking to forge new political allegiances.

For now the phenomenon has been more muted in Germany, with the Social Democrats—the traditional party of the working class—still near 30% support and the AfD below 10% overall.

But here in the Ruhr region, dotted with the relics of coal mines and steel plants that once provided hundreds of thousands of jobs, the center-left is being challenged.

On May 14, the Ruhr will vote in North Rhine-Westphalia's regional election, where Mr. Reil is a candidate. Ahead of the vote, seen as a preview of the Sept. 24 national election, the AfD is targeting blue-collar workers disappointed with the center-left's past support for pro-business reforms and immigration.

"He represents the interests of the little people rather than betraying them," Mr. Reil's campaign poster says.

Mr. Reil, a foreman in the region's last operating coal mine, is at the forefront of the AfD's drive for working-class votes, having switched to the party last year after 26 years with the Social Democrats. In the city council, he represents Essen's hardscrabble north end, where opposition to immigration is driving people away from the center-left.

"I want all this scum that's washing up here to flow back out," said one 61-year-old electrician who used to vote for the Social Democrats but now backs the AfD. "The foreigners bother me. That's it, really."

Social Democratic officials acknowledge concern about their working-class base drifting to the AfD but say they are confident their chancellor candidate, former European Parliament President Martin Schulz, will minimize those losses. Mr. Schulz has pledged to address "unfairness" in the economy and to fight "for the Germany of the hardworking people rather than the Germany of the self-appointed elites." He promises improved retirement benefits and new labor protections.

Race Scraps a Descent Prize; Change Too Steep

By Joshua Robinson

The organizers of the Giro d'Italia, one of the most famous bike races in the world, have always known that keeping fans interested for all three weeks can be tricky. So for more than 80 years, they have included secondary prizes to spice up the action. Like the Tour de France, the Giro crowns the best climber, the fiercest sprinter and the most "combative" rider.

But ahead of Friday's opening stage in Sardinia, one new Giro award caused such a storm in the professional peloton that the race scrapped it just 48 hours before the start. The Giro was offering a cash prize of up to €15,000 ($16,381), in effect, for the craziest rider in the bunch: the fastest descender.

"Seriously?! If this true you should be ashamed," Trek-Segafredo rider Jasper Stuyven tweeted at the Giro's official account after hearing about the Pirelli Prize for the Best Descender. "Aren't there already enough crashes? Clearly you only care about sensation."

On Wednesday morning, following a backlash from the cycling community, organizers announced that the fastest descenders' prize would be canceled.

"The spirit of the initiative was to highlight an important skill which is an integral part of a cycle race without putting the riders' safety in jeopardy," they said.

"Rider safety is, and remains, the priority of the Giro and the race organizers."

Racing downhill at more than 50 miles an hour is by far the most dangerous part of being a professional cyclist.

At those speeds, any debris on the road or a skid of the inch-wide wheels can send the cyclist into the side of a mountain or over a guardrail. Seasoned pros try to avoid descending at full-tilt unless it is absolutely essential.

"Life threatening idea to give a prize to the best descender in Giro? I hope this is a joke," Team Sky rider Wout Poels wrote on Twitter earlier this week. "What about safety?"

The Giro's recent history is littered with dramatic crashes on downhill sections.

In the 2009 race, Pedro Horrillo was left in a coma after he plummeted down a 200-foot ravine. Two years later, Wouter Weylandt was killed after he caught a guardrail on a descent while going more than 40 mph. And in 2015, Domenico Pozzovivo had to quit the race after a gruesome crash while aggressively rounding a corner.

Giro organizers knew from the start that the award would be a tricky sell, according to a person familiar with their thinking.

That is why it was introduced without a major announcement or even a press release. Assiduous observers of the race were left to discover it in the Giro's official rule book.

Race organizers are often confronted with the problem of balancing spectacular television with rider safety.

Christian Prudhomme, the director of the Tour de France said in a 2015 interview with The Wall Street Journal that he often heard from fans that his stages weren't daring enough. They wanted death-defying feats of courage and speed, like a time-trial in a descent.

"We would never do that. It would be irresponsible. It's insane," Mr. Prudhomme said. "Yes, it could spice things up, but to what extent: killing people? It makes no sense."

TIM DE WAELE/CORBIS/GETTY IMAGES

Giro d'Italia organizers dropped a prize for the fastest descender after cyclists warned of crashes.

WORLD WATCH

MIDDLE EAST

Trump, Abbas Meet In Washington

President Donald Trump met with Palestinian leader Mahmoud Abbas, saying the U.S. would take part in the pursuit of peace between Israelis and Palestinians and vowing, "We'll get it done."

The meeting Wednesday was the first Mr. Trump has had with Mr. Abbas, although the two have spoken previously. Mr. Trump, standing alongside the Palestinian leader at the White House, stressed that his administration wants to be involved as a mediator in talks but wouldn't seek to impose a solution.

Mr. Abbas said he favors a two-state solution, and complained that the Palestinians are the world's only people living under occupation. Mr. Trump has said he would favor a two-state solution if that were the outcome chosen by Israelis and Palestinians as part of a settlement.

Under Mr. Trump, the U.S. has smoothed strained ties in the relationship with Israeli Prime Minister Benjamin Netanyahu, who visited Mr. Trump at the White House in February.

—Carol E. Lee

EUROPEAN UNION

Bloc Won't Require Visas of Americans

The EU won't impose visas on American travelers in retaliation for the U.S. continuing to exclude five EU countries from its no-visa program, the bloc's executive branch said.

Imposing visas, as requested by the European Parliament in March, would be "counterproductive" and would scuttle diplomatic efforts with the U.S. to expand the Visa Waiver Program, said European migration commissioner Dimitris Avramopoulos on Tuesday.

EU lawmakers in March made a nonbinding request for the European Commission, the EU's executive body, to retaliate after a deadline expired last year for bringing Poland, Croatia, Romania, Bulgaria and Cyprus within the U.S. visa-free travel arrangement.

"The EU will always choose engagement, commitment and patient diplomacy over any form of unilateral retaliation," Mr. Avramopoulos said.

—Valentina Pop

North Korea Slams China

Pyongyang accuses former ally of betrayal over its pressure on nuclear program

BY JONATHAN CHENG

SEOUL—North Korea accused China of "insincerity and betrayal" in a commentary published Wednesday, calling statements in the official Chinese media "an undisguised threat" to Pyongyang, as it sought to stave off pressure from Beijing on its nuclear and missile programs.

"China should no longer try to test the limits of the DPRK's patience," North Korea said in the commentary published by the official Korean Central News Agency, using the acronym for its formal name, the Democratic People's Republic of Korea. "China had better ponder over the grave consequences to be entailed by its reckless act of chopping down the pillar of the DPRK-China relations."

The commentary, which was attributed to a person identified only as Kim Chol, comes as China seeks to get North Korea to curb its weapons programs, amid pressure from the U.S. and other United Nations members.

North Korea's latest statements referred to recent articles in two official Chinese publications, the People's Daily and the Global Times, that apparently alluded to the possibility of Beijing confronting North Korea militarily, or ending friendly ties between the two neighbors and Cold War allies, if it didn't halt its weapons programs.

The commentary also referred to Chinese press statements about North Korea's weapons programs threatening China's northeast, which borders North Korea, and about how Pyongyang's actions were giving the U.S. an excuse to deploy more strategic assets to the region. The article said that the U.S. military buildup in Asia was aimed at China, not North Korea.

China's hardening line on North Korea, the commentary said, showed that Beijing was "dancing to the tune of the U.S.," and that China was exercising "big-power chauvinism" that meant "the dignity and vital rights of the DPRK should be sacrificed for the interests of China."

Last month, U.S. President Donald Trump met Chinese President Xi Jinping at the Mar-a-Lago resort in Florida, where Mr. Trump says that he offered China more favorable trade terms in exchange for help on confronting the threat from North Korea.

In February, China said it would suspend coal imports from North Korea until year-end, potentially depriving Pyongyang of a key source of revenue, a move that Mr. Trump has pointed to as a sign of China's willingness to turn the screws on North Korea.

Mr. Trump has said that China holds the key to halting the North Korean weapons programs, citing the two countries' close economic and historical ties. Beijing in return has said its leverage is limited and has pressed the U.S. to enter into unconditional talks with Pyongyang.

China and North Korea have enjoyed friendly ties since the years immediately following World War II, when Communist parties in both countries took power and fought in one another's wars. The two countries have described their ties as being as close as that of "lips and teeth."

In recent decades, however, bilateral ties have become increasingly strained, as China opened its economy while North Korea grew more isolated and pursued a nuclear-weapons program that antagonized the region.

Pyongyang Details Detainee's Charges

U.S. citizen accused of seeking to overthrow government

SEOUL—A U.S. citizen detained last month in North Korea is being investigated for seeking to overthrow the government, the state-controlled news agency said.

Kim Sang Dok committed "criminal acts of hostility aimed to overturn" the Pyongyang regime—"not only in the past but also during his last stay before interception"—the Korean Central News Agency said on Wednesday, adding that the "interception" had taken place April 22 at the capital's international airport.

Mr. Kim taught at Pyongyang University of Science and Technology. The school said in April that Mr. Kim had been detained as part of an investigation into "matters that are not connected in any way with the work of PUST," and declined to comment on any of his activities beyond his teaching work. KCNA said his subject was accounting.

South Korea's Yonhap News Agency reported in April that Mr. Kim is in his late 50s and had been involved in aid work in North Korea.

—Jonathan Cheng

MINGJING NEWS

Guo Wengui appears in an online interview with Mingjing News.

Tycoon Claim Roils Politics in Beijing

BY CHUN HAN WONG

BEIJING—Online allegations by an exiled businessman about corrupt ties between China's political and corporate elites are riveting many Chinese and threaten to intrude on the Communist Party's plans for a carefully choreographed leadership transition.

Guo Wengui, an up-by-the-bootstraps tycoon who says he has lived in the U.S. since 2015, has said in rambling video interviews and a deluge of Twitter posts that he has detailed knowledge of wrongdoing by senior Communist Party officials, their relatives and their associates.

Mr. Guo has provided scant evidence to substantiate his allegations. Still, they are the talk among many politically minded Chinese, and China's government has launched a multipronged campaign to discredit him.

The Foreign Ministry dismissed his allegations as falsehoods and called him a "criminal suspect," without detailing any charges; Interpol, at Beijing's request, issued an arrest notice. Leading Chinese media have published articles portraying him as an unscrupulous businessman.

The government's full-throttle response underscores the stakes for Beijing. Mr. Guo's allegations, flowing freely from exile through a broad online megaphone, have the potential to exacerbate behind-the-scenes jostling among senior leaders seeking positions in the Communist Party leadership that a congress is set to appoint this year.

"The way state and propaganda machinery have been mobilized to launch a coordinated attack on a whistleblower is unlike anything that has happened before," said Bao Pu, a Hong Kong-based publisher whose company specializes in books on Chinese politics.

In particular, allegations of high-level graft could undermine public confidence in President Xi Jinping's signature anticorruption campaign, Mr. Bao said.

On Chinese social media, where political gossip is often censored, users have compared Mr. Guo's disclosures with a television series dramatizing Mr. Xi's anticorruption drive.

"Listening to the one-man crosstalk performed in the U.S. by Guo," a user wrote on the Weibo microblogging platform. "Feeling more shocked than watching 'In the Name of the People,' " ran the post, which has been taken down but is available on the censorship monitoring site WeiboScope.

Mr. Guo didn't respond to requests to comment.

Mr. Xi is almost certain to be anointed to a second five-year term as party leader at the congress. Party insiders say he wants to avoid controversies that could undermine his efforts to install allies and sideline rivals. Mr. Guo has targeted one of those allies, Wang Qishan, a senior Communist Party official who spearheads Mr. Xi's antigraft drive. The government's information office didn't respond to a request to comment.

Beijing has launched a multipronged bid to discredit the exiled businessman.

Mr. Xi emerged from the 2012 congress as party chief, and launched a far-reaching corruption crackdown that he has called an existential battle for party legitimacy.

Mr. Guo's disclosures could be similarly disruptive this year, regardless of their veracity. His followers on Twitter, which operates beyond the reach of Chinese censors, have ballooned to more than 152,000, from 20,000 about two months ago. When the share prices of two banks and a Hong Kong-listed arm of HNA Group, a Chinese conglomerate, fell in recent days, some financial analysts attributed it in part to Mr. Guo's tweets hinting their involvement in misdeeds. The companies declined to comment.

In interviews and tweets, Mr. Guo has said his whistleblowing is aimed at protecting himself, his family—some of whom are still in China—and his business interests. He has said he would decide what evidence to disclose and when as he negotiates with Chinese officials.

—Yifan Xie in Shanghai contributed to this article.

BULLIT MARQUEZ/ASSOCIATED PRESS

Gina Lopez takes questions at a press conference after Philippine lawmakers rejected her appointment as environment secretary.

Duterte Environment Nominee Blocked

BY JAKE MAXWELL WATTS

MANILA—A Philippine constitutional body rejected the appointment of Gina Lopez as environment secretary, delivering a blow to President Rodrigo Duterte, who has supported her overhaul of the country's mining sector.

The rejection of Ms. Lopez, who closed dozens of mines in the world's largest nickel-ore exporter during her 10 months in office, is seen by her supporters as a win for big business over the interests of consumers.

The bicameral Commission on Appointments, which acts as a confirmation authority for certain positions nominated by the president, voted 16-8 against Ms. Lopez, local media reported.

The chairman for the commission's vote on Ms. Lopez, Sen. Manny Pacquiao, who announced the result, said the commission wasn't his personal choice, calling it the "longest, dramatic and most-watched" confirmation in the Philippines. The commission, made up of members of Congress, didn't say why it rejected Ms. Lopez.

Ms. Lopez was emotional after her defeat. "It is the constitutional right of every Filipino to a clean and healthy environment," she told reporters on Wednesday, shortly after leading the local press corps in an off-key rendition of R. Kelly's "I Believe I Can Fly."

Ms. Lopez challenged a powerful lobby with her crusade against the mining industry's environmental record. The confirmation of presidential appointees has long been a highly politicized process here.

Among those on the confirmation commission is Rep. Ronaldo B. Zamora, who until 2013 was a director of **Nickel Asia** Corp., a large listed miner. Mr. Zamora's brother, Manuel Zamora, is the founder and chairman of Nickel Asia. One of the mines Ms. Lopez closed belonged to the company.

"When people make choices and influence [the political process] based on business interests, transgressing the right of every Filipino to what God had given them, it is wrong," Ms. Lopez said after the announcement. She was Mr. Duterte's nominee to lead the Department of Environment and Natural Resources.

Venezuela Attorney General Criticizes Maduro Regime

BY ANATOLY KURMANAEV AND KEJAL VYAS

CARACAS—Venezuela's top prosecutor, already under pressure for criticizing the authoritarian government she serves, on Wednesday condemned state violence against protesters, decried the stratospheric inflation racking her country, and praised the constitution President Nicolás Maduro wants to eliminate.

Attorney General Luisa Ortega's comments to The Wall Street Journal, in a rare interview, appeared to confirm her break with the hard-line leftist regime, which expects unquestioned loyalty as it wrestles with a growing surge of public unrest.

With the oil-rich nation entrenched in a punishing economic crisis and a bitter power struggle between the government and the opposition, Ms. Ortega's carefully couched criticisms of Mr. Maduro's slide into authoritarianism have turned her into an unlikely face of dissent after having served for a decade as a pillar of the Socialist government.

"It's time to come to terms with ourselves," the 59-year-old lawyer said at her office in the capital. "It's time to hold talks and to negotiate. It means one has to yield on decisions for the good of the country."

Talk like that is unusual from a top-ranking Venezuelan official, particularly one like Ms. Ortega, who has long drawn the ire of rights groups for using what they considered kangaroo courts to lock away political foes and for allegedly helping the government bury charges of rampant corruption.

The government appears to be trying to shunt her aside in the face of her displays of independence. Her speeches no longer get live coverage from state TV, she has lost her bodyguards and the Maduro government has ramped up the use of military tribunals to circumvent the public prosecutor's office.

MARCO BELLO/REUTERS

Chief prosecutor Luisa Ortega speaking to the media last month.

While Mr. Maduro has intensified the government's crackdown on protests and civil unrest that have cost at least 31 lives in recent weeks, Ms. Ortega has denounced the use of armed civilian groups that do the government's bidding. She has urged that the right of protest be respected and due process guaranteed, complaining of hundreds of arbitrary detentions by National Guard and intelligence police. Her comments undercut the government's argument that the street violence embroiling the nation stems exclusively from right-wing agitators.

"We can't demand peaceful and legal behavior from citizens if the state takes decisions that don't accord with the law," said Ms. Ortega.

Born into a rural family of eight, Ms. Ortega said she was captivated by the message of social inclusion propagated Mr. Maduro's charismatic predecessor, Hugo Chávez, while she worked as a provincial criminal lawyer in the 1990s. She joined Mr. Chávez's government as a legal adviser when he won the presidency and redrafted the constitution in 1999 and has since married a ruling party lawmaker.

A pocket-size copy of the constitution adorns her otherwise bare desk, and her government office is devoid of images of Mr. Maduro. "This constitution is unbeatable," Ms. Ortega said. "This is Chávez's constitution."

That same constitution is what Mr. Maduro now says needs redoing. Rights groups have slammed that initiative as the unpopular leader's last-ditch effort to avoid elections that polls show his party would easily lose.

The push to recast the constitution has also drawn stinging criticism from the U.S., where senators on Wednesday presented a bill urging President Donald Trump to take tougher actions to address Venezuela's meltdown, including slapping sanctions on Venezuelan officials responsible for abuses and corruption.

Many of Ms. Ortega's critics say she is looking to clean up her image in case of a change of government in Caracas. "I don't trust her. She can't just change her mask that easily," said street protester Marta Corrales at a recent rally.

Others say her intentions are sincere. In a polarized nation, said Nizar El Fakih, a lawyer who has defended a host of high-profile Venezuelan political prisoners. "she's trying to carve out a third way, looking for a way to separate herself from Maduro."

Health-Bill Changes Lure Holdouts

New amendment adds $8 billion over five years to offset costs for high-risk patients

WASHINGTON—House Republicans are working on alterations to their faltering health-care bill, hoping the late changes can woo enough holdouts for them to bring the bill up for a vote this week.

By Kristina Peterson, Louise Radnofsky and Carol E. Lee


JIM LO SCALZO/EUROPEAN PRESSPHOTO AGENCY

Rep. Fred Upton is flanked by Rep. Billy Long, left, and Rep. Greg Walden at the White House.

GOP leaders won back Rep. Fred Upton (R., Mich.), a former House Energy and Commerce Committee chairman, who said Wednesday he would support the bill if it includes an amendment he is proposing to bolster protection for people with pre-existing medical conditions. One day earlier, Mr. Upton had dealt a blow to the bill's prospects when he said he couldn't support the bill in its current form.

"I support the bill with this amendment," Mr. Upton said at the White House after meeting with President Donald Trump. He said the bill would likely move forward in the House on Thursday.

Mr. Upton's amendment would add $8 billion over five years to high-risk pools to help offset costs for people with pre-existing medical conditions, an aide said.

Rep. Billy Long (R., Mo.), who had opposed the bill earlier this week, also said at the White House Wednesday that he had come to support it, with the addition of Mr. Upton's amendment.

"Today, we're here announcing that with this addition...we're both yeses on the bill," Mr. Long said.

The House GOP bill, which would repeal and replace the Affordable Care Act, has been on shaky ground since Rep. Tom MacArthur (R., N.J.) introduced a measure that would allow states to opt out of some of the 2010 health law's regulations. It would allow insurers in states that get waivers to charge higher premiums to people with pre-existing health conditions who let their coverage lapse.

To get a waiver, states would have to have some way to assist people with expensive medical costs who couldn't afford coverage. That could include a high-risk pool or other options.

If the bill passes the House, it faces an even greater challenge in the Senate, where Republican senators are at odds over issues such as Medicaid. The Republican Party controls 52 seats there and can lose no more than two votes. At least three GOP members have signaled misgivings.

If the Senate does pass the bill, it is likely to amend it significantly to address the concerns of centrists in that body—and that version, in turn, could be rejected by conservatives back in the House.

Mr. MacArthur's measure secured the endorsement last week of many House conservatives, who had balked at an earlier version of the bill. But the measure alarmed many centrist Republicans, including Mr. Upton, who worried it could allow costs to rise for people with pre-existing conditions.

The Freedom Caucus, a conservative group of lawmakers, plans to continue to support the bill with Mr. Upton's amendment, so long as it doesn't make any substantive policy changes, an aide said.

Democrats said the $8 billion provided under Mr. Upton's amendment fell far short of what was needed to help the people with pre-existing conditions who could face far higher costs under the House GOP bill.

"It's so completely inadequate," Rep. Nancy Pelosi of California, the House Democratic leader, said in an interview Wednesday. "That would be like my saying for you to take the train to New York, I'm going to give you $3."

Sen. Chuck Schumer of New York, the chamber's Democratic leader, said, "The proposed Upton amendment is like administering cough medicine to someone with stage-four cancer."

"High-risk pools are the real death panels," Mr. Schumer said in a statement. "They mean waiting forever in line for unaffordable health insurance."

Health insurers are closely watching developments on the legislation for elements they say they need to continue participating in the market at all. Those included continuation of the law's cost-sharing subsidies that help cover costs for some low-income people.

On Wednesday, Medica, a nonprofit insurer, said it was considering pulling out of the marketplace in Iowa next year, a move that would leave most of the state without any company offering exchange plans.

"We are examining the potential of limited offerings, but our ability to stay in the Iowa insurance market in any capacity is in question at this point," Medica said in a statement.

Despite the optimism expressed by Messrs. Long and Upton, it wasn't clear Mr. Upton's proposal would secure support from enough of the skeptical Republicans to get to the 216 votes needed to pass the bill, given that no Democrats are expected to support it.

—Anna Wilde Mathews contributed to this article.

Fed Stays On Track For 2 Rate Increases

By Nick Timiraos

WASHINGTON—The Federal Reserve held short-term interest rates steady and indicated Wednesday that recent softness in economic data wouldn't alter its plans to proceed with gradual rate increases this year.

Following a two-day policy meeting, officials unanimously held their benchmark rate steady in a range between 0.75% and 1%, while noting in a statement that slow growth earlier this year was "likely to be transitory."

The central bank raised rates by one quarter percentage point at its March meeting, when officials penciled in two more quarter-point moves this year. Many analysts expect those actions in June and September.

Investors hadn't expected the Fed to raise rates Wednesday and were looking for signals about whether recent softness in economic data, including a slowdown in inflation in March, might alter plans for their next meeting, June 13 to 14. As of Wednesday morning, investors placed a roughly 70% probability of at least one rate increase by June.

While officials noted that economic activity had slowed, they pointed to strengthening in the labor market and firmer spending from businesses, which has lagged behind in recent quarters.

Despite only modest gains in household spending, the statement said, "the fundamentals underpinning the continued growth of consumption remained solid."

The statement echoes recent public comments from Fed officials that indicate the bar to knock the Fed off its policy path could be higher now than it was in previous years.

Fed officials were also set to drill down into details about when and how to reduce the bank's large holdings of mortgage and Treasury securities at Wednesday's meeting, continuing a discussion that they kicked off in March.

The postmeeting policy statement didn't offer any details on the securities portfolio discussion, meaning investors will need to wait at least until the May 24 release of the minutes from the meeting to gather more information about how much work remains to forge consensus over their strategies. Another set of key dates before next month's meeting will be the release of the employment reports for April, this Friday, and for May, on June 2.

The central bank's meeting this week followed a stretch of somewhat discouraging reports about the economy. Gross domestic product grew at a 0.7% annual rate in the first quarter as consumers reined in spending despite recent surges in household confidence surveys and an increase in stock prices.

Inflation also weakened unexpectedly in March. The Fed's preferred measure of inflation dropped 0.2% in March from a month earlier, pushing annual increases back below the central bank's 2% target, according to data released Monday.

Yates to Testify on Warnings On Flynn

By Del Quentin Wilber And Aruna Viswanatha

Former Acting Attorney General Sally Yates is expected to testify before Congress next week that she warned White House officials that former national security adviser Michael Flynn wasn't being truthful when he denied having discussed U.S. sanctions with a top Russian diplomat, according to people familiar with her version of events.

The testimony is likely to contradict White House assertions that Ms. Yates had merely given White House counsel Donald McGahn a "heads up" in a Jan. 26 meeting that Mr. Flynn had misled Vice President Mike Pence about the nature of his conversations with a Russian diplomat.

The vice president had earlier said that Mr. Flynn hadn't discussed sanctions with Russia's ambassador to the U.S. The conversations between Mr. Flynn and Russian Ambassador Sergei Kislyak took place on Dec. 29, the same day the Obama administration levied sanctions on Moscow for alleged meddling in the U.S. election. The timing of the conversation was coincidental, said Mr. Pence.

In fact, Mr. Flynn discussed sanctions with Mr. Kislyak and misled Mr. Pence about the nature of the conversations, according to U.S. intelligence intercepts of the diplomat's phone calls, former officials have said.

Ms. Yates is expected to testify that she expressed alarm to Mr. McGahn about the conflict between what transpired in the phone calls and how the White House was describing the conversations. She also told Mr. McGahn that the national security adviser's false assertions put him at risk of being compromised by Russian intelligence operatives, the people said.

The White House has said Mr. McGahn informed President Donald Trump about the issue, and Mr. Trump ultimately asked Mr. Flynn for his resignation.

The general outlines of Ms. Yates' account have been reported, but Monday will be the first time she airs her version of events in public.

Ms. Yates, who couldn't be reached for comment on Wednesday, has been called to testify at a Monday hearing of the Senate Judiciary Committee's subcommittee on crime and terrorism, headed by Sen. Lindsey Graham (R., S.C.).

FBI Chief Defends Email Actions

By Aruna Viswanatha And Byron Tau

WASHINGTON—Federal Bureau of Investigation Director James Comey defended his decision to alert Congress about a reopened investigation into Hillary Clinton's email use less than two weeks before the 2016 presidential election, saying he still believed it was the right choice.

"Even in hindsight...I would make the same decision," Mr. Comey said Wednesday, speaking in an impassioned tone before the Senate Judiciary Committee.

Mr. Comey acknowledged it made him "mildly nauseous to think we might have had some impact on the election," but said he was forced to choose between two bad options—to "speak" or "conceal."

JIM WATSON/AGENCE FRANCE-PRESSE/GETTY IMAGES

James Comey stood by his decision to reveal that a probe into Mrs. Clinton's emails was reopened.

The testimony marked Mr. Comey's first public appearance in front of Congress since his March disclosure that the FBI is investigating whether members of Donald Trump's 2016 campaign collaborated with the Russian government to influence the presidential election.

