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THE WALL STREET JOURNAL.

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As of 12 p.m. ET **DJIA** 20993.14 ▼ 0.07% **NIKKEI** 19895.70 ▲ 2.31% **STOXX 600** 394.04 ▼ 0.13% **BRENT** 48.72 ▼ 0.77% **GOLD** 1227.10 ▲ 0.19% **EURO** 1.0929 ▼ 0.64% **DLR** ¥112.85 ▲ 0.12%

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Coach agreed to acquire rival Kate Spade for $2.4 billion, as the purse maker seeks to tap younger consumers amid slower growth in the handbag market. **A1**

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ANDREW QUILTY FOR THE WALL STREET JOURNAL

Students at a private school south of the Afghan capital of Kabul attend chemistry class, among the subjects that the Taliban approve.

Afghan Taliban Take Root

Insurgents fill void in governance, gain influence as foreign troops leave villages

By Jessica Donati
And Habib Khan Totakhil

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

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

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

The Taliban wielded significant control over 8.4 million Afghans—almost a third of the population—at the end of 2016, up from 5 million a year earlier, according to a confidential United Nations report reviewed by The Wall Street Journal. The report showed that the territory over which the insurgents have significant influence or control increased from 30% to 40% of the country over the same period.

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

The spokesman's comments this week echoed the testimony of U.S. Army Gen. John Nicholson, commander of U.S. forces of Afghanistan, before Congress in February, when he said Afghanistan was in "a

Please see TALIBAN page A6

Macron's Victory Clears New Path For Euro

By Mike Bird

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

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

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

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REUTERS

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GIULIO SQUILLACCIOTTI

THE OLYMPICS OF THE ART WORLD

LIFE & ARTS, A9

Venture Arises, Despite Sanctions

By Jeremy Page
And Jay Solomon

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

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

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

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

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

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

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

The Chinese company has a U.S. affiliate in Houston through which it seeks investment opportunities, according to the affiliate's chief executive. In another U.S. connec-

Please see KOREA page A2

Cross-Border Commerce

Trade between China and North Korea has surged since 2000. Though North Korea faces international sanctions, some trade involves nonsanctioned goods and is legal.

Source: General Administration of Customs, China

THE WALL STREET JOURNAL.

Coach Puts Kate Spade In Pocket for $2.4 Billion

By Suzanne Kapner
And Joshua Jamerson

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

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

On Monday, Coach Chief Executive Victor Luis said there is little overlap between customers of the two brands, es-

Please see DEAL page A2

Britain's Next Pressing Question: Paper or Parchment?

* * *

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

By Jenny Gross

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

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

Parliamentary document on vellum

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

Vellum costs Parliament roughly £35 ($45) an A4-size sheet—bought in bulk, including delivery, tax and printing—versus about 16 pence for archival paper, a House of Lords spokeswoman says.

Rancor over the worth of that difference has pitted traditionalists against modernists.

"It's a great shame," says Mr. Gray, a Conservative lawmaker for 20 years. He resigned in protest from the Administration Committee, a panel that advises on parliamentary operations, after it voted 3-to-2 for paper in October. "This is destroying a piece of culture, history and tradi-

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Opportunity Arises for Trump in Middle East

CAPITAL JOURNAL
By Gerald F. Seib

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

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

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

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

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

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

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

CAROLYN KASTER/ASSOCIATED PRESS

President Donald Trump, left, plans to visit Saudi Arabia, Israel and the Vatican this month.

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

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

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

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

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

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

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

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

A Kate Spade store in New York. In pursuing the brand, Coach cited its appeal to younger shoppers.

DEAL

Continued from Page One

pecially since Coach has tried to move upscale in recent years. The attraction of Kate Spade was its appeal to younger shoppers, Mr. Luis said, adding that only 10% of consumers say they buy both brands.

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

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

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

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

Kate Spade shares were ahead 8.2% at $18.36 in midday trading Monday, while Coach shares were up 5.2% at $44.89.

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

Coach had revenue of $4.5 billion in the fiscal year ended July 2016, down from more than $5 billion a few years ago. Kate Spade, which shed several apparel brands to focus on its handbag business, had revenue of $1.4 billion in the year ended Dec. 31.

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

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

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

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

Coach has been on the hunt for acquisitions as Mr. Luis seeks to build a collection of brands and respond to the rapid rise of Michael Kors Holdings Ltd. Coach approached Burberry Group PLC about a takeover last year but was rebuffed. It acquired shoe maker Stuart Weitzman Holdings LLC last year. On Monday, Mr. Luis said Coach might still seek small deals but the Kate Spade transaction would leave little room for another large transaction in the near term.

The brands will be kept separate and there are no plans to cross-sell products at each other's stores, executives said. Mr. Luis said his intention was to retain key Kate Spade employees including Craig Leavitt, who will continue to serve as chief executive of the Kate Spade brand.

The transaction is subject to the tender of a majority of the outstanding Kate Spade shares as well as regulatory approvals.

Kate Spade can terminate the transaction if the company is offered a superior proposal from another suitor, and Coach can terminate the deal if Kate Spade's board no longer supports it. Either circumstance would require Kate Spade to pay Coach an $83.3 million termination fee. Either company can call off the deal if it isn't complete by Feb. 7.

KOREA

Continued from Page One

tion, Limac, which manufactures and trades nuclear-energy and other industrial machinery, imported Canadian nuclear-power equipment to China in 2013 by way of the U.S., customs records show.

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

Secretary of State Rex Tillerson said last week the U.S. has been "leaning hard into China" over North Korea.

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

Last September, the U.S. indicted a Chinese businesswoman on charges that she and her trading company, Dandong Hongxiang Industrial Development Co., helped blacklisted North Korean companies evade U.S. sanctions. China said in January she was under investigation. The businesswoman, Ma Xiaohong, couldn't be reached for comment, and her company didn't respond to comment requests. A Justice Department spokesman said Ms. Ma hasn't filed a plea and "is believed to be a fugitive." A spokesman for the Treasury declined to comment on Limac but said the administration is targeting North Korea's operations in China, and Ryonbong in particular.

Ryonbong is the trading arm of a committee in North Korea's ruling party that oversees its defense industry, according to U.S. officials.

Limac, the Chinese company, was founded in 1953. The industrial-machinery company's website said it expanded into mining in North Korea in 2006. Limac Chairman Wu Yan visited North Korea the next year with a team of mining specialists.

In 2008, a time when North Korea was engaged in international talks about potentially dismantling its nuclear program, China's commerce ministry approved the joint venture, a 20-year mining venture in North Korea's Kangwon province. Mr. Wu became the joint venture's chairman and a Ryonbong executive his deputy, said Limac's website.

In 2013, the venture set up an office in Dandong, a Chinese city near North Korea

In 2013, the venture set up an office in the Chinese city of Dandong, on the North Korean border, appointing to lead it a North Korean who used the Chinese name Jin Zhezhu, according to Chinese public records.

The office's address is an apartment in a rundown block near the Yalu River that forms the border. Mr. Jin lived there for several years but left a few months ago, said the current occupant, neighbors and a former employee of the venture. Mr. Jin couldn't be reached for comment.

Limac said the venture never began regular operations because the North Koreans didn't comply with the contract.

Limac denied knowledge of a joint-venture office in Dandong and said staff members hadn't obtained North Korean visas since 2009. Fourteen Limac employees visited North Korea for a company-sponsored vacation in 2014, the website said. It is unclear whether they had visas.

The Dandong office had its registration revoked in February 2017 for failing to file its 2016 inspection paperwork, according to Chinese corporate registry officials.

About 90% of North Korea's recorded trade passes through China. Sayari Analytics says it has identified more than 600 Chinese companies that trade with North Korea. Much of the trade may be legal under U.N. guidelines, because sanctions apply to specific industries, companies and people, not to everything North Korean.

Some diplomats say Beijing struggles to keep track of the cross-border commerce. Beijing wants to maintain an economic lifeline to make sure the Pyongyang regime doesn't collapse, potentially triggering a flood of refugees into China.

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

South African Protesters Run for Cover

MARCO LONGARI/AGENCE FRANCE-PRESSE/GETTY IMAGES

CHAOS: A demonstrator fled after police fired tear gas in Johannesburg during a rally over economic issues.

CORRECTIONS & AMPLIFICATIONS

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

Hugo Restall, Editorial Page Editor

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WORLD NEWS

MCS 2ND CLASS SEAN M. CASTELLANO/U.S. NAVY/REUTERS

Sailors worked on the Navy aircraft carrier USS Carl Vinson in the western Pacific this month. The U.S. is seeking to signal a stronger military commitment to Asian allies.

U.S. Seeks to Boost Military in Asia

By Gordon Lubold

WASHINGTON—The Pentagon has endorsed a plan to invest nearly $8 billion to bulk up the U.S. presence in the Asia-Pacific region over the next five years by upgrading military infrastructure, conducting additional exercises and deploying more forces and ships.

The effort is seen by backers as one way to signal more strongly the U.S. commitment to the region as Washington confronts an increasingly tenuous situation on the Korean Peninsula, its chief security concern in the area.

The Trump administration is still formulating its larger policy for Asia after essentially discarding former President Barack Obama's so-called Asia pivot, which was disparaged by critics as thin on resources and military muscle, and dropping U.S. support for the Trans-Pacific Partnership, a 12-nation trade deal.

Given President Donald Trump's recent overtures to Chinese President Xi Jinping, any plan to expand the U.S. military presence in Asia eventually may require steps to reassure Beijing that new military measures aren't directed at the Chinese. A spokesman for China's embassy in the U.S. didn't respond to a request to comment.

The proposal, dubbed the Asia-Pacific Stability Initiative, was floated by Sen. John McCain (R., Ariz.) and has been embraced by other lawmakers and, in principle, by Defense Secretary Jim Mattis and the head of U.S. Pacific Command, Adm. Harry Harris. Proponents haven't developed details of the $7.5 billion plan.

"This initiative could enhance U.S. military power through targeted funding to realign our force posture in the region, improve operationally relevant infrastructure, fund additional exercises, pre-position equipment and build capacity with our allies and partners," Mr. McCain told Adm. Harris in an April hearing.

Supporters liken the initiative to an Asia version of the European Reassurance Initiative, or ERI, begun after Russia's 2014 intervention in Ukraine and funded at $3.4 billion in this year's U.S. budget.

Backers haven't spelled out how they plan to get funding. The Trump administration has asked for additional money for defense spending in the current fiscal year, and is seeking a $54 billion increase for fiscal 2018.

U.S. officials and congressional staffers, citing the uncertainties of federal budget deliberations, said it is unclear how much will be immediately available for the new Asia initiative. But they say the spending would take place over five years.

Mr. Mattis voiced support for the concept of the plan in a recent congressional hearing.

A former top Pentagon policy official in the Obama administration said the initiative could have value if it is used for a specific purpose and is part of a broader American policy in Asia.

"If used strategically, it can help stem the tide of the military challenges we face in the Pacific," Kelly Magsamen, who was an acting assistant secretary of defense for Asian and Pacific Affairs under Mr. Obama, said in an email.

Mr. Obama's Asia pivot, later termed a "rebalance," fell short of expectations, experts said.

"Conceptually, it was the right thing," said Richard Fontaine, president of the Center for a New American Security, a think tank in Washington, and onetime McCain aide who supports the McCain initiative. "The point was to spend more time, attention and resources on our interests in Asia, but the rhetoric also raised expectations there, expectations that were higher than what actually materialized."

Still, the effort produced visible changes under Mr. Obama. More than 1,200 Marines have been stationed on a rotating basis in Darwin, Australia, the U.S. began the deployment of Littoral Combat Ships to Singapore, and U.S. access to military bases in the Philippines was restored.

In the meantime, the deployment of a Thaad missile defense system to South Korea, years in the making, was just completed days ago, according to U.S. and South Korean defense officials.

China Court's Social Media Posts Stir Criticism

By Josh Chin

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

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

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

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

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

In a separate statement that he signed in January, released by one of his lawyers in March, Mr. Xie confirmed allegations of torture and said any future confession would have been the result of coercion.

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

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

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

While another prominent lawyer was recently tried behind closed doors, Mr. Xie's trial brought a strong flow of information. The Changsha court used its verified Weibo microblogging account to post documents and video. One video showed Mr. Xie contradicting an unusually detailed account of torture by police that he gave his lawyers who then publicized it in January.

In the footage, a prosecutor asks Mr. Xie whether police or prosecuting agencies forced him to confess, to which he answers no. "Even less did I suffer torture," he says.

Supporters and human-rights experts described the proceedings as a show trial designed to portray civil liberties lawyers as enemies of the people and intimidate them into falling in line.

The tactics are part of a shift under President Xi Jinping, who has pursued a wider array of targets than his predecessors in seeking to silence dissent.

"Before, the state did not go so far as to make the accused the tools of their own subjection," said Eva Pils, an expert in Chinese law and human rights at King's College London. "It's a demonstration of the power of the party state to distort what people like Xie Yang stand for and display them as completely different people."

Top Officer Says Allies Worried

By Jake Maxwell Watts

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

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

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

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

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

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

Adm. Swift played down concerns, saying many freedom-of-navigation operations have taken place this year in other parts of the world. "We just present the opportunities [to the Pentagon] when we have a ship in the area and there's an area of interest," he said.

HUGH GENTRY/REUTERS

Adm. Scott Swift in July

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Macron Faces Steep Road to a Majority

Election win covered cracks across France, especially in the champagne region

By Max Colchester

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

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

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

Yet, Mr. Buisson and 52% of voters in Bouzy—well above the national average of 34%—supported Marine Le Pen in the second runoff. The nationalist leader campaigned on leaving the European Union, the euro, and closing borders to immigrants.

"You can't move Champagne out of France, but you can replace the workers," the 36-year-old Mr. Buisson said.

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

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

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

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

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

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

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

Mr. Beaufort voted for Mr. Macron in the second round of the presidential election.

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

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

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

Shifting Support

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

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

Defeated at the Polls, Le Pen's Stature Grows

By David Gauthier-Villars And William Horobin

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

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

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

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

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

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

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

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

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

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

Party members such as Marion Maréchal-Le Pen, Ms. Le Pen's niece, have said proposing to replace the euro with a new French franc risked alienating large swaths of voters.

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

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

OLIVIER HOSLET/EUROPEAN PRESSPHOTO AGENCY

National Front leader Marine Le Pen at the polling station in Hénin-Beaumont, northern France, where she cast her vote on Sunday.

CAPITAL ACCOUNT | By Greg Ip

Election Victory Offers a Reprieve for Common Currency

Emmanuel Macron should thank the euro. While there were a lot of things French voters didn't like about Marine Le Pen, leader of the National Front, perhaps foremost was her promise to ditch the common currency and bring back the franc, with the implicit threat of inflation and devaluation.

Yet there is an irony to this. While Ms. Le Pen never offered a plausible path out of the euro and the European Union, her critique of both was sound. The rigidity of the euro coupled with strict budget rules enforced by Brussels impose one-size-fits-all macroeconomic policy on every country in the union no matter how divergent its circumstances. That planted the seeds of the latest crisis and could create the conditions for another.

The eurozone today remains fragile, like a building constructed on an earthquake fault line. Ms. Le Pen's solution, to simply tear it down, was brutal. But it was no less logical than the status quo, which amounts to hoping another earthquake doesn't happen. Mr. Macron's plan is to reinforce it against future earthquakes by deepening its governance and economic ties. Yet that risks inflaming the grievances that sustain nationalist movements like Ms. Le Pen's.

The low inflation and steady growth of the euro's early years masked growing imbalances. Until 2000, French and German labor costs largely tracked each other. But with the introduction of the euro and German labor market reforms, French costs began to rise much more-sharply, and those in Spain, Italy, Portugal and Greece even more so. The result was a large and growing trade imbalance in Germany's favor, which its neighbors couldn't cure through the usual mechanism, devaluation.

The public and private debts taken on to finance those trade deficits proved unsupportable, yet member countries' central banks could no longer act as lender of last resort to guarantee that governments and their biggest banks wouldn't default. The euro crisis was the result.

The acute phase of the crisis subsided once the European Central Bank decided it would act as lender of last resort to its members. A €500 billion ($550 billion) European Stability Mechanism now exists to bail out indebted governments and banks, and a more independent regionwide bank supervisory system ensures banks are better insulated from their governments' troubles. This "makes potentially a huge difference," says Nicolas Veron, an expert on the eurozone at Bruegel, a Brussels-based think tank.

But flaws will persist: the failure of the eurozone's underlying economies to converge and their inability to calibrate macroeconomic policy to those divergent needs. Germany's unemployment and government debt are much lower than its neighbors' now, raising the prospect that in a few years time interest rates will have to rise to contain German inflation when its neighbors are poorly positioned to afford it.

Mr. Macron would address the euro's flaws by deepening its governance and creating a common budget. He will try to complete the work he began under President François Hollande: injecting more flexibility into France's labor market.

But labor reform remains deeply unpopular in France. In an interview with Foreign Affairs last year Ms. Le Pen blamed French unemployment on "completely free trade, which puts us in an unfair competition with countries that engage in social and environmental dumping, leaving us with no means of protecting ourselves and our strategic companies." Mr. Macron has five years to overhaul the labor market and the EU. If he fails, voters at the next election may find Ms. Le Pen's siren song irresistible.

FRANCE

Continued from page A1

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

The euro rose by around 0.3% in the hours after voting closed, but was down 0.5% at $1.094 in European afternoon trade Monday. The currency had already risen following Mr. Macron's victory in the first round of the vote.

"Populism hasn't gone away, but for now it's been pushed onto the back burner," said Jane Foley, senior foreign-exchange strategist at Rabobank. "It's going to be more economics and less politics for the next six, eight, nine months," she said, predicting the euro will end the year at around $1.10.

