For personal non-commercial use only. Do not edit or alter. Reproductions not permitted.
To reprint or license content, please contact our reprints and licensing department at +1 800-843-0008 or www.djreprints.com

THE WALL STREET JOURNAL.

DOW JONES | News Corp

TUESDAY, MAY 9, 2017 ~ VOL. XXXV NO. 68

WSJ.com

EUROPE EDITION

DJIA 21012.28 ▲ 0.03% NASDAQ 6102.66 ▲ 0.03% NIKKEI 19895.70 ▲ 2.31% STOXX 600 394.04 ▼ 0.13% BRENT 49.34 ▲ 0.49% GOLD 1225.30 ▲ 0.04% EURO 1.0929 ▼ 0.64%

What's News

Business & Finance

Akzo rejected PPG's latest, sweetened offer of $27.1 billion for the Dutch firm, forcing the U.S. paint company to decide whether to make a hostile bid. **A1**

◆ **Coach agreed** to buy Kate Spade for $2.4 billion, as the handbag maker seeks to tap younger consumers. **B1**

◆ **The euro is expected** to rise with eurozone growth, as Macron's victory alleviates political concerns that have dogged the currency. **B1**

◆ **Goldman is making** the biggest changes in a decade to its investment-banking leadership, adding two executives as co-heads. **B1**

◆ **Sanctions on Russia** have failed to curb oil output as European firms work with Rosneft on projects. **B1**

◆ **TV station owner Sinclair** is acquiring Tribune for $3.9 billion, creating the largest U.S. broadcast group. **B3**

◆ **Comcast and Charter** have struck a wireless partnership as the U.S. cable giants look to get a piece of the cutthroat business. **B4**

◆ **Bank of America** is raking in money despite paying depositors lower rates than its rivals, which helped boost quarterly profits 40%. **B5**

◆ **Banks are asking** the U.S. Treasury for help in fighting a new rule that requires them to book losses more quickly. **B5**

◆ **Trading firms** are exiting U.S. options as volumes fall and costs spiral, raising concerns about the fragility of the market. **B8**

World-Wide

◆ **The Taliban** have expanded their fight against the Afghan government to administer villages as foreign troops depart. **A1**

◆ **Macron faces** the challenge of winning control of France's parliament next month after his landslide presidential victory. **A1, A3**

◆ **Le Pen's showing** at the polling, where she won 33.9% of the vote, positions her as the opposition leader. **A4**

◆ **Trump's effort** to suspend travel to the U.S. from six Muslim-majority nations faced its biggest legal test before an appeals court. **A7**

◆ **Yates testified** that she warned the White House counsel that Flynn misled officials about talks with a Russian diplomat. **A7**

◆ **Trump** made 10 judicial nominations that drew praise from conservative legal groups and concern from their liberal counterparts. **A7**

◆ **Indonesia said** it would disband an Islamist group that is seeking to establish a transnational caliphate. **A6**

◆ **Protests in Venezuela** are spreading beyond President Maduro's control and risk turning to civil war, a former ally warned. **A6**

◆ **A Chinese firm** has had a joint venture with a North Korean partner since 2008, showing how easily Pyongyang can skirt sanctions. **A6**

◆ **A Chinese court** published a civil-liberties lawyer's confession to subversion, at a trial that his wife said was a farce. **A6**

CONTENTS

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

© Copyright 2017 Dow Jones & Company. All Rights Reserved

STEPHANE DE SAKUTIN/AGENCE FRANCE-PRESSE/GETTY IMAGES

Emmanuel Macron, left, and outgoing French President François Hollande at a World War II commemoration in Paris on Monday.

Macron Looks to New Task

President-elect, fledgling party must wheel and deal to take control of parliament

By Stacy Meichtry And William Horobin

PARIS—After winning his bid to lead France, Emmanuel Macron got to work Monday on his next challenge: gaining control of its parliament.

Mr. Macron faces a tough balancing act in the wake of his landslide victory against Marine Le Pen of the far-right National Front. His fledgling party, En Marche (On the Move), needs to forge alliances with, or recruit, establishment politicians from both sides of the political aisle to create a Macron majority when the French return to the polls for a two-round vote scheduled for June 11 and 18.

That effort, however, involves horse-trading over who will eventually sit in Mr. Macron's cabinet after he takes office on Sunday. The specter of unseemly backroom dealing with establishment politicians, analysts say, risks undermining Mr. Macron's vow to make En Marche a party of political renewal.

One of his first orders of business will be appointing a prime minister to head a government.

"He needs a prime minister who can shape the election, but allying with somebody from the failing establishment would make it look like continuity," said Charles Lichfield at Eurasia Group, a risk consulting firm.

Divisions remain despite landslide victory A3

EU cautiously embraces Macron's promises A3

Streetwise: A muted buy signal for stocks in Europe B1

French stocks slip after vote B8

Mr. Macron may need to opt for a prime minister from the center-right party, Les Républicains, since it is likely to win a large number of seats in parliament, Mr. Lichfield said. But officials from En Marche have circulated names of Socialists, including lawmaker Richard Ferrand, who helped found Mr. Macron's party, and Defense Minister Jean-Yves Le Drian, who rallied to Mr. Macron during the campaign.

Asked Monday if he is in the running, Mr. Ferrand said only Mr. Macron knows who will be prime minister. "If I knew, I would be obliged to lie," he said.

If Mr. Macron fails to secure more than half of the Na-

Please see FRANCE page A4

Afghan Taliban Extend Reach

By Jessica Donati And Habib Khan Totakhil

MOHAMMAD AGHA, Afghanistan—The Taliban have expanded their military fight against Afghanistan's government into a drive to administer villages across the country, deepening the formidable challenge U.S.-backed forces face in trying to uproot the insurgency.

The insurgents, once focused on waging guerrilla war from strongholds in opium-rich provinces like Helmand, are now emerging in a swath of districts to fill a governance vacuum left as foreign troops depart. As a result, millions of Afghans are once again having to adapt to life under Taliban rule.

More local Taliban groups are now functioning as govern-

Please see TALIBAN page A2

Intrigue Grows Over Russia Investigation

JIM WATSON/AGENCE FRANCE-PRESSE/GETTY IMAGES

Former acting Attorney General Sally Yates testified that she warned the White House that ex-national security adviser Michael Flynn was at risk of blackmail. **A7**

INSIDE

ANDREY RUDAKOV/BLOOMBERG NEWS

SANCTIONS FAIL TO CURB RUSSIAN OIL

BUSINESS & FINANCE, B1

GIULIO SQUILLACCIOTI

THE OLYMPICS OF THE ART WORLD

LIFE & ARTS, A9

COMPLEX ALGORITHM KEEPS PRICES SEESAWING

Retailers are using artificial-intelligence software in the hunt for profits

By Sam Schechner

ROTTERDAM, the Netherlands—One recent afternoon at a Shell-branded station on the outskirts of this Dutch city, the price of a gallon of unleaded gas started ticking higher, rising more than 3½ cents by closing time. A little later, a competing station 3 miles down the road raised its price about the same amount.

The two stations are among thousands of companies that use artificial-intelligence software to set prices. In doing so, they are testing a fundamental precept of the market economy.

In economics textbooks, open competition between companies selling a similar product, like gasoline, tends to push prices lower. These kinds of algorithms determine the optimal price sometimes dozens of times a day. As they get better at predicting what competitors are charging and what consumers are willing to pay, there are signs they sometimes end up boosting prices together.

Advances in AI are allowing retail and wholesale firms to move beyond "dynamic pricing" software, which has for years helped set prices for fast-moving goods, like airline tickets or flat-screen television sets. Older pricing software often used simple rules, such as always keeping prices lower

Please see PRICE page A8

Endgame Nears In Paint Standoff

By Christopher Alessi And Ben Dummett

Michael McGarry, chief executive of U.S. paint company PPG Industries Inc., has a big decision to make: Does he take the risky and rare step of going hostile in his $27 billion pursuit of Dutch rival Akzo Nobel NV...or walk away?

Early Monday, Akzo rejected PPG's latest takeover offer. Mr. McGarry has said he was ready to go around the company's board and management and take his pitch directly to shareholders. Such a move would be highly unusual for big, cross-border deal-making and could trigger a bitter battle for shareholder support. Even if PPG were to win over investors, Akzo's Dutch-based corporate structure could still allow a bloc of its current di-

Please see AKZO page A2

Britain's Next Pressing Question: Paper or Parchment?

* * *

Penny-pinching parliamentarians push to stop printing on calfskin; a great shame'

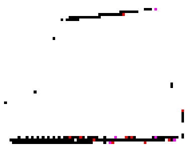
By Jenny Gross

LONDON—Veteran British lawmaker James Gray strode out of the committee room in disgust. "This little committee, one afternoon, has overturned the will of the House of Commons," he recalls saying as he left.

There's plenty of debate in Westminster these days over legislation, what with Brexit and all. This particular argument was over what those laws should be printed on.

Since medieval times, Parliament has recorded its acts on sheep and goat skins made into parchment, and since 1849 only on vellum, a fine calfskin. Now, penny-pinching parliamentarians have pushed forward a plan to switch to paper.

Vellum costs Parliament roughly £35 ($45) an A4-size sheet—bought in bulk, including delivery, tax and printing—versus about 16 pence for archival paper, a House of Lords spokeswoman says. Rancor over the worth of that difference has pitted traditionalists against modernists.



Parliamentary document on vellum

"It's a great shame," says Mr. Gray, a Conservative lawmaker for 20 years. He resigned in protest from the Administration Committee, a panel that advises on parliamentary operations, after it

Please see PRINT page A8

For personal non-commercial use only. Do not edit or alter. Reproductions not permitted.
To reprint or license content, please contact our reprints and licensing department at +1 800-843-0008 or www.djreprints.com

Opportunity Arises for Trump in Middle East

CAPITAL JOURNAL
By Gerald F. Seib

Nearly lost amid the hubbub over health care last week was the other piece of big news: President Donald Trump plans to make his first trip abroad by going to Saudi Arabia and Israel, followed by the Vatican, later this month.

This is significant because, unlikely as it sounds, Mr. Trump actually has a chance to accomplish something significant in the world's most troubled region: the Middle East. Whether he has the skill, patience or simple good luck to do so is another question, of course.

This opportunity arises because of the rapid emergence of an unusual strategic alignment. Historically, America's three most important partners in the region are Saudi Arabia, Egypt and Israel. At the moment, all three of those nations actually are strategically in sync with one another—and, simultaneously, on good terms with the new American administration.

Often Egypt and Saudi Arabia are out of sorts with one another—or with whichever American administration happens to be in office—and they've been at war, literal or figurative, with Israel more often than not. That's not the case now. Throw in Jordan, the other traditional American partner now generally in step with the others, and you have a new state of affairs.

This alignment has emerged, as is so often the case, less because of common interests than common enemies. The Saudis, Egyptians and Israelis all see both Iran and Islamic State—one a Shiite nation and the other a Sunni radical movement—as existential threats. They also see a new administration in Washington that, unlike its predecessor, shares their view that Iran is to be confronted rather than cajoled and that is more willing to look past the internal human-rights issues in friendly states.

Add it all up, and "there is an opportunity," says a senior administration official. "We'll see shortly how that opportunity can be turned into reality."

And what might that reality be? One possibility is a new security structure, created with American help, that knits together Sunni Arab states and pulls in tacit security and intelligence cooperation from Israel to confront the Iranian and Islamic State threats. "The goal is to have a bigger burden being borne by the countries" in the region, says a second administration official. "But also to be in a position where they can have their own regional alliance against Iran to counter Iran and then also to be in a position where there is a security blanket that is provided by them for them."

Making good on that possibility will require a lot of steps that have been somewhere between difficult and impossible in the past. The fact that Mr. Trump's first stop abroad will be in Saudi Arabia, where leaders of other Muslim nations will be gathered, signals that the administration is counting on the chronically cautious Saudis to shoulder a bigger leadership role than they've been willing to in the past.

The second needed step will be turning hypothetical alignment between Israel and Arab states into something real. Already, there is a new level of security cooperation between Egypt and Israel in confronting extremists in the Sinai Peninsula and the Gaza Strip. Meanwhile, quiet unofficial contacts between Saudis and Israelis have begun.

But Arab leaders are trapped by decades of their own anti-Israel rhetoric, which inflames their populations and restricts their ability to adopt a new posture now. Indeed, Israel withdrew its ambassador to Egypt recently because of local security concerns.

Which leads to the third necessary step: progress in making peace between Israel and the Palestinians. Movement on the Palestinian problem has always been a prerequisite for any Arab opening to Israel or closer Arab-American cooperation. In the face of bigger problems, Arab leaders increasingly appear to be losing patience with and interest in the Palestinians' problems. But decades of preaching to their own people about the primacy of the issue can't be simply brushed away.

The Trump team seems willing to invest time and capital on the Palestinian issue. Still, the president "is banking on something that has never been bankable before, which is that you can convert a stronger U.S.-Arab Sunni state relationship into real currency on the peace process," says longtime American Mideast diplomat Aaron David Miller.

Mr. Trump has some other tough decisions. Is he going to honor campaign-season promises to move the U.S. Embassy to Jerusalem from Tel Aviv, which would inflame Arabs' passions and undercut their willingness to cooperate? How will he approach the war in Syria, where Egypt tacitly supports the Iran-friendly dictator, Bashar al-Assad, while the Saudis want him gone?

In sum, opportunity is knocking for Mr. Trump in the Middle East. As ever, though, opening the door will be hard.

TALIBAN

Continued from Page One

ing entities, administering services for which the state pays, such as education and electricity, and collecting their own taxes from farmers and sometimes protection money from businesses. The growing influence is helping them generate revenue for recruits and spread distrust in Afghanistan's shaky government.

The Taliban wielded significant control over 8.4 million Afghans—almost a third of the population—at the end of 2016, up from five million a year earlier, according to a confidential United Nations report reviewed by The Wall Street Journal. The report showed that the territory over which the insurgents have significant influence or control increased to 40% from 30% of the country over the period.

A U.S. military spokesman in Kabul said the coalition planned to reverse the situation by continuing its mission to train, advise and assist Afghan forces. He said the Afghan government made a 3% gain in areas under its control in the first quarter of this year, while the Taliban increased its holdings by only 1%, suggesting the government has begun to win back lost territory.

The Taliban are seeking to extend their gains during their annual spring offensive. This year's onslaught was announced in April after a brazen attack on the army's regional headquarters that Afghan officials said killed at least 170 soldiers. The massacre exposed disarray in the government's defenses and led to some high-level departures. Afghanistan's defense minister and army chief of staff resigned and four corps commanders were reassigned.

The Trump administration is expected to approve a U.S. military request for more troops for Afghanistan, coalition officials said, and Pentagon officials said they expected to make a recommendation to the White House as soon as next week. But with 8,400 troops on the ground now—down from a high of 100,000 in 2011—even a somewhat fortified coalition would likely struggle to reverse the Taliban's territorial gains.

The Taliban said the spring offensive would focus on "foreign forces, their military and intelligence," a reference to the U.S.-backed coalition, as well as its "mercenary apparatus." In April, the Taliban produced a slick, 30-minute video promoting civic life under their rule.

The Afghan government says it is progressing in its campaign to drive the Taliban out of its strongholds, killing dozens of senior insurgent leaders in the past month alone, including two shadow governors.

"Afghan security forces have been instructed to target the Taliban in their hideouts and take revenge," said Sediq Sediqqi, a government spokesman. "It will be a bad year for the Taliban."

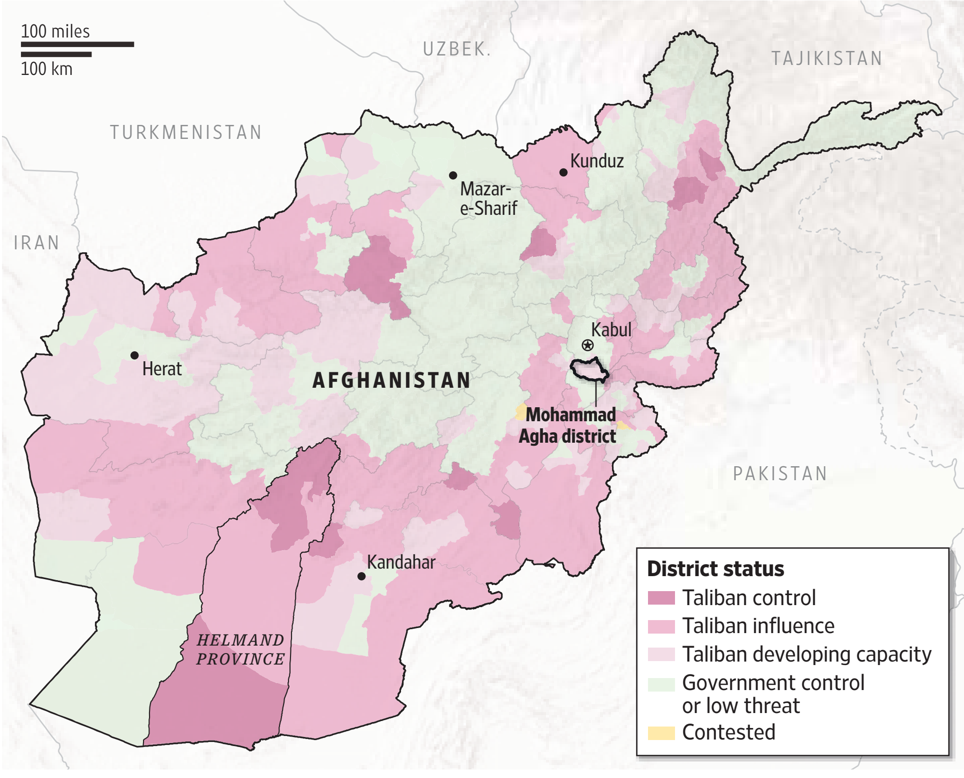
Little evidence currently supports that prediction. In places like Mohammad Agha district, a part of Logar province around 25 miles south of the center of Kabul, government control is tenuous at best. Officials rarely venture off the main highway. Taliban flags flap in mud-brick villages in plain view of Afghan forces.

The war has split families, with some fleeing Taliban-controlled territory for work in the capital. A teacher in Mohammad Agha said his brother, a lawyer in Kabul, fears the Taliban would kill him if he returned. Other families have hedged their bets on who will control the district, dispatching sons to both the police and the Taliban. Families often are reunited only in death.

Companies operating in territories the Taliban have newly acquired are also caught between the rival administrations. The Taliban extract protection money from businesses, provincial officials said. In return, the businesses are allowed to operate, transport goods and maintain infrastructure. Telecoms companies have been among the hardest hit, officials said, as insurgents can easily topple a telecom tower by detonating explosives at the base. The Taliban also force the companies to turn off cellphone towers at night, when signals could give away their positions during operations.

ANDREW QUILTY FOR THE WALL STREET JOURNAL

In Logar, a Taliban flag flies over a grave in a cemetery where Afghan soldiers are also buried.



Source: United Nations internal data
THE WALL STREET JOURNAL.

Mohammad Rahman Qaderi, a member of the provincial council in eastern Paktia province, says telecom, construction and mining companies "all give the Taliban money." The financial burden of these payments has forced construction firms, for example, to skip on the quality of materials, he said.

Narcotics remain the Taliban's primary source of income, according to the U.N. Office on Drugs and Crime. Sales from opium fields under the insurgents' control yielded around $400 million last year, the agency's 2016 survey estimated.

But territorial expansion is giving the Taliban access to fresh and more varied cash flows. Global Witness, an investigative nonprofit organization, says mining has become Taliban's second-largest source of revenue. It found that in Badakhshan province alone, the Taliban raise several million dollars a year from illegal mining of lapis lazuli. The blue semiprecious stone is largely exported to China and Pakistan, traders say.

Mr. Sediqqi, the government spokesman, said military efforts would focus on ensuring contested rural areas continue to receive education and basic services. "People need our support," he said. "The Taliban are criminals—they are involved in drug trafficking, kidnappings, killings and extortion."

When the government resists Taliban gains, however, locals are often caught in the middle. In Mohammad Agha district, police set up a checkpoint recently to prevent teachers from attending a meeting with the Taliban. When some did anyway, police beat the teachers, said Mohammad Hanif Stanikzai, the district education chief.

"We administrate and compromise," Mr. Stanikzai said. "The employees of the education system are like chickens, caught between a tiger and rock."

AKZO

Continued from Page One

rectors to thwart such a deal.

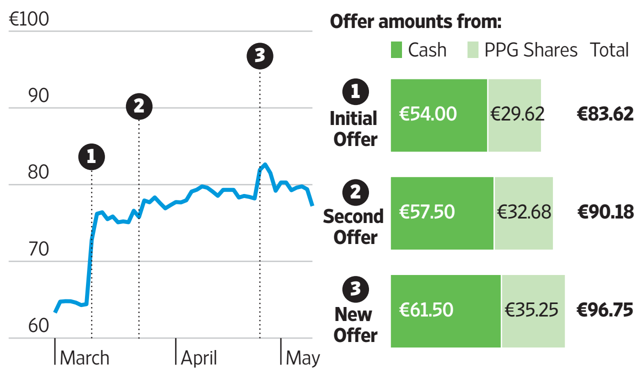
Akzo said it rejected PPG's latest, sweetened €24.6 billion ($27.1 billion) offer after "considerable in-depth analysis." Akzo Chief Executive Ton Büchner and the company's supervisory board chairman, Antony Burgmans, met with Mr. McGarry in Rotterdam, the Netherlands, on Saturday.

PPG said in a written statement that the meeting lasted less than 90 minutes and that Messrs. Büchner and Burgmans "stated up front that they did not have the intent nor the authority to negotiate." Mr. Büchner, speaking on a conference call with reporters Monday, called the encounter cordial and said he and Mr. Burgmans went in "open-minded."

Unmixed Paint

Akzo Nobel on Monday formally rejected PPG's third takeover bid.

Akzo Nobel's share price ( ) and PPG's offers*



*Data through 9:30 a.m. London time on Monday
Note: Assumes PPG share price of $105.94 €1 = $1.10
Source: FactSet (Akzo shares); PPG (offers)
THE WALL STREET JOURNAL.

The Dutch firm insisted Monday that its go-it-alone strategy would create greater value for shareholders. PPG said it was disappointed and believed its proposal was superior to any stand-alone plan.

Mr. McGarry has said he won't raise his bid, but he has said PPG is preparing a public tender for Akzo. Going ahead with such a move, without management consent, would, for all practical purposes, equate to a hostile bid. Dutch law requires PPG to publish a draft of its tender by June 1.

Other suitors in similar standoffs have opted to give up their pursuit, instead of engaging in a potentially long and bitter fight with the board and management. Monsanto Co. dropped a $46 billion cash-and-stock bid for Swiss rival Syngenta AG in 2015 amid management's insistence on holding out.

Backing down carries its own risks. China National Chemical Corp. later agreed to buy Syngenta for $43 billion in an all-cash offer. And then last year, Bayer AG of Germany snapped up Monsanto for $57 billion.

PPG's chances of success in its Akzo bid are clouded even further because of Akzo's Dutch corporate structure. PPG enjoys support for its bid from some of Akzo's key shareholders, led by U.S. activist investor Elliott Management Corp. Elliott is pressing to persuade management to discuss a deal. Last week, it published a report it commissioned that forecast large job losses at Akzo in the event it didn't agree to a tie-up. Akzo rejected those findings.

Other large shareholders have also voiced support for a deal, making it possible for PPG to win over enough shareholders in a tender offer to advance the bid. But the path to an eventual combination gets more complicated from there.

Akzo's corporate structure includes a controlling foundation not uncommon for a Dutch company. The four foundation directors, including Mr. Burgmans, Akzo's chairman, hold seats on Akzo's supervisory board.

They can be voted off Akzo's board in a special shareholder meeting, and Elliott is calling for a meeting specifically to replace Mr. Burgmans. Akzo has refused to hold a meeting and argues it has the sole right to decide whether to call one. Elliott has threatened to appeal to a Netherlands-based business court, called the Enterprise Chamber, to force a meeting.

Elliott had no immediate comment on Monday.

The obstacles don't end there. Even if a meeting were held, and shareholders removed Mr. Burgmans, the directors of the controlling foundation retain the exclusive rights to nominate replacement directors at Akzo. Supporters of such a structure say it protects stakeholders in the company other than investors—for instance, workers.

Pittsburgh-based PPG initiated its courtship of Akzo at the start of March, offering cash and stock valued at €83 a share. It sweetened the bid to €88.72 a share later that month. Last month, it raised its offer sharply again, to €96.75.

PPG called that offer "one last invitation" for Akzo to engage in talks. Akzo shares were trading below €82 each on Monday afternoon in Hamburg, suggesting still-deep skepticism over a deal.

CORRECTIONS & AMPLIFICATIONS

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

THE WALL STREET JOURNAL.
Europe Edition ISSN 0921-99
The News Building, 1 London Bridge Street, London, SE1 9GF

Thorold Barker, Editor, Europe
Grainne McCarthy, Senior News Editor, Europe
Cicely K. Dyson, News Editor, Europe
Darren Everson, International Editions Editor

Joseph C. Sternberg, Editorial Page Editor

Anna Foot, Advertising Sales
Jacky Lo, Circulation Sales
Andrew Robinson, Communications
Jonathan Wright, Commercial Partnerships

Katie Vanneck-Smith,
Global Managing Director & Publisher

Advertising through Dow Jones Advertising Sales: Hong Kong: 852-2831 2504; Singapore: 65-6415 4300; Tokyo: 81-3 6269-2701; Frankfurt: 49 69 29725390; London: 44 207 842 9600; Paris: 33 1 40 17 17 01; New York: 1-212-659-2176

Printers: France: POP La Courneuve; Germany: Dogan Media Group/Hürriyet A.S. Branch; Italy: Qualiprinters s.r.l.; United Kingdom: Newsprinters (Broxbourne) Limited, Great Cambridge Road, Waltham Cross, EN8 8DY

Registered as a newspaper at the Post Office. Trademarks appearing herein are used under license from Dow Jones & Co.
©2017 Dow Jones & Company. All rights reserved.
Editeur responsable: Thorold Barker M-17936-2003. Registered address: Avenue de Cortenbergh 60/4F, 1040 Brussels, Belgium

NEED ASSISTANCE WITH YOUR SUBSCRIPTION?
By web: http://services.wsje.com
By email: subs.wsje@dowjones.com
By phone: +44(0)20 3426 1313

For personal non-commercial use only. Do not edit or alter. Reproductions not permitted.
To reprint or license content, please contact our reprints and licensing department at +1 800-843-0008 or www.djreprints.com

Divisions Remain Despite Landslide Win

Victory masks cracks across France, especially in the Champagne region

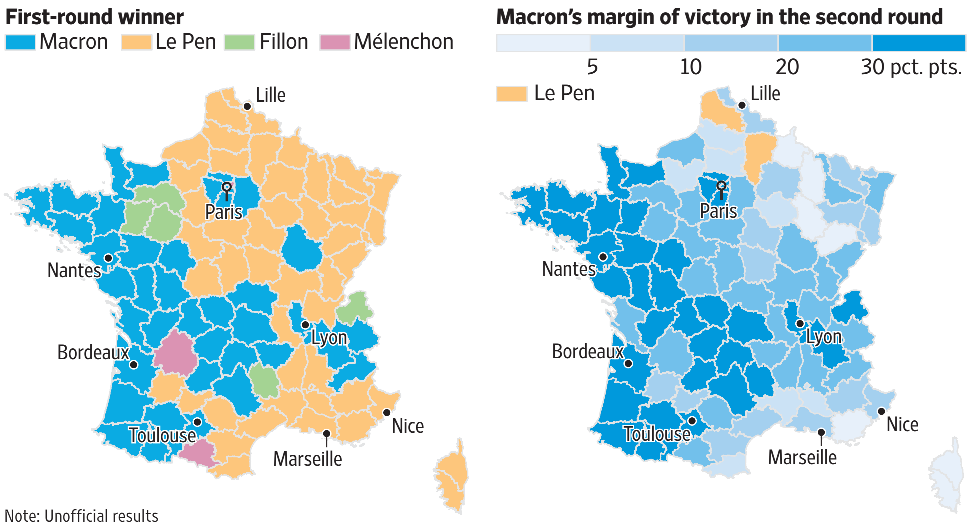
By Max Colchester

GONZALO FUENTES/REUTERS

The president-elect arrives at his campaign headquarters.

Shifting Support

Many departments that supported other candidates swung to Emmanuel Macron in the second round of the French presidential vote, handing the centrist a resounding victory over Marine Le Pen.



Note: Unofficial results
Source: French Interior Ministry
THE WALL STREET JOURNAL.

BOUZY, France—Emmanuel Macron's resounding win in Sunday's elections papered over deep fissures across France, no more so than in this agricultural region famed for its vineyard-carpeted rolling hills.

At a lunch with owners of prestigious Champagne houses that export across the globe, vineyard laborer Fred Buisson began to rant about how global trade harms local workers even as news of Mr. Macron's victory trickled in.

The small village of Bouzy and the broader Champagne region in eastern France rely on free trade to sell thousands of bottles of wine around the globe.

Yet, Mr. Buisson and 52% of voters in Bouzy—well above the national average of 34%—supported Marine Le Pen in the second runoff. The nationalist leader campaigned on leaving the European Union, saying immigrants took away French people's jobs.

"You can't move Champagne out of France, but you can replace the workers," the 36-year-old Mr. Buisson said as the group ate grilled sausages and drank from magnums of red wine.

Mr. Macron drew large swaths of voters in this region, but their reluctant support might not extend to the win of a parliamentary majority in the June legislative election. Gaining a majority of lawmakers will be key for Mr. Macron if he is to come good on his pledge to reinvigorate the French economy.

The hundreds of World War I battlefield cemeteries that dot the region offer a grim reminder of another time when Europe was pulled apart. Decades of peace have brought prosperity to the region that exports over €2 billion ($2.18 billion) worth of Champagne around the world every year. In Bouzy, the unemployment rate is at 5%, roughly half of the national average. Yet, many fear the impact of untrammeled globalization, an issue that will resurface again next month when France heads back to the polls to elect a new National Assembly.

Mr. Macron has more to fear than just Ms. Le Pen's supporters.

In Bouzy, Maëlle and Jean-Christophe Delavenne manage one of the village's Champagne houses. They describe themselves as conservatives at heart, but voted for Mr. Macron on Sunday, saying they feared Ms. Le Pen would ruin their export business if she reached the Élysée Palace.

Now the couple wants to ensure that Mr. Macron is hamstrung in the legislative election. Ms. and Mr. Delavenne don't plan to vote for the president-elect's political party, En Marche, and are likely to favor a candidate from the conservative party, Les Républicains.

They hope the center-right party gains a majority, forcing Mr. Macron into so-called cohabitation, a form of power-sharing under which a prime minister from the opposition runs the government. "That would be the best of a bad situation," says Ms. Delavenne.

Drinking Champagne a few chairs away, Hugues Beaufort, whose family has made wine since 1655 and now runs Champagne Herbert Beaufort that exports as far afield as Japan, said he also wouldn't back Mr. Macron—whom he views as a leftist spawned by Mr. Macron's former boss, Socialist President François Hollande.

As a guest sitting next to Mr. Beaufort urged him to give Mr. Macron and his party a chance, the businessman said: "I am not voting for the left." Mr. Beaufort voted for Mr. Macron in the second round of the presidential election.

Mr. Macron, who served as economy minister in the administration of Mr. Hollande, says he espouses positions from both the left and right.

At the end of the banquet table, Mr. Buisson said he feared that Polish workers undercut local grape pickers.

He charged that the Polish workers get paid €11 an hour, compared with €9 for French workers, but the addition of payroll taxes on French workers makes hiring locals uncompetitive.