His comments came one day after Mrs. Clinton partially blamed Mr. Comey for her defeat, saying she was "on the way to winning" until Mr. Comey alerted Congress in the last two weeks of the campaign that the FBI was examining new emails that could be relevant to a then-closed investigation into Mrs. Clinton's use of a private email server while she was secretary of state.

Late Tuesday night, Mr. Trump tweeted twice in an apparent response to Mrs. Clinton's comments, suggesting that Mr. Comey was "the best thing that ever happened to Hillary Clinton in that he gave her a free pass for many bad deeds!"

Asked about whether Mr. Comey gave a "free pass" to Mrs. Clinton in deciding not to pursue criminal charges against her, Mr. Comey stood by his earlier statements that the evidence obtained in the Clinton probe wasn't enough for a "prosecutable case."

Senators opened the hearing Wednesday with questions about the Russia investigation. "Where is all this speculation about collusion coming from?" Senate Judiciary Committee Chairman Chuck Grassley (R., Iowa) said in opening remarks. He asked for a quick resolution to the Russia investigation, urging the FBI to "get to the truth soon."

"This hearing takes place at a unique time," the ranking Democrat on the panel, Sen. Dianne Feinstein of California, said, raising Mr. Comey's role in the 2016 election and the FBI's probe of Mrs. Clinton's email server.

The hearing was scheduled as an annual oversight session about the bureau.

Mr. Comey disclosed that classified email from Mrs. Clinton's email account appears to have been forwarded to Anthony Weiner, the former New York congressman whose laptop was at the center of the controversy over the reopening of the email probe. Mr. Comey said Mr. Weiner's wife, top Clinton aide Huma Abedin, would often forward him emails to print for her.

The FBI had previously disclosed that officials uncovered Mrs. Clinton's emails on a computer belonging to Mr. Weiner days before Election Day last year as part of an unrelated investigation—prompting Mr. Comey to reopen the investigation and notify Congress.

"Somehow, her emails were being forwarded to Anthony Weiner, including classified information," Mr. Comey told the senators.

Neither Mr. Weiner nor Ms. Abedin has been charged with any crime. The FBI determined in early November that nothing new was discovered in the emails found on the laptop.

Mr. Comey also said he wasn't an anonymous source for media reports on FBI probes, nor had he authorized his staff to serve as anonymous sources. He declined to answer in open settings any questions about whether the FBI was investigating such leaks, saying he didn't have authorization from the Justice Department to make any disclosures.

Mr. Comey warned that he expected foreign governments to continue targeting U.S. elections.

Clinton Faults Self, Others for Loss

By Peter Nicholas

Hillary Clinton took the blame for her election defeat in comments Tuesday but also said sexism, Russian interference and Federal Bureau of Investigation Director James Comey's letter raising 11th-hour questions about her email practices combined to sink her candidacy.

The former first lady and secretary of state described herself to an interviewer on Tuesday at the Women for Women International conference in New York as a "citizen" who is now "part of the resistance" arrayed against President Donald Trump.

Mrs. Clinton took a few swipes at Mr. Trump, who won the Electoral College and the presidency while losing the popular vote. Mrs. Clinton said he appealed to people's emotions during the race but has since struggled to make good on what she cast as unrealistic promises.

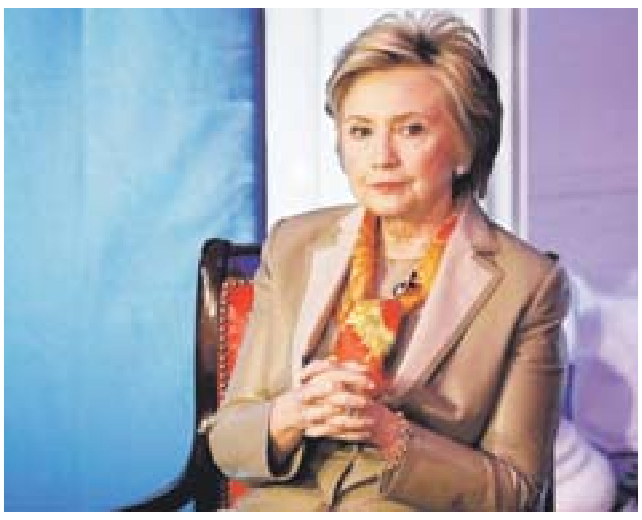
In a reference to Mr. Trump's failure to repeal President Barack Obama's Affordable Care Act, Mrs. Clinton said that she, by contrast, "wasn't going to appeal to people's emotions in the same way my opponent did, which I think is frankly what is getting him into all kinds of difficulties now in trying to fulfill those promises he made."

Since the campaign, Mrs. Clinton has been selective in her public appearances. She said she is writing a book that will discuss her ill-fated presidential bid. In a bit of introspection, she said the campaign repeated some of the same mistakes from her unsuccessful 2008 run.

"I take absolute personal responsibility," Mrs. Clinton said. "I was the candidate. I was the person who was on the ballot."

Still, Mrs. Clinton said her campaign was ultimately undone by outside forces. She said she was "on the way to winning" until the campaign was upended by Mr. Comey's actions and other developments she deemed unfair. The FBI declined to comment on Mrs. Clinton's assertion.

Referring to Russian President Vladimir Putin, Mrs. Clinton said he "certainly interfered in our election, and it was clear that he interfered to hurt me and help my opponent." Mr. Putin on Tuesday denied his government meddled in the race.


BRENDAN MCDERMID/REUTERS

Hillary Clinton said misogyny was a factor in the election.

Trump Aide: Nafta Redo Won't Hit Farms

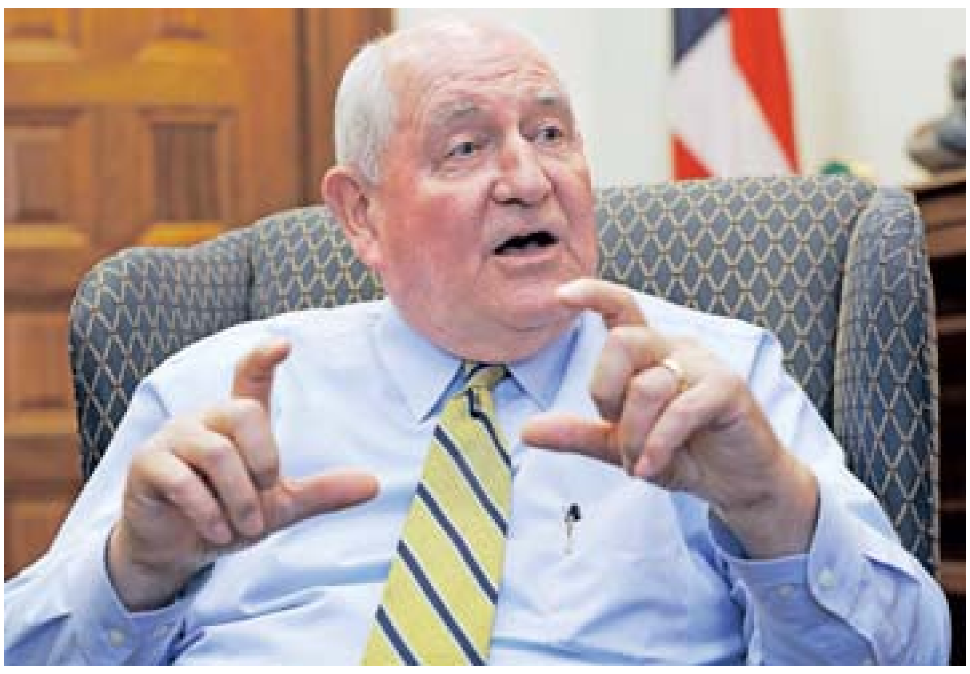
By Jacob Bunge

U.S. farmers and ranchers won't be worse off after the Trump administration renegotiates the North American Free Trade Agreement, according to Agriculture Secretary Sonny Perdue.

Mr. Perdue, who was sworn in April 25, said in an interview that President Donald Trump needs to weigh Nafta's impact on all corners of the U.S. economy, not just agriculture. The 23-year-old agreement between Canada, the U.S. and Mexico has underpinned a boom in American crop and meat exports. Some people in the farm sector fear revamping the pact could endanger those gains.

"I can assure you that neither this president, nor [Commerce Secretary Wilbur] Ross, nor I are going to negotiate or accept a worse deal than we have it now," Mr. Perdue said. "Our goal is to make it better for all producers."

Mr. Perdue, among the last of Mr. Trump's cabinet members to be confirmed, was thrust immediately into high-stakes trade discussions after White House officials suggested last week that the U.S. might pull out of Nafta.



JACQUELYN MARTIN/ASSOCIATED PRESS

Agriculture Secretary Sonny Perdue speaking during an interview on Wednesday in Washington.

While Canada's prime minister and Mexico's president urged Mr. Trump not to end the pact, Messrs. Perdue and Ross helped persuade him by showing Mr. Trump a map of states where jobs would be lost if Nafta ended. Many of those farming and border states backed Mr. Trump in the November election.

Mr. Trump "may have had a perception that Nafta was somewhat disadvantaged in all aspects," Mr. Perdue said. "He gave us more time to negotiate that rather than terminate."

Nafta has become a critical cog in the U.S. agricultural economy. U.S. farm exports to Mexico were about $18 billion in 2016, according to U.S. trade figures, up from $4.2 billion when the agreement was signed in 1994. Mexico is the top buyer of U.S. corn, pork and chicken, and a major client for U.S. eggs, beef and milk. Canada is a major market for U.S. corn and ethanol.

But Mr. Perdue said other segments of the U.S. farm sector could benefit from a fresh look at Nafta. U.S. dairy farmers face hurdles selling some products in Canada, he said; U.S. sugar producers and Florida fruit producers could also benefit.

"We're going to try and balance the scorecard," said Mr. Perdue. He wouldn't further specify what agricultural markets the U.S. may target in negotiations.

The farm sector has watched for signs that Mexico and Canada are preparing to reduce their reliance on U.S. farm products in case fresh negotiations significantly change the terms of trade.

"We know Mexican authorities have prepared for that," said Soren Schroder, chief executive of Bunge Ltd., one of the largest grain-trading companies. "They can act tomorrow if something happened, and the loser for sure would be the U.S. farmer."

Ron Moore, an Illinois farmer and president of the American Soybean Association, said farmers were open to "modernizing" Nafta. But if the U.S. withdrew completely, "I think it would be difficult to negotiate anything better than we currently have," Mr. Moore said.

Mr. Perdue said he is also working on a proposal to help foreign-born workers to staff U.S. dairies. The issue has been a sore point for milk producers whose year-round operations aren't aided by a seasonal work program geared toward fruit and vegetable growers.

"We'll provide to the president solutions to that that I think will be well received by American society," he said.

Lawmakers will also soon begin debating the next farm bill, a huge packet of legislation that underlies the U.S agricultural economy and other programs such as food stamps for the poor. Mr. Perdue claimed food-stamp assistance, formally called the Supplemental Nutrition Assistance Program, contains wide disparities in administration costs between states, among other flaws.

"I think there is appetite certainly for a better managed program both from the consumer standpoint and from the [retailer] standpoint," Mr. Perdue said.

Hotel California Inspires a Lawsuit, But Not a Hit Song

Eagles say band never visited Mexico getaway, sue over trademark rights

By Jacob Gershman

The hotel has been described as a "lovely place" to stay the night. And there is plenty of room—provided you make a reservation weeks in advance.

For years, the Hotel California in the sleepy coastal getaway of Todos Santos, Mexico, has reminded people of the indelible Eagles song that shares its name. And for years, the Eagles have denied that the sunset-hued boutique property has any connection to their 1976 soft-rock hit.

But this week, the Eagles sued the operators of the hotel in Los Angeles federal court, accusing them and others of unlawfully cashing in on their song and infringing on the band's trademark rights.

The hotel leads "U.S. consumers to believe that [it] is associated with the Eagles and, among other things, served as the inspiration for the lyrics in 'Hotel California,' which is false," states the complaint.

Representatives for Hotel California weren't available to comment on Tuesday.

The hotel's marketing materials are coy about its Eagles ties. "Many visitors are mesmerized by the 'coincidences' between the lyrics of the hit song and the physicality of the hotel and its surroundings," its website says. But there is also a disclaimer saying its owners don't "have any affiliation with the Eagles, nor do they promote any association."

Hotel California opened in the Baja peninsula in 1950, more than a quarter-century before the Eagles song pervaded pop culture. The suit alleges it was later known as Todos Santos Hotel.

In 2001, a Canadian couple bought the hotel, remodeled it and resurrected the original Hotel California name.

PAUL NATKIN/GETTY IMAGES

The Eagles, performing with Jackson Browne (second from left) in 1979 in Chicago, say a Baja hotel is cashing in on their 1976 hit.

The lawsuit filed Monday alleges that some hotel guests really believe they are sleeping in music history. "THE Hotel California of Eagles fame," reads one TripAdvisor review cited in an exhibit accompanying the complaint.

"No Eagle has ever set foot in that hotel," the band's manager told The Wall Street Journal in a 2001 interview.

The Todos Santos establishment isn't the only Hotel California in operation. There is a hotel by that name in Santa Monica, Calif., too. But the Eagles don't have trademark rights over hotel names. So they are basing much of their lawsuit on merchandise sales, alleging the hotel is hawking memorabilia that trades on the song's entrenched familiarity.

The band claims rights over merchandise bearing the song title, including T-shirts, posters, bathrobes, key chains, playing cards, mugs, guitar picks and refrigerator magnets.

The lawsuit also alleges the tune is played throughout the hotel.

The lawsuit comes more than a year after the Mexican hotel sought a "Hotel California" trademark covering jewelry, bedsheets and clothing. Last year, the Eagles objected to the registration in a filing with the U.S. Patent and Trademark Office. Those proceedings are currently on hold.

DEBTS

Continued from page A1

cession, beginning when tax credits that had built up its manufacturing base expired.

Hedge-fund creditors holding defaulted general-obligation bonds were on the verge of a consensual agreement Tuesday before the oversight board intervened to stop negotiations, according to people familiar with the matter.

The slide into bankruptcy marks a new low in Wall Street's relations with Gov. Ricardo Rosselló, a newcomer who pledged as a candidate to repay the territory's debts, shrink the government and strengthen ties with the U.S.

Creditors clashed with the previous administration of Alejandro Garcia Padilla but saw Gov. Rosselló as a likely ally in their fight to be repaid, said Chas Tyson, vice president at **Keefe, Bruyette & Woods** Inc. "Now it seems like the honeymoon's over," Mr. Tyson said.

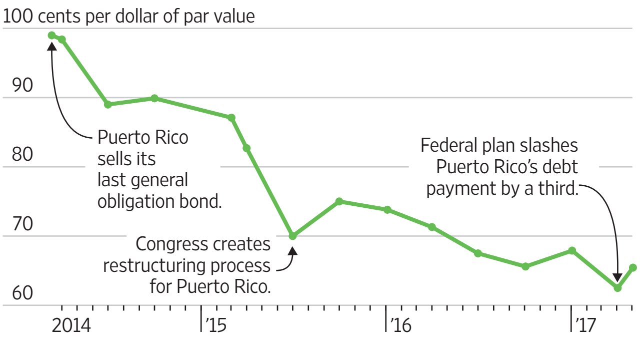
Puerto Rico's day of reckoning has been years in the making.

For more than a decade, the government and its municipal corporations borrowed more to buy time to stave off deeper economic overhauls. With government payrolls down over the past decade, pension funds have fewer workers contributing and are now underfunded by an estimated $45 billion.

State and local governments across the U.S. face some of the same pressures as

Reckoning Approaches

Puerto Rico general-obligation bond prices have tumbled in recent years as the island's fiscal straits grew more dire. Investors are now bracing for a long-awaited restructuring.



Source: Municipal Securities Rulemaking Board THE WALL STREET JOURNAL.

Puerto Rico, such as spiraling pension obligations and outdated infrastructure.

But the strain is acute in Puerto Rico, where retired teachers and police in Puerto Rico don't participate in Social Security, making big cuts to pensions a virtual impossibility.

The action by the board, which creditors lobbied Congress to create, could mean deeper losses on bonds than investors and analysts have anticipated. Puerto Rico will face off against angry hedge funds, mutual funds and bond insurers in the court-supervised proceeding known as Title III, a legal mechanism created by Congress to restructure debts by force when negotiations break down.

An initial round of restructuring talks failed to deliver an accord between creditors, including rival groups of hedge funds who are battling for priority.

CARLOS GIUSTI/ASSOCIATED PRESS

Puerto Rico Gov. Ricardo Rosselló

Any write-downs also would impact bond insurers Assured Guaranty Ltd., MBIA Inc. and Ambac Financial Group, which have guaranteed billions of dollars of Puerto Rico's bonds.

Negotiations revolved around a board-approved fiscal plan that allocates about $787 million a year to creditors for the next decade, less than a quarter of what they are owed. Creditors called it a slap in the face, saying the board wasn't trying in good faith to reach a consensus.

The Title III request, while unprecedented, isn't unexpected.

The board has signaled in negotiations that it wouldn't consider paying creditors more than the plan allowed, according to people familiar with the matter.

A legal stay protecting Puerto Rico from lawsuits expired Monday night.

The board is pushing a combination of debt restructuring and spending cuts in a bid to revive an economy scarred by a 45% poverty rate and a population decline. Puerto Rico, the board decided last week, will raise water rates on consumers, liquidate its decades-old industrial development bank and seek concessions from creditors of additional government agencies.

But the governor remains in a difficult position, trying to balance fiscal belt-tightening with the demands of residents and placating the federal oversight board while campaigning for U.S. statehood ahead of a plebiscite on Puerto Rico's political status.

Creditors, meanwhile, are likely to dispute whether Puerto Rico has met the legal requirements to invoke Title III when the board spent less than a month negotiating to restructure a complex pile of claims, people familiar with the matter said.

—Matthieu Wirz contributed to this article.

U.S. WATCH

ECONOMY

Service-Sector Activity Accelerated in April

U.S. service-sector activity accelerated in April, a sign of momentum for a broad swath of the economy heading into the second quarter of the year.

The Institute for Supply Management on Wednesday said its index of nonmanufacturing activity—which tracks industries including health care, finance, agriculture and construction—rose to 57.5 in April from 55.2 in March. A number above 50 indicates expansion. Economic activity in the nonmanufacturing sector grew for the 88th consecutive month.

One dark spot was the employment index, which declined to 51.4 from 51.6. The Labor Department will release payrolls data for April on Friday.

"Despite this report, we continue to expect a bounce-back in services employment growth in the April employment report, a source of data we believe gives a superior read on service-sector activity," Rob Martin of Barclays said in a note to clients.

—Sarah Chaney and Jeffrey Sparshott

WEATHER

Rain-Soaked Middle States Brace for More

Several Midwestern states were bracing for more rain after days of heavy storms caused at least 12 deaths and swamped towns and shut highways in parts of Missouri, Arkansas and Illinois. On Wednesday, emergency personnel were conducting water rescues in the town of Pocahontas in northeast Arkansas, where a levee had been breached and floodwaters were rising.

Rivers were still cresting in Missouri, where officials had closed Interstate 44 near St. Louis and volunteers were busy topping levees with sandbags to keep the swollen rivers from pouring into cities along the Meramec River. More rain began to fall on Wednesday, with up to four more inches forecast, and the three states were bracing for additional river crests and flooding.

—Kris Maher

EMPLOYMENT

ADP Reports Rise In Private Payrolls

Private U.S. employers continued to hire solidly in April, but the growth slowed from recent months as the economy returns to full employment.

Firms across the country added 177,000 workers to their ranks last month, according to payroll processor Automatic Data Processing Inc. and forecasting firm Moody's Analytics. Economists surveyed by The Wall Street Journal expected an increase of 175,000. Mark Zandi, chief economist of Moody's Analytics, said job growth slowed primarily due to a pullback in construction and retail jobs.

March's jobs gain, initially reported at 263,000, was cut to 255,000. The ADP report is based on private payroll data in addition to lagged-behind government data.

—Imani Moise

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D.LIVE
ASIA

TECH'S MOST AMBITIOUS MINDS, ON STAGE AND ON THE RECORD.

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Ant Financial

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Co-Chairman and Co-Founder, Coursera

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DRUGS

Continued from Page One

tal condition that primarily strikes young boys, a shame campaign from congressional lawmakers in both parties and then a surprise deal by Marathon to sell the treatment to another company.

Marathon has no other revenue-generating products and is looking to sell its other drug assets, two people familiar with the matter said.

Mr. Aronin declined to comment. In response to questions, Marathon spokeswoman Wanda D. Moebius said in an email that the Northbrook, Ill., company is “proud of our success in securing FDA approval for Emflaza,” the drug's new brand name. “We will continue to manage the legacy matters of Marathon Pharmaceuticals.”

Analysts expect the new owner of the drug, PTC Therapeutics Inc., to charge less than Marathon had planned but far more than deflazacort's price in foreign countries, where it is approved for other conditions but not muscular dystrophy.

PTC will announce its price and launch plans next week, said Jane Baj, a spokeswoman.

Similar strategy

It's too soon to tell if Marathon's fast retreat damaged the long-term viability of the business model of sharply raising the prices of old drugs. Other companies that have used a similar strategy include Valeant Pharmaceuticals International Inc. and Horizon Pharma PLC.

Mr. Aronin, 49 years old, has defended Marathon's pricing for deflazacort, partly by noting that Marathon had to conduct more than a dozen small studies to test the drug's safety and absorption in the body. The company has declined to say how much it spent.

According to Marathon, getting the drug approved in the U.S. helped patients because otherwise insurers wouldn't pay for deflazacort. The drug isn't a cure but helps improve muscle strength, the FDA said.

“Jeff truly sees himself as bringing innovative treatments to patients,” said a person who has worked with Mr. Aronin. Mr. Aronin is Marathon's chairman and chief executive and owns a large stake in the company.

For years, big price increases for niche drugs often got little public attention, says Richard Evans, founder of SSR LLC, an investment research firm in Stamford, Conn. One reason is that the market for those drugs is small compared with those of blockbusters produced by pharmaceutical giants.

As companies got more aggressive, though, insurers grew resistant and sometimes refused to pay the sharply higher prices. The practice also prompted congressional investigations and hearings into companies such as Valeant and Turing Pharmaceuticals LLC.

“Once they started doing it routinely, it started getting attention, and the rest is history,” says Mr. Evans, a former drug-industry executive.

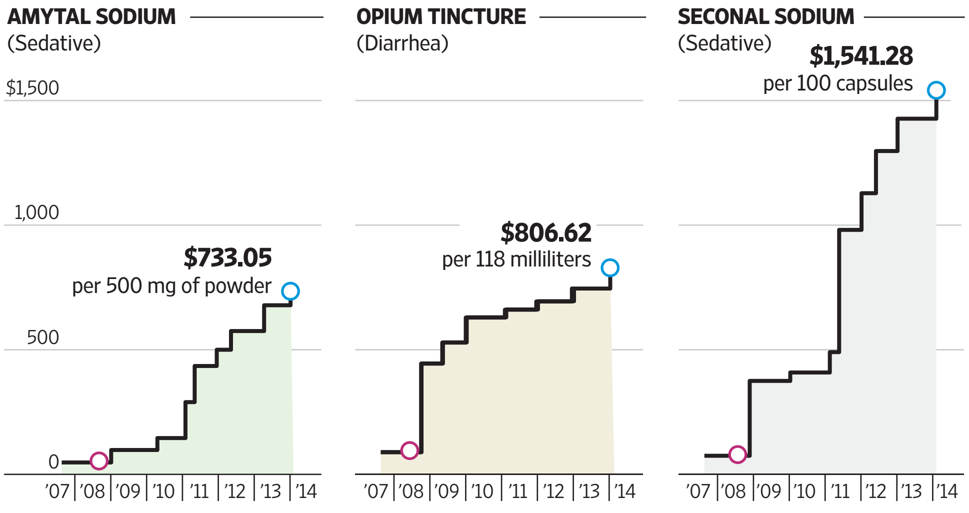
ANDREW A. NELLES/TNS/ZUMA PRESS

Jeffrey Aronin has sharply raised the prices of old medications at two companies led by him.

Buy, Raise Price, Repeat

Marathon Pharmaceuticals began acquiring older prescription drugs in 2008 and moved quickly to raise their prices before selling them to Valeant Pharmaceuticals.

○ Price when bought by Marathon Pharmaceuticals
○ Price when sold by Marathon Pharmaceuticals



Note: Figures show wholesale acquisition prices
Source: Truven Health Analytics

THE WALL STREET JOURNAL.

Mr. Aronin, the owner of an $11 million mansion in the Chicago suburb of Highland Park, Ill., overlooking Lake Michigan, started his first drug company in 2000. He has described the strategy of that company, Ovation Pharmaceuticals Inc., as resurrecting drugs neglected by bigger companies.

“If some of these products were with Big Pharma they would probably sit on a shelf,” Mr. Aronin told the Chicago Tribune in 2002.

Ovation was open about boosting prices. As Ovation was in the process of buying six drugs from Merck & Co. in 2005, Ovation looked for a partner to market the drugs outside the U.S.

In a presentation shown to potential partners, Ovation said it had acquired a rare-disease drug from Abbott Laboratories in 2003 and then “immediately repriced the product from $289/vial to $1,950/vial” in the U.S. In about two years, Ovation upped the price of another Abbott drug, the barbiturate Nembutal, from about $18 a vial to $133 a vial.

The presentation showed that Ovation planned to increase U.S. prices on the drugs being acquired from Merck by an average of about 500%. Such drugs presented a “high margin business opportunity,” partly because they were “under priced,” according to a copy of the presentation reviewed by The Wall Street Journal.

Ovation raised prices of five of the drugs by an average of 1,360% and kept the price for one about the same, according to data from Truven Health Analytics, part of International Business Machines Corp. Abbott declined to comment.

In 2009, Ovation sold itself for $900 million to Danish drugmaker H. Lundbeck A/S. Mr. Aronin got about $60 million from the sale, based on his stake of about 7%, according to a person familiar with the matter. A private-equity firm owned most of the rest of Ovation.

Marathon was established in 2008 and had offices in Deerfield, Ill., according to an archived version of the company's website. Marathon was led by Robert S. Altman, listed as the company's founder. He couldn't be reached for comment.

That year, Marathon bought two barbiturates and a diarrhea medication and soon raised their prices twofold to fivefold, according to data from Truven.

Mr. Aronin began working at Marathon in 2012, according to his LinkedIn profile, which calls him the company's founder.

In 2013, Marathon bought two injectable drugs from Hospira Inc.: Nitropress, a treatment for extremely high blood pressure, and Isuprel, a drug for slow heart rates. Marathon then raised their prices by 3,500% and 350%, respectively.

In 2014, Marathon's pricing practices drew scrutiny. After receiving complaints, staff members for Rep. Elijah Cummings (D., Md.) started looking into the price increases on Nitropress and Isuprel.

Marathon announced the sale a month after the $89,000 price tag caused ire.