The currency fell as low as $1.035 in late December, and many analysts were betting it would fall to parity with the dollar by the end of this year.

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

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

Fewer investors are now shorting, or betting against, the euro than at any time in the past three years. According to data from the U.S. Commodity Futures Trading Commission, the number of so-called short contracts is now near its lowest levels since the middle of 2014, before the ECB began buying vast quantities of bonds in an attempt to aid the economy.

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

The ECB is still buying €60 billion ($65.5 billion) in government and corporate bonds each month. Minutes from the ECB's governing council meetings show that officials' worries about political uncertainty were one reason they were keeping monetary policy unchanged. Investors now expect the central bank to signal in June that it is closer to reducing its purchases.

Still, a stronger euro wouldn't necessarily mean all good news for the ECB or the region's exporters. A weaker currency can help stoke inflation, which has been weak in the eurozone, and acts as a competitive advantage for local exporters.

But for now, the eurozone's better prospects are boosting interest in local companies, improving the prospects for equities in the region. Better stock-market performance has the potential to further buoy the euro as European shares attract foreign money.

International investors were more concerned than their French peers about this election in the early months of the year. Mr. Macron's victory could be a catalyst for their return, according to Philippe Lespinard, co-head of fixed income at asset management firm Schroders.

Foreign investors fled European equities in 2016. According to data provider EPFR Global, $7.66 billion has entered European equity funds in the year to date.

"The key reasons why you wouldn't be a buyer of [European] assets have gone away," added Pierre Bose, investment strategist at Credit Suisse.

STEPHANE DE SAKUTIN/AFP/GETTY IMAGES

President-elect Macron with outgoing President Hollande.

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— **Anthony Pratt**

Executive Chairman, Pratt Industries

NATHAN EDWARDS/NEWS CORP AUSTRALIA

President Donald Trump thanking Anthony Pratt for his pledge.

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

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WORLD NEWS

Ex-Ally Says Maduro Is Losing Control

By Anatoly Kurmanaev

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Mr. Rodriguez Torres said Mr. Maduro fired him from the government in late 2014 for criticizing the president's handling of the economy, particularly his insistence on maintaining currency controls.

He has since founded the Wide Movement political group aimed at supporters of Mr. Chavez's movement, known as *chavismo*, who have grown disenchanted with Mr. Maduro. "We can't be thinking about saving *chavismo* now, we have to save the country," Mr. Rodriguez Torres said.

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

The opposition alliance has decried the assembly as a sham and said it would stay on the streets until the government calls free general elections. Mr. Rodriguez Torres said even by handpicking the electorate, Mr. Maduro can't be assured control of the assembly given how little popular support he has.

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

—Mariana Martinez contributed to this article.

CARLOS GARCIA RAWLINS/REUTERS

A demonstrator confronts police during a women's protest march against the government in Caracas.

TALIBAN

Continued from page A1

stalemate where the equilibrium favors the government."

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

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

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

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

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

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

Schools are supposed to offer a wide range of classes, but now many subjects are forbidden and taught at a teacher's own risk—including music, culture and "other things that Taliban consider evil," one teacher in the district said.

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

Companies operating in territories the Taliban have newly acquired are also caught between the rival administrations. The Taliban extort protection money for businesses in areas including mining and telecommunications, provincial officials said. In return, the businesses are allowed to operate, transport goods and maintain infrastructure.

Telecom companies have been among the hardest hit, officials said, as insurgents can easily topple a telecom tower by detonating explosives at the base. The Taliban also force the companies to turn off cellphone towers at night, when signals could give away their positions during operations. One telecom company official estimated a quarter of its towers were off at any one time, because of threats or attacks from the Taliban.

The insurgents seek to extend gains during their annual spring offensive.

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

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

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

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

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

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

ANDREW QUILTY FOR THE WALL STREET JOURNAL

in the heavily contested province of Logar, a Taliban flag flies over a grave in a cemetery where Afghan soldiers are also buried.

Less Secure

Civilian casualties are up as U.S. troops have left Afghanistan.

Sources: United Nations (casualties); United States Central Command (trooops)

THE WALL STREET JOURNAL.

WORLD WATCH

CHINA

Surplus in Trade Grew During April

The trade surplus widened in April, though both exports and imports grew less than expected amid signs that global trade may be slackening.

Exports rose 8% from a year earlier compared with 16.4% in March, the General Administration of Customs said Monday. Economists polled by The Wall Street Journal had forecast a 10% rise.

Imports climbed 11.9%, also below forecasts, after a 20.3% rise in March. The trade surplus rose to $38.05 billion from $23.93 billion in March.

—Mark Magnier

PHILIPPINES

Roy Cimatu Named To Environment Post

President Rodrigo Duterte named a former army general as environment secretary, a tacit admission by the administration that the aggressive clean-mining agenda of the president's first choice is unlikely to be fulfilled.

Roy Cimatu, briefly chief of the Philippines armed forces in 2002, will take the role if approved by a confirmation panel that shot down Mr. Duterte's previous choice, Gina Lopez.

—Jake Maxwell Watts

NARONG SANGNAK/EUROPEAN PRESSPHOTO AGENCY

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

INDONESIA

Government Moves Against Islamists

The country's top security minister said the government will move to disband a hard-line Islamist group.

Wiranto, the coordinating minister for political, legal and security affairs, told a news conference that the government would bring a case to court to disband Hizb ut-Tahrir Indonesia, the local arm of an international group that campaigns for the establishment of a caliphate.

—Anita Rachman

GERMANY

Christian Democrats Win State Election

Chancellor Angela Merkel's Christian Democrat party secured a big victory in Germany's northernmost state.

Ms. Merkel's mainstream conservative Christian Democrats got 33.3% of the vote in Schleswig-Holstein, according to results published on Sunday by broadcaster ARD.

—Andrea Thomas

Israel Presses Trump On Campaign Pledges

By Jay Solomon

NEW YORK—President Donald Trump came under increased pressure from the Israeli government to follow through on foreign-policy pledges he made during the election campaign, including moving the U.S. Embassy to Jerusalem, just days before he embarks on his inaugural trip to the Middle East.

Israeli Prime Minister Benjamin Netanyahu warmly welcomed Mr. Trump's election, following eight years of butting heads with former U.S. President Barack Obama on issues including Israel's building in disputed territories and the nuclear deal with Iran.

But Mr. Trump's pledge this month to resume Mideast diplomacy has unnerved members of Mr. Netanyahu's cabinet, many of whom spoke at a conference on Sunday in New York. The U.S. leader is scheduled to visit Saudi Arabia, Israel and Europe beginning on May 19, and peace between Israel and the Palestinians is expected to be high on his agenda.

Some of Mr. Netanyahu's top aides questioned the nature of the Mideast peace process, which for decades has sought to establish an independent Palestinian state on lands in the West Bank and Gaza Strip. They sharply criticized the leadership of Palestinian Authority President Mahmoud Abbas, whom Mr. Trump welcomed to the White House last week.

Another, more pressing issue, is the status of the U.S. Embassy in Israel. Mr. Trump pledged to move the U.S. Embassy from Tel Aviv once he took office. White House officials have said the status of the embassy is still under review.

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U.S. NEWS

Appellate Judges Review Travel Ban

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

By Brent Kendall

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

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

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

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

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

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

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

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

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

JONATHAN ERNST/REUTERS

A Yemeni man shows his canceled visa in February at Washington Dulles International Airport.

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

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

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

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

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

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

THE OUTLOOK | By Josh Zumbrun

Fiscal Plans Could Fuel a Surge in Rates

Two of the most powerful economic forces in Washington could be aligning in coming years to put considerable upward pressure on long-term interest rates.

President Donald Trump is flirting with tax and spending plans that could widen the budget deficit, just as the Fed considers plans to shrink its $4.5 trillion portfolio of bond and other holdings. Larger deficits could mean that the supply of U.S. Treasury securities hitting the market rises just as demand for these securities diminishes with the Fed unwinding.

More supply and less demand tends to mean lower prices, and with bonds, lower prices mean higher yields and interest rates. "The bond market is about to get hit all at once," said Stephen Stanley, chief economist of Amherst Pierpont Securities.

This would be a remarkable reversal.

The U.S. deficit exploded during the 2007-09 recession as tax receipts collapsed. In 2009, the deficit topped $1 trillion for the first time in history. It began to narrow but remained over $1 trillion from 2010 to 2012, as tax collections remained depressed from the era of high joblessness, and as President Barack Obama enacted an $800 billion stimulus plan.

During that era of high deficits, demand soared world-wide for the safety of U.S. government bonds. The Treasury also had a big buyer for its debt in the form of the Fed, which began purchasing billions of dollars a month worth of Treasury securities in March 2009, under the program that became known as "quantitative easing," or QE.

Though not intended to finance the deficit, the Fed's first QE program sucked in $300 billion of Treasury debt. The second program, launched in 2010, added an additional $600 billion. In the third round of QE, from 2012 to 2014, the Fed added $800 billion more.

Rising Pressure

Increased deficits in coming years will coincide with the Fed's withdrawal from the market for Treasury bonds

Government spending is on the rise...
Spending as a share of GDP

...the deficit is expected to quickly climb...
Annual deficit, in billions

...just as the Fed is expected to exit the Treasury market.
Annual change in Fed's portfolio of Treasurys, in billions

Note: Figures for 2017-2027 are forecasts.
Sources: Congressional Budget Office (government spending, deficits); Federal Reserve (change in Fed's portfolio)

THE WALL STREET JOURNAL.

Deficits eventually started narrowing, thanks to a reduction in crisis-era spending and new caps on spending combined with rising tax revenue.

Now the tide is poised to turn.

The Congressional Budget Office projects deficits will reach $1 trillion again by 2023 under current law. This owes largely to the baby-boom generation hitting retirement en masse and claiming Social Security and Medicare benefits. Medicaid and Medicare spending are set to rise to 7.3% of gross domestic product over the next decade, from 5.8% now, according to CBO estimates. Social Security is set to rise to 6% of GDP from 5%. Mr. Trump has said he doesn't plan to alter these entitlements.

Some plans, such as for tax cuts, could widen deficits. The University of Chicago regularly polls leading academic economists on important public policy issues. Asked this month if Mr. Trump's tax plan would pay for itself through higher economic growth, not one respondent thought that it would. Instead, it could force the Treasury to issue significantly more debt.

"Absent offsetting tax increases, it would be a fiscal disaster," said David Autor, a Massachusetts Institute of Technology economist.

One estimate from the Penn Wharton Budget Model, which calculates the effects of tax plans, projects the current version of Mr. Trump's tax plan would raise U.S. debt by 31% more than current policy.

This could all happen at precisely the moment the Fed is getting out of the market. Since its large-scale bond-buying program ended in 2014, the Federal Reserve has continued to buy new Treasury securities when its existing holdings mature.

Fed officials are eager to move away from these crisis-era policies and are considering allowing their bondholdings to mature later this year, without being replaced. That will leave about $400 billion of debt hitting the market as it rolls off the Fed balance sheet, according to a Fed estimate.

"We will have to see the specifics of the Fed's implementation of balance-sheet reduction, but all indications are that they will be very cautious and gradual," said Roberto Perli, a former Fed economist and partner at Cornerstone Macro. "If true, that should reassure markets and reduce the odds of any tantrums."

Treasury Secretary Steven Mnuchin and his staff are already considering how to handle the challenge of raising large amounts of debt.

Last week, the Treasury sought the counsel of its Borrowing Advisory Committee, composed of major Wall Street bond-market participants.

The committee cautioned that under plausible scenarios, the Treasury might have to more than double the amount of debt it auctions for 10-year and 30-year bonds.

Right now, the markets seem unperturbed by all of this.

Yields on 10-year Treasury notes, at 2.35%, aren't far from historic lows, held down by a range of forces including low inflation and global demand for safe assets.

Most forecasters have long expected rates to rise, and been embarrassed by those forecasts when interest rates stayed stuck in a rut.

But the market risks becoming complacent about the idea that the old logic of low rates will last forever.

GOP Puts Focus on Health Insurers

By Louise Radnofsky And Michael C. Bender

WASHINGTON—The White House is hoping to harness insurance-market woes in some states to help lift the GOP's health-care measure over hurdles in Congress, a strategy that reflects President Donald Trump's own high-stakes approach to deal-making.

With the House GOP health bill now before the Senate, White House aides say their job may become easier as health insurers in the next few weeks make final decisions about where to sell coverage next year and how to price it. Early signals have raised the prospect of no insurers offering coverage in parts of Iowa and Tennessee, and of premium surges in states such as Virginia and Maryland.

Democrats say Mr. Trump has stoked uncertainty that is to blame for many of the problems. Mr. Trump, for his part, has cited those problems as a reason to pass the GOP bill.

"Republican Senators will not let the American people down! ObamaCare premiums and deductibles are way up—it was a lie and it is dead!" Mr. Trump said Sunday on Twitter. Last week, he noted potential market disruptions in Iowa, writing, "It's time to fix this broken system!"

White House officials say that more bad news from states in the coming weeks could help them move the health-care bid across the finish line in the Senate, where statewide issues will come to the fore. "It does encourage members to act," a senior White House official said.

The strategy carries risks. It isn't immediately clear whether Americans would blame the administration of former President Barack Obama, or that of Mr. Trump, for market shocks. In addition, some GOP senators have specifically cited the insurance markets' fragility in the past as a reason to tread carefully.

A potential counterweight to the administration pressure is a coming estimate from the Congressional Budget Office of the revised GOP health bill. The estimate of the first bill, in March, said that measure would increase the number of people without health insurance by 24 million by 2026, which contributed to its collapse. House Republican leaders moved their bill last week without the CBO "score" of the latest revisions, but some senators have said they would wait to see the new estimates before proceeding.

U.S. WATCH

TEXAS

Law Signed Against 'Sanctuary Cities'

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

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

Opponents of the law have warned that it will increase racial profiling of Hispanics in the state. Some have said they are planning to challenge the measure in court.

"This law is not the will of the people," said Julieta Garibay, of immigration advocacy group United We Dream, in a statement released after Mr. Abbott signed the bill.

—Peter Grant

CONFERENCE BOARD

Labor Market Set To Tighten Even More

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

The April figure was 4.1% higher than last year.

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

—Imani Moise

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JUSTIN MERRIMAN FOR THE WALL STREET JOURNAL

Indiana University of Pennsylvania offers training to students and staff on how to use the overdose-reversal drug Naloxone.

Opioid Deaths Tax Colleges

Schools stock up on overdose-reversal medicine, distribute it to staff, even students

By Melissa Korn And Jon Kamp

Colleges around the U.S., spurred by fatal student overdoses and grieving families, are distributing lifesaving medication and adding on-campus recovery programs as the nation's opioid epidemic worsens.

Some 33,000 people in the U.S. died of opioid overdoses in 2015, according to the Centers for Disease Control and Prevention. College students are as likely as others to abuse the narcotics, according to a survey of 1,200 college-aged adults commissioned that same year by the Hazelden Betty Ford Institute for Recovery Advocacy and the Christie Foundation.

Federal law doesn't require colleges to report drug deaths unless they are deemed criminal. But fatal overdoses have been rising at schools nationwide, underscoring a harrowing reality for administrators: Like binge-drinking and marijuana, the opioid crisis is now entrenched on campus.

"Now, you couldn't possibly talk about drugs and alcohol without talking about opioids," said John Downey, dean of students at Queens University of Charlotte, a school of 2,300 in North Carolina where two students have died from overdoses in the past five years.

Last fall, three Washington State University students overdosed on opioids and died in Pullman, Wash.; a 25-year-old died from an overdose on the potent opioid fentanyl and heroin in a bathroom at Columbus State Community College in Ohio; and a student died from a suspected overdose at State University of New York at Geneseo.

Substance-abuse experts say they believe many colleges haven't fully come to grips with the rising prevalence of opioids on campus.

"I still think that most administrations say, 'Oh no, that's not our campus. That's not our kids,'" said Tim Rabolt, a graduate student at George Washington University who is in long-term recovery after struggling with substances including pain pills in high school. He is a board member at the Association of Recovery in Higher Education.

Mr. Rabolt started his freshman year at GW in 2011, just four months into his recovery, and said he soon contemplated suicide. To fill what he saw as a void, he helped create a student-based support program, and the university is now building its own recovery program. Peter Konwerski, dean of student affairs at GW, credits students for the push. "We heard them loud and clear," he said.

Scores more colleges and universities have or are creating similar recovery programs.

Schools are also distributing the anti-overdose drug naloxone to campus police and even students. **Adapt Pharma** Ltd. announced last month that it would offer 40,000 free doses of its branded version, called Narcan, to colleges nationwide. So far about 60 schools have reached out, according to company officials.

Idaho State University and Indiana University of Pennsylvania recently offered training for the overdose-reversal drug. The University of Texas at Austin now stocks naloxone at the front desk of its residence halls.

Sometimes, it takes a death to galvanize schools.

The University of Rochester launched a two-year review of counseling, prevention and treatment programs after freshman Juliette Richard fatally overdosed in her dorm room in March 2014. The school added more drug counselors, and case managers.

Columbus State said it was already in the process of training campus police to administer naloxone when the student died there last fall.

A Washington State spokesman said the school has drug-risk education programs and good Samaritan policies for individuals in trouble. A spokesman for SUNY Geneseo said campus police have been carrying naloxone since 2014.

Campuses Adopt Recovery Programs

When touring colleges a few years ago with her son, Aimee Manzoni-D'Arpino asked about sober dorms and recovery support meetings.