"Politicians must wake up," he said. "People have had enough." Ms. Delavenne, the Champagne house manager, however, takes a different view advocating for borders to remain open in part because locals aren't willing to do the backbreaking work. "We can't just close ourselves off from Europe," she said.

EU Cautiously Embraces French Leader's Promises

Europe on Monday cheered Emmanuel Macron's French presidential victory on a platform of a domestic economic overhaul and greater European integration, but it added a caveat: Show us that you mean it.

*By **Anton Troianovski** and **Andrea Thomas** in Berlin and **Laurence Norman** in Brussels*

Mr. Macron has pledged to energize France's drowsy economy with tough fiscal and labor market changes. But he also wants the 19 countries that use the euro to pool budget resources and Germany, the bloc's heavyweight, to spend more to support the regional economy.

On Monday, European officials said Mr. Macron would have to deliver on his part of the bargain before he could expect a quid pro quo—if it comes at all.

While they expressed relief at the defeat of Marine Le Pen, Mr. Macron's euroskeptic challenger, government officials in Brussels and Berlin said they would be watching the president-elect's moves in France closely for signs his promises of domestic changes are credible before making any concessions of their own.

The wait-and-see posture, some said, underlined the loss of credibility suffered by successive French administrations that all promised serious economic overhauls and tighter spending but often failed to follow through, resulting in repeated breaches of European Union government spending rules and leaving persistently high unemployment.

Mr. Macron's requests from his future partners include a common eurozone budget, financed by jointly issued bonds, to stimulate growth via infrastructure spending. By virtue of its size, Germany would be the bonds' main underwriter, something German politicians have long rejected as effectively taking over other countries' public debt.

German Chancellor Angela Merkel on Monday praised Mr. Macron for his "courageous, pro-European campaign." But when her spokesman was asked about euro bonds—jointly issued bonds with shared liability—at a regular government news conference, his reply was terse: "The German government's negative view of euro bonds remains in place."

Instead, Ms. Merkel and her conservative allies in Germany suggested the onus would be on Mr. Macron and his future government to first make unpopular changes at home. Those changes would be for the good of France, they said, and shouldn't be viewed as the outcome of German prodding.

"Given the situation that we have in Germany, I don't think we must now give priority to changing our policy," Ms. Merkel said.

"German support can of course be no substitute for French policies. France must take its own decisions and will take its own decisions," she said.

Diplomats from countries that would have to share the bill with Germany for some form of common eurozone budget said their governments will want to see a record of at least a year of domestic revisions in France before they are willing to enter a serious debate on future pooling of resources. That will inevitably mean constructing a government after June's parliamentary elections that can govern effectively, one diplomat said.

FABRIZIO BENSCH/REUTERS

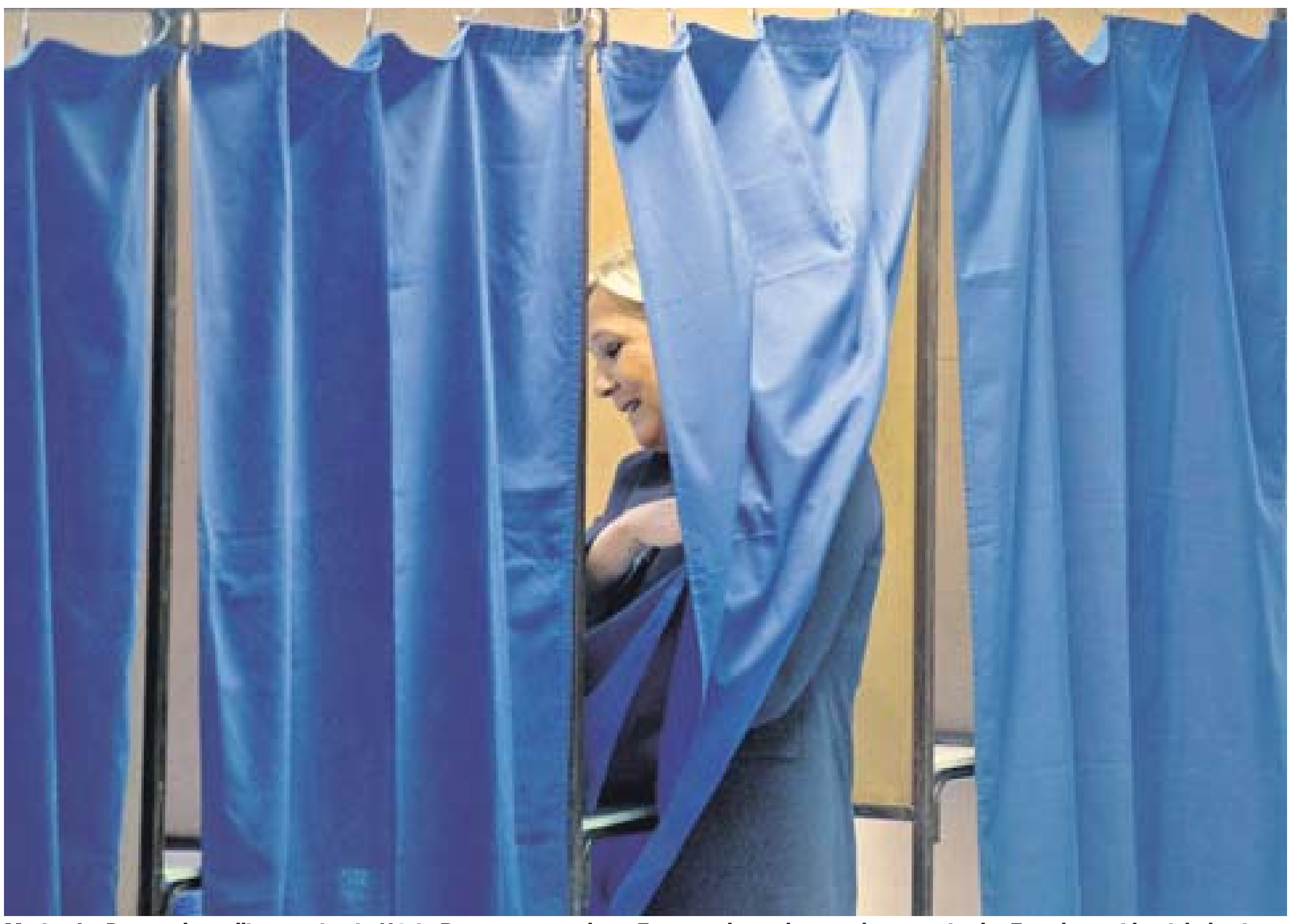
German leader Angela Merkel praised Emmanuel Macron's 'courageous, pro-European campaign.'

For personal non-commercial use only. Do not edit or alter. Reproductions not permitted.
To reprint or license content, please contact our reprints and licensing department at +1 800-843-0008 or www.djreprints.com

Even in Defeat, Le Pen's Stature Grows

The candidate of the right is poised to take command of France's political opposition

BY DAVID GAUTHIER-VILLARS AND WILLIAM HOROBIN



OLIVIER HOSLET/EUROPEAN PRESSPHOTO AGENCY

Marine Le Pen at the polling station in Hénin-Beaumont, northern France, where she cast her vote in the French presidential election.

PARIS—Far-right nationalist Marine Le Pen suffered a stinging defeat at the hands of centrist Emmanuel Macron in the final round of France's presidential elections.

But her showing at the polls, combined with the disarray of mainstream Socialist and conservative parties, positions the vociferous critic of the European Union to take command of France's political opposition.

The 48-year-old Ms. Le Pen, who blames the EU and the euro for economic and security woes in France, won 33.9% of the vote, according to final results. That is more than the 21.3% she garnered in the first round, but significantly short of the 40% pollsters had predicted.

Speaking on Sunday night, Ms. Le Pen vowed to make her National Front the "the No. 1 opposition force" to Mr. Macron and said she would work to transform the party ahead of June legislative elections.

Ms. Le Pen's performance was a measure of the strength of anti-globalization sentiment in France, part of the swell of antiestablishment currents that fueled Donald Trump's election in the U.S. and Britain's referendum vote to leave the EU last year.

And it showed that the appeal of her pledge to lead a "patriotic revolution" to restore France's control of its borders and currency resonated with voters beyond the traditional strongholds of her once-fringe National Front.

Ms. Le Pen's duel with Mr. Macron—who says French people shouldn't fear globalization, but instead roll up their sleeves and embrace it—showed how France's traditional left-right divide has been replaced by a new split between globalists and nationalists, and pro- and anti-EU voters.

Building on her enlarged base, Ms. Le Pen could impose herself as the lead architect of a broader nationalist platform, opening her arms to both conservatives, who dislike Mr. Macron's liberal social ideas, and leftist politicians, who abhor the president-elect's pro-business agenda.

The Socialist and conservative parties were thrown into disarray after their candidates were ejected from the presidential race in the April 23 first round.

To consolidate a role as opposition leader, Ms. Le Pen would need to quell rebellious party voices that have challenged her incendiary rhetoric against Europe in general, and the euro in particular.

Party members such as Marion Maréchal-Le Pen, Ms. Le Pen's niece, have said proposing to replace the euro with a new French franc risked alienating large numbers of voters, fearful a currency swap would hammer their savings.

In the last stretch of the campaign, Ms. Le Pen said she would take time to consult the population before making any decision on the euro if she were elected. But Ms. Maréchal-Le Pen said the move may have come too late.

"I think it was necessary to reassure French people," Ms. Maréchal-Le Pen told television Sunday evening.

Ms. Le Pen also needs to improve the National Front's ability to convert its support into legislative seats. Voters are due to cast ballots in parliamentary elections next month. The party now has just two affiliated members in the current 577-seat National Assembly.

"We need to organize ourselves differently," said Jean-Lin Lacapelle, a senior National Front official. "The National Front has seen its limits." National Front interim leader Steeve Briois said: "It's not a real defeat tonight. It's a semi-victory."

Macron Faces Opposition Abroad

French President-elect Emmanuel Macron, a consummate internationalist, heads into office primed for clashes

By Matthew Dalton in Paris and Paul Sonne in Washington

with two nationalist rivals on the world stage: U.S. President Donald Trump and Russian President Vladimir Putin.

ERIC FEFERBERG/AGENCE FRANCE-PRESSE/GETTY IMAGES

French President-elect Emmanuel Macron has been at odds with Vladimir Putin and Donald Trump.

From climate change to the war in Syria, international trade and the conflict in Ukraine, Mr. Macron has staked out positions at times at odds with the two leaders and clashed at a distance with both on the campaign trail. Though he didn't offer a formal endorsement during the French campaign, Mr. Trump had cheered on Mr. Macron's vanquished rival, far-right nationalist Marine Le Pen, calling her "strongest on borders" and "the strongest on what's been going on in France."

"[Mr. Trump] should have a little more humility," Mr. Macron said in January, defending the European Union from the U.S. president's criticisms. "Mr. Trump, never forget what you owe us, liberty, your existence. Mr. Trump look at your history, it's that of Lafayette, it's ours!"

Messrs. Trump and Macron are poised to meet for the first time in late May at the North Atlantic Treaty Organization summit in Belgium.

Mr. Macron takes control of one of the world's foremost military powers, a nuclear-armed state with a permanent seat on the U.N. Security Council. His convincing win against Ms. Le Pen amounts in part to a broad rejection of her foreign-policy program, which called for France to close its borders, withdraw from the EU and NATO, and align itself more closely with Russia.

Now, Mr. Macron has a mandate to pursue a foreign-policy program that largely maintains the status quo under current French President François Hollande.

Despite that continuity, France's relationship with Russia in particular is at risk of deteriorating under Mr. Macron.

During the campaign, his party accused the Russian government of using state-funded media to spread smears about his character.

Tensions could escalate further if French authorities conclude that a massive hack of Mr. Macron's party in the waning days of the campaign was carried out by Russian agents. The Kremlin has denied intervening in the French campaign.

Despite criticizing Mr. Trump, Mr. Macron has pledged to work with the U.S. president. And while they are likely to clash on policy, Mr. Macron has done something that Mr. Trump respects: win big.

"Congratulations to Emmanuel Macron on his big win today as the next president of France," Mr. Trump said on Twitter. "I look very much forward to working with him!"

On Monday Mr. Macron said that he had spoken by phone to Mr. Trump and to German Chancellor Angela Merkel and British Prime Minister Theresa May.

Climate change is likely to be one of the sharpest disagreements between Mr. Macron and Mr. Trump. In February, Mr. Macron released a video in which he told American climate scientists "I do know how your new president now has decided to jeopardize your budget, your initiatives, as he is extremely skeptical about climate change."

White House press secretary Sean Spicer has said the administration is reviewing the U.S.'s position on the Paris climate treaty.

FRANCE

Continued from Page One

tional Assembly's 577 seats, he risks being reduced to a figurehead. Historically, French presidents who fall short of a majority have ended up in a limbo known as "cohabitation"—a form of power-sharing under which a prime minister from the opposition runs the government.

Three times in the past three decades, French presidents failed to secure a majority in parliamentary elections occurring after their terms began. The last time, in 1997, that meant conservative President Jacques Chirac had to pick a prime minister from Socialist ranks. Landing the job was Lionel Jospin, who ran the government for the ensuing five years—pushing laws such as the 35-hour work week—and through the end of Mr. Chirac's first mandate.

Such an arrangement would likely endanger Mr. Macron's economic agenda. He has proposed overhauling labor rules to make the country more business-friendly.

Mr. Macron has said he plans to sign ordinances this summer that would change France's labor code, lifting restrictions on hiring and firing and making it easier for companies to negotiate directly with their employees.

In a sign of the social unrest facing Mr. Macron if he moves ahead with the overhaul, thousands of people packed into Place de la République to protest his plans.

Mr. Macron has said he plans to sign rules that would change France's labor code.

In a bid to represent political renewal, Mr. Macron has vowed to field candidates for his party for every single seat in the National Assembly. That closes off the option for En Marche to sit out the election in certain districts to help political allies from different parties win seats.

The choice of joining Mr. Macron or running against his party in June puts potential allies in a bind. On Monday, Bruno Le Maire, a significant figure in Les Républicains, said on French radio that he had told Mr. Macron in a phone conversation that he needed to reach out to center-right voters who may have voted for him "by default."

Mr. Le Maire, a former minister who lost to François Fillon in his party's presidential primary, questioned the wisdom of Les Républicains campaigning against En Marche in the legislatives "and then the day after, all the sudden, we go work with you as part of a grand coalition."

"How is that coherent?" he said.

Mr. Macron is also under pressure to reach out to the Socialist Party of departing President François Hollande while keeping his distance from the unpopular leader.

A World War II commemoration at the Arc de Triomphe Monday brought Mr. Macron shoulder-to-shoulder with Mr. Hollande, under whom he once served as deputy chief of staff and then economy minister. Mr. Hollande, a former Socialist Party boss, said he was ready to offer the young president-elect advice "if he wants it."

"It's true he followed me in recent years, but then he freed himself," Mr. Hollande said.

On Monday, Mr. Macron huddled with Socialist parliamentarians Gérard Collomb and Richard Ferrand—two of his earliest backers for the presidency—to discuss strategy. Mr. Ferrand told reporters Mr. Macron's party planned to change its name to La République en Marche. On Thursday, the party will announce a full roster of candidates, he said.

The party would adhere, Mr. Ferrand said, to criteria the president-elect established months ago, requiring that half its candidates be women and half never to have held elected office.

France Finds Ally In Estonian Leader

BY VALENTINA POP

FLORENCE, Italy—Emmanuel Macron has a potential ally in Estonia, which will soon be a big fish in Brussels.

Tiny Estonia takes on an outsize role next month when it assumes the European Union's rotating presidency and kicks off Brexit talks. Estonian President Kersti Kaljulaid said Brexit negotiations shouldn't distract the bloc from moving ahead.

Ms. Kaljulaid, like the French president, is a political newcomer who emerged as a dark horse to win election in October, backed by a large majority. Both are the youngest-ever presidents of their countries, and both see the EU as a positive force, though in need of reshaping.

"The EU is a common platform where we come together and agree to do certain things. But the EU is never going to take over the responsibility which governments have, for prosperity and security of their people," Ms. Kaljulaid, 46 years old, said in an interview Friday on the margins of an EU conference in Florence and before Mr. Macron's decisive victory over nationalist, anti-EU Marine Le Pen.

Ms. Kaljulaid, Estonia's first female president and a former member of the EU's European Court of Auditors, acknowledged the bloc's failings but said its benefits to citizens outweigh its shortcomings.

"The EU is very popular in Estonia, and for very good reasons—not because Estonia has received considerable support from the EU, but because Europe supports the values which keep small states safe in this world. Everybody has the right to decide their own fate," she said.

Ms. Kaljulaid dismissed the idea that the European project faced an existential crisis. She blamed politicians who criticize Brussels in their home countries while helping form EU policies with fellow members.

"I am very worried about politicians who know that their countries are greatly benefiting financially and at the same time are saying that the European Union is not good for us. The message has to be coherent," she said.

Holding the presidency for six months will allow Estonia to set priorities for the bloc's policy-making machinery and decide on the agendas of ministers' meetings. Estonian officials will also represent the EU governments in debates with the European Parliament and on trips abroad.

Like Mr. Macron, Ms. Kaljulaid has a vision of a reformed Europe.

"The EU probably needs to concentrate more on issues which are by definition cross-border: environment, big infrastructure, migration crisis, protection from terrorism," she said. "And there may be room to think if we could do less where national governments can manage better."

For example, she wants to see areas such as scientific research, on which the EU already spends billions of euros annually, boosted significantly to bolster cross-border, pan-European projects. Other areas, such as EU programs to encourage children to stay in school, should be left to national governments, she said.

And even where the EU is often seen as failing, she sees some hope. Starting with the 2008 global financial crisis, which almost broke up the eurozone, through the 2015 migration wave that pitted EU countries against each other, Ms. Kaljulaid observed a pattern in which EU countries were seen as bickering too much and then acting too little.

"But the final result is," she said, "countries always get solutions before it's too late."

JUSSI NUKARI/LEHTIKUVA/REUTERS

Estonian President Kersti Kaljulaid shares traits with Mr. Macron.

For personal non-commercial use only. Do not edit or alter. Reproductions not permitted.
To reprint or license content, please contact our reprints and licensing department at +1 800-843-0008 or www.djreprints.com

Pratt's Pledge

"In support of the President's outstanding leadership in further making America the greatest place in the world to manufacture, I'd like to announce that Pratt Industries pledges to invest an additional $2 billion over the next decade, doubling our rate of investment in America to create 5,000 high-paying manufacturing jobs mainly in the Midwest."

— **Anthony Pratt**

Executive Chairman,
Pratt Industries

NATHAN EDWARDS/NEWS CORP AUSTRALIA

President Donald Trump thanking Anthony Pratt for his pledge.

Pratt Industries Chairman Anthony Pratt made this pledge last Thursday night in New York City at an event with President Trump. Pratt Industries currently employs 7,000 Americans in high-paying manufacturing jobs.

PRATT 100% RECYCLED

Pratt Industries is one of the largest corrugated box manufacturers in the United States.
Our boxes save money and save the environment.

www.prattindustries.com

For personal non-commercial use only. Do not edit or alter. Reproductions not permitted.
To reprint or license content, please contact our reprints and licensing department at +1 800-843-0008 or www.djreprints.com

WORLD NEWS

Ex-Ally Says Maduro Is Losing Control

By Anatoly Kurmanaev

JUAN BARRETO/AGENCE FRANCE-PRESSE/GETTY IMAGES

Demonstrators clashed with riot police in Caracas, where a government crackdown on the opposition has led to protests against Nicolás Maduro's authoritarian rule.

CARACAS, Venezuela—Nationwide protests are spreading beyond President Nicolás Maduro's control and risk morphing into civil war, said a retired Venezuelan general who was in charge of suppressing unrest three years ago.

"We're seeing much larger masses protesting across all major cities, including the working-class neighborhoods" once firmly supporting the government, said Major Gen. (Ret.) Miguel Rodriguez Torres, who served as Mr. Maduro's interior minister in 2013 and 2014. "The government is losing control."

The embattled president needs to begin negotiating election dates now to avoid plunging the country into anarchy, he added.

Mr. Rodriguez Torres's comments come days after Attorney General Luisa Ortega criticized the government's escalating repression, underlining growing pressure on Mr. Maduro from top current and former ruling-party officials.

An attempt by judges allied with Mr. Maduro to dissolve the opposition-controlled congress in late March has triggered a wave of unrest that has claimed at least 37 lives, provoked unprecedented international condemnation, divided the ruling party and energized a fractious opposition.

Thousands of opposition supporters gathered across Caracas and other cities again on Monday to demand general elections and the release of political prisoners.

Mr. Maduro has responded to a spiraling economic crisis and plunging popularity by neutering the National Assembly, postponing all elections scheduled for last year and repressing opponents.

"Closing political avenues to elections means opening the door to violence," said Mr. Rodriguez Torres, who ran Venezuela's intelligence service for 12 years and was a close associate of Mr. Maduro's predecessor, Hugo Chávez. "They are heading toward anarchy on the streets."

As Mr. Maduro's interior minister, he quashed a wave of antigovernment protests in 2014, which resulted in the deaths of 43 people, including protesters and security officers. Those largely middle-class protests, sparked by an economic recession, faded without concessions from the government, demoralizing the opposition movement for years.

That recession has led Venezuela to its worst economic crisis. The economy has shrunk by more than a third in the last five years, according to investment bank Torino Capital, leading to crippling food and medicine shortages.

"The life conditions of Venezuelans have deteriorated greatly since 2014, leading more people on to the streets," said Mr. Rodriguez Torres. The government won't restore order with repression without addressing the economic roots of the crisis, he said.

Opposition leaders have called on the military to stop cracking down on the largely peaceful protests and to defend the country's constitution against what they call Mr. Maduro's slide to dictatorship.

Mr. Rodriguez Torres, 53 years old, said he is unaware of any discontent among the military's top brass but added there is growing discontent among the common soldiers who have been battered by the economic mess.

"What's happening outside in society, is also happening inside in the armed forces," he said. "The soldiers are suffering because they can't obtain medicines, because they don't have enough money for food."

To try to quell the unrest, Mr. Maduro last week began a process to call a special assembly with sweeping powers that include redrafting the constitution. He said the assembly will represent all sectors of society but has hinted that he himself will pick the constituents who will elect the assembly representatives.

The opposition alliance has decried the assembly as a sham and said it would stay on the streets until the government calls free general elections.

"This is a very high-risk strategy for the government," he said. "They can end up losing everything."

Chinese Court's Posts Stir Criticism

By Josh Chin

BEIJING—A Chinese court published a civil-liberties lawyer's confession to subversion and his retraction of allegations of police torture, at a trial his wife called a farce and rights groups said cast a light on tactics authorities used to discredit activists.

Xie Yang, the lawyer, is among the last to be prosecuted of the dozens of legal workers arrested nearly two years ago aimed at quashing a group of activists promoting civil liberties.

Mr. Xie's wife, Chen Guiqiu, blasted the court and Monday's trial judgment as farcical in a statement laced with sarcasm.

"You've performed this show beautifully," said Ms. Chen, who arrived in the U.S. in March after fleeing China with her two daughters.

This past winter, after a year and a half in detention, Mr. Xie described to his lawyers being repeatedly beaten and deprived of water and sleep as police tried to persuade him to confess. Agents threatened his family and said they would torture him until he went insane, he said.

In a separate statement he signed in January, Mr. Xie confirmed allegations of torture and said any confession would have been the result of coercion.

Chen Jiangang, one of his original lawyers, said, "This wasn't a trial, it was a transaction." He said government officials had come to Beijing in October and offered to release Mr. Xie and let him keep his license in exchange for a confession.

On Monday, the Intermediate People's Court in the southern city of Changsha, in a statement on social media, said Mr. Xie pleaded guilty to charges of inciting subversion of state power and disrupting court order in the course of his work.

The court ordered him released pending a verdict, his lawyer said, though by Monday night, the lawyer and friends said they hadn't been able to contact him.

The Changsha court used its verified Weibo microblogging account to post documents and video. One video showed Mr. Xie contradicting an account of torture by police that he gave his lawyers and then publicized it in January.

Venture Undeterred by North Korea Sanctions

By Jeremy Page And Jay Solomon

KCNA/KNS/STR/AGENCE FRANCE-PRESSE/GETTY IMAGES

North Korea displays ballistic missiles in a parade through Kim Il Sung square in Pyongyang.

DANDONG, China—For most of the past decade, a Chinese state-owned company had a joint venture with a North Korean company under sanctions for involvement in Pyongyang's atomic-weapons program, Chinese corporate and government records show.

China's **Limac** Corp. and North Korea's **Ryonbong General** Corp. set up a joint venture in 2008 to mine tantalum, niobium and zirconium, minerals that are useful in making phones and computers but also nuclear reactors and missiles.

The partnership of nearly a decade, not previously reported, shows how easily North Korea has skirted sanctions to do business with Chinese firms, a vital lifeline for the regime. A February report by United Nations sanctions experts said North Korea had acquired rocket parts and light aircraft via China and used front companies there to access the international financial system.

The U.S. sanctioned Ryonbong in 2005 and the U.N. did so in 2009, both saying the North Korean company was involved with weapons of mass destruction. Just six weeks ago, Washington added three Ryonbong employees to the U.S. sanctions list individually, two of them based in China.

The scope of the Limac-Ryonbong joint venture and its current status are unclear. It was incorporated in North Korea, which doesn't disclose corporate records. The Ryonbong-Limac link was identified by Sayari Analytics, a financial-intelligence firm that works for banking and U.S. government clients and didn't publicize its findings.

Ryonbong couldn't be reached to comment. Limac said by email that the venture "never launched regular business activities" and that Limac has been trying to dissolve it since 2009.

Still, Chinese corporate records show the joint venture maintained a registered office in China until this past February. And Limac's website said Limac and Ryonbong executives held talks in 2011 on advancing their partnership. Information about the venture disappeared from Limac's website in recent days after The Wall Street Journal inquired about it.

The Chinese company has a U.S. affiliate in Houston through which it seeks investment opportunities, according to the affiliate's chief executive. In another U.S. connection, Limac, which manufactures and trades nuclear-energy and other industrial machinery, imported Canadian nuclear-power equipment to China in 2013 by way of the U.S., customs records show.

U.S. legislation passed last year obliges the White House to sanction entities doing business with blacklisted North Korean entities or explain to Congress why it hasn't. The Limac-Ryonbong joint venture has been discussed inside the Trump administration, people familiar with the matter said.

North Korea has conducted three missile tests since Donald Trump took office. Secretary of State Rex Tillerson said last week the U.S. has been "leaning hard into China" over North Korea and might impose secondary sanctions on countries that don't enforce current ones. "If you can't take care of it or you simply don't want to take care of it for your own internal political reasons, we will," he said.

China's commerce ministry, foreign ministry and government information office didn't respond to requests to comment. China has said in the past it complies fully with U.N. sanctions on North Korea but opposes U.S. unilateral sanctions. The North Korean Embassy in Beijing didn't respond to requests to comment.

In September the U.S. indicted a Chinese businesswoman on charges that she and her trading company, **Dandong Hongxiang Industrial Development** Co., helped blacklisted North Korean companies evade U.S. sanctions, according to the Department of Justice and court records. China said in January she was under investigation. The businesswoman, Ma Xiaohong, couldn't be reached to comment, and her company didn't respond to requests. A Justice Department spokesman, Marc Raimondi, said Ms. Ma hasn't filed a plea and "is believed to be a fugitive and at large in China."

A spokesman for the Treasury, which oversees U.S. sanctions, declined to comment on Limac but said the administration is targeting North Korea's operations in China, and Ryonbong in particular.

—Chun Han Wong, Junya Qian and Jonathan Cheng contributed to this article.

WORLD WATCH

ASIA-PACIFIC

U.S. Commander Says Allies Are Worried

America's allies and partners in Asia are feeling angst over security matters as Washington's commitments come under question, U.S. Pacific Fleet Commander Adm. Scott Swift said.

Adm. Swift, who oversees U.S. Navy assets in the Pacific, told reporters during an interview on Monday with media outlets that his goal is to work with Asian navies on security issues including North Korea and piracy, but that he has had to reassure allies that the U.S. will back up words with action.

"I think if the entire United States Navy was forward-deployed to the Western Pacific there would still be this sense of uncertainty of commitment," Adm. Swift said. "It's a reflection of the uncertainty and angst in the region."

Officials in Southeast Asia, particularly, have expressed concern about President Donald Trump's commitments in the South China Sea, claimed in part by several countries and almost wholly by China. Beijing has asserted its claims by building and fortifying artificial islands.

Under Mr. Trump, whose foreign-policy focus has been building support to address North Korea's nuclear ambitions, the Navy hasn't yet conducted any so-called freedom-of-navigation patrols in the South China Sea, as it had under Barack Obama.

Security experts say this is being read internationally as a concession to China to secure cooperation on North Korean sanctions. The patrols, which tend to involve sailing through disputed waters, challenge maritime claims the U.S. sees as unsupported by international law.

—Jake Maxwell Watts

NARONG SANGNAK/EUROPEAN PRESSPHOTO AGENCY

TOUGH COMMUTE: Riders in a rain-flooded street in Bangkok.

INDONESIA

Jakarta Set to Ban Islamist Group

Indonesia's top security minister said the government will disband a hard-line Islamist group that is seeking to establish a transnational caliphate. Wiranto, the coordinating minister for political, legal and security affairs, said the government would bring a case to court to disband Hizb ut-Tahrir Indonesia, the local arm of an international group that campaigns to establish a caliphate, or Islamic state.

The government views Hizb ut-Tahrir Indonesia's activities as inconsistent with the country's pluralistic constitution and national unity, said Mr. Wiranto, who goes by one name.

—Anita Rachman

For personal non-commercial use only. Do not edit or alter. Reproductions not permitted.
To reprint or license content, please contact our reprints and licensing department at +1 800-843-0008 or www.djreprints.com

U.S. NEWS

Appellate Judges Review Travel Ban

Trump's executive power and campaign rhetoric are focus as panel considers order

By Brent Kendall

RICHMOND, Va.—President Donald Trump's revised effort to suspend travel to the U.S. for people from six Muslim-majority countries faced its biggest legal test to date, as a federal appeals court in Virginia considered on Monday whether the president's executive order should remain on hold because of concerns about religious discrimination.

The Fourth U.S. Circuit Court of Appeals, based in Richmond, heard arguments on the administration's appeal to reinstate Mr. Trump's revised executive order, which he signed March 6. The measure sought to temporarily bar U.S. entry to travelers from Iran, Libya, Somalia, Sudan, Syria and Yemen, which the president said was necessary to fight terrorism.

The order also sought to suspend the admission of refugees to the U.S. Civil-rights and immigrant-rights groups, as well as some states, have challenged Mr. Trump's travel restrictions, which aren't in effect.

Federal trial judges in Hawaii and Maryland issued rulings in March, within hours of one another, that preliminarily blocked implementation of the executive order. Those judges said legal challengers were likely to prevail on their claims that the president had unlawfully targeted Muslims for disfavored treatment.

This is the second chapter of litigation on Mr. Trump's efforts to close U.S. borders to some travelers, setting up an escalating clash between the White House and the courts. The president has been blunt in criticizing the judges who have ruled against him so far.

In January, Mr. Trump ordered broader travel restrictions, just a week into his presidency. Those initial rules took effect briefly, causing chaos for some overseas travelers and U.S. residents, before courts blocked them on due-process grounds, faulting the president for not providing advance notice to the public or an opportunity for people to challenge the denial of travel.

Mr. Trump revoked his original executive order and replaced it with the March 6 version, which softened several aspects of his approach to address the due-process concerns.

But claims of religious discrimination have remained, and that issue is the focus of the current legal battle. Lawyers and judges are debating, in part, the continued relevance of Mr. Trump's campaign statements in support of a "a total and complete shutdown of Muslims entering the United States," as well as other related statements he and his surrogates have made since the November election.