Marathon's drugs became part of a broader investigation by Mr. Cummings and Sen. Bernie Sanders, a Vermont independent. Mr. Aronin refused to provide much of the information requested by congressional investigators, according to two people familiar with the matter.

Mr. Aronin declined to attend a hearing organized by Messrs. Cummings and Sanders, citing travel outside the U.S., said a spokesman for Sen. Dick Durbin (D., Ill.). Mr. Aronin's absence was noted with an empty chair and a placard with his name on it.

According to a transcript of the hearing, Mr. Cummings criticized Mr. Aronin for significantly raising the price at Ovation for a heart drug that treats premature babies. “Today, Mr. Aronin is CEO of a new company called Marathon Pharmaceuticals, and they apparently use the same business model,” Mr. Cummings said.

Marathon's chief executive was shaken by having his name called out at the House committee hearing, according to a person familiar with the matter. He soon said privately that he planned to sell the heart drugs.

In February 2015, Valeant paid $350 million to acquire the two heart drugs and five other drugs from Marathon. Valeant raised prices on the heart drugs threefold and sixfold the same day.

Valeant declined to comment. After criticism, Valeant said last year it wouldn't raise the prices further and would offer rebates to all U.S. hospitals.

Marathon began pursuing deflazacort as a Duchenne treatment in 2013. Some people who worked with Mr. Aronin said the move made perfect sense given Mr. Aronin's previous success. Other people were surprised that Mr. Aronin decided to pursue the controversial strategy again, especially given how he reacted to criticism about the heart drugs.

The company didn't do the late-stage clinical trials needed to win FDA approval to market deflazacort. That step is often cited by companies as a justification for their prices.

Instead, Marathon paid universities, researchers and the Muscular Dystrophy Association to license data from studies in Duchenne patients in the 1990s, according to interviews with the researchers.

The day that the FDA approved deflazacort for sale in the U.S., Marathon said that it would charge 70 times more than what many families had been paying to buy the drug from the U.K. A similar generic drug sold by several companies in the U.S. typically costs less than $10 a month, but some doctors think it has more side effects than deflazacort.

Some Duchenne families were pleased that Mr. Aronin had made it far easier to get deflazacort but were horrified at the steep cost.

“Jeff Aronin is a terrific guy, but it's hard to put yourself in the shoes of these families,” said Pat Furlong, president of a Duchenne foundation. Her two sons died of the disease. “Maybe they came in using a model that they used sometime back and were successful with, and said: ‘This will work again.’ ”

Messrs. Cummings and Sanders sent Mr. Aronin a letter requesting details on the price and urging him to lower it. Sen. Tom Cotton (R., Ark.) called Marathon's pricing “nothing short of outrageous.”

Lawmakers from both parties questioned whether Marathon took advantage of a special FDA approval program for rare-disease drugs. The program grants seven years of market exclusivity before generics can be approved.

Rep. Robert Aderholt (R., Ala.), chairman of a House subcommittee that oversees funding of the FDA, said Marathon's price increase might be a sign that companies “have found a way to game the system.”

An FDA spokeswoman declined to comment on Marathon but said the agency is reviewing its processes for identifying so-called orphan drugs to make sure the program “is functioning in the most efficient way possible.”

Researchers who sold their data to Marathon also were shocked. “We did not know that the price would be sky-high,” said Robert C. Griggs, a neurologist at the University of Rochester School of Medicine and Dentistry.

An open letter

Four days after Marathon announced the $89,000-a-year price, the company posted on its website a 1,000-word “open letter to the Duchenne community” from Mr. Aronin.

“We hear and understand your concerns around the price,” Mr. Aronin wrote. He said Marathon was “pausing our commercialization efforts in order to meet with Duchenne community leaders and explain our commercialization plans, review their concerns, discuss all options, and move forward with commercialization based on the resulting plan of action.”

Ms. Furlong read the letter aloud at a meeting of Duchenne parents, who had gathered to meet with lawmakers and advocate for research and new drugs. Catherine Collins, a parent, said Marathon's pricing was “predatory” and “gross.”

The backlash kept growing. The Pharmaceutical Research and Manufacturers Association, a trade group, said Marathon's actions were “not consistent with the mission of our organization.” Marathon resigned from the group in April.

Mr. Aronin's brother, Greg Aronin, a former Johnson & Johnson lobbyist hired by Marathon, defended the company in meetings with congressional staff members. His trip to Mr. Aderholt's office “did not go well,” said a person familiar with the matter.

Staffers for Sen. Charles Grassley (R., Iowa) asked Marathon for published studies comparing Emflaza to cheaper steroids, but “that hasn't come in,” said a spokeswoman for Mr. Grassley.

Marathon soon began talks with PTC to sell Emflaza, according to Shane Kovacs, PTC's chief financial officer. When the sale was announced in March, Mr. Aronin said in another open letter that the deal was “the best path forward.”

According to people familiar with the matter, Mr. Aronin seemed to have concluded that the negative publicity was insurmountable. He decided to sell despite reservations from a Marathon executive who favored trying to ride out the controversy.

The Emflaza sale was completed in April. Marathon got $140 million in cash and stock, plus more than 20% of the drug's future sales and a potential $50 million payment.

FIDGET

Continued from Page One

he wrote, warning he might have to “temporarily confiscate the toys.”

Fidget spinners have in short order become schoolyard currency, traded among students seeking them in their various colors and patterns—after they scour store shelves for them.

“Yesterday I received 72 of them and when school let out I felt like Willy Wonka in the chocolate factory,” says Tony Windle, owner of T.W. Bonkers, a toy store in Placerville, Calif. “Kids lined up in my store. One kid was so excited he was shaking.”

The gadgets, small enough to sneak into a pocket and costing $5 to $25 or more, started as tools learning specialists and school counselors prescribed for children to help them focus their fidgeting energy on a sideline activity, allowing them—the argument went—to keep eyes on the teacher.

Avery Gourvitz, an 11-year-old fifth-grader in Livingston, N.J., calls them “mesmerizing.”

She was at a friend's house recently when one came in the mail. “She started spinning it, and I thought it was awesome.” At school, groups of children gathered to watch spinning sessions.

When Avery sought one of her own, “every store was out of it,” she says, which added to the allure. She finally found a glow-in-the-dark variety at a local T-shirt store. “Sometimes I balance it on my head.”

At school, she plays with spinners only during recess, she says. She heard one teacher banned them from class.

It isn't clear how the fidget spinner came to life. The idea is widely credited to an expired 1997 patent describing “a toy which is spun on the finger for the amusement of children and adults.” Manufacturers have been feverishly filling orders.

Children began posting videos of themselves doing tricks with spinning spinners—catching them midair, tossing them hand-to-hand and balancing them on noses.

Which is the kind of activity, done in the classroom, that gives spinners a bad name. Fidget spinners are on this week's faculty-meeting agenda at Newtown Friends School in Newtown, Pa., says Sarah Hensley, who teaches seventh- and eighth-grade English there.

Ms. Hensley says the school has long let students use stress balls and other devices to help with attention issues or anxiety. But many students say they play with fidget spinners in class for fun, she says, not to help concentrate.

“This new style of fidget toys,” she says, “really falls into a gray area.”

The spinners are part of a broader category of toys meant to offer focus, including “fidget cubes,” “thinking putty” and “fidget controllers” with buttons and switches.

The spinning “can be very stimulating, very captivating,” says Jacqueline Sperling, research director at the McLean Anxiety Mastery Program in Cambridge, Mass.

Such tools, she says, when geared to students with attention deficit or anxiety, can provide brain stimulation to help focus or a soothing outlet for excess energy. The problem with spinners, she says, is that some students become completely focused on them.

WONDER WORKS TOYS

A group of fidget spinners at Wonder Works toy stores.

The American pupil's desire to fidget with them spun up so quickly as to make retailers like Rob Placer dizzy.

“Seven weeks ago, we started getting three or four calls a day for fidget spinners,” says Mr. Placer, owner of Family Fun Hobbies in Hamilton, N.J. “I had no idea what they were.”

He found three suppliers, and the first batch of 24 spinners came April 4. “My manager thought it was crazy that anybody would pay $20 for these.” They sold in two days.

“I have been through Beanie Babies, Webkinz, Silly Bandz and Rainbow Looms,” says Christine Osborne, owner of Wonder Works chain of toy stores in Charleston, S.C. “We've never seen a craze hit this quick, this fast.”

Revenues from fidget spinners totaled $2.6 million in April, up from $300,000 the month before, at Learning Express Inc., a franchise chain of 120 toy stores nationwide, says Sharon DiMinico, chief executive.

One of her suppliers is Top Trenz Inc., a Bay Shore, N.Y., manufacturer and distributor of leggings, hair accessories and socks for teenage girls. Its spinners, made in China, are patterned with designs such as gumballs and sprinkles. “We get about 200 orders per hour,” says Jamie Glassberg, co-partner.

Playing with them is “like smoking cigarettes,” he says. “You just want to play with it and it gives you a relaxed, soothing feeling.”

At Toys “R” Us, spinners are “landing right now” at the giant retailer, says Richard Barry, global chief merchandising officer. “While the trend is hot,” he says, “we are super focused on making sure the product we are getting is coming from the best, most reputable sources and tested through our robust safety standards.”

Avery's father, Jason Gourvitz, says he would rather his daughter played with a fidget spinner than her cellphone. “She is texting and Instagramming and watching other people's blogs and that kind of nonsense,” he says. “I prefer an analog toy to a digital toy.”

LIFE & ARTS

FILM REVIEW | By Joe Morgenstern

A Second, Dimmer 'Galaxy'

MARVEL STUDIOS (2)

Baby Groot (voiced by Vin Diesel), above; Gamora (Zoe Saldana), Nebula (Karen Gillan), Peter Quill (Chris Pratt), Drax (Dave Bautista) and Rocket (voiced by Bradley Cooper), below

WHEN A GAMBLE pays off big in the movie business, it's followed not by another gamble but by a calculation.

"Guardians of the Galaxy Vol. 2" probably couldn't, and definitely doesn't, recapture the sweet and singular silliness of the original, though the new edition from Marvel Studios and Disney has its rewards. The opening credits are delightful, with Baby Groot—a twiggily downsized version of the sentient tree voiced by Vin Diesel—dancing blissfully to the strains of Electric Light Orchestra's "Mr. Blue Sky" while, behind him, desperate Guardians fight for their lives against enormous tentacled monsters. Subsequent combat sequences paint extravagant action in pastel hues. Cartoonish characters reveal touching inner lives. Still, the galaxy isn't big enough to contain the meandering plot, which sends the hero, Chris Pratt's Peter Quill, on a quest to discover his identity. (Half human, Peter likes to call himself Star-Lord.) That's the corporate calculus at work—turning a lighthearted goofball into a seeker of weighty truths, and, in the process, making him a spectator to much of the action.

The hero's quest is surely part of the draw. (The film already earned more than $100 million last weekend in its international debut.) A sense of belonging is what audiences crave in these fractured times, and Peter's team of rebellious misfits serves as a surrogate family, just as Dominic's team does in the immensely successful "The Fate of the Furious." And the family is expanded after a crash landing on a planet where a cosmic being named Ego—not Anton Ego the carnivorous food critic from "Ratatouille" but just plain Ego, played by Kurt Russell—announces himself to be Peter's father, and not just his father but the father that Peter's human mother would have wanted him to be. This leads quickly to a charming scene, both lyrical and lightly parodic, in which father and son toss a football that isn't a football but a glowing blue orb. (The director, once again, was James Gunn. In the first "Guardians" he had a script collaborator. This time around he gets sole writing credit.)

Yet the charm vaporizes quickly. Ego's planet, where most of the action plays out, isn't a particularly interesting place, even though it's more than a planet in the conventional sense, and Ego, whose paternal concerns conceal darker designs, proves to be an awfully ordinary villain. The father-son drama can't compete with the physical action. The action, in turn, can't find a focus, though there's no lack of events (stolen batteries, if you please, set the plot in motion); or threats (the Guardians are under attack from a race called the Sovereign, whose leader, Elizabeth Debicki's Ayesha, has bright gold skin; or perilous flights (one of them through a quantum asteroid field); or, for that matter, embedded commercials for future developments in the Marvel Cinematic Universe.

The most affecting performance is given by Michael Rooker as Yondu, the blue-skinned buccaneer who's been more fatherly to Peter than Ego could ever be, biology notwithstanding. A new character, an unworldly empath named Mantis (Pom Klementieff), has antennae growing out of her forehead; otherwise she's a caricature of a shy, self-effacing Asian woman. Rocket, the weapons-savvy raccoon voiced by Bradley Cooper, seems to have undergone a humorectomy; he's nowhere near as funny as before. Drax (Dave Bautista), the muscle man who can't grasp metaphors, has a pithy dictum to offer: "There are two kinds of beings in the universe, those who dance and those who do not." Zoe Saldana's Gamora is back, and so is her estranged sister, the darkly dangerous Nebula (Karen Gillan), parts of whom have been manufactured and all of whom it's impossible to ignore. The movie doesn't dance, but she does.

BICYCLING

GETTING TEENS BACK ON TWO WHEELS—OR ONE

BY RACHEL BACHMAN

RYAN COLLERD FOR THE WALL STREET JOURNAL (2)

A type of BMX riding is taking off among some young riders. Corey Murray, inset, spurred controversy in April when a group ride organized for his birthday rode onto a Philadelphia freeway.

TEENAGERS ARE JUMPING on bicycles again. But parents hoping their children would get more exercise probably didn't envision bike riding like this.

A specific kind of BMX riding is taking off among children and teens. It involves popping wheelies and riding in and sometimes against traffic, usually without helmets. The style, which some call bikelife, is growing despite decades of declines in bike riding among children.

BMX, which stands for bicycle motocross, includes everything from the hilly dirt-track races at the Olympics to trick-riding in parks or on the street. BMX bikes generally have a single gear and thick frames and tires.

Bikelife began in the streets of New York and Philadelphia and is spreading to other areas as riders post images of tricks and group rides on social media.

The Pied Piper is 25-year-old Harlem native Darnell Meyers, who has over 200,000 followers on his @RRDBlocks Instagram page and imitators as far away as Brazil and London. Mr. Meyers posts videos of himself and others doing tricks in New York traffic. His namesake move: riding with his front wheel up for block after block.

A bike messenger by day, Mr. Meyers knows that some of his riding is dangerous. He says a fall once knocked him unconscious while he rode in a park. He posts videos of wipeouts along with his feats to show young riders the risks.

"They all want to ride with me, do some of my stunts," Mr. Meyers says.

The nation's 3 million BMX riders are a fraction of the 50 million who rode any kind of bike last year, but their ranks surged 43% from 2013 to 2016. That's compared with a 1% rise in mountain biking and a 6% drop in traditional road cycling, according to the **Sports & Fitness Industry Association.**

Roughly half of BMX riders are younger than 18, according to the association.

Some ride used children's or mountain bikes to do wheelies. Specialty bikes can cost more than $800.

The wheelie movement "is really uniting a whole generation of kids in inner-city areas," says Nigel Sylvester, a 29-year-old, pro BMX rider from New York.

Instead of entering competitions, Mr. Sylvester has earned sponsorships from Nike and Beats by Dre with first-person videos of him turning public stairways and railings into his own freestyle-riding course. Jay Z raps about "Nigel Sylvester with these bike flips" on the recently released Frank Ocean song "Biking."

On April 23 in Philadelphia, about 200 people riding with well-known wheelie rider Corey Murray in honor of his 17th birthday pedaled onto a freeway. State law prohibits riding bikes on freeways without permission.

Corey was later arrested on misdemeanor charges of disorderly conduct in connection with the ride. Corey's lawyer, Perry de Marco Jr., said Tuesday afternoon that Corey hadn't entered a plea and that Corey declined comment.

In an interview before the ride, Corey said of the bike community, "Everybody's just a family. If I see a kid wheelie-ing down the street, I'm gonna talk to him."

No injuries were reported in the freeway incident. Capt. Sekou Kinebrew of the **Philadelphia Police Department** says he encourages children to be active, "but we strongly discourage any action, whether it's a bike or car or adult or juvenile, which places individuals in danger."

A few dozen young riders gathered at Firth & Wilson Transport Cycle before Corey's group ride, or rideout. The bike shop has become so popular among wheelie riders that its owners erected a public tool board so they could work on their bikes. Before the rideout, riders fed air into their tires and attached plastic sleeves to their spokes to make them spin with color.

"I used to be an inside boy," said 11-year-old Jaidon Rodriguez. He saw wheelie riders on **YouTube** and now says he rides so much that he's given away his videogame console. He pedals to the bike shop to meet up with others and says he likes that "everybody gets together, has fun and just rides."

His mother, Rosa Sanchez, says she likes that her son is staying busy, but sometimes worries about his safety. She tells him to go slowly when trying new tricks. Jaidon has been doing yard work to earn money to buy an SE Bike, the hottest brand, riders say.

About a decade ago SE started making retro bike models for riders who came of age riding BMX in the 1980s, says Todd Lyons, a 45-year-old former pro BMX rider who is now brand manager for SE Bikes. The bikes that became the most popular had 29-inch wheels—larger than BMX bikes' typical 20-inch wheels—to fit adults.

But the bikes are hot with young riders doing wheelies, in part because Mr. Meyers endorses them.

Sales of SE's BMX bikes increased 31% in 2016 over 2015, says Patrick Cunnane, chief executive of Advanced Sports Enterprises, which owns SE Bikes.

"Do I condone breaking traffic laws? Absolutely not," Mr. Cunnane says. "Do I enjoy the tricks and watching them in parking lots and doing these phenomenal things? Absolutely."

OPINION

REVIEW & OUTLOOK

Keeping Greece Afloat

In a year filled with European elections, no one wants another debt crisis—even if this requires pretending that Greek politicians will implement pro-growth reforms they've repeatedly shunned.

Athens and its creditors move to avoid a debt crisis before elections.

That's the meaning of this week's tentative agreement between Greece's creditors and Prime Minister Alexis Tsipras's government. Though the details aren't public, Athens has agreed to make certain reforms in exchange for an approximately €7 billion disbursement from a 2015 bailout package so Greece can meet July debt repayments.

We're told the pact includes lowering the individual income-tax threshold, more pension payment cuts, the sale of 40% of the national power company, the transfer of other assets to a privatization agency (with no guarantees anything will actually be sold), and minor labor market reforms, such as allowing more shops to open on Sundays. This is supposed to reduce the deficit by 2% of GDP.

Implicit here is the idea that balancing the fisc with tax hikes, spending cuts and regulatory tinkering is more important than instituting reforms that will stimulate the economic growth Greece needs, and which is the country's only hope of escaping its debt trap. Germany, the Netherlands and other European Union creditors nonetheless continue to haggle with the International Monetary Fund over whether Greece's fiscal surplus should be 1.5%, 3.5%, or somewhere in between—and whether Greece's debt should be forgiven or restructured more than it already has been.

Investors know these arguments don't matter unless Greece begins making itself an attractive place to do business. Greece hasn't been able to tap bond markets since Prime Minister Tsipras's far-left Syriza Party won power in January 2015. A government that wants to reinstate collective bargaining to make it harder to hire and fire workers isn't serious about reform.

Tuesday's deal doesn't require Greece to start to meet its new pension and tax commitments until 2019, a year after its current bailout expires. Athens also secured a provision to dole out rent subsidies, child support and other goodies if it meets certain fiscal targets. By the way, Greece's debt is 179% of GDP and growth this year is projected at an anemic 1.5%.

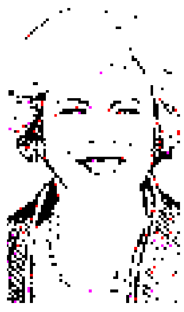
But the details matter far less than the politics of timing. Prime Minister Tzipras, with a slim parliamentary majority and facing a 2019 election, wants to avoid a July default and Germany wants to avoid a debt crisis before its own September election. Tuesday's deal must be approved by the Greek parliament and eurozone finance ministers before money can be dispersed. Assuming the parties agree before Greece defaults, the one certainty is that Greece and its creditors will be back at the same stand a year from now.

The Tories' Vulnerability

Britain's media establishment is having fun lampooning Prime Minister Theresa May's repeated promise of "strong and stable leadership" as she campaigns ahead of a national election in June. But the latest numbers underscore that her biggest problem is a weakening economy.

The British economy is slowing amid Brexit uncertainty.

The Office for National Statistics reported Friday that British growth in the first quarter decelerated to 0.3% from 0.7% the prior quarter, the worst performance in a year. On an annual basis growth slowed to 1.2% from 2.7%, which is a rate only a continental European could love. The slowdown was particularly pronounced in service industries sensitive to consumer spending, such as retail.



Theresa May

As in the United States and other developed countries, consumption powers much of the British economy. The pound has depreciated since Britons voted to leave the European Union in June, raising import prices and helping to fuel inflation, which hit 2.3% in March. Prices are rising faster than wages, squeezing disposable income. The British Bankers Association recently reported a dip in consumer borrowing, a further signal that Britons are tightening their belts.

Keynesians claim the falling pound will boost exports and compensate for reduced consumer spending, but there are conflicting signals. Manufacturing expanded a mere 0.5% in the three months to March 31, down from 1.2% in the fourth quarter, while a new purchasing manager's index released Tuesday indicates stronger growth. As Japan has long demonstrated, currency depreciation isn't the key to economic competitiveness and rising prosperity. That requires supply-side policies that boost investment and labor productivity.

Little of this appears to be on the Prime Minister's agenda even as difficult Brexit negotiations make such policies more important. On Sunday she promised not to raise Britain's 20% value-added tax, but she left open the possibility of raising other taxes. She's said little about paring back Britain's regulatory state or reforming the National Health Service. Her government has also floated energy price controls as a sop to beleaguered consumers.

Mrs. May's approach has opened up the Tory Party to criticism that its economic stewardship represents a "threat to living standards," as the Labor Party's shadow chancellor John McDonnell recently put it. Mrs. May is lucky that Labour's prescriptions for higher taxes, more spending and more regulation would be worse, and the Tories have a large lead in the election polls. But Mrs. May's main political vulnerability is slow growth amid the uncertainty of Brexit, and her election manifesto needs proposals to do better.

Not Draining the Swamp

Republicans and Democrats are jousting over who won the battle over this week's omnibus spending bill, and we'll give the call to Democrats because they fought to a draw while in the minority. Republicans will be hard pressed to use the power of the purse to set priorities until they return to regular budget order.

The latest U.S. budget deal is mostly a win for government as usual.

The $1 trillion agreement to fund the government through the end of this fiscal year on Sept. 30 is essentially a modest trade: Republicans got a boost in defense spending and a few policy riders, while Democrats got money for some domestic priorities. The agreement provides $15 billion in supplemental defense spending, which is overdue, even if that is only half of President Trump's military request. The deal does not include Mr. Trump's proposed cuts to the federal bureaucracy.

Republicans are right that the bill finally breaks the Obama-era rule that every defense dollar be matched by a domestic-spending dollar. Mr. Obama held the military hostage to his domestic agenda, and some Democrats wanted this damaging parity to continue as a price of their votes in the Senate. The GOP made clear this was a nonstarter, which is at least a down payment against military decline.

Democrats are crowing that they killed scores of Republican policy and spending "poison pills" and also won money for their priorities. They blocked funding for Mr. Trump's border wall, though Republicans included some $12 billion for border and customs security. Democrats got an increase in National Institutes of Health spending, though many Republicans also supported that. Despite their claims, Democrats did not "preserve" funding for Planned Parenthood. The bill contains no direct dollars for that group, but rather funds grants that will be issued by Health and Human Services, which is unlikely to approve any for the controversial abortion provider.

Most of the domestic funding increases and decreases are GOP priorities. The bill contains $45 million to fund three more years of Washington, D.C.'s popular school voucher program, as well as money for western wildfire fighting and disaster-related repairs at NASA.

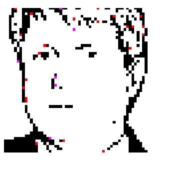
Conversely, the bill zeroes out dollars to the international Green Climate Fund (set up as part of the Paris climate accord), and it rescinds, consolidates or terminates more than 150 federal programs or initiatives, including such high priorities as the Christopher Columbus Fellowship Foundation or the National Foreclosure Mitigation Counseling Program. The bill cuts $81 million from the Environmental Protection Agency, returning it to 2009 levels.

The bill also continues the GOP deregulation drive. In particular, the bill forbids the IRS from spending to issue regulations that would change political standards for nonprofit social-welfare organizations, and it bars the Securities and Exchange Commission from issuing rules that require corporations to disclose political contributions. It also ends the federal attempt to regulate lead in ammunition or fishing tackle—a particular sore point with hunters and rural Americans.

Republicans could accomplish more if they were united, but too many conservative members refuse to vote for any spending bills. This means the GOP must rely on Democrats for passage, which means accepting some of their priorities. The Senate filibuster rule also gives the minority the whip hand unless Republicans want to risk a government shutdown.

Republicans need to get back to the business of passing the 12 separate appropriations bills, so Congress can debate programs and set priorities with more deliberation than a giant catch-all bill that no one has time to read. If Democrats balk, Majority Leader Mitch McConnell should consider ditching the filibuster for appropriations. These giant spending bills are a favor to those who want giant government.

Climate Editors Have a Meltdown



BUSINESS WORLD

By Holman W. Jenkins, Jr.

I'll admit it: I would have found it fascinating to be party to the discussions earlier this year that led to oscillating headlines on the New York Times home page referring to the new EPA chief Scott Pruitt alternately as a "denier" or "skeptic." At least it would have been fascinating for 20 minutes.

Ditto the hysterical discussions undoubtedly now arising from an anodyne piece of climate heterodoxy by the paper's newest columnist, a former Journal colleague who shall remain nameless, in which he advises, somewhat obscurely, less "certainty" about "data."

Whether or not this represents progress in how the U.S. media cover the climate debate, a trip down memory lane seems called for. In the 1980s, when climate alarms were first being widely sounded, reporters understood the speculative basis of computer models. We all said to ourselves: Well, in 30 years we'll certainly have the data to know for sure which model forecasts are valid.

Thirty years later, the data haven't answered the question. The 2014 report of the Intergovernmental Panel on Climate Change, voice of climate orthodoxy, is cited for its claim, with 95% confidence, that humans are responsible for at least half the warming between 1951 and 2010.

Look closely. This is an estimate of the reliability of an estimate. It lacks the most important conjunction in science: "because"—as in "We believe X because of Y."

Not that the IPCC fails to offer a "because" in footnotes. It turns out this estimate is largely an estimate of how much man-made warming *should have taken place* if the models used to forecast future warming are broadly correct.

The IPCC has a bad reputation among conservatives for some of its press-release activities, but the reports themselves are basically numbing testimonies to how seriously scientists take their work. "If our models are reliable, then X is true" is a perfectly valid scientific statement. Only leaving out the prefix, as the media routinely does, makes it deceptive.