"They looked at me like I had 20 heads," she said, as few of the schools had such offerings to help students maintain their sobriety.

Ms. Manzoni-D'Arpino's son, Emmett Scannell, died of a heroin overdose April last year when he was a sophomore at Worcester State University.

The landscape has begun to change, as more schools establish campus-recovery programs, but treatment advocates say they should be as common as basic health services to help destigmatize addiction. Despite recent growth in recovery programs, fewer than 200 of the nation's nearly 5,000 colleges and universities now have one.

WILLIAM SCANNELL

Emmett Scannell

The four-year-old Collegiate Recovery Community at Ohio State University includes regular meetings, as well as a non-descript house with 28 beds, staff offices, and study and meditation space. Starting last summer, Ohio State's health-services center also began offering medication-assisted treatment to students with opioid addictions.

The school acknowledged that buy-in has been slow: Students haven't used the in-house medically assisted treatment yet, and just four of 14 rooms in the house are filled.

"There's no reason that any university should not have a collegiate recovery program," said Lori Holleran Steiker, a social-work professor at the University of Texas at Austin. Even at small schools, she said, the absence of anyone in recovery is very unlikely.

—Melissa Korn and Jon Kamp

Trump Set to Nominate Slate Of Federal Judges

By Brent Kendall And Michael C. Bender

WASHINGTON—With Justice Neil Gorsuch now sitting on the Supreme Court, President Donald Trump is preparing to turn to the nomination of a slate of conservatives for judgeships to the lower federal courts.

Mr. Trump is expected to announce a batch of picks for 10 judicial posts, including five nominees for the powerful federal appeals courts, a person familiar with the matter said.

While the appeals courts attract less public attention than the Supreme Court, judges who serve at that level play a significant role in shaping the law.

The high court hears only about 70 cases a year, meaning the federal appellate level is the final stop for the overwhelming majority of cases filed in the federal system.

Mr. Trump's new nominees will include two judges whom he had placed on his Supreme Court shortlist during his presidential campaign, the person familiar with the matter said. He will nominate Michigan Supreme Court Justice Joan Larsen for a seat on the Sixth U.S. Circuit Court of Appeals in Cincinnati, and Minnesota Supreme Court Justice David Stras for a seat on the Eighth Circuit in St. Louis.

Both previously served as law clerks to conservative Supreme Court justices.

The other imminent appeals court nominees are Louisville, Ky., lawyer John K. Bush for the Sixth Circuit, University of Notre Dame law professor Amy Coney Barrett for the Chicago-based Seventh Circuit and Alabama lawyer Kevin Newsom to the Atlanta-based 11th Circuit, the person said.

Mr. Trump will also nominate four people to serve as judges at the federal district courts, and one for the U.S. Court of Federal Claims. District court nominees typically don't spark as much political wrangling because they serve at the trial level and aren't usually the final word on disputed areas of the law.

To date, the president has announced only one lower-court nominee: U.S. District Judge Amul Thapar for the Sixth Circuit appeals court.

Mr. Trump's list was reported by the New York Times.

Some Clergy Wary After Curb Is Lifted

By Ian Lovett

WASHINGTON—When President Donald Trump signed an executive order effectively lifting the ban on tax-exempt organizations, like churches, endorsing political candidates, members of the clergy assembled the Rose Garden cheered.

But not every preacher is rushing to join the political fray. Clergy from a variety of faiths said that removing the threat of an Internal Revenue Service crackdown could create a different set of problems for houses of worship. Some worry about the potential influence of political money on their congregations.

Some pastors, rabbis and imams fret that engaging politically could fracture their congregations.

They were wary that major donors might expect them to endorse candidates or distribute literature in exchange for big gifts. And some said that aligning with one political party or even a single candidate would dilute the force of their moral message.

"Practically speaking, churches with any diversity in the congregation need to stay away from this business—it's just dangerous to church fellowship," said Daniel Glaze, a pastor at River Road Church, a Cooperative Baptist Fellowship church in Richmond, Va.

The executive order doesn't eliminate the 1954 tax regulation, known as the Johnson Amendment, that prohibits tax-exempt organizations from endorsing political candidates. But Mr. Trump effectively instructed the IRS to stop any enforcement of the seldomly enforced law.

Supporters of repealing the Johnson Amendment say that getting churches to engage more politically was never the point: It was about stopping government regulation of sermons.

"We are a free nation, and the people who are ministering should be able to speak freely what is in their hearts," Cyril Rayan, pastor of the Potter's Ministries, a nondenominational Christian church in San Jose, Calif., said after the ceremony at a National Day of Prayer event at the Capitol.

The Church of Jesus Christ of Latter-day Saints, issued a statement saying the Mormon Church "remains committed to political neutrality." A spokeswoman for the U.S. Conference of Catholic Bishops said in an email that its policy will continue to be nonpartisan.

Rabbi Marvin Hier, founder of the Simon Wiesenthal Center said being able to openly oppose anti-Semitic candidates was one reason why he supports repealing the Johnson Amendment.

—Laura Meckler contributed to this article.

FROM PAGE ONE

PRINT

Continued from Page One

tion for no particular reason."

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

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

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

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

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

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

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

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

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

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

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

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

GEOFFREY ROBINSON/REX FEATURES/ZUMA PRESS

Inside a workshop at William Cowley, a vellum manufacturer.

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

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

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

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

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

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

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

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

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LIFE & ARTS

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

EXHIBITS

The Olympics of the Art World

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

BY KELLY CROW

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

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

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

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

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

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

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

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

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

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

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

Here are some other national highlights.

U.S.A.

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

CANADA

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

POLAND

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

ZIMBABWE

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

EGYPT

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

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OPINION

REVIEW & OUTLOOK

Japan's Constitutional Gamble

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

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

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

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

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

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

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

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

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

Your Friends in Public School

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

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

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

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

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

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

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

Europe's French Reprieve

French voters chose a centrist reformer over the nationalist right on Sunday by electing Emmanuel Macron as their next President. The question now is whether Mr. Macron can deliver on his promise to reform France's sclerotic economy and diminish the Islamist terror threat.

Macron beats Le Pen, but without growth the extremes will be back.

Mr. Macron's decisive victory is as much a rejection of the far-right National Front as an endorsement of his platform. Despite Marine Le Pen's yearslong effort to whitewash her party's reputation for anti-Semitism and Vichy nostalgia, the keys to the Élysée Palace proved as elusive to her as they did to her father, Jean-Marie, in 2002's presidential runoff against Jacques Chirac.

Mr. Macron deserves credit for his initiative. The 39-year-old former investment banker quit the incumbent Socialists to launch his independent centrist movement, En Marche! His outsider status and optimistic vision proved attractive to voters fed up with traditional political parties. He offered a clear if modest reform alternative, with proposals to shrink the bureaucracy, cut corporate taxes and modify the job-killing 35-hour workweek.

He was also lucky. The center-right Republican nominee François Fillon, a self-proclaimed Thatcherite, was felled by allegations of nepotism. Independent, hard-left firebrand Jean-Luc Mélenchon divided the socialist vote. In the runoff Mr. Macron was the default choice of voters who wanted to block the National Front.

This means President Macron will have a fragile mandate and a narrow window to press his agenda. France needs radical reform of a government that in 2015 took 57% of national GDP and an economy with a jobless rate that is still 10% eight years after the financial crisis.

Yet political failure is the recent French norm. Successive Presidents have failed to undo the 1999 35-hour-workweek law amid militant union protests. Mr. Mélenchon and his "Unbowed France" movement are promising chaos if Mr. Macron dares to advance what the socialist calls "neoliberalism." Mr. Macron's best bet is to go big and abolish the 35-hour workweek as Mr. Fillon promised, rather than seek marginal fixes and pay the political price anyway. The same goes for cutting the corporate tax rate to 25% from 33.3%, especially as the U.S. heads toward a 20% rate.

Mr. Macron's ability to push reform will depend on the strength of the parliamentary coalition he can assemble. If En Marche! fails to win a majority in June's parliamentary vote, he should hope the Republicans do. One way to set the tone for the June vote would be to invite Republican heavyweights to join the Macron cabinet.

The new President will also need help on national security, which was his weakest pitch to voters. While he committed to increasing capacity at the security agencies, Ms. Le Pen's vows to fight radical Islam and toughen border controls appealed to voters who witnessed massacres across the country.

* * *

Mr. Macron is a French sort of Atlanticist, which means he's wary of looking too pro-American. He accused the West of "constantly" escalating the Ukraine conflict, described Moscow as a "partner" and warned that the U.S. shouldn't "dictate" French foreign policy, as if the latter ever happens. But perhaps the weekend dump of documents from his campaign, which bore the hallmarks of a Russian cyber operation, will open his eyes to the Kremlin threat.

As for European Union elites, the temptation will be to view the Macron triumph as vindication of the status quo, given Ms. Le Pen's vow to leave the EU and ditch the euro. It is at most a reprieve. Ms. Le Pen improved on her father's performance 15 years ago, she and Mr. Mélenchon drew broad support among the young, and France's mainstream parties were repudiated. The EU project is far from secure unless it can provide more economic opportunity and better security, and show more respect for voters who resent dictates from Brussels.

The French center held, barely. If Mr. Macron fails to deliver faster growth, France may not be so lucky the next time.

The French Tony Blair

By Robert Colvile

Barack Obama's message to French voters in the run-up to Sunday's election was less an endorsement than an anointment. Presidential candidate Emmanuel Macron, he said, embodies "the values that we care so much about." On Mr. Macron's Twitter page, the accompanying slogan made the parallel explicit: *"L'espoir est en marche,"* roughly translated to "Hope is on the move."

Young, handsome, liberal, popular—it's easy to understand the comparison. But the truth is that the new French president isn't the new Barack Obama. He's the new Tony Blair.

Like the former British Prime Minister, Mr. Macron emerged from a traditional left-wing party that prizes ideology above electability. Like Mr. Blair, he argues that old, left-right political divisions are outdated. Like Mr. Blair, he promises a novel combination of market economics and progressive values. And like Mr. Blair, he is startlingly vague about how it will actually work.

There are, of course, differences. Mr. Blair promised not to raise taxes. Mr. Macron says he will cut them and trim spending too. While Mr. Blair rebranded his party as "New Labour," he never had the arrogance to set up a new one using his own initials.

But New Labour was, like Mr. Macron's En Marche!, less a political party than a cult of personality. Watching Mr. Macron on the campaign trail is reminiscent of a 1997 election advertisement showing the young Labour leader treated like a boy-band star, feted by adoring fans as he makes his way to the polling booth.

The problem is we British know all too well how this movie ends.

Last year polling company YouGov asked Britain's voters to rate their former leader. They didn't merely dislike him: They despised him. Only 2% viewed him "very favorably," and 51% per viewed him "very unfavorably." That trend held across every demographic: age, gender, nationality and political affiliation.

Part of this is the legacy of the Iraq war. But what really curdled public opinion was a sense that we'd been had. Mr. Blair promised a better Britain. Instead he used the proceeds of a banking-driven boom to lavish billions on unreformed public services, leaving the country in a woeful position when the 2008 financial crisis hit.

And Mr. Blair enjoyed advantages that Mr. Macron will not. The Conservatives left him an economy that was purring like a Rolls-Royce. He had a colossal majority in the House of Commons. The only real obstacle was his own Chancellor, Gordon Brown, who spent years blocking Mr. Blair's reform agenda out of a sense of thwarted entitlement.

Mr. Macron, by contrast, promises to try Blairism in a country that never had Thatcherism. France's public spending sits at 57% of GDP. Youth unemployment is 24%. The economy creates good jobs, but nowhere near enough of them. Reform efforts, including a 2008 commission set up by Nicolas Sarkozy, on which France's new president served, have yielded staggeringly little. Mr. Macron's deregulation efforts under the Hollande government largely failed too.

British voters know what happens when electability trumps ideology.

Even when his personal star started to wane, Mr. Blair could still rely on his party's institutional strength. En Marche! has no such base, meaning that barring an extraordinary upset in June's parliamentary elections, Mr. Macron will be reliant on a cobbled-together coalition.

Messrs. Blair and Macron are also both good cosmopolitan liberals, staunchly supportive of immigration and European integration. Millions disagree. Mr. Blair governed in good times, but even then his opening of British borders to Eastern European workers stirred up enormous resentment and anxiety. Mr. Macron takes power when concerns about immigration are entwined with anxiety about security, Islamist terrorism and Syrian refugees. Yet he promises to double down on Mr. Blair's approach: more Europe, more globalization, more openness.

If he can deliver growth, it won't matter that Mr. Macron has nothing to say to French supporters of the National Front's Marine Le Pen, who blame the euro, migrants or globalization for their troubles. But if he cannot, Mr. Macron's smiles and promises will soon seem as false as Mr. Blair's.

The new president may turn out to be the savior of France—the man who finally persuades that prickly country to love, or at least tolerate, the market. But his promises, from this side of the Channel, look wearily familiar: all the gain of reform, with none of the pain.

Mr. Colvile is deputy director of the Centre for Policy Studies and editor of CapX, a website devoted to capitalism.

Colombia's Perilous Deal

AMERICAS
By Mary Anastasia O'Grady

When Colombian President Juan Manuel Santos unilaterally declared amnesty for the Revolutionary Armed Forces of Colombia, or FARC, as part of a 2016 "peace" deal crafted in Havana, he promised that it meant an end to the group's terrorism and criminality.

It's not turning out that way. Instead the Santos-FARC agreement appears to have legalized the group's thuggery. Among the more alarming aspects of the so-called peace process is the failure of the drug-trafficking rebels to turn in their arms. Neither the United Nations, which is charged with independent verification of the weapons surrender, nor the Santos government seems concerned about the FARC's noncompliance.

Colombia's democracy is being stolen right out from under the nation's nose thanks to an agreement that is as silly and naive as the one Barack Obama made with Iran. Donald Trump may not be able to stop this crime. But he doesn't have to underwrite it. Last week the undemocratic Mr. Santos tweeted that the new U.S. budget includes $450 million to support his FARC deal. This despite the free rein it gives the country's largest drug cartel.

Colombians turned down the FARC agreement in a national plebiscite in October. They did so because they reject key elements of the deal including amnesty for war criminals and drug traffickers, the legalization of FARC leaders as politicians, the designation of unelected seats in Congress for FARC representatives, and putting the Colombian army on the same judicial plane as terrorists.

Mr. Santos refused to accept his defeat. Rather than withdraw the agreement as he had promised to do if he lost, he made cosmetic changes to it. Then he used his majority in Congress to declare it law and to enshrine it above the constitution.

We may never know if Mr. Santos actually believed that the guerrillas were ready to abandon their barbarism and learn to eat with knives and forks. It may be that his personal ambition for international recognition as the progenitor of a FARC deal clouded his judgment.

The latest proof that Mr. Santos was snookered by FARC is the discovery last week of another cache of FARC arms that were supposed to be handed in. Hidden weapons are like cockroaches. If you discover one, you can be sure there are many others unseen.

On Wednesday the Colombian army found 16 FARC rifles and 39 grenades near the border of the departments of Meta and Guaviare. The army said that the weapons had been used for extortion and to attack government teams eradicating coca. Last month another find in the same area included one M16, six magazines and 1,300 rounds of ammunition.

On April 20 the minister of defense announced the discovery of a FARC weapons cache in Putumayo. It included 54 rifles, six machine guns, three grenade launchers, 100 kilos of explosives, 200 land mines and 3,600 detonators. Two weeks earlier, the minister said, authorities had found 600 mortar grenades in Tumaco, in the department of Nariño.

As if to show who's in charge, FARC leader Iván Márquez took to Twitter to characterize the discovery of the FARC weapons in Putumayo as an "assault," complaining that it violated the agreement. In fact, according to the deal the FARC was supposed to provide the government with the coordinates of all its stored weapons by Dec. 11, 2016. By Feb. 1, all explosive-material caches were to be destroyed. Now that it has been caught lying, FARC says it needs more time to abide by the agreement.

The group promised to disarm, but it keeps getting caught with hidden weapons.

Hidden FARC weapons in Colombia are not likely to be the only problem. Writing in Colombia's Semana magazine on April 22, former Colombian vice minister of justice Miguel Ceballos Arévalo noted that the governor of the Venezuelan state of Amazonas claims that there are 4,000 FARC rebels in his territory. Mr. Ceballos Arévalo observed: "If there are 4,000 FARC in Venezuela, there are also 4,000 arms," since presumably every guerrilla has a weapon.

The deal also calls for the FARC to return thousands of child soldiers, whose average recruitment age has been estimated at less than 13. Yet this has not happened and no FARC leader is held accountable, though enlisting underage boys and girls is an international crime against humanity. As if to further prove its unrepentant attitude, the FARC kidnapped a United Nations worker in the department of Guaviare last week.

If this is how the FARC behaves during its reconciliation honeymoon with the Colombian people, it's not hard to imagine what the country will look like after a few years of a well-armed, well-funded, drug-trafficking FARC in politics.

Write to O'Grady@wsj.com.

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OPINION

Trump's Tax Plan Would Spur Growth

By Edward P. Lazear

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

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

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

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

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

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

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

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

State and local taxes would no longer be deductible under Mr. Trump's plan. Much has been said about the cross-subsidization of high-tax states such as New York and California by low-tax states such as Florida and Texas. Removing this deduction would mean that overall federal personal income-tax rates can be lower and generate the same revenue. Beyond that, there is a subtle and positive growth effect of eliminating state tax deductions.

