

# THE WALL STREET JOURNAL.

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ASIA EDITION

As of 12 p.m. ET DJIA 20726.44 ▼ 1.21% NIKKEI 19814.88 ▼ 0.53%

STOXX 600 391.14 ▼ 1.20% BRENT 52.43 ▲ 1.51%

GOLD 1256.90 ▲ 1.77% EURO 1.1138 ▲ 0.50%

DLR \$111.34 ▼ 1.58%

## What's News

Business & Finance

Stocks, the U.S. dollar and government bond yields fell as a turbulent week in Washington upended bets on the swift passage of the Trump administration's agenda. A1

◆ Volkswagen's CEO has been targeted for the first time in a probe in connection with the disclosure of the company's emissions-cheating scandal. B1

◆ Senior creditors to Lehman Brothers' main European unit will get most of a \$10 billion cash surplus, the U.K. Supreme Court ruled. B5

◆ The U.K. government sold its remaining stake in Lloyds Banking Group. B5

◆ Amazon is preparing to bring its full retail offering to Australia, signaling a major competitive threat to the country's retailers. B1

◆ The SEC will reconsider its initial approval of a risky, leveraged ETF. B5

◆ Qualcomm sued the manufacturers that make iPhones for Apple for failing to pay royalties on its technology. B4

◆ An Apple manufacturer completed a trial run of the first iPhones assembled in India. B4

◆ Tencent reported a steep rise in profit and revenue for the first quarter. B4

◆ Target posted profit that beat expectations, but sales continued to fall in its fiscal first quarter. B2

### World-Wide

◆ House Speaker Ryan said he was hesitant to jump to conclusions about Trump in the wake of reports about Russia and the president's dealings with Comey. A1

◆ The classified information that Trump shared with Russian officials had been gathered by Israeli intelligence, a disclosure that could have broad U.S. security consequences. A4

◆ GOP Sen. Cornyn withdrew from consideration to lead the FBI, another sign that a partisan figure might face a tough confirmation. A5

◆ A new fast-spreading computer attack and a hacking group's threat to release a fresh trove of stolen cyberweapons fueled fears of another technology assault. A1

◆ A Russian state-run bank under scrutiny by U.S. investigators financed a deal involving Trump's onetime partner in a Toronto hotel tower. A4

◆ The U.N. Security Council held talks on new sanctions in response to North Korea's latest ballistic missile test. A3

◆ The Trump administration has told senators it is considering adding rules barring currency manipulation to Nafta. A6

◆ The total debt held by American households reached a record high in early 2017. A6

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Please see COWS page A8



Supporters of Iranian President Hassan Rouhani at a campaign rally in the northeastern city of Mashhad.

## HARD-LINER MOUNTS CHALLENGE IN IRAN

Election pits cleric against president who opened door to the West

By ASA FITCH AND ARESU EQBALI

TEHRAN—President Hassan Rouhani faces a hard-line opponent in a national vote Friday that is shaping up as one of the most contentious and consequential elections since the founding of the Islamic Republic in 1979.

The contest puts before Iranian voters two candidates with conflicting visions for the country: Mr. Rouhani, who has made an opening to the West, and a political newcomer wary of where such a path leads.

Ebrahim Raisi, a 56-year-old cleric with close ties to Iran's supreme leader, has emerged as a tougher-than-expected chal-

lenger, taking advantage of economic troubles and railing during campaign rallies against inefficient government and its failure to address corruption.

Mr. Raisi, supported by Iran's hard-line establishment, has used his campaign to criticize the signature accomplishment of Mr. Rouhani's first term: the 2015 nuclear deal with six world powers, including the U.S. The agreement lifted most economic sanctions and expanded oil exports.

The Obama administration pushed the nuclear deal, in part, because it believed the lifting of sanctions would allow Iran to eventually moderate its domestic and foreign

Please see IRAN page A8

## INSIDE



### THE BEST (AND WORST) FOR FREE SEATS

THE MIDDLE SEAT, A9



### OPEC TRIES TO SHAKE OUT SHORT SELLERS

BUSINESS & FINANCE, B1

## Cyberattack Threats Continue Unabated

By ROBERT McMILLAN

A new fast-spreading computer attack and a hacking group's threat to release a fresh trove of stolen cyber-weapons are fueling fears among businesses and security experts of another global technology assault.

The new attack, called Adylkuzz, follows last week's WannaCry outbreak, which crippled computers in more than 100 countries over the weekend. Unlike its predecessor, Adylkuzz doesn't lock up computer screens, but slows down systems as it quietly steals processing power to generate a little-known digital currency called Monero.

By Wednesday, Adylkuzz had infected several hundred thousand machines around the globe, according to Ryan

Please see HACK page A2

## Waterbeds and Backscratchers: How Cows Get Coddled

U.S. farmers seek to boost milk production by pampering dairy cattle

By BENJAMIN PARKIN

Scott Beyer and his farmhands spend mornings scraping manure off the milking-parlor floor. In the nearby climate-controlled barn, cows are sleeping on water beds and munching on nutritionist-crafted meals while high-tech tags on their legs help monitor their health.

"We try to make them live the high life," said Mr. Beyer, manager of Kelsay Farms outside Greenwood among the corn and soybean fields of central Indiana.

Many of America's dairy farmers have decided that a happy cow is a cash cow—that treating their cattle like

dairy queens yields more milk. They are playing soothing classical music in milking rooms, firing up fans and sprinklers to mimic spring breezes, and treating their cows to robotic back-scratching sessions.

American dairy cows are among the world's most productive. They produced 10.3 metric tons of milk per animal, on average, in 2016, according to the U.S. Department of Agriculture. That is enough for about 150 people for a year, and an almost 40% larger yield than two decades ago.

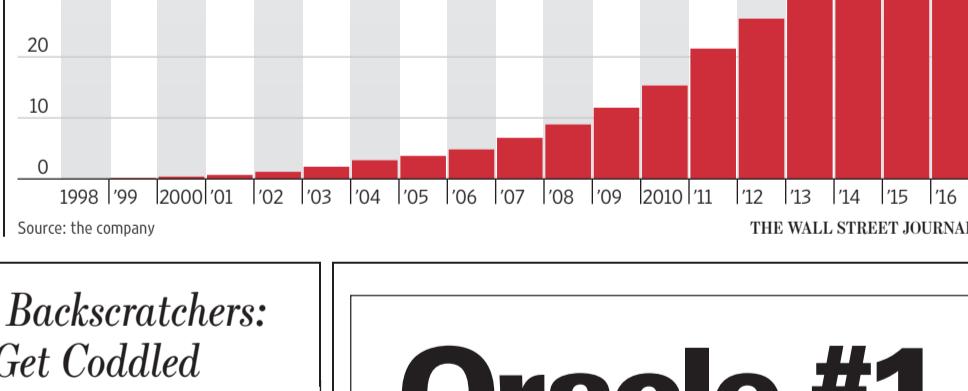
While operational efficiency and selective breeding play a big part, farmers and

Please see COWS page A8

Please see COWS page A8

## Amazon Sets Its Sights on Australia

Amazon's international sales have grown in tandem with its entry in major foreign markets. B1



Source: the company

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## Oracle #1 SaaS Enterprise Applications Revenue

#1

Oracle Cloud 14.5%

#2

Salesforce Cloud 12.4%

1,000+ Employees Segment, 2015

ORACLE®

oracle.com/applications

Source: IDC "Worldwide SaaS Enterprise Applications Market Shares, 2015: The Top 15 by Buyer Size," doc #IDC13816, Dec. 2016. For the purposes of this report, SaaS enterprise applications include the following application markets: CRM, engineering, ERP, operations and manufacturing, and SCM.

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## White House Turmoil Jolts Capitol Hill

By NATALIE ANDREWS

WASHINGTON — House Speaker Paul Ryan said he was hesitant to jump to conclusions about President Donald Trump in the wake of reports about Russia and the president's dealings with the former FBI director.

Mr. Ryan's comments on Wednesday came a day after reports that Mr. Trump earlier this year asked James Comey, then the head of the Federal Bureau of Investigation, to back off an investigation into former national security adviser Michael Flynn. The White House has denied that account.

Mr. Flynn resigned in February after giving conflicting statements about his contacts with Russian officials before the president's inauguration. Mr. Trump fired Mr. Comey last week.

Mr. Ryan, a Wisconsin Re-

publican, said news reports that the GOP president tried to intervene in the FBI probe require "close examination." He pointed to three separate congressional investigations looking into whether Russia interfered in the 2016 presidential election and whether associates of Mr. Trump colluded with Moscow.

Congress has "an obligation to carry out our oversight regardless of which party is in the White House," Mr. Ryan said.

Asked if he still had confidence in the president, Mr. Ryan said: "I do."

Democrats and some Republicans have questioned whether Mr. Comey's dismissal was related to the FBI's Russia investigation. Russian officials

Please see COMEY page A5

◆ Russia bank financed deal involving Trump partner..... B4

◆ Trump furor puts Republican agenda at risk..... A5

## Concern Spreads Into the Markets

By RIVA GOLD

Turbulence in Washington jolted markets out of an extended period of calm.

Stocks, the U.S. dollar and government-bond yields fell as investors pulled back from bets on the swift passage of the Trump administration's agenda. Wagers that President Donald Trump's policies would boost growth and inflation have been unwinding for months, but those moves accelerated Wednesday.

In one of the clearest signs of waning investor confidence, a closely watched measure of the dollar's value was on track to give back its postelection gains.

&lt;

## WORLD NEWS

CAPITAL ACCOUNT | By Greg Ip

# Full Employment Confronts U.S. With Trade-Offs



In April, when the unemployment rate dropped to 4.4%, it marked the completion of a slow and joyless recovery from the Great Recession.

Eight years on, the U.S. has effectively returned to "full employment," meaning unemployment can't go sustainably lower. In reaching this milestone, the U.S. has closed one troubled chapter for the economy while opening a fresh one with tricky new trade-offs for the Federal Reserve and President Donald Trump.

For years, low interest rates and hefty government budget deficits, whatever their downsides, had one clear upside: They created more jobs in an economy that desperately needed them. That is no longer true. At full employment, those economic policy choices become harder.

The Fed and Trump administration could try to push unemployment even lower and see what happens, but history isn't encouraging. Unemployment has been this low only twice since 1990 and both times an asset bubble and inflation pressures emerged and recession soon followed.

Unemployment of 4.4% today may not mean what it did in previous decades since it has been pushed down by an exodus of working-age people

from the labor force. Some economists think those workers might flood back when conditions are right, serving as a hidden reserve of labor to keep growth humming even when official unemployment seems low.

Employment as a share of the working-age population is still nearly 3 percentage points below its 2007 level. But this is deceptive. The share of workers over 54 years old, and thus more likely to retire early and drop out of the labor force, has grown since then.

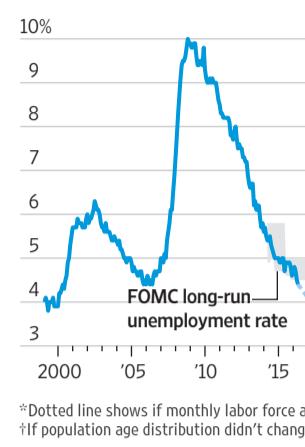
Economists at Goldman Sachs found that if the age structure of the population were frozen in 2007, then the employment-to-population ratio today would be much closer to its 2007 level. In other words, almost all of the job shortfall today can be blamed on demographics, not economic weakness. Most of any remaining gap probably reflects longstanding structural factors keeping some men out of work, such as disability, Goldman says.

Wage pressure, the usual sign of a tight labor market, had long been absent. Not anymore. Hourly earnings growth in the past year has picked up to 2.5% from near 2% for most of the expansion. A broader measure of private sector hourly wages and benefits was up 3.9% in the first quarter from a year

### A Fully Healed Labor Market

Unemployment is below its 'natural' level and headed lower, and aging has held back employment growth. Wages are picking up but productivity isn't.

#### Unemployment rate\*



\*Dotted line shows if monthly labor force and employment growth since 2015 continue at same rate through 2018

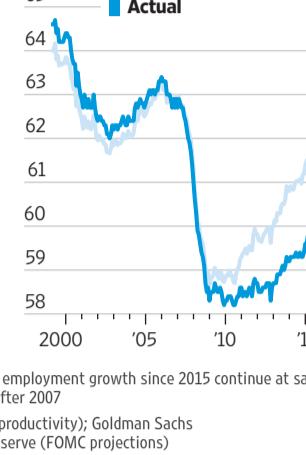
†If population age distribution didn't change after 2007

Sources: Labor Dept. (unemployment, wages, productivity); Goldman Sachs (employment to population ratios); Federal Reserve (FOMC projections)

earlier. While disappointing compared with before 2007, this may be the new normal given sluggish worker productivity growth.

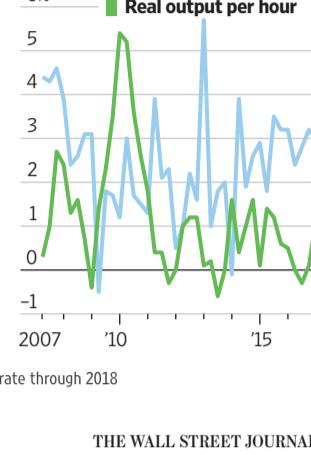
While 4.4% is below what Fed officials consider the natural unemployment rate, where price and wage pressures build, that doesn't mean inflation automatically accelerates. In fact, it's eased recently, so the natural unemployment rate might be even lower.

#### Employment as a percentage of population



Composition-adjusted  
Actual

#### Annual percent change, compensation and productivity



Compensation per hour  
Real output per hour

2007 10 15

2010 15

2013 15

2016

1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16

1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16

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# WORLD NEWS

## Nepal Aims to Tap Into New Energy Flows

Himalayan nation brings billions of dollars of hydropower projects on stream

By DANIEL STACEY

KATHMANDU, Nepal—This Himalayan nation is betting that a new energy gold rush borne of its thousands of rivers and craggy peaks will establish it as a major Asian electricity source.

While India, Pakistan and China have all developed massive hydropower plants along the Himalayan mountains, Nepal's civil war and political instability scared off investment for decades.

Now, thanks to an inclusive peace process that allowed the country's main rebel leader to be elected prime minister twice, the focus is shifting to Nepal. Hydropower projects valued at billions of dollars are in progress, with geologists and investors scouring the landscape for more.

Government surveys show Nepal's abundant water resources can feasibly yield hydropower equal to more than 40% of U.S. output, a 40-fold increase from today. Officials project almost a third more hydropower capacity will come online this year. More than 100 projects under construction—more than 40 since last year—and others in development will yield at least a tenfold in-

crease in the next decade to 10 gigawatts of power, they say.

"There's such an energy shortage that any project you build will find a market," said Allard Nooy, CEO of InfraCo Asia, a development body funded by the U.K., Swiss and Australian governments that is financing one hydro project and seeking to develop two more.

Still, power companies don't face an easy ride.

Among the hurdles are natural ones: earthquakes, landslides and inland tsunamis from glacial lakes as warmer temperatures prompt ice melt. Two years ago, a series of massive quakes killed 9,000 people and shattered the country.

Opposition from environmental groups is another difficulty. In the past, the World Bank and Japan's Asian Development Bank have withdrawn support for projects amid opposition from environmental groups.

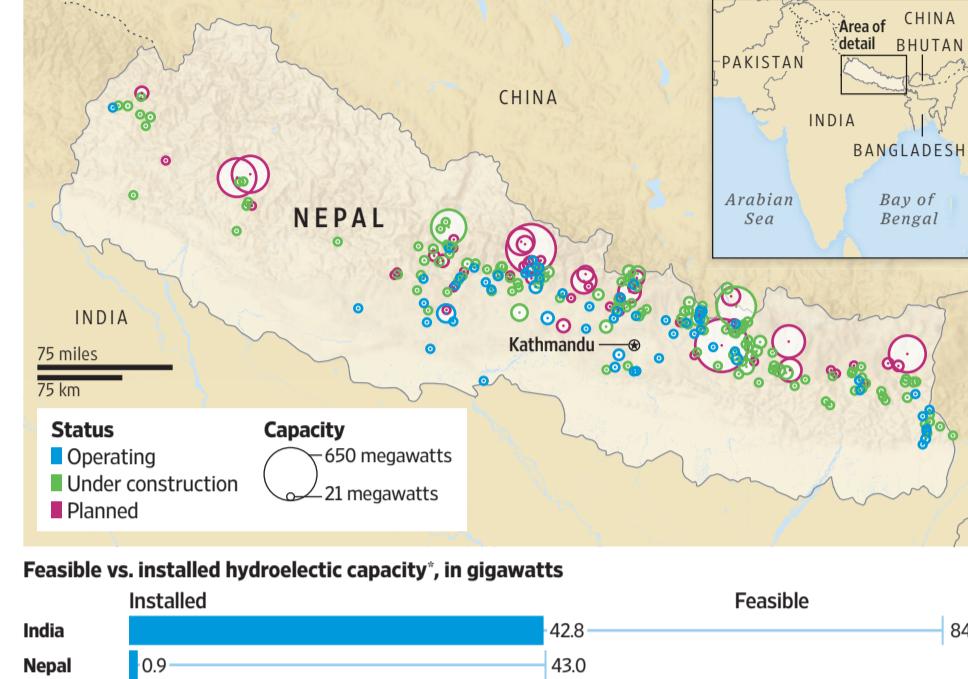
The risks are also political. Instability has led to 21 leaders in the past 20 years. A decadelong civil war killed more than 16,000 people and ravaged the economy.

But since the war ended in 2006, armed rebels have mainly swapped violence for politics. On Sunday, the poor nation of 30 million people held peaceful local elections, a vital step toward building a more stable democracy.

The greater stability has boosted momentum for rising investment in the Himalayas—a region dominated by Nepal, In-

### Opening the Floodgates

Nepal plans to unlock the hydropower potential of the Himalayan mountains to sell electricity to neighbors like India and Bangladesh.



Feasible vs. installed hydroelectric capacity\*, in gigawatts



Sources: Nepal's Ministry of Energy (map); National authorities; USAID \*Lastest available data

Note: Upper Solu Khola HPP is not shown

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dia and Bhutan that is considered the final development frontier in South Asia. Hydro energy projects are the biggest focus.

"The only resource we have, like the Arabian countries have oil, is water," said Chhabil Gaire, project manager at the Rasuwa-dhadi Hydroelectric Project, a

111-megawatt plant under construction near China's border.

Last year, investors began operating nine hydro plants with 140 megawatts of capacity in Nepal. The government hopes to double that pace this year, including finishing projects delayed by the 2015 quakes.

The effort is tough going, given Nepal's untamed terrain, including the planet's highest peak, Mount Everest, and the troubled political history.

The electricity demand is there. Nepal has faced rolling blackouts in recent years because of inadequate energy

supply; nearby India, Bangladesh and Pakistan are growing rapidly and demanding more power. A shift to bigger projects aims to help address that need.

Now, Nepal is touting a string of large dams close to the border with China.

The first of these, the 456-megawatt Upper Tamakoshi project, funded by a group of Nepal's major banks and pension funds, is now under construction and set to open in mid-2018 with a reservoir to enable energy generation in the dry season.

It is a risky project.

To the east, the dangerous glacial lake Tsho Rolpa threatens to burst its banks. To the west, the Gongar River routinely spits boulders the size of two-story buildings over the valley wall. A bridge the developers built over the Gongar was swept away in a flash flood during monsoon season. Landslides triggered by quakes swept away swaths of the access road. To keep working, project developers built a steel truss bridge and drilled a new road tunnel through a collapsed valley wall.

Moreover, the project is built on such volatile terrain that the turbines and delicate transmission equipment were buried 460 feet beneath the surface.

Still, Nepal forges ahead.

"There is no alternative to hydropower for countries like Nepal," said Ganesh Neupane, the Upper Tamakoshi project's deputy manager.

## U.N. Weighs Pyongyang Sanctions

BY FARNAZ FASSIHI

UNITED NATIONS—The United Nations Security Council on Tuesday held talks on new sanctions in response to North Korea's latest ballistic missile test.

The U.S. and China were negotiating a resolution that would implement new sanctions and tighten existing penalties on Pyongyang, diplomats said.

China is North Korea's main ally at the U.N. and has in the past advocated for direct negotiations rather than economic and military punishment.

**The U.S. and China were negotiating a resolution after the latest missile test.**

U.S. Ambassador Nikki Haley said that the international community had to send North Korea a "no more" signal and said the U.S. would be willing to talk to North Korea only if the country abandoned its nuclear and missile program.

"This is not play time. This is serious. These threats are not welcome," said Ms. Haley, speaking to reporters before the council meeting.

Ms. Haley also said the U.S. would be identifying countries that still supplied and supported North Korea and could target them for sanctions.

North Korea's missile test on Sunday came as international powers engaged in a carrot and stick strategy with the country. In the past few weeks, Washington had warned another provocation could draw an unspecified U.S. reaction.

The council moved quickly to issue a statement on Monday condemning the launch and said it would impose significant new sanctions.

## Seoul Names Chaebol Critic to Watchdog Role

BY EUN-YOUNG JEONG

SEOUL—South Korea's new president named an outspoken critic of the country's family-controlled business empires to a key government post, a move that signals a tougher regulatory approach to conglomerates such as Samsung, Hyundai Motor and LG.

A spokesman for President Moon Jae-in said Wednesday that he had appointed Kim Sang-jo, a longtime advocate of corporate reform who is known as the "chaebol sniper," to head the Korea Fair Trade Commission, the country's antitrust watchdog.

Mr. Moon, the first left-

leaning president in nine years, has pledged to curb the dominance of the large business groups known as *chaebols*, through clearer holding-company structures and by introducing measures that strengthen minority shareholders.

Some South Korean lawmakers, foreign investors and corporate-governance advocates argue that shaking up the chaebols would allow for more innovation and give opportunities to smaller businesses.

Samsung, Hyundai Motor and LG—among the country's largest conglomerates—declined to comment on Mr. Kim's appointment.

Mr. Moon, the first left-



Kim Sang-jo Wednesday in Seoul

within conglomerates and the use of cross-shareholdings by family owners to expand their hold over companies. In the campaign for this month's presidential election, Mr. Moon pledged to establish an investigative body within the commission to monitor chaebol activities.

For decades, Mr. Kim, a 54-year-old economics professor at Seoul's Hansung University, has been at the forefront of calls for change at the business empires that dominate Asia's fourth-largest economy.

Mr. Kim was a critic of a contentious merger between two Samsung affiliates in 2015 that he argued benefited the conglomerate's controlling Lee family at the expense of small shareholders. Lee Jae-yong, the de facto head of Samsung, is facing trial on corruption charges linked to the merger. He has denied all charges.

Before joining Mr. Moon's campaign, Mr. Kim headed the Solidarity for Economic Reform, a Seoul-based think tank that advocates for better protection of minority shareholders and greater monitoring of chaebols to adhere to government policies. Mr. Kim helped shape many of the economic policies Mr. Moon took to the presidential election.

—Timothy W. Martin  
contributed to this article.

## Venezuelan Riot Police Burn Out on Front Line

BY ANATOLY KURMANAEV

CARACAS, Venezuela—When Ana, a five-year veteran of the national police, finishes her night shift patrolling this city's dangerous slums, she often arrives home only to pick up her riot gear and head out again to confront rollicking protests against Venezuela's embattled government.

On those front lines, she and her colleagues use tear gas and rubber bullets against increasingly desperate protesters armed with stones, Molotov cocktails and even bags of feces. The showdowns take place in scorching heat, and she says the authorities provide her with no food, water or overtime pay.

Ana, who along with others

cited in this article asked that her last name not be used for fear of official retribution, is one of about 100,000 Venezuelan security officers, mostly in their 20s, shielding the government of increasingly unpopular President Nicolás Maduro from escalating unrest.

She and many of her exhausted colleagues say they are wavering as protests enter a seventh week.

"One day I will step aside and just walk away, blend into the city," she said. "No average officers support this government anymore."

The security forces' once fierce loyalty to Mr. Maduro's charismatic predecessor Hugo Chávez has largely given way to demoralization, exhaustion and apathy amid an economic collapse and endless protests, said eight security officers from different forces and locations in interviews with The Wall Street Journal.

Most of them say they want only to earn a steady wage amid crippling food shortages and a decimated private sector. Others say fear of a court-

martial keeps them in line. "I would love to quit but there are no other jobs," said Caracas police officer Viviane, a single mother who says she shows up for protest duty so she can feed her infant son.

A full-time Venezuelan police officer or member of the National Guard, the country's militarized police in charge of riot control, makes the national minimum wage of about \$40 a month at the black-market exchange rates.

The current round of pro-

tests, triggered in late March by an attempt by judges allied to Mr. Maduro to dissolve the congress, have led to 43 deaths so far, mostly of protesters. Thousands of demonstrators have been arrested and hundreds are being tried in military courts for treason.

The epicenter of the protests has been the line where downtown Caracas meets the opposition-run eastern boroughs of the capital. Both sides view control of the city center as vital. The last large

antigovernment march that managed to reach the presidential palace there led to a short-lived coup in 2002 against Mr. Chávez. The opposition says the increasingly isolated government is scared of losing control if a rally breaches its stronghold.

"This is a war of attrition," said Luis García, a student activist who has been at the forefront of the protests. "Whoever tires first will lose."

Most days follow the same pattern: An initially peaceful demonstration disintegrates into violence as security forces fire tear gas and rubber bullets to block the protesters' advance. The bulk of the demonstrators then flee, leaving the field to hundreds of hooded youths who call themselves the Resistance, build barricades and battle officers into the night.

