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Economy

Economic Confidence Rises Among Lower-Income Americans; A tightening jobs market and increased take-home pay following tax cuts appear to be boosting sentiment for those earning less

By Sarah Chaney
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Economic confidence among lower-income Americans has taken a recent leap, the latest evidence that benefits of the economic expansion are reaching a broader swath of workers.

Sentiment among lower-income consumers still trails that of their higher-earning counterparts. But the gap has narrowed in recent months.

In the University of Michigan's consumer-sentiment index, confidence among households in the bottom third income tier has risen 11.4 points since February, an IHS Markit analysis of sentiment figures shows. Meanwhile, sentiment among Americans in the highest third of incomes has fallen more than eight points.

The recent improvement in confidence for lower-income Americans coincides with a falling unemployment rate and faster wage growth for workers at the margin. Among those experiencing labor-market gains are the less-educated and African-Americans, who trailed behind other groups for much of the economic expansion beginning in mid-2009.

A tightening labor market and increased take-home pay from the tax cut passed in December are likely translating into a renewed sense of confidence among lower-income Americans. These factors outweigh any decreased confidence stemming from a rise in gas-pump prices, said Chris Christopher, IHS Markit executive director.

"You say to a lower-income person…'Hey, you have [an] extra $50, $100 a month, that really makes a big difference. With that, they'll go out to eat more," Mr. Christopher said.

Confidence among higher-income Americans has taken a hit due to recent **stock-market volatility** and nervousness of possible trade wars, Mr. Christopher said.

Overall consumer sentiment rose after the election of President Donald Trump and has remained strong. The University of Michigan on Friday said its preliminary reading on consumer sentiment in June rose, propelled by Americans' greater optimism toward the economic situation.

The IHS Markit analysis of the sentiment data shows confidence has fallen about seven points among households with incomes of more than $75,000 since February. Over the same period, optimism has risen eight points for households with incomes of less than $75,000, so the gap in confidence between these two income groups is the narrowest since December 2015.

Toncé Jackson-Ayanleye, 47 years old, is feeling increasingly positive about her job and income. She worked in positions making about $10 an hour before she graduated from a manufacturing career-training program and landed a job as a welder at Freedman Seating Co. in Chicago last spring. Ms. Jackson-Ayanleye's income rose 50%.

"I'm making far more money than I have ever made with any job," said Ms. Jackson-Ayanleye. "What the future holds, I really can't say. I just want to be prepared and ready for whatever comes my way. The sky's the limit."

Workers nationwide who didn't share in the economic gains earlier in the recovery are getting pulled in from the sidelines.

The jobless rates for African-American and Latino workers are near record lows. The unemployment rate for black men was as high as 19.3% in March 2010, but was down to 6.3% in May. The jobless rate for those without a high-school diploma—who constitute much of the low-wage workforce—touched a 25-year low late last year, and has held below 6% this year.

A tightening labor market should in theory boost wages. Recent evidence suggests this is occurring for the less-educated.

Witnessing other Americans finding jobs, as well as receiving increased skills training and access to services like child care, is helping boost sentiment among lower-income Americans, said Maurice Jones, chief executive at Local Initiatives Support Corp., which focuses on community development.

"What folks are seeing around them are companies hiring," Mr. Jones said. "That gives people some confidence and optimism about their chances of either getting a full-time job if they're working part time or a job with higher wages if they're looking for that or a first-time job."

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Economy
Are the Tax Cuts Working? What to Watch in 12 Charts; It could be years before the U.S. feels the full impact of last year's tax law, but until then here's where to look

By Theo Francis and Ben Leubsdorf
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Exactly how well is the tax cut working? U.S. economic activity is on a solid trajectory this year, and overall growth is on track for a strong second quarter after a modest slowdown in the early months of 2018.

But it remains unclear how much credit goes to the tax law. Both critics and supporters say it will take months or years to draw conclusions on the law's effect.