ASSOCIATED PRESS

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

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

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

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

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

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

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

Abe Reaches for a Constitutional Legacy

By Tobias Harris

Prime Minister Shinzo Abe has always been open about his commitment to revising Japan's postwar constitution, going right back to when he entered Japan's Diet in 1993. Mr. Abe has long argued that the charter is a relic of another age written in haste by "New Dealers." So his pledge to amend the document by 2020, made on the 70th anniversary of the constitution's promulgation last Wednesday, was hardly a surprise.

Strong as Mr. Abe's zeal on the subject is, his pragmatism will determine whether he achieves his mission. His announcement likely marks the beginning of a contentious multi-year process. It is unlikely the Diet will take up revision before spring 2018, which could lead to a national referendum on the subject in late 2018.

In the meantime, Mr. Abe will have to manage his own Liberal Democratic Party and its coalition partner Komeito, which has historically been skeptical of revision. He will have to keep the opposition Democratic Party and other opposition parties off balance to prevent them from galvanizing public opposition. And he will have to make his own case to a public that is uncertain about the necessity of revision but will have final say on any amendment via referendum. If Mr. Abe is unable to manage this process, it could derail revision entirely and jeopardize the survival of his government.

The revision process will constrain Mr. Abe in other ways. His need to keep Komeito on board will give that party power to shape the government's agenda on other issues. The same goes for Nippon Ishin no Kai, a pro-revision opposition party with crucial votes in the Diet's upper house. Mr. Abe will also have to ensure that voters continue to back his government and that a majority support revision at the referendum that would be the last step in the amendment process. These constraints make it unlikely that Mr. Abe will launch any new economic initiatives while constitutional change is under discussion.

Mr. Abe may have just ceded one of a prime minister's main tools for enforcing party discipline: the threat of a snap election. He may have no choice but to wait until the Diet has approved revisions to call a snap election, lest he lose his government's parliamentary supermajority.

The Japanese prime minister will need all his deal-making skills to convince parliament and the public to accept revision of Article Nine.

The prime minister does have other ways of ensuring that his cabinet and party stay on message—his pledge makes it more likely that he will be easily reelected for a third term as party leader in September 2018, for example. But it is nevertheless imperative that he and his ministers are able to withstand the intense scrutiny in Diet deliberations that amendments are sure to face.

Mr. Abe seems to recognize that, in order to realize a goal he inherited from his grandfather, postwar Prime Minister (and wartime munitions minister) Nobusuke Kishi, he has to be a pragmatic deal-maker. Accordingly, he has largely abandoned the LDP's 2012 draft constitution, which proposed a number of changes that would likely have met widespread public resistance.

Instead Mr. Abe has suggested two possible amendments that were lifted directly from the proposals of other parties, including a Komeito idea to revise Article 9, the so-called "peace clause," to state that Japan's Self-Defense Forces are constitutional—while leaving the rest of the article unchanged. A second proposal, which would amend Article 26 to clarify that the guarantee of free education applies to secondary and higher education, comes straight from Nippon Ishin no Kai's manifesto.

In both cases Mr. Abe accepted proposals that would keep political allies satisfied and have broader appeal to voters, even though they fall short of what he and other LDP members might prefer. In the case of Article Nine, the revision would merely update the constitution to reflect political reality rather than enable significant policy change. But Mr. Abe seems content to accept a symbolic victory if only to demonstrate that the constitution is not inviolable and that it can and should change to reflect changing conditions.

As the popular leader of a unified party facing a weak opposition and commanding a supermajority in the Diet's House of Representatives, Mr. Abe seems better placed than any of his predecessors to deliver constitutional change. But if he is to realize his dream of revision, it will be thanks to his willingness to recognize and work within the constraints on his power.

Mr. Harris is an analyst at political risk advisory firm Teneo Intelligence and a fellow at Sasakawa USA.

Remake the Paris Deal to Promote America's Energy Interests

By Kevin Cramer

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

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

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

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

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

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

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

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

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

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

A place at the table would let Trump counter Chinese predation and European unrealism.

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

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

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

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

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

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

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Notable & Quotable: Bias Against Squirrels

From the abstract of a paper published April 13 in the academic journal Gender, Place and Culture:

Eastern fox squirrels *(Sciurus niger),* reddish-brown tree squirrels native to the eastern and southeastern United States, were introduced to and now thrive in suburban/urban California. . . . 'Easties,' as they are colloquially referred to in the popular press, are willing to feed on trash and have an 'appetite for everything.' Given that the shift in tree squirrel demographics is a relatively recent phenomenon, this case presents a unique opportunity to question and re-theorize the ontological given of 'otherness' that manifests, in part, through a politics whereby animal food choices '[come] to stand in for *both* compliance and resistance to the dominant forces in [human] culture'. I, therefore, juxtapose feminist posthumanist theories and feminist food studies scholarship to demonstrate how eastern fox squirrels are subjected to gendered, racialized, and speciesist thinking in the popular news media as a result of their feeding/eating practices, their unique and unfixed spatial arrangements in the greater Los Angeles region, and the western, modernist human frame through which humans interpret these actions.

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BONDS: ON RELATIONSHIPS | By Elizabeth Bernstein

One Habit to Make You Happier Today

ROBERT NEUBECKER

DO YOU HAVE a personal mantra?

You should.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Weather

AccuWeather.com

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

Global Forecasts

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

City	Today Hi	Today Lo	Today W	Tomorrow Hi	Tomorrow Lo	Tomorrow W
Amsterdam	12	5	c	13	6	pc
Anchorage	12	5	c	16	6	pc
Athens	26	16	pc	25	16	pc
Atlanta	29	17	pc	31	19	s
Baghdad	38	21	s	40	24	s
Baltimore	18	7	pc	20	9	pc
Bangkok	34	25	t	32	26	t
Beijing	29	13	s	30	14	pc
Berlin	10	4	c	10	4	sh
Bogota	19	10	r	19	10	r
Boise	24	9	s	27	13	s
Boston	12	6	pc	14	7	r
Brussels	14	2	pc	16	7	pc
Buenos Aires	19	7	s	17	9	s
Cairo	38	24	s	38	20	s
Calgary	18	4	pc	22	6	pc
Caracas	31	26	pc	31	26	t
Charlotte	26	15	pc	30	17	pc
Chicago	12	7	c	17	8	sh
Dallas	29	20	pc	29	21	c
Denver	19	8	t	16	7	r
Detroit	15	5	pc	17	8	pc
Dubai	38	28	pc	37	28	s
Dublin	12	2	pc	15	6	pc
Edinburgh	16	5	pc	15	6	pc
Frankfurt	14	3	c	17	7	pc
Geneva	17	5	pc	21	10	pc
Hanoi	30	25	t	30	25	t
Havana	32	18	s	31	20	s
Hong Kong	29	25	c	30	25	pc
Honolulu	29	23	pc	29	22	pc
Houston	29	21	pc	29	22	pc
Istanbul	23	14	t	18	12	t
Jakarta	32	24	t	32	24	sh
Johannesburg	21	8	pc	21	11	s
Kansas City	29	18	s	28	15	t
Las Vegas	23	13	t	24	16	pc
Lima	24	19	pc	25	20	pc
London	15	5	c	17	8	pc
Los Angeles	21	15	pc	20	13	pc
Madrid	29	13	pc	21	11	t
Manila	35	26	t	35	26	s
Melbourne	16	7	pc	18	9	pc
Mexico City	25	15	pc	26	13	pc
Miami	31	21	s	31	22	s
Milan	21	11	pc	20	12	pc
Minneapolis	21	11	c	21	10	c
Monterrey	33	21	pc	35	19	pc
Montreal	9	1	c	13	5	c
Moscow	7	-1	c	7	-2	c
Mumbai	34	26	pc	34	27	pc
Nashville	30	17	pc	31	18	pc
New Delhi	43	29	pc	42	29	t
New Orleans	28	16	s	27	18	pc
New York City	15	8	pc	17	8	pc
Omaha	29	15	t	21	13	sh
Orlando	32	17	s	35	18	s
Ottawa	7	0	c	14	3	pc
Paris	16	5	pc	19	12	pc
Philadelphia	17	8	pc	20	9	pc
Phoenix	23	15	t	25	17	c
Pittsburgh	17	4	pc	19	7	pc
Port-au-Prince	31	22	sh	31	21	pc
Portland, Ore.	23	10	s	25	11	pc
Rio de Janeiro	27	21	s	27	20	pc
Riyadh	38	26	pc	38	26	pc
Rome	21	10	pc	22	14	pc
Salt Lake City	24	13	pc	22	12	pc
San Diego	19	16	sh	21	16	pc
San Francisco	22	11	pc	19	12	pc
San Juan	30	23	t	30	24	sh
Santiago	21	8	pc	16	9	pc
Santo Domingo	30	22	sh	30	22	pc
Sao Paulo	26	14	pc	24	16	s
Seattle	20	9	s	22	11	pc
Seoul	22	15	r	22	14	pc
Shanghai	26	16	s	31	20	s
Singapore	31	26	c	31	26	c
Stockholm	6	-5	sf	7	-4	sh
Sydney	20	13	s	21	13	s
Taipei	31	23	t	31	24	pc
Tehran	29	17	s	30	18	s
Tel Aviv	35	22	s	33	18	s
Tokyo	23	17	c	21	17	r
Toronto	12	3	c	14	4	pc
Vancouver	17	9	pc	18	10	c
Washington, D.C.	20	9	pc	21	11	pc
Zurich	14	3	pc	19	7	pc

The WSJ Daily Crossword | Edited by Mike Shenk

EMPTY BOXES | By Maxine Cantor

Across

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

Down

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

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

Previous Puzzle's Solution

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TECHNOLOGY: CHINA DEFENDS PROPOSALS ON CLOUD-COMPUTING SERVICES B4

BUSINESS & FINANCE

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THE WALL STREET JOURNAL.

Tuesday, May 9, 2017 | B1

Yen vs. Dollar 112.8480 ▲ 0.12% **Hang Seng** 24577.91 ▲ 0.41% **Gold** 1227.10 ▲ 0.19% **WTI crude** 45.93 ▼ 0.63% **10-Year JGB** yield 0.030% **10-Year Treasury** yield 2.378%

Endgame Nears in Paint Standoff

Unmixed Paint

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

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

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

THE WALL STREET JOURNAL.

By Christopher Alessi And Ben Dummett

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

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

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

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

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

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

Please see AKZO page B2

◆ Heard on the Street: PPG needs to get messy..... B7

Goldman Adds Leaders At Unit

By Liz Hoffman

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

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

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

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

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

Mr. Lemkau, 47 years old, and Mr. Nachmann, 46, were added in late 2015 to Goldman's management committee, often a sign of bigger roles to come.

Mr. Lemkau has been a co-head of Goldman's M&A group since 2013. A technology and media banker by training, he has worked on deals including the sale of DirecTV to AT&T Inc. and Verizon Communications Inc.'s takeover of Yahoo Inc., and helped lead Goldman's own early investments in technology companies such as Facebook Inc. and Spotify.

Mr. Lemkau comes from a finance family. A sister is chief marketing officer at J.P. Morgan Chase & Co. His brother is a private banker at Goldman.

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

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

Please see CHANGES page B2

HEARD ON THE STREET
By Jacky Wong

TPG Offer For Fairfax Isn't Yet Fit to Print

Financiers with big pockets are looking to pick up some of Australia's leading newspapers. But they are likely most interested in the real-estate listings.

A consortium led by San Francisco-based private-equity firm **TPG Group** has submitted a $1.6 billion nonbinding offer for **Fairfax Media**, which owns such prized titles as the Sydney Morning Herald and the Australian Financial Review.

But prestige notwithstanding, this isn't really a Jeff Bezos-like show of faith in old media.

Instead, the main prize for the consortium, which includes the **Ontario Teachers' Pension Plan Board**, is Fairfax's property-listings website, Domain. It contributes about 40% of the company's operating profit and has grown to become the second-biggest such site in Australia.

The consortium plans to take Domain and Fairfax's top metropolitan newspapers private and spin off the remaining businesses, including Australian regional newspapers and New Zealand media, into another firm that the company's existing shareholders would continue to own.

The strategy looks sound enough. Domain has done well out of Australia's property market—still booming, thanks to Chinese buyers—and the shift to online house-hunting. TPG was part of a consortium that bought a controlling stake in Singapore's leading listings site, PropertyGuru.com.

Still, to make this deal work out, TPG will likely have to do better than its opening bid. Ignoring the value of the metropolitan newspapers, it puts Domain's enterprise value at around 20 times its expected earnings before interest, taxes, depreciation and amortization, similar to that of its biggest rival, REA Group, according to S&P Global Market Intelligence. (News Corp, the publisher of The Wall Street Journal, owns 62% of REA.) That means there is little takeover premium penciled in.

The proposal also robs existing shareholders of any upside from owning Fairfax's crown jewel, while sticking them with a collection of unwanted regional newspapers whose revenue is shrinking.

Fairfax's Sydney-listed shares rose only 2.4% on Monday after the bid news. A second edition looks in order for TPG and its cohorts.

Sanctions Fail to Curb Russian Oil

ANDREY RUDAKOV/BLOOMBERG NEWS

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

European firms are working with Rosneft, and crude output is at historic highs

By Bradley Olson And Jay Solomon

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

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

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

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

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

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

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

France's **Total** SA, together

Please see OIL page B2

Rising Tide

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

Average daily oil production, in thousands of barrels

Source: U.S. Energy Information Administration

THE WALL STREET JOURNAL.

Snapchat Chooses Ad Dollars Over Emerging Nations

By Georgia Wells

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

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

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

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

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

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

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

Snap, on the other hand, said in a public filing released in February that growth would

Please see SNAP page B4

KIRSTY O'CONNOR/PA WIRE/ZUMA PRESS

Snap Inc. on Wednesday will report its first quarterly earnings since the messaging-app creator went public in March.

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VW Says It Is on Cusp Of U.S. Turnaround

By William Boston

WOLFSBURG, Germany—**Volkswagen** AG says its unprofitable U.S. operation is about to turn a corner and start cashing in on the world's most valuable car market.

But the company has been down this road before.

Herbert Diess, a former **BMW** AG executive who runs Volkswagen's namesake brand, is banking on a new fleet of sport-utility vehicles and a new generation of electric cars targeting **Tesla** Inc. on its home turf to improve VW's fortunes in America.

"The U.S. is too big a market for us to be a niche player," Mr. Diess told reporters on Friday, adding that VW expected to break even in the U.S. market by 2020, for the first time in years.

VW's push to gain market share in the U.S. comes as the company is gradually emerging from its diesel emissions-cheating scandal.

In 2015, Volkswagen admitted to rigging millions of diesel vehicles to cheat on emissions tests. Nearly half a million cars were affected in the U.S., plunging the VW brand into a crisis.

VW's U.S. sales rose 10% in the three months to the end of March from a year earlier, after the launch of its Atlas and Tiguan SUVs.

Mr. Diess said VW plans to launch two new models in the U.S. market every year, targeting sedans in 2018 and two more SUVs in both 2019 and 2020.

In 2020, Volkswagen will also begin production of its new family of pure electric vehicles. The first, a sedan, will go into production in Zwickau, eastern Germany, followed by new assembly facilities in China and the U.S.

"We have almost returned to precrisis levels within just 1½ years," Mr. Diess said. "And this is all without the diesel model, which we have completely withdrawn from the U.S. market."

The Volkswagen group, whose lineup includes VW, Porsche, Audi, Bentley and Lamborghini, is the world's biggest auto maker by sales. But the VW brand's share of U.S. auto sales was just 1.9% at the end of April, according to data compiled by Motor Intelligence. Including the Audi and Porsche brands, the market share was 3.6%.

This isn't the first time a senior VW executive has pledged to achieve market share in the U.S. that is more in line with its status as the leading manufacturer in Europe and China.

Martin Winterkorn, who resigned as chief executive in the wake of the diesel crisis, predicted in 2014 that VW would sell a million vehicles a year in the U.S. by 2018.

The VW brand sold 322,948 vehicles in the U.S. last year, down 7.6% from the previous year.

But that goal always seemed out of reach to the company's top management in the U.S. Until recently, VW lacked products tailored for the U.S. market, especially SUVs, and development decisions moved slowly at the headquarters in Germany.

Mr. Diess, acknowledging that VW is far from its U.S. goal, declined to give volume targets.

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BUSINESS & FINANCE

Investors Await Disney TV Update

By Ben Fritz

MICHAEL SHROYER/GETTY IMAGES

ESPN's growth started slowing two years ago amid subscription declines for pay-cable packages.

Walt Disney Co. investors will be paying more attention than ever to the media company's huge but challenged television business as the company reports fiscal second-quarter financial results on Tuesday.

The future of Disney's TV division, particularly ESPN, has been the focus of anxious Wall Street analysts since its growth started slowing two years ago amid subscription declines for pay-cable packages. Wariness is even higher now, though, after a top executive at Time Warner Inc. last week warned about an advertising slowdown and after the biggest-ever first-quarter decline in pay-TV subscriptions.

Investors will want to know whether the many deals Disney has signed with low-price "slim" internet TV bundles like **YouTube** TV are ameliorating subscriber declines. They also will be looking for an update on the "over-the-top" digital ESPN product Disney has said it would launch by the end of the year.

The company's theme-parks unit is also likely to get attention as the first anniversary of Shanghai Disney Resort approaches in June. Investors will want an update on the park's performance—particularly whether it is on track to meet its goals of 10 million visitors and break-even financial results.

Wall Street may also want to set expectations for the new "Avatar"-themed land opening at the Animal Kingdom park at Walt Disney World in Orlando, Fla., this month and whether it could help maintain growth in the domestic parks business, which has been on a tear recently.

After a monster fiscal 2016, Wall Street has been expecting a comparatively slow 2017 from Disney's film business. It is releasing only eight films, compared with 13 the prior year—two of which were on behalf of partner DreamWorks, under a deal that has expired—and 11 in the next.