"I feel exhausted from it all: the lack of sleep, the constant barrage of stones and Molotovs," said Gustavo, a 21-year-old national guardsman, adding he has to keep performing riot duty despite a leg injury from a broken bottle thrown by a protester. "We're being used as cannon fodder."

Officers stopped giving time off in Gustavo's barracks after 18 guardsmen deserted during the last break last month, he said.



National Guard members shielded themselves from protesters' projectiles in Caracas this month.

FERNANDO LLANO/ASSOCIATED PRESS

FRANCE

## Moderate Named Economy Minister

French President Emmanuel Macron named Bruno Le Maire, a moderate from the conservative Les Républicains party, as his economy minister, giving another top post to a right-leaning

member of France's political establishment.

The appointment came two days after he named Le Havre Mayor Édouard Philippe, also a member of Les Républicains, as his prime minister.

Mr. Macron appointed Jean-Yves Le Drian, the current French defense minister and a member of the Socialist Party,

as his foreign minister, opting for continuity on his international affairs team.

The appointments show Mr. Macron continuing his outreach to French conservatives ahead of next month's legislative elections.

Support from members of Les Républicains is likely to be key to allowing Mr. Macron to

push his agenda through the National Assembly.

—Matthew Dalton

INDONESIA

## Court Sentences Gay Couple to Caning

An Islamic Shariah court in Indonesia's conservative Aceh

province sentenced two gay men to public caning for the first time, further undermining the country's moderate image after a top Christian politician was imprisoned for blasphemy.

The court said the men, aged 20 and 23, would each receive 85 lashes for having sexual relations. One of the men wept as his sentence was read out and

pleaded for leniency.

The chief prosecutor, Gulmaini, who goes by one name, said they will be caned next week, before the holy Muslim month of Ramadan starts about May 25.

The couple was arrested in late March in the provincial capital, of Banda Aceh.

—Associated Press

## WORLD NEWS

# Russia Bank Financed Deal Involving Trump Partner

VEB, a Russian state-run bank under scrutiny by U.S. investigators, financed a deal involving Donald Trump's one-time partner in a Toronto hotel tower at a key moment for the project, according to people familiar with the transaction.

By Rob Barry,  
Christopher S. Stewart  
and Brett Forrest

Alexander Shnaider, a Russian-Canadian developer who built the 65-story Trump International Hotel and Tower, put money into the project after receiving hundreds of millions of dollars from a separate asset sale that involved the Russian bank, whose full name is **Vnesheconbank**.

Mr. Shnaider sold his company's share in a Ukrainian steelmaker for about \$850 million in 2010, according to S&P Global Market Intelligence. According to two people with knowledge of the deal, the buyer, which hasn't been identified publicly, was an entity acting for the Russian government. VEB initiated the purchase and provided the money, these people say.

U.S. investigators are looking into any ties between Russian financial institutions, Mr. Trump and anyone in his orbit, according to a person familiar with the probe. As part of the investigation, they are examining interactions between Mr. Trump, his associates and VEB, which is now subject to U.S. sanctions, another person familiar with the matter said. The Toronto deal adds a new element to the list of known connections between Mr. Trump's associates and Russia.

After Mr. Shnaider and his partner sold their stake in the steelmaker, Mr. Shnaider injected more money into the Trump Toronto project, which was financially troubled. Mr. Shnaider's lawyer, Symon

Zucker, said in an April interview that about \$15 million from the asset sale went into the Trump Toronto project. A day later, he wrote in an email: "I am not able to confirm that any funds" from the deal "went into the Toronto project."

A spokesman for the **Trump Organization**, the family's real-estate firm, said Mr. Trump had no involvement in any financial dealings with VEB and that the Trump company "merely licensed its brand and manages the hotel and residences." VEB didn't respond to requests to comment.

Mr. Trump has said he has no dealings with Russia. "To the best of my knowledge, no person that I deal with does," he said in February. On Friday, Mr. Trump's lawyers released a two-month-old letter stating

**VEB has long been viewed as a vehicle for Moscow to fund politically important projects.**

that 10 years of his tax returns show little income, investments or debt from Russian sources beyond items already known to the public.

VEB has long been viewed by Russian analysts as a vehicle for the Russian government to fund politically important projects, including the 2014 Winter Olympics in Sochi. A VEB executive in New York was sentenced to prison last year after pleading guilty to conspiring to act in the U.S. as a Russian agent without notifying U.S. authorities.

In the wake of U.S. intelligence agency findings that Russian government-directed hackers interfered in the 2016 election, several agencies, including the Federal Bureau of Investigation, are conducting a counterintelligence probe into whether Mr. Trump's cam-

paign staff had any contact with Russian officials. Committees in the House of Representatives and the Senate also are investigating the matter. Russian authorities have denied any interference.

At the time of Mr. Shnaider's steelmaker deal, Russian President Vladimir Putin was chairman of VEB's supervisory board, and major deals would have been approved by him, according to a former Russian government official and several Russian government and economic experts. The bank later was placed on the U.S. sanctions list after Russia's intrusion into Ukraine and its annexation of Crimea in 2014. American entities are barred from financial involvement with the bank.

VEB made headlines when it emerged that its chairman met

with Mr. Trump's son-in-law, Jared Kushner, in December. A bank representative has said VEB's leaders met Mr. Kushner and numerous global financial executives as it developed a new strategy for the bank. White House press secretary Sean Spicer has said Mr. Kushner's meeting was part of his role during the Trump transition as the "primary point of contact with foreign government officials."

The Toronto project was billed in 2007 as a joint venture between Mr. Trump and Mr. Shnaider and was projected to cost about 500 million Canadian dollars. Mr. Trump said at the time he would manage the hotel's operations and Mr. Shnaider planned to develop the tower, which also would include condominiums, through his company, **Talon Interna-**

**Midland Resources** had acquired its stake in the Ukrainian steelmaker, called **Zaporizhstal**, for about \$70 million after the collapse of the Soviet Union. The 2010 transaction to sell it was opaque. Midland transferred ownership of its portion of the steelmaker to the unnamed buyer through five offshore companies, according to Mr. Shnaider's lawyer and court documents.

The idea for the deal was brought to a top VEB executive by a former Ukrainian government official, according to an investment banker familiar with what happened. Although the buyer wasn't named, a steel trader with knowledge of the

tional Development Inc.

The project has been dogged by financial problems. In November, it entered insolvency proceedings, and a judge in March approved its sale.

Alan Garten, the Trump Organization's general counsel, said the company "was not the owner, developer or seller" of the project. While The Wall Street Journal and others reported in 2011 and 2012 that Mr. Trump had a minor ownership stake in it, Mr. Garten now says Mr. Trump "did not hold" equity and had no involvement with the financing.

Trump Toronto Hotel Management Corp. has received at least \$611,000 in fees from the project since 2015, federal financial-disclosure forms filed in May 2016 show. The forms don't disclose the company's total income from the deal.

Shortly after the project broke ground in 2007, about 85% of the units were presold. During the financial crisis, some buyers pulled out and others were unable to get financing, receivership documents show. Midland Resources Holding Ltd., then owned by Mr. Shnaider and a partner, was on the hook for cost overruns, the documents show.

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## Russian Money

The 2010 sale of a Ukrainian steel mill provided money to Donald Trump's business partner in a Toronto real-estate development.



Russian President Vladimir Putin was the chairman of the supervisory board of...



...Vnesheconbank (VEB), a Russian state-run bank that provided financing to...



...Zaporizhstal, a Ukrainian steel mill. The stake was sold via Midland Resources Holding, the company of...



...Alexander Shnaider, a Russian-Canadian developer who funded construction of the Toronto development of...



...Trump International Hotel and Tower, which paid licensing fees to...

Sources: WSJ reporting; Zuma Press (Shnaider, Putin and Trump tower photos); Agence France-Presse/Getty Images (Trump photo); Reuters (bank photo); Bloomberg (mill photo)

THE WALL STREET JOURNAL.

a "Ukrainian industrial group." Mr. Shnaider's companies continued to pump money into the Toronto tower as it struggled to stay afloat, according to his lawyer and later court documents. Later, Mr. Shnaider became embroiled in a legal battle with Mr. Trump's companies over management issues. The Trump Organization declined to comment.

In November, a Canadian judge placed the tower into receivership.

Recently, a judge approved the sale of the building to a California-based investment firm for about \$220 million.

# Israel Was Source of Secrets U.S. Shared With Russia

## Officials Play Down Impact of Disclosure At Oval Office Talks

TEL AVIV—Israel played down the impact of sensitive Israeli intelligence information that Donald Trump shared with Russian officials, as it prepared to host the U.S. president for a visit next week.

Israel Defense Minister Avigdor Lieberman and the country's intelligence and transport minister, Yisrael Katz, reaffirmed

than the other way round," said Sir Adam Thomson, a former United Kingdom ambassador to North Atlantic Treaty Organization and head of the European Leadership Network think tank.

"But if it looked like it was becoming a pattern by President Trump, then that would indeed have a chilling effect on many countries' intelligence cooperation with the U.S." Mr. Thomson said.

One isolated incident, though, isn't likely to cause long-term problems because "other countries need U.S. intelligence cooperation more

the U.S.-Israel alliance, with Mr. Katz on Wednesday saying he had "complete confidence" in the U.S. intelligence community.

U.S. officials on Tuesday said Israel was the source of information that Mr. Trump had disclosed to Russia's foreign minister and its ambassador to the U.S. during a meeting in the Oval Office last week.

Under the terms of a long-standing intelligence-sharing agreement between Israel and the U.S., the intelligence was meant only for U.S. officials. The information, which con-

cerned a threat by the extremist group Islamic State to airliners, was shared in such a way that could compromise the original source, according to officials.

After U.S. officials acknowledged Israel's role in the incident, Mr. Trump and Israeli Prime Minister Benjamin Netanyahu spoke on the phone but didn't discuss the issue, focusing instead on the president's coming two-day visit to Israel and the West Bank, the premier's office said.

—Rory Jones

One U.S. official who works on counterterrorism operations said that the president seemed "utterly unaware" of the nature of intelligence operations and indifferent to the restrictions that officials place on information that is hard-won and intended for a small circle.

The Israeli source was considered so sensitive that the U.S. hadn't shared it with its closest allies in the so-called

Five Eyes group, which includes the U.K. and Canada, the officials said. It came from a source, which is still unidentified, that Israel had developed before Mr. Trump was elected.

One former official who maintains close ties to the White House described a scene in which demoralized security officials have been racing to address one controversy after another. The conversation with

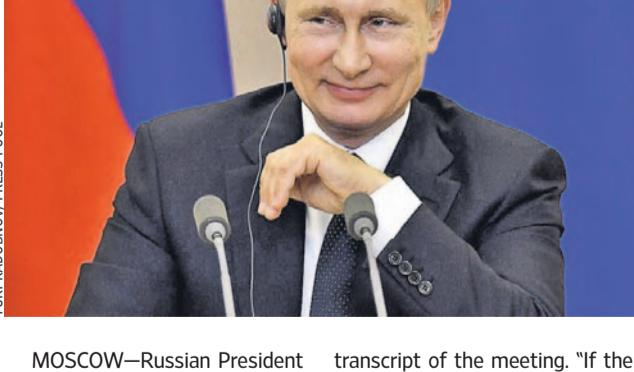
the Russians in the Oval Office, while not likely to damage current operations, embarrasses the U.S. among its closest allies, the former official said.

What Mr. Trump discussed with the Russians wasn't likely a surprise to them, given that news reports have described ambitions held by Islamic State and al Qaeda to attack airliners with concealed explosives. The U.S. is considering expanding a ban on certain electronic devices on airplanes.

Israeli officials didn't confirm that they were the source of information. And Ron Dermer, the Israeli ambassador to the U.S., played down any potential damage to the relationship.

Mr. McMaster and others at the White House sought to dispel the notion that Mr. Trump had jeopardized national security interests. Officials there are convinced that members of the intelligence community are deliberately leaking information to undermine and embarrass Mr. Trump.

## Putin Dismisses Accusations



MOSCOW—Russian President Vladimir Putin dismissed accusations on Wednesday that President Trump divulged secrets to Russian officials last week.

Mr. Trump is under fire over reports that he revealed sensitive classified information during a meeting with Foreign Minister Sergei Lavrov and Russian Ambassador Sergei Kislyak.

Mr. Putin added that if Mr. Trump wanted, the Kremlin would be willing to present a

YURI KADOBNOV/PRESS POOL

transcript of the meeting. "If the U.S. administration considers it possible, we are ready to present records of the conversation of Mr. Lavrov with Trump to the U.S. Senate and House of Representatives," he said.

Following the Trump meeting, Mr. Putin said Mr. Lavrov had not passed on any secrets to him or Russian intelligence services. The president added that he was happy with the meeting.

—Thomas Grove

Sudanese officials said President Omar al-Bashir, wanted by the International Criminal Court on charges of genocide

opposes any "invitations, facilitation, or support of anyone subject to an outstanding ICC warrant," including Mr. Bashir.

"United States has made its position with respect to Sudanese President Omar al-Bashir's travel clear," the embassy said on its Facebook page.

Mr. Bashir's attendance at the summit could pose a diplomatic challenge for Mr. Trump, whose visit to Saudi Arabia is aimed at reassuring America's most important ally in the Arab world and sending a conciliatory message to Muslims in Middle East and beyond. After visiting Saudi Arabia, Mr. Trump is to travel to Israel, the Vatican and Brussels.

Rabie Abdelyat, a top official in Sudan's ruling National Congress Party, said Mr. Bashir would arrive on Saturday in the Saudi capital, adding that it wasn't clear whether he would meet Mr. Trump.

The final program isn't yet out, and arrangements are still

under way, but President Bashir would welcome such a meeting," Mr. Abdelyat said.

In Saudi Arabia, the status of Mr. Bashir's attendance at the summit was unclear. An official said Sudan was among the countries invited to attend the gathering but didn't say whether Mr. Bashir would represent Khartoum.

Mr. Bashir hasn't been included on the official list of invited officials. The kingdom began sending invitations to Muslim leaders last week and has been announcing the names of likely attendees in the official Saudi Press Agency.

Mr. Bashir, who has ruled Sudan since 1989, is the first person to be charged by the ICC for the crime of genocide in connection with his government's efforts from 2003 to 2008 to put down an insurgency in the southwestern region of Darfur.

In addition to three counts of genocide, Mr. Bashir also faces five counts of crimes against humanity and two counts of war crimes.

The ICC issued warrants for Mr. Bashir's arrest in 2009 and 2010 but the Sudanese leader has continued to travel abroad to destinations where local authorities haven't enforced the warrants and turned him over to The Hague-based court.

## Sudan Says Wanted Leader to Attend Talks

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## U.S. NEWS

# Trump Furor Puts GOP Agenda at Risk

Lawmakers on both sides of the aisle have been rattled by ongoing turmoil at White House

By KRISTINA PETERSON  
AND NATALIE ANDREWS

WASHINGTON—The latest revelation to buffet the White House—that President Donald Trump allegedly asked then-FBI Director James Comey to drop a probe of his former national security adviser—has prompted some congressional Republicans to call for further investigation.

Mr. Comey documented the encounter in a memo written shortly after the February meeting, according to two people close to Mr. Comey. House Oversight and Government Reform Committee Chairman Jason Chaffetz (R., Utah) said he was considering subpoenaing the memo, if it wasn't made available.

On Tuesday night, Mr. Chaffetz requested the Federal Bureau of Investigation provide by May 24 all memos, notes, summaries and recordings of communication between Mr. Trump and Mr. Comey in a letter to FBI Acting Director Andrew McCabe.

The move was supported by House Speaker Paul Ryan (R., Wis.).

"We need to have all the facts, and it is appropriate for the House Oversight Committee to request this memo," AshLee Strong, a spokeswoman for Mr. Ryan, said in a statement Tuesday night.

Mr. Chaffetz insisted the House could get its business done despite the upheaval.

"The government is always full of crisis—some of this is very self-inflicted by the White House itself—but we still have to be able to pass meaningful legislation and get it to the president's desk," Mr. Chaffetz told NBC on Tuesday night.

Other congressional Republicans called on Mr. Comey to deliver a full explanation.



Reporters asked GOP Sen. Jeff Flake questions as he rode the Senate subway on Tuesday. Below, Majority Leader Mitch McConnell.

the wake of the week's disclosures.

"We could do with a little less drama from the White House on a lot of things so that we can focus on our agenda," Senate Majority Leader Mitch McConnell (R., Ky.) said Tuesday.

It will be up to GOP committee chairman to decide what kinds of investigations to pursue, but a public outcry could apply increased pressure to dedicate staff and time looking into Mr. Comey's firing, suspected Russian interference in the 2016 election, whether Mr. Trump's campaign had any ties to Russia, and any subsequent revelations that could unfold in the coming days. Both Russia and the Trump administration have denied any wrongdoing during the election.

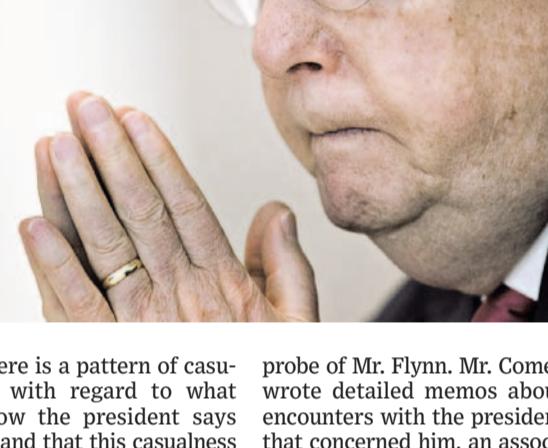
Democratic leaders made clear they would keep the spotlight trained on getting to the bottom of Mr. Trump's conduct. Democrats and a couple of House Republicans have called for a special prosecutor to look into alleged Russian interference in last year's election.

"With each passing day, the president's actions give greater and greater urgency to the need for a full and independent investigation of the Trump-Russia connection," said Rep. Nancy Pelosi of California, the House Democratic leader, in a statement Tuesday night.

The latest controversies erupted at a time when both chambers of Congress were in a quiet period of low-profile legislating.

Republicans said it has been hard to concentrate on crafting legislation, even bills they plan to pass with only GOP votes, amid the continuing White House turmoil.

"When you're not sure what's going to happen from the morning to the evening, it definitely takes your eye off the ball," said Sen. Shelley Moore Capito (R., W.Va.) "We're trying to stay focused on what we need to do, which is health care."



"There is a pattern of casualness with regard to what and how the president says things and that this casualness is dangerous in our form of government," Rep. Mark Sanford (R., S.C.) wrote on his Facebook page.

In the memo, Mr. Comey wrote that the president told him that he hoped he could find a way to drop the FBI's

probe of Mr. Flynn. Mr. Comey wrote detailed memos about encounters with the president that concerned him, an associate said.

In a statement issued Tuesday evening, the White House denied the account.

The series of controversies involving the president has threatened to swamp his legislative agenda on Capitol Hill,

with potential hearings and widening investigations siphoning time and energy from plans to overhaul the health-care system and tax code.

"I am worried, concerned, that continual political drama will drain the energy away from real accomplishments," said Mac Thornberry (R., Texas), chairman of the House Armed Services Committee, in an interview with The Wall Street Journal.

"They're sidetracked every single day," said Rep. Cheri Bustos of Illinois, a member of House Democratic leadership, referring to Republicans. "Even as Democrats, it's very hard to get a toehold on anything when you've got this constant drama every single day."

Although Senate Republicans continued to meet Tuesday afternoon to hash out details of their health-care bill, major legislative lifts will be complicated by any new congressional probes launched in

## COMEY

*Continued from Page One*  
have denied meddling in last year's election; Mr. Trump has said his associates didn't collude with Moscow.

A February meeting between Mr. Comey and Mr. Trump was documented by the former FBI director in a memo, according to two people close to Mr. Comey. "I hope you can let this go," Mr. Trump told the former FBI director, referring to the probe into Mr. Flynn.

The memo isn't the only one that documents Mr. Comey's encounters with the president, according to one of the people. There are "a number of encounters with the president that concerned him, and he wrote very detailed memos about those instances," the person said.

The person said Mr. Comey may have written a similar memo documenting his dinner with Mr. Trump on Jan. 27, when the president reportedly asked the director for his loyalty. Mr. Comey demurred, according to a third associate who spoke to Mr. Comey about the dinner.

Mr. Comey, who was abruptly fired May 9 by Mr. Trump, couldn't be reached to comment. An FBI spokesman, Michael Kortan, declined to discuss the matter, as did officials at the Justice Department. The existence of the memo was reported by the New York Times on Tuesday.

In a statement issued Tuesday evening, the White House denied the account as made by those close to Mr. Comey.

"While the president has repeatedly expressed his view that Gen. Flynn is a decent man who served and protected our country, the president has never asked Mr. Comey or anyone else to end any investigation, including any investigation involving Gen. Flynn," the statement said.

"The president has the utmost respect for our law enforcement agencies, and all investigations," the statement said. "This is not a truthful or accurate portrayal of the conversation between the president and Mr. Comey."

### On Intelligence: Some Answers

#### Is it illegal for the president to disclose classified information?

No. Other U.S. officials would face penalties and possible criminal prosecution, but the president has the authority to declassify information as he sees fit and also can empower others in the administration to do so.

The president regulates classification standards through executive order, last amended in 2009.

#### What role do partners play in intelligence gathering?

The U.S. relies heavily on the intelligence capabilities of allied countries to receive a more robust picture of national-security threats.

The closest partners are the so-called Five Eyes, a five-country intelligence-sharing alliance composed of the U.S., the U.K., Australia, Canada and New Zealand. The U.S. also works with other countries, such as Israel.

If allied countries believe the U.S. is mishandling intelligence they are passing along to Washington, they may curtail what they share—which is generally the prerogative of each foreign government.

#### What does the term "sources and methods" mean?

"Sources and methods" is a term U.S. government agencies often use to describe the way they obtain intelligence.

One example is human intelligence, or information from a human informant, referred to as Humint.

Another is signals intelligence, or Sigint, which is de-

rived from intercepted communications such as phone calls.

#### Why are U.S. intelligence agencies so protective of sources and methods?

U.S. government agencies keep sources and methods secret so as not to jeopardize human intelligence assets or stop the flow of information from a particular capability, whether human or electronic.

#### Did President Donald Trump reveal sources and methods to the Russians?

During his meeting last week with Russian Foreign Minister Sergei Lavrov and Russian Ambassador Sergei Kislyak in the Oval Office, Mr. Trump revealed enough information for the Russians to potentially compromise the sources and methods, U.S. officials told The Wall Street Journal.

Republican lawmakers are divided on further action, if any, that Congress should take next. Rep. Leonard Lance (R., N.J.) said he supports congressional investigations but wants to see Mr. Comey's alleged memo "as soon as possible" and hear the former FBI director testify in public.

Asked if Mr. Comey's memo could be grounds for impeachment of the president, Mr. Amash said, "If the allegations are true, yes."

Mr. Flynn was forced to resign in February for having misled Vice President Mike Pence and other White House officials about the nature of his conversations with Sergei Kislyak, the Russian ambassador to the U.S.

Mr. Flynn had assured Mr. Pence and others he hadn't discussed sanctions with Mr. Kislyak. In fact, they had talked about the sanctions in a phone conversation the very day former President Barack Obama's administration levied penalties against the Kremlin for its alleged interference in the 2016 election. U.S. intelligence officers learned about the discussions after reading intercepts of Mr. Kislyak's phone calls, officials have said.

—Del Quentin Wilber  
and Aruna Viswanatha  
contributed to this article.



Michael Flynn, President Donald Trump's former national security adviser, is being investigated by the FBI.

## Cornyn Withdraws as Candidate for FBI Chief

BY DEL QUENTIN WILBER  
AND ARUNA VISWANATHA

A leading candidate to be the next director of the Federal Bureau of Investigation, Sen. John Cornyn (R., Texas), withdrew from consideration, providing another sign that a partisan figure might have a hard time winning confirmation to the influential law-enforcement post.

"Now more than ever the country needs a well-credentialed, independent FBI director," Mr. Cornyn said Tuesday. "I've informed the administration that I'm committed to helping them find such an individual and that the best way I can serve is continuing to fight for a conservative agenda in the U.S. Senate."

Mr. Cornyn pulled out of the running one day after another high-profile Republican, Rep. Trey Gowdy, of South Carolina, said he didn't want to be considered because he wasn't right for the job. Mr. Gowdy said the FBI needed someone who could "unite the country."

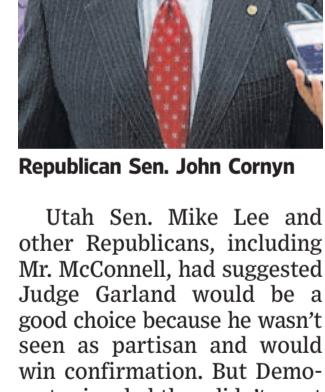
A former federal prosecutor, Mr. Gowdy headed a House probe into the 2012 terrorist attacks on a U.S. compound in Benghazi, Libya, an inquiry that sharply divided Republicans and Democrats.

Their decisions underscored the difficulty a Republican officeholder might face in winning confirmation in the aftermath of President Donald Trump's abrupt firing of Director James Comey. Republicans as well as Democrats have urged Mr. Trump to name someone from outside politics, and Senate Majority Leader Mitch McConnell (R., Ky.) told Bloomberg News on Tuesday that Mr. Trump should choose an "apolitical" director.