Aside from the practical importance of the case, the showdown could have broad implications for presidential power and the authority of courts to look beyond the text of an executive order to delve into the president's intention in adopting it. "The precedent set by this case will long transcend this order, this president and this constitutional moment," the Justice Department, which is defending the president, said in a court brief.

The department said Mr. Trump had clear and broad authority to control the U.S. border and legitimate reasons for issuing the travel restrictions, which apply to all nationals in the six countries, regardless of religion.

The Justice Department also said judges went far off track by evaluating the executive order in light of Mr. Trump's past statements.

"Courts judge the legitimacy of a law by what it says and does, and occasionally by the official context that surrounds it—not by what supposedly lies in the hearts of its drafters," the department said in its brief.

The challengers in Monday's case, which include individuals and refugee assistance groups represented by the American Civil Liberties Union, said the government was asking the courts to turn a blind eye to an ample public record indicating that Mr. Trump's actions were based on an anti-Muslim purpose.

"President Trump publicly committed himself to an indefensible goal: banning Muslims from coming to the United States," the challengers said in their brief. "The president refused to repudiate that goal on multiple occasions, including after he was elected, and he continues to advertise it to this day on his own website."

The Fourth Circuit once held a reputation as a conservative court, but that has changed in recent years as the addition of several judges appointed by President Barack Obama has moved the court in a more liberal direction.

STEVE HELBER/ASSOCIATED PRESS

Protesters march outside the Richmond, Va., courthouse where judges heard the travel-ban case.

Yates Testifies Flynn Was Blackmail Risk

By Del Quentin Wilber and Byron Tau

WASHINGTON—Former acting Attorney General Sally Yates told Congress Monday she personally warned a top White House official that former national security adviser Mike Flynn had misled the vice president and others about his conversations with a Russian diplomat and was at risk of being blackmailed.

Ms. Yates testified she visited White House counsel Donald McGahn on Jan. 26, two days after the Federal Bureau of Investigation had interviewed Mr. Flynn, and informed him that Mr. Flynn hadn't been truthful when he denied to Vice President Mike Pence discussing sanctions with the Russian envoy.

The vice president, relying on Mr. Flynn's assertions, told the public that Mr. Flynn hadn't discussed sanctions when, in fact, he had done so.

"Not only did we believe that the Russians knew this but that they likely had proof of this information," Ms. Yates said. "That created a compromise situation, a situation where the national security adviser essentially could be blackmailed by the Russians."

Ms. Yates said she felt compelled to warn Mr. McGahn about Mr. Flynn's actions because the national security adviser's "underlying conduct" was "problematic." She and other national security officials also were concerned Mr. Flynn had put himself in a position where he might be blackmailed by the Russians, she said.

ANDREW HARRER/PRESS POOL/CNP/ZUMA PRESS

Mike Flynn was forced to resign as national security adviser over conflicting statements about his contact with the Russian ambassador.

Sen. Dianne Feinstein (D., Calif.) noted that the administration waited 18 days after Ms. Yates's warning to force Mr. Flynn out of his post. His departure came after the Washington Post reported that Mr. Flynn had in fact discussed sanctions with the Russian ambassador, contrary to Mr. Pence's comments.

Ms. Yates made it clear that Justice Department officials didn't believe Mr. Pence had knowingly made misleading comments, but rather that he himself had been misled by Mr. Flynn.

"The underlying conduct that Gen. Flynn had engaged in was problematic in-and-of-itself," Ms. Yates said. "Secondly, we told [Mr. McGahn] we felt like the Vice President and others were entitled to know that the information that they were conveying to the American people wasn't true."

Mr. McGahn asked Ms. Yates if she through Mr. Flynn should be fired, but the acting attorney general declined to provide such advice, she testified. She told Mr. McGahn that she was providing the information so the White House could "take action" it deemed necessary.

Ms. Yates's testimony came hours after news reports surfaced chronicling how former President Barack Obama warned then President-elect Donald Trump against hiring Mr. Flynn.

The warning by Mr. Obama came shortly after the November election and concerned Mr. Flynn's checkered service as head of the Defense Intelligence Agency. In 2014, Mr. Obama, a Democrat, fired the then-lieutenant general from that senior Pentagon post.

Trump Names Federal Jurists

By Joe Palazzolo

President Donald Trump began to make his mark on the lower federal courts on Monday with 10 judicial nominations that drew praise from conservative legal groups and concern from their liberal counterparts.

The five federal appellate nominees in the batch include state-supreme-court justices, former law clerks to the late Justice Antonin Scalia, corporate lawyers and law professors.

The administration selected the nominees with help from the conservative Heritage Foundation and the Federalist Society, a right-leaning legal group, said White House press secretary Sean Spicer.

Mr. Trump nominated Michigan Supreme Court Justice Joan Larsen, a former Scalia clerk, to the Sixth U.S. Circuit Court of Appeals in Cincinnati; David Stras, a Minnesota Supreme Court justice and former clerk to Justice Clarence Thomas, to the Eighth Circuit in St. Louis; Louisville, Ky., lawyer John Bush to the Sixth Circuit; Amy Coney Barrett, a University of Notre Dame law professor and former Scalia clerk, to the Seventh Circuit in Chicago; and Birmingham, Ala., lawyer Kevin Newsom, a former clerk to Justice David Souter, to the Eleventh Circuit in Atlanta.

Ilya Shapiro, senior fellow in Constitutional Studies at the libertarian Cato Institute, called Mr. Trump's nominees an "excellent slate" and more evidence of the president's commitment to appointing judges who believe laws and the Constitution should be interpreted based on the plain meaning of their words at the time they were written.

Conservatives praised Mr. Trump's selection of Justice Neil Gorsuch, whose confirmation in April was considered by many to be among the most significant achievements of the president's first 100 days.

Marge Baker, executive vice president of the left-leaning People for the American Way, said the slate of nominees sends a message that Mr. Trump intends to appoint judges who "will use their positions to shift the law dramatically in favor of corporations and the wealthy at the expense of ordinary people."

Ms. Baker contrasted the 10 nominees, all but one of them white, with President Barack Obama's judicial appointees, about two-thirds of whom were women or members of minority groups.

U.S. WATCH

TEXAS

Law Signed Against 'Sanctuary Cities'

Texas Gov. Greg Abbott Sunday signed one of the nation's toughest laws prohibiting municipalities and police departments from adopting "sanctuary city" policies that limit their cooperation with federal authorities in enforcing immigration law.

Under the law that Mr. Abbott signed in a video presentation from the governor's office, local officials and sheriffs can face criminal penalties for failing to comply with federal authorities. "Elected officials and law-enforcement agencies, they don't get to pick and chose which laws they will obey," Mr. Abbott said.

Opponents of the law have warned that it will increase racial profiling of Hispanics in the state. Some have said they are planning to challenge the measure in court. "This law is not the will of the people," said Julieta Garibay, of immigration advocacy group United We Dream, in a statement released after Mr. Abbott signed the bill.

—Peter Grant

CONFERENCE BOARD

Labor Market Set To Tighten Even More

A basket of U.S. employment indicators increased in April, suggesting employers are adding jobs at an accelerating pace. The Conference Board said its employment trends index rose to 132.64 in April from 131.58 in March.

"A tight labor market is about to get much tighter, with solid employment growth occurring at a time when there is almost no growth in the working-age population," said Gad Levanon of the Conference Board.

—Imani Moise

World War II Veterans Gather in Washington

JIM LO SCALZO/EUROPEAN PRESSPHOTO AGENCY

OBSERVANCE: Veterans mark the 72nd anniversary of the Allied Forces victory in the Atlantic and the end of World War II in Europe at an event at the National World War II Memorial in Washington.

WEATHER

Second-Wettest April Since 1895 Recorded

The National Oceanic and Atmospheric Administration said last month was the second-wettest April on record, averaging 3.43 inches for the U.S., nearly an inch above the 20th-century average. Only 1957 had more April rain. Records go back to 1895. Only 5% of the U.S. is in drought, the lowest drought footprint the 17-year-old U.S. Drought Monitor has recorded.

—Associated Press

NEW YORK CITY

Man Sought in Assault On German Tourist

New York City police are looking for a 28-year-old registered sex offender wanted for questioning in three robberies, including one where a German tourist was beaten and sexually assaulted. Chief of Detectives Robert Boyce said the man was last seen going into an East Harlem building following the attack on the tourist early Thursday morning.

—Associated Press

For personal non-commercial use only. Do not edit or alter. Reproductions not permitted.
To reprint or license content, please contact our reprints and licensing department at +1 800-843-0008 or www.djreprints.com

PRICE

Continued from Page One
than a competitor.

These new systems crunch mountains of historical and real-time data to predict how customers and competitors will react to any price change under different scenarios, giving them an almost superhuman insight into market dynamics. Programmed to meet a certain goal—such as boosting sales—the algorithms constantly update tactics after learning from experience.

Ulrik Blichfeldt, chief executive of Denmark-based a2i Systems A/S, whose technology powers the Rotterdam gas stations, said his software is focused primarily on modeling consumer behavior and leads to benefits for consumers as well as gas stations. The software learns when raising prices drives away customers and when it doesn't, leading to lower prices at times when price-sensitive customers are likely to drive by, he said.

"This is not a matter of stealing more money from your customer. It's about making margin on people who don't care, and giving away margin to people who do care," he said.

Driving the popularity of AI pricing is the pain rippling through most retail industries, long a low-margin business that is now suffering from increased competition from online competitors.

"The problem we're solving is that retailers are going through a bloodbath," said Guru Hariharan, chief executive of Mountain View, Calif.-based Boomerang Commerce Inc., whose AI-enabled software is used by Staples Inc. and other companies.

The rise of AI pricing poses a challenge to antitrust law. Authorities in the European Union and U.S. haven't opened probes or accused retailers of impropriety for using AI to set prices. Antitrust experts said it could be difficult to prove illegal intent as is often required in collusion cases; so far, algorithmic-pricing prosecutions have involved allegations of humans explicitly designing machines to manipulate markets.

Officials said they are looking at whether they need new rules. The Organization for Economic Cooperation and Development said it plans to discuss in June at a round table how such software could make collusion easier "without any formal agreement or human interaction."

"If professional poker players are having difficulty playing against an algorithm, imagine the difficulty a consumer might have," said Maurice Stucke, a former antitrust attorney for the U.S. Justice Department and now a law professor at the University of Tennessee, who has written about the competition issues posed by AI. "In all likelihood, consumers are going to end up paying a higher price."

In one example of what can happen when prices are widely known, Germany required all gas stations to provide live fuel prices that it shared with consumer price-comparison apps. The effort appears to have boosted prices between 1.2 to 3.3 euro cents per liter, or about 5 to 13 U.S. cents per gallon, according to a discussion paper published in 2016 by the Düsseldorf Institute for Competition Economics.

Makers and users of AI pricing said that humans remain in control and that retailers' strategic goals vary widely, which should promote competition and lower prices.

"If you completely let the software rule, then I could see [collusion] happening," said Faisal Masud, chief technology officer for Staples, which uses AI-enabled software to change prices on 30,000 products a day on its website. "But let's be clear, whatever tools we use, the business logic remains human."

Online retailers in the U.S., such as Amazon.com Inc. and its third-party sellers, were among the first to adopt dynamic pricing. Amazon.com declined to comment.

Since then, sectors with fast-moving goods, frequent price changes and thin margins—such as the grocery, electronics and gasoline markets—have been the quickest to adopt the latest algorithmic pricing, because they are the most keen for extra pennies of margin, analysts and executives say.

The pricing-software industry has grown in tandem with the amount of data available to—and generated by—retailers. Stores keep information on transactions, as well as information about store traffic, product location and buyer demographics. They also can buy access to databases that monitor competitors' product assortments, availability and prices—both on the web and in stores.

AI is used to make sense of all that information. International Business Machines Corp. said its price-optimization business uses capabilities from its Watson cognitive-computing engine to advise retailers on pricing. Germany's Blue Yonder GmbH, a price-optimization outfit that serves clients in the grocery, electronics and fashion industries, said it uses neural networks based on those its physicist founder built to analyze data from a particle collider.

Neural networks are a type of AI computer system inspired by the interconnected structure of the human brain. They are good at matching new information to old patterns in vast databases, which allows them to use real-time signals such as purchases to predict from experience how consumers and competitors will behave.

Algorithms can also figure out what products are usually purchased together, allowing them to optimize the price of a whole shopping cart. If customers tend to be sensitive to milk prices, but less so to cereal prices, the software might beat a competitor's price on milk, and make up margin on cereal.

"They're getting really smart," said Nik Subramanian, chief technology officer of Brussels-based Kantify, who said its pricing software has figured out how to raise prices after it sees on a competitor's website that it has run out of a certain product.

Algorithmic pricing works well in the retail gasoline market, because it is a high-volume commodity that is relatively uniform, leading station owners in competitive markets to squeeze every penny.

For years, price wars in cutthroat markets have followed a typical pattern. A retailer would cut prices to lure customers, then competitors would follow suit, each cutting a little more than the others, eventually pushing prices down close to the wholesale cost. Finally one seller would reach a breaking point and raise prices. Everyone would follow, and the cycle started all over.

Some economists say the price wars helped consumers with overall lower prices, but led to very thin margins for station owners.

Danish oil and energy company OK hired a2i Systems in 2011 because its network of gas stations was suffering from a decade-old price war. It changed what it charged as many as 10 times a day, enlisting a team of people to drive around the country and call in competitors' prices, said Gert Johansen, the company's head of concept development.

A2i Systems—the name means applied artificial intelligence—was started by Alireza Derakhshan and Frodi Hammer, both engineering graduates of the University of Southern Denmark, in Odense. Before focusing on fuel, they built other AI systems, including a game displayed on interactive playground floor tiles that adapted to the speed and skill level of the children running around on top.

For OK, a2i created thousands of neural networks—one for each fuel at each station—and trained them to compare live sales data to years of historical company data to predict how customers would react to price changes. Then it ran those predictions through algorithms built to pick the optimal prices and learn from their mistakes.

In a pilot study, OK split 30 stations into two sets, a control group and an a2i group. The group using the software averaged 5% higher margins, according to a paper Mr. Derakhshan presented in June 2016 at an AI conference in Seville, Spain.

The new system could make complex decisions that weren't simply based on a competitor's prices, Mr. Derakhshan said in an interview.

One client called to complain the software was malfunctioning. A competitor across the street had slashed prices in a promotion, but the algorithm responded by raising prices. There wasn't a bug. Instead, the software was monitoring the real-time data and saw an influx of customers, presumably because of the long wait across the street.

"It could tell that no matter how it increased prices, people kept coming in," said Mr. Derakhshan.

On the outskirts of Rotterdam, Koen van der Knaap began running the system on his family-owned Shell station in recent months. Down the road, a station owned by Tamoil, a gasoline retailer owned by Libya's Oilinvest Group, uses it too.

During a late-March week for which both Tamoil and Mr. van der Knaap provided hourly data, the costs for unleaded gas at the two stations—which vary in opening hours and services—bounced around independently much of the time, and generally declined, reflecting falling oil prices that week.

During some periods, however, the stations' price changes paralleled each other, going up or down by more than 2 U.S. cents per gallon within a few hours of each other. Often, prices dropped early in the morning and increased toward the end of the day, implying that the AI software may have been identifying common market-demand signals through the local noise.

The station owners said their systems frequently lower prices to gain volume when there are customers to be won.

"It can be frustrating," said Erwin Ralan, an electronics-store manager who was filling up at the Tamoil station that week. "Prices usually go up at the end of the day. But when you're empty and you're in a rush, there's not much you can do."

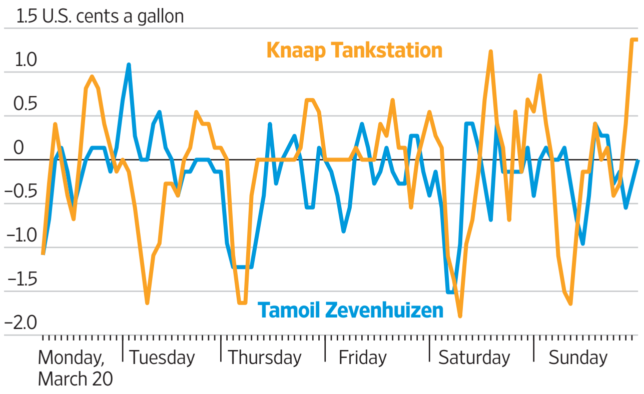
KNAAP TANKSTATION

The Knaap Tankstation gas station in Rotterdam uses a2i Systems artificial-intelligence pricing software.

On the Same Track

Two competing gas stations in the Rotterdam area both using a2i Systems pricing software roughly mirrored each other's price moves during a selected week.

Hourly change in price for unleaded Euro 95 gasoline; three-hour moving average for hours that both stations were open*

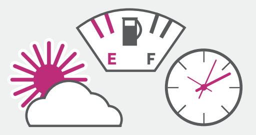


Note: Converted from euros per liter. *On Wednesdays, this Tamoil station runs a set discount and has no price changes all day, so it was eliminated from this chart.
Sources: Tamoil Nederland; Knaap Tankstation
THE WALL STREET JOURNAL.

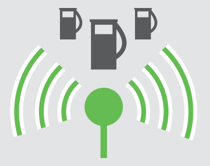
'This is not a matter of stealing more money from your customer. It's about making margin…'

Price-Point

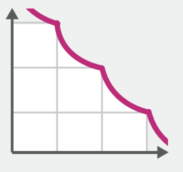
Artificial-intelligence software is being used by some gas stations to constantly adjust prices to maximize sales or margins. Here's how it works:



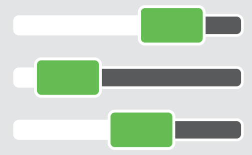
Step 1
Build a database of historical transactions to teach the software about market dynamics; add competitors' info.



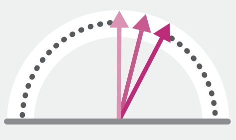
Step 2
Connect software to live feeds of purchase data and other variables such as weather and traffic.



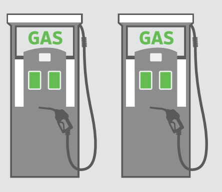
Step 3
Software compares live data to historical numbers to predict demand linked to prices.



Step 4
Owner sets strategy for each fuel at each station, including preferred balance between volume and margin and constraints such as minimum price.



Step 5
Algorithms determine price for each fuel and automatically adjust pumps throughout the day.



Step 6
Transactions in reaction to those prices fed back into system to generate new predictions and prices.

Source: WSJ analysis of a2i systems
THE WALL STREET JOURNAL.

PRINT

Continued from Page One
voted 3-to-2 for paper in October. "This is destroying a piece of culture, history and tradition for no particular reason."

Paper does the job just as well, says Martyn Day, a Scottish National Party lawmaker on the panel who voted against parchment. "Vellum, to me, is just a waste of money."

Vellum is unquestionably more durable, says Professor Timothy Barrett, a University of Iowa expert on European paper. But well-made paper stored somewhere cool with low humidity, he says, will survive for centuries, if not millennia.

Britain's House of Lords switched to paper in 1999 with no reported untoward effects. Laws and resolutions of the U.S. government were printed on parchment until 1920, says Jane Fitzgerald, a National Archives archivist. Since then, they have gone on paper.

Still, it is to Parliament's credit the debate is happening, Mr. Barrett says. "When we have our next big solar flare and the internet goes down, we're going to be really glad we have physical copies of some kind."

The antivellum movement is part of a broader modernist trend that Mr. Gray says is upsetting. He was irritated this year when the House of Commons clerks cast aside their wigs, ending a 300-year custom. That came on top of House Speaker John Bercow's dropping the traditional court dress to wear a suit, tie and gown.

"All these things, one by one, are disappearing," Mr. Gray says. "At the moment, there seems to be an awful rush toward modernization."

Parliament still adheres to some archaic traditions. Members don't use one another's names in the chamber, instead referring to "the honorable member" or "right honorable." When the speaker is elected, lawmakers drag him to his chair by parts of his suit and his hair.

The vellum dispute comes as Parliament prepares to transfer 19,000 pieces of European Union law onto Britain's books to pave the way for an exit from the EU. This process, to avoid a legal vacuum once the U.K. leaves the bloc, would have been a bonanza for Paul Wright, manager of vellum manufacturer William Cowley, which supplies Parliament.

Mr. Wright says the Magna Carta, which in 1215 established the English-speaking world's rule of law, has remained pristine because it is printed on vellum. Paper lasts for 350 years under normal conditions, compared with vellum's 5,000 years, he says. The Dead Sea Scrolls, he points out, were parchment and remained preserved in a cave for more than 2,000 years.

"The Brexit documentation will be as important in 800 years' time as the Magna Carta is today," says Mr. Wright, whose family-owned company uses a secret process passed down over generations and supplies vellum for special documents around the world.

True, Magna Carta-era paper might not have survived, says John Purcell, owner of John Purcell Paper. Today's paper, made and stored correctly, can last forever, he says. "It is established, old technology."

Parchment, unlike paper, is fire-resistant and difficult to tear, says Matthew Collins, a University of York archaeologist specializing in vellum and the decay of materials. Paper can also be damaged by pollution, he says.

Vellum production goes back thousands of years. Craftspeople soak calfskin in lime for weeks, making it easier to scrape off fat and fur. They wash and stretch it onto a wooden frame, then dry it and scrape it with a curved knife.

Artists use vellum for its special properties, and it is the medium for important U.K. royal-family documents such as the Instrument of Consent marking the queen's agreement to Prince William's marriage to Kate Middleton.

Documents in both materials are "readable and perfectly usable as records," says Adrian Brown, director of the parliamentary archives. Among the world's oldest parliamentary collections, the archive occupies 12 floors of dark, cool, fireproof rooms with records dating to 1497.

The House of Lords spokeswoman says the paper that chamber uses is "of extremely high quality and durability" and that the House of Commons's switching would save at least £80,000 ($103,000) a year. Mr. Wright says the savings would amount to £26,000 a year.

In April 2016, the House of Commons voted to override a House of Lords recommendation to stop using vellum. Six months later, the Administration Committee advised against that vote, citing vellum's cost. A parliamentary commission ratified the paper decision in late January but agreed to print the covers of future acts on vellum.

It's "nonsense" that vellum won't be used, said U.K. Defense Secretary Michael Fallon, adding that efforts were under way to overturn the committee vote. Mr. Fallon, who has a 1662 vellum document from diarist Samuel Pepys framed behind his desk, says paper isn't an adequate substitute. "We're not admitting defeat."

Calligrapher Patricia Lovett, who has used vellum for years, says losing a beloved tradition to save a little money makes no sense.

"We send the queen in a coach drawn by horses in a coach to open Parliament," she says. "If you put a bottom line on everything, as accountants would do, she'd go to Parliament in a taxi in an ordinary frock."

GEOFFREY ROBINSON/REX FEATURES/ZUMA PRESS

Inside a workshop at William Cowley, a vellum manufacturer.

For personal non-commercial use only. Do not edit or alter. Reproductions not permitted.
To reprint or license content, please contact our reprints and licensing department at +1 800-843-0008 or www.djreprints.com

LIFE & ARTS

CLOCKWISE FROM TOP: GIULIO SQUILLACCIOTTI; RACHEL ROSE/PILAR CORRIAS GALLERY, LONDON; ADMIRE KAMUDZENGERERE/CATINCA TABACARU GALLERY; MOATAZ NASR/GALLERIA CONTINUA

EXHIBITS

The Olympics of the Art World

The Venice Biennale is deliberately steering clear of politics this year and exploring light themes

BY KELLY CROW

THE VENICE BIENNALE is trying to lighten up. Organizers of the century-old exhibition of contemporary art, which opens to the public May 13, encouraged artists in its main show to steer clear of geopolitical conflict and focus instead on playful themes—joy, fear, color, time and sexual freedom.

The tenor of the exhibition, which takes place in pavilions and piazzas all over town, is largely determined by the biennial's sprawling main show, "Viva Arte Viva." This round-up of 120 new and established artists was picked by the biennal's artistic director Christine Macel, a former Centre Pompidou curator. Her two predecessors focused on folksy, self-taught artists and political artists from marginalized regions—but Ms. Macel's choices suggest she's projecting a playful tone. She has organized her galleries like a book, with artists' stories unfolding in rooms under headings like "The Pavilion of Time and Infinity."

"In a world full of conflicts and shocks, art bears witness to the most precious part of what makes us human," she said in a statement, adding that she hopes to hold up the rollicking world of the artist's imagination as an antidote to geopolitical ills.

Rising stars this year include Julian Charriere, a Swiss artist based in Berlin whose one-ton coconut cannon for the recent Antarctic Biennial was confiscated by German police. His last project in Venice caused a stir because it involved dousing the city's pigeons in brightly colored powder. This time, he is showing a more sober piece, "Future Fossil Spaces," a room of so-called ruins he's built using striated bricks carved from the world's largest salt flat in Bolivia's Andes mountains.

Another up-and-comer is Rachel Rose, a New York artist whose haunting video work from 2015, "Everything and More," was inspired by an interview with astronaut David Wolf. Organizers asked Ms. Rose to keep her Venice piece a secret until the biennial opens, said her gallery Pilar Corrias.

Edi Rama, an artist whose day job is prime minister of Albania, is more forthcoming about his contribution: a 62-foot-long sheet of wallpaper he's designed using colorful doodles he first drew on scratchpads and copies of government documents. Mr. Rama, a former art professor who taught art star Anri Sala, said he often draws during phone calls at work because he finds it "calming." "My drawings only became art after they left my office," he said, "so to show them in Venice is a dream."

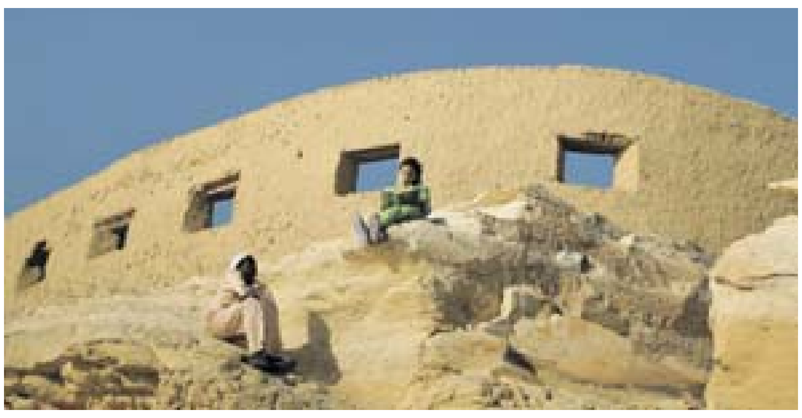
Along with giving younger artists their breakout moment, Venice gives curators a chance to validate older artists who may have been overlooked. Expect a reassessment of Irma Blank, an artist born in Germany in 1934 who now lives in Italy and is known for transcribing entire books and newspapers into slender script that's unreadable—a gesture that turns language into line. Her dealer Alison Jacques said Ms. Blank will show some of her earliest pieces from the late 1960s. Sam Gilliam, a Washington-based painter, is also making a return appearance 45 years after he became the second African-American artist to show in the biennial. This time, his dealer Kurt Mueller said Mr. Gilliam is making a "spectacular" new painting that nods to his earlier Color Field breakthroughs.

In addition to the main show, 85 nations are participating with their own shows around town, including first-timers Nigeria and the tiny Pacific island of Kiribati. Malta is back after a 17-year hiatus. Dozens of art foundations, museums and private collectors are also arranging separate exhibits citywide—a collective effort that is expected to draw 300,000 people to Venice over the next seven months, organizers say. Exhibitions run through Nov. 26.

The national pavilions will feature plenty of social critique. Tunisia enlisted a German company known for making most of the world's encoded security papers to design an imitation travel document. Curator Lina Lazaar said Tunisian migrants who had previously been unable to secure their own visas to Italy intend to hand out 100,000 of these "freesas" at kiosks citywide. "Because of Venice, we were able to get them in," Ms. Lazaar said.

James Lee Byars' 65-foot-tall "Golden Tower" structure will also go up along the Grand Canal near the Accademia museum; it was gilded by the same Italian firm that gold-leafed Versailles, and Byars' dealer Gordon Veneklasen said, "It's meant to remind us that art can transform humanity."

Here are some other national highlights.



Clockwise from top, 'Lake Valley,' by Rachel Rose, 'Untitled' by Admire Kamudzengerere, and 'The Mountain' by Moataz Nasr

U.S.A.

Los Angeles artist Mark Bradford is already a museum mainstay, but that doesn't mean he took a casual approach to representing the U.S. "The significance of Venice rises up over you like Atlantis in the ocean," Mr. Bradford said. His response: "I started swimming." Pavilion curator Christopher Bedford said the artist, who is known for sanding and layering found paper into abstracts, "wrung himself out" for the occasion with new sculptures like "Spoiled Foot." This red, cellular blob will be suspended from the ceiling in a way that forces viewers to inch around it, an uneasy scenario that Mr. Bradford said matches his current sentiments about his country.

CANADA

Canadian artist Geoffrey Farmer is known for attaching paper cutouts of people and places that fascinate him onto spindly wooden sticks and arranging the multitudes into a sort of sprouted, visual encyclopedia. But for Venice, he wanted to "shift to something new," so he teamed up with a Swiss foundry to help him turn the Canadian pavilion into a "fountain," he said. Mr. Farmer's new bronze sculptures still delve into dense histories: This time he reveals a traumatic secret involving his grandfather.

POLAND

When Los Angeles-based artist Sharon Lockhart went to Poland eight years ago for a show, she fell hard for its people and has since traveled back nearly two dozen times to make films and mentor teenagers she befriended at a home for young women in Rudzienko called the Youth Center for Socio-Therapy. For Venice, she said she enlisted 47 girls from the center to comb through back issues of "Little Review," a popular children's weekly that ran in Poland in the 1920s and 1930s. The girls picked 29 issues to be translated into English, and Ms. Lockhart will distribute them, once a week, at the Polish pavilion. (She and the girls are writing and editing their own new issue of the "Little Review.")

ZIMBABWE

Zimbabwe's artists are gaining major traction among collectors in Africa and beyond right now. They are holding a group show of works by modern master sculptor Sylvester Mubayi and young upstarts like architect Dana Whabira and painters Charles Bhebhe and Admire Kamudzengerere. Mr. Kamudzengerere produced a series of expressive portraits printed on Harare phone book pages in a nod to a belief that people too often get reduced to numbers and statistics.

EGYPT

Egyptian artist Moataz Nasr has carted dirt and bricks from home to build an immersive backdrop for his latest multi-screen video installation, "The Mountain," which chronicles the day—and night—of a fictional Egyptian village. As the hours tick by, its residents appear to grow increasingly suspicious, but the reason seems unclear. His dealer Mario Cristiani said Mr. Nasr wanted to show "fear from a poetic point of view."

For personal, non-commercial use only. Do not edit or alter. Reproductions not permitted.
To reprint or license content, please contact our reprints and licensing department at +1 800-843-0008 or www.djreprints.com

REVIEW & OUTLOOK

The Non-Choice in Iran

Don't expect change or reform from the presidential election.

Iranian voters head to the polls later this month to elect their next president, without much of a choice. The contest is shaping up as a race between several Islamic hard-liners and one hard-liner whom the Western media prefer to cast as a moderate.

The unelected Guardian Council eliminated more than 1,600 candidates, including 137 women, who are constitutionally prohibited from holding that office. The Council deemed only six candidates morally sound, which in Iran means thoroughly committed to Supreme Leader Ayatollah Ali Khamenei, the nuclear program and the destruction of Israel.