But with March's "Beauty and the Beast" grossing $1.1 billion-plus and "Guardians of the Galaxy Vol. 2" on its way to a total nearly that big, following the hits "Rogue One," "Moana" and "Doctor Strange," declines at the studio could be quite minor after all. Investors will want to know what impact "Beauty" is having on the movie studio and consumer products this year before contemplating what looks like a few blockbuster years to come, with an accelerating pace of Marvel and "Star Wars" films as well as a "Frozen" sequel.

Tuesday will be the first earnings call since Chief Executive Robert Iger in March extended his contract for another year, to July 2019. Though Mr. Iger has previously been tight-lipped on earnings calls about the search for a successor, analysts may nonetheless ask about progress in figuring out who will be running the world's biggest media conglomerate in two years.

Disney is expected to report net income of $1.41 a share for the quarter, according to the consensus of analysts surveyed by Thomson Reuters, compared with $1.30 a share a year earlier. Revenue is expected to be $13.45 billion, up from $12.97 billion a year ago. Disney doesn't provide earnings guidance.

AKZO

Continued from the prior page

law requires PPG to publish a draft of its tender by June 1.

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

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

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

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

Akzo's corporate structure includes a controlling foundation. The four foundation directors, including Mr. Burgmans, Akzo's chairman, hold seats on Akzo's supervisory board.

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

JASPER JUINEN/BLOOMBERG NEWS

PPG chief Michael McGarry.

Elliott had no immediate comment on Monday.

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

Some observers say PPG could still prevail. A commitment to proceed with a tender offer could provide enough pressure for those board members to wave the white flag. Should they hold out, however, and PPG wins over shareholders in a tender offer, pressure would only mount.

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

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

OIL

Continued from the prior page

with a Russian partner subject to sanctions, is building a massive natural-gas export plant, a project that advanced despite financing limitations related to sanctions by turning to China. The companies have said they obtained clearance from the EU to proceed.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

CHANGES

Continued from the prior page

securities.

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

Mr. Nachmann's promotion leads a rejiggering of leadership in Goldman's financing division. The firm plans to promote Susie Scher, who runs its investment-grade debt group, and Pete Lyon, co-head of Goldman's stock-underwriting unit, to run the firm's financing efforts in the Americas, the people said.

Meanwhile, Christina Minnis, a senior leveraged-finance banker, will become head of acquisition finance, a newly created role, the people said. Goldman, which for decades has dominated the "sell-side" of the M&A business, has been trying to align itself more with buyers. That puts it in position for larger fees that come with arranging debt for takeovers.

The retirement of London executive Michael Sherwood at the end of last year left Mr. Gnodde as sole CEO of Goldman Sachs International, a role he will focus on now while remaining in London, the people said.

That business has grappled with the implications of Brexit, as well as a pair of embarrassing trials in London criticizing Goldman's advice to Libya's government and a British billionaire. Goldman, which spent $500 million on a new London headquarters, is likely to move jobs to offices throughout Europe.

CHRIS GOODNEY/BLOOMBERG NEWS

Gregg Lemkau, shown in 2015, has been promoted at Goldman.

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Pet-Food Offerings Go Upscale

Appealing to humans helps companies charge more, offsetting declining volumes

By Saabira Chaudhuri

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Pricey Chow

North American pet-food volumes fell 0.8% last year...

...but revenue climbed 4%.

Source: Euromonitor International

THE WALL STREET JOURNAL.

Sinclair To Buy Tribune Media

By Joe Flint And Austen Hufford

TV-station owner **Sinclair Broadcast Group** Inc. said Monday it would buy **Tribune Media** Co. for $3.9 billion.

The agreement would combine two of the biggest U.S. operators of local television stations and comes just weeks after the Federal Communications Commission relaxed its television ownership rules.

The deal values Tribune Media at $43.50 a share, an 8% premium to Tribune's $40.29 closing price Friday and a 26% premium over the price in February, before reports of a deal first surfaced. Tribune shares were up 5.1% at $42.36 at midday Monday.

For Sinclair, an acquisition of Tribune would cement its status as the most powerful U.S. TV-station owner. It already has 173 stations in midsize and small markets. The addition of Tribune's 42 stations would give Sinclair outlets in just about every major market as well, including New York, Los Angeles and Chicago.

Tribune shareholders would receive $35 a share in cash, as well as Sinclair stock valued at roughly $8.50 a share as of Friday. "The Tribune stations are highly complementary to Sinclair's existing footprint," said Sinclair Chief Executive Chris Ripley.

Even with the new relaxed TV ownership rules, Sinclair said Monday it could sell some of its or Tribune's stations to comply with the FCC's rules limiting a company to ownership of TV stations that reach 39% of the country. A combination of the companies would have an estimated 50% reach.

The deal also includes the assumption of about $2.7 billion in Tribune's debt.

KRIS TRIPPLAAR/SIPA USA/ASSOCIATED PRESS

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

PTC Sets Drug Expectations

By Joseph Walker

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

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

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

PTC didn't say whether it had lowered the $89,000 list price set by Marathon, or how it calculated the net price. The company didn't respond to requests for comment.

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

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

Shares of PTC fell 5.5% to $11.58 on Monday. Shares have risen 6.2% since its acquisition of Emflaza was announced in March.

Marathon said in February that its net price would be about $54,000 annually per patient after paying rebates to the Medicaid program and providing patients with copay coupons or free medicine to patients without insurance or whose insurance won't cover the drug.

PTC, based in South Plainfield, N.J., said in March that it would acquire Emflaza from Marathon for up to $190 million. As part of the acquisition, which was completed in April, Marathon also will receive an estimated 20% or more of Emflaza's revenue.

PTC estimated that Emflaza would have sales between $5 million and $10 million this year. Emflaza is a steroidal drug that has been sold for decades in Europe for conditions including arthritis and asthma. The drug hadn't been approved for sale in the U.S. before Marathon got clearance in February to sell it to patients with Duchenne muscular dystrophy, a fatal muscle-wasting disease that affects about 12,000 people in the U.S.

Doctors already have prescribed Emflaza to about 10% of the 9,000 U.S. patients eligible to take the drug, PTC said. The company plans to start selling the drug in the coming weeks.

It isn't yet clear whether Emflaza would be widely covered by U.S. insurers. A similar steroidal drug called prednisone is available generically and often for less than $10 a month.

PTC Chief Commercial Officer Mark Rothera said during Monday's conference call that he expected some insurers to place restrictions on patients seeking the drug, such as requiring them to try a different drug first.

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China Defends 'Cloud' Proposals

By Liza Lin

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

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

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

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

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

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

Cloud platforms provide data-storage, computing and networking resources over the internet, reducing the need for on-site servers. Amazon Inc. and Microsoft Corp. are among the companies offering cloud services in China, competing against Chinese companies including Alibaba Group Holding Ltd.

—Lilian Lin in Beijing contributed to this article.

Facebook Targets Fake News

By Stu Woo

LONDON—**Facebook** Inc. ran advertisements in major British newspapers on Monday that advised how to spot false news stories ahead of June's U.K. elections.

The ad, titled "Tips for spotting false news," offered 10 suggestions.

The tips included examining an online article's web address, making sure the story wasn't satirical, and being skeptical of the headline.

"If shocking claims in the headline sound unbelievable, they probably are," said the ad, which took up a full page in newspapers including the Daily Telegraph, The Times and the Guardian.

Criticized for doing little to curb the spread of misinformation during 2016's U.S. presidential race, Facebook has stepped up its effort in Europe amid a series of votes in the region.

The company said in April that it would place a false-news notice—similar to the one that appeared in newspapers Monday—on Facebook itself and had developed new ways to identify and remove tens of thousands of fake accounts.

Facebook's director of U.K. policy, Simon Milner, said Monday that the company couldn't itself solve the misinformation problem, but would support third-party fact checkers during the run-up to the British election on June 8.

"People want to see accurate information on Facebook and so do we," Mr. Milner said.

Comcast, Charter in Wireless Pact

U.S. cable giants enter partnership as they explore possible role in cutthroat business

By Dana Mattioli And Shalini Ramachandran

BRIAN VAN DER BRUG/LA TIMES/GETTY IMAGES

Charter Communications has said it would offer wireless service as soon as next year, as cable operators face a pay-TV slowdown.

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

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

That agreement could stoke Wall Street speculation among investors and analysts that the two largest U.S. cable companies together could decide to make a play for a carrier like **T-Mobile US** Inc. or **Sprint** Corp. Neither company as a single entity could buy another wireless carrier for that time period as a result of that agreement without the other's blessing or involvement.

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

The cable companies view wireless phone service as an opportunity to create a new product to make their bundles more appealing and better retain existing customers. They hope that by offering a "quad play" of cable TV, home internet, landline phone and wireless service, customers will be less likely to drop their service and jump to a rival.

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

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

Comcast and Charter say that their wireless partnership was motivated in part by the possibility of "further consolidation among national wireless competitors." Types of deals covered by their truce include "any acquisition, merger or other transaction" where a deal would result in the acquisition of at least 50% of the voting power or assets of either company, according to a regulatory filing.

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

The new operational partnership will allow Charter and Comcast to share technology and work together to use their combined scale in vendor negotiations with the likes of **Samsung Electronics** Co. for handsets, for instance, one of the people said.

However, the two companies will keep their customer-facing wireless storefronts and mobile plans separate.

The idea is that the partnership will allow the companies to share what they learn about what works and what doesn't in service plans and back-office billing operations, as well as achieve potential cost efficiencies. It could also help the two advance development on how to take advantage of their network of millions of Wi-Fi hot spots to bolster their wireless service.

Today, handing off a voice call between a W-Fi hot spot and cellular remains clunky.

"By working with the team at Comcast, we can not only speed Charter's entry into the marketplace, it will also enable us to provide more competition and drive costs down for consumers at a similar national scale as current wireless operators," Charter Chairman and Chief Executive Tom Rutledge said in a statement.

The companies also agreed that they would only work together with respect to other commercial arrangements with the national wireless carriers, such as in wireless airwave reseller deals like the one they already have with Verizon.

The cable companies will also likely explore working closer together to gain scale in wireless and digital advertising as a result of the partnership, a person familiar with the matter said. Rivals AT&T and Verizon have openly discussed their interest in making a bigger play there, as juggernauts Google Inc. and Facebook Inc. are sucking up the majority of digital ad dollars. Comcast and Charter already collaborate in local cable ad sales.

Comcast and Charter will each still only offer wireless service to customers within their respective cable footprints—not nationwide, the person said. However, their mobile plans' coverage will be nationwide.

SNAP

Continued from page B1

likely come from "developed markets with readily available high-speed cellular internet and high-end mobile devices." Snap's biggest and fastest-growing regions are North America and Europe, accounting for more than 96% of the company's revenue.

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

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

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

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

The company in the past year has rejected suggestions that it branch out.

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

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

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

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

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

BUSINESS WATCH

TYSON FOODS

Profit is Hurt by Several Plant Fires

Tyson Foods Inc. said its second-quarter earnings fell as fires in its chicken plants ate away at margins.

The U.S.-based company said two fires in its plants caused operational outages during the latest quarter, shrinking the segment's margins to 8.3% from 12.7%. Profit in Tyson's chicken business fell 32% to $233 million, despite a 2.2% increase in revenue.

Tyson, in the midst of shedding assets to focus more on its protein business, also reported falling sale volumes for beef and pork. The company backed its earnings outlook for the year.

In all for its second fiscal quarter, Tyson reported earnings of $340 million, or 92 cents a share, compared with $434 million, or $1.10 a share, a year earlier. On an adjusted basis, the company said per-share earnings came to $1.01, down from $1.07.

Revenue edged 0.9% lower to $9.08 billion. Analysts polled by Thomson Reuters had forecast earnings of $1.02 on $9.06 billion in sales.

—Imani Moise

DISNEY

'Guardians' Movie Has a Big Debut

Walt Disney Co.'s Marvel Studios continued its winning streak at the box office over the weekend, as "Guardians of the Galaxy Vol. 2" opened to a strong $145 million in the U.S. and Canada, according to studio estimates.

The interstellar action-comedy starring Chris Pratt opened in some foreign markets last week and has grossed a total of $283 million overseas. It has grossed $48 million in China since opening there Friday. Its $13.3 million debut in South Korea already exceeds the $11 million total gross of the first "Guardians of the Galaxy" there.

All of Marvel's movies have been hits save for the second one it released, "The Incredible Hulk," in 2008.

—Ben Fritz

CHUCK ZLOTNICK/DISNEY/EVERETT COLLECTION

'Guardians of the Galaxy Vol. 2' has grossed a total of $283 million overseas so far.

ANGLOGOLD

Firm's Gross Profit Takes 30% Tumble

AngloGold Ashanti Ltd., the world's No. 3 gold producer, said its South African operations struggled in the first quarter, though international mines helped the overall group remain in the black.

In a limited quarterly market update on Monday, AngloGold reported a gross profit of $135 million for the three-month period ended March 31, down 30% from a year earlier.

Quarterly gold production slipped 3.6% to 830,000 ounces at a total cash cost of $813 an ounce, up from $702 an ounce a year earlier, thanks to lower grades and some fractured ground at older, deeper South African mines.

Gold prices are still down sharply from 2011 highs above $1,900 an ounce, but AngloGold and other miners have used the intervening years to aggressively cut costs. AngloGold increased its capital expenditures to $216 million in the first quarter, up 69% from capex spending in the first three months of 2016.

—Alexandra Wexler

ORIGIN ENERGY

Company Is in Deal To Sell Wind Farm

Australia's **Origin Energy** Ltd. has struck a deal to sell a wind farm to Chinese wind-turbine technology company **Xinjiang Goldwind Science & Technology** Co. and to buy power from the company in the future.

Origin said Monday it will sell the Stockyard Hill Wind Farm in southeastern Australia to Goldwind for 110 million Australian dollars (US$81.6 million). It also committed to a 530-megawatt power-purchase deal with the project from when it begins operations in 2019 to 2030.

Origin would buy all the power generated by the farm. The sale remains subject to regulatory approvals.

—Robb M. Stewart

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Low Interest? Depositors Shrug

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

By Rachel Louise Ensign And Liz Hoffman

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

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

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

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

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

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

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

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

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

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

Bank of America, for example, had 4,559 branches in the U.S. and 15,939 ATMs at the end of the first quarter. Goldman Sachs Bank USA, on the other hand, has no ATMs and retail customers can't walk into a Goldman branch.

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

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

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

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

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

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

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

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

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

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

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

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

Small Change

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

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

Macau Tightens Checks On ATMs

By Kathy Chu

Macau's government will require facial-recognition and identity-card checks for cash withdrawals made on **China UnionPay** bank cards, a move it said was aimed at tackling money laundering and terrorism financing in the gambling hub.

The changes will be phased in at all ATMs in the Chinese territory and will apply to bank cards from mainland China, the Macau government said in an online statement. It didn't provide a time frame.

The policy comes as capital outflows have threatened to depress China's currency and its capital reserves. The announcement also came as Zhang Dejiang, a top-ranking Communist Party official and chairman of China's National People's Congress, arrived in Macau for a three-day visit.

Beijing has grown increasingly concerned about capital flight, clamping down on Chinese investment overseas and more heavily scrutinizing bitcoin trading that can be used by investors to move money out of China. State-run UnionPay dominates China's card-processing network, which means that Macau's restrictions apply to the vast majority of mainland Chinese bank cards. UnionPay didn't immediately respond to a request for comment.

Big spenders from the mainland, where gambling is illegal, are among the top sources of visitors to Macau, a special administrative region of China. Macau's gambling revenue has been picking up, after a long decline due to a nationwide corruption crackdown by Chinese President Xi Jinping. In April, gross gambling revenue rose 16% from a year earlier to 20.2 billion patacas ($2.53 billion), according to industry data.

Also in April, China's foreign-exchange reserves increased by $20.45 billion from the previous month to $3.03 trillion—the third consecutive rise—as Beijing tightened its grip on capital outflows.

Macau's use of facial-recognition technology mimics a move happening on the mainland. Such technologies, while controversial, are being discussed by Beijing and local governments as a solution for everything from preventing too much toilet paper from being dispensed in public restrooms to allowing entry to tourist spots.

—Jenny Hsu contributed to this article.

Crowdfunding Investors Get a Way to Sell

By Philip Georgiadis

LONDON—One of Europe's largest equity crowdfunding platforms will be the first to offer investors a chance to trade their investments on the secondhand market, breaking new ground in an industry quickly becoming an important funding source for small businesses.

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

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

U.K.-based Seedrs hopes the launch of a secondary market will have a transformative effect on the crowdfunding sector, which has disrupted traditional fundraising methods by allowing startup businesses to sell equity stakes to investors online.

The industry has soared in popularity as ordinary investors look to cash in on startups as they get off the ground, despite the risks.

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

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

Jeff Lynn, chief executive and co-founder of Seedrs, told The Wall Street Journal that the secondary market launch was in response to strong investor demand. Investors have poured more than £210 million ($272.4 million) into companies via Seedrs, making it the most active investor in private companies in the U.K.

Seedrs is imposing several key rules, most notably limiting trading to one week a month to help coalesce activity, and only allowing current investors in a company to buy its shares.

Westpac Earnings Increase, Helped by Markets Revenue

By Robb M. Stewart

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

Net profit rose 5.6% to 3.91 billion Australian dollars (US$2.9 billion) in the six months through March from A$3.70 billion a year earlier.

Cash earnings—a measure that excludes some gains and costs and is favored by analysts—rose 2.9% to A$4.02 billion, in line with the median of five forecasts compiled by The Wall Street Journal.