The FBI director post has generally gone to a former top federal prosecutor or senior law-enforcement official, not a political figure, and the current vacancy may be especially sensitive because Mr. Comey

was spearheading an investigation into whether Mr. Trump's campaign or associates colluded with the Russian government in meddling in the 2016 election. Russia and Mr. Trump have denied any wrongdoing.

Mr. Cornyn's announcement came as associates of U.S. Circuit Judge Merrick Garland said he wasn't interested in the job. Judge Garland was tapped last year by then-President Barack Obama to be a justice on the Supreme Court, only to see his nomination stymied by Senate Republicans.



Republican Sen. John Cornyn

Utah Sen. Mike Lee and other Republicans, including Mr. McConnell, had suggested Judge Garland would be a good choice because he wasn't seen as partisan and would win confirmation. But Democrats signaled they didn't want to lose Judge Garland on the influential U.S. Court of Appeals for the D.C. Circuit.

Among the remaining known candidates for the FBI is Mike Rogers, a former GOP congressman who served as an FBI agent and who won the recent backing of an association that represents current and retired FBI agents. Others are Michael Garcia, a New York state judge and former U.S. attorney; Alice Fisher, a former Justice Department official; and two top FBI officials, including current acting Director Andrew McCabe.

—Jess Bravin  
contributed to this article.

## U.S. NEWS

# Household Debt Reaches Milestone

BY BEN LEUBSDORF

The total debt held by American households reached a record high in early 2017, exceeding its 2008 peak after years of retrenchment in the face of financial crisis, recession and modest economic growth.

The milestone, announced Wednesday by the Federal Reserve Bank of New York, was a long time coming. Americans reduced their debts during and after the 2007-09 recession to an unusual extent: a 12% decline from the peak in the third quarter of 2008 to the trough in the second quarter of 2013. New York Fed researchers, looking at data back to the end of World War II, described the drop as "an aberration from what had been a 63-year upward trend reflecting the depth, duration and aftermath of the Great Recession."

In the first quarter, total debt was up 14.1% from that low point as steady job gains,

falling unemployment and continued economic growth boosted households' income and willingness to borrow. The New York Fed report said total household debt rose by \$149 billion, or 1.2%, in the first three months of 2017 compared with the prior quarter to a total of \$12.725 trillion.

"Almost nine years later, household debt has finally exceeded its 2008 peak, but the debt and its borrowers look quite different today," New York Fed economist Donghoon Lee said.

He added, "This record debt level is neither a reason to celebrate nor a cause for alarm."

The pace of new lending slowed from the strong fourth quarter. Mortgage balances rose 1.7% last quarter from the final three months of 2016, while home-equity lines of credit were down 3.6% in the first quarter. Automotive loans rose 0.9% and student loans climbed 2.6%. Credit-card debt fell 1.9%, and other types of debt were down 2.7% from the

fourth quarter.

The data weren't adjusted for inflation, and household debt remains below past levels in relation to the size of the overall U.S. economy. In the first quarter, total debt was 66.9% of nominal gross domestic product versus 85.4% of GDP in the third quarter of 2008.

Balance sheets look different now, with less housing-related debt and more student and auto loans. As of the first quarter, 67.8% of total household debt was in the form of mortgages; in the third quarter of 2008, mortgages were 73.3% of total debt. Student loans rose from 4.8% to 10.6% of total indebtedness, and auto loans went from 6.4% to 9.2%.

Mortgage lending to sub-prime borrowers has dwindled since the housing crisis in favor of loans to consumers considered more likely to repay. In the first quarter, borrowers with credit scores under 620 accounted for 3.6% of mortgage originations, compared



A recovery in the housing market helped to propel household debt to a record high in early 2017.

with 15.2% a decade earlier.

Borrowers with credit scores of 760 or higher were 60.9% of originations last quarter, versus 23.9% in the first quarter of 2007.

Auto loans have remained relatively available to sub-prime borrowers, helping fuel the record vehicle sales of recent years as interest rates have been low. Some 19.6% of

auto-loan originations last quarter went to borrowers with credit scores below 620, down from 29.6% a decade earlier.

The median credit score for auto-loan originations in the first quarter was 706, compared with 764 for mortgage originations.

Some 4.8% of outstanding debt was delinquent at the

end of the first quarter, little changed from late 2016, with 3.4% at least 90 days late, known as seriously delinquent. Seriously delinquent rates have climbed recently for credit-card debt, 7.5% in the first quarter, and auto loans, 3.8% last quarter, and remained high—11% last quarter—for student loans, according to Wednesday's report.

## Leaker of Government Secrets Leaves Prison

BY SARA RANDAZZO

Chelsea Manning, the former Army intelligence analyst convicted of leaking government secrets, walked free from a Kansas military prison Wednesday after serving seven years of a 35-year sentence.

President Barack Obama commuted the remainder of Ms. Manning's sentence in his waning days in office, causing an outcry from some Republicans and others who said it lessened the severity of the broad leaks.

The American Civil Liberties Union, which represents Ms. Manning, confirmed Wednesday that she had safely left the prison, as did an Army spokeswoman.

In 2010, Ms. Manning—then known as Pfc. Bradley Manning—released a trove of information to the website WikiLeaks and elsewhere that included video footage of a U.S. Army helicopter in Iraq firing on a group of people who turned out to include Reuters journalists. Other information handed over included incident reports from Afghanistan and Iraq and thousands of secret State Department cables.

Three years later, Ms. Man-

ning was found guilty at a court-martial of leaking hundreds of thousands of documents, one of the biggest classified leaks in U.S. history. In August 2013, soon after being sentenced to 35 years in prison, she said she wanted to begin hormone therapy and be known by the name Chelsea.

The Army agreed in 2016 to allow her to receive medical treatment for gender dysphoria.

"Whatever is ahead of me is far more important than the past," Ms. Manning said Wednesday in a statement released by the ACLU. "I'm figuring things out right now—

which is exciting, awkward, fun, and all new for me."

In her first posts on social media after leaving prison, Ms. Manning displayed a photo of her feet with the comment "First steps of freedom!!"

Mr. Obama shortened Ms. Manning's sentence in January

along with those of hundreds of other inmates, including many nonviolent drug offenders serving long prison terms. The decision was criticized by Republicans, including House Speaker Paul Ryan (R., Wis.), who said Mr. Obama created "a dangerous precedent that those who compromise our national security won't be held accountable for their crimes."

Senior administration officials said at the time that Mr. Obama considered Ms. Manning's crimes to be serious, but weighed that she had faced justice and took responsibility for what she had done. Ms. Manning twice tried to commit suicide in prison.

Chase Strangio, a staff attorney with the ACLU who represents Ms. Manning, said Wednesday that "through extended periods of solitary confinement and up against the government's insistence on denying her medical care and existence as a woman, Chelsea has emerged with grace, resilience and an inspiring amount of love for others."

Army spokeswoman Lt. Col. Jennifer Johnson said Wednesday that Ms. Manning is in an unpaid, active-duty status that gives her access to some medical benefits and other privileges.



Chelsea Manning, a former analyst then known as Bradley Manning, had handed WikiLeaks a trove.

## Currency Provision For Nafta Examined

BY WILLIAM MAULDIN

WASHINGTON—The Trump administration has told senators it is considering adding rules barring currency manipulation to the North American Free Trade Agreement, according to congressional aides, a departure from past U.S. policy that could set a precedent for other trade deals.

U.S. Trade Representative Robert Lighthizer said in a Senate meeting Wednesday that he is looking at currency rules as a part of planned renegotiation of Nafta, the 23-year-old trade agreement that connects the U.S. economy with Canada's and Mexico's, the aides said.

An administration official confirmed the U.S. is looking at some sort of currency disciplines but didn't say whether the rules would be binding and enforceable through Nafta's dispute-settlement procedures.

Canada and Mexico haven't been the focus of U.S. criticism over currency, but adding currency rules to Nafta could set a precedent for including them in future negotiations with Asian trading partners.

*Critics worry that even careful rules could restrict future U.S. monetary policy.*

Currency rules weren't in a previous draft of the administration's Nafta negotiating blueprint plan reviewed by The Wall Street Journal in March.

In the past two years, critics of U.S. trade policy have generated opposition to Washington's trade agreements by saying China and other countries manipulate their currencies in ways that have a bigger effect on their export competitiveness than tariff levels set by trade deals.

Former President Barack Obama's administration didn't include enforceable currency rules in the Trans-Pacific Partnership, the 12-nation deal that Congress never ratified and President Donald Trump exited in January. At the time, U.S. officials said trading partners were opposed to the rules, and some worried such guidelines, even if carefully tailored, could tie the hands of U.S. monetary policy in the future.

Instead, the TPP countries agreed to nonbinding guidelines and transparency procedures outside the agreement.

The Trump administration is seen as unlikely to revive the TPP but could pursue bilateral talks with individual countries in the bloc.

## U.S. WATCH

WASHINGTON

### Erdogan Security, Protesters Clash

Washington police used batons to break up a bloody clash Tuesday between supporters and opponents of Turkish President Recep Tayyip Erdogan after his White House meeting with President Donald Trump, casting a cloud over the Turkish leader's visit to the U.S.

Two people were arrested for assault and nine others injured outside the Turkish ambassador's residence in a chaotic clash captured on video and shared widely on social media.

The clash broke out when dozens of protesters gathered to protest Mr. Erdogan's crackdown in Turkey that has led to the detention of 130,000 people, including top opposition lawmakers, journalists and diplomats.

Washington police tried unsuccessfully to keep anti-Erdogan protesters apart from Erdogan supporters. In the video, men in suits, identified as members of Mr. Erdogan's security, punched, kicked and beat protesters as police tried to break up the clashes.

Officials with the Turkish Embassy and Mr. Erdogan's office didn't respond to requests to comment.

—Dion Nissenbaum

tions, is canceling plans to buy the Karolyi Ranch, the storied training camp where some of the abuse is alleged to have taken place.

The decision was announced Tuesday in a statement by USA Gymnastics, the governing body for the sport in the U.S.

The organization had been set to buy much of the Huntsville, Texas, ranch from Martha Karolyi and her husband, Bela, after Ms. Karolyi retired as the national team coordinator in August 2016.

USA Gymnastics said Tuesday that it wasn't going ahead with

the deal, "for a variety of reasons, including but not limited to unexpected financial expenditures associated with the purchase."

The Karolyis live on the ranch and used it for more than 15 years to build a world-dominant U.S. women's program.

That glory, though, was overshadowed last summer as scores of women and girls came forward with allegations, in civil lawsuits and criminal cases, that they had been sexually abused by the longtime national team physician, Larry Nassar.

Dr. Nassar has denied the allegations and has pleaded not

guilty to state first-degree sexual conduct charges and federal child-pornography counts in Michigan. USA Gymnastics and the Karolyis also deny wrongdoing. Lawyers for the Karolyis didn't respond to requests to comment.

—Louise Radnofsky and Rebecca Davis O'Brien

### WEATHER

### Tornadoes Hit Wisconsin, Oklahoma

Two people died and dozens were injured when tornadoes

flattened a mobile-home park in Wisconsin and a housing subdivision in Oklahoma during powerful spring storms that battered an area from the South Plains of Texas to the Great Lakes.

The storms hit late Tuesday and into the evening, leveling the Prairie Lake Estate Mobile Park near Chetek, Wis., about 110 miles northeast of Minneapolis.

One person died at the mobile-home park, the Wisconsin Emergency Operations Center said. No details of the fatality were given.

—Associated Press

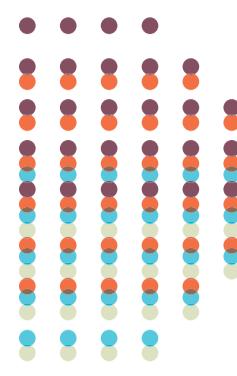


STREET GANG: A man is taken into custody by FBI agents Wednesday in Los Angeles. Hundreds of federal and local law enforcement officers fanned out across the city, serving arrest and search warrants as part of a three-year investigation into the street gang MS-13.

USA GYMNASTICS

### Team Cancels Plans To Buy Karolyi Ranch

USA Gymnastics, in the spotlight amid civil litigation and a congressional investigation into its handling of sex-abuse allega-



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## IN DEPTH

# IRAN

Continued from Page One  
eign policies, according to current and former U.S. officials.

The Trump administration has shifted U.S. rhetoric and imposed new sanctions on Iran that target entities involved in Tehran's ballistic missile program and alleged human-rights abuses. It sees the election as a gauge of Tehran's future policies, but its antipathy toward Iran is unlikely to change regardless of who wins, a senior Trump administration official said.

Mr. Rouhani has during rallies referenced, though never directly, Mr. Raisi's alleged connections with Iran's deadly 1988 purges as a longtime member of the judiciary. He told a packed stadium in western Iran this month that voters wouldn't support candidates who "executed and jailed" fellow citizens.

Mr. Raisi hasn't addressed Mr. Rouhani's comments in interviews or speeches. A judiciary spokesman, responding to Mr. Rouhani's mention of executions, said Tuesday that Iran's judiciary has helped fight against terrorism.

"My record is that I was a soldier for this country," Mr. Raisi said Tuesday at a rally in Tehran. "My past was to push away the sinister shadow of terrorists from the country."

Until recently, the election appeared an easy win for Mr. Rouhani, who is seeking a second four-year term. But his popularity has ebbed since last year as Iranians failed to see economic benefits from the nuclear deal, polls show.

"The situation hasn't been good in these four years," said Ali Arjomandi, a 26-year-old medical student who attended a recent rally for Mr. Raisi.

Mr. Rouhani's support among likely voters was around 61%, according to the most recent polls by Washington-based International Perspectives for Public Opinion; Mr. Raisi was at 27% after Tehran Mayor Mohammad Ghalibaf dropped from the race and gave his support to Mr. Raisi.

Iran's hard-line factions have coalesced around Mr. Raisi, sending him to the campaign trail after a career spent behind the scenes.

Mr. Raisi has promised to create a million jobs a year, address a nearly 13% unemployment rate and revive financially troubled housing projects for the poor. His campaign message mirrors former hard-line President Mahmoud Ahmadinejad's in speeches that mix religion, politics and economics.

"In my childhood, I experienced the taste of poverty," he said in a TV interview last month. "Being an orphan, I worked as child and a teenager, and I know how the deprived feel because I experienced it firsthand."

### Religious pride

A victory by Mr. Raisi would bolster his chances to succeed Iranian Supreme Leader Ayatollah Ali Khamenei, who served two terms as president in the 1980s, analysts said. The supreme leader decides most matters of state, while the president manages policy and serves as Iran's face to the world.

Few doubt Mr. Khamenei, 77 years old, is behind Mr. Raisi's rise. In recent speeches, Mr. Khamenei has



EDOUARD TAHIRI/KEREV/EUROPEAN PRESSPHOTO AGENCY

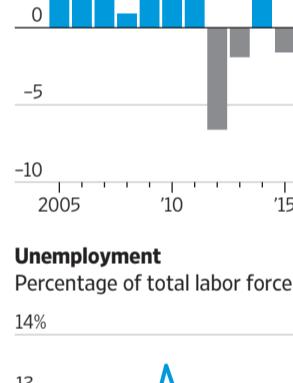
Supporters of presidential candidate Ebrahim Raisi cheer during a campaign rally in Tehran on Tuesday. Voters go to the polls Friday.

### Lifting Sanctions on Iran

President Hassan Rouhani, seeking a second term in elections Friday, faces a hard-line opponent who has criticized Mr. Rouhani's signature achievement: the 2015 nuclear deal that lifted most economic sanctions and boosted oil exports. Mr. Rouhani's popularity has ebbed among voters who say they haven't seen the economic benefits.

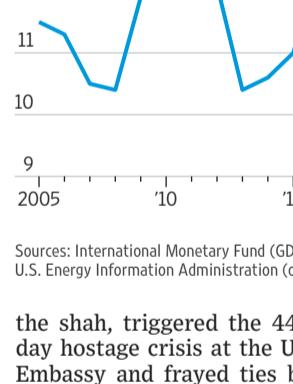
#### Gross domestic product

Annual change



#### Unemployment

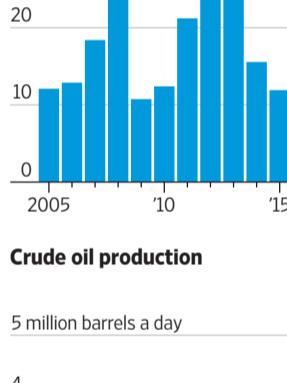
Percentage of total labor force



Sources: International Monetary Fund (GDP, inflation, unemployment); U.S. Energy Information Administration (oil production)

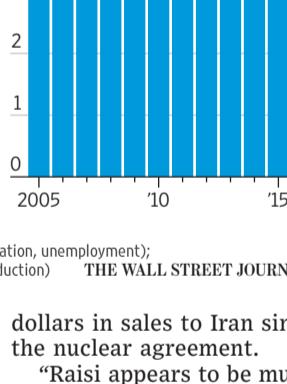
#### Inflation

Annual change in consumer prices



#### Crude oil production

5 million barrels a day



to persuade the Revolutionary Guard—which sees foreign competition as a threat to its economic power—give up any market share, Mr. Taleblu said.

Mr. Rouhani has been blunt in his critique of the Revolutionary Guard. During the final presidential debate, he criticized the test-firing of a ballistic missile that carried the slogan, "Israel should be wiped off the Earth," soon after the nuclear deal took effect last year. He said at a rally that monopolies weren't good for Iran, a veiled reference to the Revolutionary Guard.

"We are at the edge of a great historical decision," Mr. Rouhani told supporters at a rally Saturday in Tehran. "Our nation this week will announce whether we return to 2012 or head to 2021, if it continues on the path of peacefulness or if it will choose tension."

Differences between the two candidates stood out during Iran's three live TV debates. The first exposed Mr. Raisi's inexperience; he went on the attack in the last two. Mr. Rouhani mostly appeared polished, although criticism from hard-line candidates in the first debate seemed to put him off-balance.

Some voters welcome Mr. Raisi's promise to increase cash handouts despite strains on the government's budget. "We want him to save us from hunger and misery," said Ahmad, 43, a father of five who works in a bakery. "What will my sons do when they grow up? I want them to be able to earn money and get married and have children."

### Up the ranks

Mr. Raisi rose through clerical and judicial institutions. In the 1970s, he became a devotee of Ayatollah Ruhollah Khomeini, Iran's first supreme leader, while studying in Qom, home to Shiite Islam's most

influential seminaries.

After the 1979 Islamic Revolution, Mr. Raisi became a member of the ruling clique, and in 1980 he began a decades-long judicial career with his appointment as the assistant public prosecutor in Karaj, west of Tehran.

At age 23, Mr. Raisi reinforced his establishment ties by marrying the daughter of cleric Ahmad Almalhoda, a close ally of Mr. Khamenei, the current supreme leader. The couple have two daughters.

In the 1980s, Mr. Raisi became the deputy to the prosecutor in Tehran's Islamic Revolutionary court, a special judicial system known for handling politically sensitive cases. In July of 1988, after eight destructive years of war with Iraq, Mr. Khomeini ordered that political prisoners be questioned by three-member panels made up of a cleric, prosecutor and intelligence official. Any prisoner who professed allegiance to the banned opposition groups was executed, according to international human-rights groups.

Thousands of people were believed killed, these groups say, although the precise number is unknown. Tehran has long denied any such executions.

Mr. Raisi sometimes stood in as a prosecutor on a three-member panel with a religious judge and an intelligence ministry official, according to a report by the Abdorrahman Boroumand Foundation, a human-rights group based in Washington, D.C. Mr. Raisi hasn't responded to the report.

After Mr. Khamenei became Iran's supreme leader in 1989, Mr. Raisi's career began to advance. He became head of the judiciary's General Inspection Organization in 1994 and, a decade later, the first deputy head of the judiciary.

### The rural vote

Mr. Raisi's best chance at beating Mr. Rouhani may come if hard-line organizers can get out the rural vote, which accounts for about 20% of the population and tends to vote conservative, said Mr. Kupchan, of the Eurasia Group. If Mr. Rouhani wins, as most expect, he may be weakened by his public criticism of the Republican Guard and indirect references to the 1988 executions.

"He's the guy who attacked some of the core values of the Islamic Republic by airing dirty laundry," said Ray Takeyh, a fellow at the Council on Foreign Relations in Washington. "That creates problems for him in the next four years."

Mr. Khamenei said as the election approached that anyone who disrupts state security "should know that they will definitely be slapped in the face," a message that unrest won't be tolerated.

In 2009, Iranians demonstrated against the re-election of Mr. Ahmadinejad, and authorities arrested thousands of people who were led by supporters of defeated presidential candidate Mir Hosseini Mousavi. Mr. Mousavi remains under house arrest.

Mr. Raisi, who was deputy head of the judiciary, promised at the time that those arrested would be dealt with "in a way that will teach them a lesson," according to the official Islamic Republic News Agency.

—Jay Solomon contributed to this article.

# COWS

Continued from Page One  
some researchers believe cow-coddling also is critical.

"Cow comfort is one of the main driving forces of our existence," said Mike McCloskey, chief executive of Select Milk Producers Inc., a cooperative that includes around 100 farms. "We have to keep them fine-tuned. They can't get stressed."

Homestead Dairy in Plymouth, Ind., is installing automated backscratches and memory-foam mattresses in its new high-tech barn. The cows "are free to do whatever they want, when they want to do it," says partner Brian Houin. The farmers say there is nearly always a line at the backscratcher.

At Valsigna Farms in Hilmar, Calif., managing partner Aaron Wickstrom sends Juno, an R2-D2-like robotic as-

sistant, on laps around the barn delivering food to ensure his cows have something to eat at all times. Next on his wish list: the backscratches. "A lot of it is just common sense," he says.

"Cow comfort—25 years ago that world didn't exist," says Nina von Keyserlingk, a professor of animal welfare at the University of British Columbia. "It's a good sign of how the industry has evolved to include a level of care that is about more than providing them with food, water and a place to sleep."

At Tony Bos's farm in Fair Oaks, Ind., the cows go for milking when they feel like it, thanks to a squad of robotic milkers. When a cow is good and ready, she enters a pen in which self-guiding mechanical arms set to work cleaning, massaging and milking her udders using lasers and brushes. The robot distracts the cow by dolloping out fresh feed. The pro-

cess is over in a few minutes.

Each cow is milked about three times a day. If one tries to sneak in an extra session, the robot catches on and turns her away. A mechanical contraption scrapes away manure.

The robotic milkers allow the 700 or so cows more time for eating and taking siestas on their water beds. Farmers want their cows lying down a minimum of 12 hours a day, saying that maximizes milk output. The water beds protect their legs far better than hard floors.

Consumer demands for ethically sourced meat and dairy products are accelerating the trend toward better treatment of livestock. More dairy farmers now administer painkillers before cutting off horns, and tail removal is becoming less common.

Most dairy cows still end up in slaughterhouses and become ground beef once their milk-production cycles

are over, usually after three to seven years.

These days, most of them don't have access to pasture, and many spend the majority of their lives indoors. A growing body of research shows that improved living conditions can reduce health prob-

lems and, by extension, improve productivity. Proper air circulation and drainage reduce sickness. Open-plan barns permit more movement and socializing among animals, reducing stress.

Animal-welfare advocates say some practices have improved. But Dena Jones, farm-animal director at advocacy

group Animal Welfare Institute, says the benefits "are undone, at least in part, by constant attempts to increase productivity by unnatural diet and increasing milking....A high-producing cow is not necessarily a happy cow."

Gita Nagari Yoga Farm in Port Royal, Pa., has taken its cow-welfare drive much further by letting their cows live to old age after their milk-production years are over. Cows at the farm, which is run by followers of the Hare Krishna religious movement, live out their days in the pasture, pushing around beach balls.

"They're very peaceful, and they have a transformative effect on the consciousness," says Kesi-mardana Dasa, one of the farm's managers. The farm, which doubles as a spiritual retreat, calls itself the first slaughter-free dairy in the U.S. It sells milk directly to consumers for \$14 a gallon, far above the typical supermarket price.

Conventional dairies say they would go out of business if their cow indulgence went that far. Just how far to go, however, is subject to debate.

Maurice Loehmer of Loehmer Dairy in Monterey, Ind., says he is all for making cows more comfortable, but he isn't going to be buying water beds anytime soon. When it comes to cows, he says, there is nothing more comfortable than sand. Many veterinarians agree.

Steve Maddox of Maddox Dairy near Fresno, Calif., ended up imposing silence in his milking parlor after employees fought over what music to play for the cows. Mr. Maddox prefers country, while his employees bickered over rock and Latin music.

The only thing they agreed on—no politics, which he says agitated man and beast alike. "Doesn't matter if you're listening to MSNBC, Fox News or Glenn Beck," he says. "They just don't need it."

dollars in sales to Iran since the nuclear agreement.

Raisi appears to be much more in line with traditional hard-line Iranian thinking about the economy, namely, that integration with the West is costly and comes with strings attached," said Behnam Ben Taleblu, a senior Iran analyst at the Washington-based Foundation for Defense of Democracies.

Mr. Raisi has promised to abide by the deal. But he might not be willing or able

to do so, especially after three to seven years.

These days, most of them don't have access to pasture, and many spend the majority of their lives indoors. A growing body of research shows that improved living conditions can reduce health prob-

'We have to keep [the cows] fine-tuned. They can't get stressed.'

lems and, by extension, improve productivity. Proper air circulation and drainage reduce sickness. Open-plan barns permit more movement and socializing among animals, reducing stress.