Meanwhile, here are a dozen gauges that help reveal how well the changes are aiding businesses, workers and the broader economy.

What measures are you watching to understand how well the tax overhaul is working?

Let us know.

When companies spend more on factories, vehicles, equipment, computers and software, it shows up as a rise in capital spending, which has picked up in recent quarters. That improvement could reflect new tax-law provisions intended to encourage business investment, including quicker deductions for some purchases, as well as lower tax rates and other changes that make lower-margin investments more attractive. Still, many economists think taxes are only one of several forces at work.

A rebound in global **oil prices** may have had a bigger impact on capital spending, driving a recovery in drilling and other energy-related investment that started before President Donald Trump took office. The coming months and years will show whether other sectors ramp up their capital expenditures in response to the tax cuts.

Taxes are an expense for business, so tax cuts lift the bottom line mechanically. They can also spur spending by consumers and businesses, increasing sales and profits. A measure of after-tax corporate profits jumped in the first quarter after dipping in the fourth quarter.

Various one-time effects of the tax law, including accounting adjustments for publicly traded companies, make it difficult to draw conclusions about the underlying trend for now.

Overall, however, profits have largely been growing along with the rest of the economy. Profits as a proportion of overall economic output—the nation's gross domestic product—haven't changed much so far.

Large publicly traded companies have funneled much of their tax savings into increased share repurchases. Analysts and economists caution that increased investment and hiring from expansion take more time to implement. Tax cut advocates also argue that buybacks allow investors to reallocate capital to companies with potentially profitable investments and away from those with more limited opportunities.

American workers' disposable income—after taxes, adjusted for inflation—jumped in the first quarter as the government withheld less from their paychecks and some employers paid out one-time bonuses. Since then, income has risen at rates similar to before the tax overhaul, leaving open the question of whether the legislation will continue to drive wages higher.

It isn't yet clear what households have done with their extra income, since inflation-adjusted consumer spending actually fell in the first couple of months of the year, before jumping in March and April.

The share of disposable income saved or used to pay down debt rose in the first two months of the year, before dipping in March and April. Still, future revisions to income, spending and saving data based on more complete and accurate information could change our understanding of these developments.

One possible reaction to bigger paychecks: Americans heading out to spend more on restaurant meals and physical goods. Retail and food-services sales jumped in May, continuing a strong spring trend.

Consumers are certainly more confident about the economy's current state than they were a couple of years back.

They also remain upbeat about the future—though that optimism has remained in check.

As so often happens these days, politics clouds the picture. How consumers feel about the current state of the economy, and the future, differs starkly by political affiliation—a split that took shape with President Trump's election and hasn't changed much since the tax overhaul.

Richard Rubin and Michael Rapoport contributed to this article.

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Slower Earnings Growth To Test Market

By Akane Otani
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U.S. corporate earnings growth looks poised to slow from a blistering pace, posing a new challenge to a long **bull market** that is already contending with an uncertain global-economic outlook and rising interest rates.

Earnings growth has accelerated in recent quarters, helping drive major U.S. stock indexes to new highs and keeping share valuations from getting too stretched as prices rose. That expansion reached a new high in the first quarter, when U.S. corporations increased their earnings at 25%, the fastest pace since the second half of 2010, according to FactSet.

Now, many analysts say the first quarter could represent a peak in profit growth. Earnings growth is expected at 19% in the second quarter, 21% in the third and 17% in the fourth, according to FactSet. Earnings are expected to grow only in the single- to low-double-digit range next year.

A peak in earnings growth doesn't always signal that rallies are about to fizzle, and analysts recognize that earnings growth would inevitably slow following a one-time boost from the federal tax overhaul.

Moreover, not all analysts are convinced that profit growth has to slide. With the U.S. economy showing renewed signs of strength and consumer and small-business confidence riding high, some analysts say earnings growth can remain near the current lofty levels.