Westpac's institutional division was a standout for the half year thanks to improved credit quality, increased customer transactions and a boost from its markets business, Chief Executive Brian Hartzer said.

Still, Australia's oldest and second-largest bank by market value said margins in its consumer and business banking operations were squeezed by higher funding costs. That echoed comments from the country's other lenders in recent days.

Westpac's net interest income for the period was up 1.8% to A$7.61 billion, with total loan growth of about 4% led largely by housing. However, the bank's net-interest margin contracted by 0.04 percentage point year-over-year to 2.05%.

Noninterest income was 5.3% stronger at A$3.16 billion, which Westpac said was largely due to improved markets-related income.

The bank said asset quality for the period remained sound overall, and its impairment charges decreased by A$174 million, or 26%, on-year because of a significant drop in provisions for "single-name" exposures.

Mr. Hartzer said the lender remained positive about the Australian housing market, although it expects price growth to moderate during 2017.

As expected, Westpac said it would hold its interim dividend steady from last year at A$0.94 a share.

JASON REED/REUTERS

Westpac, led by CEO Brian Hartzer, cited strong mortgage lending.

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FUND NAME	GF	AT	LB	NAV DATE	CR	NAV	—%RETURN— YTD	12-MO	2-YR
■ Chartered Asset Management Pte Ltd - Tel No: 65-6835-8866									
Fax No: 65-6835 8865, Website: www.cam.com.sg, Email: cam@cam.com.sg									
CAM-GTF Limited		OT	OT	MUS	04/28	USD	308456.19	2.1	6.7	-5.4

Value Partners
Investing through discipline

■ Website: Https://Www.Valuepartners-Group.Com/ Tel: (852) 2143 0688

China A-Share Fund Cls A AUD H	OT	OT	HKG	05/05	AUD	12.66	7.4	11.1	-4.9
China A-Share Fund Cls A AUD UnH	OT	OT	HKG	05/05	AUD	11.79	7.9	8.8	-4.7
China A-Share Fund Cls A CAD H	OT	OT	HKG	05/05	CAD	11.68	7.0	9.6	-6.3
China A-Share Fund Cls A EUR H	OT	OT	HKG	05/05	EUR	12.23	6.4	8.2	-6.2
China A-Share Fund Cls A EUR UnH	OT	OT	HKG	05/05	EUR	12.12	5.1	11.5	NS
China A-Share Fund Cls A GBP H	OT	OT	HKG	05/05	GBP	12.28	6.6	12.4	-4.9
China A-Share Fund Cls A GBP UnH	OT	OT	HKG	05/05	GBP	13.97	4.3	19.8	0.1
China A-Share Fund Cls A HKD H	OT	OT	HKG	05/05	HKD	12.46	6.8	9.8	-5.8
China A-Share Fund Cls A HKD UnH	OT	OT	HKG	05/05	HKD	12.37	10.9	6.8	-6.7
China A-Share Fund Cls A NZD H	OT	OT	HKG	05/05	NZD	12.47	7.5	11.4	-4.5
China A-Share Fund Cls A NZD UnH	OT	OT	HKG	05/05	NZD	11.11	11.5	7.6	NS
China A-Share Fund Cls A RMB (CNH)	OT	OT	HKG	05/05	CNH	13.65	8.9	13.5	-2.8
China A-Share Fund Cls A USD	OT	OT	HKG	05/05	USD	12.30	10.5	7.6	-6.8
China A-Share Fund Cls A USD H	OT	OT	HKG	05/05	USD	12.43	7.0	10.1	-5.8
China Greenchip-A Units	AS	EQ	CYM	05/05	HKD	58.12	14.3	21.5	-9.2
China Greenchip-A Units AUD H	AS	EQ	CYM	05/05	AUD	9.84	14.6	22.4	-9.5
China Greenchip-A Units CAD H	AS	EQ	CYM	05/05	CAD	9.54	14.1	20.9	-10.4
China Greenchip-A Units NZD H	AS	EQ	CYM	05/05	NZD	10.10	14.5	23.0	-8.8
China Greenchip-A Units USD	AS	EQ	CYM	05/05	USD	9.59	13.9	21.2	-10.1
China Greenchip-A2 QDIs Units	AS	EQ	CYM	05/05	HKD	10.54	14.2	21.6	-9.3
GC Hi Yield Inc - Cls A MDIs GBP H	OT	OT	CYM	05/05	GBP	9.91	7.1	18.6	10.9
GC Hi Yield Inc-Cls A MDIs AUD H	OT	OT	CYM	05/05	AUD	9.47	7.8	20.6	12.9
GC Hi Yield Inc-Cls A MDIs CAD H	OT	OT	CYM	05/05	CAD	9.55	7.5	19.4	11.5
GC Hi Yield Inc-Cls A MDIs NZD H	OT	OT	CYM	05/05	NZD	9.83	8.1	21.5	13.8
GC Hi Yield Inc-Cls P HKD Acc sh	OT	OT	CYM	05/05	HKD	15.23	8.0	20.1	11.9
GC Hi Yield Inc-Cls P HKD MDIs sh	OT	OT	CYM	05/05	HKD	9.47	8.0	20.1	11.9
GC Hi Yield Inc-Cls P MDIs SGD H	OT	OT	CYM	05/05	SGD	10.37	7.4	19.3	11.9
GC Hi Yield Inc-Cls P USD Acc sh	OT	OT	CYM	05/05	USD	15.30	7.7	19.8	11.7
GC Hi Yield Inc-Cls P USD MDIs sh	OT	OT	CYM	05/05	USD	9.50	7.7	19.8	11.7
GC Hi Yield Inc-ClsA MDIs EUR H	OT	OT	CYM	05/05	EUR	10.36	6.9	17.6	10.3
Hi-Div Stk Cls A RMB H Acc	OT	OT	HKG	05/05	CNH	11.38	13.8	20.8	-0.2
Hi-Div Stk Cls A RMB UnH Acc	OT	OT	HKG	05/05	CNH	13.58	10.9	23.9	2.4
Hi-Div Stk Cls A1	OT	OT	HKG	05/05	USD	80.61	12.4	18.3	-2.3
Hi-Div Stk Cls A2 AUD H MDIs	OT	OT	HKG	05/05	AUD	9.60	12.4	18.3	-2.0
Hi-Div Stk Cls A2 CAD H MDIs	OT	OT	HKG	05/05	CAD	9.73	12.3	17.4	-3.3
Hi-Div Stk Cls A2 GBP H MDIs	OT	OT	HKG	05/05	GBP	9.19	13.2	17.4	-3.6
Hi-Div Stk Cls A2 HKD MDIs	OT	OT	HKG	05/05	HKD	10.03	12.9	18.7	-2.2
Hi-Div Stk Cls A2 MDIs	OT	OT	HKG	05/05	USD	10.94	12.2	18.0	-2.4
Hi-Div Stk Cls A2 NZD H MDIs	OT	OT	HKG	05/05	NZD	9.84	12.7	19.1	-1.0
Hi-Div Stk Cls A2 RMB H MDIs	OT	OT	HKG	05/05	CNH	9.59	14.8	21.6	0.0
Hi-Div Stk Cls A2 RMB UnH MDIs	OT	OT	HKG	05/05	CNH	9.98	11.1	25.2	2.7
Hi-Div Stk Cls A2 SGD H MDIs	OT	OT	HKG	05/05	SGD	10.55	NS	NS	NS
Intel-China Converg Fund-A AUD H	AS	EQ	CYM	05/05	AUD	9.99	13.5	17.5	NS
Intel-China Converg Fund-A CAD H	AS	EQ	CYM	05/04	CAD	11.05	8.7	13.1	NS
Intel-China Converg Fund-A NZD H	AS	EQ	CYM	05/05	NZD	11.19	9.1	12.1	NS
Intel-China Converg Fund-A Units	AS	EQ	CYM	05/05	USD	148.92	11.6	16.8	-11.5
Intel-Chinese Mainland Foc Fund	AS	EQ	CYM	05/05	USD	42.57	14.9	20.6	-8.6
VP Classic-A Units	AS	EQ	HKG	05/05	USD	290.84	14.3	24.3	-5.0
VP Classic-B Units	AS	EQ	HKG	05/05	USD	130.67	14.1	23.7	-5.4
VP Classic-C Units	AS	EQ	HKG	05/05	USD	16.49	14.1	23.8	-5.6
VP Classic-C Units AUD H	AS	EQ	HKG	05/05	AUD	13.61	14.0	24.9	-5.0
VP Classic-C Units CAD H	AS	EQ	HKG	05/05	CAD	13.18	13.8	24.2	-6.3
VP Classic-C Units HKD H	AS	EQ	HKG	05/05	HKD	11.19	13.6	22.6	NS
VP Classic-C Units NZD H	AS	EQ	HKG	05/05	NZD	13.68	13.4	23.8	-4.0
VP Classic-C Units RMB	AS	EQ	HKG	05/05	CNH	11.49	10.3	27.5	NS
VP Classic-C Units RMB H	AS	EQ	HKG	05/05	CNH	11.14	15.9	26.4	NS
VP Multi-Asset Fund Cls A HKD	OT	OT	HKG	05/05	HKD	10.19	5.9	NS	NS
VP Multi-Asset Fund Cls A USD	OT	OT	HKG	05/05	USD	10.31	5.5	7.8	NS
VP Taiwan Fund	AS	EQ	CYM	05/05	USD	18.93	13.0	29.6	6.6

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MARKETS DIGEST

Nikkei 225 Index

19895.70 ▲450.00, or 2.31%

High, low, open and close for each trading day of the past three months.

Year-to-date		▲4.09%
52-wk high/low	19895.70	14952.02
All-time high	38915.87	12/29/89

STOXX 600 Index

394.04 ▼0.50, or 0.13%

High, low, open and close for each trading day of the past three months.

Year-to-date		▲9.03%
52-wk high/low	394.54	308.75
All-time high	414.06	4/15/15

S&P 500 Index

Data as of 12 p.m. New York time

2396.43 ▼2.86, or 0.12%

High, low, open and close for each trading day of the past three months.

	Last	Year ago
Trailing P/E ratio	23.76	23.66
P/E estimate *	18.44	17.59
Dividend yield	1.97	2.20
All-time high:	2399.29, 05/05/17	

Weekly P/E data based on as-reported earnings from Birinyi Associates Inc.

International Stock Indexes

Data as of 12 p.m. New York time

Region/Country	Index	Latest Close	Latest NetChg	Latest % chg	52-Week Range Low	52-Week Range Close	52-Week Range High	YTD % chg
World	**The Global Dow**	2749.77	–4.55	–0.17	2193.75		2763.60	8.8
	MSCI EAFE	1865.82	0.91	0.05	1471.88		1956.39	8.7
	MSCI EM USD	983.80	5.53	0.57	691.21		1044.05	23.9
Americas	**DJ Americas**	575.63	–1.21	–0.21	480.90		577.99	6.5
Brazil	**Sao Paulo Bovespa**	65484.50	–225.24	–0.34	48066.67		69487.58	8.7
Canada	**S&P/TSX Comp**	15612.72	30.68	0.20	13535.54		15943.09	2.1
Mexico	**IPC All-Share**	49474.77	–10.90	–0.02	43902.25		50147.04	8.4
Chile	**Santiago IPSA**	3711.58	–3.47	–0.09	2998.64		3786.05	15.2
U.S.	**DJIA**	20993.14	–13.80	–0.07	17063.08		21169.11	6.2
	Nasdaq Composite	6090.15	–10.60	–0.17	4574.25		6106.12	13.1
	S&P 500	2396.43	–2.86	–0.12	1991.68		2401.36	7.0
	CBOE Volatility	9.77	–0.80	–7.57	9.72		26.72	–30.4
EMEA	**Stoxx Europe 600**	394.04	–0.50	–0.13	308.75		394.54	9.0
	Stoxx Europe 50	3243.74	–0.90	–0.03	2626.52		3251.04	7.7
France	**CAC 40**	5382.95	–49.45	–0.91	3955.98		5442.10	10.7
Germany	**DAX**	12694.55	–22.34	–0.18	9214.10		12762.04	10.6
Israel	**Tel Aviv**	1423.52	...	unch.	1372.23		1490.23	–3.2
Italy	**FTSE MIB**	21428.10	–55.76	–0.26	15017.42		21623.69	11.4
Netherlands	**AEX**	534.31	1.04	0.20	409.23		535.05	10.6
Russia	**RTS Index**	1085.68	...	Closed	873.58		1196.99	–5.8
Spain	**IBEX 35**	11096.30	–39.10	–0.35	7579.80		11184.40	18.7
Switzerland	**Swiss Market**	9039.61	22.95	0.25	7475.54		9043.82	10.0
South Africa	**Johannesburg All Share**	53696.37	117.36	0.22	48935.90		54704.22	6.0
Turkey	**BIST 100**	93832.70	–95.69	–0.10	70426.16		95358.76	20.1
U.K.	**FTSE 100**	7300.86	3.43	0.05	5788.74		7447.00	2.2
Asia-Pacific	**DJ Asia-Pacific TSM**	1583.87	19.60	1.25	1308.52		1586.64	11.3
Australia	**S&P/ASX 200**	5870.90	34.30	0.59	5103.30		5956.50	3.6
China	**Shanghai Composite**	3078.61	–24.42	–0.79	2806.91		3288.97	–0.8
Hong Kong	**Hang Seng**	24577.91	101.56	0.41	19694.33		24698.48	11.7
India	**S&P BSE Sensex**	29926.15	67.35	0.23	25230.36		30133.35	12.4
Indonesia	**Jakarta Composite**	5707.86	24.48	0.43	4704.22		5726.53	7.8
Japan	**Nikkei Stock Avg**	19895.70	450.00	2.31	14952.02		19895.70	4.1
Malaysia	**Kuala Lumpur Composite**	1768.15	5.41	0.31	1614.90		1778.47	7.7
New Zealand	**S&P/NZX 50**	7426.46	60.96	0.83	6664.21		7571.11	7.9
Pakistan	**KSE 100**	50935.91	1084.78	2.18	36048.76		50935.91	6.5
Philippines	**PSEi**	7962.33	120.34	1.53	6563.67		8102.30	16.4
Singapore	**Straits Times**	3236.98	7.25	0.22	2729.85		3237.81	12.4
South Korea	**Kospi**	2292.76	51.52	2.30	1925.24		2292.76	13.1
Taiwan	**Weighted**	9937.25	37.31	0.38	8053.69		9972.49	7.4
Thailand	**SET**	1568.02	–1.00	–0.06	1381.69		1591.00	1.6

Source: SIX Financial Information;WSJ Market Data Group

Global government bonds

Latest, month-ago and year-ago yields and spreads over or under U.S. Treasurys on benchmark two-year and 10-year government bonds around the world. Data as of 12 p.m. ET

Coupon	Country/ Maturity, in years	Yield	Spread Over Treasurys, in basis points: Latest	Previous	Month Ago	Year ago	Yield: Previous	Month ago	Year ago
5.250	**Australia** 2	**1.731**	**39.2**	40.9	37.9	**85.2**	**1.719**	1.665	**1.586**
4.750	10	**2.683**	**30.5**	30.6	18.0	**52.4**	**2.658**	2.562	**2.300**
3.000	**Belgium** 2	**-0.524**	**-186.2**	-184.1	-187.4	**-121.9**	**-0.531**	-0.588	**-0.485**
0.800	10	**0.813**	**-156.6**	-154.4	-162.4	**-136.0**	**0.808**	0.758	**0.416**
0.000	**France** 2	**-0.407**	**-174.6**	-173.3	-179.9	**-116.0**	**-0.423**	-0.513	**-0.426**
1.000	10	**0.838**	**-154.0**	-151.0	-149.3	**-125.1**	**0.842**	0.889	**0.524**
0.000	**Germany** 2	**-0.659**	**-199.7**	-199.0	-209.3	**-124.4**	**-0.680**	-0.807	**-0.510**
0.250	10	**0.419**	**-196.0**	-193.2	-215.4	**-162.8**	**0.420**	0.228	**0.147**
0.300	**Italy** 2	**-0.136**	**-147.5**	-144.4	-137.7	**-77.5**	**-0.134**	-0.090	**-0.041**
2.200	10	**2.243**	**-13.6**	-18.4	-34.0	**-28.5**	**2.168**	2.043	**1.490**
0.100	**Japan** 2	**-0.194**	**-153.2**	-151.1	-150.0	**-97.9**	**-0.201**	-0.214	**-0.245**
0.100	10	**0.030**	**-234.8**	-233.2	-233.3	**-189.0**	**0.020**	0.050	**-0.115**
4.000	**Netherlands** 2	**-0.598**	**-193.6**	-190.5	-203.7	**-121.9**	**-0.595**	-0.750	**-0.485**
0.750	10	**0.629**	**-175.0**	-173.1	-190.9	**-152.7**	**0.621**	0.473	**0.248**
4.750	**Portugal** 2	**0.333**	**-100.6**	-98.0	-87.4	**-39.1**	**0.331**	0.413	**0.344**
4.125	10	**3.388**	**101.0**	101.4	146.5	**132.2**	**3.366**	3.847	**3.097**
2.750	**Spain** 2	**-0.287**	**-162.5**	-159.8	-152.0	**-79.5**	**-0.288**	-0.233	**-0.061**
1.500	10	**1.579**	**-79.9**	-80.3	-78.0	**-19.5**	**1.549**	1.602	**1.581**
4.250	**Sweden** 2	**-0.609**	**-194.7**	-192.9	-191.9	**-117.0**	**-0.619**	-0.633	**-0.436**
1.000	10	**0.650**	**-172.8**	-170.4	-184.8	**-102.1**	**0.648**	0.534	**0.755**
1.750	**U.K.** 2	**0.153**	**-118.5**	-116.6	-117.2	**-31.9**	**0.145**	0.114	**0.415**
4.250	10	**1.147**	**-123.1**	-123.5	-130.4	**-35.5**	**1.117**	1.078	**1.420**
1.250	**U.S.** 2	**1.338**	**...**	...	...	**...**	**1.310**	1.286	**0.734**
2.250	10	**2.378**	**...**	...	...	**...**	**2.352**	2.382	**1.776**