Animal-welfare advocates say some practices have improved. But Dena Jones, farm-animal director at advocacy

# LIFE & ARTS

THE MIDDLE SEAT | By Scott McCartney

## The Best Airlines for Free Seats

Southwest and JetBlue outperform larger competitors with more generous programs, while American lags behind again

**BAD NEWS** for frequent fliers: The small movement to make it easier to cash in miles and points for seats is ending, and airlines may keep getting even stingier.

An annual survey of availability of the type of frequent-flier ticket most travelers use shows a drop to 72% this year from 77% in 2016. Many foreign airlines known for superior service and seating have gotten more tightfisted with award seats. Availability on U.S. airlines actually improved, according to consulting firm IdeaWorks, and overall U.S. airlines offered better award availability than the rest of the world, even though American is among the skimpiest of all airlines.

But that may be the only decent news for travelers for a while. "I suspect it's not going to improve," IdeaWorks president Jay Sorenson says.

Airlines are increasingly using frequent-flier programs to generate revenue instead of rewarding customers, he says. In addition, increased competition with rapidly growing discount airlines and Persian Gulf carriers has led to financial strains for big airlines outside the U.S. Demand for travel is strong, so airlines can choose: Sell the seat for cash or miles. More are choosing cash over miles. And few have followed Southwest and JetBlue to more transparent redemption of offering every seat with a price in cash or points, making it easier to score free seats.

"When airlines are financially successful, they have the bandwidth to do lots of things better. This is one of those things," says Mr. Sorenson.

Southwest and JetBlue topped a test of seat availability on 25 leading airlines world-wide. Delta and Alaska scored significantly better this year than 2016. Availability declined on United and American ranked ahead of only two of the 25 airlines.

Cathay Pacific, Emirates, Turkish and Air Berlin all posted a significant drop in availability. Qantas, Lufthansa, Air France/KLM and Air China had smaller declines.

IdeaWorks, based in Shorewood, Wis., shops online in March for two available award seats on each airline's busiest routes for travel dates June through October. The survey looks only for "saver level" awards—usually the minimum number of miles or points and subject to blackout dates and capacity controls. A U.S. domestic saver ticket is typically 25,000 miles. Seats available on partner airlines count.

The survey, sponsored by CarTrawler, is designed to look at how typical travelers use frequent-flier programs, not power users with elite benefits. As they have with many of their services, airlines have skewed frequent-flier perks to please business travelers who buy expensive tickets and squeeze

benefits for low-fare passengers. When Delta, United and American switched to giving out miles based on fare instead of distance, they created huge bonuses for top business fliers, for example.

Consumer frustration at finding awards weakened the marketing power of frequent-flier programs over the past decade. That led to some pledges from airlines to make their programs more rewarding so occasional travelers and millions of consumers with credit cards tied to airline miles will stay hooked. Availability climbed steadily in the IdeaWorks surveys from 2010 to 2016. But that ended with this year's results.

Airline filings with the **Securities and Exchange Commission** closely align with the survey's findings on award availability. Southwest, which had awards available for 100% of the queries made, reported that nearly 13% of its passenger traffic flew on Rapid Rewards program awards in 2016. At American, only 6.3% of passenger traffic flew on awards, including upgrades. Delta and United had just under 8%. Passenger traffic is measured by revenue passenger miles—one RPM equals one passenger flying one mile.

In the 2017 IdeaWorks survey, American's award availability dropped 2 points to 54%, ahead of only two airlines among the 25 surveyed.

American is looking at improving availability of saver awards, says Bridget Blaise-Shamai, vice president of customer loyalty. "We certainly don't set out to be the lowest by this measure and we certainly value and want to run a competitive program," she says. As for the percentage of RPMs on award travel being lower than Southwest, Delta and United, Ms. Blaise-Shamai says, "We recognize we have room to go and we're committed to making that happen."

In the availability survey, Delta rose nearly 6 percentage points this year to 74%, putting it in the middle of the pack globally.

When the IdeaWorks survey started in 2010, Delta had seats available on only 13% of queries made. "We've been working hard to improve that," says Karen Zachary, managing director of Delta's SkyMiles program.

Delta says in the past year it has made more awards available at its lowest pricing tier, which inter-



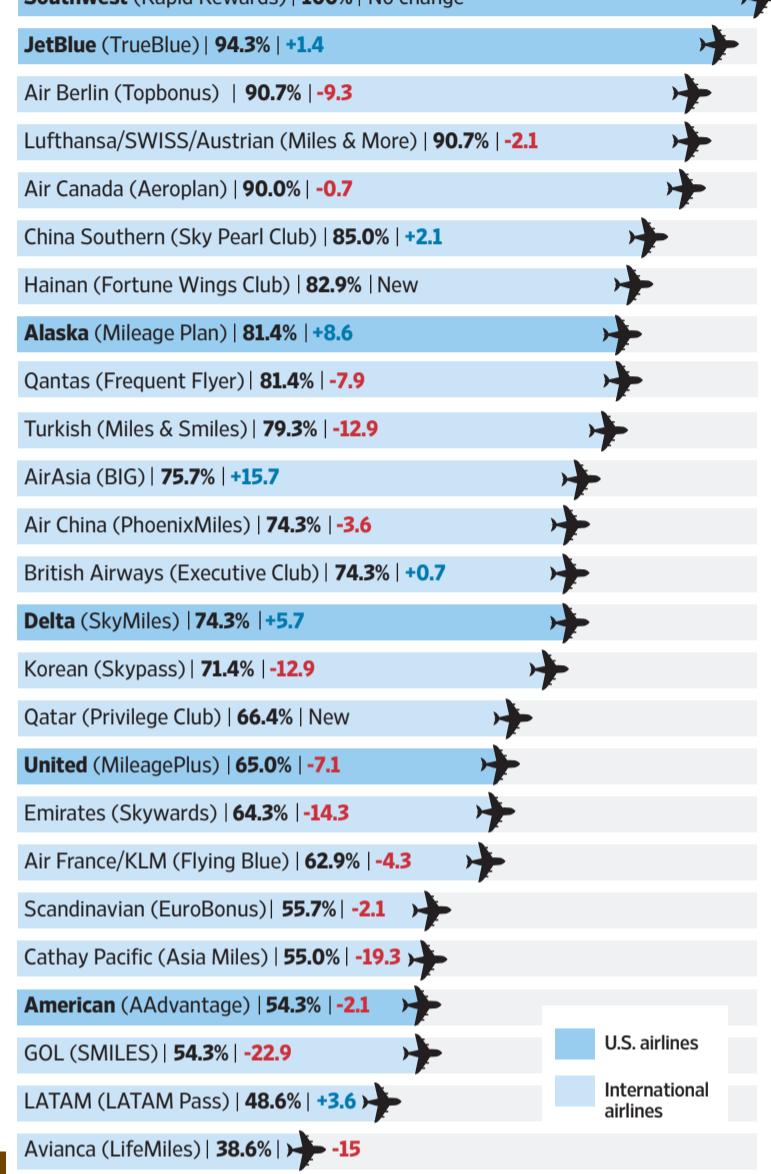
American has the stingiest program among U.S. airlines surveyed for coach 'saver' tickets. It says it plans changes to catch up to competitors.

nally Delta calls Level One, and has better matched pricing in miles with fares. The airline now runs mileage sales along with fare sales. In the 12 months ended in April, Delta customers redeemed 16% more tickets at Level 1, compared with the 12 months prior. Prices paid in miles for domestic tickets declined 3.3%, Ms. Zachary says.

### The Most Rewarding Rewards

Southwest and JetBlue again outperformed competition in a survey of frequent-flier award seat availability. The survey examined 25 airlines for itineraries from June to October 2017.

Airline (Program) | Percentage of seat availability | Point change from 2016



Note: The research, sponsored by CarTrawler, looked for two seats on each airline's 10 busiest long routes and 10 busiest medium-length routes on 14 different round-trip dates between June and October.

Source: IdeaWorks

THE WALL STREET JOURNAL.

specially higher-fare business tickets, and sign up for more credit cards linked to Southwest, says Jonathan Clarkson, senior director of loyalty and partnerships at Southwest.

Mr. Sorenson says some airlines benefit in the survey from making awards available online from partner airlines. United, for example, had partner awards show up on 13 different airlines—helping its long-haul award availability. Other airlines have been more restrictive on what they put on their websites. Some make partner awards available only if consumers phone the airline. Others chose to restrict partner awards because the airline has to buy the seat on its partner to give it out as an award.

Most frequent-flier miles are earned now with credit cards and other paybacks from merchants. But the ones earned the old-fashioned way, sitting in an airplane seat, actually provide a princely return.

FROM TOP: ILLUSTRATION BY ROB WILSON; LARRY MACDOUGAL/ASSOCIATED PRESS

### FILM

## THE WINDING ROAD TO A GRATEFUL DEAD MOVIE

BY CARYN JAMES

**THE GRATEFUL DEAD** has long been an elusive subject for filmmakers. In the 1970s, the band, a rising counter-culture touchstone, was on tour, accompanied by a movie crew. Resisting a documentary about them, the musicians sabotaged the project by lacing the filmmakers' drinks with LSD so they couldn't focus a camera. That movie never was finished.

Amir Bar-Lev completed his documentary about the Dead, "Long Strange Trip," but it took the director more than a decade. "Long Strange Trip" premieres in theaters in New York and Los Angeles on May 26, and launches on Amazon on June 2.

The biggest obstacle, Mr. Bar-Lev says, was the Dead's communal philosophy, which extended to business decisions. That approach persisted after 1995, when the group ceased to exist following the death of Jerry Garcia, its best-known member. The Grateful Dead organization "moves in an ex-

tremely egalitarian, consensus-oriented way, which means that nothing ever happens," Mr. Bar-Lev says. In addition, the band is "mis-trustful of anything that would nail them down to one meaning, so a documentary film had strikes against it right there." Persistence, a shake-up at a record company and a nod from Martin Scorsese finally cleared the path.

The Dead's legacy was thriving all along. David Browne, author of "So Many Roads: The Life and Times of the Grateful Dead," says, "People sometimes think of them as a bunch of drug-taking hippies from San Francisco, which they were, but they also pioneered a lot of what we're seeing in the music business." They started their own record company, a model followed more successfully by others today, Mr. Browne says. They mailed newsletters to fans, foreshadowing how stars now use social media.

The four-hour "Long Strange Trip" spans the Dead's career, beginning with psychedelic concerts in the 1960s. Three decades later the group was among the creators

of blues-folk-rock music and a pioneer of rambling, improvisational sets. The film includes rare archival material and new interviews with band members Bob Weir, Phil Lesh, Bill Kreutzmann and Mickey Hart, as well as with roadies, lyricists and fans.

In 2003, Mr. Bar-Lev approached Alan Trist, who runs the Grateful Dead's music-publishing company. Mr. Trist responded enthusiastically but getting a green light from band members and executives in Grateful Dead Productions, which handles licensing and other business for the group, was tougher. In 2006 Rhino Entertainment took over management of the Dead's intellectual property, and resisted the film. Six years later, Mark Pinkus—who had become Rhino's manager for the Dead's properties and is now the company's president—introduced Mr. Bar-Lev to the band. They gave him preliminary approval. The Dead balked again several months into pre-production, and finally relented after Mr. Scorsese had joined as executive producer.



PETER SIMON/AMAZON  
Grateful Dead members Jerry Garcia and Bob Weir backstage in 1977. For some time, the band had resisted being the subject of a documentary.

## OPINION

### REVIEW & OUTLOOK

## Loose Lips Sink Presidencies

The state of the Trump Presidency has been perpetual turbulence, which seems to be how the principal likes it. The latest vortex is over Mr. Trump's disclosure of sensitive intel to the Russians—and whatever the particulars of the incident, the danger is that Presidencies can withstand only so much turbulence before they come apart.

The Washington Post reported Monday night that in an Oval Office meeting last week Mr. Trump relayed high-level "code word" classified material obtained from an ally to Russian Foreign Minister Sergei Lavrov and Ambassador Sergey Kislyak. Cue another Washington meltdown. The President took to Twitter on Tuesday morning to defend himself, claiming an "absolute right" to disclose "facts pertaining to terrorism and airline flight safety."

National Security Adviser H.R. McMaster put a finer point on it at a Tuesday press conference, though without denying key details. He said Mr. Trump's disclosure was "wholly appropriate" and didn't expose intelligence sources and methods.

Presidents sometimes share secrets with overseas leaders—even to adversaries such as the Soviets during the Cold War—if they conclude the benefits of showing what the U.S. knows will aid diplomacy or strategic interests. From media accounts and his tweets, Mr. Trump said something about Islamic State's laptop bomb threat to airlines. He may well have been trying to convince the envoys of the menace Islamic State poses to Russian lives and foreign-policy goals, like the Russian airliner that exploded over Sinai in 2015.

Then again, the Post story has Mr. Trump boasting about how great U.S. intelligence is and divulging the info on impulse to prove it. National-security officials also asked the reporters to withhold specifics about the item in question, presumably because further disclosure could undermine efforts to counter the threat or endanger the lives of human assets.

Reports emerged on Tuesday that the ally that gathered the material is Israel, and the revelation could endanger this and other intelligence-sharing relationships. The Israelis may hold back if they think their dossiers will be laundered through the U.S. to the Russians and then get passed to their Iranian and Syrian clients, and other foreign services may lose confidence in the U.S.

Lt. Gen. McMaster said he disputed "the premise" of the Post story, which was that Mr. Trump had done something wrong or unbecoming. He confirmed that Mr. Trump made the decision ad hoc "in the context of the conversation," not before the meeting. The problem is that even if the President's conduct was "wholly appropriate," the story's premise is wholly plausible.

## The Pebble Mine Victory

EPA Administrator Scott Pruitt is wasting no time broadcasting that an era of lawless environmental regulation is over. One of the best signals so far is the agency's agreement last week to let the Pebble Mine project in Alaska proceed through regular permitting and legal order.

The EPA and Northern Dynasty Minerals Ltd. announced a legal settlement Friday that finally gives the Pebble Limited Partnership the right to work with the federal government on an environmental analysis of its proposed mine. The Obama Administration stripped Pebble of that right in February 2014 when it issued a pre-emptive veto of what could be America's largest copper and gold mine. Pebble sued on solid legal grounds.

The Clean Water Act gives the Army Corps of Engineers the primary job of evaluating development projects. The EPA can perform a secondary review and veto a project—though only with cause. The Obama EPA developed its own fictional model of a mine and then vetoed the project before Pebble had a chance to go

The portrait of an inexperienced, impulsive chief who might spill secrets to an overseas foe is one to which Mr. Trump has too often contributed. It was political mismanagement even to hold the Russian meeting, especially the day after he fired FBI Director James Comey amid the investigation of the Trump campaign's alleged

Russian connection.

This eruption shows why a President's credibility is so important. If people don't believe Mr. Trump's words or trust his judgment, they won't give him the benefit of the doubt or be responsive if he asks for support. Last week the White House spent two days attributing Mr. Comey's firing to a Justice Department recommendation, only for Mr. Trump to insist in a television interview that the pink slip came "regardless of recommendation."

News broke late Tuesday of Mr. Comey's contemporaneous notes that Mr. Trump asked him in February to "let this go," referring to the FBI probe of axed National Security Adviser Michael Flynn. The White House denied that account of the conversation, but that would be more credible if its previous statements were more reliable.

Mr. Trump's strife and insults with the intelligence community were also bound to invite blowback. The Post report is sourced to "current and former U.S. officials," which raises the question of how former officials are privy to "code word" information, defined as anything that could be expected to cause "exceptionally grave damage" to national security if disclosed. In that case the public leaks about Mr. Trump's actions, if true, will do more damage than whatever he said in private.

Mr. Trump is considering a White House shakeup, including cleaning out many of his top aides, but the White House always reflects the President's governing style. If Mr. Trump can't discipline himself, then no Jim Baker *ex machina* will make much difference.

Mr. Trump needs to appreciate how close he is to losing the Republicans he needs to pass the agenda that will determine if he is successful. Weeks of pointless melodrama and undisciplined comments have depleted public and Capitol Hill attention from health care and tax reform, and exhaustion is setting in. America holds elections every two years, and Mr. Trump's policy allies in Congress will drift away if he looks like a liability.

Millions of Americans recognized Mr. Trump's flaws but decided he was a risk worth taking. They assumed, or at least hoped, that he'd rise to the occasion and the demands of the job. If he cannot, he'll betray their hopes as his Presidency sinks before his eyes.

through the Corps's review.

Documents from freedom of information suits and legal discovery showed that EPA officials orchestrated opposition to the mine with environmental activists and native tribes. The other victim of this campaign was the state of Alaska, which owns the mine site but was cut out by the EPA.

The EPA's pre-emptive veto was the first in the history of the Clean Water Act, and a damaging precedent. It positioned the agency to become a superregulator able to kill any bridge, mine, pipeline or oil well before companies could make a case. Mr. Pruitt's reversal will unleash capital that has been on strike due to arbitrary regulation. No sane investor would risk years of financial and legal hardship in light of the federal treatment of Pebble, the Keystone XL pipeline or the Shell Arctic development.

The EPA agreement offers no guarantee that the Pebble Mine will be approved after state and federal reviews. But at least Alaska and Pebble stakeholders can get a fair hearing from a transparent federal process.

## America's Runaway Train

Democratic Governors are demanding that Washington recognize their sovereign powers under the Constitution, but their born-again federalism is often more convenient than principled. Consider California Governor Jerry Brown, who is importuning the White House to yield oversight of his state's bullet train.

On Friday the Governor sent President Trump a letter asking to "delegate to the state authority" under the National Environmental Policy Act. Mr. Brown cited an executive order by Mr. Trump directing the White House Council on Environmental Quality to identify "high-priority" public works and expedite procedures for "completion of environmental reviews and approvals for such projects."

California's high-speed rail authority has complained that construction is being delayed in part due to revisions by the Federal Railroad Administration to its environmental documents. The FRA has provided \$3.2 billion in seed funding for the 500-mile train, and an internal FRA analysis in November found that the first 118-mile stretch through the Central Valley was running 50% over budget and seven years behind schedule. Federal bureaucrats make nice scapegoats. But according to the FRA report, the big

gest delays have been caused by the California rail authority's late paperwork.

Environmental litigation has also snarled construction, and the rail authority claims it needn't comply with the California Environmental Quality Act (CEQA). In 2014 the federal Surface Transportation Board exempted the bullet train from

CEQA, but a California appellate court subsequently held otherwise. The authority is now arguing before the California Supreme Court and Ninth Circuit Court of Appeals that federal environmental review pre-empts CEQA.

But wait—this appears to contradict the Governor's request that the feds cede authority over environmental reviews to the state. This would allow the rail authority to essentially grade its own homework. Everything is perfect, trust us.

California's rail authority has a history of cutting corners, and the Governor has helped it evade parental supervision. Last September Mr. Brown vetoed a bill passed unanimously by the state legislature that would have imposed increased accountability.

Meanwhile, the Governor is begging the Trump Administration for more federal cash to build the \$64 billion (and counting) boondoggle—but please, no strings attached.

## Trump's Tanking Approval Numbers



POLITICS & IDEAS  
By William A. Galston

President Trump is in trouble not only inside the Beltway but with his core supporters, who express doubt about his agenda and fitness for office.

Last week the NBC/Wall Street Journal survey found that 39% of Americans approve of the job Mr. Trump is doing, while 54% disapprove. Only 6% said that Mr. Trump's decision to fire FBI Director James Comey had made them more favorable toward the president, compared with 30% who said less favorable.

A poll from Quinnipiac University shows Mr. Trump's support sliding even among his base. His approval has dropped to 29% among independent voters, down from 38% in April; 47% among whites without college degrees, down from 57%; and 48% among white men, down from 53%. Connecting with the down and out is supposed to be Mr. Trump's strength. Yet only 34% of noncollege whites "approve strongly" of his performance, and 40% "disapprove strongly."

A majority of whites without degrees continue to see Mr. Trump as strong, intelligent and possessing good leadership skills. But only 45% told Quinnipiac that he shares their values, just 44% view him as honest, and even fewer, 38%, think of him as level-headed. Twenty-one percent of these Americans say he has accomplished more than they had expected, but 30% say less. Fifty-five percent say he should stop tweeting, compared with 38% who want him to continue.

Seventy-four percent of whites without college degrees told Quinnipiac that the president and his aides often make statements without evidence to support them. This helps explain why 55% of these voters disapprove of the way Mr. Trump talks about the media. In a head-to-head confrontation, 41% think that the president is more likely to be telling the truth than the media, but 47% say the reverse. (In the country as a whole, 31% of Americans believe Mr. Trump, versus 57% for the media.)

On the economic front, a surprising 55% of noncollege whites told Quinnipiac that the economy is good or excellent, compared with 56% of all Americans. Forty-four percent of whites without degrees believe the economy is getting better, versus 15% who think it is getting worse. But Mr. Trump isn't getting much of a boost from this assessment: Only 34% of these Americans think he is mainly responsible for the state of the econ-

omy, compared with 57% who credit President Obama.

A second Quinnipiac survey tested the main items on Mr. Trump's legislative agenda, and they seem unlikely to improve his standing with the Americans who gave him his margin of victory. Only 27% of noncollege whites favor a total repeal of ObamaCare. Even fewer of them, 25%, support the latest Republican plan to replace it, since only 14% believe it will lower their health-insurance costs. Twenty-three percent favor, while 73% oppose, giving states the flexibility to raise rates for people with pre-existing conditions.

### Supporting the president in 2017 could prove costly for Republicans in 2018.

The news on tax reform is no better. Only 21% of noncollege whites believe that President Trump should lower taxes for wealthy Americans, but 53% of them think that the wealthy would be his plan's principal beneficiaries. Seventy percent of these Americans oppose a tax plan that significantly increases the budget deficit, but 55% think Mr. Trump's proposal would do exactly that.

And in a warning shot to the White House, fully 68% of whites without college degrees say that the effect of Mr. Trump's plan on his own personal and business taxes is important to them (49% say "very important"). Sixty-one percent of them want him to release his tax returns. Populism is not a taxi the president can leave whenever he chooses.

Although President Trump won't be on the ballot next year, his first four months in office, which 58% of voters regard as a failure, aren't helping Republicans' chances. Nor is their own performance. Seventy-one percent of Americans disapprove of the job Republicans in Congress are doing, compared with 58% disapproval for Democrats. (White voters without college degrees disapproved of both in nearly identical numbers.) Eighteen percent of voters say they are more likely to vote for a House candidate who supports Mr. Trump, versus 43% who say less likely. Even noncollege whites view a candidate's support for the president as a negative.

Overall, only 38% of voters would like to see Republicans retain control of the House next year, compared with 54% who favor a Democratic takeover. Republicans should be thinking hard about their current course.

## LETTERS TO THE EDITOR

### Was Trump Right to Fire the FBI's Jim Comey?

In your editorial "Comey's Deserved Dismissal" (May 11), you indicate that he "committed more than enough mistakes... to be dismissed for cause." That may be correct, but you err in concluding that he has forfeited his credibility with his 2016 interventions.

In my prior career as a criminal defense attorney, I opposed Mr. Comey in one of his first trials as a young assistant U.S. attorney. Then, as throughout his legal career, his credibility and character were unquestionable by all who knew him, regardless of which side of the courtroom they were litigating. He demonstrated time and again that he could be trusted to do what he believed to be moral and correct in the pursuit of justice.

There is no doubt that his actions as the FBI director placed him in the middle of a political firestorm. However, no one has ever suggested, nor could they, that he acted based on political leanings or aspirations. In today's polarized Washington, that alone is a reason to commend and thank him for his efforts.

NOAH LIPMAN  
Holmdel, N.J.

As Deputy Attorney General Rod Rosenstein's letter outlines, Mr. Comey's controversial independent actions, lacking the direction of an attorney general or any real supervision for that matter, were just another example of the very poorly managed Obama administration.

ANDREA ECONOMOS  
White Plains, N.Y.

President Obama should have fired Mr. Comey in July when the FBI Director usurped the power of the attorney general. Deputy Attorney General Rosenstein, who was confirmed 94-6 a few weeks ago, will establish order in the Justice Department regarding all things Russian. The sky isn't falling.

EDWIN M. WAGNER  
St. Charles, Mo.

We are asked to believe that President Trump, after having praised Mr. Comey numerous times for the way he conducted the Clin-

ton investigation, decided to fire Mr. Comey for the way he conducted the Clinton investigation. All this just days after Mr. Comey decided to ramp up the FBI investigation into the Trump campaign.

It isn't a matter of conspiracies. At this point the administration's party line is simply less plausible. If the editorial board is correct in its belief that this may be much ado about nothing, and it very well may be, then the administration's failure to comprehend that the optics of the situation work against it is pathetic.

Should this be the case, Mr. Trump either needs to fire his advisers or start listening to them—I'm not sure which.

JEFF BEAMER  
New York

Where was the outrage in July 2016? Mr. Comey clearly violated Justice Department protocols, first by announcing no indictment would be sought. Second, by characterizing actions by Secretary Clinton as reckless, and finally by misconstruing the law to require intent.

If the Obama administration had any courage, Mr. Comey would have been fired at the close of business on July 5.

FRANCIS G. KNIPE  
Torrance, Calif.

If making America great again means allowing the Russian media and not the American press into my White House, then I'll take the way it used to be ("Comey Sought More Probe Funds," page one, May 11).

MIKE COCKING  
Cedarburg, Wis.

The best way to guard against eight years of a bad president is having 10 years of a good FBI director.

RICHARD PARKINSON  
Provo, Utah

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## OPINION

# The Struggle Behind Oil's Ups and Downs

By Daniel Yergin

**A** great struggle is unfolding in the world oil market. On one side are forces pushing to rebalance supply and demand; on the other, those pulling to recalibrate the business so that it operates at lower cost. That tension explains why the price keeps jumping toward \$60 a barrel and then falling back near \$40.