But a steep drop-off in earnings growth could jolt the market. After a nine-year bull run, stock prices reflect a rosy outlook that is already showing signs of fading on a number of fronts. The global growth momentum that powered stocks higher at the end of last year is slowing in Europe and other major economies.

The Federal Reserve indicated on Wednesday it expects to raise interest rates at least four times this year, and the threat of a trade war looms after the U.S. and China announced new tariffs against each other on Friday.

Those and other concerns have deflated the **stock market** after a big year in 2017. The **S&P 500** has risen just 4% this year and has been essentially flat since January. The index has gone 97 trading days since its last all-time high -- the longest record drought since the period from May 2015 to July 2016, according to the WSJ Market Data Group. On Friday, the **S&P 500** fell 0.1%, while the **Dow Jones Industrial Average** lost 0.3% and posted its biggest one-week decline since March.

"We're at an interesting inflection point where we're moving later into the cycle," said Mark Haefele, chief investment officer at UBS Global Wealth Management. "Whether earnings roll over is going to be the deciding factor that ends this cycle."

An analysis by RBC Capital Markets suggests stock returns have historically suffered when earnings stopped growing altogether and began contracting. In 1999, the year-over-year earnings growth rate for **S&P 500** companies peaked in the third quarter of that year at 22%.

Corporate earnings then began contracting the next year as many dot-com startups ranging from eToys to health information site drkoop.com reported ballooning losses, layoffs and closures. That sent the **S&P 500** down 36% in the three years after the peak in earnings growth.

A similar pattern happened after the pace of earnings growth jumped in 2006, only to tumble the following year as the U.S. entered a recession. The **S&P 500** would go on to lose 21% in the three years after earnings growth peaked.

Yet in cases when the companies continued to increase earnings, albeit at a slower pace -- something RBC says happened after 1993, 2004 and 2009 -- the **stock market** continued to churn out double-digit percentage gains over the following three years.

Some investors think that could be the case this time. Recent data show the U.S. economy is still on solid footing, which they say suggests that companies are unlikely to post a sudden drop-off in earnings for now.

"It's unsustainable to expect you're going to get 26% earnings growth every year," said Scot Lance, managing director at Titus Wealth Management in Larkspur, Calif.

Without last year's tax cuts, companies would have increased first-quarter earnings at a single-digit pace, Mr. Lance said. That rate should still support further stock gains, he said, because companies have also been expanding their revenues, a sign that recent gains haven't just come from cost cutting.

What's more, the prospect of peak U.S. earnings may not lead investors to look abroad.

In its June fund manager survey, Bank of America Merrill Lynch found nearly two-thirds of investors ranked the U.S. as having the most favorable outlook in the world for corporate profits, the highest share to say so in 17 years.

Still, even those who remain relatively optimistic about the U.S. economy caution that decelerating earnings growth could start to take its toll on the market.

For years, ultralow interest rates around the world have made relatively risky stocks attractive to investors searching for yield.

As inflation ticks higher, pushing the Federal Reserve to further tighten monetary policy, "the discount rate changes and people are going to want more earnings," said UBS's Mr. Haefele.

Stocks look less expensive than they did at the start of the year, in part because the market remains below its January high. The **S&P 500** trades at 16.6 times expected earnings over the next 12 months, above its 10-year average but down from 18.6 late January, according to the WSJ Market Data Group.

As earnings growth slows down, that calculus will shift and stocks will look more pricey. That is something investors say could make it more difficult for the **stock market** to keep rallying.

"The market isn't going to overpay for these earnings," said Katie Nixon, chief investment officer at Northern Trust Wealth Management.