Among the challengers, Ebrahim Raisi has garnered the greatest attention. The 56-year-old cleric is a protege of Mr. Khamenei, and our sources say he enjoys the support of elements of the Islamic Revolutionary Guard Corps and the security apparatus.

Rumors out of Tehran suggest he could succeed the ailing Mr. Khamenei, and he certainly sounds like he has emerged from central theocratic casting. Shortly after the 1979 Islamic Revolution, he was appointed a revolutionary prosecutor—at age 19—and developed a reputation for ruthlessness. A decade later he was one of the prosecutors who oversaw the summary execution of thousands of leftist opponents of the regime.

His rhetoric has invited comparisons with former President and Holocaust-denier Mahmoud Ahmadinejad. "The ominous triangle of the United States, Britain and the Zionist regime is the most hated phenomenon among peoples the world over," Mr. Raisi has said. He has also predicted that "one day soon the filthy stain of arrogance will be wiped not only from Jerusalem but also from the Noble Sanctuaries"—the latter a reference to the Saudis, who administer some of the holiest sites in Islam.

Mr. Raisi also believes the Iranian regime's borders extend across Syria, "which we consider our frontier for defending the Islamic Republic's security and identity." This is also where Iran's terrorist proxy, Hezbollah, is active. As for domestic law enforcement, Mr. Raisi's philosophy is summed up in this statement: "The corporal amputation of hands is one of our great sources of pride."

Mr. Raisi and others will try to oust incumbent President Hassan Rouhani, who is often styled as a moderate despite his record in and out of office. Mr. Rouhani spearheaded the bloody crackdown against the 1999 student uprising and helped oversee a campaign of assassinations targeting dissidents abroad in the 1990s.

Mr. Rouhani also told a gathering of Islamist students that the "beautiful cry of 'Death to America' unites our nation." In May 2013 during his presidential run, he said: "We need to express 'Death to America' with action. Saying it is easy." One wonders if anyone in the Obama Administration read Persian.

As for Mr. Rouhani's presidential record, domestic repression has intensified. The leaders of the pro-democracy Green Movement remain under house arrest despite campaign promises to free them. Religious minorities continue to face systematic harassment and discrimination, and at least half a dozen American and British dual citizens remain under arrest as hostages.

Beyond Iran's borders, the regime has continued to promote instability, underwriting Bashar Assad's Syrian slaughter, deepening military cooperation with Vladimir Putin and funding Shiite terror proxies from Yemen to Lebanon.

In all these cases, Mr. Rouhani has been powerless or unwilling to change course. As Saeed Ghasseminejad of the Washington-based Foundation for Defense of Democracies says, "Mr. Rouhani has served his purpose for the regime. He brought people back into the electoral area after the fraudulent 2009 election without actually conceding any reforms."

As for relations with the U.S., Messrs. Rouhani and Raisi both support President Obama's nuclear deal. That accord has granted Tehran a much-needed financial reprieve even as it will leave the regime a threshold nuclear power by the time it sunsets. Hope for averting that outcome will not come through the artifice of Iran's presidential election.

Your Friends in Public School

The lengths they'll go to deny kids and parents an education choice.

A California appellate court has unanimously rejected an attempt by the Anaheim Elementary School District to throw out a petition by parents to convert a failing school into a charter using the state's parent trigger law. The district wasted two years and hundreds of thousands of dollars fighting parents. Can the parents sue for damages?

California's 2010 parent trigger law allows a majority of parents whose kids attend a failing school to catalyze reforms. In January 2015, Palm Lane Elementary School parents with the help of the law's author Gloria Romero and education activist Alfonso Flores filed a petition with the school district. The teachers' union abetted by district officials then used dirty tricks to thwart parents, including accusations of bribery. When intimidation failed, district officials tried to reject the petition on technical points, every one of which was dismissed by the appellate court.

The district claimed Palm Lane didn't qualify as failing because California had obtained a waiver from the U.S. Department of Education that exempted schools from Adequate Yearly Progress benchmarks for the 2013-2014 school year. Yet Palm Lane had failed to meet those benchmarks for nine of the prior 10 years.

The appellate court affirmed the findings of Orange County Superior Court judge Andrew Banks who in July 2015 ruled in favor of the parents on all counts and blasted the district for being "unreasonable, arbitrary, capricious and unfair." The school district appealed.

Maybe district officials were hoping that parents, who were represented pro bono by Kirkland & Ellis, would drop the case once their kids moved to middle school. But in the two years that the case has sat on appeal, the district and parents have racked up more legal expenses. And students have continued to be deprived of a quality education.

The appellate court ordered the district to cover the parents' legal fees, but that won't make up for the lost education. The district will merely pass on the costs to state and local taxpayers including Palm Lane parents who own homes in the district. The outrage is that this disgrace generates no outrage.

Japan's Constitutional Gamble

Abe's rewrite bid will put his economic agenda at risk.

Shinzo Abe is stepping on one of the highest-voltage third rails in Japanese politics. The Prime Minister announced last week on the 70th anniversary of the postwar constitution that he wants to amend that charter by 2020. He's right that the constitution needs updating to meet new realities, but the political price could be steep.

The staff of Gen. Douglas MacArthur drafted Japan's constitution during the postwar occupation when the main concern was preventing a resurgence of militarism. Article Nine renounces war and forbids maintaining armed forces and "the threat or use of force." Once Japan became a responsible democracy, those restrictions became unnecessary, but the country has been content to shelter under the U.S. security umbrella. The Self-Defense Forces were justified under a clause allowing the country to defend itself if attacked.

Article Nine is now becoming dangerous to Japan because it hampers collective defense with its allies. North Korea's nuclear weapons threaten Tokyo and the world, and China is expanding its military reach. Japan needs a military with offensive capabilities that can take part in joint military action when Japan isn't directly under attack.

Mr. Abe proposes to add a clause to Article Nine that recognizes the existence of the Self-Defense Forces while leaving the current language intact. That is acceptable to the LDP's main coalition partner, the relatively pacifist Komeito Party. Mr. Abe has also endorsed a constitutional clause making higher education free, a key demand of the small opposition party Nippon Ishin no Kai.

But Mr. Abe hasn't made clear what other changes he might seek. In 2012 the LDP came up with a draft that reworked nearly every article of the constitution. It proposed making the emperor head of state instead of symbol of the nation, removing language about human rights, and imposing duties on citizens such as loyalty to family and the constitution. Such far-reaching changes are unnecessary for national security, and they would stir vigorous opposition.

Mr. Abe's ruling coalition controls a two-thirds majority in both houses of the Diet, the first requirement for constitutional revision. But following passage by lawmakers, constitutional amendments must be approved by referendum. Polls show the public is closely divided on a revision. Support could swing either way depending on how the issue is presented or how events play out on the Korean Peninsula. China and South Korea will also loudly protest.

The larger political gamble concerns timing and Mr. Abe's economic reforms. The next lower house elections must be held before the end of 2018, and a debate on the constitution would dominate the Diet in the meantime. Mr. Abe needs to quickly move constitutional changes or call snap elections to get a new mandate.

In either case the casualty is likely to be his economic agenda. A constitutional debate is overdue and could be healthy for Japan, but Mr. Abe would be in a stronger position if he first revived the economy to build political capital. This assumes, of course, that Mr. Abe still cares about economic reform.

Scottish Conservatism's Unlikely Revival

Ruth Davidson leads her party to victory in local elections, but the independence debate lingers.

By Peter Geoghegan

'Conservative" has long been a dirty word in Scottish politics. You have to go back to 1992 for the last time Conservatives won more than a single seat north of the English border—hence the hackneyed joke that "there are more giant pandas in Scotland than Tory MPs." This looks set to change in next month's British general election, if recent local elections are any indication.

On Thursday, Ruth Davidson's Scottish Conservative and Unionist Party more than doubled its seats and increased the party's overall vote share to 25% from 13%. The Conservatives' success is a bloody nose for Nicola Sturgeon's pro-independence Scottish National Party, because Ms. Davidson has positioned her party as the strongest defender of the 1707 Anglo-Scottish union.

"Tory surge 'sinks case' for independence poll," blared the front page of the Glasgow Herald. But such breathless claims appear far-fetched, at least for now.

Start with the mechanisms of the electoral system itself. Unlike in England, Scottish elections use the single transferable vote, a proportional system that tends to benefit smaller parties. So while the SNP comfortably topped polls Thursday, Conservatives could still pick up seats in places such as Shettleston in Glasgow, a city that voted for independence in 2014. Such improbable victories are far harder to realize under Westminster's first-past-the-post electoral system, where parties must top the poll to win.

Nevertheless, the Tories have reason to believe they can make gains in the June general election. Since the SNP won all but three of Scotland's 59 Westminster seats in 2015, the Conservatives have emerged as the leading unionist force usurping the once-dominant Labour Party. More significantly for Scotland, the Conservatives' recent uptick in fortune is likely to intensify the focus on constitutional issues.

The independence issue has dominated Scottish politics since the 2014 referendum. In March, Ms. Sturgeon won a vote in the Scottish parliament to call for the powers to hold a second referendum to be transferred from London to Edinburgh, citing the Brexit vote, which most Scots opposed. Prime Minister Theresa May demurred, stating "now is not the time." A majority of Scots agree.

Ms. Davidson has adroitly positioned the Conservatives as the only force capable of stopping the SNP. But her focus on independence, electorally profitable as it is, is also politically perilous. By talking so much about a referendum, the Tory leader risks normalizing the idea of another vote.

There is also likely a ceiling to the appeal of the Conservative's brand of unionism. Where the successful 2014 Labour-led, pro-union campaign focused its message on pan-U.K. solidarity, the Tories' unionism is a more strident, overt form of red, white and blue nationalism, seemingly at odds with the distinctly Scottish unionist identity that held throughout much of the 20th century.

Support for the SNP is slipping, and there is a sense of fading momentum as the party juggles a decade in government with its constitutional ambitions. Ms. Sturgeon's popularity has waned, particularly among unionists. And yet there is little discernible drop in support for independence, which remains at around the 45% who voted "yes" in 2014, despite a fall in oil prices and enduring uncertainty about what currency an independent Scotland would use.

Paradoxically, the Tory surge could prove politically useful for the nationalists. Losing some seats in June could take the pressure off Ms. Sturgeon to push for a referendum that would be a gamble for her party. Conservative gains would also allow her to frame the political battleground as "the SNP versus the Tories," seldom a weak position in modern Scottish politics, where the specter of the unpopular Margaret Thatcher still looms large.

Conservatives are not so rare in Scotland anymore, but their emergence in the wild does not mean that the question of independence, or union, is settled. Quite the opposite.

Mr. Geoghegan is a lecturer at the University of the West of Scotland and the author of "The People's Referendum: Why Scotland Will Never Be the Same Again" (Luath Press, 2015).

Remake the Paris Deal To Promote U.S. Energy

By Kevin Cramer

President Trump will soon decide whether to withdraw the U.S. from the Paris Agreement on climate change. His top advisers are huddling Tuesday, likely for a final time, to consider the decision, which has been promised by the end of the month. I endorsed Mr. Trump last April because I believed in his America First agenda, and I advised him on energy policies during the campaign.

I was wary of Paris and used to favor pulling out, but I've changed my mind for two reasons. First, in future climate talks the U.S. will benefit from having Mr. Trump, an experienced negotiator, at the table. Second, the Trump administration can legally scrap President Obama's emission-reduction pledge without leaving the Paris agreement.

It is abundantly clear that the agreement, which is and will remain legally nonbinding, does not prohibit lowering the American pledge. In a May 1 memo, Sierra Club lawyer Steve Herz wrote that "it would be extremely difficult to prevail" in any lawsuit arguing that the U.S. was bound by its pledge, or by the agreement itself.

Thus any renegotiation would be the easiest deal Mr. Trump has ever made: He would simply submit a new pledge. Then if somehow the U.S. was blocked from changing its commitment, Washington could simply leave the Paris agreement that same day.

Regardless, EPA Administrator Scott Pruitt would be able to rescind the woefully constructed Clean Power Plan and other harmful Obama-era regulations, since they all preceded the climate deal reached in Paris in December 2015. Those regulations and the Paris agreement are legally unrelated.

There has been spirited debate among House Republicans on the best move to make. Several of my colleagues on the House Energy and Commerce Committee—including conservatives from energy-rich states such as Oklahoma, Missouri and Pennsylvania—agree that the smart strategy is to try to work out a more beneficial deal for the U.S. under the Paris agreement rather than walk away and let China and others take over the discussions. Eight of my fellow Republicans joined me in signing a letter to President Trump laying out specific conditions that would turn Paris into a good deal:

First, revise the U.S. pledge so it doesn't harm the economy and comes to reflect America First energy policies.

Second, cease Washington's transfers to the Green Climate Fund, and ensure the existing money isn't spent on wasteful projects.

Third, negotiate through the Paris Agreement to defend American interests, particularly by advancing technology for clean coal and pushing for increased investment and a better regulatory environment—all of which will create more foreign markets for American clean coal technology.

Mr. Obama's Paris pledge was a bad deal, as Mr. Trump explained forcefully during the campaign. But the situation has changed. The new White House can replace those harmful policies with an America First energy vision, and a Paris pledge and negotiations that reflect it.

What could Paris become with President Trump and his negotiators at the table? Energy Secretary Rick Perry has already aggressively touted the virtues of nuclear and clean coal at a recent Group of Seven energy meeting. That view faces stiff opposition from some of America's allies in Europe, who will work hard to promote a radical and unrealistic all-renewables vision for global energy policy. The U.S. needs to take them on in every available forum, Paris included.

Since Paris went into force, many nations in Eastern Europe and the Mediterranean have built clean coal plans into their Paris pledges. The White House can build on these pragmatic approaches, using Paris to help the U.S. energy industry and American workers. If Washington were to up and leave, Beijing would fill the leadership vacuum. It isn't wise to cede that ground.

Neither America nor the world can afford a European energy future, with skyrocketing prices, or a Chinese energy future, with bureaucratic control and unfair dumping of state-subsidized resources.

If Mr. Trump can fix Paris, it will be an example of the emerging Trump Doctrine. He would manage to get international credit for staying in the talks and ensuring they aren't led by China, while at the same time protecting America's economy.

Voters elected Donald Trump because they trusted him to drive hard bargains and help America start winning again. I trust that President Trump can negotiate the Paris Agreement into a good deal and deliver yet another win—for North Dakotans and American workers everywhere.

Mr. Cramer, a Republican, represents North Dakota in the U.S. House.

For personal non-commercial use only. Do not edit or alter. Reproductions not permitted.
To reprint or license content, please contact our reprints and licensing department at +1 800-843-0008 or www.djreprints.com

Trump's Tax Plan Would Spur Growth

By Edward P. Lazear

President Trump's tax plan leaves many details undefined, but there is plenty to evaluate. The administration claims its proposed changes would encourage growth and make the tax system more efficient. History suggests they will.

Less certain is the claim that the tax cuts will pay for themselves. Although budget concerns should always be paramount when cutting taxes, revenue neutrality does little to guarantee that this—or any—administration will exercise fiscal responsibility.

By moving toward a consumption levy, it could generate a GDP gain of between 2.5% and 4.5%.

Most economists favor moving away from taxing capital and toward taxing consumption through value-added or sales taxes. Taxing capital squelches growth because capital is mobile and can cross borders in search of the highest risk-adjusted, after-tax return. Economists in both parties have scored the effects of eliminating capital taxation in favor of a pure consumption tax. Estimates range from a 5% to 9% total increase in gross domestic product.

There are a number of ways to move toward a consumption tax and reduce taxes on capital without instituting a national sales tax or VAT. One is to lower tax rates on corporate profits and "pass-through" income, as the president proposes. Another is to permit full expensing—to let companies deduct the entire cost of investments immediately.

Expensing creates a positive incentive for corporations because they receive the tax benefit only when they invest in themselves. A Treasury Department analysis done while I was chairman of the Council of Economic Advisers showed that a given dollar of tax cuts through expensing is more powerful than rate cuts in the short run by about a factor of four.

Rate cuts, on the other hand, benefit new and old capital alike and confer tax benefits on companies that have invested in the past. This saves companies money, but provides no direct incentive for new investment. In the long run, the distinction between expensing and rate cutting disappears because all capital is new capital and so is taxed at the lower rate.

Tax-rate cuts on pass-through income will have additional growth effects, but the administration hasn't released enough details to score them. Separating capital income from wage income may add some complexity, but that's not a new problem. Defining income and profit is not straightforward. Tax accountants already struggle to determine true costs, including business owners' implicit wages.

State and local taxes would no longer be deductible under Mr. Trump's plan. Much has been said about the cross-subsidization of high-tax states such as New York

ASSOCIATED PRESS

Economic adviser Gary Cohn and Treasury Secretary Steven Mnuchin introduce the Trump tax plan, April 26.

and California by low-tax states such as Florida and Texas. Removing this deduction would mean that overall federal personal income-tax rates can be lower and generate the same revenue. Beyond that, there is a subtle and positive growth effect of eliminating state tax deductions.

The deductibility of state taxes provides incentives to raise overall taxes at the state level. Californians and New Yorkers bear only part of the cost of their tax increases; the rest is passed on to other states' taxpayers through the deduction. This leads state governments to overtax their citizens, resulting in economic distortions and reduced overall growth.

Tax cuts enacted through the Senate's budget-reconciliation process must sunset after 10 years, although this may not be the roadblock to lasting reform that it seems. Recall that the Bush tax cuts of 2001 had the same sunset provisions, but most are still in effect. Congress renewed them in 2010 and again—apart from those on the highest earners' rates—in 2012.

The Trump administration's plan may get the economy about halfway to a pure consumption tax. That could generate a GDP gain of between 2.5% and 4.5%. In 2016, the Congressional Budget Office estimated that corporate income-tax payments were $415 billion, or about 12% of federal tax receipts. Rate cuts that spurred 4% growth would generate total tax revenues of about $120 billion—assuming no other tax reductions—which is not quite enough to offset the loss of income to the government. Cutting individual income taxes makes the revenue-neutrality task more difficult because personal tax-rate cuts do not generate the same growth effect as rate cuts on capital.

The net effect of the proposed corporate tax cuts would be to increase the deficit by about 0.5% of GDP. This is significant, but revenue neutrality should not be the standard by which a tax plan is judged. Even revenue-neutral tax changes do not solve our budgetary problems. The CBO projects growing deficits, exceeding 7% of GDP annually, in two decades. Unless we are willing to accept major tax increases in the future—most likely through the introduction of a VAT—we will need to reduce government spending significantly to narrow the gap. This means re-examining entitlements, particularly Medicare, Medicaid and other health programs. Even a revenue-neutral tax reform plan would not come close to achieving fiscal responsibility.

The strongest argument in favor of the Trump administration's plan is that it moves in the right direction on capital taxation and will achieve growth. Because there is a direct connection among GDP growth, productivity growth and wage growth, the Trump proposals will help raise incomes and thereby benefit Americans overall.

Mr. Lazear, who was chairman of the President's Council of Economic Advisers from 2006-09, is a professor at Stanford University's Graduate School of Business and a Hoover Institution fellow.

President Macron Is Good for Franco-German Relations

By Michael Binyon

The sighs of relief in Berlin were almost audible Sunday evening. France's election of Emmanuel Macron and decisive rejection of Marine Le Pen and her populist, protectionist and anti-European Union policies have averted a crisis in Franco-German relations. The bedrock of Germany's postwar rehabilitation remains secure—and indeed, many Germans hope, may now be consolidated and broadened.

The relationship needs some repair. Outgoing French President François Hollande's political weakness, his failure to rein in public spending and his opposition to the economic austerity that Germany regards as essential to bolstering the euro have all led to a marked cooling in Berlin's relations with Paris.

German Chancellor Angela Merkel, now the de facto leader of Europe, has increasingly seen France as an unreliable partner, suffering from malaise and drifting into populism and Euro-skepticism. Germany wants a strong, confident partner across the Rhine to support tough measures to revive the EU's credibility and its readiness to tackle refugees, economic reform and the euro's weakness.

For its part, France has been angered by German inflexibility on austerity, its disdain for Eurobonds and its *"Alleingang"*—the practice of making decisions without consultation—on opening its doors to a million refugees and then insisting on sharing the burden of settling them with reluctant European partners.

For Mrs. Merkel, Mr. Macron looks like the perfect partner. A centrist likely to build a government drawing in technocrats from all parties, he would be a good counterpart to a German coalition that unites both conservatives and social democrats. He has also expressed strong support for Europe and promised a modernizing agenda to tackle France's economic weakness.

A French politician who has based his campaign on optimism and renewal will be important for Germany, at a time when both countries have the difficult job of steering the negotiations on Britain's damaging exit from the EU. They need to remain united if the EU is to avoid making too many concessions, while also not punishing a vital ally and leaving a poisonous division within Western ranks.

Germany is also realistic about what Mr. Macron can deliver, especially in his first few months. His main focus, the Germans know, will be on domestic issues such as unemployment, terrorism, migration

The new president can repair bilateral ties, bolster the euro and push for EU reform.

and the restoration of confidence in government and France's own *amour-propre*. Inevitably, Berlin understands, this will lead to a confrontation with the unions and entrenched interests over pensions, the 35-hour workweek and cutting back the myriad social benefits that have mired the French state in debt and rendered the economy uncompetitive.

Will Mr. Macron have the nerve and the support to tough it out and face down union leaders calling strike after strike and blocking the motorways? Germany will be quietly encouraging. But Wolfgang Schaüble, Germany's iron finance minister, is not ready to make any concessions on austerity or allow Germany to be sucked into any special deals to mitigate the hardship of French reforms that he regards as essential.

With the impending exit of Britain, Germany will again have to rely on France as a pillar of EU stability. In recent years, Britain's trade liberalism, global outlook and robust military posture have been increasingly in tune with Germany and out of tune with France.

Mrs. Merkel has become the voice of the EU in the confrontation with Vladimir Putin's Russia, and in dealings with China and the Trump administration. Britain was a useful security partner and often a bridge to relations with Washington. Now Germany and France, the two countries where the move to unify Europe began, will again have to seize the initiative on their own.

It will be months before the new French president is ready to address EU reform. But Mrs. Merkel knows that the continent's voters want immediate answers to the refugee crisis, the menace of terrorism and a unified response to ultimatums from Washington on defense spending or from Turkey on tearing up the deal halting the flow of refugees. She will push for an early commitment on burden-sharing from Paris, especially on refugees. She will get polite words but little more at this stage.

President Macron may offer her new deals to revive the partnership, however. These could include security guarantees—even possibly extending France's nuclear umbrella eastward—at a time when a nervous Eastern Europe is looking anxiously at Mr. Putin's next moves. It could include new joint moves by the EU to deal with the Syrian crisis or push for a revival of Israeli-Palestinian talks, areas where Berlin has been wary of engagement.

All that is for the future, however. For now, Germany will do what it can symbolically to reward France's rejection of populist nationalism. And France will try to bolster Mrs. Merkel's standing as she faces her own voters and her own angry nationalists in September.

Mr. Binyon is the former diplomatic editor of the Times of London.

How a Gawker-Affiliated Website Made ESPN Politically Correct

By Jason Whitlock

ESPN has recently faced public scrutiny beyond its control, an experience that has humbled the cable giant. Late last month the company cut ties with 100 employees, many of them front-facing television talent. The layoffs sparked a deluge of media coverage examining ESPN's decline and future. The consensus opinion blamed the network's woes on overly expensive live-sports contracts and subscriber losses attributed to cable "cord-cutting."

That's accurate but incomplete. What has truly impeded ESPN from overcoming its financial mistakes and inability to adapt to technological advances? The decadelong culture war ESPN lost to Deadspin, a snarky, politically progressive sports blog launched by Gawker's Nick Denton in 2005.

While the mainstream media has failed to document the extent of Deadspin's rout of ESPN, I haven't. I worked at ESPN twice, BD and AD. Before Deadspin (2001-06) and After Deadspin (2013-15).

The Mark Shapiro era defined my initial stint at the network. Mr. Shapiro—a youthful, abrasive, risk-taking senior vice president in charge of programming and production—conceived much of the programming that defines the network to this day. He invented "Pardon the Interruption" and "Around the Horn." He also paired Stephen A. Smith and Skip Bayless, televised "Mike and Mike" and "The World Series of Poker," hired Colin Cowherd, and landed ESPN's NBA package.

"Mark built a culture at ESPN," said former ESPN executive Jim Cohen in an interview. "It's always easy to do the predictable. If the predictable doesn't work, no one is going to question you, because it's what you were supposed to do. A lot of people in that newsroom laughed out loud when we started 'PTI.' They said it had no chance at succeeding."

Mr. Cohen added that since Mr. Shapiro left the network, no one has had the guts to take similar risks. But was it a lack of guts or a lack of opportunity?

Deadspin significantly elevated the price of implementing change at ESPN. The often-caustic blog mastered search-engine optimization and Twitter's ability to gin up faux outrage. Its writers trolled ESPN talent and executives, getting plenty of attention along the way. The site particularly delighted in exposing alleged sexual malfeasance among ESPN employees.

In 2007 Deadspin editor Will Leitch posted a story suggesting popular anchor Stuart Scott attempted to arrange an assignation with a woman at a Super Bowl party. Scott, who died in 2015, was married at the time, and the story was based solely on a Deadspin correspondent looking over Scott's shoulder and seeing a text that read: "Lemme know."

In 2009 Deadspin editor A.J. Daulerio—angered that ESPN PR misled him about "Baseball Tonight" analyst Steve Phillips's dismissal over an affair with an intern—published a string of unconfirmed rumors about sexual misconduct among ESPN employees.

Deadspin ended the sports network's frat-boy culture, but also infused it with a deadening ideology.

A 2011 Deadspin post alleging lewd conduct by a top ESPN executive while seated next to sideline reporter Erin Andrews justifiably spread fear throughout the channel's leadership.

On the plus side, Deadspin's exposure helped end ESPN's sexually charged frat-house atmosphere. But it also extinguished the network's risk-taking culture and infused it with strict obedience to progressive political correctness.

During ESPN's presentation to advertisers last year, Deadspin's Kevin Draper wrote a post that all but declared the blog's victory over the media giant. In the piece, "ESPN's Vision of Its Future Is Good for Sports Fans, for Now" the writer celebrated the network's firing of Curt Schilling and the "targeting" of nonwhite and female viewers.

"The old-school viewers were put in a corner and not appreciated with all these other changes," veteran ESPN anchor Linda Cohn said during an April radio interview when asked if ESPN's liberal bent hurt the network. "If anyone wants to ignore that fact, then they're blind."

Rather than sue Mr. Denton's bullying internet pirates into submission the way tech billionaire Peter Thiel did, ESPN chose to acquiesce and adopt progressive ideology and diversity as groundbreaking business innovations. ESPN is the exact network Deadspin desired. It's diverse on its surface, progressive in its point of view, and more concerned with spinning media narratives than with the quality of its product.

The channel has become too handcuffed by politics to protect its most experienced and loyal employees. It's a massive symbol of everything that fueled Donald Trump's bid for the presidency.

ESPN NFL reporter Ed Werder, one of the most prominent faces among the layoffs last month, said in a podcast that he heard quality of work would not be a consideration when employees were let go. He lamented that "it seemed to me that quality work should be the only consideration." Not in this America, the one ruled by social-media perception and dismissive of the real world.

Mr. Whitlock is a co-host of "Speak for Yourself" on Fox Sports 1.

Notable & Quotable

The Hoover Institution's Victor Davis Hanson on cultural alienation, Oct. 26, 2016:

The alienated American is touched by, but avoids, popular culture. He cannot figure out the attraction of the harsh voices, grating beat, and glorification of misogyny, racism, and violence in rap music. He knows of a Kanye West or Miley Cyrus only to the degree that such entertainers sometimes intrude into the mainstream media, causing confusion over exactly how such untalented exhibitionists ever won an audience. . . The quiet American was once devoted to televised sports, but increasingly is losing interest there as well. San Francisco 49ers quarterback Colin Kaepernick, who refuses to stand for the national anthem on the ground that America is racist, hardly represents speaking truth to power. He is another pampered multimillionaire athlete who has manipulated his sport for personal attention and gain. The alienated American also avoids ESPN and similar sport channels. He believes that life is too short to listen to half-educated jocks posing as Socratic philosophers as they politicize their analyses and try to turn gladiators on the field into heroic progressive humanists.

THE WALL STREET JOURNAL.
PUBLISHED SINCE 1889 BY DOW JONES & COMPANY

Rupert Murdoch
Executive Chairman, News Corp

Gerard Baker
Editor in Chief

Robert Thomson
Chief Executive Officer, News Corp

William Lewis
Chief Executive Officer and Publisher

Matthew J. Murray
Deputy Editor in Chief

DEPUTY MANAGING EDITORS:
Michael W. Miller, *Senior Deputy;* **Thorold Barker,** *Europe;* **Paul Beckett,** *Washington;* **Andrew Dowell,** *Asia;* **Christine Glancey,** *Operations;* **Jennifer J. Hicks,** *Digital;* **Neal Lipschutz,** *Standards;* **Alex Martin,** *News;* **Shazna Nessa,** *Visuals;* **Ann Podd,** *Initiatives;* **Matthew Rose,** *Enterprise;* **Stephen Wisnefski,** *Professional News*

Paul A. Gigot, *Editor of the Editorial Page;* **Daniel Henninger,** *Deputy Editor, Editorial Page*

WALL STREET JOURNAL MANAGEMENT:
Suzi Watford, *Marketing and Circulation;* **Joseph B. Vincent,** *Operations;* **Larry L. Hoffman,** *Production*

DOW JONES MANAGEMENT:
Mark Musgrave, *Chief People Officer;* **Edward Roussel,** *Innovation & Communications;* **Anna Sedgley,** *Chief Operating Officer & CFO;* **Katie Vanneck-Smith,** *President*

OPERATING EXECUTIVES:
Ramin Beheshti, *Product & Technology;* **Jason P. Conti,** *General Counsel;* **Frank Filippo,** *Print Products & Services;* **Steve Grycuk,** *Customer Service;* **Kristin Heitmann,** *Transformation;* **Nancy McNeill,** *Advertising & Corporate Sales;* **Jonathan Wright,** *International*
DJ Media Group: **Almar Latour,** *Publisher;* **Kenneth Breen,** *Commercial*
Professional Information Business: **Christopher Lloyd,** *Head;* **Ingrid Verschuren,** *Deputy Head*

EDITORIAL AND CORPORATE HEADQUARTERS:
1211 Avenue of the Americas, New York, N.Y., 10036
Telephone 1-800-DOWJONES

DOW JONES
News Corp

For personal non-commercial use only. Do not edit or alter. Reproductions not permitted.
To reprint or license content, please contact our reprints and licensing department at +1 800-843-0008 or www.djreprints.com

BONDS: ON RELATIONSHIPS | By Elizabeth Bernstein

One Habit to Make You Happier Today

DO YOU HAVE a personal mantra? You should.

Research shows that thinking of a word or phrase that affirms our values—and repeating it over and over—produces powerful physiological changes. It can lower our cortisol levels, enhance endurance and reduce perception of effort during physical exertion.

Perhaps even more compelling, a mantra can quiet the mind. A 2015 study in the journal “Brain and Behavior” showed that silently repeating a single word led to a widespread reduction in activity across the brain, primarily in the “default mode network,” which is responsible for self-judgment and self-reflection.

Every thought we have is made up of a complex pattern of activity influenced by gene expressions, neural connections, proteins and other chemicals in our brain. The more we have a thought, the stronger that circuit grows. You can think of any two neurons as friends, says Alex Korb, a neuroscientist and author of “The Upward Spiral: Using Neuroscience to Reverse the Course of Depression, One Small Change at a Time.” “The more they communicate, the stronger their connection becomes,” he says.

This isn’t a bad thing—as long as we’re thinking thoughts that are beneficial. But too many of us beat ourselves up, ruminating on the same negative beliefs.