We don't know what the IPCC's next assessment report, due in 2021, will say on this vital point, known as climate sensitivity. But in 2013 it widened the range of uncertainty, and in the direction of less warming. Its current estimate is now identical to that of the 1979 Charney Report. On the key question, then, there has been no progress in 38 years.

For journalists, the climate beat has been singularly unrewarding. It has consisted of waiting for an answer that doesn't come. By now, thanks to retirements and the mortality tables, the beat's originators are mostly gone. The job has passed into hands of reporters who don't even bother to feign interest in science—who think the magic word "consensus" is all the support they need for any climate claim they care to make.

Take Inside Climate News, an online publication, lately accruing degraded journalism prizes, whose title echoes a successful series of specialist newsletters like Inside EPA and Inside the Pentagon that charge fancy prices for detailed, crunchy, reliable information about the U.S. government.

Inside Climate News might sound like it's doing the same but it isn't. Search its website and the term "climate sensitivity," the central preoccupation of climate science, appears zero times. Any reporter who is truly curious about what scientists know and how they know it would not be working there. Asking such questions would only get him or her suspected of denialism.

How did science reporting get so detached from the underlying science?

But not even the EPA's Mr. Pruitt or the New York Times's newest recruit exhibits the ill grace to phrase the "so what" question.

"So what" is the most important question of all. So what if human activity is causing some measure of climate change if voters and politicians are unwilling to assume the costs (possibly hugely disproportionate to any benefit) of altering the outcome of the normal evolution of energy markets and energy technology.

Even liberals have noticed that climate advocacy has morphed into a religion, unwilling to deal honestly with uncertainty or questions of cost and benefit. Climate apoplexy, like many single-issue obsessions, is now a form of entertainment for exercised minorities, allowing them to vent personal qualities that in most contexts they would be required to suppress.

Whether apocryphal or even a joke, who did not delight in the story of "Zach," the young Democratic staffer who supposedly stormed out of a post-election meeting after cursing the party's incompetent elders because, thanks to Hillary Clinton's defeat, "I'm going to die from climate change."

For the record, Zach, an estimate recently touted by the Washington Post precisely because it was five or 10 times worse than previous estimates had this to say about the consequences of climate change. If unaddressed, they would reduce economic growth by one-fifth over the next 85 years.

In other words, under the worst scenario, Zach's grandchildren's world would be only nine times richer than ours today.

James Buchanan Was No Andrew Jackson

By James S. Robbins

President Trump delved into speculative history this week when he asserted that "had Andrew Jackson been a little bit later you wouldn't have had the Civil War." Mr. Trump's critics pounced, calling his conjecture puzzling, ignorant and bizarre. But the president has a point.

President Jackson's able handling of the Nullification Crisis in 1832-33 was a common topic of discussion when South Carolina seceded from the U.S. in December 1860. Jackson, through a combination of threats and persuasion, had convinced South Carolina to retract a law that purportedly allowed the state to nullify federal laws—in particular protective tariffs. The New York Times noted in 1860 that those who had been alive then "cannot fail to be impressed with the various points in common, and points of contrast, between the events of that period and those of the present day."

The critical contrast was the man in the White House. Jackson was a daring military hero and frontiersman, brave and indomitable. When South Carolina fomented the Nullification Crisis mere weeks after his landslide re-election, Jackson swore to hold the Union together at any cost.

President James Buchanan, on the other hand, was a mild-mannered lawyer and diplomat. The secession crisis came when he was a lame duck, waiting for Abraham Lincoln to take office. Buchanan triangulated, saying secession was illegal but he was powerless to stop it. Consequently, six other states followed South Carolina in leaving the Union before Lincoln's inauguration on March 4, 1861.

Some believed this could have been nipped in the bud if Old Hickory still had been in charge. As the crisis broke, the pro-Union Louisville (Ky.) Journal asked: "Will James Buchanan, who occupies the chair of Andrew Jackson, emulate the energy of the great Tennessean, or will he like a craven, cower before . . . the mad antics of those over excited fanatics?" Unfortunately, we know the answer.

Buchanan's secretary of state, Lewis Cass, had a front-row seat for both crises. A former Army general, Cass was Jackson's secretary of war during the Nullification Crisis and oversaw military preparations in case things went south in South Carolina. In 1860 he advised Buchanan to do exactly what Jackson had readied to do: beef up the presence of federal troops, move customs collection to the offshore forts, and send in warships to make the point. After Buchanan rejected his counsel, Cass resigned rather than see the Union dissolve on his watch. He probably wished he had his old boss back.

Trump has a point about Old Hickory and the Civil War.

When Lincoln took office, he tried to reverse Buchanan's disastrous course. He consulted Jackson's proclamation against nullification when writing his inaugural address, which pleaded for patience and invoked the "mystic chords of memory" in hopes of swelling affection for the Union and avoiding civil war. But at that point conflict was inevitable. The crisis might not have gotten so far had James Buchanan been a tough leader like Andrew Jackson.

Mr. Robbins is author of "The Real Custer: From Boy General to Tragic Hero."

OPINION

Give Trade Paranoia the Heave-Ho

By George Melloan

Donald Trump's frequent cries of "America First!" raised fears that he was launching a war against global trade in a misguided effort to "save" American jobs. Those fears are subsiding, as recent Journal articles have noted.

The Trump threat to tear up the North American Free Trade Agreement awakened the farm lobby: *Hey, wait a minute, we sell a lot of food to Mexico!* Nafta will now be treated more carefully. Congress is in no hurry to finance the Great Wall of the Rio Grande, and certainly Mexico won't. Mr. Trump's nativist in chief, Steve Bannon, is being trumped by wiser heads, at least sometimes. The president ended his announcement of the strike on Syria with a globalist touch: "God bless the world."

Advice for Trump: Tell Bannon to hit the showers, revive TPP, and undo Obama's economic legacy.

But Mr. Trump turns a friendly ear to the everlasting protectionist demands of the softwood-lumber and steel industries. So it's not a bad time for Washington to get a refresher course in market economics and what does and doesn't create jobs. Politicians are constantly tempted to go to war with markets in a bid to win votes. When they do, they and their constituencies always lose. Markets are a force of nature, and attempts to use the state's police powers to crush them invariably end in misery. Ask the Russians—or, for that matter, the survivors of 1970s price controls in the U.S.

American nativists last year adopted "globalization" as a newly discovered menace. Yet there's nothing new about globalization. It got going five centuries ago when Europeans invented large, square-rigged ships that could travel long distances on the open ocean without reprovisioning. To what purpose? A bright fourth-grader will most likely give the right answer: to expand trade.

The Dutch, English, Portuguese and Spanish sailed with goods from Europe to trade for the silks of China, the spices of Java or the gold of the Andes, though the last they mostly stole. Trade gained momentum with new goods yielded by the Industrial Revolution. A merchant class grew and began to match the power of the landed aristocracy. A middle class was born and has expanded enormously, world-wide, ever since.

Today's world is "globalized" like never before. In the space of 38 years, China has become a great trading nation again, lifting millions out of poverty. India is shedding the post-1947 socialist torpor inflicted on its people by English academics. Trade barriers have vanished in Europe along with its history of bloody warfare. With the steady evolution of an educated middle class and more-enlightened leadership—and despite the atavistic forces always in play—more people than ever enjoy new social and economic opportunities.

Economist Robert Mundell, who helped create the euro, has long argued that there is only one economy, the one created by the peoples of this planet. Multinational corporations like IBM, Toyota and BASF may have national identities, but their factories, supply chains, sales offices and investors are networks that blanket the globe. Private bankers and government central banks exchange currencies at the rate of $5 trillion a day to provide the global economy with money. Growth of that


DAVID KLEIN

$80 trillion economy exceeds 3% annually, outpacing U.S. growth thanks to the burgeoning of places like China and India. A rising tide of trade lifts all boats.

In the post-World War II era, Republicans and Democrats alike knew that the road to economic recovery was paved with trade. The Kennedy Round lowering of trade barriers in the 1960s was an enormous success. The U.S. promoted a borderless European economic union and created NATO to protect its members from stifling Soviet imperialism. Americans were enthused by Deng Xiaoping's 1979 decision to open up China to trade and were soon investing in this massive and highly successful enterprise.

Americans lose jobs to global competition, but also to domestic competition and, most important, to automation and technological advancement as old industries disappear and new ones form. There's dislocation, but today, despite everything, unemployment is 4.5% of the workforce, close to the 4% statistical definition of full employment.

The slow economic growth in the U.S. over the past decade has resulted not from what the world has done to America but what America has done to itself, according to a Council on Foreign Relations study "How America Stacks Up." It says that the U.S. "depends far more on the global economy than it did two decades ago, and international trade and foreign investment are increasingly vital to U.S." It also finds that while the U.S. national economy remains by far the world's dominant one, it has grown less so over that period.

One big reason is that "though the United States once had among the lowest corporate tax rates in the industrialized world it now has the highest." As the study confirms and Republican tax reformers in Congress understand, those high rates are not big revenue producers because multinationals choose not to bring home their overseas earnings for the IRS to grab.

The CFR report cites two other reasons why capital investment in the U.S., both domestic and foreign, has suffered: the explosion of business regulation, and soaring national debt and entitlement obligations. These burdens cast doubt on the U.S. capacity for further growth. The U.S. continues to "underperform" in exports relative to other advanced economies, the study says.

What are the lessons for the Trump team? Tell Mr. Bannon to hit the showers. Revive the Trans-Pacific Partnership trade negotiations with Japan and 10 other Pacific Rim countries, which Mr. Trump injudiciously scuttled. Also pursue the Trans-Atlantic Trade and Investment Partnership negotiation with Europe. Trade agreements are not only good economic policy but good foreign policy.

Most important, devote full attention to what Barack Obama and the progressives broke. Make a new start on ObamaCare reform. Accelerate the scrapping of antibusiness regulation. And press ahead with tax reform. If those efforts succeed, American business can hold its own in competition with anyone in the world.

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

Why Kansans Asked What's the Matter With Republicans

By Ron Estes

Last week I had the honor of being sworn in at the House of Representatives, where I'll represent Kansas' Fourth Congressional District. I'm brand new and eager to learn. But I do have a perspective none of my colleagues share. I know firsthand what it's like to campaign in an environment that many found unimaginable only a few months ago—a country in which Donald Trump occupies the White House and Republicans have majorities in both chambers of Congress. The message from Kansas voters during last month's special election was crystal clear: Produce results or go home.

The campaign to fill the House seat vacated by Mike Pompeo, now director of the CIA, was closer than many had anticipated. In November, Mr. Pompeo won re-election by 31 points. Mr. Trump carried the district by 27 points. I won by seven. The power of incumbency may have played a role, but the last time the seat was open, in 2010, Mr. Pompeo won by 22 points.

The day after the election, this newspaper ran an editorial called "A Warning in Wichita." Here was the Journal's conclusion: "The real lesson is that Republicans need to unite to demonstrate a record of accomplishment going into 2018. If they can't bridge their differences, they're in trouble."

That's exactly right. When Republicans pulled the American Health Care Act, or AHCA, on March 24, the frustration among Kansas voters, particularly Republicans and independents, was palpable. Enthusiasm for the campaign waned and anxiety soared. A district that is typically very favorable for Republicans suddenly became much less favorable. Voters expected results and it looked like we weren't delivering.

No other explanation adds up. It is true that special elections are unique and turnout is traditionally low. But that doesn't explain the 15-point swing in the Republican candidate's margin of victory from 2010 to 2017. The race tightened in large part because voters became worried that Republicans were going to renege on their promise to repeal and replace ObamaCare. My campaign's internal polling showed that health care was a turning point.

In the spirit of heeding this warning—and, far more important, doing the right thing for the country—I'm announcing my support for the AHCA. I urge my colleagues to do the same.

When the health-care bill was pulled, my House campaign's polling found voters demoralized.

Put simply, failing to act would be unconscionable. Republicans can improve the status quo—and we must. This isn't about politics or process. It's about people. ObamaCare is unquestionably hurting more people than it is helping. It is forcing Americans to buy insurance they don't like, don't need, and can't afford. The benchmark premium on the federal ObamaCare exchanges increased an average of 25% this year.

During the 2008 presidential campaign, Barack Obama promised to lower annual health-care premiums by $2,500 per family. Instead the cost of employer-sponsored family coverage increased by $4,372 between 2010 and 2016, according to the Kaiser Family Foundation. That means the cost of ObamaCare's broken promise is now $6,872 per family—enough to cover the mortgage for months, buy a second car, or purchase any number of things more valuable than paying exorbitant premiums and deductibles for inaccessible health coverage.

The ObamaCare debacle has also proved yet again that access to government health-care programs does not guarantee access to health care. As costs skyrocket, choices are disappearing. Nearly one-third of U.S. counties have only one insurer offering plans on ObamaCare's exchanges. Kansas is lucky. We have two. But Blue Cross Blue Shield, the company that covers the most people, has suffered significant losses and may pull out of the exchange next year. I can't—and won't—be idle in Congress while people in my district suffer.

The AHCA isn't perfect, but the bill has been improved over the past month. Besides, it's only the first step in what will be multistage process of reform. Health care is a complex topic, but the AHCA's principles are simple. The bill focuses on lowering costs and emphasizes the ABCs—access, benefits and choices. Most important, it's based on a belief that the best way to provide care for all is to create a health system focused on patients instead of centered around the government.

As a fiscal hawk and former state treasurer, I plan on spending a lot of my time in Washington blocking wasteful spending and working toward a balanced budget. But finding the courage to get to "yes" on the AHCA is far better for the country—and more threatening to Democrats—than being stuck on "no."

Mr. Estes, a Republican, represents Kansas' Fourth Congressional District.

The Military Needs Modern Ways to Attract and Manage Talent

By Leon Panetta And Jim Talent

Aboard the Navy's newest aircraft carrier in early March, President Trump vowed that the United States "will have the finest equipment in the world—planes, ships and everything else." But what good will this equipment do if the military lacks the personnel to use it?

People are the vital ingredient to America's military edge, but increasingly they are in short supply. "The Air Force has a shortfall of almost 1,500 pilots," Joint Chiefs Chairman Gen. Joseph Dunford testified before a House committee in March. Similarly, the Army is offering bonuses to convince soldiers to extend their enlistments, the Marines cannot produce enough snipers, the Navy is straining to keep officers who operate its ships' nuclear reactors, and all branches have struggled to build new cyber units.

These examples portend larger difficulties ahead. Even with the U.S. being threatened by enemies near and far who are evolving strategically and technologically, our military still operates with a personnel system designed in 1947 to fight the Soviet Union. Unchanged since then, this one-size-fits-all system for recruiting, retaining and promoting troops, treats nearly every service member as an interchangeable cog.

That is why we led a Bipartisan Policy Center task force focused on modernizing how the military manages its personnel. We recommend replacing the current system with a more flexible model that expands the military's access to talent. This model would reward experience and performance without unduly burdening military families.

Since the draft ended in 1973, all new enlistees must be recruited. But the recruiting process—primarily geared toward young adults—is trapped in the past. The future force will also require experienced professionals with highly valuable skills such as engineering, cybersecurity and foreign languages. We recommend discarding policies that prohibit experienced individuals from entering the military at higher ranks so that the military can entice talented recruits.

Once troops are recruited, the Defense Department invests heavily in training them. A new fighter pilot, for example, costs $11 million. To ensure the military does not lose access to trained people who have already volunteered to serve, it must make it easier to make the transition from active duty to the reserve or National Guard.

A rigid, bureaucratic personnel system made sense in 1947. Now it's dangerously out of date.

The military could encourage troops to continue serving by allowing them to compete for promotion. Military promotions today are largely a seniority-based system governed by predetermined timelines. Those not promoted on schedule are kicked out. We recommend placing increased emphasis on merit and allowing individuals to seek promotion when ready. This will allow troops in critical specialties, like cyber, to master their skill sets without racing to meet arbitrary promotion cutoffs. Conversely, high-performing service members, ready for greater responsibility, could be promoted more quickly.

Some people would prefer to keep flying than have a desk job or become chairman of the Joint Chiefs of Staff. The military must recognize this. We recommend creating new career paths for those who want to devote their military service to a particular specialty instead of pursuing senior ranking command. Allowing service members more say in their career aspirations would create a more skilled military while improving satisfaction and retention.

Serving in the military will always require sacrifice. On the battlefield and back home, service members place what's best for the military ahead of their personal desires. Career service members typically will move nearly a dozen times—usually with a family in tow. This can help produce well-rounded troops. But it also results in stress and instability for military families. We recommend giving service members more influence over when and where they move. They should not have to make the untenable choice between serving their nation or their family's best interests.

Uniformed service is not a calling for every American, nor does it need to be. But to build a strong force capable of succeeding against future threats, the military must be attractive to Americans with the skills and talents that are necessary to keep America safe. As an all-volunteer force, the U.S. military competes for talent with the world's top companies, best universities and highest-performing organizations. The military must work to make its offer more competitive.

As Congress considers a military buildup, it should include in its agenda a bipartisan defense personnel reform to create a 21st century force. To strengthen our military, we must focus not only on new ships, planes and tanks, but also on those who sail, fly and drive them.

Mr. Panetta, a Democrat, served as defense secretary, 2011-13. Mr. Talent, a Republican, was a U.S. senator from Missouri, 2002-07.

Notable & Quotable

Sahar Omer reporting in the Harvard Crimson, May 1:

Harvard libraries will no longer charge 50 cent per day fees on overdue books.

The change, one of several detailed in a post on the Harvard Library system's website, went into effect on April 1. . . .

"The goals of these changes are to improve the student experience and embrace a 'One Harvard' approach for borrowing material across Harvard Library," wrote Steven Beardsley, Harvard's associate director for access services administrative operations and special projects, in an email.

"We have witnessed firsthand the stress that overdue fines can cause for students," Beardsley continued.

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THE MIDDLE SEAT | Scott McCartney

Behind Delta's April Meltdown

The airline's internal investigation blames jammed phone lines for cascading problems; changes to come before the summer

JIM LO SCALZO/EPA

Delta experienced a weeklong meltdown after a series of storms revealed shortcomings in trying to reschedule crews.

SPRING BREAK for hundreds of thousands of **Delta Air Lines** passengers was disrupted by thunderstorms in Atlanta that led to an epic meltdown for the usually reliable airline. At the root of 4,000 canceled flights: telephone busy signals.

An internal investigation into the April failure found the biggest problem was that Delta's 13,000 pilots and 20,000 flight attendants calling in for new assignments couldn't get through to the people in Atlanta on the front lines of rebuilding an airline schedule.

Though puzzling in the age of instant digital communications, it turns out employees were dependent on dialing and circuits were overloaded. Computers told gate agents rescheduled crews would be there; customers waited at gates for hours. Then flights would end up canceled for lack of a crew member lost in Delta's communications fiasco, unaware of the assignment.

A recovery that should have taken the airline a day or two stretched into the following week. In Atlanta, flights were canceled well after midnight, after underground airport trains had shut down. That forced dazed vacationers to walk more than a mile through corridors littered with sleeping bodies like a zombie apocalypse. (The airport says it did keep trains and concessions operating late some nights and provided water, blankets and amenity kits.)

"Our infrastructure was overwhelmed," says Gil West, Delta's chief operating officer. "We know we can't control the weather, but we definitely own the recovery."

The Delta collapse, somewhat overlooked while attention was focused on the violent dragging of a United passenger off a plane in Chicago on April 9, has significant implications for travelers in the spring and summer thunderstorm season. Delta says it is ready to handle summer crowds and storms and is already making changes in its operation based on findings from last month's mess. But the episode is a reminder for travelers of the hazards of airline reliability when booking flights too close to big events like weddings or cruise-ship departures.

Thunderstorms are more difficult for airlines to handle than blizzards or hurricanes because their timing and location are hard to predict.

The concern for travelers is whether bigger consolidated airlines are now less nimble and more complex, and thus more prone to major disruption from routine storms.

What's more, back-office issues have proven to be big problems at Delta and other carriers. Last August, a power failure at its control center crippled Delta. A computer glitch in January led to canceled flights. Southwest Airlines also had a computer failure in 2016 that led to major disruption for travelers.

Delta says there was nothing routine about the triple whammy of storms it weathered the first week of April. The airline says its crew-tracking system had handled the load in the past, but this time found its limits.

Atlanta is the thick trunk on Delta's flight-schedule tree. About 60% of Delta's 1,250 airplanes go through Atlanta each day. It's the world's largest airport in both passengers and flights. Trouble in Atlanta cascades world-wide.

Delta says it, and Atlanta, aren't too big to handle storms. But the airline has learned where it needs to spend on more capacity. Delta created a task force of nine different work groups to autopsy the meltdown.

Mr. West and CEO Ed Bastian sent a memo to employees Wednesday with results of the task force investigation and changes that were being made. "Thanks for pulling Delta out of the ditch," the memo said. They noted that one problem was many positions were short-staffed for holiday crowds because so many Delta employees had themselves taken spring-break vacation. They promised to boost spring-break staffing levels in the future.

Changes are already happening, Mr. West says. The older crew-tracking communications system, which has been previously expanded to allow for electronic communications in routine rescheduling situation, will be expanded.

Delta thinks it has found better ways to anticipate thunderstorms. In addition, it will make adjustments to add more buffer to crew schedules to absorb delays before they hit mandatory rest requirements. And Mr. West says Delta had already started to keep more crews together with the same plane all day, and will now do that more. This can minimize disruption. If a plane, pilots and flight attendants are all scheduled to reshuffle to different flights, a single delay can impact three other flights.

The airline will also double the size of the crew-tracking team and add phone lines for them by June. And by the end of August executives hope to have a system to send crews information about their trips electronically.

Mr. West says Delta's crew-tracking system, which he said is old but has received a 50% capacity improvement over the past year, can send automated voice mails or emails to crews in typical storm recovery situations.

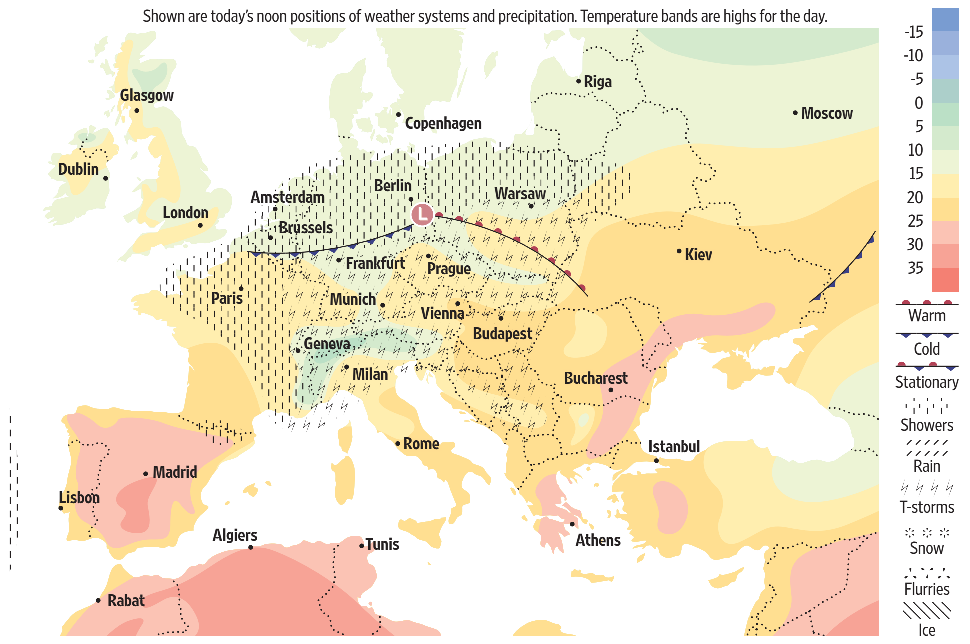
But this time there were too many questions that required phone calls, such as queries about particular assignments or lack of assignment. When crew members called in, they got busy signals. Part of the problem was too few people to answer calls.

Now Delta has decided to add more full-time people to that job and train others who could be pulled in from other duty in a severe weather situation. In the future, communications will include mobile phones.