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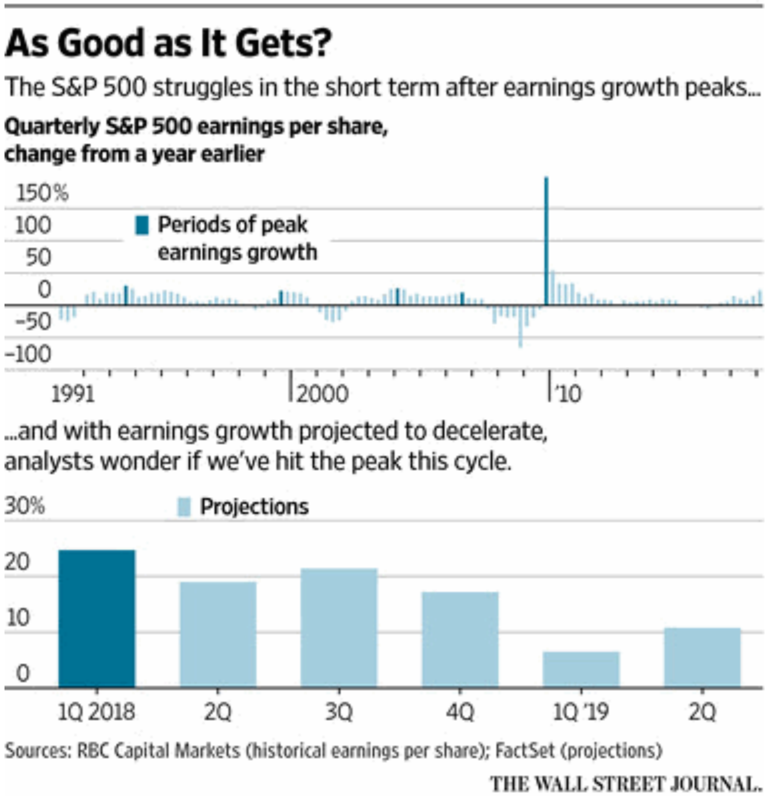

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World News: Rising Oil Prices Are Clogging Global Growth Engines

By Paulo Trevisani in Sao Paulo and Tom Fairless in Frankfurt
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For Americans, rising **oil prices** are threatening $3 gas and pushing up prices for plane tickets. In many other parts of the world, today's crude rally is more painful -- sparking protests, gas lines and emergency subsidies to quell unrest.

That is because many consumers outside the U.S. face a double whammy when -- like now -- the dollar gets stronger at the same time as **oil prices** rise. While petroleum is produced all over the globe, when it is sold to refiners and other buyers it is almost always priced in dollars.

It is, in the words of Brazilian Finance Minister Eduardo Guardia, "a challenging external scenario."

After Brazil's military brought an end to a crippling strike by truck drivers over high fuel prices, Mr. Guardia called the oil rally "brutal" for his country.

Brazil is among the handful of oil-dependent countries in Latin America and Southeast Asia that have turned to costly fuel subsidies. Across swaths of Africa, higher fuel costs and weakening local currencies have hit prices for food and electronics.

Fast-rising crude, on its own, has been pressuring global growth for months. Swiss bank UBS figures that today's international crude price, around $75 a barrel, will boost global inflation by more than half a percentage point, compared with the $50 barrels the world enjoyed as recently as last year.

Brent crude, the international benchmark, has eased off a recent 3 1/2-year high of around $80, on expectations that the Organization of the Petroleum Exporting Countries will boost output when it meets this week. Before that retreat, oil was up more than 20% this year.

There are global winners, along with losers. The U.S., squeezed over the decades in past oil rallies, is looking pretty comfortable this time. In recent years, America has boosted production significantly, making it much less dependent on imports.

Overall economic growth in big crude producers like the U.S. and Canada could rise by almost a third of a percentage point with today's prices, says UBS.

In import-heavy economies like China and the eurozone, however, growth could slip a tenth of a percentage point, UBS figures.

That may not sound like a significant hit overall, but fuel prices can be particularly painful for specific swaths of any economy. This month, Chinese truckers refused to move goods and blocked roads in a handful of cities, protesting higher fuel costs.

Brent crude is still well below the $100-plus a barrel it fetched from 2011 through 2014, and prices probably aren't high enough to knock the European economy from its recent upward trajectory.