Oil prices collapsed at the end of 2014 because supply and demand had gotten out of whack. That year global supply grew 2.5 times as fast as demand. The shale revolution in the U.S. was a prime cause of the imbalance; American supply grew by 1.4 million barrels a day in 2014—60% of the entire increase.

**We likely won't see \$100 a barrel again. The industry has been recalibrated to a lower price level.**

The expectation was widespread in 2014 that Saudi Arabia would cut its oil output to keep prices up. But Riyadh tried that in the 1980s, only to see its own market share shrink dramatically.

"We will not make the same mistake again," then-Saudi oil minister Ali Naimi said two years ago. In particular, the Saudis made clear there would be no deal to cut output without participation by nonmembers of the Organization of the Petroleum Exporting Countries—especially Russia, the world's largest oil producer.

By the fall of 2016, lower prices had pushed supply down and stimu-

lated demand, moving the two closer to balance. U.S. oil production had fallen by a million barrels a day. Around the world, spending on exploration and production for 2015–16 is 50% lower than what had been expected in 2014, before the price collapse. At the same time, demand grew in 2016 at almost double the 2014 rate.

Then in December, oil-exporting countries took the action that had been beyond reach in 2014: They agreed to cut production. "Oil revenues are...the main reason," Saudi Deputy Crown Prince Mohammed bin Salman said earlier this month on a Saudi-owned television station. Even Russia, whose rainy-day sovereign wealth funds were depleting rapidly, signed on. It also brought 10 other non-OPEC countries to the table.

With the market heading back into balance, this expanded group concluded that total cutbacks of just less than 1.8 million barrels a day would be sufficient to wear down the excessively large inventories overhanging the market. OPEC countries demonstrated remarkable compliance with quotas, in sharp contrast to previous efforts. By March, prices had rebounded 75% from their 2016 lows.

But since then, prices have fallen. Rebalancing is now colliding with the other force—recalibration of costs to a lower level of oil prices. This massive adjustment is reshaping the way the global oil industry works.

It first became evident in the U.S. The collapse in revenues, along with heavy debt burdens, led to multiple bankruptcies and the expectation that prices would be "lower for longer."

Shale producers had no choice but to slash costs if they wanted to



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survive. In the process, they became more efficient, focused and innovative. A new well that might have cost \$14 million in 2014 now costs \$7 million. The gain in efficiency is so great that a dollar invested in U.S. shale today will produce about 2.5 times as much oil as a dollar invested in 2014, according to IHS Markit.

In 2014, many thought a drop in price to \$70 a barrel from \$100 would shut down U.S. production. It didn't. Today, new shale-oil wells can be profitable at \$40 to \$50 a barrel, and some companies claim even lower.

That makes possible a new surge in U.S. production—as much as 900,000 additional barrels a day over the course of this year. By next year, the U.S. is likely to hit the highest

level of oil production in its entire history.

This cost recalibration is happening everywhere, as a new analysis by IHS Markit shows. Canada's oil sands have always been among the highest-cost, yet some new projects can produce near \$50 a barrel. In Russia, costs have come down more than 50%. Even deep waters offshore can now produce at less than \$50. In March the CEO of the Norwegian company Statoil told the CERAWeek conference that owing to a wholesale redesign, a project in the North Sea that had originally required \$75 a barrel to be economical now needs just \$27 a barrel.

This recalibration will push up supply more than had been anticipated, at least in the next few years. But there's a big question. How

much of the cost saving is the result of innovation, efficiency and new ways of doing things? And how much is the result of dramatic cutbacks in spending, leading to headcount reductions and idle rigs and other equipment? What happens when the markets for people, equipment and services tighten?

As activity goes up, so will oil-field costs. That's already evident in today's hottest area for drilling—the Permian Basin in West Texas and New Mexico. Companies large and small, along with private-equity investors, are piling in. They've realized that shale technologies may make the Permian, in terms of recovery, the second-largest oil field in the world.

The effects are already visible. As drilling increases, tightness and bottlenecks are starting to become apparent in terms of manpower, supplies and equipment. Costs in the Permian could increase by 15% to 20% this year, whereas they will remain flat in most of the rest of the industry.

As oil producers get back to business all over the world, some of the big cost savings will be given back, which will support rebalancing—so oil prices will rise. But the entire business has been recalibrated to a lower price level.

An industry that had become accustomed a few years ago to \$100 oil now regards that as an aberration that won't recur absent an international crisis or a major disruption. The lessons about costs since the price collapse aren't going to go away. They are too powerful to forget, and too painful.

*Mr. Yergin, vice chairman of IHS Markit, is author of "The Prize" and "The Quest."*

## In Iran's Election, Americans Should Root for the 'Hard-Liner'

By Reuel Marc Gerecht

**I**n Washington there is a consensus that the re-election of Iranian President Hassan Rouhani is in the best interests of the U.S. Most find the self-avowed pragmatic cleric, who championed the 2015 nuclear deal, a less menacing choice than his "hard-line" opponent Ebrahim Raisi, who is rumored to be the preferred candidate of Supreme Leader Ayatollah Ali Khamenei.

But a victory for Mr. Rouhani, who appears destined to win unless Mr. Khamenei rigs the election in Mr. Raisi's favor, would be the worst possible outcome. Better than anyone, Mr. Rouhani can align Iran's factions on major foreign-policy questions. Put another way, he is uniquely capable of fortifying the theocracy.

Mr. Rouhani and the supreme leader go way back. They worked together after the 1979 revolution to purge the Iranian army. Mr. Rouhani is also a founding father of the feared Iranian ministry of intelligence. He took the supreme leader's side in the brutal suppression of the pro-democracy Green Movement in 2009–10, which was probably the most dangerous time for the clerical regime

since Saddam Hussein's invasion in 1980.

Despite the decades-old feud between him and Mr. Khamenei's praetorians, the Revolutionary Guard Corps, Mr. Rouhani has tried to maintain amicable relations with senior officers, including Maj. Gen. Qasem Soleimani, the head of the expeditionary Qods Force and the overall commander of the foreign Shiite militias deployed to Syria and Iraq. Mr. Rouhani is as ardent a supporter of Iran's new Shiite imperialism as is Gen. Soleimani.

The supreme leader allowed Mr. Rouhani to run and win the presidential election in 2013 because he had confidence in Mr. Rouhani to keep down dissent, either through co-optation or oppression. Although Mr. Rouhani has hinted that he would like to release the leaders of the Green Movement, Mir-Hosein Mousavi and Mehdi Karroubi, from house arrest, he has studiously avoided the subject while in office. The supreme leader's preference for a muscular police state doesn't much trouble the president, although Mr. Rouhani would certainly prefer a more selective, less disruptive use of harsh methods.

Mr. Rouhani's big difference with the supreme leader has been over economics. The president has long

been an advocate of Western investment. He has been explicit in his desire to play Europe off the U.S., and to use Western businessmen as lobbyists against renewed sanctions. He has been ably aided in this effort by Javad Zarif, one of the most talented, polished and mendacious foreign ministers the Islamic Republic has ever deployed.

### The 'moderate' Rouhani has made it too easy for American officials to deceive themselves.

Mr. Rouhani appears to believe that the regime can implement a version of China's success. Islamic authoritarianism can use foreign money in a more capitalistic system to strengthen the state economically and militarily. He clearly doesn't believe Western investment necessarily breeds sedition. For him, theocracy and state capitalism aren't mutually exclusive.

Mr. Khamenei backed the last big wave of foreign investment in Iran, in the 1990s. As his own power has grown, he becomes fearful about the nexus between eco-

nomics and culture. Although he backed Mr. Rouhani's plan in 2013 for a nuclear deal that puts temporary restraints on the regime's atomic aspirations in exchange for sanctions relief, his fear of insidious foreign influences has metastasized. Nonetheless, he continues to back the nuclear accord and commerce with Europeans.

Iran's ruling elite was purged after the near-cataclysm of the 2009 presidential election. Those in power have worldviews, especially about the projection of Iranian power abroad, that are more or less in sync. What unites them—fear of anticlerical populism, the Westernized college-educated elite, and American power—is probably greater than what divides them, though the 77-year-old Mr. Khamenei's phobia of Western culture and anxiety about his successor may well convince him to throw the election to Mr. Raisi.

It ought to be clear that Washington isn't better off with a more powerful Islamic Republic, the ultimate objective of Mr. Rouhani. The Revolutionary Guards' budget is going up 24% this year. Although enormously appealing to Western businessmen and politicians, the moderation-through-trade argument that President Obama advanced dur-

ing the nuclear talks isn't historically sound. Mr. Rouhani's mentor, President Ali Akbar Hashemi Rafsanjani, opened Iran's economy to Western investment in the 1990s while also boosting Iran's support for terrorism. As the French Marxist historian Maxime Rodinson pointed out, Islamic despotism and capitalism can coexist.

Washington would be far better off if a "hard-liner" won the presidential contest. It would make it more difficult for Congress and the Trump administration to deceive themselves about Iran's intentions. It would increase the distance between the Iranian people and their overlords, improving the chances that the Revolutionary Guards, who had difficulty shooting demonstrators in 2009, will splinter.

Opposition to clerical dictatorship will erupt again—the sooner the better given the nuclear deal's temporary restraints. Mr. Rouhani's promise is an illusion for those weary of the Middle East. Like a mirage on the desert's edge, this mullah beckons fools.

*Mr. Gerecht, a former Iranian-targets officer in the Central Intelligence Agency, is a senior fellow at the Foundation for Defense of Democracies.*

## The U.S. Gets Set to Free Its Wireless Industry

By Robert M. McDowell

**T**he U.S. Federal Communications Commission this month is launching initiatives that will shape the fate of America's wireless industry. Last week it started to examine competition in the market, and this week it will propose taking Depression-era utility regulations off mobile broadband networks while protecting an open internet.

This is only the beginning. The FCC is acting on a rare opportunity to correct its recent mistakes and restore the Clinton-era light-touch regulatory framework that

will drive economic growth and job creation.

The mobile industry is experiencing an explosion of entrepreneurial brilliance, investment and falling consumer prices. Wireless carriers are knocking the stuffing out of each other to woo and keep customers. Most have unveiled new unlimited-data plans, and smaller players are gaining on larger ones. T-Mobile added 8.2 million net new customers in 2016 at the expense of its two larger rivals. Last week's announcement that Comcast and Charter would enter the wireless arena portends even more competition.

Wireless prices have fallen 25% in the past decade, according to the U.S. Bureau of Labor Statistics. Last year alone they fell more than 10%, and another 7% between February and March this year. Only markets that are intensely competitive witness such price declines.

Consumers understandably have developed an unquenchable thirst for the freedom and empowerment that mobile broadband gives them. In 2016 consumers spent 900 billion hours using mobile apps worldwide, according to the business intelligence company App Annie.

Three quarters of the companies in the global app economy are American, according to the advocacy group CTIA. But the U.S. will lose its leadership if the FCC fails to officially declare the wireless market competitive and deregulate intelligently.

Intense consumer demand is tugging hard on wireless networks. America's wireless-infrastructure builders have been responding massively. In the past seven years, more than \$200 billion has been invested in wireless infrastructure, \$26.4 billion in 2016. Wireless companies built out 4G LTE services from scratch covering 98.5% of the population in 3½ years between 2010 and 2014.

The wireless industry is spending heavily on next-generation technologies, especially to prepare for the Internet of Things. CTIA projects that in the next seven years wireless companies will invest more than \$275 billion to bring consumers best-in-the-world high-speed 5G

services. This capital surge could create up to three million new jobs and boost America's annual economic output by \$500 billion, according to Accenture.

Yet since 2009 the FCC has ignored its own studies and refused to determine that the wireless market is competitive. That would have

### Since 2009, regulators have refused to declare the market competitive.

contradicted the rationale for its regulation binge, but new political and market realities make a fresh start possible.

The FCC should begin by liberating wireless from the heavy-handed rules of a 1934 law called Title II, which was created when phones were held in two hands. This antiquated law imposes powerful economic regulations on the internet, chilling investment in broadband.

On Thursday the FCC will propose to unshackle the net from this millstone of a law. This would restore the bipartisan light-touch policies that nurtured the burgeoning internet Americans enjoy today.

During its latest spectrum auction, which ended in March, the FCC put up a block of television airwaves for sale. The agency tried to micromanage competition by forbidding AT&T and Verizon from bidding on potentially more valuable airwaves, keeping them from key parts of the auction.

More than 90% of auction revenues came from companies other than Verizon and AT&T. The former spent nothing, while the latter paid less than \$1 billion out of nearly \$20 billion for all auction participants. The two companies effectively didn't participate even where they were allowed to bid.

Clearly the set-aside blocks weren't necessary. Worse, the intervention might have reduced auction participation and proceeds. Going forward, the FCC should avoid trying to outsmart such a dynamic market.

The FCC can take a few other discrete steps. It would accelerate the mobile revolution if it streamlined rules that slow the construction of wireless infrastructure—and deprive consumers of the benefits of next-gen technologies.

The agency should also update rules that dictate how much of a particular radio frequency a carrier can own in a market. America's brilliant wireless engineers are inventing new ways to turn yesterday's junk frequencies into tomorrow's gold, rendering current regulations obsolete.

There has never been a better time to be a consumer of wireless services, but today's rules chain the fast-moving wireless industry to the past. If it's willing to be bold, the new FCC can brighten America's mobile future.

*Mr. McDowell, a former FCC commissioner (2006–13), is a partner at Cooley LLP and chief public policy adviser to Mobile Future.*

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## LIFE & ARTS

TURNING POINTS | By Clare Ansberry

# One Family, Three Weddings

The Fogarty sisters are getting married within weeks; It takes a big family to pull it off without sibling rivalry and chaos

**ON SATURDAY,** Kathleen and Dan Fogarty's daughter Rachel will get married. It is their daughter Kelly's turn three weeks later. And three weeks after that, their daughter Juliette will get married.

These last few weeks have been a whirlwind of bridal showers, bachelor and bachelorette parties, altering dresses, making veils, cooking, cleaning, and shopping. It is doable but can be hectic, say the Fogartys, who live in Fort Wayne, Ind.

Long group texts help as does a calendar. So, too, does a big family. With eight children—five girls and three boys in 15 years—there is little time for pettiness and rivalry. They help each other without being asked. "We have this big support system," says Juliette. "I know I can call any sibling and say 'Oh my gosh, I need help,' and they would be at my side."

One brother is handling reception music. Their youngest sister, Rose, is baking more than 100 cupcakes for Rachel's wedding and 250 for Kelly's. Extended family is pitching in as well. A cousin, who is a graphic artist, made the wedding invitations for Juliette, as her wedding present. An aunt threw a shower for all three.

"The weddings will be beautiful and the receptions will be fun. Nothing over the top," says Mr. Fogarty. His daughters and their fiancés are handling most of the planning and costs and keeping them in line. "It's been pretty easy for me, at least."

The Fogartys are a close-knit family, who lived until a few years ago in a small town of Bryan, Ohio, home of Spangler Candy, which makes Dum Dums lollipops. They took vacations, pulling a camper behind them, once retracing Dan and Kathleen's honeymoon trip 35 years ago from Savannah, Ga., to Williamsburg, Va. Every Sunday, they hosted brunch for family and friends, workers on one side of the kitchen island and talkers on the other.

When their children started



FROM TOP: RUTH YAROSLAVSKY FOR THE WALL STREET JOURNAL; FOGARTY FAMILY

graduating from college and going to work in bigger Fort Wayne, across the state line, the Fogarty's bought a three-bedroom house there for them. The four oldest sisters lived together at times. Rachel and Kelly still do. Over the years, they talked about the guys they were dating. "We talked about getting married and weddings. I don't think we thought we would get married three weeks apart. It just happened to work out that way," says Rachel.

It began last fall when all three became engaged within five weeks of each other.

On Oct. 2, Rachel, 29, was on a Sunday morning hike with her boyfriend Brent Bennett in Wisconsin, where his sisters live, when he asked her to marry him. Six days later, Kelly, 33, and her boyfriend Chris Whelan, who lives in Kentucky, met in Columbus and were walking along the river. The only thing that would make the day better, Mr. Whelan said, drop-



ping to his knee, was if Kelly would marry him. Four weeks later, on Nov. 11, in honor of Veterans Day, Juliette, 25, a nurse who lives in the Washington, D.C. area, and her boyfriend Michael Jackson went for a walk along the war memorials. Mr. Jackson said he would honor her and their family-to-be and asked her to marry him.

Rachel picked her wedding date

first because she was the first one engaged—the Cathedral of the Immaculate Conception in Fort Wayne, where she belonged, was available May 20. Kelly and Chris were next. Both are teachers, so they had to wait until June when school was over—June 10 at the same Cathedral.

Juliette, who loves the beach, wanted a summer wedding with a

Kelly and Juliette Fogarty, above, try on their wedding dresses with Rachel, in the middle, who is getting married Saturday. (Rachel's dress was out for alterations.) Below, the Fogarty children in 1998 in Bryan, Ohio. From left: Christopher holding baby Nicholas, Kelly holding Rose, David, Rachel, Brigette and Juliette.

tropical theme. July is her favorite month. They will marry on July 1 at the Basilica of the Sacred Heart at the University of Notre Dame in Notre Dame, Ind. "We were like, Wow this is going to be pretty crazy," says Rachel of weddings three weeks apart. "But none of us wanted to push it out any longer."

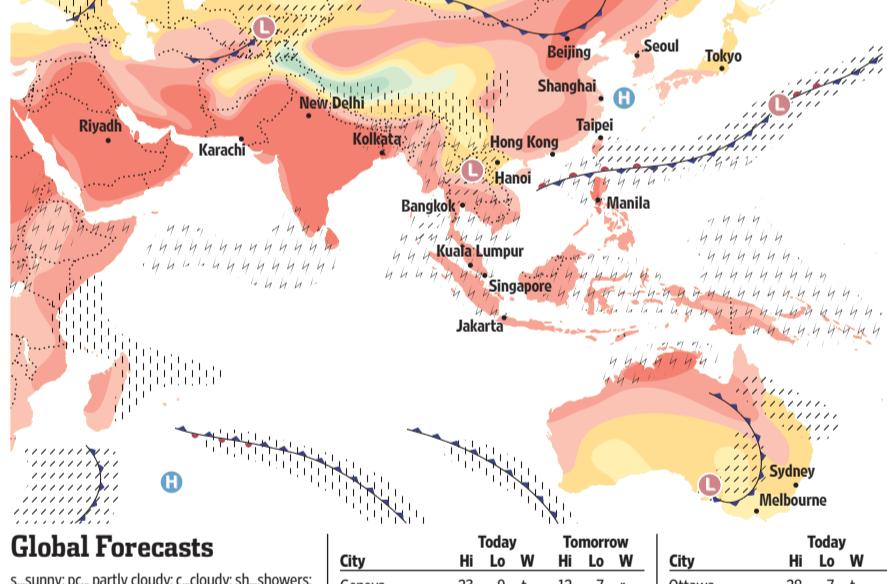
When the dates were picked, there was an "Oh dear moment," says Mrs. Fogarty. "I knew we would all pitch in and it wouldn't be up to me to do all the planning." She was more taken by the thought of three daughters leaving home, virtually at once.

On a recent weekend, Mrs. Fogarty and her five daughters attended a shower for Rachel on Saturday and hosted one for Juliette on Sunday. For Juliette's shower, one daughter hollowed out a pineapple and filled it with flowers—in line with Juliette's tropical theme—while another cut strawberries. "My girls and I are machines," says Kathleen, who was also one of five daughters.

Rachel and Kelly decided to use the same bridesmaid's dresses and the same silk bouquets to help keep costs down. Both are using their mother's vases, too, for centerpieces.

The Fogartys say they are happy their daughters have met and are marrying men that they both respect and love. Mr. Fogarty thinks about what it will be like walking each daughter down the aisle. He suspects he will feel a mix of joy and other emotions. "They are such a big part of my life," he says. He doesn't plan on writing father of the bride speeches, but will speak from the heart.

## Weather



## Global Forecasts

s=sunny; pc=partly cloudy; c=cloudy; sh=showers;

t=tstorms; r=rain; sf=snow flurries; sn=snow; i=ice

Today Hi Lo W Tomorrow Hi Lo W

City Amsterdam 17 12 r 15 9 c

Anchorage 13 7 c 13 6 pc

Athens 20 15 t 24 14 s

Atlanta 31 20 pc 32 20 pc

Bahrain 41 25 s 44 27 s

Baltimore 33 20 s 31 15 t

Bangkok 32 25 t 32 26 t

Beijing 37 19 s 38 20 pc

Berlin 25 13 s 26 12 t

Bogota 20 9 pc 21 10 pc

Boise 18 6 c 21 7 s

Boston 32 20 s 26 10 pc

Brussels 18 10 r 15 7 c

Buenos Aires 18 14 r 17 8 r

Cairo 35 22 pc 30 19 s

Calgary 16 4 t 18 6 pc

Caracas 32 26 pc 33 27 pc

Charlotte 30 19 s 32 19 pc

Chicago 26 7 c 15 10 pc

Dallas 33 22 t 31 22 t

Denver 6 1 r 6 -3 sn

Detroit 31 9 pc 19 8 pc

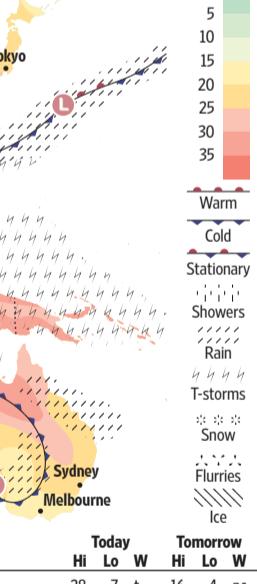
Dubai 40 28 pc 38 29 s

Dublin 15 6 t 14 6 t

Edinburgh 15 6 pc 15 7 c

Frankfurt 25 14 t 16 9 t

## AccuWeather.com



## Global Forecasts

Today Hi Lo W Tomorrow Hi Lo W

City Geneva 23 9 t 12 7 r

Hanoi 24 23 r 28 24 c

Havana 31 22 pc 30 21 pc

Hong Kong 28 25 c 27 25 r

Honolulu 29 22 sh 30 22 sh

Houston 32 24 p 32 24 pc

Istanbul 19 13 p 20 12 s

Jakarta 33 25 t 34 24 t

Johannesburg 19 4 s 20 4 s

Kansas City 26 13 t 22 15 t

Kuala Lumpur 24 18 s 24 18 pc

Kolkata 17 10 pc 16 9 t

Kuala Lumpur 24 14 s 28 17 s

Kuala Lumpur 21 6 t 23 12 t

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Kuala Lumpur 31 12 t 18 4 c

Kuala Lumpur 31 12 t 1

# BUSINESS & FINANCE

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THE WALL STREET JOURNAL.

Thursday, May 18, 2017 | B1

**Yen vs. Dollar** 111.3400 ▼ 1.58%

**Hang Seng** 25293.63 ▼ 0.17%

**Gold** 1256.90 ▲ 1.77%

**WTI crude** 49.30 ▲ 1.32%

**10-Year JGB yield** 0.045%

**10-Year Treasury yield** 2.242%

## Amazon Rattles Australia Retailers

Online giant's planned entry into the country poses challenges for brick-and-mortar stores

**Amazon.com Inc.** is preparing to bring its full retail offering to Australia, signaling a major competitive threat to the country's retail-

By Mike Cherney in  
Sydney and Laura  
Stevens in San  
Francisco

ers and an important new beachhead for its global distribution network.

Australia's more favorable regulatory climate is also likely to offer Amazon oppor-

tunities to test deliveries via autonomous drones and road vehicles, a person familiar with the matter said. Australia last year rolled out new rules for remote-operated drones, and government officials are looking to develop national guidelines for autonomous-vehicle trials.

Amazon, which announced its Australia intentions last month, hasn't said when the full retail offering will roll out. Some analysts say 2018 is a likely date.

Australians can already order products from Amazon overseas, but they typically pay higher prices for shipping and wait longer for delivery than Amazon shoppers in other countries with domestic operations. This has con-

strained Amazon's challenge to online competitors such as eBay Inc. in Australia, as well as traditional retailers, which have until now been somewhat insulated from the demise of brick-and-mortar stores rippling across the U.S.

That could soon change. One analysis from Citigroup Inc. found that Amazon sales could grow from between 500 million Australian dollars (US\$371.3 million) and A\$700 million currently to A\$4 billion in the medium term, a significant chunk of the roughly A\$20 billion Australian e-commerce market. Electronics retailers are expected to be the hardest hit, with Citi lowering its long-term earnings-per-share forecasts for some Australian companies by

more than 30%.

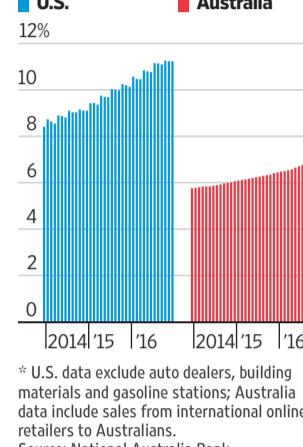
Australian retailers haven't until now faced the kind of competition that would have forced them to invest heavily in their online offerings, said Citi retail analyst Bryan Raymond. Retailers in other countries have "been forced into it through Amazon or someone else pushing people that way," he said.