Weather

AccuWeather.com

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

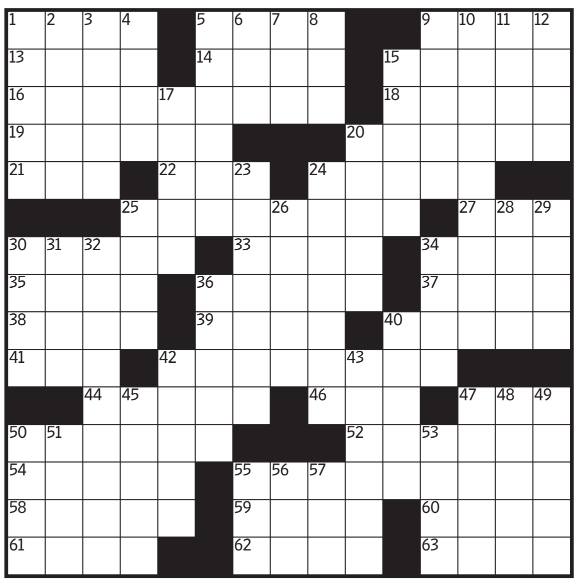


Global Forecasts

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	12	7	sh	13	7	pc
Anchorage	10	3	c	11	3	s
Athens	27	17	s	28	17	s
Atlanta	20	10	t	13	9	pc
Baghdad	35	20	pc	34	19	pc
Baltimore	19	13	pc	22	11	t
Bangkok	36	28	c	33	27	t
Beijing	27	11	s	22	9	pc
Berlin	11	8	sh	13	8	sh
Bogota	20	10	r	19	10	pc
Boise	29	15	s	29	10	c
Boston	15	8	s	13	11	r
Brussels	13	8	sh	14	8	pc
Buenos Aires	26	14	pc	26	16	pc
Cairo	30	18	s	30	18	s
Calgary	24	7	s	26	9	pc
Caracas	31	26	pc	32	26	pc
Charlotte	24	12	t	17	9	pc
Chicago	11	5	r	14	5	pc
Dallas	23	11	s	25	11	s
Denver	20	6	s	24	8	s
Detroit	9	6	r	9	5	r
Dubai	39	30	s	39	31	s
Dublin	14	7	pc	13	7	pc
Edinburgh	13	6	pc	13	5	s
Frankfurt	16	9	t	17	8	sh
Geneva	14	4	t	21	9	s
Hanoi	32	24	s	31	24	pc
Havana	31	22	s	31	22	pc
Hong Kong	29	23	t	28	24	pc
Honolulu	29	22	s	29	22	s
Houston	24	12	s	26	11	s
Istanbul	22	13	s	21	13	pc
Jakarta	32	24	t	32	24	t
Johannesburg	22	9	s	23	9	pc
Kansas City	19	8	pc	21	8	s
Las Vegas	36	23	s	37	23	s
Lima	25	20	pc	25	20	pc
London	15	9	c	14	9	c
Los Angeles	28	15	s	24	15	pc
Madrid	28	14	pc	25	9	t
Manila	34	27	t	34	27	t
Melbourne	17	8	s	20	12	pc
Mexico City	27	12	t	23	12	pc
Miami	31	25	s	31	21	t
Milan	18	8	t	22	11	s
Minneapolis	19	8	s	22	11	s
Monterrey	29	12	sh	31	12	s
Montreal	16	6	c	11	6	r
Moscow	11	1	c	12	6	pc
Mumbai	34	29	s	35	29	s
Nashville	20	8	t	12	7	sh
New Delhi	40	25	s	41	26	s
New Orleans	22	12	c	23	13	s
New York City	16	10	pc	17	13	r
Omaha	20	7	s	22	8	s
Orlando	32	18	pc	25	15	t
Ottawa	15	4	c	9	6	r
Paris	18	7	sh	20	11	pc
Philadelphia	19	12	pc	19	13	r
Phoenix	39	23	s	40	24	s
Pittsburgh	17	11	r	20	7	r
Port-au-Prince	33	23	pc	33	23	pc
Portland, Ore.	28	12	t	15	6	sh
Rio de Janeiro	27	20	s	28	21	pc
Riyadh	40	25	s	40	23	pc
Rome	20	10	pc	21	10	s
Salt Lake City	25	12	s	29	16	s
San Diego	23	16	pc	22	16	pc
San Francisco	22	12	pc	18	10	pc
San Juan	31	25	sh	31	25	sh
Santiago	26	6	s	24	7	pc
Santo Domingo	30	22	pc	30	23	pc
Sao Paulo	25	16	t	24	16	sh
Seattle	24	12	t	15	7	sh
Seoul	27	15	c	26	9	pc
Shanghai	23	17	sh	26	16	c
Singapore	31	25	c	32	25	pc
Stockholm	12	0	s	18	7	s
Sydney	21	14	pc	22	15	pc
Taipei	31	24	pc	29	23	pc
Tehran	27	17	c	26	15	c
Tel Aviv	24	15	s	24	16	s
Tokyo	21	16	c	21	17	pc
Toronto	9	6	r	10	5	r
Vancouver	19	11	pc	15	7	sh
Washington, D.C.	20	15	pc	23	13	t
Zurich	16	4	t	19	6	sh

The WSJ Daily Crossword | Edited by Mike Shenk



COLOR SEPARATIONS | By Alice Long

Across

1 Call from the nursery
5 1 for photons and 2 for gravitons
9 Flight part
13 Pizzazz
14 Color
15 Fondue favorite
16 Rack setting, perhaps
18 Crayon color
19 Tarzana neighbor
20 Light bulb units
21 1927's Flying Cloud, e.g.
22 Politically powerful group
24 Spring spots
25 Where the Helmand River flows
27 Crayon color
30 Like many double entendres
33 Sudan president al-Bashir
34 Sequence of nucleotides
35 Amazon device that answers to "Alexa"
36 Active bunch
37 Targets of pulldowns
38 Winged archer
39 Sicily's highest point
40 Brawler's weapons
41 Crayon color
42 It may be offered for off-peak travel
44 Like the nerve we call the "funny bone"
46 Gap buy
47 Put away
50 Bolted
52 Mischievous sort
54 Crayon color
55 Lord Protector during England's Interregnum
58 Elected
59 Giver of Starbuck's orders
60 Sunburn soother
61 Get rid of
62 Film editor's technique
63 "Death in Venice" author

Down

1 Ten billion angstroms
2 Exclusively
3 Pool cry
4 Protester's position
5 Like Turkish coffee
6 Diner dessert
7 Ltd. kin
8 Utmost degree
9 French battle site of WWI
10 Frank
11 Perfect place
12 Round numbers?
15 Physicist for whom an induction unit is named
17 Bring together
20 Refuges
23 Violent video game
24 Over toast, at the diner
25 Agitated states
26 Modify legally
28 Fee for hand delivery?
29 Capone chaser
30 Ballpark buy
31 One of 640 in a square mile
32 Christie creations
34 Model maker's need
36 After-dinner request
40 Fanciful aspiration
42 Hungry, perhaps
43 Listeria bacterium, for one
45 Is wild about
47 It reaches speeds of 150 miles per hour
48 Owl's grasper
49 Big name in TV talk
50 Tooth part
51 Gravy Cravers brand
53 Did laps
55 Cold and damp
56 X
57 Criminal charge

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

Previous Puzzle's Solution

TECHNOLOGY: BEIJING TIGHTENS CONTROLS ON TECH FIRMS B4

* * THE WALL STREET JOURNAL. Thursday, May 4, 2017 | B1

Euro vs. Dollar 1.0921 ▼ 0.10% **FTSE 100** 7234.53 ▼ 0.21% **Gold** 1246.40 ▼ 0.69% **WTI crude** 47.82 ▲ 0.34% **German Bund** yield 0.327% **10-Year Treasury** yield 2.309%

HNA Lifts Deutsche Bank Stake

By William Wilkes
And Jenny Strasburg

FRANKFURT—Chinese conglomerate **HNA Group** has become **Deutsche Bank** AG's largest shareholder after increasing its stake in the German lender to almost 10%.

U.S. public filings show HNA raised its stake to 9.92% through C-Quadrat Asset Management (UK) LLP, the U.K. subsidiary of Austrian asset manager **C-Quadrat Investment** AG. HNA previously held a 4.76% stake in the lender, filings showed.

HNA's increased stake in Deutsche Bank makes it the lender's largest shareholder, ahead of members of Qatar's royal family and U.S. money manager **BlackRock** Inc., according to public filings.

HNA holds the shares through a special-purpose company managed by C-Quadrat, which also holds the voting rights for HNA's Deutsche Bank stake.

Deutsche Bank, HNA and C-Quadrat declined to comment.

In February, the German bank said, in response to news HNA had become a major shareholder, that it "welcomed in principle any investor with a long-term view."

HNA, through C-Quadrat, had signaled it was looking to increase its stake, but not above 10%. Intentions to exceed that threshold would trigger additional reporting requirements, and crossing the 10% ownership line would require German regulatory approval, lawyers and analysts say.

Analysts say U.S. regulators


FRANK RUMPENHORST/DPA/ZUMA PRESS
Deutsche Bank's logo on flags.

also would scrutinize any potential move by a single shareholder, including HNA, to amass a 10% or greater stake in a financial firm like Deutsche Bank that has big trading and investment-banking businesses in the U.S.

In March, Deutsche Bank said C-Quadrat's founder and chief executive, Alexander Schütz, was nominated to join the lender's supervisory board, ahead of the annual meeting scheduled for May 18. His appointment would give the managers of HNA's stake sway over high-level decision-making and oversight of Deutsche Bank management.

The German lender's shares have rebounded after hitting multiyear lows last fall because of fears about its capital position. Deutsche's recent earnings statements show its main businesses are stabilizing after a tumultuous 2016, when fears of big regulatory fines unnerved clients and investors. Investors still harbor uncertainties about its ability to meet profit and cost-cutting targets.

At Tuesday's closing price, HNA's stake of 204.7 million shares was valued at roughly €3.4 billion ($3.7 billion).

HNA Group began as an airline operator before expanding into hotels, tourism, logistics, real estate and finance. HNA's most high-profile acquisitions have been U.S.-based companies.

HNA gained attention this year for investing abroad despite strict capital controls in China. The group's executives have said the group largely finances takeovers through offshore cash flow, so it doesn't have to move cash out of China to continue its shopping spree.

—Kane Wu contributed to this article.

Rising Rates Pressure Oil Firms

By Bradley Olson

U.S. oil companies have proven remarkably resilient even during a prolonged season of lower oil prices, but a looming threat could limit their growth and profitability: rising interest rates.

A new Columbia University study warns that higher borrowing costs, such as an increase of 2 percentage points in global interest rates, could essentially erase the efficiency gains that many shale producers have achieved.

That represents a potential problem for U.S. drillers in coming years, as the Federal Reserve ponders gradual rate increases.

"Low interest rates have been a major contributor to the shale boom," said the author of the study, Amir Azar, an energy banker and fellow at Columbia's Center on Global Energy Policy. Higher rates may not "reverse the boom, but it could make a lot of shale production uneconomic."

Most small- and medium-size shale producers rely extensively on debt, borrowing amounts double or triple their annual earnings primarily through high-yield bond issuance to finance drilling operations across the country. Their cost of borrowing goes up as interest rates such as the London interbank offered rate, which is used as the benchmark reference in the study, rise.

Many U.S. companies have sought to address this vulnerability by reining in spending to levels that are in line with costs, something few did when oil sold for more than $100 a barrel two years ago. The new strategy of living within their means, which the industry has termed "cash flow neutrality," has attracted significant attention from investors, but remains an elusive goal for most producers.

Cash has become king for executives wishing to prove their resilience in the face of low prices, and many are likely to focus on the issue this week as earnings season begins in earnest for smaller U.S. companies.

As oil prices remain mired around $50 a barrel, only a few companies have hit the mark in the past year. **ConocoPhillips**, one of the largest U.S. producers, did so in the first quarter, the company said Tuesday, generating about $500 million more in cash than it spent on new investments and dividends.

"Our focus on free cash flow generation and the lowering of our break-even price is showing up in our financial performance for the third straight quarter," Donald Wallette, chief financial officer of ConocoPhillips, told

Please see RATES page B2

HEARD ON THE STREET
By Stephen Wilmot

A Single Number Shows VW On Rebound

Volkswagen's namesake brand, tarnished by fraudulent diesel-emissions data and inefficient business practices, is suddenly looking almost as profitable as its peers. The recovery isn't as spectacular as the latest numbers suggest, but is still hugely encouraging.

The single most closely watched figure among VW's investors is the operating margin for Volkswagen Passenger Cars—the division that makes VW-branded cars outside China. It hit 4.6% in the first quarter, making the business almost as profitable as smaller French peers. Renault's automotive margin last year was 4.9%; Peugeot's was 6%. General Motors and Ford make better margins, but they are boosted by Americans' preference for more lucrative trucks and SUVs.

Last year, the margin of Volkswagen Passenger Cars was just 1.8%. But this isn't directly comparable with the first-quarter figure, because the company introduced a sensible accounting change: Low-margin distribution units that sell multiple VW-owned brands used to be counted within Volkswagen Passenger Cars; from this year, they will sit in the company's "Other" bucket. Adjusting last year's numbers for this change would have brought the VW-brand margin up to 2.2%.

That still suggests the underlying margin has more than doubled. The company gave as reasons the success of its Tiguan crossover as well as "optimized fixed costs" when it pre-released key expectation-busting figures last month in line with local stock-exchange rules. Muted sales growth—outside China, VW-brand unit sales crept up 1.2%—suggests it has focused on getting higher prices rather than selling more cars.

The big question is how sustainable the new margin is. The company's guidance is discouraging: Management is sticking with its already-surpassed target of a 4% margin by 2020 for the VW-brand business. Yet this is surely cautious: After years of underdelivering, management is understandably intent on underpromising.

There will no doubt be bumps in the road, but the long anticipated VW-brand recovery does seem under way.

◆ VW posts sharp rise in quarterly profit........ B3

SPENCER PLATT/GETTY IMAGES
Banks are posting higher losses on defaulted car loans, and borrowers are falling behind on payments. Above, a New York dealership.

Lenders Pull Back From Auto Debt

Bankers' caution shows up in declining U.S. car sales as lending to riskier borrowers ebbs

By AnnaMaria Andriotis
And Christina Rexrode

Big banks are pulling back sharply from auto loans, helping drive a drop in car sales and raising fears the slump might deepen.

Wells Fargo & Co., one of the largest U.S. auto lenders, last month reported a 29% fall in its auto-loan originations for the quarter compared with a year earlier. The decline, the biggest for the San Francisco-based bank in at least five years, was part of a common refrain in quarterly announcements from lenders including **J.P. Morgan Chase & Co.**, **Ally Financial** Inc. and **Santander Consumer USA Holdings** Inc.

Bankers' caution is increasingly showing up in car sales, which Tuesday came in worse than expected for April. The declines are mostly occurring in lending to riskier borrowers, in particular those with low credit scores, where lending had ramped up for years.

"A very accommodating finance environment had been in place for some time," said Bruce Clark, lead auto analyst and senior vice president at **Moody's Investors Service**. "What you're seeing right now is a pullback and the resulting pressure on unit vehicle sales."

Some banks, including regionals Fifth Third Bancorp and Citizens Financial Group Inc., are beginning to retreat from higher-quality "prime" auto loans as new risks emerge. "It's been an overheated sector," said Fifth Third Chief Executive Greg Carmichael. "The auto business just isn't as attractive right now."

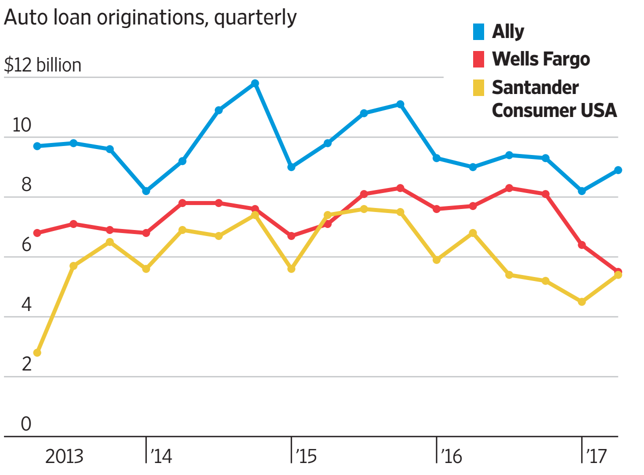
Some anticipated the market would cool off after record new car sales in 2015 and 2016. But banks are also posting higher losses on defaulted auto loans, hit by a mix of more borrowers falling behind on payments and the declining value of used cars.

When lenders repossess cars, they resell the vehicles and use the proceeds from the sale to recover as much of the unpaid balance as possible. Declining values mean that lend-

Please see LOANS page B2

Braking

Auto loan originations, quarterly



Source: the companies
THE WALL STREET JOURNAL.

Ultralong Treasurys? No Thanks

By Josh Zumbrun

A committee of Wall Street advisers is pouring cold water on a proposal by U.S. Treasury Secretary Steven Mnuchin to issue 50-year and 100-year U.S. government bonds, arguing that the big pension funds and insurers expected to buy the securities won't have much interest.

The Treasury's Borrowing Advisory Committee, composed of representatives from some of the largest financial institutions that participate heavily in the bond market, told the Treasury that "the committee does not see evidence of strong or sustainable demand for maturities beyond 30 years."

The committee meets quarterly, in advance of a regular release by the Treasury of its plans for financing the U.S. debt. Currently, the U.S. Treasury issues no debt longer than 30 years. Mr. Mnuchin has argued that ultralong bonds could be a useful tool for locking in today's low borrowing costs well into the future. Last month, the Treasury requested the advisory committee analyze the viability of bonds longer than 30 years.

Monique Rollins, the acting assistant secretary for financial markets, said that despite the advisory committee's cool response, the Treasury would "continue to study" longer-term bonds and seek input from a "broad community" beyond just those on the com-

Please see BONDS page B2


ASSOCIATED PRESS
Construction of the Panama Canal in 1915. The U.S. Treasury issued 50-year bonds to fund the building of the canal.

Revenue at Facebook Surges, Fueled by Mobile

By Deepa Seetharaman

Facebook Inc. reported another surge in revenue in the first quarter, as more advertisers flocked to the platform despite questions about its video-ad performance and handling of violent, graphic content.

The company said revenue rose 49% to $8.03 billion, up from $5.38 billion in the year-earlier quarter. The social-media company reported first-quarter net income of $3.06 billion, compared with $1.73 billion, a year ago.

Facebook's user ranks grew to 1.94 billion from 1.86 billion at the end of 2016.

The jump in revenue was a sign of how marketers are increasingly embracing Facebook and its Instagram photo-sharing app, where Facebook's users are spending more time watching video. Chief Executive Mark Zuckerberg has pushed his company to weave more video throughout Facebook's products, building on its strength in mobile—and mobile advertising—that has fueled Facebook's growth for years.

But in prior quarters, Facebook has cautioned that revenue growth would drop "meaningfully" in the middle of 2017 as the company stops jamming more ads into the news feed.

Video could fill the growth gap, analysts say.

Facebook has been working on its video ad products. Earlier this year, Facebook started testing ad breaks—ads that appear in the middle of a video—in both live broadcasts and on-demand videos.

◆ Facebook bolsters its content-review staff........ B4

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

INDEX TO PEOPLE

BUSINESS & FINANCE

Crown Trial Draws Closer

China assigns cases against 18 employees of the casino operator to district-level court

ROBB M. STEWART/THE WALL STREET JOURNAL

A Crown property in Australia. Eighteen Crown staffers face a gambling-related probe in China.

Chinese authorities have handed over the criminal cases of 18 employees of Australian casino operator **Crown Resorts** Ltd. to a district-level prosecutor's office, bringing them one step closer to trial after being detained for more than half a year, according to people familiar with the case.

By Wayne Ma in Hong Kong and Mike Cherney in Sydney

The assignment to a district-level jurisdiction, Shanghai's Baoshan District People's Procuratorate, as opposed to a higher one at the city or national level, could mean that criminal charges might be limited to gambling offenses, according to a person close to the case. Gambling offenses in China carry a maximum sentence of three years.

"You're going to have less in the way of judicial and prosecutorial resources," a second person close to the case said, adding that this could "signal the intention of lesser charges."

A Crown spokeswoman had no immediate comment.

Nicolas Groffman, an attorney at Harrison Clark Rickerbys who has worked on similar cases, said the district-level court has more sentencing restrictions than a higher court. However, he cautioned it has the same authority when it comes to bringing charges for any offense.

The move to a district-level prosecutor's office was first reported by the Australian Financial Review.

While specific charges haven't been detailed, the Crown employees were detained on suspicion of committing gambling-related crimes, according to the Australian government and people familiar with the matter.

They were taken into custody by China authorities starting on Oct. 13. The detained include Australian citizen and senior Crown executive Jason O'Connor; two other Australians, one Malaysian and a number of Chinese nationals.

One of the Chinese detainees was later released on bail.

Foreign casinos have become increasingly dependent on Chinese high-rollers, devoting significant resources to attract their business. But under Chinese law, foreign casinos aren't allowed to promote gambling in China.

Now that the case has been handed over to the prosecutor's office, it might take as long as four and a half months before the start of a trial and a list of charges, a person familiar with the case said. Mr. Groffman said the process could take as long as six and a half months.

The Malaysian consulate in Shanghai had no update on the status of the Malaysian detainee, a consulate official said.

Australia's Department of Foreign Affairs and Trade said it has been providing consular assistance to the three Australians detained in Shanghai since Oct. 14.

"The investigations and detentions are ongoing and proceeding in accordance with Chinese law," a representative for the department said.

—Rob Taylor contributed to this article.

BONDS

Continued from the prior page

mittee. An update will be provided at a future quarterly announcement, the Treasury said.

The notion of ultralong bonds has riveted Wall Street. When Mr. Mnuchin first floated the idea in a November interview on CNBC, it sent long-term interest rates climbing as investors anticipated that rates would need to rise to accommodate a greater volume of longer-term debt. Yields move inversely to bond prices.

The 30-year bond strengthened Wednesday, after the advisory committee cast doubt on the idea of 50- and 100-year bonds. The yield on the 30-year Treasury dropped to 2.955% late Wednesday from 2.982% on Tuesday.

The Treasury needs neither legislative changes nor the advisory committee's approval, to move forward with ultralong bonds. Still, the committee's opinion is likely to weigh heavily on the Treasury's decision. The members of the advisory committee include several primary dealers—the institutions authorized to participate directly in Treasury auctions—and some of the world's largest hedge funds and asset managers, such as **Vanguard Group** and **BlackRock** Inc. The committee's chairman is Jason Cummins, the head of economic research at hedge fund Brevan Howard.

A key question for the Treasury is what types of investors would buy ultralong bonds, especially if the members of its advisory committee aren't interested. Relatively few individual investors have 100-year or even 50-year investing horizons.

Due to pension funds, insurers and index funds, "there will be underlying structural demand for 50-years, but it could be at the expense of other longer-date Treasury issuance," said Gemma Wright-Casparius, a principal senior portfolio manager at Vanguard Fixed Income. In other words, the success of a 50-year bond could deal a blow to a 30-year bond. "They can, over time, get a deep liquid pool of investors. The question is: at what annual rate?"

A number of countries have issued small numbers of long-term bonds. Canada has a 50-year bond, Austria has sold 70-year bonds. Ireland, Mexico and Belgium are among countries that have issued 100-year bonds.

Most of these offers, however, have been sporadic or one-time issuances that would have little impact on those nations' long-run borrowing costs. The U.K. relies most heavily on ultralong-term debt, but the nation also has regulations that require its pension funds to buy the debt, so there is no question in the U.K. that there is demand for such bonds. Due to the demand forced by these regulations, the yield on 50-year bonds is generally lower than the yield on 30-year bonds.

The U.S. advisory committee said pension plans, life insurers and annuity companies are a "potential" source of demand, because such firms have liabilities that may be due long into the future. But the committee said that pension plans would "not be a large or reliable source of demand for ultralong issuance" and said that most insurers would prefer to have more 20-year bonds.

Given the likelihood of limited demand for 50-year bonds, the committee said their yield would likely be higher than that on 30-year bonds. This would make the long bonds less attractive as a way to reduce U.S. borrowing costs.

The committee went even further in its discussion of 100-year bonds, saying "the 100-year bond is not worth considering."

Currently, the longest U.S. bond is 30 years in duration, although the Treasury has experimented with longer bonds in the distant past.

President Dwight Eisenhower had a campaign pledge of "stretching out" the national debt, and his Treasury Department issued two 40-year bonds. From 1955 to 1963 a total of seven ultralong bonds were issued. Early in the 1900s, the Treasury issued 50-year-bonds to fund the construction of the Panama Canal.

Over the years, however, the Treasury concluded it could most efficiently finance large amounts of debt through regular auctions of 30-year bonds.

LOANS

Continued from the prior page

ers are recouping a smaller share of those balances. Lenders who are repossessing cars tied to prime auto loans that were securitized in 2015 are recovering about 51% of the unpaid loan balances on average, down from 56% for 2014 loans and 65% for 2011 loans, according to **S&P** Global Ratings.

"There is a more cautious tone across the industry," said Christopher Halmy, chief financial officer at Ally Financial, on the bank's earnings call last week. Ally also warned about the auto market in March, when it lowered its growth expectations for the year. The comments contrast with Ally CEO Jeffrey Brown's statement last summer that he was "bullish" on auto lending and the bank didn't have reasons to be concerned about the loans it was originating.

> *Car loans were one of the fastest-growing consumer-lending categories.*

The slowdown in loan volume marks a turnaround for the auto-loan sector, where originations grew consistently in recent years. It also calls into question whether the bullish run in auto lending is coming to an end.

Car loans have been among the fastest-growing consumer-lending categories since the last recession. Banks and other lenders began increasing originations about seven years ago in search of more revenue as the mortgage market slumped.

As competition intensified, lenders loosened underwriting standards by courting borrowers with lower credit scores and extending repayment periods on loans. Small nonbank lenders also jumped in, relying on the bond market as an outlet to sell their loans.

But increasing losses have sapped some banks' enthusiasm. Annualized net losses on securitized subprime auto loans increased to more than 10% late last year, the highest level since February 2009, according to **Fitch Ratings**. The figure slipped back to 9% in March, but that was the highest loss reading for that month since at least 2001.

The worsening performance is occurring despite unemployment remaining low. It may continue to worsen, even if the jobs picture remains bright. Fitch in December lowered its outlook performance for securitized subprime auto loans for 2017, even though it isn't forecasting a broader economic slump.

Wells Fargo said it expects its auto portfolio to decline in size this year. Ally has been expanding into other loans, including mortgages and credit cards, as it tries to diversify beyond autos. Santander Consumer, a unit of Spain's Banco Santander SA, has been paring back on lending. The company reported a 21% drop in auto-loan originations in the first quarter from a year earlier, following a 20% decline for all of 2016.

MATTHEW BUSCH FOR THE WALL STREET JOURNAL

Workers on an EOG oil rig last year in Texas. The shale producer kept spending below cash flow for the final two quarters of 2016.

RATES

Continued from the prior page

investors Tuesday in a conference call.

Range Resources Co. and **Cabot Oil and Gas** Corp., two companies that specialize in natural-gas production, also generated more cash than capital expenditures in the first quarter.

The largest U.S. shale producer, **EOG Resources** Inc., which reports next week, kept spending below cash flow for the final two quarters of 2016. Apache Corp., which reports Thursday, did so for the last nine months of the year.

Others who exercised financial discipline last year already returned to spending more. **Whiting Petroleum** Corp., one of the largest producers in North Dakota, spent about $1.68 in the first quarter for every $1 it took in from operations, according to S&P Global Market Intelligence.

In 2016, they spent 92 cents for every dollar they took in after outspending at nearly a two-to-one ratio in 2014 and 2015. A Whiting spokesman said that the company generated cash "in line" with its spending in the first quarter when the effects of working capital are excluded.

To make ends meet in the past two years, companies such as Whiting have either borrowed heavily or issued new shares to be able to continue drilling.

While some companies continue to rely heavily on new infusions of cash from Wall Street to make ends meet, the industry as a whole has come a lot closer to balance, according to an analysis last month by Tudor Pickering Holt & Co. A group of almost 50 exploration and production companies, the primary engines of the boom, are set up to outspend their cash flow by about $4 billion this year if oil prices average about $55 a barrel. That is down from about $15 billion in 2016, according to a study last month by energy analysts at Tudor Pickering Holt.

In 2018, the producers are poised to generate more cash than they spend by more than $2 billion if prices are at that level, a sign of sharp improvement given that before the 2014 crash, most spent $2 or $3 for every $1 they generated from operations.

Mr. Azar said he doesn't foresee a huge production decline even if prices remain low and rates rise quickly. Instead, consolidation is a far more likely outcome, as companies that have generated cash and reduced debt can buy struggling producers, he said.

The impact of higher rates on shale producers may be uneven. Some have reduced debt and hold investment-grade credit ratings, which means their interest expenses would be lower and they are likely to be able to function with less debt.

"Shale is here to stay, and I don't see anything that would stop prices immediately," he said. But higher debt costs will make "a lot of shale production uneconomic for small producers. Then, larger producers will be able to scoop them up."

—Erin Ailworth contributed to this article.

U.S. Business Degrees Lose Global Appeal

By Kelsey Gee

The American M.B.A. degree, already losing luster at home, is facing a new challenge from abroad. For the first time in more than a decade, most graduate business schools are reporting a decline in applications from international students.

Applications from foreign students for the academic year beginning in August were down at nearly two-thirds of all two-year M.B.A. programs in the U.S. through the end of February, according to a survey by the Graduate Management Admission Council. Interest from international students has weakened in recent years as programs overseas have become more competitive, according to GMAC. But the trend has accelerated since the fall.