Still, the oil and dollar rally act like a tax, limiting consumers' discretionary spending. That threatens a pullback in consumption that can eventually hit growth. It can also feed into inflation and pressure central banks to boost borrowing rates. Inflation in Spain jumped to an annualized 2.2% last year from minus 0.2% in 2016, largely due to higher energy prices.

The pain has been greatest in economies where dollar strength has been even more pronounced. In Brazil, gasoline is up 28% and diesel fuel for trucks more than 27% over the past year. The Brazilian real has fallen 11% this year against the dollar.

In Indonesia, where the rupiah has fallen to its weakest level against the dollar in more than two years, fuel prices are an election issue.

"Governments are promising to cap fuel prices to win votes and elections," said Hak Bin Chua, an economist at Maybank Kim Eng in Singapore.

While Africa is a big oil producer, much of the continent is energy-poor and dependent on imports -- and several governments are also contending with pressure on their currencies.

In Sudan, the ninth-largest African economy, street protests have broken out over soaring bread prices, pushed up by the rising costs of delivery and wheat imports. Fuel prices have soared fivefold in recent months, bringing weeks of long, overnight lines at gasoline stations across Khartoum and other cities, as the government struggles to pay for fuel imports.

Hussein Adawi, a sugar importer, said he and his rivals also face higher operating costs as they spend time sourcing dollars to finance both fuel purchases and sugar imports. Sometimes that takes several weeks for a single shipment.

"We can't even get fuel to deliver supplies to customers," he said.

Strength of Dollar

Exacerbates Pain

In Many Countries

The WSJ Dollar Index, a measure of the dollar compared with a basket of 16 major currencies, has strengthened 6% since February.

In Europe, dollar strength against the euro has helped make crude today about 30% more expensive than when oil was at a low in February.

For European consumers, gasoline-price shocks are often damped by the Continent's generally steep taxes on the fuel. That makes the cost of oil a smaller percentage of the overall price of a liter of gas.

This year's price increase, though, has been so steep that many drivers are feeling the squeeze. Gasoline prices in Britain rose faster in May than in any month on record, according to RAC, a drivers' lobby group. A lower pound against the dollar and higher **oil prices** were a "toxic combination," an RAC spokesman said.

"I fill up two or three times a week. I feel it," said Cristinel Bulai, an Uber driver in London. "When, in one year, every month you see a little bit more, you say, 'whoah, whoah.'"

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Uneven Pain

Falling currencies around the world have boosted the cost of oil, which is priced in dollars.

Price changes for a barrel of Brent crude

Source: WSJ Market Data Group

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Economy

Dudley Confident Economy Has Bright Future | Kaplan: 3 Rate Rises His 'Base Case' | ECB Smets: Bond Buying Could Return | Burne's Take: No RIP Yet for the RRP; The Wall Street Journal's central banking newsletter for Monday, June 18, 2018

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Burne's Take: No RIP Yet for the RRP

Fed's Dudley Confident Economy Has Bright Future

Fed's Kaplan Still Sees 3 Rate Rises This Year as His 'Base Case'

ECB's Bond Buying Could Return If Economic Downturn Occurs, Official Says

No RIP Yet for the RRP

Cash flowing into the Federal Reserve's reverse-repurchase program has slowed to a trickle as an abundance of higher-yielding alternatives, including Treasury bills, floods the market. But don't expect the central bank to kill it any time soon.

The "RRP" facility attracted a paltry $20 million from eligible banks and money-market funds on May 29 and just a few billion dollars on most days so far in June, according to the New York Fed. That is a drop in the bucket compared with last year's daily volumes, which routinely exceeded $100 billion.

"We are using it much more selectively than we ever have," says Peter Yi, director of short-duration fixed income at Northern Trust Asset Management, which manages $954.4 billion.

He said he now uses it when there are "one-off times that we get large flows in the early morning and it becomes a little bit difficult to source other instruments."