The Australian e-commerce market is small compared with the U.S., where online sales last year were estimated at \$391 billion, according to the U.S. Census Bureau, but the lack of a truly dominant online retailer suggests there is an opportunity for Amazon. One measure from Citi gives Amazon 4% market share in Aus-

Please see AMAZON page B4

### Lagging Behind

Online sales as a percentage of total trade\*



\* U.S. data exclude auto dealers, building materials and gasoline stations; Australia data include sales from international online retailers to Australians.

Source: National Australia Bank

THE WALL STREET JOURNAL.

## OPEC Tries To Beat 'Shorts'

OPEC is trying harder than ever to win over big investors, but the cartel is finding that falling oil prices are making that a tough sell.

By Alison Sider,  
Timothy Puko and  
Laurence Fletcher

Dozens of hedge-fund managers and oil traders attended a series of closed-door meetings in recent months with OPEC leaders—the first of their kind, according to Ed Morse, Citigroup's global head of commodities research, who helped organize some of the events.

Cartel officials made the case for how supply cuts from the Organization of the Petroleum Exporting Countries would reduce the global glut. Instead, oil prices are down more than 10% from their February high, and some prominent hedge-fund traders are reeling.

Pierre Andurand, a French hedge-fund manager with a history of double-digit returns, met with a Saudi official from OPEC just before the Nov. 30 decision to cut production, said people familiar with the meeting. On the heels of a series of bullish bets, his main fund at Andurand Capital is down around 16% this year through May 5, according to a person who had seen the performance numbers.

The oil cartel is now intentionally countering "shorts," funds that bet on falling oil prices, an OPEC official said. The official pointed to an announcement earlier this week that Russian and Saudi Arabian energy ministers would support another nine months of production cuts. It was a response to the recent fall in prices and designed to show how serious big producers are about slashing output.

"We are hitting back at the shorts," the official said. And oil rose 2.1% on Monday after the announcement, helping its rebound from recent five-month lows. But the rally fizzled on Tuesday when U.S. oil prices fell 0.4% to \$48.66.

Many traders see any extension as OPEC's acknowledgment that the first round of cuts wasn't effective and further evidence that the group's influence on the market has become severely limited.

"In my view, it's the wrong response," Doug King, chief investment officer at RCMA Asset Management and manager of that firm's \$200 million Merchant Commodity hedge fund, said of extending the current cuts. "We're not seeing what we needed to see," he

Please see OIL page B2



SHAWN THEW/CNP/ZUMA PRESS

President Donald Trump is flanked by GM's Mary Barra and Fiat Chrysler chief Sergio Marchionne at the White House on Jan. 24.

## Car Makers Pare U.S. Jobs Pledge

By JOHN D. STOLL  
AND MIKE COLIAS

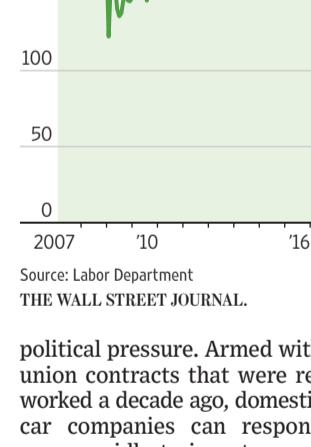
Amid softening U.S. car sales and mounting investor skepticism about Detroit's ability to weather the industry's first downturn in nearly a decade, auto executives are facing a tough choice in whom to please: Wall Street or the White House.

Detroit has been an engine of growth for U.S. employment since the financial crisis, with **General Motors Co.**, **Ford Motor Co.** and **Fiat Chrysler Automobiles NV** adding tens of thousands of jobs to keep pace with growing demand. Earlier this year, company executives promised to add head count at certain factories in response to criticism from President Donald Trump.

Now, those executives are quickly retreating. GM and Ford are making cuts to their U.S. workforces that could far outpace the job commitments made in recent months amid

### Fast Lane

U.S. automobile assembly plant employment has been on the rise.



Source: Labor Department

THE WALL STREET JOURNAL.

political pressure. Armed with union contracts that were reworked a decade ago, domestic car companies can respond more rapidly to investor con-

cerns about the bottom line.

"There is a lot of a balancing act going on," said Jeff Schuster, LMC Automotive's senior vice president of forecasting. "We're finally at the point where we're likely to see a contraction in demand [and] obviously the new administration pushing for jobs." Mr. Schuster said that with "pressure on both sides of the equation, something has to give."

Auto executives are leaning on Mr. Trump for significant reforms, including relief from emissions standards set during the Obama administration and lower corporate taxes.

GM, Ford and Chrysler, under pressure from the president over their reliance on Mexican production and the protections afforded by the North American Free Trade Agreement, have said Mr. Trump's pro-business stance could be a factor in rerouting investment to American factories that would otherwise head south of the border.

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## HEARD

*Continued from the prior page*  
tain aspects of financial regulation have become too cumbersome. Daniel Tarullo, the Federal Reserve's recently departed point man on regulation and no darling of Wall Street, has himself opened the door to simplifying banks' annual stress tests and loosening enforcement of the Volcker rule.

Action could be taken relatively quickly on the Volcker rule, allowing banks to step up trading activity and cut compliance costs. And easier stress tests in 2018 could allow still higher capital re-

turns. Both could be achieved without congressional action.

The KBW Nasdaq Bank index is trading at around 1.3 times book value, according to Keefe, Bruyette and Woods, which manages the index. That is up from around one times book for most of last year.

Bank shares are unlikely to ever return to valuations of two or more times book, which prevailed before the financial crisis. But if the Federal Reserve continues increasing rates, and if the government delivers even the most basic deregulatory steps, there is upside left at current prices. That is still the case even if Mr. Trump's grand promises fall flat.

Caterpillar didn't respond to requests for comment from the board members. PwC declined to comment.

**Caterpillar Faces Investor**

By ANDREW TANGEL

An investment group wants to shake up Caterpillar Inc.'s audit committee, amid mounting scrutiny of the machinery giant's offshore tax strategy.

CtW Investment Group, an arm of union coalition Change to Win, said it would send a letter on Wednesday asking shareholders to vote against three Caterpillar board members that the group says kept an inadequate watch over Caterpillar's tax strategy and outside auditor PricewaterhouseCoopers LLP.

Caterpillar has faced years of scrutiny over a strategy that shifted much of the profit from its lucrative replacement

parts business to a Swiss subsidiary. The strategy has lowered the company's U.S. tax bill.

CtW said the unions it represents collectively own 1.8 million shares, or 0.3% of Caterpillar stock.

Shareholders are scheduled to meet June 14.

A Caterpillar spokeswoman on Tuesday said the company hadn't seen the letter and declined to comment further. The company has previously said it was paying the taxes it owed and was cooperating with federal authorities.

Caterpillar didn't respond to requests for comment from the board members. PwC declined to comment.

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## BUSINESS & FINANCE

# Target Battles Weak Sales

BY KHADEEJA SAFDAR

**Target** Corp. sales continued to fall in its latest quarter and the retailer said it would invest billions in redesigning stores, launching exclusive store brands and lowering prices.

The Minneapolis-based company's sales at stores open at least a year fell 1.3% in its fiscal first quarter ended April 29, reflecting in part to lower foot traffic and average orders. Sales fell 1.1% to \$16.02 billion. Profit rose to \$681 million, or \$1.23 a share, from \$632 million, or \$1.05 a share, in the year-earlier period.

While the profit exceeded Wall Street's expectations, "we're not doing any high-fives in the room here today," Target Chief Executive Brian Cornell said during a call with analysts on Wednesday.

"Our results are not where we want them to be, and we have much more work to do," he said.

Target plans to invest \$7 billion over the next three years on store improvements, new brands and developing its digital and supply-chain capabilities. It also expects to sacrifice about \$1 billion of potential profit as it lowers prices and drives lower-margin digital sales.

The company has been squeezed in recent years by Amazon.com Inc. as shopping moves online, and by Wal-Mart Stores Inc., which has



Target plans to boost sales by redesigning its stores and lowering prices even if profit suffers.

remodeled stores and lowered prices. Wal-Mart is scheduled to report results Thursday.

U.S. retailers have closed stores at a record pace this year as they react to decades of overbuilding and the growth of e-commerce. Several chains have filed for bankruptcy protection, including teen retailer Rue21 on Monday.

Mr. Cornell said he expects Target to feel pressure from closings and liquidations, though the resulting voids represent a business opportunity in the long term.

Target shares were ahead 2.3% at \$55.79 midday Wednesday, though analysts cautioned that the company

exceeded earnings targets that it had previously lowered.

Mr. Cornell said the company's merchandising and marketing efforts aim to re-establish it as a low-price competitor on key items. "We believe that consumer perception of value at Target has not reflected how low our out-the-door prices really are," he said.

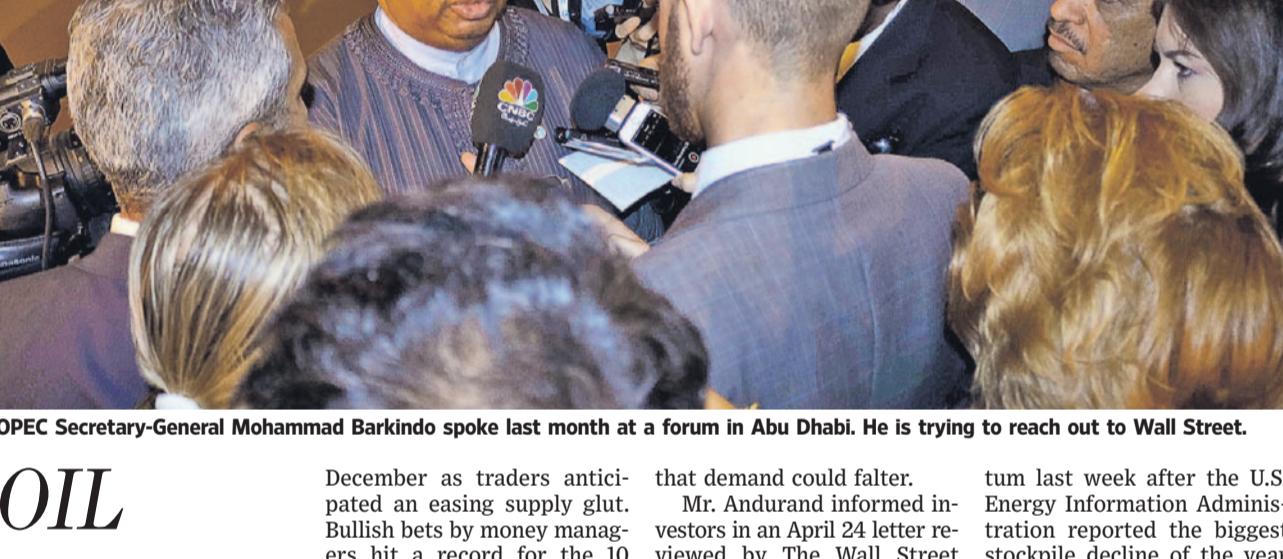
The company also highlighted its swimwear line, Shade & Shore, and said it expects to pick up market share from rivals like Victoria's Secret, which began phasing out the category last year.

In addition to working on its existing stores, Target has recently opened smaller stores in New York City and other ur-

ban markets. It is also attempting to improve online margins, raising the minimum order price to \$35 from \$25 and encouraging shoppers to make bigger purchases with a new program that allows them to order a box of household essentials delivered within two days for a flat fee.

Digital sales in the fiscal first quarter grew to 4.3% of total revenue, up from 3.5% in the same quarter last year. Comparable digital channel sales increased 22%.

Target's food and beverage comparable sales continued to fall despite efforts to improve in a category that is a big traffic driver and accounts for 20% of its sales.



OPEC Secretary-General Mohammad Barkindo spoke last month at a forum in Abu Dhabi. He is trying to reach out to Wall Street.

## OIL

*Continued from the prior page*  
said. "They need to cut harder, right now."

Mr. Morse of Citigroup said he arranged introductions between OPEC Secretary-General Mohammad Barkindo and the more than 100 hedge-fund managers and other oil buyers who have met with Mr. Barkindo in Washington, D.C., New York and London since October.

The coordinated outreach was a new effort by the cartel to build bridges between its members and Wall Street, aiming to convince investors that producers were serious about reigning in supply, Mr. Barkindo said. After asking what OPEC planned to do boost prices, fund managers came away impressed, Mr. Morse said, adding that some still text with the OPEC leader.

OPEC's cuts started in January. Oil prices jumped 8.7% in

December as traders anticipated an easing supply glut. Bullish bets by money managers hit a record for the 10 years of data from the Commodity Futures Trading Commission early this year.

Many analysts aligned with the upbeat mood, forecasting that crude prices would reach \$60 a barrel or higher by the end of 2017.

U.S. oil inventories have declined since OPEC's output cuts, but they remain near historic highs. That is in part because U.S. production has increased by more than 200,000 barrels a day during the past two months. If output continues to rise at that pace, U.S. producers could end the year producing 800,000 barrels a day more than at the end of last year. That would replace much of what OPEC has taken off the market, analysts say.

In recent weeks, hedge funds have cut their bullish position on oil prices to the lowest level since November as a gasoline glut raised worries

that demand could falter.

Mr. Andurand informed investors in an April 24 letter reviewed by The Wall Street Journal that oil prices "will reach new highs." But three weeks later, he had abandoned most of his bullish bets, said a person familiar with the matter.

Veteran oil trader Andrew Hall also bet heavily that OPEC's strategy would work. A fund managed by his Astenbeck Capital Management LLC, a Southport, Conn., hedge-fund firm, lost 17.3% this year through April, said a person familiar with the matter.

Mr. Hall is one of a few still preaching patience. He recently wrote to investors predicting that inventory excesses would be eliminated, said the person familiar with the matter.

Astenbeck and Mr. Hall didn't respond to a request for comment. It isn't clear if he or anyone at his fund attended meetings with OPEC.

Oil reclaimed some momen-

tum last week after the U.S. Energy Information Administration reported the biggest stockpile decline of the year and prices rose more than 3% on the week.

"It's one thing to talk about cuts. It's another thing to see them," said Gary Ross, head of global oil at PIRA Energy, a forecasting and analytics unit of S&P Global Platts. He dismissed bearish traders doubting OPEC's influence. "Their idea is that OPEC is irrelevant, and that doesn't make sense," he said.

But funds betting against OPEC have done well. Switzerland-based GZC Investment Management, which oversees just under \$200 million, is up nearly 10% this year, in part due to a bet on falling oil prices.

"Basically, their mistake is to think they can fix prices—they cannot anymore," Vincent Elbhar, GZC's managing partner, said of OPEC.

*Benoit Facon contributed to this article.*

## JOBS

*Continued from the prior page*  
board, which granted Chief Executive Mark Fields a \$2.5 million stock incentive for "developing a lean mind-set," even as he focuses on future initiatives at the car maker.

Shares of Ford and GM are trading well below their value when Mr. Fields and his counterpart at GM, Mary Barra, took the helm in 2014. GM's stock price was only slightly above the company's 2010 post-bankruptcy initial public offering as of Tuesday's close, while Ford's share price was down about 40% from when Mr. Fields became CEO.

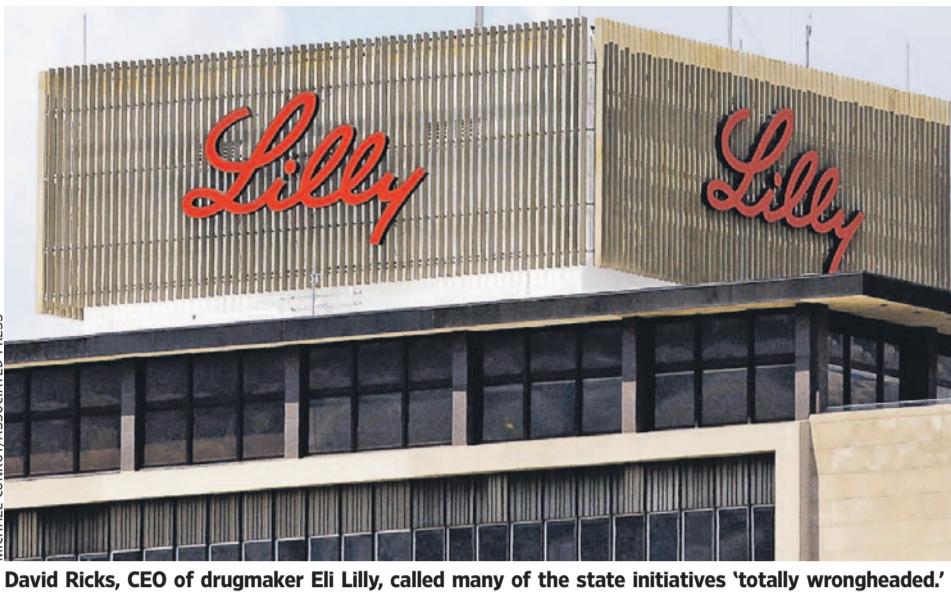
Ford and GM slipped behind Tesla Inc. earlier this year in market capitalization, underscoring a rapid shift in the way investors view the industry.

which is expected to change dramatically as autonomous cars and electric vehicles replace conventional transportation. Both companies have sought to boost value by implementing stock buybacks or special dividends in recent years. The measures, coming as Detroit auto makers report historically strong profitability, have had little impact on investors due to their concerns about the cyclical nature of the car business.

GM executives, citing changes made to United Automobile Workers' contracts before the company's 2009 bankruptcy, recently told analysts about one-third of hourly GM workers have relatively short layoff benefits and that percentage will rise, making it cheaper to cut jobs.

"Clearly, as we see a downturn, there is a component, I hate to

## BUSINESS NEWS



David Ricks, CEO of drugmaker Eli Lilly, called many of the state initiatives 'totally wrongheaded.'

# States Battle Drug Prices

Bills seek to regulate costs and require manufacturers to justify increases

By PETER LOFTUS

Amid calls for curbs on U.S. drug pricing, some of the most aggressive legislative action is happening at the state level—and industry lobbyists are fanning out to fight back.

Lawmakers have introduced bills in about 30 state legislatures this year, seeking to regulate drug prices; to require manufacturers to justify price increases; or to form purchasing groups with other states to negotiate lower prices, according to the National Academy for State Health Policy, a non-profit policy group that has drafted model drug-pricing bills for state use. The group's funders include health insurers and the **Laura and John Arnold Foundation**, a non-profit that supports making drugs more affordable.

State lawmakers say high drug prices are hurting consumers and straining state budgets for Medicaid, public-employee health insurance, and inmate health care. Many of the bills have been intro-

duced by Democratic lawmakers, but some have been proposed by Republicans, such as one in Alabama that would create a state board to negotiate drug-price discounts.

"There's outrage, and people are expecting us to do something about it," said Rob Nossle, a Democratic state representative in Oregon spearheading a price-regulation bill the pharmaceutical industry views as one of the biggest threats.

Drugmakers oppose most of the bills, and have deployed officials and lobbyists to testify at legislative hearings and run advertising campaigns. The industry's biggest lobbying group, Pharmaceutical Research and Manufacturers of America, says it is "beefing up resources" to combat the state legislation.

In an interview, Eli Lilly & Co. Chief Executive David Ricks called many of the state bills "totally wrongheaded." The more price controls we have, there is evidence you'll have market distortions." Indianapolis-based Lilly has been criticized in recent months for boosting the list price of insulin. Its top insulin seller, Humalog, has more than doubled in price since 2011. The company says net prices of its drugs after rebates and discounts to customers haven't risen as high

as list prices.

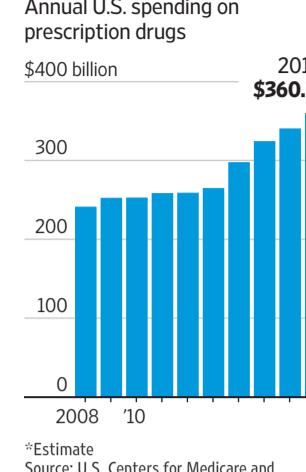
The industry fought hard against state drug-price bills in 2015 and 2016—and was mostly victorious. Several states considered bills requiring drugmakers to disclose their research and other costs to justify price increases, but only Vermont enacted one last year.

In November, California voters rejected a ballot proposal to require state agencies to pay no more for prescription drugs than what the U.S. Department of Veterans Affairs pays; the VA gets one of the steepest discounts in the country. The drug industry spent more than \$100 million on advertising attacking the initiative.

The losses haven't stopped new bills from advancing. Maryland's legislature in April approved a bill that would allow the state attorney general to sue manufacturers of generic drugs for price increases deemed to be excessive; the governor is reviewing it, a spokeswoman said. A bill in Nevada would require manufacturers of certain diabetes treatments to disclose annually the cost of research and manufacturing of the drugs.

Ohio voters are scheduled to vote Nov. 7 on a ballot proposal that would require state agencies to pay no more than

## Medicine Money



\*Estimate  
Source: U.S. Centers for Medicare and Medicaid Services  
THE WALL STREET JOURNAL.

the VA—a proposal similar to the failed California initiative. A group called Ohioans for Fair Drug Prices, which has received funding from the AIDS Healthcare Foundation, proposed the law and gathered enough citizen signatures to put the measure on the ballot.

PhRMA opposes the Ohio measure, and last year with other business organizations filed a lawsuit contesting the validity of citizens' signatures, but the Ohio secretary of state later ruled there were enough signatures for the ballot measure to proceed. PhRMA is part of a coalition, Ohioans Against the Deceptive Rx Issue, that plans to run advertisements against the bill, a group spokeswoman said.

One of the more far-reaching state bills is under discussion in Oregon. The bill, introduced by state Rep. Nossle, would cap patients' out-of-pocket costs for medicine at \$100 or \$200 a month depending on the type of insurance plan. It would also require drugmakers to pay rebates to the state if a drug's price exceeds the median of the five highest prices charged in countries that are members of the Organization of Economic Cooperation and Development.

Drugmakers have blasted the bill in legislative hearings.

# P&G Executive Picked to Run Ralph Lauren

By BOWDEYA TWEH

P&G said Wednesday it will name a new head of its beauty division at a later date.

Ralph Lauren Corp. is betting again on an outsider to run the company, this time tapping **Procter & Gamble** Co.'s top beauty executive to be its next chief.

The company said Wednesday that Patrice Louvet will become president and chief executive officer on July 17. He is also joining the company's board and will report to Executive Chairman and founder Ralph Lauren.

Mr. Louvet, 52 years old, is the second external pick to lead the company after Mr. Lauren stepped aside as chief executive in 2015. The designer-founder, whose family remains the company's largest shareholder, maintained titles as executive chairman and chief creative officer.

Stefan Larsson, who had been named Mr. Lauren's successor after spending time at **Gap Inc.** and **Hennes & Mauritz AB**, left the company after less than two years at the helm after clashes with Mr. Lauren over creative control. Mr. Lauren founded the fashion label in 1967.

Mr. Louvet is group president of global beauty at P&G, a division with brands such as Head & Shoulders, Olay and Old Spice. The company's 12 brands generated about \$11.5 billion in revenue in 2016.

Mr. Louvet, a 28-year P&G veteran, had been among the executives seen as a potential successor to Chief Executive David Taylor. Born in St. Cloud, France, Mr. Louvet spent many years managing beauty and hair-care brands until becoming president of global shave care, one of P&G's core divisions, in 2011. He took over P&G's beauty business in 2015 shortly before the company sold a big chunk of the portfolio to Coty Inc.

Patrice Louvet will become Ralph Lauren's next president and CEO.

leave P&G partly because of his preference to live in the New York area where his children attend a French language school, this recruiter said.

As a signing bonus, Mr. Louvet will receive \$3.4 million in cash plus a one-time equity award worth about \$9.2 million in restricted stock and performance based shares. He will also receive an annual equity award with a target value of \$7.5 million. Mr. Louvet will receive a base salary of \$1.25 million and an annual bonus with a target of \$3.75 million, according to a company filing.

"He's an enormously skilled business leader with a deep passion for the consumer and a sophisticated understanding of building global brands," Mr. Lauren said in a statement.

—Sharon Terlep and Joann S. Lublin contributed to this article.

# Biz Stone Is Returning to Twitter

By GEORGIA WELLS



DAVID PAUL MORRIS/BLOOMBERG NEWS

a stream of executives, including COO Adam Bain and CTO Adam Messinger, senior vice president of product Kevin Weil, vice president of diversity and inclusion Jeffrey Siminoff, chief human resources officer Renee Atwood, and vice president of partnerships Ali Jafari.

Mr. Stone continued to advise Twitter, he said in an interview with The Wall Street Journal in 2014. At the time, he said he retained "significant equity" in the company, whose share price has fallen by more than 50% since the IPO. Twitter declined to comment on his current equity holding.

In 2012, he teamed up with Mr. Williams to start publishing platform Medium Corp. After Medium, Mr. Stone co-founded Jelly Industries, which allows users to answer other users' queries.

Jelly, however, never really took off.

Image-discovery company Pinterest Inc. acquired Jelly earlier this year, prompting Mr. Stone to wonder what his next move would be.

Twitter co-founder Biz Stone will focus on Twitter's culture. User growth has stalled.

Mr. Dorsey, Ev Williams and Noah Glass. He focused on the creative side of the company's business. In recent years, though, Twitter seems to have lost its mojo. In its most recent earnings report, revenue slid for the first time since Twitter's public offering in late 2013. User growth has stalled.

Many Twitter employees have jumped ship. Since January last year, Twitter has lost

Mr. Stone will also aim to convey elements of Twitter's culture externally, he said in a blog post Tuesday. Mr. Stone said he isn't replacing anybody at Twitter and he will work with Twitter's Chief Marketing Officer Leslie Berland.

"Twitter has woven itself into the fabric of our global society," Mr. Stone wrote. "The world needs Twitter, and it's here to stay."