Commodities

Prices of futures contracts with the most open interest — 12 p.m. New York time

EXCHANGE LEGEND: CBOT: Chicago Board of Trade; **CME:** Chicago Mercantile Exchange; **ICE-US:** ICE Futures U.S.; **MDEX:** Bursa Malaysia Derivatives Berhad; **TCE:** Tokyo Commodity Exchange; **COMEX:** Commodity Exchange; **LME:** London Metal Exchange; **NYMEX:** New York Mercantile Exchange; **ICE-EU:** ICE Futures Europe. *Data as of 5/5/2017

Commodity	Exchange	Last price	One-Day Change: Net	Percentage	Year high	Year low
Corn (cents/bu.)	CBOT	367.50	-3.25	-0.88%	393.75	360.75
Soybeans (cents/bu.)	CBOT	964.50	-8.50	-0.87	1,092.50	941.25
Wheat (cents/bu.)	CBOT	436.00	-6.25	-1.41	488.75	416.00
Live cattle (cents/lb.)	CME	126.375	-1.925	-1.50	134.550	103.150
Cocoa ($/ton)	ICE-US	1,954	88	4.72%	2,270	1,756
Coffee (cents/lb.)	ICE-US	136.00	0.30	0.22	161.55	128.65
Sugar (cents/lb.)	ICE-US	15.43	0.12	0.78	20.81	15.24
Cotton (cents/lb.)	ICE-US	77.30	-0.47	-0.60	80.27	71.86
Robusta coffee ($/ton)	ICE-EU	2018.00	16.00	0.80	2,283.00	1,871.00
Copper ($/lb.)	COMEX	2.4865	-0.0420	-1.66	2.8400	2.4725
Gold ($/troy oz.)	COMEX	1228.40	1.50	0.12	1,297.40	1,152.20
Silver ($/troy oz.)	COMEX	16.275	0.001	0.01	18.725	16.100
Aluminum ($/mt)*	LME	1,914.00	-2.50	-0.13	1,972.00	1,688.50
Tin ($/mt)*	LME	19,830.00	-120.00	-0.60	21,225.00	18,760.00
Copper ($/mt)*	LME	5,560.00	-10.00	-0.18	6,156.00	5,518.00
Lead ($/mt)*	LME	2,188.00	16.00	0.74	2,445.00	2,022.00
Zinc ($/mt)*	LME	2,571.00	4.00	0.16	2,958.50	2,555.00
Nickel ($/mt)*	LME	8,980.00	-80.00	-0.88	11,095.00	8,980.00
Rubber (Y.01/ton)	TCE	206.60	-15.10	-6.81	n.a.	n.a.
Palm oil (MYR/mt)	MDEX	2600.00	22.00	0.85	3,004.00	2,450.00
Crude oil ($/bbl.)	NYMEX	45.87	-0.35	-0.76	57.95	43.76
NY Harbor ULSD ($/gal.)	NYMEX	1.4354	-0.0012	-0.08	1.7833	1.3748
RBOB gasoline ($/gal.)	NYMEX	1.5045	-0.0001	-0.01	1.9012	1.4500
Natural gas ($/mmBtu)	NYMEX	3.151	-0.115	-3.52	3.5410	2.8170
Brent crude ($/bbl.)	ICE-EU	48.62	-0.48	-0.98	60.09	46.64
Gas oil ($/ton)	ICE-EU	431.50	-3.50	-0.80	526.50	413.00

Sources: SIX Financial Information; WSJ Market Data Group

Currencies

Yen, euro vs. dollar; dollar vs. major U.S. trading partners

London close on May 8

Country/currency	Mon in US$	Mon per US$	US$ vs, YTD chg (%)
Americas			
Argentina peso-a	0.0650	15.3931	–3.0
Brazil real	0.3127	3.1982	–1.7
Canada dollar	0.7289	1.3719	2.1
Chile peso	0.001474	678.50	1.3
Colombia peso	0.0003378	2960.16	–1.4
Ecuador US dollar-f	1	1	unch
Mexico peso-a	0.0523	19.1258	–7.8
Peru sol	0.3037	3.2930	–1.8
Uruguay peso-e	0.0359	27.840	–5.1
Venezuela bolivar	0.098836	10.12	1.2
Asia-Pacific			
Australia dollar	0.7383	1.3545	–2.5
China yuan	0.1449	6.9034	–0.6
Hong Kong dollar	0.1285	7.7847	0.4
India rupee	0.0155	64.3101	–5.4
Indonesia rupiah	0.0000751	13310	–1.6
Japan yen	0.008861	112.85	–3.6
Kazakhstan tenge	0.003140	318.44	–4.6
Macau pataca	0.1247	8.0204	1.3
Malaysia ringgit-c	0.2306	4.3365	–3.3
New Zealand dollar	0.6904	1.4484	0.3
Pakistan rupee	0.0095	104.825	0.4
Philippines peso	0.0200	49.904	0.6
Singapore dollar	0.7116	1.4053	–2.9
South Korea won	0.0008819	1133.95	–6.1
Sri Lanka rupee	0.0065569	152.51	2.7
Taiwan dollar	0.03312	30.192	–7.0
Thailand baht	0.02887	34.640	–3.3
Europe			
Bulgaria lev	0.5587	1.7899	–3.7
Croatia kuna	0.1473	6.790	–5.3
Euro zone euro	1.0929	0.9150	–3.7
Czech Rep. koruna-b	0.0410	24.402	–5.0
Denmark krone	0.1469	6.8096	–3.7
Hungary forint	0.003508	285.07	–3.1
Iceland krona	0.009429	106.06	–6.1
Norway krone	0.1156	8.6496	0.1
Poland zloty	0.2583	3.8709	–7.5
Russia ruble-d	0.01714	58.328	–4.8
Sweden krona	0.1131	8.8426	–2.9
Switzerland franc	1.0016	0.9984	–2.0
Turkey lira	0.2790	3.5842	1.7
Ukraine hryvnia	0.0377	26.5000	–2.2
U.K. pound	1.2938	0.7729	–4.6
Middle East/Africa			
Bahrain dinar	2.6527	0.3770	–0.05
Egypt pound-a	0.0552	18.1053	–0.2
Israel shekel	0.2779	3.5979	–6.5
Kuwait dinar	3.2848	0.3044	–0.4
Oman sul rial	2.5970	0.3851	0.02
Qatar rial	0.2746	3.642	0.04
Saudi Arabia riyal	0.2666	3.7504	–0.01
South Africa rand	0.0735	13.6144	–0.6

	Close	Net Chg	% Chg	YTD % Chg
WSJ Dollar Index	90.08	0.37	0.41	–3.07

Sources: Tullett Prebon, WSJ Market Data Group

Cross rates

London close on May 8

	USD	GBP	CHF	JPY	HKD	EUR	CDN	AUD
Australia	1.3545	1.7524	1.3565	0.0120	0.1740	1.4801	0.9870	...
Canada	1.3719	1.7751	1.3742	0.0122	0.1762	1.4991	...	1.0130
Euro	0.9150	1.1840	0.9165	0.0081	0.1175	...	0.6669	0.6757
Hong Kong	7.7847	10.0726	7.7972	0.0690	...	8.5075	5.6746	5.7483
Japan	112.8480	146.0000	113.0300	...	14.4960	123.3100	82.2500	83.3200
Switzerland	0.9984	1.2918	...	0.0088	0.1283	1.0911	0.7277	0.7372
U.K.	0.7729	...	0.7741	0.0068	0.0993	0.8446	0.5633	0.5707
U.S.	...	1.2938	1.0016	0.0089	0.1285	1.0929	0.7289	0.7383

Source: Tullett Prebon

Key Rates

	Latest	52 wks ago
Libor		
One month	**0.99411%**	0.43865%
Three month	**1.18456**	0.62960
Six month	**1.43683**	0.90540
One year	**1.78817**	1.22715
Euro Libor		
One month	**-0.40286%**	-0.35129%
Three month	**-0.36429**	-0.27743
Six month	**-0.26871**	-0.15700
One year	**-0.13829**	-0.03014
Euribor		
One month	**-0.37400%**	-0.34900%
Three month	**-0.32900**	-0.25800
Six month	**-0.24900**	-0.14300
One year	**-0.12400**	-0.01400
Yen Libor		
One month	**-0.02086%**	-0.04314%
Three month	**-0.00100**	-0.02471
Six month	**0.02571**	0.00407
One year	**0.13457**	0.09471
	Offer	Bid
Eurodollars		
One month	**1.1000%**	1.0000%
Three month	**1.2000**	1.1000
Six month	**1.3500**	1.2500
One year	**1.6000**	1.5000
	Latest	52 wks ago
Prime rates		
U.S.	**4.00%**	3.50%
Canada	**2.70**	2.70
Japan	**1.475**	1.475
Hong Kong	**5.00**	5.00
Policy rates		
ECB	**0.00%**	0.00%
Britain	**0.25**	0.50
Switzerland	**0.50**	0.50
Australia	**1.50**	1.75
U.S. discount	**1.50**	1.00
Fed-funds target	**0.75-1.00**	0.25-0.50
Call money	**2.75**	2.25
Overnight repurchase rates		
U.S.	**0.86%**	0.44%
Euro zone	**n.a.**	n.a.

Sources: WSJ Market Data Group, SIX Financial Information, Tullett

Top Stock Listings

12 p.m. New York time

Cur	Stock	Sym	Last	% Chg	YTD% Chg
Asia Titans					
HK$	AIAGroup	1299	54.45	-0.27	24.46
¥	AstellasPharma	4503	1444.50	0.70	-11.03
AU$	AustNZBk	ANZ	29.95	0.34	-1.55
AU$	BHP	BHP	22.97	1.55	-8.34
HK$	BankofChina	3988	3.70	0.54	7.56
HK$	CKHutchison	0001	97.65	0.57	11.09
HK$	CNOOC	0883	8.83	0.11	-8.97
AU$	CSL	CSL	134.50	0.66	33.95
¥	Canon	7751	3794.00	1.17	15.14
¥	CentralJapanRwy	9022	19010	2.01	-1.14
HK$	ChinaConstructnBk	0939	6.21	0.81	4.02
HK$	ChinaLifeInsurance	2628	23.05	0.66	14.11
HK$	ChinaMobile	0941	84.30	...	2.55
HK$	ChinaPetro&Chem	0386	6.08	1.00	10.55
AU$	CmwlthBkAust	CBA	85.30	1.07	3.51
¥	EastJapanRailway	9020	10310	2.18	2.08
¥	Fanuc	6954	23260	3.29	17.39
¥	Hitachi	6501	635.50	1.92	0.55
TW$	Hon Hai Precisn	2317	101.00	1.00	19.95
¥	HondaMotor	7267	3261.00	0.80	-4.51
KRW	HyundaiMtr	005380	158000	3.95	8.22
HK$	Ind&Comml	1398	5.01	1.01	7.74
¥	JapanTobacco	2914	3780.00	1.20	-1.66
¥	KDDI	9433	3015.00	1.98	1.88
¥	Mitsubishi	8058	2462.50	1.03	-1.10
¥	MitsubishiElectric	6503	1664.50	3.45	2.15
¥	MitsubishiUFJFin	8306	734.30	2.57	1.96
¥	Mitsui	8031	1617.00	1.13	0.62
¥	Mizuho Fin	8411	209.90	1.55	0.05
¥	NTTDoCoMo	9437	2707.50	1.01	1.67
AU$	NatAustBnk	NAB	33.10	1.78	7.92
¥	NipponTeleg	9432	4980.00	2.91	1.38
¥	NissanMotor	7201	1085.00	0.79	-7.70
¥	Panasonic	6752	1376.50	2.80	15.72
HK$	PingAnInsofChina	2318	43.10	0.35	11.08
$	RelianceIndsGDR	RIGD	41.20	-1.08	30.59
KRW	SamsungElectronics	005930	2351000	3.30	30.47
¥	Seven&I Hldgs	3382	4865.00	2.53	9.25
¥	SoftBankGroup	9984	8620.00	1.67	11.01
¥	Sony	6758	3989.00	3.53	21.80
¥	Sumitomo Mitsui	8316	4241.00	2.12	-4.91
HK$	SunHngKaiPrp	0016	116.50	-0.09	18.88
TW$	TaiwanSemiMfg	2330	202.50	2.53	11.57
¥	TakedaPharm	4502	5496.00	2.23	13.67
HK$	TencentHoldings	0700	244.80	0.41	29.05
¥	TokioMarineHldg	8766	4870.00	2.50	1.54
¥	ToyotaMtr	7203	6235.00	1.50	-9.35
AU$	Wesfarmers	WES	43.41	0.28	3.01
AU$	WestpacBanking	WBC	34.08	0.65	4.54
AU$	Woolworths	WOW	26.57	1.22	10.25
Stoxx 50					
CHF	ABB	ABBN	24.46	...	13.87
€	ASMLHolding	ASML	122.10	-0.49	14.49
€	AXA	CS	24.64	-1.42	2.75
€	AirLiquide	AI	113.50	-1.43	7.43
€	Allianz	ALV	172.90	-0.58	10.13
€	AB InBev	ABI	109.00	-0.27	8.40
£	AstraZeneca	AZN	4605.50	...	3.79
€	BASF	BAS	89.24	-1.00	1.05
€	BNP Paribas	BNP	66.84	-1.53	10.39
£	BT Group	BT.A	306.60	-0.95	-16.43
€	BancoBilVizAr	BBVA	7.76	-0.49	22.23
€	BancoSantander	SAN	6.26	-0.51	26.34
£	Barclays	BARC	204.90	-0.70	-8.30
€	Bayer	BAYN	115.25	0.13	16.26
£	BP	BP.	454.45	0.69	-10.82
£	BritishAmTob	BATS	5320.00	0.62	15.11
€	Daimler	DAI	68.75	0.34	-2.79
€	DeutscheTelekom	DTE	16.81	1.20	2.78
£	Diageo	DGE	2289.00	0.50	8.48
€	ENI	ENI	14.59	...	-5.69
£	GlaxoSmithKline	GSK	1590.50	0.16	1.82
£	HSBC Hldgs	HSBA	660.60	0.30	0.56
€	INGGroep	INGA	15.69	-0.41	17.35
£	ImperialBrands	IMB	3656.50	0.81	3.22
€	IntesaSanpaolo	ISP	2.85	0.35	17.56
€	LVMHMoetHennessy	MC	233.65	-1.87	28.80
£	LloydsBankingGroup	LLOY	69.45	-0.79	11.10
€	LOreal	OR	187.90	-0.34	8.36
£	NationalGrid	NG.	1028.50	0.78	8.08
CHF	Nestle	NESN	80.45	0.56	10.13
CHF	Novartis	NOVN	77.95	1.43	5.20
DKK	NovoNordiskB	NOVO-B	277.50	-0.18	8.95
£	Prudential	PRU	1743.00	-0.91	7.10
£	ReckittBenckiser	RB.	7176.00	0.08	4.21
£	RioTinto	RIO	2935.00	-1.48	-7.08
CHF	RocheHldgctf	ROG	270.10	0.45	16.12
£	RoyDtchShell A	RDSA	2082.00	0.70	-7.16
€	SAP	SAP	94.22	0.40	13.78
€	Sanofi	SAN	89.38	-0.35	16.23
€	SchneiderElectric	SU	70.82	-2.26	7.12
€	Siemens	SIE	130.45	-1.17	11.69
CHF	Syngenta	SYNN	466.40	1.13	15.88
€	Telefonica	TEF	10.47	-0.29	18.71
€	Total	FP	47.81	-0.40	-0.89
CHF	UBSGroup	UBSG	16.97	1.01	6.39
€	Unilever	UNA	49.06	1.94	25.43
£	Unilever	ULVR	4050.00	1.55	23.01
€	Vinci	DG	78.99	-0.64	22.09
£	VodafoneGroup	VOD	205.15	0.10	2.65
CHF	ZurichInsurance	ZURN	277.10	-0.25	-1.18
DJIA					
$	AmericanExpress	AXP	78.09	-0.29	5.41
$	Apple	AAPL	152.03	2.06	31.26
$	Boeing	BA	185.63	0.33	19.24
$	Caterpillar	CAT	99.24	-0.40	7.01
$	Chevron	CVX	106.30	0.48	-9.68
$	CiscoSystems	CSCO	34.23	-0.47	13.27
$	Coca-Cola	KO	43.68	-0.02	5.36
$	Disney	DIS	111.17	-0.74	6.66
$	DuPont	DD	80.43	-0.88	9.58
$	ExxonMobil	XOM	82.51	0.60	-8.59
$	GeneralElec	GE	29.09	-0.45	-7.95
$	GoldmanSachs	GS	225.19	-0.74	-5.96
$	HomeDepot	HD	156.64	0.58	16.83
$	Intel	INTC	36.77	-0.14	1.38
$	IBM	IBM	152.99	-0.36	-7.83
$	JPMorganChase	JPM	87.01	0.01	0.83
$	J&J	JNJ	123.43	-0.06	7.14
$	McDonalds	MCD	144.20	0.17	18.47
$	Merck	MRK	64.35	0.59	9.30
$	Microsoft	MSFT	68.67	-0.48	10.50
$	Nike	NKE	54.42	0.87	7.06
$	Pfizer	PFE	33.61	0.39	3.48
$	Procter&Gamble	PG	86.55	0.06	2.94
$	3M	MMM	198.83	-0.29	11.35
$	Travelers	TRV	120.94	-0.29	-1.20
$	UnitedTech	UTX	121.30	-0.04	10.65
$	UnitedHealth	UNH	173.88	-0.14	8.65
$	Visa	V	91.71	-0.41	17.54
$	Verizon	VZ	46.65	-0.09	-12.61
$	Wal-Mart	WMT	76.40	-0.13	10.53

Asia Titans 50

Last: **156.28** ▲ 2.01, or 1.30% — YTD ▲ **10.9%**

Stoxx 50

Last: **3243.74** ▼ 0.90, or 0.03% — YTD ▲ **7.7%**

Dow Jones Industrial Average

P/E: 21

Last: **20993.14** ▼ 13.80, or 0.07% — YTD ▲ **6.2%**

Note: Price-to-earnings ratios are for trailing 12 months
Sources: WSJ Market Data Group; Birinyi Associates

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HEARD ON THE STREET

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A Win for Europe's Weakest Banks

Emmanuel Macron's victory as French president should be good news for all European banks—not just those in France, but Greek and Italian ones, too.