BUSINESS EDUCATION

The latest declines come as many foreign students express uncertainty about the Trump administration's immigration and work visa policies, according to deans, admissions officers, recruiters and GMAC, which administers the entrance exam most applicants take.

"We've been inundated with questions from prospective and current students asking what's going to happen," said Jon Kaplan, assistant dean of the M.B.A. program at the Paul Merage School of Business at the University of California in Irvine, where about half of all students come from outside the country. "The simple answer is we're not sure."

After issuing multiple versions of a travel ban earlier this year, President Donald Trump last month called for a review of a program that allows foreign workers to stay in the U.S. to perform high-skilled jobs. Critics say the current rules displace American workers.

Only 31% of the 324 American M.B.A. programs surveyed reported gains in international student applications from the same time in 2016, the smallest share in 12 years. For the 2015-16 application cycle, 39% of programs reported gains in such applications. Two years prior, nearly two-thirds of programs reported gains. The council declined to share more detailed application numbers.

The souring foreign sentiment comes at a difficult time for business schools. Demand for the pricey M.B.A. has weakened among young Americans due to an improving job market and increasing undergraduate student debt burdens. In response, U.S. business programs have amplified their sales pitch overseas to fill their classrooms. Those efforts have helped contain broader enrollment declines.


DENNIS GALLETTA

The University of Pittsburgh's Katz Graduate School of Business attributes a drop in applications largely to cooling foreign interest.

Overall enrollment in two-year full-time M.B.A. programs fell by more than a third from 2010 to 2016, according to a survey of 352 U.S. schools by business-school accreditor Association to Advance Collegiate Schools of Business. In the same period, the share of international students grew from 22% to 27%, the survey said.

University of Rochester's Simon Business School had a single-digit percentage drop in international applications this year, according to Dean Andrew Ainslie, a development that raised concerns about a longer-term decline in enrollment. A prolonged drop in international applications would have dire consequences for both business schools and companies, said Mr. Ainslie. "If we can no longer educate or hire the best and brightest talent from all over the globe, that could be catastrophic for American economic growth," he said.

"If this trend we're noticing persists over a longer period of time, it could have an impact on the financial viability of some schools," said Sangeet Chowfla, president of GMAC. "Budgets are already under stress as state funding is harder to come by."

Recruiters from University of Pittsburgh's Katz Graduate School of Business traveled to India in 2012 amid a shift in strategy to focus more heavily on foreign students, according to director of admissions Tom Keller. The trip generated a surge of interest from the country, and applications for its M.B.A. ballooned from a low of roughly 430 that year to over 700 in 2015.

This year, applications have fallen 16%, a drop Mr. Keller attributes largely to cooling foreign interest. Mr. Keller said he expects around 25 students in next fall's incoming Class of 2019 will come from outside the U.S., three or four fewer than the class before.

VW's Profit Soars Amid Cost-Cutting

By William Boston

BERLIN—**Volkswagen** AG on Wednesday confirmed its outlook for the full year and reported a sharp rise in first-quarter profit despite the continuing fallout from its emissions-cheating scandal.

The German car company said net profit for the period rose 45% to €3.35 billion ($3.66 billion), boosted by cost-cutting and higher margins at its VW brand. Adjusted operating profit, which strips out one-time items, increased 27% to €4.4 billion. Revenue rose 10% to €56.2 billion. The numbers are in line with preliminary figures released last month.

The company's robust earnings come as it continues to grapple with the emissions scandal—where it admitted to installing software in millions of cars over a decade that allowed vehicles to cheat on emissions testing. The revelation plunged the company into crisis in 2015 and led to penalties, fines and compensation payments of nearly $25 billion.

The scandal still lingers, with the company as recently as last month ordered by a U.S. federal judge to pay a $2.8 billion criminal fine.

Nevertheless, Volkswagen reaffirmed its forecast of a 4% rise in full-year revenue and said it expected to achieve an operating profit on sales of between 6% and 7% this year. In 2016, the company reported revenue of €217 billion.

However, the fallout from the diesel scandal is beginning to hit Volkswagen's cash resources. In the first three months of the year, Volkswagen reported net cash outflows of €2.6 billion in the automotive division. As a result, the division's cash flow declined by about €3.9 billion from the previous year. Net cash on the company's balance sheet remained strong at roughly €23.6 billion at the end of March.

Broadcaster ITV to Lose Growth Overseer

By Stu Woo

LONDON—**ITV** PLC said Adam Crozier would step down as chief executive on June 30, after seven years overseeing significant growth at the "Downton Abbey" broadcaster.

With the amicable parting, Britain's largest commercial television network loses a leader who has shown it is possible for traditional broadcasters to combat the viewership shift to online competitors such as **Netflix** Inc. and **Amazon.com** Inc.

ITV, with its production companies, remains a potential target for telecommunications giants such as **Liberty Global** PLC, ITV's biggest shareholder and the world's largest international cable operator by subscribers.

Created in 1955 as the country's first commercial network to provide competition to the state-supported British Broadcasting Corp., ITV was navigating an advertising-market slump when Mr. Crozier took over in 2010. That year the company reported £2.1 billion ($2.7 billion) in revenue and £408 million in earnings before interest, taxes and amortization. The ad market improved during Mr. Crozier's tenure, boosting revenue to £3.1 billion and Ebita to £885 million in 2016.

Citigroup analysts said Wednesday that Mr. Crozier's team implemented a clear strategy, reducing reliance on ad revenue while boosting the size and quality of its content-production business, which has made shows including soap opera "Coronation Street."

The telecommunications and media industries have been exploring mergers as wireless carriers and cable operators covet content they can offer subscribers. U.S. regulators are reviewing **AT&T** Inc.'s blockbuster $85 billion bid to buy **Time Warner** Inc.

A spokesman for Liberty Global, which owns 9.9% of ITV, declined to comment on its plans for its stake.

ITV said it has a succession plan and that finance chief Ian Griffiths will lead the company in the interim while also adding chief operating officer to his existing role. Mr. Crozier, 53 years old and the former head of England's soccer governing body, said in a statement that he would explore roles in the private sector.


REX SHUTTERSTOCK/ZUMA PRESS

Adam Crozier, in July 2016.

Tesla's Spending Deepens Loss

By Tim Higgins

Tesla Inc.'s first-quarter loss widened as the Silicon Valley company cranked up spending, working to make the critical shift from a niche luxury brand to a mainstream auto maker.

The Palo Alto, Calif., company reported a loss of $330.3 million, or $2.04 a share, compared with a loss of $283 million, or $2.13 a share, in the year-earlier quarter.

On an adjusted basis, the company's per-share loss of $1.33 was significantly deeper than what analysts surveyed by Thomson Reuters expected. A year earlier, the company reported an adjusted per-share loss of $1.46. Revenue more than doubled to $2.7 billion, topping analysts' estimates.

Tesla's automotive business was helped by a 69% rise in sales of Model S sedans and Model X sport-utility vehicles compared with a year earlier. Tesla delivered about 25,000 vehicles in the latest quarter, its best performance yet and a remarkable change of fortune from a year earlier, when Chief Executive Elon Musk was struggling to work out the kinks in the new Model X SUV.

The sales growth puts the company on pace to meet Mr. Musk's goal of selling 50,000 vehicles in the first half. He aims to begin initial production of its first mass-market electric sedan, the Model 3, in July with the goal of ramping up production to 5,000 a week during the fourth quarter.

Mr. Musk is betting the Model 3, a $35,000 four-door sedan, will broaden the company's appeal and help increase production to 500,000 vehicles next year toward a goal of 1 million in 2020. Tesla made about 84,000 vehicles last year.

Tesla's shares, which have risen about 50% this year, fell 1.8% to $313.20 in after-hours trading on Wednesday.

The auto maker finished March with $4 billion in cash on hand. It raised more than $1 billion in new debt and stock issued to help bolster its cash balance as it increases spending to prepare for the Model 3. During the quarter, China's Tencent Holdings Ltd. disclosed a 5% stake in Tesla.

Tesla followed that vote of confidence with a record sales number in April, propelling its shares to new heights and pushing its market value above those of Ford Motor Co. and General Motors Co.

BUSINESS WATCH

APPLE

Quarterly Revenue Drops Again in China

China continues to be a weak spot for **Apple** Inc., with quarterly revenue in the country falling again despite growth in all other regions.

Apple said Tuesday that revenue in China, Hong Kong and Taiwan fell 14% to $10.7 billion for the quarter ended April 1, the fifth consecutive quarter of decline in the region. That compared with 5% growth globally.

—Eva Dou

IMPERIAL BRANDS

Caffeine Gets Jolt As Smoking Slumps

Imperial Brands PLC on Wednesday reported lower half-year operating profit and said it is investing in a caffeine-based, low-calorie product designed to give users a boost of energy as part of an effort to diversify.

The remarks come as Imperial—the least diversified of major tobacco companies—works to combat the impact of declining cigarette volumes. Imperial on Wednesday reported total tobacco volume fell 5.7% in the period to 126.3 billion sticks, a deterioration from the 3.1% decline in the same period a year earlier. Tobacco net revenue climbed 9.3%, but dropped 5.5% at constant currency.

Overall, Imperial, which makes the JPS and Gauloises brands, said net profit rose to £675 million ($871 million) for the six months ended March 31 from £290 million a year earlier. Revenue rose to £14.3 billion from £12.81 billion.

—Saabira Chaudhuri

NEW YORK TIMES

Subscriber Growth Gets a Big Boost

New York Times Co. said it had the best quarter for subscriber growth in its history, though it warned the pace of growth would slow in the second quarter.

The media company said paid digital subscriptions reached 2.2 million in its first quarter, an increase of 348,000 from the prior quarter. Overall, the New York Times reported 3.2 million total subscribers.

The boost in subscribers comes as many media companies, from cable-news outlets to newspapers, have enjoyed audience growth as a result of interest in the 2016 presidential race and the early days of Donald Trump's administration. In the recently completed quarter, New York Times reported a 5.1% increase in revenue to $398.8 million, from a year earlier. In all, the company reported a profit of $13.2 million, compared with a year-earlier loss of $8.3 million.

—Austen Hufford

SHIPPING

U.S. Regulator Rejects Application

The U.S. maritime regulator has rejected an application by Japan's three biggest shipping companies to operate as a merged company while their transaction is being completed.

An approval would have given container operators **Nippon Yusen K.K.**, **Mitsui O.S.K. Lines** Ltd. and **Kawasaki Kisen Kaisha** Ltd. the right to share ships and port calls, and to negotiate with third-party service providers as a single company, while their $2.7 billion merger is months away from being approved by Japanese regulators.

Kawasaki declined to comment. NYK didn't return requests for comment and Mitsui OSK couldn't be reached for comment.

—Costas Paris

SEC Probes Solar-Energy Firms

U.S. studies whether Sunrun and SolarCity properly disclosed contract cancellations

BY KIRSTEN GRIND

Some customers say they were strong-armed into buying solar-energy systems by salespeople.

MICHAEL NAGLE/BLOOMBERG NEWS

Federal regulators in the U.S. are investigating whether solar-energy companies are masking how many customers they are losing, said a person familiar with the matter.

The Securities and Exchange Commission is examining whether San Francisco-based **Sunrun** Inc. and Elon Musk's San Mateo, Calif.-based **SolarCity** Corp. have adequately disclosed how many customers have canceled contracts after signing up for a home solar-energy system, the person said.

Investors use that cancellation metric as one way to gauge the companies' health. Companies typically give customers a few days after signing a contract, or even up until the time of installation, to back out of a deal.

Some solar-energy companies have recently disclosed in public filings and earnings calls that increasing numbers of customers are canceling, but the companies have provided few details about the number of cancellations or their impact on the companies' business.

The SEC recently issued a subpoena to Sunrun and interviewed current and former employees about the adequacy of its disclosures on account cancellations, said the person familiar with the investigation. The SEC is also looking at SolarCity, the person said.

An SEC spokesman declined to comment. Representatives for Sunrun didn't respond to multiple requests for comment. A spokeswoman for SolarCity said in a written statement that the company "has remained focused on the quality of our installed assets, not pre-install cancellation rates. Our growth projections have always been based on actual deployments."

For years, solar companies—which number about 4,000 private and public firms in the U.S.—have enjoyed explosive growth, transforming a fledgling sector into a $33 billion industry that generates electricity for more than 1.5 million homes nationwide.

To generate business, solar companies have long relied on thousands of salespeople who knock on doors, make cold calls and even trail people as they shop at retailers, according to salespeople, executives and homeowners.

Hundreds of complaints have been filed against solar companies to attorneys general in Texas, Oregon, California and Florida, with customers saying they are paying more on their utility bills, not less as they were promised, and have been sold expensive systems they can't afford, according to Freedom of Information Act requests filed by the Campaign for Accountability, a consumer-watchdog group, and according to lawsuits filed by customers.

Some customers say they were strong-armed into buying solar-energy systems by sales representatives who threatened to sue them if they didn't proceed with a project or to place a so-called mechanic's lien on their homes—a measure used to force a homeowner to pay for a home-improvement project. Others say they didn't realize they had actually signed contracts. Many said they believed they were just giving permission for a consultation.

"In the residential solar industry, integrity and word-of-mouth recommendations are paramount," the Solar Energy Industries Association, a trade group, said in a statement in response to questions. "Our investigation of state public records suggests that the number of complaints represents a very small fraction of the number of successful solar installations nationwide."

In its statement, SolarCity said: "We strongly encourage our sales team to pursue only customers who are truly interested in moving forward, and they earn commissions only on systems that are actually installed."

Tesla Inc., which bought SolarCity in November, said on Friday it would stop making door-to-door solicitations. The electric-car company said the decision reflects "what most of our prospective customers prefer, and will result in a better experience for them."

The SEC investigation and other problems now facing solar companies are the latest example of troubles surrounding companies that say they help homeowners "go green."

The solar industry lately has suffered from a series of problems:greater competition from smaller players that has led to price cuts for services, falling prices for solar panels and more stringent regulations in some states.

Nationwide, companies are expected to increase the number of solar-electricity systems installed by less than 3% in 2017, according to the Solar Energy Industries Association. That is off from an increase of 16% last year and about 64% in 2015.

Diminished growth expectations have hit shares of solar-panel installers. Sunrun's stock is trading at roughly $5, down more than 60% since its peak in December 2015.

Two smaller providers, Sungevity Inc. and Verengo Inc., recently filed for bankruptcy protection.

Cancellations grew to be so large at SolarCity that in early 2016, before the company was sold to Tesla, about half of its customers were backing out of contracts before solar panels could be installed, said people familiar with the matter.

At Sunrun, that cancellation figure grew to be as high as 40% earlier this year, according to people familiar with the figure. The cancellation rates were especially high among customers who were approached by salespeople at their doorstep or while they were shopping at big-box stores, these people said.

Beijing Tightens Control on Tech Firms

BY EVA DOU

BEIJING—China will launch new security reviews on foreign and domestic technology suppliers starting June 1, implementing an element of its new cybersecurity law aimed at tightening state control over technology and information.

The review will apply to companies that provide network products and services. It will likely include companies such as **International Business Machines** Corp. and **Microsoft** Corp. that sell hardware and software in China.

Although the standards are more restrictive than current practices, the measures announced this week are less restrictive than draft measures circulated for industry comment in February.

The measures will apply to foreign companies providing hardware or services to Chinese companies in sectors including energy, transportation and finance, as well as those selling to government agencies, public services and other "critical infrastructure." Those suppliers will have to submit their products and services for review to a new committee administered by China's internet regulator, the Cyberspace Administration of China.

Product security will be evaluated by factors including vulnerability to tampering, supply-chain risks and customer-information protection. The committee can also turn down a product for unspecified risks to national security.

The checks are being implemented to ensure technology is "secure and controllable," the Cyberspace Administration wrote in the announcement dated Tuesday.

Peugeot Draws on Self-Drive Startup

BY TIM HIGGINS

A nuTonomy car being tested in Boston. Peugeot plans to try out the startup's autonomous-vehicle software this year.

CJ GUNTHER/EUROPEAN PRESSPHOTO AGENCY

NuTonomy Inc., the startup that beat **Uber Technologies** Inc. to the streets with a robot taxi, will work with **Peugeot** to integrate autonomous vehicle software into the French auto maker's 3008 sport-utility vehicle for on-road trials.

The two companies plan to have a small number of Peugeot 3008 SUVs ready for testing in September in Singapore.

"The ambition, if all goes well, we'll have our software on hundreds if not thousands of [Peugeot] vehicles," said Karl Iagnemma, nuTonomy co-founder, in an interview. "You can't just put your software onto a memory stick and plug it into a USB port in the car and expect the car to drive itself. It requires a substantial amount of vehicle engineering."

The strategic partnership announced Wednesday puts nuTonomy on a similar path as **Waymo** LLC, the self-driving tech unit of Google-parent **Alphabet** Inc., which began integrating its autonomous technology with **Fiat Chrysler Automobiles** NV last year. The tech company announced last week that it was increasing its test fleet of Chrysler minivans by 500 units as it lets hundreds of families try the vehicles in Phoenix.

Cambridge, Mass.-based nuTonomy, which aims to put a revenue-generating fleet of robot taxis on the road in 2018, first began testing Renault and Mitsubishi vehicles in Singapore in August, days before Uber began its road tests in Pittsburgh. NuTonomy is nearing almost 20 vehicles on the road in Singapore, with plans to double that amount over the next six months, followed by the addition of several hundred cars next year, according to the company.

It is also testing a small number of vehicles in Boston, where city officials recently expanded the geographical area that the cars may travel.

Peugeot, officially known as Group PSA, joins traditional auto makers in trying to navigate the development of technology that may upend traditional car ownership. The French auto maker returned to the U.S. market in April after exiting decades ago, with car-sharing rental services in Los Angeles and San Francisco.

—Adrienne Roberts contributed to this article.

Facebook Bolsters Content-Review Staff

BY DEEPA SEETHARAMAN AND JOSHUA JAMERSON

Facebook Inc. said it would hire 3,000 more staffers to review content in an attempt to curb violent or sensitive videos on its site without scaling back its live-streaming tools.

The planned hires, announced by Chief Executive Mark Zuckerberg in a post Wednesday, are in response to the Facebook posting of such violent videos as one last month showing a Cleveland man fatally shooting another man. A week later, a man in Thailand killed his 11-month-old daughter in a live video.

Mr. Zuckerberg's proposed fix, which would increase Facebook's roster of 4,500 reviewers by two-thirds over the next year, addresses the amount of time it takes Facebook to remove graphic content, as opposed to preventing its site from being used to display such content. The Cleveland video was up for roughly two hours; the Thailand video stayed up for 24 hours.

"If we're going to build a safe community, we need to respond quickly," Mr. Zuckerberg wrote, adding that videos posted on Facebook of people hurting themselves and others in the past few weeks has been "heartbreaking."

Mr. Zuckerberg said Facebook would make it easier for users to report problems to the company so reviewers can more quickly determine if a post violates its standards. The company is also investing in artificial intelligence, in hopes that AI can one day detect violence as it is unfolding, but that technology is a long way off.

Meanwhile, it could be a challenge for Facebook to ramp up its content moderation team to 7,500. Most reviewers are contractors, not full-time employees, and burnout is high, experts and former workers say. A small subset of workers manage live videos.

"It's an incredible commitment of resources. It took them almost 10 years to devote 4,500 jobs to doing this," said Kate Klonick, resident fellow at Yale Law School's Information Society Project and author of a recent paper on content moderation at technology companies. "The only thing I question is being able to maintain quality on content moderation review as they take on, train and update a system for this huge number of new workers."

A Facebook spokeswoman declined to say if the new hires would be contractors or employees.

Interim Chief Is Appointed For OCC

By Ryan Tracy

WASHINGTON—The Trump administration announced its intention to replace Comptroller Thomas Curry as the top U.S. national banking regulator later this week.

The Treasury Department said Wednesday that he would be succeeded on Friday by Keith Noreika, who will serve as the acting comptroller. Mr. Noreika is a banking lawyer who worked for years at **Covington & Burling** LLP and more recently headed the financial regulatory practice at **Simpson Thacher & Bartlett** LLP.

The Trump administration is said to be considering Joseph Otting, a former chief executive of OneWest Bank, as its eventual nominee for full-time comptroller, which requires Senate confirmation.

The move to replace Mr. Curry, reported by The Wall Street Journal on Monday, will give the administration its first major imprint on a U.S. bank regulatory agency.

Mr. Curry's five-year term ended in early April, but he continued to serve in the job.

Mr. Otting would be the first former banker to serve as controller since the 1990s and would be expected to carry out the Trump administration's promise to encourage more bank lending. That could represent a shift in tone from Mr. Curry's tenure, during which the OCC has at times criticized bankers for making loans the agency viewed as overly risky.

Mr. Trump has ordered a broad review of financial regulations, but appointees of former President Barack Obama still run all the major bank regulators, including the Federal Reserve, Consumer Financial Protection Bureau and Federal Deposit Insurance Corp. The comptroller's office appointment gives the administration its own ally in charge of the chief regulator of large, federally chartered banks.

Treasury Secretary Steven Mnuchin said Wednesday that the administration will shortly name someone to the vacant post job of Federal Reserve vice chairman in charge of bank oversight, and that nominee wouldn't necessarily be paired with choices for two other vacancies on the Fed's governing board.

One candidate under consideration for the Fed vice chairman job is former Treasury official and private-equity executive Randal Quarles.

Mr. Mnuchin said Mr. Noreika "has deep experience in helping banks operate in a safe and sound manner, provide fair access to financial services, and provide credit needed for business expansion and job growth."

Mr. Mnuchin also praised Mr. Curry, thanking him for his service and saying that during his tenure, "the OCC has effectively worked to advance its mission to ensure that national banks and federal savings associations operate in a safe and sound manner."

PATRICK T. FALLON/BLOOMBERG NEWS

Joseph Otting is said to be in the running for permanent post.

Fiduciary Rule Is Tough to Kill

Trump's effort to end retirement-savings regulation is foiled by Obama-era planning

By Lisa Beilfuss

Opponents of a landmark retirement-savings regulation hailed President Donald Trump's election as their chance to kill the rule, or at the very least defang it. But three months into the new administration, it is proving tough to quash.

It's not for lack of trying. Shortly after his inauguration, Mr. Trump ordered the Labor Department to review the "fiduciary" rule's economic impact on retirement savers and the financial-services industry, with an eye toward revising or rescinding it. The department is in the midst of that process, a spokeswoman said, with both career civil servants and political appointees cooperating to comply with the president's memorandum.

Yet people on both sides of the debate say the rule, which requires stewards of tax-advantaged retirement savings to act in clients' best interests may survive both a 60-day delay in the compliance deadline and the regulatory review process relatively unscathed.

JONATHAN ERNST/REUTERS

Phyllis Borzi, ex-assistant labor secretary: 'We knew from day one that we were going to be sued.'

"It's unlikely to get dramatically changed," said a person familiar with the Labor Department's process. More likely, the person said, is a relaxation of certain elements, such as client disclosure requirements, while preserving the heart of the rule. "This is a pretty damn good compromise," the person said.

The fiduciary rule, which was approved last spring, was the centerpiece of President Barack Obama's efforts to help middle-class families build retirement savings. The former administration said conflicted financial advice costs American families $17 billion a year and reduces annual returns on retirement savings by a percentage point.

Critics dispute those figures and have argued for years that smaller investors would be cut off from advisory services. Part of the annuities industry said it faced extinction without looser exemptions.

The rule has been bulwarked in large part by the Obama administration's design. The original economic review and rule-making process were meticulous, people familiar with the matter say, meant to withstand legal scrutiny and industry objections. And the rule's staying power has been bolstered as consumer awareness has grown in the year since it was approved and as some of the biggest financial firms, including Merrill Lynch and Morgan Stanley, have spent heavily on compliance preparation and marketing.

Protocol and legislative timing have provided additional road bumps for opponents. Technically approved last June, the rule falls outside the 60-legislative-day limit of the Congressional Review Act, a law Congress has invoked frequently in recent months to kill other Obama-era regulations. Regulations that have already taken effect also can't be killed by presidential decree and instead must follow the same notice and comment periods used during the approval process.

"Clearly the prior administration was very deliberate and thoughtful about how they structured this rule," said Robert Cirrotti, head of retirement and investment solutions at Pershing LLC, a division of Bank of New York Mellon Corp. "It's the very reason that made it difficult for Trump to just kill this by executive order."

Other channels to killing or watering down the rule remain open, however. Labor Secretary Alexander Acosta, who has pledged to reconsider Obama-era rules, could choose not to meaningfully enforce the regulation. Experts, however, say this tack might invite lawsuits. Congress could overturn the regulation, but other efforts to do so have proved unsuccessful and a new legislative push likely wouldn't start until after the Labor Department completes its review. The rule could also be indefinitely postponed as part of a broader plan by congressional Republicans to roll back Obama-era financial rules, said Arjun Saxena, a partner at consultancy PricewaterhouseCoopers LLP.

J.P. Morgan Plans Initial Shift of Jobs Out of U.K.

By Max Colchester And Emily Glazer

J.P. Morgan Chase & Co. will move between 500 and 1,000 jobs out of London as the bank begins to implement its post-Brexit plans, according to people familiar with the matter.

The U.S. bank plans to bulk up operations in Dublin, Luxembourg and Frankfurt to serve clients in the **European Union** after the U.K. quits the trading bloc. The job moves wouldn't necessarily go just to those three cities but could be spread across a range of European hubs that J.P. Morgan operates across the Continent, the people said.

After the two-year Brexit negotiating period ends, the bank will re-evaluate its plans and move further jobs if necessary. At first, a few hundred employees are expected to move, but it could reach 1,000 over months, one of the people said.

The move underscores how bank relocations out of the U.K. are becoming a reality as Brexit negotiations get under way. Estimates of how many U.K. financial-industry jobs are at stake vary from a few hundred to 75,000.

Banks have been putting finishing touches to backup plans to ensure they can still sell products into the EU even if the U.K. is cut off from the bloc. U.S. banks previously concentrated large chunks of their investment-banking activities in London to build economies of scale. Now they have to find ways to partially unwind them.

In J.P. Morgan's case that will mean running its EU custody business out of Dublin, treasury services from Luxembourg and European investment bank from Frankfurt, one of the people said.

J.P. Morgan staffers have begun compiling paperwork to apply for licenses. The bank had already been perusing offices in Dublin and Frankfurt to increase scale. It remains unclear exactly how many jobs will ultimately be moved to the EU. J.P. Morgan Chief Executive James Dimon has said up to a quarter of the bank's 16,000 staff in the U.K. may have to move.

New SEC Head Gains Clearance From Senate

By Dave Michaels

WASHINGTON—The Senate late Tuesday approved President Donald Trump's choice to lead the Securities and Exchange Commission, elevating a Wall Street lawyer who hopes to turn around the decline in the number of public companies over the past 20 years.