Mantras can create and strengthen new neural pathways that are positive and not toxic. And that can make our brain much calmer and happier.

The word mantra is derived from the verb root, “man,” which means “to think” in Sanskrit, the liturgical language of Hinduism and Buddhism. The earliest mantras appeared 3,500 years ago and were repetitive prayers or hymns. By the time meditative yoga developed, in the last few centuries B.C.E., mantras were being used to calm and control the mind, says Rebecca Manring, associate professor of India studies and religious studies at Indiana University in Bloomington, Ind.

ROBERT NEUBECKER

Modern mantras are still a sort of a prayer—for what we wish to be. They’re effective because they’re repetitive and simple, making them easy to turn into a habit. We don’t have to search for the positive thought to call up; we already have it.

People invoke mantras during times of stress, such as business launches, academic finals, first marathons, life-threatening illnesses. Some are just one word: “Breathe.” “Shine.” “Love.” Others are phrases: “This will pass.” “You’ve come this far, now push to go further.” Giana Crispell, a retired financial planner in San Diego, has used the phrase “never, never, never, never, never, never give up!” (inspired by a Winston Churchill speech) while working her way through college and graduate school and launching a financial-services firm; she’s also passed it along to her children.

Mark Leary, a professor of psychology and neuroscience at **Duke University**, tells himself “I’m OK right now” when he’s worried about something in the future, such as the results of a medical test. Irwin Weinberg, 69, a retired quality management consultant in Boca Raton, Fla., tells himself “QTL” (which stands for “Quality Time Left”) in difficult times, including when his wife was terminally ill last year, to remind himself not to waste time thinking about the negative and to focus on what makes him happy. Kathlene Carney, a 55-year-old publicist in Point Richmond, Calif., begins repeating “good things always happen to me and good things always happen through me” as soon she feels a downward cycle of negative thinking coming on, whether it is prompted by work stress or worrying about global unrest.

Stephanie Freeman chose her mantra after a long bout of poor health which caused her to gain 50 pounds and lose most of her hair. When she felt unattractive and pitiful, she decided to change her thinking, adapting a line from a favorite song. She tells herself, “I’m a brick house! I’m mighty, mighty, just letting it all hang out!” “Yes the 1970s Commodores hit helped me time and time again to put a spin on what seemed like an endless battle,” she says.

How can you choose the best mantra for you? Not just any cliché motto—“Just do it!”—will do.

Picture yourself older and wiser. Now think about what advice this evolved version of yourself would most want to give you right now to make your life better. Write it down. And distill it into single word, phrase or short sentence. “Make sure that it rings true for you, that it makes you feel good, empowered, reassured, and hopeful,” says Ken Page, a licensed clinical social worker in New York City, who encourages his clients to create personal mantras.

Choose several. ‘Having one mantra can become monotonous or routine and it can lose its meaning,” says Lauren Myrick, a business consultant and life coach in Charlotte, N.C. But don’t have so many mantras that you have to struggle to recall them.

Keep it short. It needs to be easy to remember.

Make sure it is positive. But not unbelievable. “If it’s too positive, it can feel hokey—‘I’m good enough, smart enough and people like me,’” says Paul DePompo, a psychologist in Newport Beach, Calif. For example, telling yourself all is well when it clearly isn’t may not help. “Mantras that help build a healthy brain long-term are based in truth, logic and helpfulness,” Dr. DePompo says.

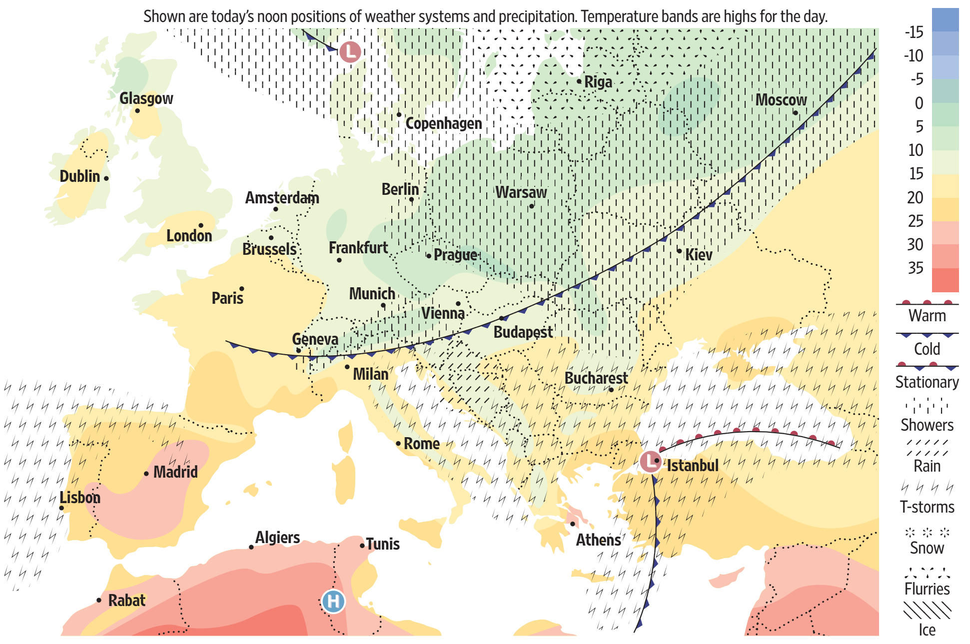
Trigger your mantra. Practice thinking about what’s bothering you and then saying your mantra. This will train your brain to call up the word or phrase as a habit when you are stressed.

Picture your new neural pathways. Loretta Breuning, professor emeritus at California State University, East Bay, and author of “The Science of Positive Thinking: Stop Negative Thought Patterns by Changing Your Brain Chemistry” suggests you picture electricity flowing effortlessly through your neurons.

Weather

AccuWeather.com

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



Global Forecasts

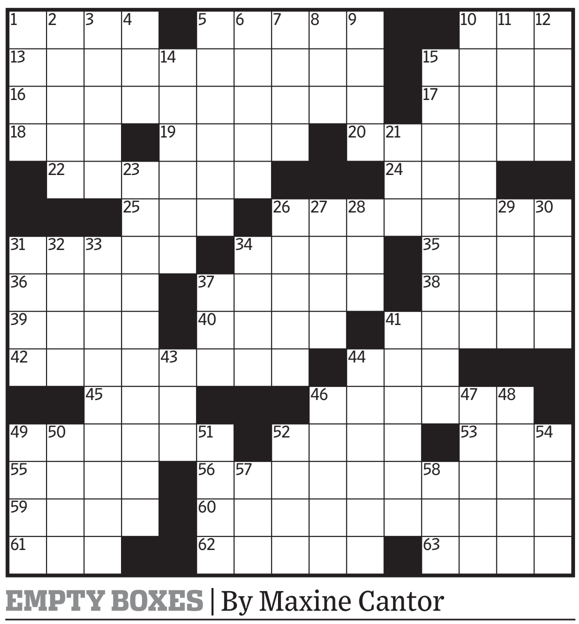
s...sunny; pc... partly cloudy; c...cloudy; sh...showers; t...t’storms; r...rain; sf...snow flurries; sn...snow; i...ice

City	Today Hi	Today Lo	Today W	Tomorrow Hi	Tomorrow Lo	Tomorrow W
Amsterdam	12	5	c	13	6	pc
Anchorage	12	4	c	13	6	pc
Athens	26	16	pc	25	16	pc
Atlanta	30	17	pc	31	18	s
Baghdad	38	20	s	40	24	s
Baltimore	18	6	pc	20	10	pc
Bangkok	34	25	t	32	26	t
Beijing	29	13	s	30	14	pc
Berlin	10	4	c	10	4	sh
Bogota	19	10	r	18	10	r
Boise	24	9	s	27	13	s
Boston	12	6	pc	13	7	r
Brussels	14	2	pc	16	7	pc
Buenos Aires	19	8	pc	18	9	s
Cairo	38	24	s	38	20	s
Calgary	17	4	pc	23	6	pc
Caracas	31	26	pc	31	26	t
Charlotte	25	16	pc	30	17	pc
Chicago	12	6	sh	18	7	c
Dallas	28	20	pc	29	20	c
Denver	19	7	t	17	7	r
Detroit	15	5	pc	17	7	pc
Dubai	38	28	pc	37	28	s
Dublin	12	2	pc	15	6	pc
Edinburgh	16	5	pc	15	6	pc
Frankfurt	14	3	c	17	7	pc

City	Today Hi	Today Lo	Today W	Tomorrow Hi	Tomorrow Lo	Tomorrow W
Geneva	17	5	pc	21	10	pc
Hanoi	30	25	t	30	25	t
Havana	30	18	s	31	19	s
Hong Kong	29	25	c	30	25	pc
Honolulu	29	23	pc	29	22	pc
Houston	29	20	pc	30	21	pc
Istanbul	23	13	c	18	12	pc
Jakarta	32	24	sh	32	24	sh
Johannesburg	20	10	pc	22	9	pc
Kansas City	30	18	s	28	15	t
Las Vegas	24	14	t	25	17	pc
Lima	24	19	c	25	19	pc
London	15	5	c	17	8	pc
Los Angeles	20	15	pc	20	14	pc
Madrid	29	13	pc	21	11	t
Manila	35	26	pc	35	26	s
Melbourne	16	7	pc	18	9	pc
Mexico City	25	14	pc	27	13	pc
Miami	31	21	s	31	22	s
Milan	21	11	pc	20	12	pc
Minneapolis	20	11	c	21	9	c
Monterrey	34	19	pc	35	19	pc
Montreal	9	0	c	14	5	c
Moscow	7	-1	c	7	-2	c
Mumbai	34	26	pc	34	27	pc
Nashville	30	17	pc	31	17	pc
New Delhi	43	29	pc	42	29	t
New Orleans	28	16	s	27	18	pc
New York City	16	9	pc	17	10	pc
Omaha	27	15	pc	21	11	sh
Orlando	32	17	s	35	18	s

City	Today Hi	Today Lo	Today W	Tomorrow Hi	Tomorrow Lo	Tomorrow W
Ottawa	8	1	sn	14	3	pc
Paris	16	5	pc	19	12	pc
Philadelphia	17	7	pc	19	9	pc
Phoenix	22	15	t	25	17	c
Pittsburgh	17	4	pc	18	6	pc
Port-au-Prince	31	22	sh	31	21	pc
Portland, Ore.	23	9	s	24	11	pc
Rio de Janeiro	28	21	s	27	21	pc
Riyadh	38	25	pc	39	26	pc
Rome	21	10	pc	22	14	pc
Salt Lake City	23	13	pc	22	12	pc
San Diego	19	17	sh	21	16	pc
San Francisco	22	11	pc	19	11	pc
San Juan	30	24	t	30	24	sh
Santiago	21	11	pc	17	10	pc
Santo Domingo	30	22	sh	30	22	sh
Sao Paulo	26	14	s	24	15	s
Seattle	20	9	s	22	11	pc
Seoul	22	15	r	22	14	pc
Shanghai	26	16	s	31	20	s
Singapore	31	26	c	30	26	c
Stockholm	6	-5	sf	7	-4	sh
Sydney	20	13	s	21	13	s
Taipei	31	23	t	31	24	pc
Tehran	29	17	s	30	18	pc
Tel Aviv	35	22	s	32	19	s
Tokyo	23	17	c	21	17	r
Toronto	12	1	c	14	5	pc
Vancouver	17	9	pc	18	10	c
Washington, D.C.	19	10	pc	21	11	pc
Zurich	14	3	pc	19	7	pc

The WSJ Daily Crossword | Edited by Mike Shenk



EMPTY BOXES | By Maxine Cantor

Across

1 Captain with a whalebone leg
5 Two-time loser to Dwight
10 Sch. about a mile from Harvard U.
13 Base for some hors d’oeuvres
15 Artistic inspiration
16 There are a lot of letters in this answer
17 Radius partner
18 Home of Mindy’s houseguest
19 “Ring around the collar” brand
20 Portfolio listing
22 Collapse
24 Opera segment
25 Antlered animal
26 Offshore oil platform
31 Middle son on TV’s “Empire”
34 Engine cover
35 Casual quality
36 Biblical shepherd
37 Tagalong’s cry
38 Scrabble square
39 Kennel club reject
40 Polishes off
41 Roadwork markers
42 In an absolute manner
44 Took the title
45 Slippery surface
46 Least racy
49 Capricious
52 Lake that feeds the Niagara River
53 Top bond rating
55 Poker payment
56 Uncanny knack for making money
59 Burns or Barrie
60 “Much obliged!”
61 Shoe shade
62 Gather together
63 Ring feat

Down

1 Rounds, say
2 Got wind of
3 Cut from the same cloth
4 Crude oil measure: Abbr.
5 In jeopardy
6 Throw water on
7 Deprivation
8 Set the price at
9 “___ girl!”
10 1949 hit for Frankie Laine
11 “This ___ my day!”
12 Twinings offerings
14 As one pleases
15 Indicator of fitness
21 Mineo of “Rebel Without a Cause”
23 One who supplies another’s income
26 Eccentric
27 Down Under hoppers
28 Altar answer
29 Archipelago piece
30 Big money amounts, slangily
31 Copier annoyances
32 Border on
33 About 2,205 pounds
34 Get better
37 Citi Field player
41 Archaic verb in an O’Neill title
43 Animator’s sheet
44 Spare tire settings
46 Cafeteria stack
47 Sweater setting?
48 Showing poor taste
49 Firmly attached
50 Cuzco native
51 Ryan’s “La La Land” co-star
52 Writer Ferber
54 Facetious “Got it!”
57 Descartes’s conclusion
58 Symbol of sturdiness

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

Previous Puzzle’s Solution

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

WSJ PODCASTS

Look Behind the Numbers

Join Miriam Gottfried for an in-depth look at the stories driving global business. Get incisive analysis of the companies, sectors and securities making news with WSJ’s **Heard on the Street** podcast.

Listen now at WSJ.com/listenHeardOnTheStreet

WSJ Podcasts are also available on iTunes, Amazon Echo, Spotify, iHeartRadio, Google Play Music and Stitcher

THE WALL STREET JOURNAL.
Read ambitiously

©2017 Dow Jones & Co., Inc. All rights reserved. 6DJ4877

For personal non-commercial use only. Do not edit or alter. Reproductions not permitted.
To reprint or license content, please contact our reprints and licensing department at +1 800-843-0008 or www.djreprints.com

TECHNOLOGY: BIGGEST U.S. CABLE OPERATORS ENTER WIRELESS PARTNERSHIP B4

BUSINESS & FINANCE

© 2017 Dow Jones & Company. All Rights Reserved.

THE WALL STREET JOURNAL.

Tuesday, May 9, 2017 | B1

Euro vs. Dollar 1.0929 ▼ 0.64% **FTSE 100** 7300.86 ▲ 0.05% **Gold** 1225.30 ▲ 0.04% **WTI crude** 46.43 ▲ 0.45% **German Bund** yield 0.420% **10-Year Treasury** yield 2.376%

Coach to Purchase Kate Spade

By Suzanne Kapner
And Joshua Jamerson

Coach Inc. agreed to acquire rival **Kate Spade** & Co. for $2.4 billion, as the purse maker seeks to tap younger consumers amid slower growth in the handbag market.

Sales of handbags are faltering as women have traded down to smaller, less expensive bags and aggressive discounting both in stores and online has pressured profits. The proposed merger would combine two big U.S. players, and create a company with $5.9 billion in annual sales and 1,300 retail stores and outlets around the world.

On Monday, Coach Chief Executive Victor Luis said there is little overlap between customers of the two brands, especially because Coach has tried to move upscale in recent years. The attraction of Kate Spade was its appeal to younger shoppers, said Mr. Luis, who added that only 10% of consumers say they buy both brands.

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

Handbag maker Kate Spade is being acquired for $2.4 billion.

"Kate Spade has the highest penetration among millennials within our competitive set," Mr. Luis said in an interview. "Millennials offer a market that is substantial in terms of size and allows us to recruit younger customers."

The handbag market has slowed to about 2% annual growth from as much as 15% growth six years ago, said Craig Johnson, an analyst at Customer Growth Partners. Coach has responded by targeting a slightly older and wealthier client with higher-priced bags, creating a gap for younger 20-something shoppers that it can fill with Kate Spade, Mr. Johnson said.

Mr. Luis said he still has confidence handbags and leather goods are better positioned than other corners of retail. "Consumers continue to shift dollars away from apparel to handbags, accessories and footwear," he said.

Coach will pay Kate Spade shareholders $18.50 a share in cash. That represents a 28% premium to Kate's closing price as of Dec. 27, the last trading day before a Wall Street Journal report that Kate Spade was exploring a sale of the company after coming under pressure from an activist shareholder. The company confirmed it was reviewing such options in February.

Kate Spade shares were

Please see KATE page B2

Goldman Deal Unit Shuffles Leaders

By Liz Hoffman

Goldman Sachs Group Inc. is making the biggest changes in a decade to the leaders atop its investment-banking division, which advises companies on mergers and capital raises.

The firm promoted deal maker Gregg Lemkau and financing executive Marc Nachmann to join John Waldron as co-heads of the unit, according to people familiar with the matter.

Richard Gnodde, Mr. Waldron's counterpart in London, will relinquish his co-head title to focus on overseeing Goldman's international business. Mr. Nachmann will move to London. The other co-head position being filled had been vacated recently.

Goldman's investment-banking arm includes mergers-and-acquisitions advice as well as equity and debt underwriting. It is the firm's second-largest unit by revenue, with $6.3 billion last year, and has been riding a deal-making boom to higher profits over the past few years. Separately, Goldman elevated another deal maker, Francois-Xavier de Mallmann, to a senior role in London.

The promotions stem from a broader shake-up atop Goldman last year. After No. 2 executive Gary Cohn took a White House job, he was replaced by Chief Financial Officer Harvey Schwartz and senior executive David Solomon, whose seat atop the investment-banking division is now being filled.

Mr. Lemkau, 47 years old, and Mr. Nachmann, 46, were added in late 2015 to Goldman's management committee, often a sign of bigger roles to come. Mr. Lemkau has been a co-head of Goldman's M&A group since 2013. A technology and media banker by training, he has worked on deals including the sale of DirecTV to AT&T Inc. and Verizon Communications Inc.'s takeover of Yahoo Inc., and helped lead Goldman's own early investments in technology companies such as Facebook Inc. and Spotify.

Mr. Nachmann, a native of Germany, has held various roles within the investment-banking division since joining Goldman in 1994. He has been deeply involved in the firm's hedging of commodities and caught the eye of superiors for a series of derivative transactions around the buyout of Texas utility Energy Future Holding in 2007.

In 2014 he became head of Goldman's financing group, which helps companies issue equity and debt, and works closely with Goldman traders who buy and sell those same securities.

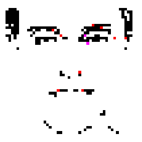
Mr. Nachmann is seen as a skilled internal operator. The gregarious Mr. Lemkau, who is an investor in Gwyneth Paltrow's lifestyle-blogging startup Goop, is more client-facing.

Mr. Nachmann's promotion leads a rejiggering of leadership in Goldman's financing division

Please see CHANGES page B2

STREETWISE
By James Mackintosh

A Muted Buy Signal For Stocks In Europe



There is a tendency for British and American investors to look down their noses at France. The bureaucracy, 35-hour workweek, aggressive trade unions, pushy farmers and protection of national champions—even in yogurt—attract derision, and the country is often held up as among Europe's most resistant to change.

France has problems, part of the reason for one-third of votes for president going to far-right nationalist Marine Le Pen at the weekend.

But France has a lot going for it economically. It is rich, educated and highly productive. Output per person is the same as in the U.K. (adjusted for purchasing power), despite having an unemployment rate more than twice as high. Workers in France are far more productive, allowing them both to work less and produce more than British workers.

Those who laugh at the 35-hour week tend to forget that it is only the basis before paid overtime kicks in, and that the average worked in the U.S. is lower, with last week's nonfarm-payrolls report showing private workers put in 34.4 hours.

Even French growth hasn't been that bad. Since 1980, Thatcherite reforms have given Britain the fastest growth in output per head of the Group of Seven leading industrialized nations, but from 1980 to 2006 France grew almost exactly in line with Germany, Italy and Canada. Since then, Italy has become poorer, Germany a lot richer, while France and Canada have both put in slow growth.

France needs reform. Her young people are frustrated, with pre-election polls showing far more support for Ms. Le Pen among youth than among older voters—a demographic reversal of the Brexit and Donald Trump votes with which her populist National Front is often grouped. The labor market needs shaking up so it can create more jobs for young workers. Corporate taxes are high, too, deterring both job creation and entrepreneurs. But France is hardly the only country with that problem.

Newly elected President Emmanuel Macron is acutely aware of the challenge, but still needs to win a mandate for reform in parliamentary elections next month. The presidential election was fought mainly as a battle between an inward-looking nationalist viewpoint and an outward-looking embrace of Europe.

Please see STREET page B2

Sanctions Fail to Curb Russian Oil

ANDREY RUDAKOV/BLOOMBERG NEWS

A multiple-well platform situated in Russia's massive Samotlor field, which is operated by state oil company PAO Rosneft.

European companies work with Rosneft, and crude production is near historic highs

By Bradley Olson
And Jay Solomon

Exxon Mobil Corp. is suffering from sanctions on Russia. The same can't be said for other big Western energy companies, or for Russia's oil production.

The sanctions, put in place by the U.S. and European Union in 2014 after Russia's annexation of the Crimea region of Ukraine, were meant to limit Russia's pursuit of new technology for extracting more crude oil and natural gas. The measures specifically targeted deep-water drilling planned in the Black Sea, Arctic operations and the use of fracking technology in Siberia.

The terms were a blow to Exxon because drilling in those areas was at the heart of a landmark deal the company struck a few years before to join with state oil firm PAO Rosneft. The company sought a waiver from U.S. sanctions to drill in the Black Sea, but the request was rejected last month by the Trump administration.

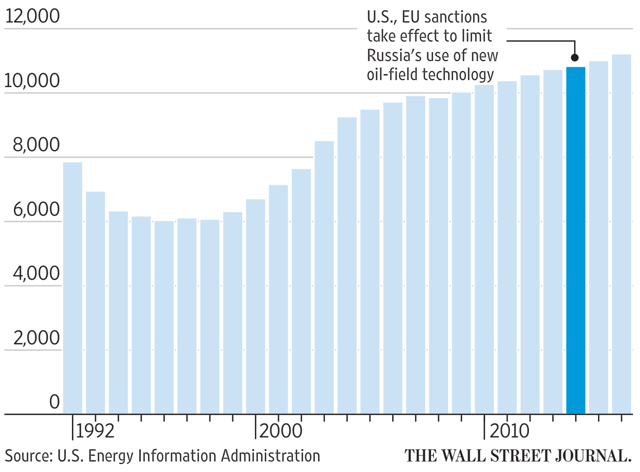
At the same time, some of the company's European rivals are moving ahead with projects in Russia, many under partnerships begun before the sanctions. **BP** PLC was allowed to keep its nearly 20% stake in Rosneft, which contributed $590 million to its net earnings in 2016.

Italy's **Eni** SpA is preparing to drill a Black Sea well this year as part of a partnership with Rosneft, and plans to explore the Arctic waters of Russia's Barents Sea. The company has proceeded because the EU allowed partnerships in place at the time of sanctions to continue, Eni has said.

Rising Tide

Russia's oil output continues to grow despite Western sanctions.

Average daily oil production, in thousands of barrels



Source: U.S. Energy Information Administration

THE WALL STREET JOURNAL.

The U.S. didn't grant exemptions for existing partnerships, as Exxon's experience showed. An EU spokeswoman said that while some differences exist between how sanctions have been applied by different countries, these have been limited and don't undermine the overall impact of the restrictions.

Other European companies proceeding with projects in Russia include Norway's Statoil ASA, which has another pre-existing venture with Rosneft in Russia's Samara region that will require advanced drilling techniques similar to modern fracking in the U.S.—wherein sand, water and other chemicals are blasted into layers of dense rock to release oil and gas. The company also continues an oil-drilling project in Siberia.

France's **Total** SA, together with a Russian partner subject to sanctions, is building a

Please see OIL page B2

Macron's Victory Opens New Path for Euro

By Mike Bird

As political risks to the euro wane, analysts now expect the currency to follow eurozone economic growth higher, leaving a long period of weakness behind it.

The euro fell against the dollar Monday, but investors believe that Emmanuel Macron's victory in the French presidential election should alleviate some of the political concern that has dogged the currency. Investors say they can now refocus on Europe's economic recovery, a performance that is also likely to push the **European Central Bank** closer to scaling back the vast stimulus program that has been another factor keeping pressure on the euro.

The common currency has been a symbol of Europe's economic malaise for several years. A rebound would underscore increasing economic optimism in the region, even as it may bring its own problems, not least by making local exporters less competitive.

Weakness Waning

The euro is around 6-month highs against the dollar

How many dollars €1 buys

Source: Thomson Reuters

THE WALL STREET JOURNAL.

Mr. Macron, a pro-European Union former banker, won 66.1% of a vote that pitted him against Marine Le Pen, the far-right candidate who had promised to pull France out of the EU.

The euro rose by around 0.3% in the hours after voting closed, but was down 0.6% at $1.0932 in Monday afternoon U.S. trading from $1.0999 late Friday. The currency had already risen following Mr. Macron's victory in the first round of the vote.

"Populism hasn't gone away, but for now it's been pushed onto the back burner," said Jane Foley, senior foreign-exchange strategist at **Rabobank**.

"It's going to be more economics and less politics for the next six, eight, nine months," she said, predicting the euro will end the year at around $1.10.

The currency fell as low as $1.035 in late December, and

Please see EURO page B2

INSIDE

PET FOOD GETS UPSCALE MAKEOVER

BUSINESS NEWS, B3

For personal non-commercial use only. Do not edit or alter. Reproductions not permitted.
To reprint or license content, please contact our reprints and licensing department at +1 800-843-0008 or www.djreprints.com

INDEX TO BUSINESSES

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

INDEX TO PEOPLE

EURO

Continued from the prior page
many analysts were betting it would fall to parity with the dollar by the end of this year.

But in recent months political concerns have eased and economic data have improved, pushing the euro higher and forcing investment banks to boost their forecasts for the currency. Last week, **Bank of America** Merrill Lynch and Deutsche Bank both raised their forecasts for the euro, to $1.08 and $1.02 at the end of 2017, from $1.05 and 97 cents, respectively.

Ahead of Sunday's election, investors were scaling back bets against the common currency as they began to speculate that Ms. Le Pen's chances of being French president were fading.

Fewer investors are now shorting, or betting against, the euro than at any time in the past three years, according to data from the **U.S. Commodity Futures Trading Commission.**

In the week to May 2, there were only 1,653 more short contracts than bets the euro will rise, down from 127,434 in November. The net short position is now at its lowest levels since the middle of 2014, before the ECB began buying vast quantities of bonds in an attempt to aid the economy.

The central bank's asset buying and policy of keeping interest rates in negative territory have tended to weaken the currency by making the region less attractive for foreign investors looking for income.

The ECB is still buying €60 billion ($65.6 billion) in government and corporate bonds each month. Minutes from the ECB's governing council meetings show that officials' worries about political uncertainty were one reason they were keeping monetary policy unchanged.

Investors now expect the central bank to signal in June that it is closer to reducing its purchases, known as quantitative easing.

A faster reversal of the program would likely mean a stronger euro, analysts say.

"If you see strong growth, we could see a very sharp cliff for quantitative easing, meaning very little QE in 2019," said Alain Zeitouni, senior portfolio manager at Russell Investments. "That's not our base case, but it would create big volatility in fixed income and currency markets."

Few doubt, though, the brighter economic prospects. Core inflation reached its highest level in four years in January and business surveys suggest the stronger economic growth is continuing.

To be sure, not all forecasters see the euro powering higher from here, or even holding its current gains.

Political and economic risks haven't completely gone away. Italy needs to call a national election before May 2018, a vote that could see anti-euro candidates gain ground in a country beset by economic problems. The EU will also be losing one of its biggest economies when Britain exits sometime around early 2019.

ADVERTISEMENT

The Mart

TRAVEL

Save Up To 60%
First & Business
INTERNATIONAL
Major Airlines, Corporate Travel
Never Fly Coach Again!
www.cooktravel.net
(800) 435-8776

Businesses
For Sale.
Advertise in The Mart.
Call +44 (0) 207 572 2124
THE WALL STREET JOURNAL.
EUROPE

ADVERTISEMENT

Legal Notices

INTERNATIONAL NOTICES

NOTICE OF INTENDED DIVIDEND
EQUITICORP INTERNATIONAL PLC
In Creditors' Voluntary Liquidation
Company Number 01705917
Registered office: 15 Canada Square, Canary Wharf, London, E14 5GL, UK.
NOTICE IS HEREBY GIVEN pursuant to the Insolvency Rules (England & Wales) 2016 that the office holder intends to declare a second and final dividend.
Creditors must send their full names and addresses (and those of their Solicitors, if any), together with full particulars of their debts or claims to the Liquidator at to 15 Canada Square, Canary Wharf, London, E14 5GL, United Kingdom, by 30 May 2017 ("the last date for proving"). If so required by notice from the Liquidator, either personally or by their Solicitors, Creditors must come in and prove their debts at such time and place as shall be specified in such notice. If they default in providing such proof, they will be excluded from the benefit of any distribution made before such debts are proved.
Office Holder Details: Richard Heis (IP number 8618) of KPMG LLP, 15 Canada Square, London, E14 5GL, United Kingdom. Date of Appointment: 11 July 1989. Further information about this case is available from James Rivers at the offices of KPMG LLP on +44 (0) 20 7311 8091.
Richard Heis, Liquidator

THE WALL STREET JOURNAL.
LEGAL NOTICES
ADVERTISE TODAY
(44) 20-7572-2124
Robert.Monaghan@wsj.com
For more information visit:
wsj.com/classifieds
© 2017 Dow Jones & Company, Inc.
All Rights Reserved.

BUSINESS & FINANCE

STREET

Continued from the prior page
For investors, Mr. Macron's victory matters mostly because of who he isn't. For the next five years, there is no risk of France quitting the euro, taking away much of the risk priced into French bonds in the buildup to the election.

Mr. Macron's plans for mild reforms in France are hard to get excited about, even if they survive the traditional French test of violent street protests. More relevant now is that investors can stop worrying about "Frexit," a French exit from the euro, and focus on the European economy.

The eurozone economy has grown a little faster than the U.S. since the end of 2014, and in the first quarter expanded twice as fast. Unemployment is still high, at 9.5%, but it is the lowest in eight years. Equally, core inflation is still only 1.2%, but is the closest it has been to the European Central Bank's 2% target in four years. Even as the U.S. has lost momentum, European data continue to beat forecasts at close to the highest rate since the first Greek bailout in 2010, according to Citigroup's economic surprise index.

The ECB remains dovish, but it is widely expected soon to signal a retreat from its controversial policies of buying bonds and holding interest rates below zero. Investors appear finally to have accepted that European growth has taken hold, so a move away from negative rates should help bank stocks, and do little harm to other equities.