Victory for a mainstream candidate in France quashes the biggest political risk: the breakup of the eurozone threatened by far-right leader Marine Le Pen. But European bank stocks got most of the gains two weeks ago when that risk faded after the French vote's first round.

Investors are now focused on the next step: that is, the ability of the strongly pro-Europe Mr. Macron, a former investment banker, to strengthen the German-French partnership at the heart of Europe and knit the bloc more tightly together.

Banking union is the thing that matters most for banks and their investors. This is the common legal and licensing framework that would allow lenders to collect deposits, make loans and sell other financial services seamlessly across borders. It doesn't exist today, so a French euro is, in practice, still not fully interchangeable with a German or Greek one.

Banking union could improve flows of capital in Europe. It should also help consolidate thousands of smaller lenders and aid efficiency. But the most important thing it would do, according to Dirk Schoenmaker, senior fellow at the think tank Bruegel, is give a better foundation to the whole financial system—and thus the eurozone itself—before another crisis.

The eurozone has a single bank supervisor and regulatory rule book, but it doesn't have a single deposit-insurance program or a single tax-funded backstop if things go wrong. That means banks are always still national in death.

France has a big interest in leading on this issue. After all, of the eurozone's nine biggest banks by assets, five are French, according to S&P Global Market Intelligence.

The obstacle is Europe's €1 trillion ($1.1 trillion) bad-debt pile and its concentration in Italy, Greece and Portugal. Northern European politicians and especially German ones reel from the idea of putting their taxpayers' cash at risk across borders and never will before this problem is cleaned up.

One way around this would be to a two-speed Europe: one where full banking union becomes a reality for those countries that are ready. Spain might make it in, Italy might not. Others see this as unrealistic and divisive. They say the only solution is to allow Italy to do what Ireland and Spain did and use public money to fund a bad-loan clear-out.

The risk of not sorting out weak banking nations is that the eurozone becomes two-speed by default as countries with strong banks enjoy better access to capital and stronger economic growth, increasing the eurozone's political strains.

Greek and Italian bank stocks rose Monday morning, as investors bet that Mr. Macron recognizes this. But he must convince Germany, too. —*Paul J. Davies*

Leading the Union

Ranked by assets, the eurozone's biggest banks are mainly French

Note: French banks in green
Source: S&P Global Market Intelligence
THE WALL STREET JOURNAL.

REUTERS

A BNP Paribas branch in Issy-les-Moulineaux, near Paris

OVERHEARD

On the spectrum of awful to great, one might place being beaten up near one end and getting a free trip to San Francisco on the other.

In reality, though, **United Airlines** wound up paying undisclosed settlements to passengers who experienced both.

The case of the bloodied doctor David Dao, dragged off a flight, is well-known and forced Chief Executive **Oscar Munoz** to spend two days groveling to Congress last week.

The latter episode led to a settlement because the United passenger, who only speaks French, was supposed to fly from Newark to Paris instead of to San Francisco.

The airline made a last-minute gate change but only announced it in English. The passenger boarded the wrong flight and wasn't removed, even courteously. That turned what should have been a seven-hour trip into a 28-hour one.

Zut alors!

China Tech Firms' Profit Distortion

U.S. tech titans have stopped presenting an alternative set of financial results. Investors in their Chinese counterparts should be mindful of such flattering "tailored" results, too.

Facebook said last week that it will, for the most part, report its results only according to generally accepted accounting principles. This followed a similar move by Google parent **Alphabet**. These are moves away from the trend of companies highlighting alternative sets of results that strip out certain expenses. Such non-GAAP, or adjusted, numbers tend to make the firms look healthier.

One particular area stands out: Adjusted earnings take out share-based compensation, remuneration paid in stocks or options, as these are noncash expenses. But these are real expenses and dilutive as well. Technology companies tend to pay their employees with lots of stock, so the difference to the bottom line can be huge if one excludes such expenses.

Chinese tech firms are noteworthy in this regard. Share-based compensation accounted for 11% of revenue for e-commerce giant **Alibaba**. Its adjusted earnings per share for 2016 was 49% higher than its GAAP earnings per share. Alibaba trades at a decent 35 times adjusted earnings, but a more scary-sounding 52 times GAAP earnings.

For its rival **JD.com**, the adjustment determines whether the company is profitable or not. It reported a non-GAAP net profit of $152 million for 2016, but its share-based compensation is more than twice that. Its GAAP loss was $557 million.

Chinese companies would do well to follow their American brothers. —*Jacky Wong*

PPG Needs to Get Messy to Push Through Paint Merger

Storming its European takeover target with an all-out $27 billion hostile bid would be too risky for **PPG Industries**. A long, uncertain siege is now the only likely path to creating the world's largest paint maker.

On Monday, PPG received its third rejection in two months from the management of Dutch peer **Akzo Nobel**. PPG made clear its latest, late-April offer of €96.75 ($106.42) in cash and stock for each Akzo share was its last. Its next step is to go "hostile" by making an offer directly to Akzo shareholders, without the support of its management. Akzo's shareholders, judging by public statements, like the deal. But there is a major barrier: Like many large Dutch companies, Akzo has a "stichting," or foundation, that owns "priority shares," giving it the right to appoint management. Without the foundation's cooperation, PPG could find itself owning Akzo but unable to appoint management. Given that Akzo would account for just over half the combined company's sales, this isn't a risk PPG can afford to run.

Any hostile offer, therefore, needs to be conditional on the stichting waiving its rights, which would require friendly talks. Unfortunately, the foundation's board consists of four members of Akzo's supervisory board, the body that oversees the company's governance. These include Chairman Antony Burgmans, an opponent of the deal.

PPG may proceed with a conditional hostile offer in the hope that drubbing of Akzo for its refusal to consider what its shareholders want will force the stichting to capitulate. The cause may be helped by activist shareholder **Elliott Management**, which has said it would take to the courts its motion to hold an extraordinary general meeting and put shareholder support for Mr. Burgmans to the vote.

But these moves wouldn't change the legal endgame, which gives the supervisory board an effective veto. "The fact this can be dragged out works in favor of Akzo," says Edmund Schuster, assistant professor of law at the **London School of Economics**.

As PPG has recognized, merging with Akzo would make a lot of business sense—and create a lot of value for shareholders—in the capital-intensive, low-growth paint industry. The question is how much value is destroyed as management is distracted by the fight. PPG would be forgiven for concluding its time is more profitably spent elsewhere. —*Stephen Wilmot*

Paint Peers

Forecasted sales and profits for PPG and Akzo Nobel*

*Analyst consensus †Earnings before interest, taxes, depreciation and amortization
Source: FactSet
THE WALL STREET JOURNAL.

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MARKETS

Options Traders Pull Back

Declining volumes and higher costs are crimping the market; acute feedback loop

By Gunjan Banerji

Falling volumes and spiraling costs are pushing trading firms out of U.S. options, raising concerns about fragility in a market that investors rely on to protect portfolios.

Trading has dwindled in most areas of the market, and investors and traders are grappling with increasing fragmentation.

Liquidity has deteriorated, according to interviews with market participants and data reviewed by The Wall Street Journal, making it harder to trade most options without significantly moving prices. Options on key indexes, exchange-traded funds and high-volume stocks dominate trading, but activity has diminished in the rest of the listed U.S. options world.

The stresses, which have made trading riskier and less profitable, prompted at least six prominent options market makers to exit from the business since 2012. Market makers are firms willing to both buy and sell.

Thomas Peterffy, a pioneer of electronic options trading, said in March that his firm, **Interactive Brokers Group** Inc., would pull the plug on options market making. **KCG Holdings** Inc. announced its exit from retail options market making last year, while **UBS Group** AG and **Credit Suisse Group** AG have also left automated options market making. **J.P. Morgan Chase** & Co. and **Bank of America** Corp. made similar decisions in 2014, according to people familiar with the matter.

"Most market makers congregate in the highly traded products," Mr. Peterffy said in an interview. "It's difficult for a market maker to maintain hundreds of thousands of bids and offers all the time."

It is hard to pinpoint what triggered the trader exodus, but industry observers say as firms leave, liquidity gets further drained, which spurs more market makers to retrench. The dangerous feedback loop could sap appetite for options, which investors use to manage risk in their portfolios.

"We could ill afford to lose any more market makers at this junction," said Alan Grigoletto, who previously worked at the Boston Options Exchange and now runs **Grigoletto Consulting Group** while trading options in his retirement account.

Data show the liquidity bifurcation. Index and exchange-traded-fund options volume rose in April by 28% and 4%, respectively, data from Options Clearing Corp. show. Meanwhile, total equity options volume shrank 10% from the prior year. While volume isn't an exact equivalent to liquidity, it is easier for the options market to absorb trades when an individual asset trades more.

Ultra-active options include those on the SPDR S&P 500 Trust ETF, the PowerShares QQQ ETF, Apple Inc. and Facebook Inc. On the flip side, on an average day in March, there was zero options activity on about 1,400 individual stocks, ETFs or indexes, data from analytics firm Hanweck Associates show.

Ironically, the options industry's willingness to give users more choices is adding to the overall liquidity problem. Investors can trade options for more hours now, and exchanges have boosted the number of products, introducing wider ranges in both expirations and strikes, the prices at which options can be exercised. But this makes it more challenging for market makers who need to continuously provide quotes across an ever-increasing range.

"The existing pool of liquidity has been stretched thinner and thinner across expirations and strike prices and exchanges," said John Kinahan, chief executive of Group One Trading, an options market maker. "We still post markets on a lot of different exchanges, just not as aggressively as we used to."

One barometer of liquidity is the difference between the price buyers would like to purchase an option for and what sellers are willing to exchange at. The measure, known as the bid-ask spread, has increased 30% in the past five years and peaked in 2014, according to data from Hanweck, which calculated a weighted average of the spread across quotes on all options.

While options market makers are closing shop, the number of options exchanges has risen to 15 from nine just five years ago.

Smaller firms sometimes can't afford fees to connect with multiple exchanges alongside the technology costs necessary to keep trading speeds in line with competitors, said Hazem Dawani, chief executive of OptionsCity Software, a trading systems and analytics provider. Some exchanges also have tiered fee structures that favor bigger firms.

"We've seen customers pulling out of equity options and trying to trade other products," Mr. Dawani said. For example, customers are shifting to futures contracts, he said. Options Clearing Corp. data show a 42% increase in futures volume during April.

Mr. Peterffy expressed optimism, saying options are still an "excellent vehicle for traders," and that exchanges will eventually consolidate.

Liquidity Starved

Stock options volumes have fallen, while bid-ask spreads—a way to gauge liquidity—have widened.

Investors are using ETF and index options more, but equity-option trading has dwindled.

Percentage of options traded by year

One sign options liquidity has deteriorated is higher bid-ask spreads in recent years.

Average bid-ask spreads

*Through April 30
Sources: OCC (options); Hanweck Associates LLC (average spreads)

THE WALL STREET JOURNAL.

Oil Investors Cut Bets That Prices Will Rise

By Georgi Kantchev

Investors cut their bullish bets on the price of oil to the lowest level since OPEC reached a deal to reduce output last year, amid continued doubts about the effectiveness of that agreement.

Hedge funds and other big money managers pared their net long position, a bet on rising prices, in Brent oil by 10% in the week ended May 2, data from **IntercontinentalExchange** Inc. showed Monday. Funds also cut their net long position in West Texas Intermediate, the U.S. price gauge, according to the **Commodity Futures Trading Commission**.

The Organization of the Petroleum Exporting Countries and other big producers meet this month to decide whether to extend their deal to cut about 2% from global production.

Crude prices rose after the agreement was forged late last year but fell to a five-month low last week as the global glut, which the cuts were aimed at tackling, shows few signs of abating.

"With scant evidence that OPEC production cuts are actually tightening oil markets as expected, the capitulation of [bullish bets] has seemingly dominated price action," David Martin, an analyst at J.P. Morgan, said in a note.

Brent was trading down 0.9%, at $48.67 a barrel, midday Monday in New York, while WTI was off 0.6%, at $45.93 a barrel.

Investors raised their bullish bets to a record following OPEC's deal.

The past few weeks, however, saw funds cutting their long positions and raising their shorts, or bets that prices will fall.

In the latest week, managed-money accounts cut the number of long positions in Brent to the equivalent of 450 million barrels of crude, the lowest since Nov. 29, according to the ICE data. It was 457 million barrels the week before. They raised the number of short positions to 128 million barrels from 99 million.

This mirrored developments in WTI, in which money managers shrunk their net long position on crude by more than 20%, CFTC data showed Friday.

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Consecutive weeks of rises in number of U.S. rigs drilling for oil

Most analysts expect OPEC and suppliers outside the group, including Russia, to agree to extend their agreement for another six months when they meet in Vienna on May 25.

Even if OPEC comes through, oil prices face further obstacles.

In the U.S., rigs drilling for oil continue to increase, pointing to the resilience of the shale industry.

On Friday, oil-field-services company Baker Hughes Inc. reported the rig count rose by six, its 16th straight week of increases. The count has increased by 7.3 rigs a week on average over the past year, making this the strongest recovery of the past 30 years, Martijn Rats, an analyst at **Morgan Stanley**, wrote in a report Monday.

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

Tribune Media rose 5.1%. The U.S. firm, owner of WPIX, is being bought by Sinclair Broadcast Group.

French Stocks Slip After Vote

By Riva Gold

Investors sold European stocks and currencies, brushing off Emmanuel Macron's widely anticipated victory in French elections.

MONDAY'S MARKETS

The Stoxx Europe 600 edged down 0.1% to 394.04, slipping from a two-year high as lower metals prices dragged down mining shares, while France's CAC-40 index fell 49.45 points, or 0.9%, to 5382.95.

In Frankfurt, the DAX fell 0.2%, while London's FTSE 100 gained 3.43 points, or less than 0.1%, to 7300.86.

Shortly before noon in New York, the euro was at $1.0925, compared with $1.0999 late Friday. The currency briefly touched a seven-month high following Sunday's victory for Mr. Macron, who vowed to reform France's economy and fight Europe's nationalist wave.

"With the market expecting this kind of result [in the French election], there is no goodwill effect today," said Gilles Pradère, a portfolio manager at RAM Active Investments.

Still, many market watchers were encouraged about the longer-term picture in Europe. "A lot of the story of Europe is it's been held back by political risk," said Ryan Myerberg, portfolio manager at Janus Capital. "As we put that to bed for some time, the market can focus on some positives that've been lost in the wash."

Data last week showed the recovery in the eurozone economy broadening, with a measure of activity in the manufacturing and services sectors rising to a six-year high. Meanwhile, European earnings are on track for their best quarter in a decade, according to strategists at Morgan Stanley.

U.S. stocks slipped Monday, as declining prices for industrial metals weighed on materials shares. Near midday in New York, the Dow Jones Industrial Average was down 15 points, or less than 0.1%, to 20992. The S&P 500 lost 0.2% after briefly touching an intraday record in early trading. The Nasdaq Composite fell 0.2%.

Materials shares in the S&P 500 declined 1% amid a continuing slide in copper prices. Copper for July delivery lost 1.8% on the Comex division of the New York Mercantile Exchange after figures from China raised concerns about slipping demand from the world's largest consumer of the metal.

Statistics released by the Chinese customs authority on Monday showed a 30% month-on-month fall in copper imports for April—the lowest import level in six months, according to Investec.

Freeport-McMoRan fell 1.5% by midday in New York, while Dow component **DuPont** declined 0.9%.

Shares of **Tribune Media** were up 5.1% as investors responded to news that **Sinclair Broadcast Group** Inc., an owner of television stations, will buy the company for about $3.9 billion.

In Asia, markets mostly moved higher, supported by the outcome in France and a record finish for the S&P 500 and Nasdaq Composite on Friday. Stocks had been lifted by earnings reports and a slightly better-than-expected April jobs report.

Japan's Nikkei Stock Average rose 2.3% to its highest level in 17 months as it reopened after public holidays. Korea's Kospi also added 2.3%, hitting an all-time high, while the S&P/ASX 200 in Australia gained 0.6%.

Stock markets in China were lower, however, amid concerns that sustained regulatory tightening might force funds to exit. Investors were jolted by rumors on social media Friday that regulators were scrutinizing asset-management operations as part of efforts to cut leverage in the financial industry.

—Ese Erheriene and Yifan Xie contributed to this article.

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