Jay Clayton's agenda could be aided by an unusual alignment of political forces that escaped the SEC's most recent leaders. He will enter office without a checklist of regulations mandated by Congress, which passed sweeping legislation in 2010 that pinned down the SEC with an abundance of directives both audacious and picayune.

Mr. Clayton said it was a "distinct honor" to take helm of the agency. "I look forward to working closely with my fellow commissioners and the dedicated career staff at the SEC to serve the American public and advance the SEC's important mission," he said.

For now, his most pressing commitment will be finding ways to reverse a two-decade trend of the government layering new regulations on public companies. Some constraints were reactions to marketwide crises, such as measures that forced firms to adopt stringent protocols against accounting fraud. While Mr. Clayton will have a Republican Congress behind him, as well as the support of stock exchanges and business trade groups, large investors could rebel against efforts that are perceived as reducing transparency or other protections.

"We've gone a long time since there has been a top-to-bottom review of all the rules the SEC imposes on the public markets," said Richard Breeden, a former Republican SEC chairman who sits on the board of Steris PLC, an infection prevention company. "Will he succeed? Not completely and fully, because no one can do that. But can he move the needle? Absolutely."

The Senate vote to approve Mr. Clayton, 61 to 37, included tough criticism from top Democrats, including Sens. Sherrod Brown of Ohio and Elizabeth Warren of Massachusetts. The pushback included criticism of Mr. Clayton's legal ties to Goldman Sachs Group Inc., forged during his career as a partner at Sullivan & Cromwell LLP. And it underscores the resistance to any deregulatory moves he makes.

Mr. Clayton's ties to Goldman will prevent him from voting on matters that directly affect the bank. But they won't impair his work on regulations or his use of the SEC's bully pulpit to shape what the regulator expects from companies.

Michael Piwowar, the SEC's acting chairman, has already given firms leeway to skirt some expensive requirements, including a rule that forces firms to trace their use of minerals that could be sold by armed groups in Africa. Republicans revile the rule viewing it as a special-interest provision that imposed costs on companies and didn't further the SEC's mission to protect investors and spur financing for businesses. Mr. Clayton has signaled his concern about such rules.

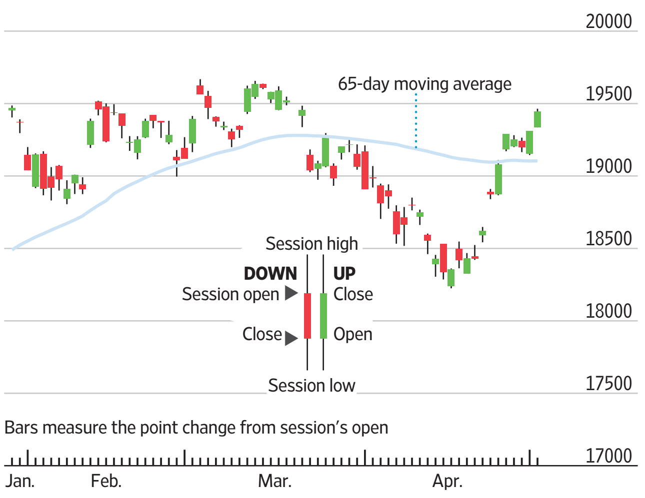
MARKETS DIGEST

Nikkei 225 Index

19445.70 Market Closed

High, low, open and close for each trading day of the past three months.

Year-to-date		▲1.73%
52-wk high/low	19633.75	14952.02
All-time high	38915.87	12/29/89



STOXX 600 Index

389.37 ▼0.16, or 0.04%

High, low, open and close for each trading day of the past three months.

Year-to-date		▲7.73%
52-wk high/low	389.53	308.75
All-time high	414.06	4/15/15

S&P 500 Index

Data as of 4 p.m. New York time

2388.13 ▼3.04, or 0.13%

High, low, open and close for each trading day of the past three months.

	Last	Year ago
Trailing P/E ratio *	24.17	24.12
P/E estimate *	18.42	17.65
Dividend yield	1.97	2.19
All-time high:	2395.96, 03/01/17	

* 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	Close	Latest NetChg	% chg	52-Week Range Low	High	YTD % chg
World	**The Global Dow**	2732.88	-6.31	-0.23	2193.75	2741.83	8.1
	MSCI EAFE	1839.92	-6.59	-0.36	1471.88	1956.39	7.2
	MSCI EM USD	984.46	-3.73	-0.38	691.21	1044.05	24.0
Americas	**DJ Americas**	574.18	-1.27	-0.22	480.90	577.99	6.3
Brazil	**Sao Paulo Bovespa**	66154.26	-567.49	-0.85	48066.67	69487.58	9.8
Canada	**S&P/TSX Comp**	15551.63	-68.02	-0.44	13535.54	15943.09	1.7
Mexico	**IPC All-Share**	49096.39	-492.45	-0.99	43902.25	50147.04	7.6
Chile	**Santiago IPSA**	3728.27	-23.29	-0.62	2998.64	3786.05	15.7
U.S.	**DJIA**	20957.90	8.01	0.04	17063.08	21169.11	6.0
	Nasdaq Composite	6072.55	-22.82	-0.37	4574.25	6102.72	12.8
	S&P 500	2388.13	-3.04	-0.13	1991.68	2400.98	6.7
	CBOE Volatility	10.54	-0.05	-0.47	9.90	26.72	-24.9
EMEA	**Stoxx Europe 600**	389.37	-0.16	-0.04	308.75	389.53	7.7
	Stoxx Europe 50	3204.84	6.97	0.22	2626.52	3205.17	6.5
Austria	**ATX**	2997.41	-15.17	-0.50	1981.93	3017.21	14.5
Belgium	**Bel-20**	3932.86	22.98	0.59	3127.94	3933.64	9.1
France	**CAC 40**	5301.00	-3.15	-0.06	3955.98	5305.95	9.0
Germany	**DAX**	12527.84	19.94	0.16	9214.10	12532.25	9.1
Greece	**ATG**	748.61	14.68	2.00	517.10	748.72	16.3
Hungary	**BUX**	32077.72	-824.90	-2.51	25126.36	34334.92	0.2
Israel	**Tel Aviv**	1403.50	4.75	0.34	1372.23	1490.23	-4.6
Italy	**FTSE MIB**	20759.31	26.06	0.13	15017.42	20883.66	7.9
Netherlands	**AEX**	525.20	-0.28	-0.05	409.23	526.25	8.7
Poland	**WIG**	62066.66	...	Closed	42812.99	62214.81	19.9
Russia	**RTS Index**	1096.35	-23.87	-2.13	873.58	1196.99	-4.9
Spain	**IBEX 35**	10837.00	16.70	0.15	7579.80	10841.10	15.9
Sweden	**SX All Share**	585.40	-1.15	-0.20	443.66	586.55	9.5
Switzerland	**Swiss Market**	8891.89	23.33	0.26	7475.54	8899.45	8.2
South Africa	**Johannesburg All Share**	53586.63	-329.01	-0.61	48935.90	54704.22	5.8
Turkey	**BIST 100**	93862.74	-493.17	-0.52	70426.16	95358.76	20.1
U.K.	**FTSE 100**	7234.53	-15.52	-0.21	5788.74	7447.00	1.3
Asia-Pacific	**DJ Asia-Pacific TSM**	1570.51	-7.63	-0.48	1308.52	1580.18	10.4
Australia	**S&P/ASX 200**	5892.30	-58.10	-0.98	5103.30	5956.50	4.0
China	**Shanghai Composite**	3135.35	-8.37	-0.27	2806.91	3288.97	1.0
Hong Kong	**Hang Seng**	24696.13	...	Closed	19694.33	24698.48	12.3
India	**S&P BSE Sensex**	29894.80	-26.38	-0.09	25101.73	30133.35	12.3
Japan	**Nikkei Stock Avg**	19445.70	...	Closed	14952.02	19633.75	1.7
Singapore	**Straits Times**	3237.81	26.70	0.83	2729.85	3237.81	12.4
South Korea	**Kospi**	2219.67	...	Closed	1925.24	2219.67	9.5
Taiwan	**Weighted**	9955.33	14.06	0.14	8053.69	9972.49	7.6

Source: SIX Financial Information; WSJ Market Data Group

Global government bonds

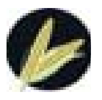
Latest, month-ago and year-ago yields and spreads over or under U.S. Treasurys on benchmark two-year and 10-year government bonds around the world. Data as of 3 p.m. ET

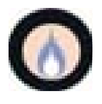
Coupon	Country/ Maturity, in years	Yield	Spread Over Treasurys, in basis points Latest	Previous	Month Ago	Year ago	Yield Previous	Month ago	Year ago
5.250	**Australia** 2	**1.678**	**38.0**	41.9	52.2	**99.4**	**1.681**	1.752	**1.752**
4.750	10	**2.601**	**29.2**	32.9	36.4	**67.1**	**2.610**	2.687	**2.471**
3.000	**Belgium** 2	**-0.546**	**-184.4**	-181.7	-178.5	**-122.4**	**-0.555**	-0.555	**-0.466**
0.800	10	**0.762**	**-154.7**	-152.3	-150.4	**-136.2**	**0.757**	0.820	**0.438**
0.000	**France** 2	**-0.456**	**-175.4**	-171.6	-173.4	**-115.7**	**-0.454**	-0.504	**-0.399**
1.000	10	**0.808**	**-150.1**	-146.3	-137.2	**-124.0**	**0.817**	0.951	**0.560**
0.000	**Germany** 2	**-0.723**	**-202.1**	-198.3	-203.3	**-124.2**	**-0.721**	-0.803	**-0.484**
0.250	10	**0.327**	**-198.2**	-195.0	-204.5	**-159.7**	**0.330**	0.278	**0.203**
0.300	**Italy** 2	**-0.096**	**-139.4**	-134.5	-130.7	**-80.2**	**-0.083**	-0.077	**-0.044**
2.200	10	**2.266**	**-4.4**	1.8	-18.0	**-32.8**	**2.299**	2.144	**1.472**
0.100	**Japan** 2	**-0.201**	**-149.9**	-146.3	-139.7	**-99.8**	**-0.201**	-0.167	**-0.240**
0.100	10	**0.020**	**-229.0**	-226.1	-224.8	**-191.0**	**0.020**	0.075	**-0.110**
4.000	**Netherlands** 2	**-0.623**	**-192.1**	-189.5	-198.9	**-123.1**	**-0.633**	-0.759	**-0.474**
0.750	10	**0.552**	**-175.7**	-173.3	-178.4	**-149.9**	**0.547**	0.539	**0.302**
4.750	**Portugal** 2	**0.383**	**-91.5**	-90.6	-139.6	**-44.7**	**0.356**	-0.166	**0.311**
4.125	10	**3.461**	**115.2**	127.1	124.2	**109.0**	**3.551**	3.565	**2.890**
2.750	**Spain** 2	**-0.279**	**-157.7**	-153.5	-144.9	**-83.0**	**-0.273**	-0.219	**-0.072**
1.500	10	**1.612**	**-69.8**	-63.4	-68.6	**-22.7**	**1.646**	1.637	**1.573**
4.250	**Sweden** 2	**-0.653**	**-195.1**	-191.7	-183.6	**-118.5**	**-0.655**	-0.606	**-0.427**
1.000	10	**0.577**	**-173.3**	-168.8	-173.0	**-98.7**	**0.593**	0.593	**0.813**
1.750	**U.K.** 2	**0.074**	**-122.4**	-118.1	-112.1	**-27.2**	**0.081**	0.109	**0.486**
4.250	10	**1.075**	**-123.4**	-118.9	-125.7	**-26.9**	**1.091**	1.066	**1.532**
1.250	**U.S.** 2	**1.298**	**...**	...	...	**...**	**1.262**	1.230	**0.758**
2.250	10	**2.309**	**...**	...	...	**...**	**2.281**	2.323	**1.800**

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 5/2/2017





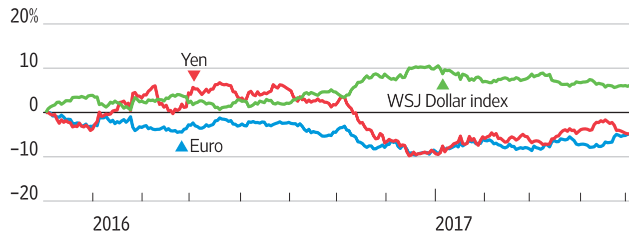
Commodity	Exchange	Last price	One-Day Change Net	Percentage	Year high	Year low
Corn (cents/bu.)	CBOT	374.50	2.25	0.60%	393.75	360.75
Soybeans (cents/bu.)	CBOT	974.75	6.00	0.62	1,092.50	941.25
Wheat (cents/bu.)	CBOT	453.75	-0.25	-0.06%	488.75	416.00
Live cattle (cents/lb.)	CME	130.050	3.000	2.36	130.050	103.150
Cocoa ($/ton)	ICE-US	1,783	-22	-1.22	2,270	1,756
Coffee (cents/lb.)	ICE-US	137.10	0.85	0.62	161.55	128.65
Sugar (cents/lb.)	ICE-US	15.78	-0.10	-0.63	20.81	15.35
Cotton (cents/lb.)	ICE-US	78.80	-0.57	-0.72	80.27	71.86
Robusta coffee ($/ton)	ICE-EU	2025.00	30.00	1.50	2,283.00	1,871.00
Copper ($/lb.)	COMEX	2.5270	-0.1085	-4.12	2.8400	2.4905
Gold ($/troy oz.)	COMEX	1246.20	-10.80	-0.86	1,297.40	1,152.20
Silver ($/troy oz.)	COMEX	16.560	-0.271	-1.61	18.725	16.100
Aluminum ($/mt)*	LME	1,917.50	-20.50	-1.06	1,972.00	1,688.50
Tin ($/mt)*	LME	19,975.00	195.00	0.99	21,225.00	18,760.00
Copper ($/mt)*	LME	5,780.00	66.00	1.16	6,156.00	5,518.00
Lead ($/mt)*	LME	2,230.00	-15.00	-0.67	2,445.00	2,022.00
Zinc ($/mt)*	LME	2,642.00	17.00	0.65	2,958.50	2,555.00
Nickel ($/mt)*	LME	9,505.00	-25.00	-0.26	11,095.00	9,225.00
Rubber (Y.01/ton)*	TCE	221.70	6.10	2.83	n.a.	n.a.
Palm oil (MYR/mt)	MDEX	2521.00	-27.00	-1.06	3,004.00	2,450.00
Crude oil ($/bbl.)	NYMEX	47.81	0.15	0.31	57.95	47.30
NY Harbor ULSD ($/gal.)	NYMEX	1.4734	0.0054	0.37	1.7833	1.4587
RBOB gasoline ($/gal.)	NYMEX	1.5294	0.0158	1.04	1.9012	1.5075
Natural gas ($/mmBtu)	NYMEX	3.217	0.022	0.69	3.5410	2.8170
Brent crude ($/bbl.)	ICE-EU	50.77	0.31	0.61	60.09	50.14
Gas oil ($/ton)	ICE-EU	443.75	-4.75	-1.06	526.50	439.25

Sources: SIX Financial Information; WSJ Market Data Group

Currencies

London close on May 3

Yen, euro vs. dollar; dollar vs. major U.S. trading partners



Country/currency	Wed in US$	Wed per US$	US$ vs, YTD chg (%)
Americas			
Argentina peso-a	0.0656	15.2342	**–4.0**
Brazil real	0.3179	3.1458	**–3.4**
Canada dollar	0.7293	1.3712	**2.0**
Chile peso	0.001496	668.30	**–0.2**
Colombia peso	0.0003413	2930.18	**–2.4**
Ecuador US dollar-f	1	1	**unch**
Mexico peso-a	0.0532	18.7841	**–9.4**
Peru sol	0.3076	3.2510	**–3.0**
Uruguay peso-e	0.0358	27.970	**–4.7**
Venezuela bolivar	0.099564	10.04	**0.5**
Asia-Pacific			
Australia dollar	0.7453	1.3417	**–3.4**
China yuan	0.1451	6.8919	**–0.8**
Hong Kong dollar	0.1285	7.7813	**0.3**
India rupee	0.0156	64.1717	**–5.6**
Indonesia rupiah	0.0000751	13320	**–1.5**
Japan yen	0.008901	112.34	**–4.0**
Kazakhstan tenge	0.003169	315.54	**–5.4**
Macau pataca	0.1250	8.0008	**1.1**
Malaysia ringgit-c	0.2315	4.3190	**–3.7**
New Zealand dollar	0.6912	1.4468	**0.2**
Pakistan rupee	0.0096	104.600	**0.2**
Philippines peso	0.0200	49.957	**0.7**
Singapore dollar	0.7168	1.3950	**–3.6**
South Korea won	0.0008832	1132.25	**–6.3**
Sri Lanka rupee	0.0065608	152.42	**2.7**
Taiwan dollar	0.03327	30.061	**–7.4**
Thailand baht	0.02897	34.520	**–3.6**
Europe			
Bulgaria lev	0.5583	1.7912	**–3.6**
Croatia kuna	0.1465	6.824	**–4.9**
Euro zone euro	1.0921	0.9157	**–3.7**
Czech Rep. koruna-b	0.0408	24.506	**–4.6**
Denmark krone	0.1468	6.8102	**–3.7**
Hungary forint	0.003501	285.66	**–2.9**
Iceland krona	0.009418	106.18	**–6.0**
Norway krone	0.1159	8.6246	**–0.2**
Poland zloty	0.2598	3.8488	**–8.1**
Russia ruble-d	0.01746	57.259	**–6.5**
Sweden krona	0.1134	8.8161	**–3.2**
Switzerland franc	1.0089	0.9912	**–2.7**
Turkey lira	0.2828	3.5360	**0.4**
Ukraine hryvnia	0.0377	26.5290	**–2.0**
U.K. pound	1.2915	0.7743	**–4.4**
Middle East/Africa			
Bahrain dinar	2.6520	0.3771	**–0.03**
Egypt pound-a	0.0552	18.1213	**–0.1**
Israel shekel	0.2768	3.6121	**–6.1**
Kuwait dinar	3.2853	0.3044	**–0.4**
Oman sul rial	2.5974	0.3850	**0.01**
Qatar rial	0.2746	3.642	**0.04**
Saudi Arabia riyal	0.2666	3.7505	**–0.01**
South Africa rand	0.0749	13.3579	**–2.4**

	Close	Net Chg	% Chg	YTD % Chg
WSJ Dollar Index	89.84	0.20	0.23	**–3.33**

Sources: Tullett Prebon, WSJ Market Data Group

Cross rates

London close on May 3

	USD	GBP	CHF	JPY	HKD	EUR	CDN	AUD
Australia	1.3417	1.7329	1.3539	0.0119	0.1724	1.4654	0.9786	...
Canada	1.3712	1.7706	1.3831	0.0122	0.1762	1.4970	...	1.0217
Euro	0.9157	1.1826	0.9238	0.0082	0.1177	...	0.6679	0.6825
Hong Kong	7.7813	10.0481	7.8496	0.0693	...	8.4968	5.6750	5.7994
Japan	112.3440	145.1000	113.3600	...	14.4370	122.6900	81.9400	83.7100
Switzerland	0.9912	1.2799	...	0.0088	0.1274	1.0825	0.7230	0.7386
U.K.	0.7743	...	0.7813	0.0069	0.0995	0.8456	0.5648	0.5772
U.S.	...	1.2915	1.0089	0.0089	0.1285	1.0921	0.7293	0.7453

Source: Tullett Prebon

Key Rates

	Latest	52 wks ago
Libor		
One month	**0.99167%**	0.43590%
Three month	**1.17122**	0.63410
Six month	**1.42739**	0.90710
One year	**1.77011**	1.23005
Euro Libor		
One month	**-0.40143%**	-0.35171%
Three month	**-0.36214**	-0.27557
Six month	**-0.26514**	-0.15671
One year	**-0.14643**	-0.02943
Euribor		
One month	**-0.37300%**	-0.34500%
Three month	**-0.32900**	-0.25300
Six month	**-0.25100**	-0.14200
One year	**-0.12500**	-0.01200
Yen Libor		
One month	**-0.02100%**	-0.05100%
Three month	**0.00071**	-0.02257
Six month	**0.02429**	0.00621
One year	**0.13214**	0.10114
	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.	**0.85%**	0.43%
Euro zone	**n.a.**	n.a.

Sources: WSJ Market Data Group, SIX Financial Information, Tullett

Top Stock Listings

4 p.m. New York time

Asia Titans

Cur	Stock	Sym	Last	% Chg	YTD% Chg
HK$	AIAGroup	**1299**	54.75	1.67	25.14
¥	AstellasPharma	**4503**	1434.50	0.21	-11.64
AU$	AustNZBk	**ANZ**	31.35	-2.79	3.06
AU$	BHP	**BHP**	23.21	-2.31	-7.38
HK$	BankofChina	**3988**	3.75	-0.53	9.01
HK$	CKHutchison	**0001**	97.75	0.62	11.21
HK$	CNOOC	**0883**	8.97	-1.10	-7.53
AU$	CSL	**CSL**	133.43	0.37	32.89
¥	Canon	**7751**	3750.00	0.73	13.81
¥	CentralJapanRwy	**9022**	18635	0.38	-3.09
HK$	ChinaConstructnBk	**0939**	6.30	-0.32	5.53
HK$	ChinaLifeInsurance	**2628**	23.65	...	17.08
HK$	ChinaMobile	**0941**	82.85	-0.12	0.79
HK$	ChinaPetro&Chem	**0386**	6.24	-0.95	13.45
AU$	CmwlthBkAust	**CBA**	85.35	-1.70	3.57
¥	EastJapanRailway	**9020**	10090	-0.20	-0.10
¥	Fanuc	**6954**	22520	1.01	13.65
¥	Hitachi	**6501**	623.50	-0.02	-1.34
TW$	Hon Hai Precisn	**2317**	100.50	0.50	19.36
¥	HondaMotor	**7267**	3235.00	-0.31	-5.27
KRW	HyundaiMtr	**005380**	151000	4.86	3.42
HK$	Ind&Comml	**1398**	5.07	-0.20	9.03
¥	JapanTobacco	**2914**	3735.00	0.24	-2.84
¥	KDDI	**9433**	2956.50	-0.44	-0.10
¥	Mitsubishi	**8058**	2437.50	0.49	-2.11
¥	MitsubishiElectric	**6503**	1609.00	-0.19	-1.26
¥	MitsubishiUFJFin	**8306**	715.90	0.59	-0.60
¥	Mitsui	**8031**	1599.00	1.11	-0.50
¥	Mizuho Fin	**8411**	206.70	0.73	-1.48
¥	NTTDoCoMo	**9437**	2680.50	0.11	0.66
AU$	NatAustBnk	**NAB**	33.09	-2.71	7.89
¥	NipponTeleg	**9432**	4839.00	0.64	-1.49
¥	NissanMotor	**7201**	1076.50	1.13	-8.42
¥	Panasonic	**6752**	1339.00	0.11	12.57
HK$	PingAnInsofChina	**2318**	43.70	-0.23	12.63
$	RelianceIndsGDR	**RIGD**	42.85	0.94	35.82
KRW	SamsungElectronics	**005930**	2245000	0.63	24.58
¥	Seven&I Hldgs	**3382**	4745.00	1.28	6.56
¥	SoftBankGroup	**9984**	8478.00	0.25	9.18
¥	Sony	**6758**	3853.00	-0.52	17.65
¥	Sumitomo Mitsui	**8316**	4153.00	0.73	-6.88
HK$	SunHngKaiPrp	**0016**	117.40	0.60	19.80
TW$	TaiwanSemiMfg	**2330**	198.00	0.76	9.09
¥	TakedaPharm	**4502**	5376.00	0.50	11.19
HK$	TencentHoldings	**0700**	248.40	2.05	30.94
¥	TokioMarineHldg	**8766**	4751.00	0.57	-0.94
¥	ToyotaMtr	**7203**	6143.00	1.67	-10.69
AU$	Wesfarmers	**WES**	43.39	0.18	2.97
AU$	WestpacBanking	**WBC**	34.32	-1.89	5.28
AU$	Woolworths	**WOW**	26.61	-2.71	10.41

Stoxx 50

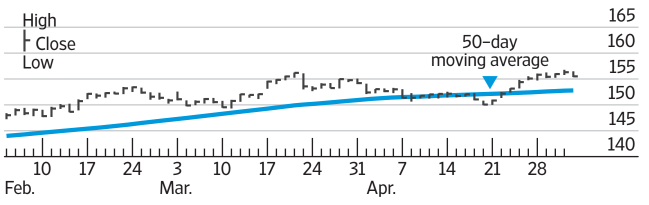
Cur	Stock	Sym	Last	% Chg	YTD% Chg
CHF	ABB	**ABBN**	24.34	-0.29	13.31
€	ASMLHolding	**ASML**	123.00	-0.36	15.33
€	AXA	**CS**	25.16	1.00	4.92
€	AirLiquide	**AI**	112.95	0.53	6.91
€	Allianz	**ALV**	176.35	0.14	12.32
€	AB InBev	**ABI**	103.70	0.97	3.13
£	AstraZeneca	**AZN**	4663.50	0.16	5.09
€	BASF	**BAS**	89.53	-0.01	1.38
€	BNP Paribas	**BNP**	66.15	0.58	9.25
£	BT Group	**BT.A**	302.00	-0.17	-17.69
€	BancoBilVizAr	**BBVA**	7.50	0.87	18.18
€	BancoSantander	**SAN**	6.07	0.28	22.46
£	Barclays	**BARC**	208.95	-0.43	-6.49
€	Bayer	**BAYN**	112.65	1.53	13.64
£	BP	**BP.**	446.65	-0.66	-12.35
£	BritishAmTob	**BATS**	5233.00	-0.63	13.23
€	Daimler	**DAI**	67.81	-0.22	-4.11
€	DeutscheTelekom	**DTE**	16.41	0.64	0.31
£	Diageo	**DGE**	2251.50	...	6.71
€	ENI	**ENI**	14.24	-0.42	-7.95
£	GlaxoSmithKline	**GSK**	1569.50	-0.16	0.48
£	HSBC Hldgs	**HSBA**	645.20	0.83	-1.78
€	INGGroep	**INGA**	15.26	0.93	14.14
£	ImperialBrands	**IMB**	3701.50	-1.63	4.49
€	IntesaSanpaolo	**ISP**	2.69	0.52	10.96
€	LVMHMoetHennessy	**MC**	230.85	1.23	27.26
£	LloydsBankingGroup	**LLOY**	69.06	-0.20	10.48
€	LOreal	**OR**	184.55	0.05	6.43
£	NationalGrid	**NG.**	1015.50	0.84	6.72
CHF	Nestle	**NESN**	77.50	0.39	6.09
CHF	Novartis	**NOVN**	76.80	-0.26	3.64
DKK	NovoNordiskB	**NOVO-B**	282.60	6.76	10.95
£	Prudential	**PRU**	1740.00	0.14	6.91
£	ReckittBenckiser	**RB.**	7164.00	0.53	4.04
£	RioTinto	**RIO**	2962.50	-2.74	-6.21
CHF	RocheHldgctf	**ROG**	265.10	0.95	13.97
£	RoyDtchShell A	**RDSA**	2018.00	0.30	-10.01
€	SAP	**SAP**	92.48	-0.34	11.68
€	Sanofi	**SAN**	87.55	-0.03	13.85
€	SchneiderElectric	**SU**	72.05	-0.35	8.99
€	Siemens	**SIE**	132.45	-0.19	13.40
CHF	Syngenta	**SYNN**	460.60	-0.41	14.43
€	Telefonica	**TEF**	10.31	-0.05	16.95
€	Total	**FP**	46.77	-0.17	-3.05
CHF	UBSGroup	**UBSG**	17.25	0.82	8.15
€	Unilever	**UNA**	48.46	-0.30	23.89
£	Unilever	**ULVR**	4026.50	-0.09	22.29
€	Vinci	**DG**	77.07	-1.26	19.12
£	VodafoneGroup	**VOD**	202.95	0.52	1.55
CHF	ZurichInsurance	**ZURN**	274.40	0.26	-2.14