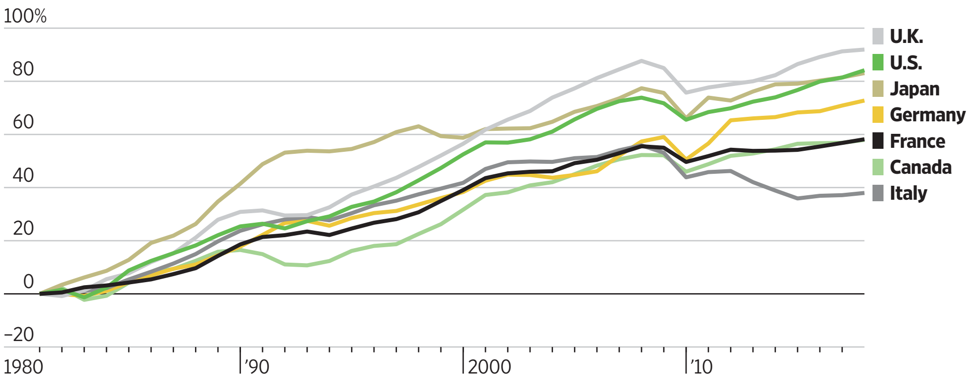
However good the data, it is hard to get truly excited about Europe. Investors have been hit too many times by political ructions and surprise bank failures in the past seven years to be entirely calm. Italy's populist 5 Star Movement is neck and neck with the ruling Democratic party, so the Italian election next year will test nerves.

Outside the banks, stocks aren't particularly cheap, either. French stocks are up 10.7% this year even after a pullback on Monday, or 16% in dollar terms, compared with a 7.2% gain for the S&P 500 through Friday.

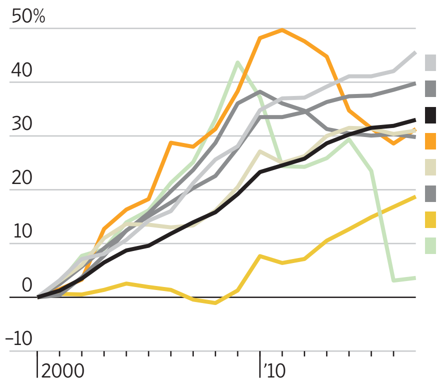
Mr. Macron's victory is good news for investors, Europe is recovering perfectly well and investors ought to have some exposure to the region. Like Mr. Macron's voters, it is hard to be any more enthusiastic.

France: Rich But Less Competitive

France's GDP per capita grew in line with Germany, Italy and Canada until 2006, but since then Germany has accelerated and Italy has slumped.
Cumulative change in real GDP per capita



French labor costs haven't come down in spite of the eurozone crisis from 2010 on....
Cumulative change in unit labor costs*



...but French stocks have lagged well behind the U.S., even when adjusted for the currency
Cumulative change†

*Unit labor costs are the ratio of labor costs to productivity †Through 4 p.m. BST Monday
Sources: International Monetary Fund (GDP); Eurostat (labor); Thomson Reuters (stocks)
THE WALL STREET JOURNAL.

KATE

Continued from the prior page
ahead 8.3% at $18.38 on Monday afternoon, while Coach shares were up 5.4% at $44.95.

The companies, both based in New York, have battled a retail environment that has been challenging, especially for designers with significant exposure to department stores, where traffic has declined. U.S.-based luxury brands are also hurt by a strong U.S. dollar.

Coach had revenue of $4.5 billion for the fiscal year ended in July 2016, down from more than $5 billion a few years ago.

Kate Spade, which shed several apparel brands to focus on its handbag business, had revenue of $1.4 billion last year.

Sales at Coach have started to grow again as it pulled back from department stores, closed a third of its full-priced stores in North America and reduced promotions. The company said it plans to reduce online flash sales as well as distribution in off-price chains for Kate Spade after the deal closes, which is expected to occur in the third quarter.

Mr. Luis said 35% of Coach stores overlap with Kate Spade stores in North America but he doesn't foresee widespread closures after the combination. However, analysts said there were still too many stores given the sluggish mall traffic.

"Anybody who's been to Woodbury Common outlets and seen two Coach (women and men) and two Kate Spade stores (accessories and apparel) all within 30 yards of each other doesn't need a rocket-science degree to know that the combined company doesn't need all that space," Mr. Johnson said, referring to an outlet center outside of New York City.

SPENCER PLATT/GETTY IMAGES
Coach is contending with slower growth in the handbag market.

Coach does plan to expand Kate Spade outside the U.S., particularly in China and Europe, where the brand has a few dozen stores and outlets. And Mr. Luis said there is an opportunity to buy out some joint-venture partners or distributors in those regions.

Coach has been on the hunt for acquisitions as Mr. Luis seeks to build a collection of brands and respond to the rapid rise of **Michael Kors Holdings** Ltd. Coach approached **Burberry Group** PLC about a takeover last year but was rebuffed. It acquired shoe maker **Stuart Weitzman Holdings** LLC last year.

On Monday, Mr. Luis said Coach might still seek small deals but the Kate Spade transaction would leave little room for another large transaction in the near term.

The brands will be kept separate and there are no plans to cross-sell products at each other's stores, executives said. Mr. Luis said he intends to retain Craig Leavitt, serving as head of the Kate Spade brand.

OIL

Continued from the prior page
massive natural-gas export plant, a project that advanced despite financing limitations related to sanctions by turning to China. The companies have said they obtained clearance from the EU to proceed.

Sanctions didn't prevent **Royal Dutch Shell** PLC and four other European companies last month from announcing $10 billion in financing for a natural-gas pipeline to Germany that the EU opposes.

While some diplomatic and oil-industry experts believe the sanctions have crimped Russia's oil progress, the uneven application of the restrictions has led to questions about how effective they have really been.

"When sanctions are not uniform across the board, you get unintended consequences," said Bill Arnold, a former Shell executive and senior vice president of the U.S. Export-Import Bank who teaches about the geopolitics of oil at Rice University. "If the ultimate objective was to curb Russian industry, it isn't clear that's taken place."

The sanctions weren't specifically designed to curb current Russian oil production, and they haven't. Output rose above 11 million barrels a day last year, the highest level in decades.

That reflects more than the limits of sanctions. Other economic forces, such as a sharp devaluation of the ruble, played a role. Companies in the country have been able to sell oil in dollars and pay for drilling with Russia's currency, allowing them to reduce costs and invest more toward boosting output.

By design, the U.S. and EU sanctions on Russia were far less extensive than those placed on Iran, given the complete dependency of some European countries on Russia for natural-gas supplies. In the case of Iran, the U.S. levied billion-dollar fines and tried to make it impossible for companies that did business with sanctioned Iranian enterprises to access the U.S. financial system.

Although President Donald Trump spoke of loosening sanctions on Russia during his campaign, political resolve to keep the U.S. sanctions in place has hardened.

Last month, U.S. Secretary of State Rex Tillerson, Exxon's former chief executive, said relations between the countries had reached "a low point" after the Pentagon launched airstrikes on a Syrian military base believed to have been involved in a chemical-weapons attack against civilians. Russia has supported the regime of Syrian President Bashar al-Assad.

Analysts expect the EU sanctions to be renewed before they expire in July. However, they are reviewed every six months, and debate on whether to keep them could be fiercer by year's end given new elections, burgeoning energy needs and other factors.

In seeking a waiver from the U.S. sanctions, Exxon was motivated by a desire to maintain a foothold in one of the world's last remaining oil frontiers. Executives feared the loss of their competitive advantage, winning a hard-fought battle in 2011 to access Russia's vast resources, the first such deal under Russian President Vladimir Putin.

The Trump administration on April 21 rejected the request, which originally had been made when Barack Obama was president. Recently, the proposal had been circulated among various federal departments, according to people familiar with the matter.

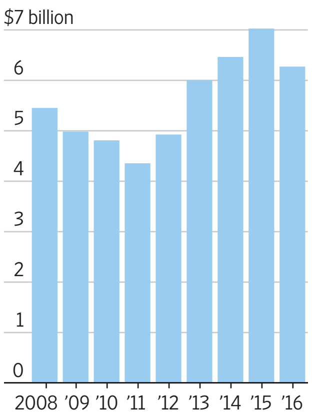
A spokesman for Exxon said the company sought permission to drill in the Black Sea to "meet its contractual obligations under a joint-venture agreement in Russia, where competitor companies are authorized to undertake such work under European sanctions."

Igor Yusufov, a former Russian energy minister, said sanctions have forced Russian producers to use Chinese equipment, which was cheaper than U.S. or Western equipment but more prone to breakdowns in Russia's extreme conditions.

—Nathan Hodge, Sarah Kent and Laurence Norman contributed to this article.

Deal Wave

Goldman Sachs investment-banking revenue



Source: the company
THE WALL STREET JOURNAL.

CHANGES

Continued from the prior page
sion. The firm plans to promote Susie Scher, who runs its investment-grade debt group, and Pete Lyon, co-head of Goldman's stock-underwriting unit, to run the firm's financing efforts in the Americas, the people said.

Meanwhile, Christina Minnis, a senior leveraged-finance banker, will become head of acquisition finance, a newly created role, the people said. Goldman, which for decades has dominated the "sell-side" of the M&A business, has been trying to align itself more with buyers.

With Mr. Lemkau moving up, Goldman's M&A group—Wall Street's leader—will continue to be led by Michael Carr in New York and Gilberto Pozzi in London.

The retirement of London executive Michael Sherwood at the end of last year left Mr. Gnodde as sole CEO of Goldman Sachs International, a role he will focus on now while remaining in London, the people said. That business has grappled with the implications of Brexit, as well as a pair of embarrassing trials in London criticizing Goldman's advice to Libya's government and a British billionaire. Goldman, which spent $500 million on a new London headquarters, is likely to move jobs to offices throughout Europe.

For personal non-commercial use only. Do not edit or alter. Reproductions not permitted.
To reprint or license content, please contact our reprints and licensing department at +1 800-843-0008 or www.djreprints.com

Making Fido's Food Less Doglike

As volumes decline, pet-food makers craft pricier fare appealing to owners' senses

By Saabira Chaudhuri


PHOTO: F. MARTIN RAMIN/STYLING: ALLISON SCOTT/THE WALL STREET JOURNAL

Companies are selling dishes, such as meat lasagna and beef stroganoff, that look like human food.

Mars Inc. set a key goal for its new line of wet dog food: Make it look less like wet dog food.

Instead of the usual brownish mush, the world's biggest pet-food company by sales rolled out recipes like pot roast with spring vegetables, beef stroganoff and meat lasagna under its Cesar Home Delights line across the U.S. in 2015. Home visits and consumer panels told Mars some people felt guilty feeding their pets the same food every day and were more likely to buy pet food that reminded them of their own meals.

"The focus is to deliver dishes that literally look and smell like human food but are nutritionally balanced to be right for a pet," said Chris Mondzelewski, North America head of specialty pet care for Mars.

Two years later, Home Delights generates $100 million in annual sales. It is one of a widening array of lines incorporating human-food trends Mars and rival **Nestlé** SA—which together dominate 48% of the $75 billion global pet-food market—are creating.

Appealing to human beings is helping the industry charge more to counter declining volumes: North American pet-food volumes fell 0.8% last year, according to Euromonitor, but revenue climbed 4%.

"Just like people spend more money on their own good nutrition, they also want to do this for their pets," Nestlé Chief Executive Mark Schneider said in February.

Pet owners in developed markets are cultivating stronger emotional bonds with their dogs and cats, motivated by later marriages, smaller families and elevated divorce rates, according to Euromonitor. In 2016, the U.S.'s 84.6 million pet-owning households spent $28.2 billion on pet food, up 23% from a year earlier, according to the American Pet Products Association. That translates into $333 spent per household last year.

Nicole Latza, a school-district clerk in West Seneca, N.Y., feeds her two cats a variety of Fancy Feast Medleys canned food from Nestlé's Purina unit, along with some dry food and food designed to clean their teeth. She said she has never tallied up the cost.

"We don't care what it costs for our animals since we want to get them something that's good for them and that they enjoy," Ms. Latza said. Fancy Feast Medleys include wild salmon primavera with garden veggies and greens. A 24-pack of 3-ounce cans costs $19.20 on Petco.com.

The Medleys line includes a pâté for cats, launched last year, which contains whole pieces of carrots, tomatoes and spinach. It sells for 85 cents a can, compared with regular Fancy Feast cans that are 20 cents cheaper.

A workshop with Purina chef Amanda Hassner—who previously fed humans at restaurants including Sans Souci at the Renaissance Cleveland Hotel and Il Fornaio in San Francisco—helped the Fancy Feast development team decide to include three colors in the new cat pâté, even though cats are partly colorblind. Ms. Hassner noted that people respond well to seeing one primary color and two complementary colors.

"Dogs and cats don't push the grocery cart down the aisle; their owners do," said Dan Smith, a research-and-development vice president at Purina.

As people seek to connect with their pets, revenue from treats has risen.

High-price pet foods labeled all-natural and grain-free—and ones that incorporate ingredients such as blueberries and sweet potatoes—also are growing faster than more mainstream kibble because people believe they are healthier.

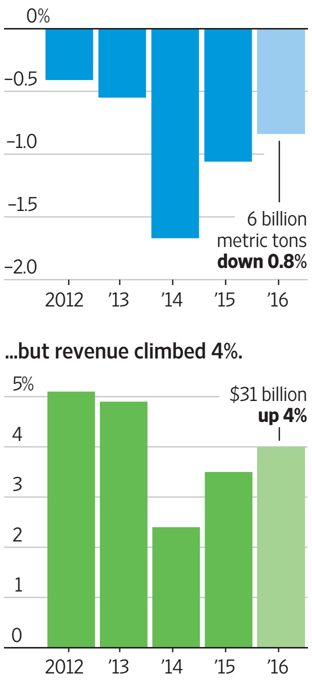
"People think that what is good for them is good for their pets," said Bernard Meunier, Purina's CEO for Europe, the Middle East and Africa. "There is some truth to that and also not."

Richard Hill, a professor at the University of Florida's College of Veterinary Medicine, says consumers focus more on ingredients than nutrients but the nutrients' origin often makes no difference to a pet's health. "There's a feeling if a substance has been through a chemical process it's more dangerous than one that hasn't been," he said. "But it's all marketing and there's no scientific basis for any of it."

Natural products' share of U.S. pet food jumped to 18% in 2015 from 11% in 2011, according to data provided by Susquehanna Financial Group. During that period, mainstream pet food's market share dropped to 67% from 74%.

"The big companies were not ready for that trend, so they've had to buy brands or come out with new brands or extensions," said Susquehanna analyst Pablo Zuanic.

In 2014, Mars bought Iams, Natura and other pet-food brands from Procter & Gamble Co. for $2.9 billion. Nestlé in 2015 bought natural and organic pet-food maker Merrick Pet Care, which owns limited-ingredient and grain-free pet-food brands. Also that year, J.M. Smucker Co. bought Big Heart Pet Brands, owner of Milk-Bone dog treats and Meow Mix cat foods.



Source: Euromonitor International
THE WALL STREET JOURNAL.

Sinclair To Buy Tribune Media

By Joe Flint And Austen Hufford

TV station owner **Sinclair Broadcast Group** Inc. said Monday it is acquiring **Tribune Media** Co. for $3.9 billion, a deal that would create a behemoth with more negotiating leverage over programmers and distributors and the ability to launch new channels or wireless streaming services.

"We will be the largest broadcast group by a country mile," Sinclair Broadcast Group Chief Executive Chris Ripley told analysts Monday. The combined companies, he said, would cover 72% of the nation's television households and have $4.3 billion in revenue.

Sinclair already has 173 stations in midsize and small markets. The addition of Tribune's 42 stations would give Sinclair outlets in just about every major market as well, including New York, Los Angeles and Chicago.

By having such a reach, Sinclair would have leverage when it makes deals to acquire content for television stations, industry observers say. It also would have more clout with advertisers.

One of Sinclair's ambitions is to enter the wireless business using its broadcast airwaves, Mr. Ripley said. Earlier this year, Sinclair formed a wireless initiative with Nexstar Media Group, another large broadcaster, and between the two of them they have airwaves reaching 86% of the country.

If it harnesses those assets, Sinclair could potentially launch a streaming service carrying multiple TV channels. "Our objective is to create a ubiquitous wireless virtual MVPD (multichannel video program distributor), this was a big strategic driver for this transaction," Mr. Ripley said.

KRIS TRIPPLAAR/SIPA USA/ASSOCIATED PRESS

New Jersey-based PTC acquired the drug Emflaza from Marathon Pharmaceuticals last month.

PTC Sets Drug Expectations

By Joseph Walker

PTC Therapeutics Inc. said Monday that it would receive a net price of $35,000 annually per patient for Emflaza, the muscular dystrophy drug it acquired from **Marathon Pharmaceuticals** LLC last month.

PTC didn't explain how it calculated the "net price," a term drugmakers sometimes use to describe the net revenue they receive for a drug after providing discounts, copay assistance and free medicine to patients without insurance. PTC said the $35,000 "net price" reflected how much it expected to receive from a typical pediatric patient weighing 25 kilograms, or about 55 pounds.

Marathon had ignited a backlash from patient advocates and politicians in February when it announced a wholesale list price of $89,000 annually for Emflaza after it was approved for sale by the U.S. Food and Drug Administration. The price was some 70 times more than some U.S. patients had been paying to import Emflaza from the U.K.

PTC didn't say on Monday whether it had lowered the $89,000 list price set by Marathon. Marathon said in February that its net price would be about $54,000 annually per patient—or a third more than PTC's announced net price—after paying rebates to the Medicaid program and providing patients with copay coupons, free medicine to patients without insurance or whose insurance won't cover the drug.

The vague pricing information provided by PTC on Monday, which it disclosed on a conference call with analysts, sparked confusion among some patients' families over the tie to patients' weight.

Company says it will get a $35,000 annual net price for muscular dystrophy drug.

Christine McSherry, who had bought the drug for her son Jett for about $1,600 annually from the U.K. before its U.S. approval, said in an interview that she worried that Emflaza would cost significantly more than $35,000 annually for patients like Jett who weigh more than 55 pounds.

Based on Jett's weight, Ms. McSherry estimated Emflaza could cost more than $100,000 annually, and cause insurers to restrict coverage. "I'm again disappointed that the burden is going to be back on patients and families," said Ms. McSherry, who leads a nonprofit aimed at finding new treatments for Duchenne muscular dystrophy. "There was always access because you could order it from [the U.K.] or Canada....Now access is an issue as well as affordability." The U.K. pharmacy that had been providing the drug to patients in the U.S. no longer does.

PTC didn't respond to requests for comment.

"We believe this represents sustainable pricing, which balances providing access to all eligible patients," PTC Chief Executive Stuart W. Peltz said on Monday's conference call. "The factors in our decision included consideration of the resources required to provide access to Emflaza for a small patient population," continued investment in research and development, and "providing financial returns for our shareholders."

PTC's announcement failed to assuage the concerns of some federal lawmakers who had criticized Marathon's $89,000 list price. "A sale in drug rights does not make Marathon—and now PTC—immune from congressional oversight," a spokesman for Rep. Robert Aderholt, an Alabama Republican, said in a statement.

For personal non-commercial use only. Do not edit or alter. Reproductions not permitted.
To reprint or license content, please contact our reprints and licensing department at +1 800-843-0008 or www.djreprints.com

Facebook Deploys U.K. Ads Against Fake News

By Stu Woo
And Jenny Gross

LONDON—The fight over fake news is moving to Britain.

Facebook Inc., criticized for not doing enough to curb misinformation during last year's U.S. presidential race, is trying to show it is making a more concerted effort in the U.K. ahead of next month's general election.

The social network on Monday ran advertisements in major British newspapers that offer tips for spotting false news stories. It also said it was working with third-party fact checkers to address misinformation, and that it recently removed tens of thousands of fraudulent Facebook accounts in the U.K.

Ahead of an election, the social network urges skepticism regarding headlines.

Prime Minister Theresa May has called a general election for June 8, an opportunity—if current polling bears out—to increase the thin majority her Conservative party holds as it enters negotiations over the terms of its breakup with the European Union.

With a series of Europe's most populous countries holding key elections this year, Facebook and **Alphabet** Inc.'s Google have tried new tools across the Continent to stem false news. Google has previously said it implemented fact-checking tools in the U.K. and France, where Emmanuel Macron won the presidential vote Sunday. Google is also rolling out the tools in Germany, which holds parliamentary elections in September.

Facebook, meanwhile, had previously started rolling out in several countries a tool that marks stories as "disputed" and shows them less frequently on users' news feeds on Facebook when media organizations deem them false. Monday's moves in the U.K. take those efforts a step further ahead of the June vote.

Facebook ran newspaper ads titled "Tips for spotting false news." Among the suggestions: Look closely at the web address, check whether photos were manipulated, and be skeptical of headlines.

"If shocking claims in the headline sound unbelievable, they probably are," says the ad, which took up a full page in newspapers including the Daily Telegraph, the Times of London and the Guardian. Facebook said its U.K. users would see similar suggestions on its site and that it would announce more details about its plan to tackle misinformation during the U.K. election.

"People want to see accurate information on Facebook and so do we," Simon Milner, Facebook's U.K. policy director, said in a written statement on Monday.

The moves represent the latest shift for Silicon Valley companies, which previously portrayed themselves as neutral technology platforms that should have no role in moderating the internet. That attitude changed after last year's divisive U.S. presidential election. Lawmakers and others criticized technology giants for election-news-related hoaxes and misinformation that made it onto their sites.

In Britain, blatantly false online stories haven't garnered much attention during recent elections—and there have been plenty of big ones of late. In the most consequential of recent years, Britons voted in a nationwide referendum last June to exit from the European Union.

Conservative former Prime Minister David Cameron swept the last general election in 2015, after committing to hold the EU referendum. He then campaigned against Brexit and stepped down after the vote.

Snapchat Shuns Global Approach

Messaging app's creator puts focus on ad dollars over growth in emerging nations

By Georgia Wells

Snapchat isn't too interested in the quality that other social-media giants covet most: ubiquity.

The messaging-app creator has largely ignored less-developed countries in favor of North America and Europe, where the big advertising dollars are and where Snapchat has about 75% of its 161 million daily users.

The company in the past year has rejected suggestions that it branch out. It turned down an employee proposal to make a lightweight version of its app for regions with slow internet, according to people familiar with the discussions. It also has prioritized the version of its app running on **Apple** Inc.'s iOS system over Google's Android versions, which are popular in emerging markets.

The high-end strategy could limit Snapchat's growth—of users in the short term and revenue longer term—at a time in which it needs to prove it can stand its own against **Facebook** Inc.

Investors will get a good look at how well that approach is working for Snapchat on Wednesday when its parent company, **Snap** Inc., posts its first quarterly earnings since going public in March. Snap's $25 billion valuation is based on significant growth expectations: The company said it incurred a loss of $169.9 million on $165.7 million in revenue in the fourth quarter, before its listing.

PATRICK T. FALLON/BLOOMBERG NEWS

Snap Inc. on Wednesday will report its first quarterly earnings since going public in March.

For the first quarter, John Blackledge, senior equity analyst at Cowen and Co., estimates Snap to have lost $2.2 billion on $142 million in revenue, largely because of an increase in costs related to going public.

Snapchat's plan is an unusual one in the world of social media, where Facebook and **Twitter** Inc. have more global ambitions. Facebook's mission is to "make the world more open and connected," and it rues being shut out of China. Twitter says it wants to be "what's happening in the world and what people are talking about right now."

Snap, on the other hand, said in a public filing released in February that growth would likely come from "developed markets with readily available high-speed cellular internet and high-end mobile devices." Snap's biggest and fastest-growing regions are North America and Europe, accounting for more than 96% of the company's revenue.

Because its roots are in image-based messaging, Snapchat has gravitated to users who own premium smartphones with high-quality photo and video functions, such as the iPhone, and which run on fast networks for easier uploading and image processing. Facebook and Twitter started with text-based messaging.

The new camera technology Snapchat continues to roll out, such as augmented-reality lenses, is hard to incorporate into phones running on less advanced software or slower networks.

Still, because growth in its traditional markets could plateau, the company is likely to face pressure to expand elsewhere. "If Snap doesn't capture international traffic now, then the users are going to go somewhere else," said Eric Kim, managing partner at Goodwater Capital, a venture-capital firm that focuses on consumer technology. Mr. Kim and his firm aren't investors in Snap. "Ten to 20 years from now, Snap can't rely on the U.S. and Europe for growth."

The Snapchat app is currently available in more than 20 languages and the company has offices internationally, including in London, Dubai, Sydney, Toronto and Ukraine, in addition to its main office in Venice, Calif.

The pressure to move into more markets also comes from Facebook's mimicry of Snapchat's features such as stories and filters. Facebook has been able to introduce them to markets such as Asia, where Snapchat doesn't have a significant presence.

That could leave Snap vulnerable if it cedes developing markets to Facebook and its photo-sharing app Instagram, or regional apps that are implementing many of Snap's features, such as video-messaging app Snow in South Korea.

The bulk of advertising dollars come from the advanced economies where Snapchat is focused. In 2017, more than 85% of mobile ad spending is projected to occur in the top 10 ad markets, which include the U.S., U.K. and Germany, according to research firm eMarketer.

"Snap is going after the low-hanging fruit," said Cathy Boyle, analyst at eMarketer. "There's more money being spent on mobile advertising in those markets. It doesn't mean the money will be spent on Snap, but it gives Snap a bigger marketplace to compete in." More than 60% of Snap's daily users are concentrated in the top 10 ad markets, Snap said in its public filing.

For many companies, developing regions are less profitable or lose money, because they bring in less advertising revenue and bandwidth can be more expensive. Facebook, for example, makes about 17% of its revenue in Asia and the Pacific, even though the region is home to about one-third of its daily users.

Biggest U.S. Cable Operators Make Wireless Pact

By Dana Mattioli
And Shalini Ramachandran

Comcast Corp. and **Charter Communications** Inc. have struck a wireless partnership as the cable giants look to get a piece of the cutthroat business.

As part of the deal, Comcast and Charter have agreed not to make a material merger or acquisition in wireless without the other's consent for one year.

That agreement could stoke Wall Street speculation among investors and analysts that the two largest U.S. cable companies together could decide to make a play for a carrier like **T-Mobile US** Inc. or **Sprint** Corp.

Neither company as a single entity could buy another wireless carrier for that time period as a result of that agreement without the other's blessing or involvement.

Wireless carriers are fighting it out in a fierce price war, while cable companies like Comcast and Charter are dealing with a saturated pay-TV business under assault from threats like cord-cutting and cheaper online video services.

The cable companies view wireless phone service as an opportunity to create a new product to make their bundles more appealing and better retain existing customers.

They hope that by offering a "quad play" of cable TV, home internet, landline phone and wireless service, customers will be less likely to drop their service and jump to a rival.

Comcast recently released plans to offer a wireless service to its customers and purchased airwaves that could be used to help offer it in a government spectrum auction.

Charter has said it would offer wireless service as soon as next year. Both plan to rely on a five-year-old agreement with **Verizon Communications** Inc. that allows them to resell Verizon's airwaves to offer cellphone service to their cable customers. Comcast plans to start offering its mobile service to customers as soon as later this month.

Comcast and Charter say that their wireless partnership was motivated in part by the possibility of "further consolidation among national wireless competitors." Types of

BRIAN VAN DER BRUG/LA TIMES/GETTY IMAGES

Charter Communications and Comcast agreed to work together in exploring the wireless market.

deals covered by their truce include "any acquisition, merger or other transaction" where a deal would result in the acquisition of at least 50% of the voting power or assets of either company, according to a regulatory filing.

That means that if Charter were to want to sell to Verizon, it would need Comcast's blessing or involvement to do so. The Wall Street Journal had reported earlier this year that Verizon was exploring such a combination.

The new operational partnership will allow Charter and Comcast to share technology and work together to use their combined scale in vendor negotiations with the likes of Samsung Electronics Co. for handsets, for instance, one of the people said. However, the two companies will keep their customer-facing wireless storefronts and mobile plans separate.

The idea is that the partnership will allow the companies to share what they learn about what works in service plans and back-office billing operations, as well as achieve potential cost efficiencies.

BUSINESS WATCH

BOMBARDIER

Pension Fund Won't Support Chairman

Quebec's big pension fund is opposing the re-election of **Bombardier** Inc. executive chairman Pierre Beaudoin, signaling a new level of investor activism at the aerospace company controlled for decades by Mr. Beaudoin's family.

The **Caisse de dépôt et placement du Québec** cited the board's recent missteps on executive compensation, in which hefty raises awarded to executives were rolled back after a public outcry, saying its decisions "fell short of the necessary standards of stewardship."

Protest over the pay raises included a demonstration outside the company's Montreal headquarters and was fueled in part by resentment that the company has received hundreds of millions of government financing.

Quebec's Caisse invested US$1.5 billion to acquire almost one-third of Bombardier's train business.

Caisse holds 1.8% of Bombardier's supervoting Class A shares. The fund also holds 2.46% of the company's Class B shares.

—Jacquie McNish

TYSON FOODS

Restaurant Sales Put Strain on Earnings

Slower restaurant sales are making it harder for **Tyson Foods** Inc. to sell pizza toppings and processed meats.

Earnings in the meat giant's prepared foods division fell 29% in the most recent quarter, the company said on Monday, as it scaled back forecast profit margins for that business in the months ahead.

Tyson, the largest U.S. meat company by sales, is counting on the prepared foods business to expand outside its meatpacking roots.

In all for its second fiscal quarter, Tyson reported earnings of $340 million, or 92 cents a share, down from $432 million, or $1.10 a share, a year earlier. On an adjusted basis, the company earned $1.01 a share down from $1.07. Revenue came to $9.08 billion.

—Jacob Bunge

BOOK PUBLISHING

Clinton, Patterson Team Up on Novel

Former president Bill Clinton and author James Patterson are at work on a novel called "The President Is Missing" that will be jointly published next year by Alfred A. Knopf and Little, Brown & Co.

The book, described by the publishers as "a unique amalgam of intrigue, suspense and behind-the-scenes global drama from the highest corridors of power," will be President Clinton's first novel. Terms couldn't be learned.

Mr. Patterson is one of the country's most popular and prolific writers. He declined to specify how the two men are collaborating, noting only that he and Mr. Clinton have met over the years in Florida as well as in Westchester County, N.Y., where both have homes.

The publishing date of June 11, 2018, is just before Father's Day, traditionally a big day for book sales.

The authors are expected to appear on a book tour together.

—Jeffrey A. Trachtenberg

Beijing Defends Plan For New 'Cloud' Rules

By Liza Lin

SHANGHAI—China is defending new draft regulations on cloud-computing services that have come under fire from U.S. trade groups, saying it has no intention to jeopardize the intellectual property and technology of overseas companies that operate here.

The proposals are still under review and some of them have been misunderstood, China's Ministry of Industry and Information Technology said in a statement.

Beijing requires overseas cloud providers to form joint ventures to operate in the country. New draft rules proposed late last year would require U.S. companies to essentially transfer ownership and operations of their cloud systems to Chinese partners, according to a letter sent by more than 50 U.S. lawmakers in March to Cui Tiankai, China's ambassador to the U.S.

Responding to questions about the policy from The Wall Street Journal, the industry and information-technology ministry said in a statement Friday that it was a "misreading of the situation" to say the rules would require U.S. companies to transfer control to a local partner. It said foreign companies that abide by the law wouldn't have to worry about losing their intellectual property.

It said the measures were designed to address the proliferation of companies offering cloud services illegally or without government licenses.

The U.S.-China Business Council said it wasn't persuaded by the statement, noting that China's draft regulations set up licensing processes that are ripe for discrimination against foreign companies.

Cloud platforms provide data-storage, computing and networking resources over the internet, reducing the need for on-site servers. Amazon.com Inc. and Microsoft Corp. are among the companies offering cloud services in China.

—Lilian Lin in Beijing contributed to this article.

For personal non-commercial use only. Do not edit or alter. Reproductions not permitted.
To reprint or license content, please contact our reprints and licensing department at +1 800-843-0008 or www.djreprints.com

Low Interest? Depositors Shrug

Bank of America pays half the rate at J.P. Morgan Chase, but cash still pours in

By Rachel Louise Ensign And Liz Hoffman

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

Bank of America's low costs for deposits helped it to raise first-quarter profits 40% year on year.

Bank of America Corp. is the stingiest of the big U.S. banks. But its depositors don't seem to care.