The Fed created the overnight reverse-repo program to help suck up cash from short-term money markets to keep interest rates from falling too low. It mostly worked.

Now, however, with surging Treasury issuance, rising trade tensions and turbulence in emerging markets, there are other higher-yielding places for investors to park their money. These include purchasing bills, private repo loans among financial institutions and commercial paper.

Assets in U.S. money-market funds rose by $53.7 billion in May to $3.058 trillion, according to Crane Data. "Cash is an asset class again," says Mark Cabana, head of U.S. short rates strategy at Bank of America Merrill Lynch.

Low usage might look like a reason for the Fed to retire the RRP program. But it remains a useful part of the central bank's policy tool kit.

The Fed's current tools for controlling rates, including the RRP, have "proven to be highly effective at controlling the effective federal-funds rate and other money-market rates, is resilient to significant shifts in market structure, and is efficient to operate," said Lorie Logan, New York Fed senior vice president, in a May speech.

The central bank has said it intends to retire the program someday. "But that discussion would need to be held in the broader context of how the Fed intends to conduct monetary policy over the next several years and the longer term," said Gennadiy Goldberg, senior U.S. rates strategist at TD Securities.

Key Developments Around the World

Fed's Dudley Confident Economy Has Bright Future

New York Fed President William Dudley, who retired Sunday, expressed confidence in the U.S. economic outlook and expressed support for the central bank's plans to keep gradually raising interest rates. "Lots of things are in good place," he said of the economy and the financial system, in an interview with reporters Friday. The Fed is within a "whisker" of achieving its job and inflation goals, and the financial system has been strengthened in way that leaves it better prepared to deal with trouble, he said.

Dudley Says Better Banking Culture is 'Possible, But Difficult'

Improving behavior in the financial services industry is "possible, but difficult," Mr. Dudley said in an essay released Friday, denouncing the doubts that he said often accompany discussions of bank culture reform. "None of the doubts have convinced me that culture is not worth serious attention from the industry and the official sector," he said in an article posted on the Fed bank's Medium page Friday. The post was the final essay in a series ahead of the New York Fed's Monday conference on reforming bank culture.

Transcript: Media Q&A With Dudley

Mr. Dudley, speaking with reporters Friday, talked about what he thinks the New York Fed did right under his leadership and how it can improve, as well as the economic outlook, concerns about U.S. fiscal policy, how the central bank sets monetary policy, and how he feels about handing over the reins to John Williams—the San Francisco Fed president who is succeeding Mr. Dudley on Monday. Here is a transcript of the exchange, lightly edited for length and clarity.

Fed's Kaplan Still Sees 3 Rate Rises This Year as His 'Base Case'

Dallas Fed President Robert Kaplan said Friday his "base case" scenario continues to be for a total of three—not four—interest-rate increases this year, because he thinks economic growth could begin to slow in 2019. "We should be raising rates, but very gradually," Mr. Kaplan told a business luncheon Friday in Fort Worth, Texas. The Fed has raised short-term rates twice this year, and officials' median projection is for a total of four in 2018.

Executives Fear Trade Conflicts Could Dent Economic Growth

Corporate finance leaders are worried that the good times won't last as an increasingly cloudy long-term economic outlook plays out against the backdrop of trade spats and geopolitical risk. Some CFOs say a downturn appears overdue, amid signs of tightening credit and labor markets. And the specters of trade tensions and political turmoil from Mexico to London to Washington are haunting even the rosiest of company outlooks.

ECB's Bond Buying Could Return If Economic Downturn Occurs, Official Says

The European Central Bankcould relaunch its bond-buying program again in future if the region's economy was hit by an economic downturn, Belgian Central Bank Governor Jan Smets said on Friday. In an interview with The Wall Street Journal, Mr. Smets said the ECB was confident that growth was broad and resilient enough that price pressures will lift inflation to the bank's target. That allowed the bank to announce on Thursday that it will gradually end its bond-buying program by year's end.