"Excited to have Biz's energy and heart back at Twitter!" Chief Executive Jack Dorsey tweeted. Mr. Stone left Twitter in 2011, when it was still closely held.

A spokeswoman for Twitter confirmed Mr. Stone's return to the company. Twitter shares rose 1.4% on Tuesday.

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## TECHNOLOGY

WSJ.com/Tech

# Looking for Profit in Free Stock Trades

With no commissions, Robinhood tries a fee for premium service; millennials take notice

BY ELIOT BROWN

Four years ago, two 20-something Stanford math graduates set out to make stock-trading free with a sleekly designed app that would let anyone invest without paying fees.

The Robinhood app has soared in popularity among millennials, amassing more than two million users despite virtually no marketing. Investors poured tens of millions of dollars into the company, valuing **Robinhood Financial LLC** last month at \$1.3 billion.

Now the founders face a crucial test: Can Robinhood make money from all these freeloaders?

It is a tall order.

Not only is Robinhood forgoing money from commissions—a shrinking but still sizable source of revenue for traditional stock brokerages—but it also gets little revenue from other money sources at big brokerages because its users are so young. With a median age of 30 years old, they have little extra cash sitting in accounts and are trading far less money than their baby-boomer parents—two main areas of revenue for brokerages such as **E\*Trade Financial Corp.** and **TD Ameritrade Holding Corp.**

Instead, like countless Silicon Valley startups, it is using “free” as a hook, hoping to lure users and then convince a small percentage of them to buy a premium service. It is a risky game of scale that works only if Robinhood can capture



Vladimir Tenev, co-founder of the app, aims to introduce his whole generation to the market.

a sizable piece of the market. Skeptics point out an old business joke: Sell at a loss and make it up on volume.

“It is a difficult way to make money,” said Richard Repetto, a brokerage analyst at Sandler O’Neill + Partners. “Other brokers have tried zero commissions and it hasn’t been possible for them.”

Robinhood co-CEO Vladimir Tenev says the company’s edge is its ability to keep overhead costs low—it has 80 full-time employees, shuns marketing and has automated some tasks—while continuing to grow through social media and word-of-mouth.

“We can become the dominant way that our entire generation gets introduced to the stock market,” Mr. Tenev said.

Robinhood plans to gradually add features that can bring in revenue via its Gold plan that costs a minimum of

\$10 a month—more for larger balances—and lets users make trades after hours and borrow capital. At \$120 or more a year, that amount can add up for small balances, so it is mostly appealing to traders who borrow. Mr. Tenev said revenue from Gold is growing 17% month-to-month, but he declined to specify numbers.

Mr. Tenev, 30 years old, met his co-founder, Baiju Bhatt, 32, at Stanford University while working on physics research projects. After graduation, they moved to New York and started a company that made software for hedge funds, an idea that didn’t take off.

Mr. Tenev said they were inspired by the Occupy Wall Street movement in 2011 to make financial services accessible to everyone regardless of income. They moved back to Palo Alto in 2012 and began

building Robinhood.

The app was launched in December 2014 and it spread rapidly through social media, passing one million accounts by mid-2016, a number that includes accounts that haven’t yet been funded.

Mohamed Al-Hendy, a third-year law student at the University of Texas at Austin, said he found out about the app from a friend’s Facebook post. He had never traded stocks, but he liked the idea of trying it free.

“From there, I just kind of took the plunge,” the 25-year-old said. Mr. Al-Hendy said he invests money he makes during summer jobs in tech and biotech stocks, and subscribes to the \$10-a-month Gold plan because he likes the extended trading hours.

The rapid adoption among young stock traders enticed venture capitalists to invest

## Taking Stock

Robinhood Financial is trying to make stock trading free. Here’s how it compares with competitors

	Robinhood Financial	E*Trade	TD Ameritrade	Charles Schwab
Minimum balance	\$0	\$500	\$0	\$1,000
Commission per stock trade	\$0	\$6.95	\$6.95	\$4.95
Commission per mutual-fund trade	N.A.	\$19.99	\$49.99	\$76
Commissions as a percent of revenue*	0%	23%	32%	10%
Margin lending interest rate for \$10,000†	6%	9.25%	9%	8.50%
Extended hours trading and borrowing starting at \$10 a month	Made \$11 billion on interest income in 2016	Makes an average of \$2 per trade from order-flow fees	Interest from clients’ cash made up nearly 45% of 2016 revenue	Interest from clients’ cash made up nearly 45% of 2016 revenue

\*2016 †Robinhood charges a monthly fee based on the amount of cash eligible for margin trading

Source: the companies

\$175 million in Robinhood in the belief it can capture a new generation of investors who will eventually use the app as a one-stop investment shop. The roster of investors includes top venture capitalists and celebrities like Jared Leto and the band Linkin Park.

“It is really hard to acquire a customer in the financial-services space,” said Kareem Zaki, a venture capitalist at Robinhood investor Thrive Capital. “They’ve unlocked the hardest part.”

Robinhood is in a tough market. In recent years more people have been moving money into passively managed funds, rather than high-fee, actively managed funds.

Meanwhile, two main ways that established brokerages make money are challenging for Robinhood, given its focus

on young investors.

Brokerages typically earn interest on free cash sitting in clients’ accounts, a big business especially among older clients who have more of their wealth in cash. **Charles Schwab** reported that of its \$2.8 trillion in total client assets, about 13% was in cash at the end of 2016.

Another pool of revenue comes from “order flows,” in which brokerages reap fees by directing trades to companies such as Apex Clearing Corp. and the market-making arm of Citadel LLC, which bundle many small trades and get better prices than small retail traders. TD Ameritrade reports making an average of more than \$2 per trade in order flows, compared with “pennies” at Robinhood, Mr. Tenev said.

## Tencent’s Net Profit Surges 58%

BY DAN STRUMPF

HONG KONG—Chinese internet giant **Tencent Holdings Ltd.** reported a steep rise in profit and revenue in the first quarter, notching solid growth in its core games and online-advertising businesses.

Tencent, China’s largest company by market capitalization and the world’s biggest videogame publisher by revenue, operates the popular social-media app WeChat. Its share price has soared 36% this year.

The company said higher revenue from some of its most popular online games helped boost net profit to 14.48 billion yuan (\$2.1 billion) in the three months ended in March, up 58% from a year earlier. Overall revenue was up 55% to 49.55 billion yuan.

“Our key platforms continue to grow robustly,” Chief Executive Officer Pony Ma told investors, pointing to the more than 900 million users of the WeChat social-media app. “We believe our video, news, literature and music services are each the largest in China as measured by usage.”

Already a major force in China, Tencent has been quietly raising its overseas profile through partnerships and investments. Last year it joined with Chinese investors to buy Finnish game developer Supercell Oy, maker of “Clash of Clans,” for \$8.6 billion. In March it disclosed a \$1.8 billion investment in electric-vehicle maker **Tesla Inc.**

Though it said little about the goals of its investment in Tesla at the time, Tencent on Wednesday said it sees the car maker as a partner in connecting more devices to the internet. “The automobile is becoming a smart device, and there will be much more connections between the physical world and the virtual world,” Tencent President Martin Lau said.

Earlier this week the company announced a big expansion of its music-streaming business with a licensing agreement with Universal Music Group. Tencent distributes music through its QQ Music, KuGou and Kuwo services, and the deal makes it the main distributor in China for Universal records and artists.

## Apple Assembles Its First iPhones in India

An Apple Inc. manufacturer completed a trial run of the first iPhones assembled in India in an important step in the U.S. tech giant’s push into the fast-growing South Asian market.

By Rajesh Roy and Newley Purnell in New Delhi and Tripp Mickle in San Francisco

knowledge of the matter told The Wall Street Journal.

Apple said in a statement that it has begun initial production of a small number of iPhone SE handsets in Bangalore and will begin shipping the India-made devices to domestic customers this month. The first devices could hit stores as early as this week or next, according to a person familiar with the matter.

A Wistron spokeswoman said the company doesn’t comment on “market rumors or speculation.”

With sales cooling in China—long an engine for Apple’s growth—the Cupertino, Calif., company has been look-

ing for new ways to build its brand in India. Apple has sought concessions on the taxes it pays to import some components, government officials say.

It is unclear how much the model might cost. Some Indian resellers already offer the iPhone SE for around \$320, less than the \$399 Apple charges in the U.S. Indian government officials hope the new price could be as much as \$100 lower than the current \$320. But Apple prefers to keep prices roughly consistent worldwide and aims to preserve its gross margins, a closely watched measure of profitability that reflects the

percentage of revenue that remains after manufacturing costs.

Even though the SE, which has a 4-inch screen, is Apple’s least-expensive model, it is still out of reach of most Indians. Bringing its price down below \$250 would help make it more affordable, analysts said, though it would still be well above the average smartphone price in India, which research firm IDC says is around \$150.

“Apple is likely to sell a good number of iPhones if it prices them so aggressively,” said Faisal Kawoosa, principal analyst at research firm CMR. “In three to five years, these

users will be able to graduate to a standard-priced iPhone.”

Smartphone shipments in India grew 18% last year compared with just 3% globally, according to Counterpoint Research.

Apple Chief Executive Tim Cook has touted its sales in India, but Apple’s market share there hasn’t risen above 3% since 2012, according to IDC.

Apple could seek more production in India in the future, the official said, adding that the state is eager to offer additional land for Apple contract manufacturers to expand operations.

—Karan Deep Singh contributed to this article.

## Qualcomm Widens Litigation

BY TED GREENWALD

Qualcomm Inc. sued the manufacturers that make iPhones for Apple Inc. for failing to pay royalties on the chip maker’s technology, widening its legal battle with the world’s most-valuable company.

Qualcomm’s lawsuit, filed Wednesday in a federal-district court in San Diego, accuses **Compal Electronics Inc.**, **Foxconn Technology Group**, **Pegatron Corp.** and **Wistron Corp.** of breaching longstanding patent-licensing agreements with Qualcomm by halting royalty payments on Qualcomm technology used in iPhones and iPads. The suit seeks royalties they have withheld as well as a court order that the four Taiwanese com-

panies continue to pay royalties according to their previous agreements with Qualcomm.

Qualcomm said the contract manufacturers are withholding iPhone royalties because Apple has refused to reimburse them, directed them not to pay and agreed to indemnify them against any damages they may incur by failing to pay royalties to Qualcomm. They have continued to pay royalties for using Qualcomm’s patents in non-Apple products, the filing said.

Foxconn said the company was aware of the lawsuit between the two companies. Foxconn said it hadn’t received any formal communications related to the lawsuit and didn’t have any further comment on the matter.

Compal, Pegatron and Wistron representatives didn’t respond to emails sent by The Wall Street Journal after working hours, nor did they pick up calls by the Journal after office hours.

Apple said last month that it had suspended royalty payments because it hadn’t been able to work out a deal with the chip company. “We’ve been trying to reach a licensing agreement with Qualcomm for more than five years but they have refused to negotiate fair terms,” an Apple representative said.

The new lawsuit is the latest escalation in a dispute between Qualcomm, whose patents on key cellular communications technology enable it to collect royalties on nearly every smartphone

made, and Apple, the world’s most-profitable smartphone maker.

Apple doesn’t have a patent license directly with Qualcomm, relying instead on licenses held by the contract manufacturers, whom Apple reimburses.

Qualcomm last month sharply cut its guidance for the current quarter when it became clear that Apple would continue withholding reimbursements from the contract manufacturers.

—Liza Lin contributed to this article.

## AMAZON

Continued from page B1

Australia. In the U.S., Amazon’s share is 31%, Citi says.

Australian e-commerce sales lag behind other developed countries, so there could be room for growth, making Australia an attractive market for Amazon as it seeks to expand its international footprint. The company is spending billions of dollars to secure growth in Mexico and India, and recently reupped its attempt to take on Alibaba Group Holding in China as it diversifies away from relatively saturated U.S. and European markets.

The Chinese market has proved tough to conquer. Amazon launched its Prime membership program there late last year, aiming to capitalize on Chinese consumers’ desire for products from overseas, but it has been fighting to gain share against entrenched local incumbents. India has been more of a success story, where Amazon is one of two market leaders. Still, it is facing increased competition there, too, after No. 1 Flipkart Group’s recent \$1.4 billion fundraising round.

Amazon has cited its rapid international growth as a reason for higher spending in recent quarters. The company takes varying approaches by market when it expands internationally and balances

growth carefully with management bandwidth, said Chief Financial Officer Brian Olsavsky on a recent earnings call.

“We pick our spots carefully,” he added.

*The Australian e-commerce market is small compared with the U.S.*

Canada, a country that is similarly vast and with a relatively low population like Australia, is also at 7%.

Australia could also fit into Amazon’s plan for a global transportation network that the company envisions will eventually compete with global logistics companies like United Parcel Service Inc. and FedEx Corp., according to people familiar with the matter. It has said it is leasing 40 planes and purchasing thousands of branded truck trailers, as well as building its first dedicated air-cargo hub in Kentucky.

Amazon has also formed a team to look at the future of autonomous vehicles, and it has already completed its first commercial delivery via drone.

in the U.K. Drone experts say regulations are similar in both Australia and the U.S., but there are some signs Australia might have an edge, perhaps further enticing Amazon into the Australian market.

“Australia is clearly committed to testing drone delivery,” said Ben Marcus, chief executive of drone aerospace services technology provider Airmap. There is a strong case to use drones for rural deliveries there, he said.

The country is nearly the size of the contiguous U.S. but has fewer than 10% of the people.

Amazon declined to comment on possible drone or autonomous-vehicle tests in Australia.



Chip maker sues iPhone makers for failing to pay tech royalties.

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—Liza Lin contributed to this article.

## FINANCE & MARKETS

# U.K. Sells Last of Its Lloyds Stake

Final divestment of crisis-era holding is a milestone for CEO Horta-Osório

BY FRANCESCO GUERRERA AND PORTIA CROWE

LONDON—The U.K. government has sold its last remaining stake in **Lloyds Banking Group** PLC, a watershed moment for the British lender almost a decade after it was bailed out for more than £20 billion at the height of the financial crisis.

The bank said that including dividends and share sales, the government has in total received £21.2 billion (\$27.4 billion), £894 million more than it put in.

The U.K. Treasury has been gradually selling shares for several years.

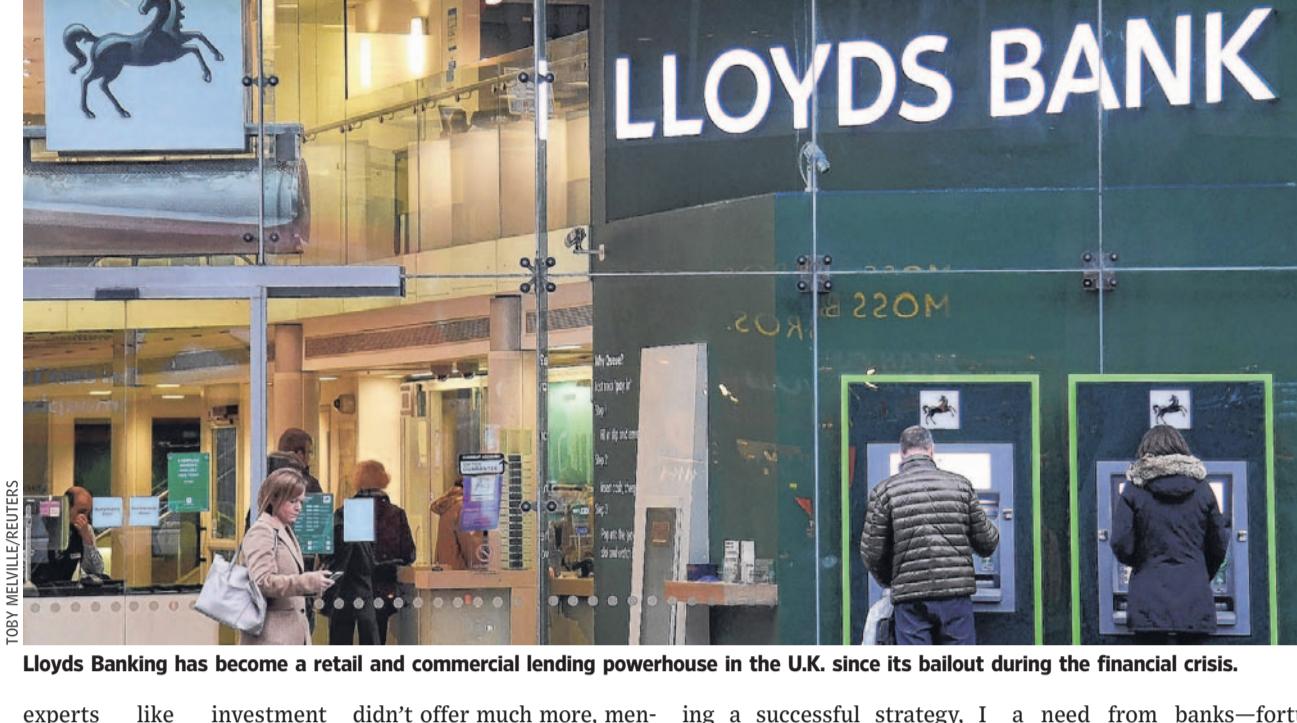
The sale is a milestone for António Horta-Osório, the bank's chief executive since February 2011, who has presided over a transformation from a troubled bank with a sprawling international footprint to one focused almost entirely on one country: Britain.

In its home country, Lloyds has become a retail and commercial lending powerhouse. Mr. Horta-Osório, in an interview last week with Dow Jones's Financial News, said he isn't changing his focus.

"I don't think that investors should expect any significant change of direction," he said.

This credo means that despite its deep relationships with companies across the U.K., Lloyds won't expand its capital-markets offerings. For Mr. Horta-Osório, that type of risky business is no longer in the bank's DNA and cost structure.

"We leave businesses like trading equities and others to



Lloyds Banking has become a retail and commercial lending powerhouse in the U.K. since its bailout during the financial crisis.

experts like investment banks," he says, with only a hint of a smile after the word "experts."

In London finance circles, Lloyds went from being a source of worries—or worse, the butt of jokes—to being hailed as a comeback story. It contrasts favorably with **Royal Bank of Scotland Group** PLC, the other big British bank bailed out during the financial crisis. RBS is still majority owned by the government, which is sitting on a large loss.

His performance at Lloyds means Mr. Horta-Osório is facing questions about the future. The chief executive job at **HSBC Holdings** PLC, a much bigger bank, will open up next year. Mr. Horta-Osório, 53 years old, is a perpetual CEO, having run his first bank when he was 29. When pressed on whether he wanted to stay at Lloyds, he said simply: "I am very happy."

Asked to elaborate, he

didn't offer much more, mentioning the obvious tasks ahead: the integration of credit-card provider MBNA, whose £1.9 billion acquisition was announced in December; more technology investments; and the bank's next strategic plan, due out in the fall. "I am really happy at the bank and I am very focused on these next few tasks," Mr. Horta-Osório said.

Mr. Horta-Osório said investors shouldn't expect another "big bang" strategic change at Lloyds. The bank has sold or closed operations in some 24 countries, shut thousands of branches, cut tens of thousands of jobs and poured money into digital infrastructure.

"When you have a company or a bank in huge difficulty...you need bold ideas, you need a huge turnaround strategy, and you need a very strong change of direction," he added. "When you are pur-

suing a successful strategy, I think you have a different leadership style and a different type of objectives."

To those who criticize him for putting all of Lloyds's eggs in the U.K. basket, the Portuguese executive answers that, in the current regulatory environment, spreading the bank across geographies would be much worse.

In his view, the rule changes ushered in after the 2008 financial crisis are forcing banks to keep more capital within national boundaries to reassure local authorities they wouldn't be a burden on the taxpayer in the event of failure. As a result, banks' ability to move capital cheaply across countries is a thing of the past and being in a lot of places at once has become a competitive disadvantage.

"The big strategic changes in banking are mainly related to much stronger regulation, much higher capital levels and

a need from banks—fortunately, I would say—of having a much bigger focus on customers," he said. "I would argue that banks have really to focus on where they have their competitive advantages. Because to go into multiple countries now is not an advantage."

So far, this belief has paid off—Lloyds's shares have risen by more than 12% since Mr. Horta-Osório took the reins, more than those of rivals like Barclays PLC and RBS. All three have underperformed the FTSE 100.

But dangers lurk, led by the potential economic aftershocks of Brexit.

Mr. Horta-Osório, who took British citizenship well before the fate of European Union nationals in the U.K. became an issue, argues that Lloyds's conservative business model and low cost base would enable it to weather any major downturn.

# Fight Goes On Over Lehman's \$10 Billion

BY MARGOT PATRICK

LONDON—Lehman Brothers' collapse in the financial crisis left most of its creditors with deep losses. But Lehman's main European arm has around \$10 billion of extra cash, prompting a legal feeding frenzy for hedge funds and distressed-debt investors.

On Wednesday, the U.K. Supreme Court ruled that senior bondholders seeking interest payments of around \$7 billion should get those first, before \$1.6 billion in subordinated loans held by investment firms **Elliott Management** Corp. and **King Street Capital Management** LP are repaid. An Elliott spokeswoman declined to comment; King Street couldn't immediately be reached.

Several groups are still battling for cash, which is held by Lehman Brothers International Europe, so the final outcome for the subordinated loan holders and some other junior creditors still isn't clear.

Lehman Brothers' chapter 11 filing triggered bankruptcy proceedings across the world—and disputes between liquidators handling its subsidiaries over intercompany loans and guarantees. LBIE was unusual in having excess capital.

LBIE has paid creditors around £12 billion (\$15.5 billion) and had an estimated £7 billion to £8 billion surplus before the interest payments ordered by the court on Wednesday, according to a report by its administrator in April. Under U.K. law, creditors are entitled to 8% interest on claims—though bankrupt companies don't normally have enough cash to pay it.

# SEC Rethinks Its Approval Of Highly Leveraged ETF

BY DAVE MICHAELS AND CHRIS DIETERICH

The Securities and Exchange Commission will reconsider its initial approval of a risky, first-of-its-kind exchange-traded fund that promises four times the daily price moves of S&P 500 futures contracts, according to people familiar with the matter.

The commission's decision means the earlier approval—given by the SEC's staff, not the politically appointed commissioners—has been put on hold and doesn't allow the ForceShares Daily 4X US Market Futures Long Fund and Short Fund to begin trading, the people said. The commis-

sion, which currently has three members, could reverse or uphold the staff's decision, but the move puts more scrutiny on a product approval that took many by surprise.

"I was surprised [the staff] let them go," said Amy Doberman, a partner at Wilmer Cutler Pickering Hale & Dorr LLP who was previously general counsel of ProShares, a leveraged ETF provider. "They are certainly not any less risky. I cannot imagine they are going to be any less susceptible to the impact of volatility that caused issues with the other [leveraged] funds."

The SEC's approval of the 4X funds on May 2 appeared to signal that the SEC's view of



The initial approval by the U.S. agency's staff was a surprise.

risky ETFs had changed after former Chairman Mary Jo White stepped down in January. Ms. White led an effort to crack down on the use of leverage by mutual funds and ETFs,

but the approach wasn't popular with Republican lawmakers or regulators.

Leveraged ETFs employ derivatives to deliver two or three times the daily price moves of benchmarks. The ForceShares quadruple-leveraged funds would be the first to move beyond triple leverage.

There are 273 leveraged, inverse or leveraged inverse exchange-traded products on the market, with a collective \$44 billion in assets, according to market-data firm XTF. While that represents just 1.5% of the total \$2.9 trillion of U.S. ETF assets, many leveraged and inverse ETFs are heavily traded on U.S. exchanges.

Leveraged ETFs are marketed as tools designed for short-term trading. Securities regulators have been cool to leveraged ETFs for several years, even though they approved them a decade ago, warning repeatedly that owning such products for longer than one day can lead to surprises.

The SEC warned brokers in 2012 that leveraged ETFs are potentially "unsuitable" for long-term investors. Morgan Stanley agreed in February to pay \$8 million to settle SEC claims that it didn't properly oversee sales of inverse ETFs to clients.

ForceShares is a first-time ETF sponsor that worked with

**ETF Managers Group** LLC, a firm that provides services to aid smaller sponsors in launching new ETFs. A principal at ForceShares couldn't be reached for comment. A spokesman for ETF Managers Group declined to comment.

An SEC spokeswoman didn't respond to a request for comment.

The review requires the SEC to consider a new round of comments from the public, which means the application may get more notice this time from competing ETF sponsors as well as some of the consumer groups and Wall Street watchdogs that typically weigh in about new, complex products.

## FINANCE WATCH

### PRIVATE EQUITY

#### Cerberus Is Bidding For HSH Nordbank

The U.S. private-equity giant **Cerberus Capital Management** joined the race to buy Germany's **HSH Nordbank**, one of the world's biggest shipping finan-

ciers.

People with direct knowledge of the matter say Cerberus joined with **Apollo Global Management** and China's **Anbang Insurance Group** in conducting due diligence on HSH, which is 85%-owned by the German states of Schleswig-Holstein and Hamburg. The bank must be privatized by February, as part of a restructuring deal agreed on with the European Union. HSH took €1.99 billion (\$2.1 billion) of provisions for potential losses on shipping loans last year. Its total nonperforming shipping debt totaled about €9 billion. —Costas Paris

### BANKING

#### ABN AMRO Reports Higher Net Income

**ABN AMRO Group** NV reported a 30% rise in first-quarter profit, buoyed by growth in net interest income, saying it had made more progress in achieving financial targets set for 2020.

The Dutch bank's net in the three months to the end of March was €601 million (\$656.5 million), compared with €463 million a year earlier.