Last year, the bank paid an average of 0.08% for its interest-bearing deposits in the U.S. That was around half the rate paid by **J.P. Morgan Chase** & Co. or **Wells Fargo** & Co. and a fraction of what firms such as **Goldman Sachs Group** Inc. and Ally Financial Inc. paid.

Yet Bank of America kept raking in customers' money. Such deposits increased $33 billion over 2015.

Bank of America's ability to keep paying next to nothing highlights the built-in advantages of big banks as well as changes in consumer attitudes toward deposits. For investors, it indicates some banks may be able to increase rates more slowly than in past Federal Reserve rate-raising cycles, bolstering profits.

Indeed, Bank of America's low deposit costs helped boost its profit margins and played a part in pushing the bank to a 40% first-quarter profit increase from a year earlier.

While the Federal Reserve raised rates again in the quarter, the trend didn't change for Bank of America. Its average cost of U.S. interest-bearing deposits was just 0.09% and deposits in its consumer-banking business increased by a further $29 billion from the fourth quarter, according to the bank's quarterly earnings presentation.

By holding the line on deposits, Bank of America gains a competitive advantage. Consider that it paid $617 million for about $796 billion in U.S. interest-bearing deposits in 2016, according to bank regulatory filings, far less than what J.P. Morgan and Wells Fargo paid for only a bit more in funds.

And Bank of America's interest payout came in below Goldman's $828 million expense or the $822 million Ally forked out—even though those banks have just $115 billion and $79 billion of deposits, respectively.

Consumers clearly could make more by putting their money elsewhere. Had Bank of America customers moved all their money to J.P. Morgan, they would have made $700 million more at its average deposit-cost rate. Move it all to Goldman and they would have pocketed $5.1 billion more.

That they haven't moved money elsewhere speaks to the stickiness of deposits. It also bolsters a central argument by banks in the face of calls they should be broken up: Customers value their breadth and the different services they offer.

Bank of America, for example, had 4,559 branches in the U.S. and 15,939 ATMs at the end of the first quarter.

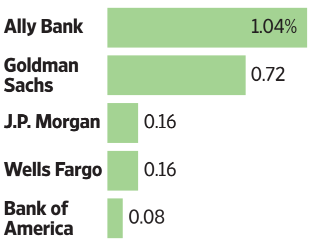
Goldman Sachs Bank USA, on the other hand, has no ATMs and retail customers can't walk into a Goldman branch.

Indeed, depositors place a premium on convenience, like being able to access thousands of ATMs or transfer money using their smartphones.

Abby Trexler of New York has kept savings and checking accounts at J.P. Morgan Chase for more than a decade and says she has no plans to move them to a higher-yielding account. A number of years ago, she had an account with an online bank and found it cumbersome to get money in and out.

Small Change

Average rate paid on U.S. interest-bearing deposits in 2016



Source: banks' regulatory 'call' reports
THE WALL STREET JOURNAL.

Ms. Trexler, who is in her mid-30s and works in communications, likes Chase's ubiquitous ATMs and mobile technology. For instance, she and her sisters used the bank's payments feature to split the cost of their parents' Christmas gifts last year.

"There are people like me willing to give up a little bit," Ms. Trexler said. "It just seems like such a hassle to not be able to walk in on every corner and get done what I need to get done."

Younger consumers also prefer the largest U.S. banks because they think their technology is better, said Jim Miller, senior director at market-research firm J.D. Power. Customers under 40 give the bigger banks higher satisfaction marks for things like mobile banking. This age group is particularly important to keep happy because they are five times more likely to switch banks than older customers, according to J.D. Power research.

Another factor working in the big banks' favor: They serve a lot of depositors with small accounts. For those savers, gains from switching to a higher-yielding account typically aren't worth the hassle, especially in an age of super-low rates.

Say a depositor has $3,000 in a standard Bank of America savings account. On the face of it, that person could gain a lot by moving from such an account, which typically pays about 0.01%, to GS Bank, which offers a savings account with a 1.05% yield.

The practical impact is far smaller: The gain from switching, over a year, would only be around $31.

In the face of that, many bank customers, especially younger ones, have stopped shopping around for deposit rates as they did before the Fed took rates to near-zero levels.

"They don't even think about interest rates for deposits because it's never been anything they could make any money off of," said J.D. Power's Mr. Miller. Even including the higher-rate offers from banks like Goldman Sachs, "the rates are so low that you almost think of it as no rate at all."

Crowdfunding Investors Get a Way to Sell

By Philip Georgiadis

LONDON—One of Europe's largest equity crowdfunding platforms will be the first to offer investors a chance to trade their investments on the secondary market.

Seedrs—backed by U.K. fund manager Neil Woodford—said Monday it plans to launch a limited secondary market offering this summer.

Mr. Woodford is one of Britain's best-known money managers. He is known for his contrarian views, and for selling off U.K. bank stocks in 2008 before the worst of the financial crisis.

Seedrs hopes the launch will have a transformative effect on crowdfunding, which has disrupted traditional fundraising by allowing startups to sell equity to investors online.

The industry has soared in popularity as ordinary investors look to cash in on startups as they get off the ground, despite the risks. The sector has also redrawn the traditional investing landscape, allowing amateur venture capitalists the chance to invest before the traditional route of an initial public offering or private placement.

Britain has led the way in opening up equity crowdfunding. But U.K. regulators have expressed some concerns, including a lack of experience among many investors.

While crowdfunding has shown potential, observers have noted there hasn't been an easy way for investors to sell their shares. Investors have to wait for an event such as a company sale or IPO to cash out. Seedrs will offer investors the ability to sell shares in companies they have bought, and other investors the chance to increase their stakes.

Jeff Lynn, chief executive and co-founder of Seedrs, told The Wall Street Journal that the secondary market launch was in response to strong investor demand.

Investors have poured over £210 million ($272.6 million) into companies via Seedrs, making it the most active investor in private companies in the U.K.

Seedrs is imposing several key rules, most notably limiting trading to one week a month to help coalesce activity, and only allowing current investors in a company to buy its shares. The firm said it would look at increasing the windows and relaxing rules on who can buy in once the secondary market is under way.

Westpac Posts Rise In Profit

By Robb M. Stewart

Australia's **Westpac Banking** Corp. benefited from a pickup in markets-related revenue and ongoing strength in mortgage lending during the first half of its financial year, helping lift its profit for the period.

Net profit rose 5.6% to 3.91 billion Australian dollars (US$2.9 billion) in the six months through March from A$3.7 billion a year earlier.

Cash earnings—which excludes some gains and costs and is favored by analysts—rose 2.9% to A$4.02 billion, in line with the median of five forecasts compiled by The Wall Street Journal.

Westpac's institutional division was a standout for the half year thanks to improved credit quality, increased customer transactions and a boost from its markets business, Chief Executive Brian Hartzer said.

Still, the bank said margins in its consumer and business banking operations were squeezed by higher funding costs. Westpac's net interest income for the period was up 1.8% to A$7.61 billion, with total loan growth of about 4% led largely by housing. But the bank's net-interest margin contracted 0.04 percentage point year over year to 2.05%.

Macau Tightens ATM Identity Checks

By Kathy Chu

Macau's government will require facial-recognition and identity-card checks for cash withdrawals made on **China UnionPay** bank cards, a move it said was aimed at tackling money laundering and terrorism financing in the gambling hub.

The changes will be phased in at all ATMs in the Chinese territory and will apply to bank cards from mainland China, the government said. It didn't provide a time frame.

The policy comes as capital outflows have threatened to depress China's currency and its capital reserves. The announcement also came as Zhang Dejiang, a top-ranking Communist Party official and chairman of China's National People's Congress, arrived in Macau for a three-day visit.

Beijing has grown increasingly concerned about capital flight, clamping down on investment overseas and more heavily scrutinizing bitcoin trading that can be used by investors to move money out of China. State-run UnionPay dominates China's card-processing network, which means Macau's restrictions apply to the vast majority of mainland bank cards. UnionPay didn't immediately respond to a request for comment.

Big spenders from the mainland, where gambling is illegal, are among the top sources of visitors to Macau, a special administrative region of China.

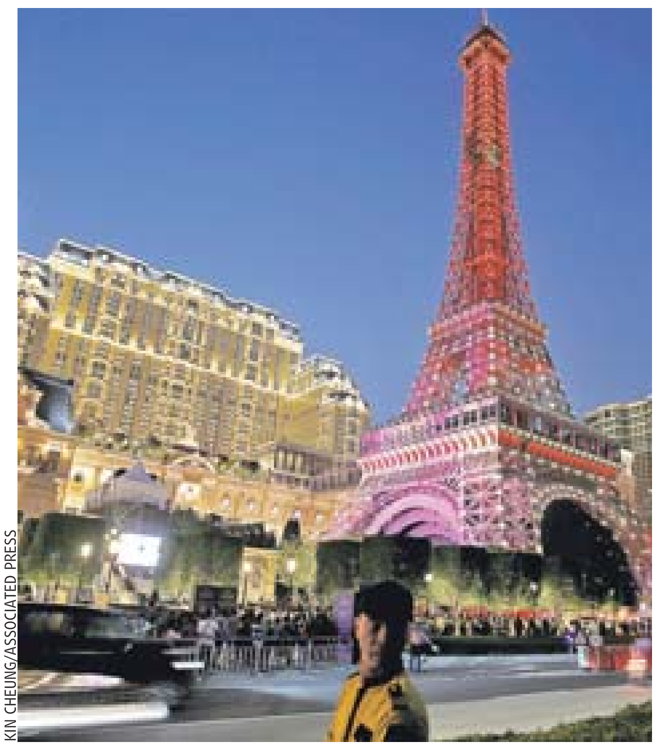
Macau's gambling revenue has been picking up, after a long decline due to a nationwide corruption crackdown by Chinese President Xi Jinping. In April, gross gambling revenue rose 16% from a year earlier to 20.2 billion patacas ($2.53 billion), as high rollers returned, according to industry data.

Also in April, China's foreign-exchange reserves increased by $20.45 billion from the previous month to $3.03 trillion—the third consecutive rise—as Beijing tightened its grip on capital outflows. The reserves had dipped below $3 trillion in January, putting them near a six-year low.

Macau's use of facial-recognition technology mimics a move happening on the mainland. Such technologies are being discussed by Beijing and local governments as a solution for everything from preventing too much toilet paper from being dispensed in public restrooms to allowing entry to tourist spots.

In Macau, the stronger measures against money-laundering may not affect gambling in the short term, but they are likely to challenge the growth of junket operators, which bring in high rollers to the former Portuguese colony, said Vitaly Umansky, an analyst at Bernstein Research.

—Jenny Hsu contributed to this article.


KIN CHEUNG/ASSOCIATED PRESS

The government said it is trying to crack down on money laundering and terrorism financing in the casino hub.


JAVIER ROJAS/PRENSA INTERNACIONAL/ZUMA PRESS

Treasury's Steven Mnuchin has been asked to study the rule's long-term economic impact.

Banks Take Aim At Rule On Loans

By Michael Rapoport

Banks are trying to enlist the Trump administration to fight a new accounting rule requiring them to book losses on soured loans more quickly, potentially setting the stage for a clash between the **Treasury Department** and the Securities and Exchange Commission.

Finance chiefs at 18 U.S. regional banks have asked Treasury Secretary Steven Mnuchin to conduct an analysis of the long-term economic effects of the rule, which accounting-rule makers issued last year and which banks will start adopting as early as 2019.

In an April letter, the bank CFOs said the new rule "could do economic harm" by reducing banks' lending and making borrowing more expensive, according to a copy of the letter reviewed by The Wall Street Journal.

The CFOs said that because banks would have to book loan losses and take reserves based on economic forecasts that are inherently uncertain, the reserves will be subject to significant volatility. That will lead banks to err on the side of caution and reduce lending, especially during economic downturns, they said.

The American Bankers Association, an industry trade group, also criticized the new rule in a separate letter to Mr. Mnuchin last month, among a range of other regulatory issues. The group didn't ask specifically for any action on Mr. Mnuchin's part, but said that if unaddressed the rule would be "a particularly heavy weight" on community banks' lending.

The banks' efforts have prompted pushback from at least one official at the SEC, which oversees the setting of accounting rules to be used by U.S. public companies. Speaking at a conference last week, SEC Chief Accountant Wesley Bricker said he reacted "with concern" when he heard about the banks' efforts, though he spoke about them only in general terms and didn't mention any letters specifically.

Mr. Bricker told reporters at the conference that there wouldn't be a delay in the implementation of the new rule.

He also warned the banks' efforts could undermine the independence of the Financial Accounting Standards Board, the private-sector panel that sets the rules. The FASB worked on the loan-loss rule for years before it issued the rule in June 2016, with extensive input from banks, accounting firms, investors and others.

The new loan-loss rule drawing fire from banks will require firms to immediately book all losses that they project their loans will ever suffer, as soon as the loans are issued.

Currently, banks wait to record losses until they have evidence they are likely to happen.

Advertisement INTERNATIONAL INVESTMENT FUNDS

[Search by company, category or country at europe.WSJ.com/funds]

MORNINGSTAR®

FUND NAME	GF	AT	LB	NAV DATE	CR	NAV	%RETURN YTD	%RETURN 12-MO	%RETURN 2-YR
Chartered Asset Management Pte Ltd - Tel No: 65-6835-8866									
Fax No: 65-6835 8865, Website: www.cam.com.sg, Email: cam@cam.com.sg									
CAM-GTF Limited	OT	OT	MUS	04/28	USD	308456.19	2.1	6.7	-5.4

Data as shown is for information purposes only. No offer is being made by Morningstar, Ltd. or this publication. Funds shown aren't registered with the U.S. Securities and Exchange Commission and aren't available for sale to United States citizens and/or residents except as noted. Prices are in local currencies. All performance figures are calculated using the most recent prices available.

For information about listing your funds, please contact: Freda Fung tel: +852 2831 2504; email: freda.fung@wsj.com

For personal non-commercial use only. Do not edit or alter. Reproductions not permitted.
To reprint or license content, please contact our reprints and licensing department at +1 800-843-0008 or www.djreprints.com

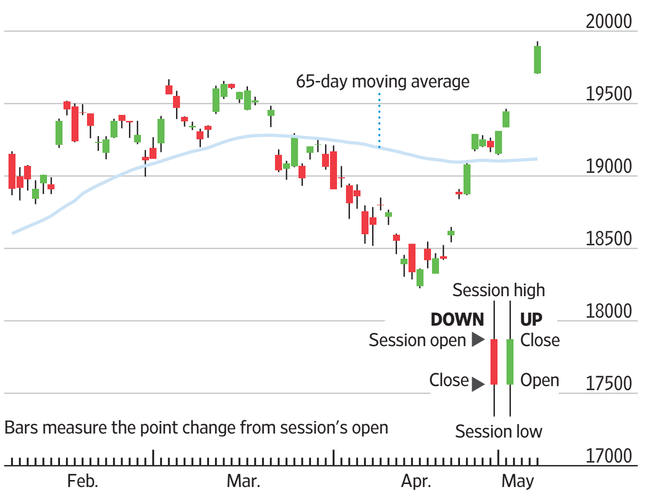
MARKETS DIGEST

Nikkei 225 Index

19895.70 ▲450.00, or 2.31%

High, low, open and close for each trading day of the past three months.

Year-to-date		▲4.09%
52-wk high/low	19895.70	14952.02
All-time high	38915.87	12/29/89



STOXX 600 Index

394.04 ▼0.50, or 0.13%

High, low, open and close for each trading day of the past three months.

Year-to-date		▲9.03%
52-wk high/low	394.54	308.75
All-time high	414.06	4/15/15

S&P 500 Index

Data as of 4 p.m. New York time

2399.38 ▲0.09, or 0.004%

High, low, open and close for each trading day of the past three months.

	Last	Year ago
Trailing P/E ratio	23.76	23.66
P/E estimate *	18.44	17.59
Dividend yield	1.97	2.20
All-time high:	2399.38, 05/08/17	

Weekly P/E data based on as-reported earnings from Birinyi Associates Inc.

International Stock Indexes

Data as of 4 p.m. New York time

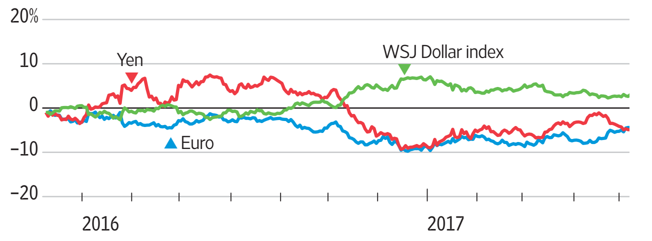
Region/Country	Index	Latest Close	Latest NetChg	Latest % chg	52-Week Range Low	52-Week Range High	YTD % chg
World	**The Global Dow**	2750.21	–4.11	–0.15	2193.75	2763.60	8.8
	MSCI EAFE	1865.13	0.22	0.01	1471.88	1956.39	8.7
	MSCI EM USD	983.67	5.40	0.55	691.21	1044.05	23.9
Americas	**DJ Americas**	576.51	–0.33	–0.06	480.90	577.99	6.7
Brazil	**Sao Paulo Bovespa**	65490.45	–219.29	–0.33	48066.67	69487.58	8.7
Canada	**S&P/TSX Comp**	15651.85	69.81	0.45	13535.54	15943.09	2.4
Mexico	**IPC All-Share**	49511.97	26.30	0.05	43902.25	50147.04	8.5
Chile	**Santiago IPSA**	3693.17	–21.88	–0.59	2998.64	3786.05	14.6
U.S.	**DJIA**	21012.28	5.34	0.03	17063.08	21169.11	6.3
	Nasdaq Composite	6102.66	1.90	0.03	4574.25	6106.12	13.4
	S&P 500	2399.38	0.09	0.004	1991.68	2401.36	7.2
	CBOE Volatility	9.73	–0.84	–7.95	9.67	26.72	–30.7
EMEA	**Stoxx Europe 600**	394.04	–0.50	–0.13	308.75	394.54	9.0
	Stoxx Europe 50	3243.74	–0.90	–0.03	2626.52	3251.04	7.7
Austria	**ATX**	3066.64	–1.64	–0.05	1981.93	3088.46	17.1
Belgium	**Bel-20**	4037.23	–0.71	–0.02	3127.94	4055.96	11.9
France	**CAC 40**	5382.95	–49.45	–0.91	3955.98	5442.10	10.7
Germany	**DAX**	12694.55	–22.34	–0.18	9214.10	12762.04	10.6
Greece	**ATG**	763.42	9.43	1.25	517.10	763.42	18.6
Hungary	**BUX**	32844.67	–19.37	–0.06	25126.36	34334.92	2.6
Israel	**Tel Aviv**	1423.52	...	unch.	1372.23	1490.23	–3.2
Italy	**FTSE MIB**	21428.10	–55.76	–0.26	15017.42	21623.69	11.4
Netherlands	**AEX**	534.31	1.04	0.20	409.23	535.05	10.6
Poland	**WIG**	61687.05	–144.35	–0.23	42812.99	62666.49	19.2
Russia	**RTS Index**	1085.68	...	Closed	873.58	1196.99	–5.8
Spain	**IBEX 35**	11096.30	–39.10	–0.35	7579.80	11184.40	18.7
Sweden	**SX All Share**	587.77	–0.95	–0.16	443.66	589.32	10.0
Switzerland	**Swiss Market**	9039.61	22.95	0.25	7475.54	9043.82	10.0
South Africa	**Johannesburg All Share**	53696.37	117.36	0.22	48935.90	54704.22	6.0
Turkey	**BIST 100**	93832.70	–95.69	–0.10	70426.16	95358.76	20.1
U.K.	**FTSE 100**	7300.86	3.43	0.05	5788.74	7447.00	2.2
Asia-Pacific	**DJ Asia-Pacific TSM**	1581.98	17.71	1.13	1308.52	1586.64	11.2
Australia	**S&P/ASX 200**	5870.90	34.30	0.59	5103.30	5956.50	3.6
China	**Shanghai Composite**	3078.61	–24.42	–0.79	2806.91	3288.97	–0.8
Hong Kong	**Hang Seng**	24577.91	101.56	0.41	19694.33	24698.48	11.7
India	**S&P BSE Sensex**	29926.15	67.35	0.23	25230.36	30133.35	12.4
Japan	**Nikkei Stock Avg**	19895.70	450.00	2.31	14952.02	19895.70	4.1
Singapore	**Straits Times**	3236.98	7.25	0.22	2729.85	3237.81	12.4
South Korea	**Kospi**	2292.76	51.52	2.30	1925.24	2292.76	13.1
Taiwan	**Weighted**	9937.25	37.31	0.38	8053.69	9972.49	7.4

Source: SIX Financial Information;WSJ Market Data Group

Currencies

London close on May 8

Yen, euro vs. dollar; dollar vs. major U.S. trading partners



Country/currency	Mon in US$	Mon per US$	US$ vs, YTD chg (%)
Americas			
Argentina peso-a	0.0650	15.3931	–3.0
Brazil real	0.3127	3.1982	–1.7
Canada dollar	0.7289	1.3719	2.1
Chile peso	0.001474	678.50	1.3
Colombia peso	0.0003378	2960.16	–1.4
Ecuador US dollar-f	1	1	unch
Mexico peso-a	0.0523	19.1258	–7.8
Peru sol	0.3037	3.2930	–1.8
Uruguay peso-e	0.0359	27.840	–5.1
Venezuela bolivar	0.098836	10.12	1.2
Asia-Pacific			
Australia dollar	0.7383	1.3545	–2.5
China yuan	0.1449	6.9034	–0.6
Hong Kong dollar	0.1285	7.7847	0.4
India rupee	0.0155	64.3101	–5.4
Indonesia rupiah	0.0000751	13310	–1.6
Japan yen	0.008861	112.85	–3.6
Kazakhstan tenge	0.003140	318.44	–4.6
Macau pataca	0.1247	8.0204	1.3
Malaysia ringgit-c	0.2306	4.3365	–3.3
New Zealand dollar	0.6904	1.4484	0.3
Pakistan rupee	0.0095	104.825	0.4
Philippines peso	0.0200	49.904	0.6
Singapore dollar	0.7116	1.4053	–2.9
South Korea won	0.0008819	1133.95	–6.1
Sri Lanka rupee	0.0065569	152.51	2.7
Taiwan dollar	0.03312	30.192	–7.0
Thailand baht	0.02887	34.640	–3.3
Europe			
Bulgaria lev	0.5587	1.7899	–3.7
Croatia kuna	0.1473	6.790	–5.3
Euro zone euro	1.0929	0.9150	–3.7
Czech Rep. koruna-b	0.0410	24.402	–5.0
Denmark krone	0.1469	6.8096	–3.7
Hungary forint	0.003508	285.07	–3.1
Iceland krona	0.009429	106.06	–6.1
Norway krone	0.1156	8.6496	0.1
Poland zloty	0.2583	3.8709	–7.5
Russia ruble-d	0.01714	58.328	–4.8
Sweden krona	0.1131	8.8426	–2.9
Switzerland franc	1.0016	0.9984	–2.0
Turkey lira	0.2790	3.5842	1.7
Ukraine hryvnia	0.0377	26.5000	–2.2
U.K. pound	1.2938	0.7729	–4.6
Middle East/Africa			
Bahrain dinar	2.6527	0.3770	–0.05
Egypt pound-a	0.0552	18.1053	–0.2
Israel shekel	0.2779	3.5979	–6.5
Kuwait dinar	3.2848	0.3044	–0.4
Oman sul rial	2.5970	0.3851	0.02
Qatar rial	0.2746	3.642	0.04
Saudi Arabia riyal	0.2666	3.7504	–0.01
South Africa rand	0.0735	13.6144	–0.6

	Close	Net Chg	% Chg	YTD % Chg
WSJ Dollar Index	90.08	0.37	0.41	–3.07

Sources: Tullett Prebon, WSJ Market Data Group

Global government bonds

Latest, month-ago and year-ago yields and spreads over or under U.S. Treasurys on benchmark two-year and 10-year government bonds around the world. Data as of 3 p.m. ET

Coupon	Country/ Maturity, in years	Yield	Spread Over Treasurys, in basis points: Latest	Previous	Month Ago	Year ago	Yield: Previous	Month ago	Year ago
5.250	**Australia** 2	1.731	40.0	40.9	37.9	85.2	1.719	1.665	1.586
4.750	10	2.683	30.8	30.6	18.0	52.4	2.658	2.562	2.300
3.000	**Belgium** 2	-0.527	-185.8	-184.1	-187.4	-121.9	-0.531	-0.588	-0.485
0.800	10	0.812	-156.3	-154.4	-162.4	-136.0	0.808	0.758	0.416
0.000	**France** 2	-0.411	-174.1	-173.3	-179.9	-116.0	-0.423	-0.513	-0.426
1.000	10	0.837	-153.7	-151.0	-149.3	-125.1	0.842	0.889	0.524
0.000	**Germany** 2	-0.664	-199.4	-199.0	-209.3	-124.4	-0.680	-0.807	-0.510
0.250	10	0.420	-195.4	-193.2	-215.4	-162.8	0.420	0.228	0.147
0.300	**Italy** 2	-0.137	-146.7	-144.4	-137.7	-77.5	-0.134	-0.090	-0.041
2.200	10	2.242	-13.3	-18.4	-34.0	-28.5	2.168	2.043	1.490
0.100	**Japan** 2	-0.194	-152.4	-151.1	-150.0	-97.9	-0.201	-0.214	-0.245
0.100	10	0.030	-234.4	-233.2	-233.3	-189.0	0.020	0.050	-0.115
4.000	**Netherlands** 2	-0.602	-193.2	-190.5	-203.7	-121.9	-0.595	-0.750	-0.485
0.750	10	0.628	-174.6	-173.1	-190.9	-152.7	0.621	0.473	0.248
4.750	**Portugal** 2	0.334	-99.7	-98.0	-87.4	-39.1	0.331	0.413	0.344
4.125	10	3.389	101.4	101.4	146.5	132.2	3.366	3.847	3.097
2.750	**Spain** 2	-0.288	-161.8	-159.8	-152.0	-79.5	-0.288	-0.233	-0.061
1.500	10	1.578	-79.6	-80.3	-78.0	-19.5	1.549	1.602	1.581
4.250	**Sweden** 2	-0.608	-193.8	-192.9	-191.9	-117.0	-0.619	-0.633	-0.436
1.000	10	0.651	-172.4	-170.4	-184.8	-102.1	0.648	0.534	0.755
1.750	**U.K.** 2	0.156	-117.4	-116.6	-117.2	-31.9	0.145	0.114	0.415
4.250	10	1.151	-122.4	-123.5	-130.4	-35.5	1.117	1.078	1.420
1.250	**U.S.** 2	1.330	...	...	...	...	1.310	1.286	0.734
2.250	10	2.374	...	...	...	...	2.352	2.382	1.776

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 5/7/2017

Commodity	Exchange	Last price	One-Day Change Net	One-Day Change Percentage	Year high	Year low
Corn (cents/bu.)	CBOT	366.50	-4.25	-1.15%	393.75	360.75
Soybeans (cents/bu.)	CBOT	964.00	-9.00	-0.92	1,092.50	941.25
Wheat (cents/bu.)	CBOT	433.75	-8.50	-1.92	488.75	416.00
Live cattle (cents/lb.)	CME	127.550	-0.750	-0.58	134.550	103.150
Cocoa ($/ton)	ICE-US	1,951	85	4.56%	2,270	1,756
Coffee (cents/lb.)	ICE-US	136.95	1.25	0.92	161.55	128.65
Sugar (cents/lb.)	ICE-US	15.43	0.12	0.78	20.81	15.24
Cotton (cents/lb.)	ICE-US	77.24	-0.53	-0.68	80.27	71.86
Robusta coffee ($/ton)	ICE-EU	2021.00	19.00	0.95	2,283.00	1,871.00
Copper ($/lb.)	COMEX	2.4920	-0.0365	-1.44	2.8400	2.4725
Gold ($/troy oz.)	COMEX	1227.60	0.70	0.06	1,297.40	1,152.20
Silver ($/troy oz.)	COMEX	16.305	0.031	0.19	18.725	16.100
Aluminum ($/mt)*	LME	1,914.00	-2.50	-0.13	1,972.00	1,688.50
Tin ($/mt)*	LME	19,830.00	-120.00	-0.60	21,225.00	18,760.00
Copper ($/mt)*	LME	5,560.00	-10.00	-0.18	6,156.00	5,518.00
Lead ($/mt)*	LME	2,188.00	16.00	0.74	2,445.00	2,022.00
Zinc ($/mt)*	LME	2,571.00	4.00	0.16	2,958.50	2,555.00
Nickel ($/mt)*	LME	8,980.00	-80.00	-0.88	11,095.00	8,980.00
Rubber (Y.01/ton)	TCE	206.60	-15.10	-6.81	n.a.	n.a.
Palm oil (MYR/mt)	MDEX	2600.00	22.00	0.85	3,004.00	2,450.00
Crude oil ($/bbl.)	NYMEX	46.41	0.19	0.41	57.95	43.76
NY Harbor ULSD ($/gal.)	NYMEX	1.4573	0.0207	1.44	1.7833	1.3748
RBOB gasoline ($/gal.)	NYMEX	1.5188	0.0142	0.94	1.9012	1.4500
Natural gas ($/mmBtu)	NYMEX	3.180	-0.086	-2.63	3.5410	2.8170
Brent crude ($/bbl.)	ICE-EU	49.32	0.22	0.45	60.09	46.64
Gas oil ($/ton)	ICE-EU	438.00	3.00	0.69	526.50	413.00

Sources: SIX Financial Information; WSJ Market Data Group

Cross rates

London close on May 8

	USD	GBP	CHF	JPY	HKD	EUR	CDN	AUD
Australia	1.3545	1.7524	1.3565	0.0120	0.1740	1.4801	0.9870	...
Canada	1.3719	1.7751	1.3742	0.0122	0.1762	1.4991	...	1.0130
Euro	0.9150	1.1840	0.9165	0.0081	0.1175	...	0.6669	0.6757
Hong Kong	7.7847	10.0726	7.7972	0.0690	...	8.5075	5.6746	5.7483
Japan	112.8480	146.0000	113.0300	...	14.4960	123.3100	82.2500	83.3200
Switzerland	0.9984	1.2918	...	0.0088	0.1283	1.0911	0.7277	0.7372
U.K.	0.7729	...	0.7741	0.0068	0.0993	0.8446	0.5633	0.5707
U.S.	...	1.2938	1.0016	0.0089	0.1285	1.0929	0.7289	0.7383

Source: Tullett Prebon

Key Rates

	Latest	52 wks ago
Libor		
One month	0.99411%	0.43865%
Three month	1.18456	0.62960
Six month	1.43683	0.90540
One year	1.78817	1.22715
Euro Libor		
One month	-0.40286%	-0.35129%
Three month	-0.36429	-0.27743
Six month	-0.26871	-0.15700
One year	-0.13829	-0.03014
Euribor		
One month	-0.37400%	-0.34900%
Three month	-0.32900	-0.25800
Six month	-0.24900	-0.14300
One year	-0.12400	-0.01400
Yen Libor		
One month	-0.02086%	-0.04314%
Three month	-0.00100	-0.02471
Six month	0.02571	0.00407
One year	0.13457	0.09471

	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.	0.86%	0.44%
Euro zone	n.a.	n.a.