DJIA

Cur	Stock	Sym	Last	% Chg	YTD% Chg
$	AmericanExpress	**AXP**	78.82	-0.91	6.40
$	Apple	**AAPL**	147.06	-0.31	26.97
$	Boeing	**BA**	183.39	-0.03	17.80
$	Caterpillar	**CAT**	101.52	0.01	9.47
$	Chevron	**CVX**	106.72	1.29	-9.33
$	CiscoSystems	**CSCO**	34.25	0.03	13.34
$	Coca-Cola	**KO**	43.32	-0.16	4.49
$	Disney	**DIS**	111.59	-2.43	7.07
$	DuPont	**DD**	79.00	-1.18	7.63
$	ExxonMobil	**XOM**	82.66	0.74	-8.43
$	GeneralElec	**GE**	29.22	0.79	-7.53
$	GoldmanSachs	**GS**	226.28	0.52	-5.50
$	HomeDepot	**HD**	154.97	0.01	15.58
$	Intel	**INTC**	36.96	0.72	1.90
$	IBM	**IBM**	158.68	-0.26	-4.40
$	JPMorganChase	**JPM**	87.00	0.58	0.82
$	J&J	**JNJ**	123.29	-0.33	7.01
$	McDonalds	**MCD**	142.62	0.98	17.17
$	Merck	**MRK**	63.61	1.45	8.05
$	Microsoft	**MSFT**	69.08	-0.32	11.17
$	Nike	**NKE**	54.54	-0.96	7.30
$	Pfizer	**PFE**	33.45	-0.49	2.97
$	Procter&Gamble	**PG**	86.43	0.24	2.79
$	3M	**MMM**	197.59	0.54	10.65
$	Travelers	**TRV**	120.81	0.37	-1.32
$	UnitedTech	**UTX**	120.30	0.82	9.74
$	UnitedHealth	**UNH**	172.49	-0.95	7.78
$	Visa	**V**	92.42	-0.13	18.46
$	Verizon	**VZ**	46.15	0.52	-13.54
$	Wal-Mart	**WMT**	75.74	0.29	9.58

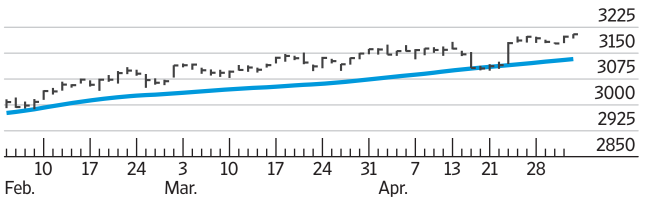
Asia Titans 50

Last: **155.51** ▼ 0.80, or 0.51% YTD ▲ **10.3%**



Stoxx 50

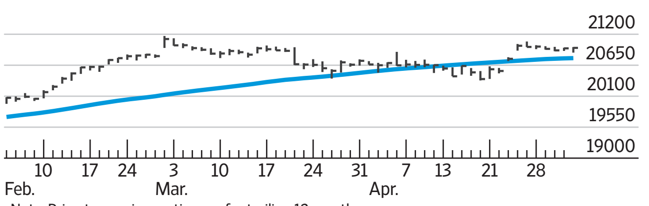
Last: **3204.84** ▲ 6.97, or 0.22% YTD ▲ **6.5%**



Dow Jones Industrial Average

P/E: 20

Last: **20957.90** ▲ 8.01, or 0.04% YTD ▲ **6.0%**



Note: Price-to-earnings ratios are for trailing 12 months
Sources: WSJ Market Data Group; Birinyi Associates

Deal to Prop Up 1MDB Falls Apart

By Bradley Hope And Tom Wright


CHARLES PERTWEE/BLOOMBERG NEWS

A model of the Bandar Malaysia development. A stake sale in the mixed-use project has collapsed.

A deal for a Chinese state-owned company to help bail Malaysia out of a multibillion-dollar financial scandal fell apart after the Chinese government refused to authorize the investment.

China Railway Engineering Corp. and a Malaysian partner had agreed in December 2015 to take a 60% stake in Bandar Malaysia, a residential and commercial real-estate project in Kuala Lumpur that originally was being developed by **1Malaysia Development** Bhd., a Malaysian state fund.

The deal, valued at 7.4 billion ringgit ($1.7 billion), was a cornerstone of efforts by Malaysia's government to sell off 1MDB assets after the fund ran up over $13 billion in debt. The fund is now the center of corruption probes in a number of countries, including by the U.S. Justice Department.

The China Railway consortium was unable to meet criteria under the December 2015 agreement to complete the sale, according to a statement Wednesday by **TRX City** Bhd., a company owned by Malaysia's Finance Ministry, which in turn owns the 1MDB fund. It didn't give details.

The consortium, which also included Malaysia-based **Iskandar Waterfront Holdings Sdn** Bhd., confirmed in a statement it had received a notice of termination from TRX City.

TRX City's press release "does not fully and accurately reflect the circumstances and conduct of the parties in this matter," the statement said.

The failure of the deal is a blow to Malaysian Prime Minister Najib Razak, who set up 1MDB in 2009 with the goal of developing Malaysia's economy and headed its board of advisers. At the time of the deal, in a New Year's message to Malaysians, he heralded it as "the final major milestone in the 1MDB rationalization plan."

The 1MDB fund hasn't published financial statements for 2015 or 2016, so its financial situation is unclear. Still, the deal's failure is likely to add to pressure on Mr. Najib, who also is finance minister, to find other ways to pay 1MDB's debts.

The prime minister's office and 1MDB didn't respond to requests for comment.

An internal Malaysian Finance Ministry document on problems with the sale, viewed by The Wall Street Journal, said a major reason for its failure was that China's government declined to give the green light for China Railway to make the investment. A person familiar with the matter confirmed this.

The Chinese government's information office didn't immediately respond to a request for comment.

The Finance Ministry document says that the consortium of buyers was given 12 extensions, with the last expiring on April 30. TRX said in its statement that the Finance Ministry will now retain ownership of the site and begin seeking expressions of interest from possible developers.

The Justice Department, in lawsuits filed last summer, alleged over $1 billion in assets—including U.S. properties, a Hollywood movie company and a private jet—were purchased with money stolen from 1MDB. The fund has denied wrongdoing.

The lawsuits also alleged Mr. Najib received hundreds of millions of dollars in 1MDB money via a web of offshore shell companies. The prime minister has denied wrongdoing. Malaysia's attorney general has said the money was a donation from Saudi Arabia and most of it was returned, and cleared Mr. Najib.

A number of probes, including in Switzerland, Singapore and Luxembourg, into 1MDB are continuing. Malaysia's government has closed most of its probes into 1MDB without finding wrongdoing.

—Pei Li contributed to this article.

Oil Could Tumble if OPEC Doesn't Extend Cuts

By Georgi Kantchev

The price of oil is susceptible to a swift selloff should OPEC and other major producers not agree to an extension of crude-production cuts this month, analysts say.

Oil markets appear to have priced in an extension to the deal struck between the Organization of the Petroleum Exporting Countries, Russia and other producers late last year.

If that deal isn't extended, prices could drop below $40 a barrel, a level not seen for more than a year, some analysts say.

If the output cuts are extended when OPEC and other suppliers meet May 25, oil prices would rise to $60 a barrel by the end of the year.

"The market appears to have largely priced in an extension to the output-cut deal," said Warren Patterson, commodity strategist at ING Bank. "This is a significant risk for the market, with no deal likely to lead to an aggressive selloff."

Brent crude will average $57 a barrel this year, reaching $60 in the fourth quarter, according to a poll of 14 investment banks surveyed by The Wall Street Journal in late April. That is broadly unchanged from the previous survey. The banks expect West Texas Intermediate, the U.S. oil gauge, to average $55 a barrel this year.

On Wednesday, Brent closed at $50.79 a barrel, while WTI settled at $47.82 a barrel.

Oil prices have risen about 10% since OPEC and other producers agreed to cut around 2% from global production late last year. These producers are scheduled to meet in Vienna to decide whether to extend that deal for an additional six months.

Many analysts expect the producers to agree to do that. The nearly three-year-old oil glut continues to weigh on oil, which has traded mostly above $50 a barrel this year but is still down to just half of its price in mid-2014, when the downturn began.

All of these producers also face a challenge from a party that won't be present in Vienna: U.S. shale producers.

FINANCE WATCH

PRIVATE EQUITY

Carlyle's Net Climbs

Carlyle Group LP's quarterly profit rose as soaring markets lifted the value of its assets.

Carlyle's first-quarter profit climbed to $83 million, or 90 cents a share, from $8.4 million, or a penny a share, a year earlier. Economic net income, which reflects unrealized investment gains, rose to $364.6 million, or $1.09 a share, from $58.2 million, or 18 cents a share, in the year-earlier period.

Carlyle's private-equity portfolio appreciated 9% during the quarter, outpacing those of its publicly traded peers.

—Matt Jarzemsky

BNP PARIBAS

Bond Trading Brings An Earnings Surprise

BNP Paribas SA reported a better-than-expected net profit for the first quarter, aided by a rebound in bond trading.

The lender, France's largest listed bank by assets, said net profit rose 4% to €1.89 billion ($2.06 billion) from €1.81 billion a year earlier. That beat analysts' expectations for a profit of €1.54 billion, according to a poll by data provider FactSet. Revenue rose 4% to €11.3 billion.

—Noemie Bisserbe

ALLIANZ

Profit Declines 18%

Allianz SE said its quarterly profit fell 18% from the first quarter of 2016, when earnings were boosted by gains the insurer booked on investments.

Net profit was €1.8 billion ($1.97 billion) in the January-to-March period, slightly below analysts' forecasts for a result of €1.9 billion.

Allianz said its first-quarter revenue was €36.2 billion, up 2.5% from the prior-year period. The insurer confirmed guidance it had issued about its 2017 results, saying it is aiming for an operating profit of €10.8 billion for 2017, the same figure as in 2016, plus or minus €500 million.

—William Wilkes

MARKETS

Economy's Vital Signs Start to Flag

Weak GDP data and poor auto sales cast doubt on expectations of postelection surge

By Ben Eisen

A soft patch in the economy is damping expectations for a stimulus-driven, postelection boom, prompting many investors to retreat from bets on growth.

The first quarter marked the weakest U.S. growth in three years, according to the initial Commerce Department reading on Friday.

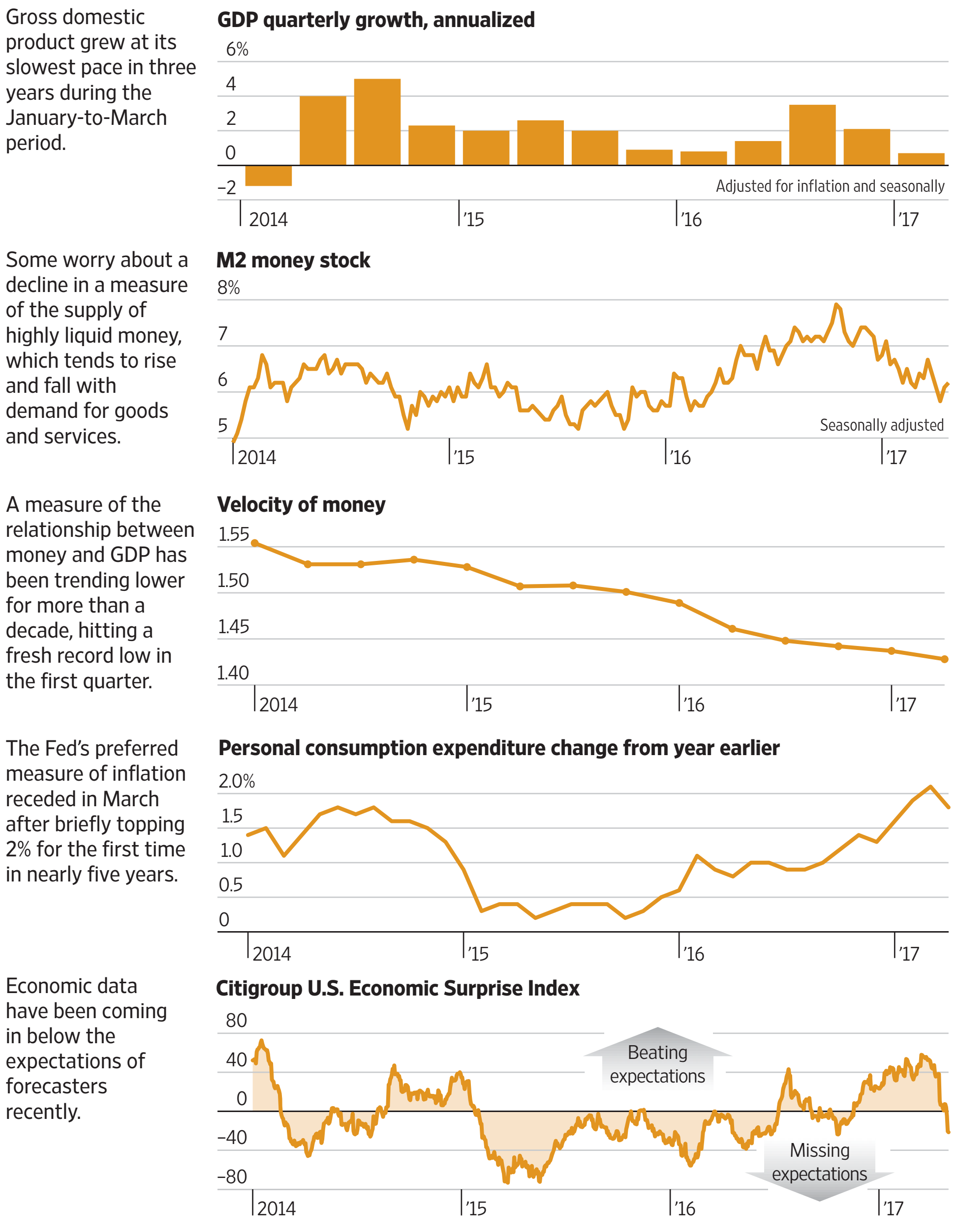
The Federal Reserve's preferred measure of inflation, the personal-consumption expenditures price index, dropped 0.2% in March from a month earlier, pushing annual increases back below the central bank's 2% target, data showed Monday. Even longtime economic bright spots such as consumer spending and car sales have recently begun to fade, with sales at **General Motors** Co. and **Ford Motor** Co. declining sharply in April.

Economists say these signs run counter to the bets on faster growth under President Donald Trump that fueled a postelection stock rally, reflecting early excitement about the likely impact of potential tax cuts, deregulation and infrastructure spending.

Investment managers are tempering their optimism, with 44% saying in a Northern Trust survey taken in late March that they expect the economy to accelerate over the next six months, down from 55% in the previous quarter.

"Moderate is going to be as good as it gets for the near term, with a longer-term outlook suggesting even weaker growth," said Lindsey Piegza, chief economist at Stifel Financial Corp.

Stalling Out | Investors are scrutinizing gauges of monetary and economic conditions that suggest a further slowdown following a weak first quarter.



Sources: Board of Governors of the Federal Reserve System (M2); Commerce Department (GDP); U.S. Bureau of Economic Analysis (PCE); Federal Reserve Bank of St. Louis (velocity); Citigroup (Economic Surprise Index)

THE WALL STREET JOURNAL.

Ms. Piegza believes the economy will expand at about 1.5% annually for the next year or two before a recession takes hold.

That has implications for the Fed, which kept rates unchanged at its May policy meeting on Wednesday. Investors have penciled in two more rate increases before the end of the year, with fed-funds futures showing a 70% chance of a June increase.

Some see the slowdown as a passing phase. For years, the first quarter has been weak for GDP growth, raising questions about the Commerce Department's seasonal adjustment methodology and fueling expectations for a rebound in the April-to-June period. The economy could well get a boost if the White House and Congress pass a tax-overhaul bill or other measures that encourage spending, some investors say.

Others expect the Fed to continue raising rates, noting that a falling U.S. dollar, near-record stock prices and narrow junk-bond spreads all point to loose financial conditions.

But the souring in the current outlook reflects the evolution of a broader postcrisis trend, in which the economy has expanded steadily while struggling to expand at an annual pace above 3%. The U.S. is in one of its longest periods of expansion since World War II, but many fear that the economy will struggle to maintain even its modest pace of growth, much less accelerate rapidly.

Lacy Hunt, executive vice president at Hoisington Investment Management Co. in Austin, Texas, noted that the supply of highly liquid money, called M2, an indicator of overall demand, has increased at a below-average annual rate of 5.5% over the three months that ended in mid-April, down from 6.8% in 2016.

M2's pace tends to rise and fall with demand for goods and services.

Another measure of the relationship between money and GDP, known as velocity, hit a record low in the first three months of the year after more than a decade of decline. In effect, for each increase in the money supply, the associated increase in gross domestic product is smaller.

Together with decelerating credit growth, tightening lending standards and a rising fed-funds rate, slowing money growth and velocity suggest softer economic growth ahead, Mr. Hunt said.

"We're headed for a severe slowdown and the risk of an accident is high," he said.

Shares Steady After Rate Decision

By Riva Gold And Aaron Kuriloff

U.S. blue-chip stocks and bond yields edged higher Wednesday after the Federal Reserve left interest rates unchanged.

WEDNESDAY'S MARKETS

The Dow Jones Industrial Average swung between slight gains and losses and was up 8.01 points, or less than 0.1%, at 20957.90 in 4 p.m. New York trading. The S&P 500 declined 0.1%, compared with 0.3% prior to the Fed's announcement, and the Nasdaq Composite fell 0.4%.

In Europe, the Stoxx Europe 600 fell less than 0.1% to 389.37, weighed down by a 2.5% drop in the basic-resources sector. The index's auto sector also pulled back 1% following downbeat U.S. auto sales figures on Tuesday.

The yield on the benchmark 10-year U.S. Treasury note rose to 2.309%, according to Tradeweb, from 2.296% on Tuesday. The WSJ Dollar Index, which tracks the U.S. currency against a basket of 16 others, rose 0.4%.

Some analysts said a Fed statement showed officials looking past recent signs of slow economic growth and holding course toward raising rates again in June.

Materials shares in the S&P 500 fell 1% by late afternoon, weighed down by a sharp decline in copper prices that came as growing inventories coincided with fears about slowing demand from China. Freeport-McMoRan lost 5.5% by late afternoon. DuPont fell 1.2%, among the biggest percentage declines in the Dow industrials.

HEARD ON THE STREET

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BNP Paribas Again Shows Reliability

France's biggest bank is polishing its reputation as one of Europe's most reliable. **BNP Paribas** said Wednesday that first-quarter profit rose 4%, driven partly by the best recovery in investment-banking and securities-trading revenue seen among European banks.

BNP Paribas almost doubled pretax profit in its corporate and investment banking arm despite higher costs. Its domestic retail and international retail and commercial businesses also saw decent revenue growth.

Other big European banks have reported a good revenue recovery in their investment bank and markets businesses in their local currencies. However, the strengthening dollar over the past year has meant their numbers looked less impressive in dollar terms.

BNP Paribas now leads the European pack with 15% revenue growth across its investment banking businesses compared with the first quarter of 2016 in dollar terms, ahead of **Credit Suisse Group** at slightly more than 10%. BNP Paribas's bond, rates and currencies trading revenue recovery was in line with the Swiss bank, but it did better in other areas.

This is promising because the bank has pledged to boost revenue and take market share in investment banking to hit higher return targets in this business under its strategic plan set out in February.

With France's next president looking likely to be less disruptive than feared, BNP Paribas's share-price rebound should eliminate more of its 14% discount to forward book value.

—Paul J. Davies

It's Springtime for Europe's Stocks

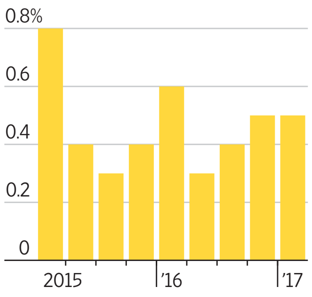
The U.S. led the reflation mania in markets at the end of last year. But Europe, despite persistent fears about political turmoil, is the economy that is surprising investors this year. Stronger nominal global growth should give European stocks a further lift.

On growth, Europe is outshining the U.S. Eurozone data released Wednesday showed eurozone gross domestic product in the first quarter grew 0.5% from a quarter earlier. That equated to an annualized growth rate of 1.8%, versus the 0.7% recorded in the U.S. in the first quarter. Monetary policy looks set to remain extremely loose, further supporting the economy.

The bigger factor for investors in Europe may well be the recovery in inflation, and hence the better outlook for nominal growth, which translates into higher top-line growth for companies. After all, real GDP has been growing steadily in the eurozone over the past few years,

Steady Progress

Quarterly change in eurozone gross domestic product



Note: Adjusted for inflation and seasonality
Sources: Eurostat; Associated Press (photo)
THE WALL STREET JOURNAL.

The European Central Bank headquarters last month

but that hasn't been much help to stocks—until now.

A number of headwinds appear to have abated with the recovery of commodity prices, a turnaround in emerging markets and a global recovery in inflation. The latter area hit the eurozone hard, as it was at the center of the deflation scare, and European stocks looked particularly vulnerable, with big exposures to financials and energy. European profit margins have tended to track developed-market inflation closely, Barclays notes.

Europe could thus look brighter yet. There are some signs of this already: A Morgan Stanley analysis of first-quarter results from 113 European companies showed a net 23% beating earnings estimates by 5% or more, and 41% beating revenue estimates by 1% or more. The latter is the best reading on record with data going back to 2003.

Some of this improvement is already priced in. The forward price/earnings multiple for the Stoxx Europe 600 has risen to 15.3, according to FactSet, from 14.8 at the start of the year. But earnings are still depressed, and flows into Europe are only starting to turn around. U.S. investors sold European equities for 11 straight months in 2016, but in March inflows picked up to the fastest pace since October 2015, UBS notes.

European political risk is fading, and should dissipate further if the second round of France's presidential elections Sunday results in a victory for centrist Emmanuel Macron over euroskeptic Marine Le Pen. The chance of a flare-up in the Greek debt crisis has fallen, too, with this week's deal with the country's creditors. That leaves investors focusing on the reflation in European earnings. It's springtime for European stocks.

—Richard Barley

OVERHEARD

To misquote an Aesop fable, slow and steady can keep you in the race.

That is what **Valeant Pharmaceuticals International** investors seem to believe.

The company said Tuesday that it expects to launch about 50 products in 2017 amounting to about $100 million in annualized sales, sending shares higher.

Valeant could use every dollar to continue servicing its massive debts.

Analysts expect the company to record $8.8 billion in revenue this year, a 9% decline from a year earlier, so those launches are a drop in the bucket.

Valeant would need to launch an extra 436 products at that sales rate merely to ensure flat sales.

Luckily, the beleaguered drug company still has an ace to play.

The company's CEO said it is considering changing its name to counter "negative press."

China's Debt Crisis Will Ripen When Borrowers Get Pinched

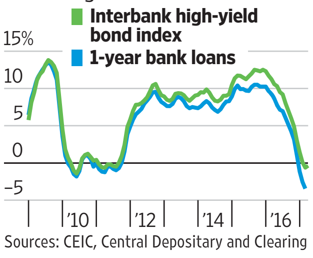
Rising Chinese bond and money-market yields—both of which have touched their highest levels in more than a year over the past six weeks—are haunting Western investors with memories of crises past.

Such trends in China and the continuing debt pileup are worrying. Still, China is at a different place in the economic cycle than the U.S. was back in 2007. For now, China's corporate sector, where the country's debt problem is concentrated, is seeing revenues grow at their fastest pace since 2011, while real borrowing costs are falling.

The U.S. economy was at a different point when the global financial crisis struck.

Reflation Game

Chinese producer-price-adjusted borrowing costs



Sources: CEIC, Central Depositary and Clearing
THE WALL STREET JOURNAL.

U.S. mortgage debt had built up for years in the mid-2000s, but mortgage-backed securities didn't start torpedoing the financial system until mid-2007. Employee income growth had peaked cyclically in 2005, but the Federal Reserve kept raising interest rates for more than a year afterward—pushing mortgage borrowers ever deeper into the hole until the weakening labor market finally pushed debtors over the edge.

In China, the central bank began tightening policy relatively recently. Meanwhile, factory-gate inflation is at a six-year high, which means real borrowing rates have fallen rapidly. Producer-price-adjusted one-year lending rates, which were as high as 10% early in 2016, have now fallen below zero. Listed materials firms' average earnings more than doubled in the first quarter of 2017 according to Wind Info, while overall industrial revenues were up 14%.

This can't last forever. Already, a big rebound in "shadow finance," primarily bank-mediated company-to-company loans, is papering over the cracks in China, blunting the impact of the tighter corporate-bond market. While corporate bond debt outstanding fell by 58 billion yuan ($8.4 billion) in the first quarter of 2017, shadow finance ballooned by more than 2 trillion yuan, nearly twice as much as in the fourth quarter of 2016. Growth in total financing for firms and households, including local-government bonds, has barely slowed—it rose 16% in early 2017, versus 16.8% in the fourth quarter of 2016.

Chinese firms are still borrowing heavily and the Chinese banks backing them continue to rely heavily on risky interbank funding. Eventually, both firms and banks will need to pay the piper, or Beijing will need to absorb much more debt itself.

But as in the U.S., the breaking point is more likely to come when borrowers start feeling the pinch from slowing incomes and higher real borrowing costs. If the Chinese real-estate sector and inflation surprise on the downside later in 2017, or the dollar and rapid capital outflows bounce back, the piper could come knocking quicker than expected.

—Nathaniel Taplin