Net interest income rose to €1.60 billion from €1.55 billion, it said.

"We have been able to offset the low and negative rate environment and increase net interest income by growing all major loan books and lowering deposit rates. Fees were stable and other operating income was higher," Chief Executive Kees van Dijkhuizen said.

ABN AMRO's cost/income ra-

tio improved to 60.2% in the first quarter of 2017 from 66.9% a year ago, while the return on equity increased to 13.2% from 11.1%.

—Razak Musah Baba

### HIGH-SPEED TRADING

#### NYSE Gains Approval For 'Speed Bump'

U.S. regulators gave the New York Stock Exchange a green light to introduce a "speed bump" to one of its markets, a plan that was opposed by upstart rival **IEX Group** Inc.

An order released Tuesday by the Securities and Exchange Commission allows NYSE to add a delay of 350 microseconds, or millions of a second, to all stock trades on NYSE MKT, one of the Big Board's smaller sister exchanges.

IEX, made famous by Michael Lewis's 2014 book "Flash Boys," pioneered the speed bump as a way to foil certain high-speed trading strategies. NYSE's proposal, unveiled in January, was largely identical to IEX's 350-microsecond delay.

In approving the plan, the SEC overruled objections from IEX, which complained NYSE hadn't done enough to explain the thinking behind its proposal.

NYSE says it plans to add the speed bump to NYSE MKT as part of a broader relaunch of the exchange, scheduled for July 24.

The exchange is also being renamed "NYSE American" as part of the overhaul.

—Alexander Osipovich



HSH Nordbank is one of the world's biggest shipping financiers.

FABIAN BIMMER/REUTERS

TOSY MEVILLE/REUTERS

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FUND NAME GF AT LB DATE CR NAV YTD 2-MO 2-YR %RETURN—

Chartered Asset Management Pte Ltd - Tel No: 65-6835-8866 Fax No: 65-6835-8866 OT MUS 05/22 USD 30698.70 1.6 8.1 -3.9

CAM-GF Limited OT MUS 05/22 USD 30698.70 1.6 8.1 -3.9

VP Class-Q Units AS EQ HKG 05/16 USD 136.70 19.3 34.1 -3.2

VP Class-I Units AS EQ HKG 05/16 USD 17.25 19.4 34.1 -3.5

VP Class-C Units AUD H AS EQ HKG 05/16 AUD 14.24 19.3 35.4 -3.0

VP Class-C Units CAD H AS EQ HKG 05/16 CAD 13.78 19.0 34.6 -4.2

VP Class-H Units HKD H AS EQ HKG 05/16 HKD 11.69 18.7 32.8 -2.8

VP Class-C Units NZD H AS EQ HKG 05/16 NZD 14.27 18.3 33.7 -2.8

VP Class-C Units RMB H AS EQ HKG 05/16 CNY 11.62 20.9 36.7 NS

VP Multi-Asset Fund Cls A RMB H AS OT HKG 10.32 7.3 NS NS

VP Multi-Asset Fund Cls A USD OT HKG 10.43 6.8 9.8 NS

VP Multi-Asset Fund Cls A USD OT HKG 19.23 14.8 32.5 8.4

VP Multi-Asset Fund Cls A USD OT HKG 19.23 14.8 32.5 8.4

### FUND NAME

GF AT LB DATE CR NAV YTD 2-MO 2-YR %RETURN—

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GC HI Yield Inc-A MDLS GBP H OT CYM 05/16 GBP 12.90 9.4 17.3 -4.2

GC HI Yield Inc-A MDLS USD H OT CYM 05/16 USD 12.05 10.2 12.8 -3.0

GC HI Yield Inc-A NZD H OT CYM 05/16 CAD 11.93 9.2 15.9 -5.6

GC HI Yield Inc-A NZD H OT CYM 05/16 EUR 12.49 8.7 14.6 -5.3

GC HI Yield Inc-A GBP H OT CYM 05/16 EUR 12.33 6.9 16.7 NS

GC HI Yield Inc-A GBP H OT CYM 05/16 GBP 12.50 8.5 18.4 -4.3

GC HI Yield Inc-A GBP H OT CYM 05/16 GBP 12.68 9.1 16.4 -5.0

&lt;

## MARKETS DIGEST

### Nikkei 225 Index

**19814.88** ▼104.94, or 0.53%

High, low, open and close for each trading day of the past three months.

Year-to-date  
52-wk high/low  
All-time high

19961.55  
14952.02  
38915.87 12/29/89

### STOXX 600 Index

**391.14** ▼4.77, or 1.20%

High, low, open and close for each trading day of the past three months.

Session high

DOWN

UP

Close

Open

Close

Open

Session low

Session

high

Session

open

Close

### International Stock Indexes

Bars measure the point change from session's open

Feb. Mar. Apr. May

Feb. Mar. Apr. May

Feb. Mar. Apr. May

Feb. Mar. Apr. May

17000 17500 18000 18500 19000 19500 20000

340 350 360 370 380 390 400

2200 2250 2300 2350 2400

65-day moving average

65-day moving average

65-day moving average

Session high

Session high

Session high

Session open

Session open

Session open

Close

Close

Close

Open

Open

Open

Session low

Session low

Session low

17000 17500 18000 18500 19000 19500 20000

340 350 360 370 380 390 400

2200 2250 2300 2350 2400

65-day moving average

65-day moving average

65-day moving average

Session high

Session high

Session high

Session open

Session open

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Open

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Session low

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Session low

17000 17500 18000 18500 19000 19500 20000

340 350 360 370 380 390 400

2200 2250 2300 2350 2400

65-day moving average

65-day moving average

65-day moving average

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Session low

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17000 17500 18000 18500 19000 19500 20000

340 350 360 370 380 390 400

220

## FINANCE & MARKETS

# Treasury Yields Fall as Political Worries Mount Up

By MIN ZENG

Demand for bonds jumped as U.S. political jitters drove investors to shed riskier assets, sending the yield on the benchmark 10-year Treasury note sharply lower.

The buying pushed down the 10-year yield to 2.242% from 2.329% Tuesday. Yields fall as bond prices rise.

Other haven assets also gained ground, ranging from government bonds in Germany and the U.K. to gold and the Japanese yen. The U.S. dollar dropped more than 1% against the yen, a large move for this heavily traded pair of currencies.

The catalyst for the latest round of flight to safety was news late Tuesday that Presi-

dent Donald Trump allegedly asked then-FBI Director James Comey to back away from the investigation of former national-security adviser Michael Flynn. Some congressional Republicans called for a further investigation, but in a statement issued Tuesday evening, the White House denied the account.

"It is all about Trump," said Thomas Roth, executive director in the rates trading group at MUFG Securities Americas Inc. "The dollar is tanking as the world loses confidence in the U.S.'s sorry state of affairs."

The development followed Mr. Trump's surprise decision a week ago to fire Mr. Comey. Investors are concerned that this political uncertainty is



likely to make it more difficult for Mr. Trump to push through his ambitious fiscal agenda.

Mr. Trump's campaign

promises of lower taxes, large infrastructure spending and lighter regulations have been the key factor driving investors to bet on stronger economic growth and higher inflation. The so-called Trump trade has been highlighted by investors selling Treasurys and buying securities such as stocks, corporate bonds, the dollar and emerging-market assets.

The tactic reflects investors' optimism that expansive fiscal policy would give the economy a strong boost at a time when the Federal Reserve has been tightening monetary conditions and giving the economy less support than in recent years.

Confidence on the Trump trade has been waning over

the past few months as investors have become less confident that Mr. Trump would be able to deliver a tax overhaul and other stimulus soon. The latest political drama adds to the uncertainty about the fiscal outlook.

"The headlines do suggest the difficulty of marshaling support for a prosaic legislative agenda when such sensationalist headlines are sucking up all the oxygen and creating all-consuming news cycles," said Ian Lyngen, head of U.S. rates strategy at BMO Capital Markets.

After a big rise late last year, the 10-year Treasury yield has been falling this year. It was 2.446% at the end of 2016.

There is "some further

room for yields to fall in a more significant escalation of the current scandal, especially if it threatens to blunt efforts to reach a compromise between and within the current congressional caucuses," said Mr. Lyngen.

Some traders say Treasury yields are likely to post a steep drop if anxiety increases regarding whether Mr. Trump might face impeachment.

"The worst cases scenario of an actual impeachment, although still far-fetched, is picking up steam," said Anthony Cronin, a Treasury bond trader at Société Générale SA.

Still, analysts say high expectations of a rate increase next month reduces the risk of a big selloff in the bond market.

## Hedge Funds Win, Investors Shrug

By GREGOR STUART HUNTER

Hedge funds that invest in emerging markets are generating some of their best returns on record and growing their assets to all-time highs. The trouble is, they aren't getting much love from investors.

Assets managed by emerging-market hedge funds rose to a record high of \$205.7 billion at the end of March, according to data from Chicago-based Hedge Fund Research Inc. Yet the same data show that the first quarter of 2017 also marked the seventh consecutive period of outflows from funds that invest in fast-growing markets like China, India and Latin America, with nearly \$2 billion exiting.

The growth in hedge-fund assets has come in the wake of profitable trading in markets across developing countries. Stock markets from Hong Kong to Mumbai to Warsaw have been on a tear, while fears that President Donald Trump's election victory and higher U.S. interest rates would lead to money

pouring out of emerging markets have proved unfounded so far. Analysts say that correlations between stocks have also weakened, offering fund managers more opportunities to shine through smart trading.

HFR's index of emerging-market hedge funds is up 7.8% year to date, compared with a gain for the average hedge fund globally of just 3.1% through April, HFR's data show. Some emerging-market hedge funds are doing especially well: Those investing in India have generated gains of 22.1%, their strongest-ever start to a year.

Yet emerging-market hedge funds are struggling to attract and maintain money in part because of an issue common to the fund-management industry world-wide: Investors often find they can get as good or better returns simply by putting their cash into funds that track common market indexes.

In the year through April, the average return from hedge funds invested in developing markets tracked by HFR beat

the S&P 500's 7.2% gain. But these returns still lagged behind the MSCI Emerging Markets Index, which rose 12.9% over the same period.

"Emerging-market equities appear to us to be only at the beginning of what may be a multiyear period of outperformance of U.S. stock markets," said Hersh Gandhi, managing director for Asia-Pacific at **Man Group** PLC, which manages \$88.7 billion. "The fly in the ointment may be that there has been substantial flow into emerging-market exchange-traded funds, futures and benchmark stocks over the past year, such that stocks with large benchmark weightings have already made substantial gains."

Cumulative inflows to emerging-market equities this year totaled \$27.8 billion as of May 11, according to data from EPFR Global.

Another impediment to more cash flowing into emerging-market hedge funds is that many are already closed to new investors. Hedge funds sometimes put a cap on how

much money they take in, as their performance can suffer if they expand beyond a certain size and other investors start to mimic their strategies.

With larger funds closed, investors are forced to seek out newer hedge funds with short track records. Finding good funds isn't always easy, said David Walter, head of Asian research at Pacific Alternative Asset Management Co., an Irvine, Calif.-based firm, which manages \$10 billion in assets. "You kiss a lot of frogs," he said.

Tim Wannenmacher, head of prime services for Asia Pacific at UBS Group AG, said investors are currently interested in equity funds trading in India, China and Southeast Asia.

But limits to how much can be invested in the region remained a constraint, he said.

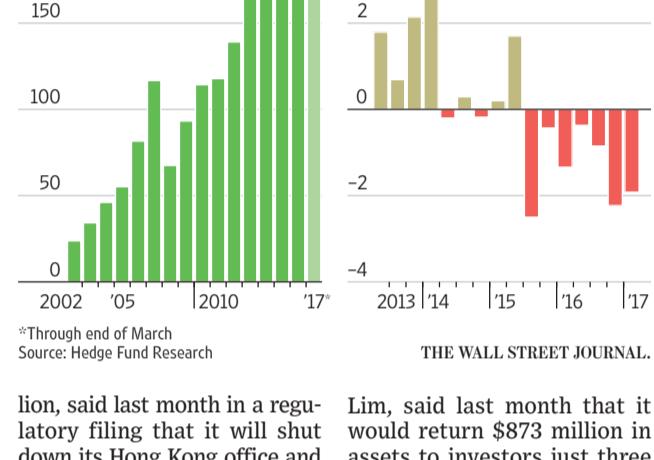
Several fund closures have also hobbled the growth of Asia's hedge-fund industry this year.

Owl Creek Asset Management, a New York-based hedge fund that manages \$2.58 bil-

## Ups and Downs

Hedge funds investing in emerging markets are growing their total pool of assets despite seven consecutive quarters of outflows.

### Total estimated assets



\*Through end of March

Source: Hedge Fund Research

lion, said last month in a regulatory filing that it will shut down its Hong Kong office and wind down its Asia funds, after the departure of a key portfolio manager. Meanwhile, Man GLG closed an Asia-focused equity hedge fund in December as part of a product review.

Guard Capital Management, a Hong Kong-based hedge fund founded by former Goldman Sachs partner Leland

Lim, said last month that it would return \$873 million in assets to investors just three years after it opened, a move that surprised many in the industry. The firm said the decision to close reflected a personal decision by Mr. Lim.

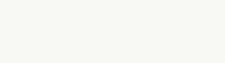
The total number of emerging-markets hedge funds has fallen slightly to 1,142 at the end of March from 1,154 at the end of last year, according to HFR.



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# MARKETS

## Beijing Fund Targets U.S.

BY LINGLING WEI

BEIJING—China's sovereign-wealth fund is ramping up efforts to crack open the U.S. market, looking to seize on a recent thaw in the two countries' trade relationship.

"There is a potential for Chinese companies to make more investments in the U.S. and vice versa," said **China Investment Corp.** President Tu Guangshao in an interview. "We want to build up mutual trust."

Encouraged by U.S. President Donald Trump's meeting with Chinese President Xi Jinping in Florida in April, and a broad plan announced last week to reset the two nations' trade and investment relationship, Mr. Tu said the fund hopes to "significantly increase" its direct foreign investments in the U.S. in the next few years.

On Friday, the fund, which has more than \$200 billion in foreign assets, is opening a New York office, replacing what had been its only overseas representative office, in Toronto.

The move marks a shift in strategy: CIC had avoided a U.S. presence for years, frustrated by the investment environment there. "U.S. regulators have been hard on us," Mr. Tu said. "We can't even name one symbolic direct investment in America."

The fund, formed in 2007 as a way for China to diversify its stockpiles of foreign-exchange holdings, is closely watched by investors world-wide as a major source of capital and as a proxy for China Inc.'s ambitions on the world stage.

In the past few years, it has sought to invest directly in U.S. real estate and infrastructure. But while U.S. holdings—mostly stocks and bonds—now exceed 40% of the fund's overseas portfolio, it has largely relied on outside asset managers such as **Blackstone Group** and **Carlyle Group** to invest in



Tu Guangshao is president of China's sovereign-wealth fund.

the U.S.

The fund has since 2011 used its Toronto presence to focus on energy- and resources-related deals in Canada and the U.S., but has pared its energy holdings in recent years as the resources boom ebbed. CIC has suffered losses on some of those deals, which hurt its annual returns for 2015.

Mr. Tu said CIC is now casting an eager eye at U.S. projects such as highways, rail lines and high-tech manufacturing plants, looking to generate steady, long-term returns.

He said CIC can become a stable source of long-term capital for U.S. infrastructure and manufacturing projects, and help U.S. companies expand their footprint in the Chinese market.

A big reason for CIC's negligible direct holdings in the U.S., Mr. Tu said, is the "overly strict scrutiny and opaque investment-review process" U.S. authorities have applied to Chinese investors.

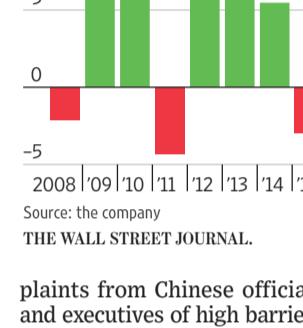
By comparison, he said, the British government has been more welcoming, enabling the fund to make some big-ticket investments, such as in Heathrow Airport and the utility Thames Water.

Mr. Tu's remarks echo com-

### Power Dip

Energy holdings have hurt CIC's recent returns on foreign assets.

15%



Source: the company  
THE WALL STREET JOURNAL.

plaints from Chinese officials and executives of high barriers to entry in the U.S., and what they say is an unfair review process by the Committee on Foreign Investment in the U.S.—even if CFIUS doesn't formally block many bids.

Such criticism is mutual: American businesses have long expressed frustration over accessing China's markets.

Despite what Mr. Tu calls "very positive signals" recently, CIC's U.S. push faces a number of challenges. Of particular concern to CIC is the prospect the U.S. could single out Chinese investments for

special scrutiny.

Such a move is part of changes to CFIUS that lawmakers from both parties are considering. There are also calls for assessing China's openness to U.S. investment in any given sector when evaluating Chinese investment in that sector. The Trump administration hasn't yet taken a position on possible changes to CFIUS.

Mr. Tu said CIC understands the need for the U.S. to conduct foreign-investment reviews for the purpose of safeguarding national security. But he urged U.S. authorities to improve the transparency of the process and avoid protectionism. "It's especially important that such scrutiny is not aimed at any single country or project," he said.

Regardless of any changes to CFIUS, many analysts say CIC likely will continue to be subject to a higher level of scrutiny in the U.S. than private investors because of its ties to China's central government.

The trade plan, jointly announced by Washington and Beijing last week, indicates that the U.S. welcomes investment by Chinese entrepreneurs.

"That formulation leaves open the question of whether Chinese state investors are entrepreneurs," said Brad Setser, a senior fellow at the Council on Foreign Relations, a New York think tank. "I do not think we will know until there is a high-profile case where the administration has to weigh in."

The fund's stepped-up push for the U.S. market also comes as Chinese authorities have tightened controls over Chinese companies' outbound investments in a bid to curb capital outflows.

Mr. Tu said that given CIC's mandate to invest overseas, he sees "no impact" from the tightened controls.

—Bob Davis contributed to this article.

## Chinese Investors Aren't Buying PBOC Daily Fix of the Yuan

BY SAUMYA VAISHAMPAYAN

that could make the dollar more attractive to investors than the yuan.

The yuan doesn't trade freely within China. It is limited to a band extended 2% above and below the daily level set by the PBOC, which is based on where it ended the previous session and its movement against a basket of currencies.

Another sign that people inside China think the yuan should be weaker than the central bank does comes from China UnionPay, an issuer of credit and debit cards. Its own

The gap between the central bank's fix and where the currency then trades in the onshore market has widened in recent days. Wednesday's discount was the largest since January.

Such a gap "suggests that the onshore market is still not fully convinced that the Chinese yuan will remain strong," said Irene Cheung, a senior strategist for Asia at ANZ in Singapore, adding that the central bank's fix has been biased to yuan strength for a while.

There are several possible reasons traders are betting on a decline in the yuan, which has advanced nearly 1% against the dollar this year. While China's economic growth accelerated in the first quarter, many analysts still expect it to slow later in the year—which could lead the central bank to let the yuan weaken in an effort to boost exports. The latest industrial-output and fixed-asset-investment data showed the economy may be losing steam.

And though investors have slashed their strong-dollar bets as they reconsider President Donald Trump's ability to deliver the tax cuts and fiscal stimulus promised during his election campaign, markets still expect more U.S. interest-rate increases this year. Without matching action by China,

But in offshore markets, where the yuan trades more freely and overseas investors are more able to express their views, the idea that it should be weaker than the central bank's fix doesn't seem to have taken hold as strongly.

In the past, market participants have often looked at the divergence between the yuan's offshore and onshore rates to get a sense of sentiment on the currency.

During the frenzy of early 2016, the yuan weakened much more offshore than onshore, underscoring foreigners' bearishness on China. But that isn't the case now: The yuan is currently stronger offshore than onshore, as it has been for much of this year.

## HEARD ON THE STREET

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## Tencent Is Paying Up For Audience

China's most valuable public company basically wants people to be glued to their smartphones. So far it is doing a great job, but to meet increased expectations, it needs to churn more money out from those screen addicts.

**Tencent Holdings**, which owns China's biggest social network WeChat and is also the world's largest video-gaming company, had another stellar quarter. Revenue last quarter rose 55% from a year earlier while net profit was up 58%—both handily beat analysts' estimates. Mobile games were major drivers as sales grew 57% year over year.

More people are using WeChat, a messaging app like WhatsApp that also lets people play games, transfer money, read news and gossip and buy things like movie tickets. Its monthly active user rose 23% year-over-year to 938 million.

And Tencent managed to sell more ads to the app's users: Its social-related advertising revenue grew 67% last quarter.

The revenue boost, however, come with chunky costs. Spending on video content, especially for original online shows, depressed overall gross margins. Tencent has spent more to acquire its advertising revenue. Gross margin at its advertising segment was 35% last quarter versus 44% a year earlier.

These seem like minor quibbles with revenue still growing at a breakneck pace. But Tencent's stock, up 37% this year, trades at 40 times this year's expected earnings. At some point, Tencent will need to turn all that screen time into cash.

—Jacky Wong

## The Euro Is in the Driver's Seat

### New Life

Euro's performance against the dollar



Sources: FactSet; European Pressphoto Agency (photo)  
THE WALL STREET JOURNAL.



U.S. political concerns are weighing on the dollar.

central Bank's gradual exit from ultraloose policy is likely to steal the market spotlight from the U.S. Federal Reserve.

That is reflected also in the outperformance of European stocks, a narrowing in the gap between U.S. Treasury and German bund yields, and a slightly steeper yield curve in Germany than in the U.S. That shift should

attract cash into Europe, starting to reverse a long period of portfolio outflows that weighed on the euro,

with a hint of a turn in balance-of-payments data at the end of 2016, UniCredit strategists note.

True, the ECB is likely to tread carefully. But its bond purchases face important political constraints, and thus have a built-in limit. With

deflation risks having faded, the pressure to exit from those purchases, and its negative rate regime, is building.

A stronger euro and higher bond yields will be a vote of confidence, as long as they don't shoot abruptly upward. ECB tapering could push the euro up to \$1.15, ING thinks.

Europe's politics remain a potential source of trouble. Italy is the obvious candidate for a new bout of worries about the euro's future. But an Italian election might not happen until next year, and the first channel for stress to show up will be in the eurozone government bond market, not in the currency.

For the dollar to regain some allure will probably require big positive shifts in how investors view Donald Trump's administration and the U.S. economy. In their absence and with the ECB moving center stage, the euro is in the driver's seat.

—Richard Barley

## OVERHEARD

Ever since Brazil, Russia, India and China were united under the BRIC umbrella, emerging markets have been a source of acronyms. The latest: "MUMs," says **Colin Ellis**, chief credit officer for Europe, the Middle East and Africa at Moody's. That stands for "more uncertain markets."

Mr. Ellis had a point to make at a conference in London Tuesday: It is actually difficult to find a universal defining characteristic for the diverse group of countries categorized by investors as emerging markets. But investors still receive a risk premium for uncertainty around economic, policy and institutional developments in emerging markets.

Investors have spent a good deal of time more recently wrestling with uncertainty in developed markets. As **Mauro Leos**, of Moody's Latin American sovereign team, told the conference: "For me, uncertainty means the White House."

## Intel Should Watch Out: Nvidia Is Moving In on Its Turf

### Intel Corp. and Nvidia Corp.

have had a long coexistence as chip makers targeting different segments of the computer market. But a significant shift is under way that is making them competitors in one of the fastest-growing markets in tech. Tens of billions of dollars are at stake.

It doesn't even seem close now. Intel has about eight times the annual sales of Nvidia, thanks to its dominance in the huge market of personal computers and servers. But as companies like Google parent **Alphabet Inc.**, Microsoft Corp. and **Amazon.com Inc.** spend billions on huge networks powered by artificial intelligence, the market for the types of

chips that power those networks is in flux. And the winner is far from clear.

Intel's strength has been in central processing units, or CPUs. These are the types of chips that form the brains of PCs and servers. Nvidia specializes in graphics processing units, or GPUs, which are designed to render graphics and images.

GPUs are most frequently used in high-end computers designed for videogaming. But they are also well suited to many of the types of tasks required for the machine learning that makes artificial intelligence possible. They also can accelerate the performance of CPUs of the type made by Intel.

This gives GPUs a growing

role in data centers. Analyst Patrick Moorhead of Moor Insights & Strategy says "the importance of non-CPU compute engines is increasing," with GPUs driving "incredible" performance in the training functions of machine learning.

This has played out nicely for Nvidia so far. The company's sales to its data-center segment topped \$1 billion for the 12-month period ended April 30—more than triple from the same period last year but still a fraction of Intel's \$17 billion in data-center sales. Nvidia's shares had already more than tripled in the year leading up to its fiscal first-quarter report last week; they have soared another 30% since.

### Vision Quest

Forward price/earnings multiple



Source: FactSet  
THE WALL STREET JOURNAL.

Nvidia's growing role in the data center could pose a threat to Intel, as more GPUs sold for machine learning could mean less demand for Intel's offerings. But it would be wrong to count the chip giant out at this point. It

controls more than 98% of the server chip market now and already embeds its own GPU technology with its CPU chips. Also, Intel has made acquisitions to further its data-center lead, including its \$16.7 billion purchase of Altera and—more recently—a small but promising outfit called Nervana.

The winner, if there is one, is a long way away. Google, Microsoft and Amazon are still in the early days of building their artificial intelligence networks—and none is taking the exact same approach. Google, in fact, has designed its own chips to boost machine learning. That leaves plenty of room for new fortunes to be made—or lost.

—Dan Gallagher