Sources: WSJ Market Data Group, SIX Financial Information, Tullett

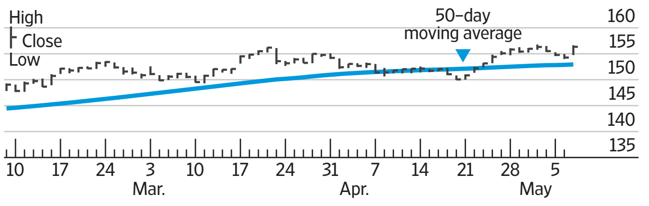
Top Stock Listings

4 p.m. New York time

Cur	Stock	Sym	Last	% Chg	YTD% Chg
	Asia Titans				
HK$	AIAGroup	1299	54.45	-0.27	24.46
¥	AstellasPharma	4503	1444.50	0.70	-11.03
AU$	AustNZBk	ANZ	29.95	0.34	-1.55
AU$	BHP	BHP	22.97	1.55	-8.34
HK$	BankofChina	3988	3.70	0.54	7.56
HK$	CKHutchison	0001	97.65	0.57	11.09
HK$	CNOOC	0883	8.83	0.11	-8.97
AU$	CSL	CSL	134.50	0.66	33.95
¥	Canon	7751	3794.00	1.17	15.14
¥	CentralJapanRwy	9022	19010	2.01	-1.14
HK$	ChinaConstructnBk	0939	6.21	0.81	4.02
HK$	ChinaLifeInsurance	2628	23.05	0.66	14.11
HK$	ChinaMobile	0941	84.30	...	2.55
HK$	ChinaPetro&Chem	0386	6.08	1.00	10.55
AU$	CmwlthBkAust	CBA	85.30	1.07	3.51
¥	EastJapanRailway	9020	10310	2.18	2.08
¥	Fanuc	6954	23260	3.29	17.39
¥	Hitachi	6501	635.50	1.92	0.55
TW$	Hon Hai Precisn	2317	101.00	1.00	19.95
¥	HondaMotor	7267	3261.00	0.80	-4.51
KRW	HyundaiMtr	005380	158000	3.95	8.22
HK$	Ind&Comml	1398	5.01	1.01	7.74
¥	JapanTobacco	2914	3780.00	1.20	-1.66
¥	KDDI	9433	3015.00	1.98	1.88
¥	Mitsubishi	8058	2462.50	1.03	-1.10
¥	MitsubishiElectric	6503	1664.50	3.45	2.15
¥	MitsubishiUFJFin	8306	734.30	2.57	1.96
¥	Mitsui	8031	1617.00	1.13	0.62
¥	Mizuho Fin	8411	209.90	1.55	0.05
¥	NTTDoCoMo	9437	2707.50	1.01	1.67
AU$	NatAustBnk	NAB	33.10	1.78	7.92
¥	NipponTeleg	9432	4980.00	2.91	1.38
¥	NissanMotor	7201	1085.00	0.79	-7.70
¥	Panasonic	6752	1376.50	2.80	15.72
HK$	PingAnInsofChina	2318	43.10	0.35	11.08
$	RelianceIndsGDR	RIGD	41.20	-1.08	30.59
KRW	SamsungElectronics	005930	2351000	3.30	30.47
¥	Seven&I Hldgs	3382	4865.00	2.53	9.25
¥	SoftBankGroup	9984	8620.00	1.67	11.01
¥	Sony	6758	3989.00	3.53	21.80
¥	Sumitomo Mitsui	8316	4241.00	2.12	-4.91
HK$	SunHngKaiPrp	0016	116.50	-0.09	18.88
TW$	TaiwanSemiMfg	2330	202.50	2.53	11.57
¥	TakedaPharm	4502	5496.00	2.23	13.67
HK$	TencentHoldings	0700	244.80	0.41	29.05
¥	TokioMarineHldg	8766	4870.00	2.50	1.54
¥	ToyotaMtr	7203	6235.00	1.50	-9.35
AU$	Wesfarmers	WES	43.41	0.28	3.01
AU$	WestpacBanking	WBC	34.08	0.65	4.54
AU$	Woolworths	WOW	26.57	1.22	10.25
	Stoxx 50				
CHF	ABB	ABBN	24.46	...	13.87
€	ASMLHolding	ASML	122.10	-0.49	14.49
€	AXA	CS	24.64	-1.42	2.75
€	AirLiquide	AI	113.50	-1.43	7.43
€	Allianz	ALV	172.90	-0.58	10.13
€	AB InBev	ABI	109.00	-0.27	8.40
£	AstraZeneca	AZN	4605.50	...	3.79
€	BASF	BAS	89.24	-1.00	1.05
€	BNP Paribas	BNP	66.84	-1.53	10.39
£	BT Group	BT.A	306.60	-0.95	-16.43
€	BancoBilVizAr	BBVA	7.76	-0.49	22.23
€	BancoSantander	SAN	6.26	-0.51	26.34
£	Barclays	BARC	204.90	-0.70	-8.30
€	Bayer	BAYN	115.25	0.13	16.26
£	BP	BP.	454.45	0.69	-10.82
£	BritishAmTob	BATS	5320.00	0.62	15.11
€	Daimler	DAI	68.75	0.34	-2.79
€	DeutscheTelekom	DTE	16.81	1.20	2.78
£	Diageo	DGE	2289.00	0.50	8.48
€	ENI	ENI	14.59	...	-5.69
£	GlaxoSmithKline	GSK	1590.50	0.16	1.82
£	HSBC Hldgs	HSBA	660.60	0.30	0.56
€	INGGroep	INGA	15.69	-0.41	17.35
£	ImperialBrands	IMB	3656.50	0.81	3.22
€	IntesaSanpaolo	ISP	2.85	0.35	17.56
€	LVMHMoetHennessy	MC	233.65	-1.87	28.80
£	LloydsBankingGroup	LLOY	69.45	-0.79	11.10
€	LOreal	OR	187.90	-0.34	8.36
£	NationalGrid	NG.	1028.50	0.78	8.08
CHF	Nestle	NESN	80.45	0.56	10.13
CHF	Novartis	NOVN	77.95	1.43	5.20
DKK	NovoNordiskB	NOVO-B	277.50	-0.18	8.95
£	Prudential	PRU	1743.00	-0.91	7.10
£	ReckittBenckiser	RB.	7176.00	0.08	4.21
£	RioTinto	RIO	2935.00	-1.48	-7.08
CHF	RocheHldgctf	ROG	270.10	0.45	16.12
£	RoyDtchShell A	RDSA	2082.00	0.70	-7.16
€	SAP	SAP	94.22	0.40	13.78
€	Sanofi	SAN	89.38	-0.35	16.23
€	SchneiderElectric	SU	70.82	-2.26	7.12
€	Siemens	SIE	130.45	-1.17	11.69
CHF	Syngenta	SYNN	466.40	1.13	15.88
€	Telefonica	TEF	10.47	-0.29	18.71
€	Total	FP	47.81	-0.40	-0.89
CHF	UBSGroup	UBSG	16.97	1.01	6.39
€	Unilever	UNA	49.06	1.94	25.43
£	Unilever	ULVR	4050.00	1.55	23.01
€	Vinci	DG	78.99	-0.64	22.09
£	VodafoneGroup	VOD	205.15	0.10	2.65
CHF	ZurichInsurance	ZURN	277.10	-0.25	-1.18
	DJIA				
$	AmericanExpress	AXP	78.13	-0.24	5.47
$	Apple	AAPL	153.00	2.71	32.10
$	Boeing	BA	186.01	0.54	19.48
$	Caterpillar	CAT	99.32	-0.32	7.10
$	Chevron	CVX	106.63	0.79	-9.41
$	CiscoSystems	CSCO	34.29	-0.29	13.47
$	Coca-Cola	KO	43.89	0.46	5.86
$	Disney	DIS	111.42	-0.51	6.91
$	DuPont	DD	80.25	-1.10	9.33
$	ExxonMobil	XOM	82.88	1.05	-8.18
$	GeneralElec	GE	29.06	-0.55	-8.04
$	GoldmanSachs	GS	224.93	-0.86	-6.06
$	HomeDepot	HD	156.86	0.73	16.99
$	Intel	INTC	36.52	-0.81	0.69
$	IBM	IBM	153.00	-0.36	-7.83
$	JPMorganChase	JPM	87.10	0.11	0.94
$	J&J	JNJ	123.19	-0.26	6.93
$	McDonalds	MCD	144.25	0.20	18.51
$	Merck	MRK	64.01	0.06	8.73
$	Microsoft	MSFT	68.94	-0.09	10.94
$	Nike	NKE	54.29	0.63	6.81
$	Pfizer	PFE	33.45	-0.09	2.99
$	Procter&Gamble	PG	86.54	0.05	2.93
$	3M	MMM	198.60	-0.40	11.22
$	Travelers	TRV	120.98	-0.26	-1.18
$	UnitedTech	UTX	121.10	-0.21	10.47
$	UnitedHealth	UNH	174.36	0.14	8.95
$	Visa	V	91.90	-0.21	17.79
$	Verizon	VZ	46.63	-0.13	-12.65
$	Wal-Mart	WMT	76.10	-0.52	10.10

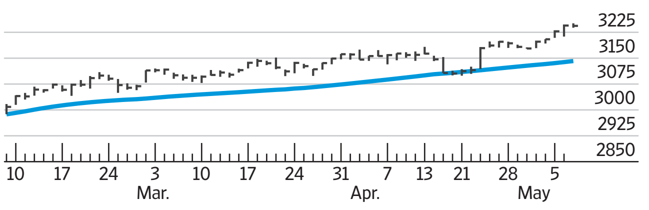
Asia Titans 50

Last: **156.34** ▲ 2.07, or 1.34% — YTD ▲ **10.9%**



Stoxx 50

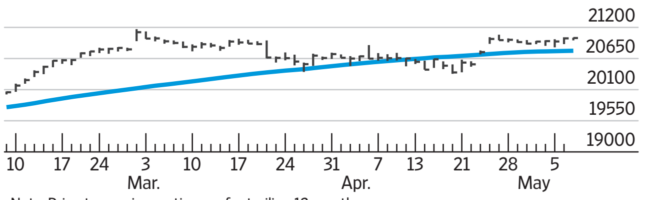
Last: **3243.74** ▼ 0.90, or 0.03% — YTD ▲ **7.7%**



Dow Jones Industrial Average

P/E: 21

Last: **21012.28** ▲ 5.34, or 0.03% — YTD ▲ **6.3%**



Note: Price-to-earnings ratios are for trailing 12 months
Sources: WSJ Market Data Group; Birinyi Associates

For personal non-commercial use only. Do not edit or alter. Reproductions not permitted.
To reprint or license content, please contact our reprints and licensing department at +1 800-843-0008 or www.djreprints.com

HEARD ON THE STREET

Email: heard@wsj.com
FINANCIAL ANALYSIS & COMMENTARY
WSJ.com/Heard

A Win for Europe's Weakest Banks

Emmanuel Macron's victory as French president should be good news for all European banks, not just those in France, but Greek and Italian ones, too.

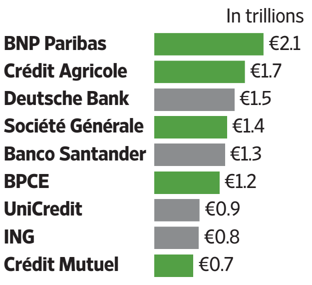
Victory for a mainstream candidate in France squashes the biggest political risk: the breakup of the eurozone threatened by far-right leader Marine Le Pen. But European bank stocks got most of the gains two weeks ago when that risk faded after the first round of the French vote.

Investors are now focused on the next step, that is, the ability of the strongly pro-Europe Mr. Macron, a former investment banker, to strengthen the German-French partnership and knit the whole bloc more tightly together.

Banking union is the thing that matters most for banks and their investors. This is the common legal and licensing framework that would allow lenders to collect deposits, make loans and sell other financial services seamlessly across borders. It doesn't exist today.

Leading the Union

Ranked by assets, the eurozone's biggest banks are mainly French



Note: French banks in green
Source: S&P Global Market Intelligence
THE WALL STREET JOURNAL.

REUTERS

A BNP Paribas branch in Issy-les-Moulineaux, near Paris

Banking union could improve flows of capital around Europe. It should also help consolidate thousands of smaller lenders and aid efficiency. But the most important thing it would do, according to Dirk Schoenmaker, senior fellow at think tank Bruegel, is give a better foundation to the whole financial system—and thus the eurozone itself—before another crisis.

The eurozone has a single bank supervisor and regulatory rule book, but it doesn't have a single deposit-insurance program or a single tax-funded backstop if things go wrong.

France has a big interest in leading on this issue. After all, of the eurozone's nine biggest banks by assets, five are French, according to S&P Global Market Intelligence.

The obstacle is Europe's €1 trillion ($1.1 trillion) bad-debt pile and its concentration in Italy, Greece and Portugal. Northern European politicians and especially German ones reel from the idea of putting their taxpayers' cash at risk across borders.

One way around this would be a two-speed Europe, one in which full banking union becomes a reality for those countries that are ready. Spain might make it in, Italy might not.

Others see this as unrealistic and divisive. They say the only solution is to allow Italy to do what Ireland and Spain did and use public money to fund a bad-loan clear-out.

The risk of not sorting out weak banking nations is that the eurozone becomes two-speed by default as countries with strong banks enjoy better access to capital and stronger economic growth.

Greek and Italian bank stocks rose Monday, as investors bet that Mr. Macron recognizes this. But he must persuade Germany, too.

—Paul J. Davies

OVERHEARD

On the spectrum of awful to great, one might place being beaten up near one end and getting a free trip to San Francisco on the other.

In reality, though, **United Airlines** wound up paying undisclosed settlements to passengers who experienced both.

The case of the bloodied doctor David Dao, dragged off a flight, is well-known and forced Chief Executive **Oscar Munoz** to spend two days groveling to Congress last week.

The latter episode led to a settlement because the passenger, who only speaks French, was supposed to fly from Newark to Paris instead of San Francisco.

The airline made a last-minute gate change but only announced it in English.

The passenger boarded the wrong flight and wasn't removed, even courteously. That turned what should have been a seven-hour trip into a 28-hour one.

Zut alors!

PPG Needs to Get Messy to Push Through Paint Merger

Storming its European takeover target with an all-out $27 billion hostile bid would be too risky for **PPG Industries**. A long, uncertain siege is now the only likely path to creating the world's largest paint maker.

On Monday, Pittsburgh-based PPG received its third rejection in two months from the management of Dutch peer **Akzo Nobel**. PPG made clear its latest, late-April offer of €96.75 ($106.42) in cash and stock for each Akzo share was its last. Its next step is to go "hostile" by making an offer directly to Akzo shareholders, without the support of its management. Akzo's shareholders, judging by public statements, like the deal.

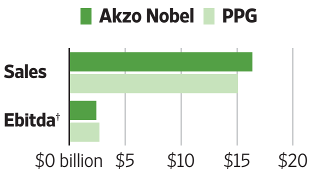
But there is a major barrier: Like many large Dutch companies, Akzo has a "stichting," or foundation, that owns "priority shares," giving it the right to appoint management. Without the foundation's cooperation, PPG could find itself owning Akzo but unable to appoint management. Given that Akzo would account for just over half the combined company's sales, this isn't a risk PPG can afford to run.

Any hostile offer, therefore, needs to be conditional on the stichting waiving its rights, which would require friendly talks. Unfortunately, the foundation's board consists of two members of Akzo's supervisory board, the body that oversees the company's governance. These include Chairman Antony Burgmans, an opponent of the deal.

PPG may decide to proceed with a conditional hostile offer in the hope that relentless drubbing of Akzo for its stubborn refusal to consider what its shareholders want will eventually force the stichting to capitulate. The cause may be helped by activist shareholder Elliott Management, which has said it would take to the courts its motion to hold an extraordinary general meeting and put shareholder support for Mr. Burgmans to the vote.

Paint Peers

Forecasted sales and profits for PPG and Akzo Nobel*



*Analyst consensus †Earnings before interest, taxes, depreciation and amortization
Source: FactSet
THE WALL STREET JOURNAL.

But these moves wouldn't change the legal endgame, which gives the supervisory board an effective veto.

"The fact this can be dragged out works in favor of Akzo," says Edmund Schuster, assistant professor of law at the London School of Economics.

As PPG has recognized, merging with Akzo would make a lot of business sense—and create a lot of value for shareholders—in the capital-intensive, low-growth paint industry.

The question is how much value is destroyed as management is distracted by the fight. PPG would be forgiven for concluding its time is more profitably spent elsewhere.

—Stephen Wilmot

China Tech Firms' Profit Distortion

U.S. tech titans have stopped presenting an alternative set of financial results. Investors in their Chinese counterparts should be mindful of such flattering "tailored" results, too.

Facebook said last week that it will, for the most part, report its results only according to generally accepted accounting principles. This followed a similar move by Google parent **Alphabet**. These are moves away from the trend of companies highlighting alternative sets of results that strip out certain expenses. Such non-GAAP, or adjusted, numbers tend to make the firms look healthier.

One particular area stands out: Adjusted earnings take out share-based compensation, remuneration paid in stocks or options, as these are noncash expenses. But these are real expenses and dilutive as well. Technology companies tend to pay their employees with lots of stock, so the difference to the bottom line can be huge if one excludes such expenses.

Chinese tech firms are noteworthy in this regard. Share-based compensation accounted for 11% of revenue for e-commerce giant **Alibaba**. Its adjusted earnings per share for 2016 was 49% higher than its GAAP earnings per share. Alibaba trades at a decent 35 times adjusted earnings, but a more scary-sounding 52 times GAAP earnings.

For its rival **JD.com**, the adjustment determines whether the company is profitable or not. It reported a non-GAAP net profit of $152 million for 2016, but its share-based compensation is more than twice that. Its GAAP loss was $557 million.

Chinese companies would do well to follow their American brothers. *—Jacky Wong*

WSJ PRO
CYBERSECURITY
EXECUTIVE FORUM

THURSDAY, MAY 25, 2017 | LONDON

WSJ Pro's Cybersecurity Executive Forum will bring together senior figures from industry and government to discuss how senior executives can best prepare for hacking threats, manage breaches and work with government cybersecurity authorities and regulators. The forum will offer insights, practical advice, case studies and workshops tailored to the needs of executives and managers.

SPEAKERS


ELIZABETH DENHAM
U.K. Information Commissioner
Information Commissioner's Office


JOHN 'FOUR' FLYNN
Chief Information Security Officer
Uber


MIKKO HYPPONEN
Chief Research Officer
F-Secure


CHERI MCGUIRE
Group Chief Information Security Officer
Standard Chartered Bank


DAVID OMAND
Visiting Professor, Dept. of War Studies
King's College, London


DAVID WOOD
Executive Director
BGS Ltd.

To request an invitation, go to **CYBER.WSJ.com**

© 2017 Dow Jones & Co., Inc. All rights reserved.

For personal non-commercial use only. Do not edit or alter. Reproductions not permitted.
To reprint or license content, please contact our reprints and licensing department at +1 800-843-0008 or www.djreprints.com

MARKETS

Options Traders Pull Back

Declining volumes and higher costs are crimping the market; acute feedback loop

By Gunjan Banerji

Falling volumes and spiraling costs are pushing trading firms out of U.S. options, raising concerns about fragility in a market that investors rely on to protect portfolios.

Trading has dwindled in most areas of the market, and investors and traders are grappling with increasing fragmentation.

Liquidity has deteriorated, according to interviews with market participants and data reviewed by The Wall Street Journal, making it harder to trade most options without significantly moving prices. Options on key indexes, exchange-traded funds and high-volume stocks dominate trading, but activity has diminished in the rest of the listed U.S. options world.

The stresses, which have made trading riskier and less profitable, prompted at least six prominent options market makers to exit from the business since 2012. Market makers are firms willing to both buy and sell.

Thomas Peterffy, a pioneer of electronic options trading, said in March that his firm, **Interactive Brokers Group** Inc., would pull the plug on options market making. **KCG Holdings** Inc. announced its exit from retail options market making last year, while **UBS Group** AG and **Credit Suisse Group** AG have also left automated options market making. **J.P. Morgan Chase** & Co. and **Bank of America** Corp. made similar decisions in 2014, according to people familiar with the matter.

"Most market makers congregate in the highly traded products," Mr. Peterffy said in an interview. "It's difficult for a market maker to maintain hundreds of thousands of bids and offers all the time."

It is hard to pinpoint what triggered the trader exodus, but industry observers say as firms leave, liquidity gets further drained, which spurs more market makers to retrench. The dangerous feedback loop could sap appetite for options, which investors use to manage risk in their portfolios.

"We could ill afford to lose any more market makers at this junction," said Alan Grigoletto, who previously worked at the Boston Options Exchange and now runs **Grigoletto Consulting Group** while trading options in his retirement account.

Data show the liquidity bifurcation. Index and exchange-traded-fund options volume rose in April by 28% and 4%, respectively, data from Options Clearing Corp. show. Meanwhile, total equity options volume shrank 10% from the prior year. While volume isn't an exact equivalent to liquidity, it is easier for the options market to absorb trades when an individual asset trades more.

Ultra-active options include those on the SPDR S&P 500 Trust ETF, the PowerShares QQQ ETF, Apple Inc. and Facebook Inc. On the flip side, on an average day in March, there was zero options activity on about 1,400 individual stocks, ETFs or indexes, data from analytics firm Hanweck Associates show.

Ironically, the options industry's willingness to give users more choices is adding to the overall liquidity problem. Investors can trade options for more hours now, and exchanges have boosted the number of products, introducing wider ranges in both expirations and strikes, the prices at which options can be exercised. But this makes it more challenging for market makers who need to continuously provide quotes across an ever-increasing range.

"The existing pool of liquidity has been stretched thinner and thinner across expirations and strike prices and exchanges," said John Kinahan, chief executive of Group One Trading, an options market maker. "We still post markets on a lot of different exchanges, just not as aggressively as we used to."

One barometer of liquidity is the difference between the price buyers would like to purchase an option for and what sellers are willing to exchange at. The measure, known as the bid-ask spread, has increased 30% in the past five years and peaked in 2014, according to data from Hanweck, which calculated a weighted average of the spread across quotes on all options.

While options market makers are closing shop, the number of options exchanges has risen to 15 from nine just five years ago.

Smaller firms sometimes can't afford fees to connect with multiple exchanges alongside the technology costs necessary to keep trading speeds in line with competitors, said Hazem Dawani, chief executive of OptionsCity Software, a trading systems and analytics provider. Some exchanges also have tiered fee structures that favor bigger firms.

"We've seen customers pulling out of equity options and trying to trade other products," Mr. Dawani said. For example, customers are shifting to futures contracts, he said. Options Clearing Corp. data show a 42% increase in futures volume during April.

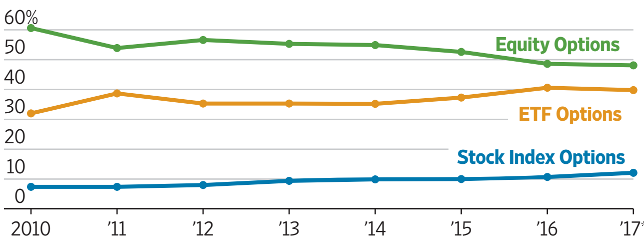
Mr. Peterffy expressed optimism, saying options are still an "excellent vehicle for traders," and that exchanges will eventually consolidate.

Liquidity Starved

Stock options volumes have fallen, while bid-ask spreads—a way to gauge liquidity—have widened.

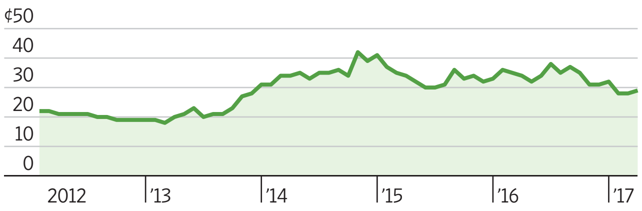
Investors are using ETF and index options more, but equity-option trading has dwindled.

Percentage of options traded by year



One sign options liquidity has deteriorated is higher bid-ask spreads in recent years.

Average bid-ask spreads



*Through April 30
Sources: OCC (options); Hanweck Associates LLC (average spreads)

THE WALL STREET JOURNAL.

Oil Investors Cut Bets That Prices Will Rise

By Georgi Kantchev

Investors cut their bullish bets on the price of oil to the lowest level since OPEC reached a deal to reduce output last year, amid continued doubts about the effectiveness of that agreement.

Hedge funds and other big money managers pared their net long position, a bet on rising prices, in Brent oil by 10% in the week ended May 2, data from **IntercontinentalExchange** Inc. showed Monday. Funds also cut their net long position in West Texas Intermediate, the U.S. price gauge, according to the **Commodity Futures Trading Commission**.

The Organization of the Petroleum Exporting Countries and other big producers meet this month to decide whether to extend their deal to cut about 2% from global production.

Crude prices rose after the agreement was forged late last year but fell to a five-month low last week as the global glut, which the cuts were aimed at tackling, shows few signs of abating.

"With scant evidence that OPEC production cuts are actually tightening oil markets as expected, the capitulation of [bullish bets] has seemingly dominated price action," David Martin, an analyst at J.P. Morgan, said in a note.

On Monday, Brent rose 0.5%, to $49.34 a barrel, while WTI gained 0.5%, to $46.43.

Investors raised their bullish bets to a record following OPEC's deal. The past few weeks, however, saw funds cutting their long positions and raising their shorts, or bets that prices will fall.

In the latest week, managed-money accounts cut the number of long positions in Brent to the equivalent of 450 million barrels of crude, the lowest since Nov. 29, according to the ICE data. It was 457 million barrels the week before. They raised the number of short positions to 128 million barrels from 99 million.

This mirrored developments in WTI, in which money managers shrunk their net long position on crude by more than 20%, CFTC data showed Friday.

16

Consecutive weeks of rises in number of U.S. rigs drilling for oil

Most analysts expect OPEC and suppliers outside the group, including Russia, to agree to extend their agreement for another six months when they meet in Vienna on May 25.

Even if OPEC comes through, oil prices face further obstacles.

In the U.S., rigs drilling for oil continue to increase, pointing to the resilience of the shale industry. On Friday, oilfield-services company Baker Hughes Inc. reported the rig count rose by six, its 16th straight week of increases. The count has increased by 7.3 rigs a week on average over the past year, making this the strongest recovery of the past 30 years, Martijn Rats, an analyst at **Morgan Stanley**, wrote in a report Monday.

Rising production in Libya, which is exempt from the OPEC cuts, also added to the bearish sentiment.

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

Tribune Media rose 5.2%. The U.S. firm, owner of WPIX, is being bought by Sinclair Broadcast Group.

French Stocks Slip After Vote

By Alexander Osipovich and Riva Gold

Investors sold European stocks and currencies after Emmanuel Macron's widely anticipated victory in French elections.

MONDAY'S MARKETS

The Stoxx Europe 600 edged down 0.1% to 394.04, slipping from a two-year high as lower metals prices dragged down mining shares, while France's CAC-40 index fell 49.45 points, or 0.9%, to 5382.95.

In Frankfurt, the DAX fell 0.2%, while London's FTSE 100 gained 3.43 points, or less than 0.1%, to 7300.86.

The euro was off 0.6% at $1.093 after briefly touching a seven-month high following Sunday's victory for Mr. Macron, who vowed to reform France's economy and fight Europe's nationalist wave.

"With the market expecting this kind of result [in the French election], there is no goodwill effect today," said Gilles Pradère, a portfolio manager at RAM Active Investments.

The outcome of the French election has contributed to a drop in a closely watched measure of expected U.S. stock-market volatility, the CBOE Volatility Index, or VIX. The VIX fell as low as 9.72 on Monday, putting it on track for its lowest close since 1993.

Focus for investors in Europe now turns to French legislative elections in June, which analysts say will determine whether Mr. Macron can push through his agenda, and coming votes in Germany and Italy.

The S&P 500 and Nasdaq Composite inched up to record highs on Monday for the second session in a row, lifted by energy and technology shares.

High-flying Apple boosted the indexes, which spent much of the day in negative territory before popping higher in the closing minutes of trading.

The Dow Jones Industrial Average gained 5.34 points, or less than 0.1%, to end the day at 21012.28, its second-highest close in history.

The S&P 500 Index rose 0.09 points, or less than 0.1%, to 2399.38, while the Nasdaq added 1.90 points, or less than 0.1%, to 6102.66.

But the indexes were weighed down by mining stock. Materials shares in the S&P 500 fell 0.9% as copper prices slipped after weak economic data from China raised concerns about slowing demand from the world's largest consumer of the metal. Copper futures for May delivery lost 1.3% to settle at $2.4855 a pound on the Comex division of the New York Mercantile Exchange.

Freeport-McMoRan declined 1.2%. Dow component DuPont fell 1.3% by late afternoon.

Shares of **Tribune Media** were up 5.2% as investors responded to news that **Sinclair Broadcast Group**, an owner of television stations, will buy the company for about $3.9 billion.

Energy stocks rallied as crude-oil futures climbed 21 cents, or 0.5%, to close at $46.43 a barrel. Exxon Mobil gained 0.9%, and Chevron added 0.7% by late afternoon.

Apple rose 2.7%, lifting the Dow, after billionaire Warren Buffett's Berkshire Hathaway disclosed it had more than doubled its stake in the iPhone maker during the first quarter.

U.S. government bonds weakened Monday, with the yield on the 10-year Treasury note rising to 2.376%, according to Tradeweb, from 2.352% on Friday. Yields move inversely to prices.

U.S. investors are looking ahead to the tail end of corporate earnings season.

Disney is set to report quarterly results Tuesday, and major retailers are to report later in the week.

Markets in Asia mostly moved higher. Japan's Nikkei Stock Average rose 2.3% to its highest level in 17 months.

The Shanghai Composite fell 0.8% amid concerns that sustained regulatory tightening might force funds to exit.

IS ALPHA MORE ELUSIVE TODAY?

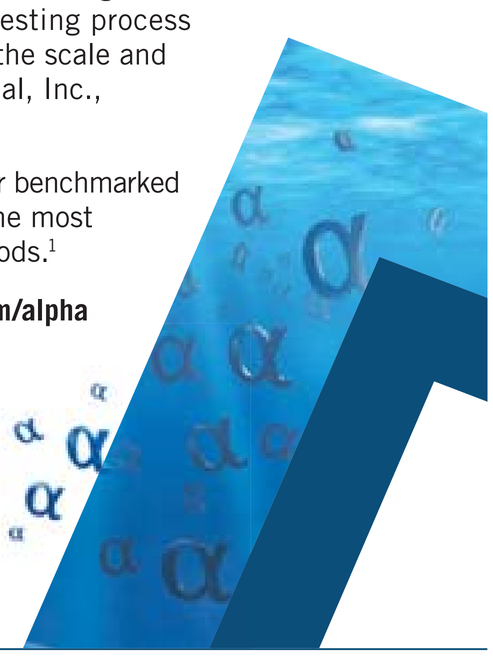
With so many chasing after short term returns, it often seems that way.

Instead of getting caught up with the crowd, PGIM takes a long term view, teaming specialized active investing with risk management rigor to seek out global opportunities.

Each asset manager in our multi-manager model follows its own disciplined investing process in pursuit of alpha, leveraging the scale and resources of Prudential Financial, Inc., headquartered in the U.S.

The results achieved: 88% of our benchmarked portfolios outperforming over the most recent three- and five-year periods.[1]

Get the longer view at **PGIM.com/alpha**



PGIM

FIXED INCOME | EQUITIES | REAL ESTATE | ALTERNATIVES | PRIVATE DEBT

Available to institutional and retail investors

[1] Percentage gross of fees as of December 31, 2016.

© 2017 Prudential Financial, Inc. (PFI) and its related entities. The PGIM logo and the Rock design are service marks of PFI and its related entities, registered in many jurisdictions worldwide. PGIM is a subsidiary of PFI, a company incorporated and with its principal place of business in the United States. PFI of the United States is not affiliated in any manner with Prudential plc, a company incorporated in the United Kingdom.

Past performance is not a guarantee or a reliable indicator of future results. AS-XUS