Russian Central Bank Holds Rates Steady

The Bank of Russia left its key rate unchanged at 7.25% Friday, but said in a statement it sees a shift toward "proinflationary risks. The central bank said it forecasts annual inflation to be 3.5–4% late this year and expects an "increase for a short-term period to 4–4.5% in 2019. The consumer price growth rate will return to 4% in early 2020."

MONDAY

9:45 a.m. EDT

Dudley speaks

1 p.m. EDT

Atlanta Fed's Bostic speaks

1 p.m. EDT

Bank of Canada's Patterson speaks in Toronto

3 p.m. EDT

ECB's Draghi speaks

3:45 p.m. EDT

New York Fed's Williams speaks

TUESDAY

Time N/A

National Bank of Hungary releases policy statement

4 a.m. EDT

ECB's Draghi speaks

4:30 a.m. EDT

ECB's Praet speaks

7 a.m. EDT

ECB's Praet speaks

7 a.m. EDT

St. Louis Fed's Bullard speaks

9 a.m. EDT

ECB's Nouy speaks

7:50 p.m. EDT

Bank of Japan releases April 26-27 meeting minutes

Why Employment Rates in the U.S. Have Lagged Other Countries

Jason Furman and Wilson Powell show in a VoxEU post that the biggest driver behind the fall in U.S. employment rates was employment among women. The fraction of Americans employed fell between 2007 and 2017, during which time employment rates rose in other advanced economies. "In 2007 employment rates for women were generally higher in the U.S. than in other advanced economies. Over the next decade this trend reversed, as employment rates increased in other countries while staying flat in the U.S.," the researchers note.

Monetary Policy and Consumption Baskets

Monetary policy changes have less impact on the prices of goods bought by wealthy households than they do those bought by middle income households, according to Javier Cravino, Ting Lan and Andrei Levchenko in a posting on VoxEU. "In the US, households at the top of the income distribution consume more sticky-priced goods, and face substantially lower overall inflation **volatility** than households in the middle of the income distribution," they write. "Because the prices of goods consumed by the high-income households are less responsive to monetary shocks, the overall CPIs of those households will react less to those shocks. This suggests that high-income households' consumption baskets insulate them against monetary disturbances. By contrast, middle-income households face prices that are both more **volatile**, and more exposed to monetary policy shocks."

How to Spot the First Signs Tariffs Are Starting to Bite

Watch the **stock market**, opinion polls and company statements, which will highlight the impact of trade disputes before the economic data, writes Justin Lahart for The Wall Street Journal. "Official economic data provide very little insight into the workings of global supply chains, and as the disruptions Japan's 2011 earthquake and

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tsunami amply demonstrated, companies themselves often lack crucial knowledge about their own supply chains. The danger is that by the time consequences of the administration's recent trade actions become apparent, the economic impact could have already become significant."

U.S. household confidence rose in the beginning of June as Americans felt better about their current economic situation, but their expectations for the future dropped, possibly due to concerns about tariffs and rising gas prices.

U.S. industrial production ended three straight months of growth in May with an unexpected decline due in part to a fire at a major Ford Motor Co. supplier.

Send us your tips, suggestions and feedback. Write to:

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Markets
Trade Worries Pervade Asia Markets

By Kevin Kingsbury
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Holidays helped buffer Chinese markets from amped-up U.S.-China trade tensions—at least until Tuesday—but other parts of the Asia-Pacific weren't so lucky.

Despite U.S. equities rebounding by the close of trading Friday, declines built throughout Monday morning in Japan and South Korea to leave those countries' stock benchmarks down 1% by early afternoon. Lagging behind were chip-related stocks—chips are one of the focuses of the tariffs. Tokyo Electron Ltd. fell 2.5%, as did Samsung Electronics Co. in Seoul. Smaller chip maker SK Hynix Inc. lost 4.5%.

Benchmarks were performing worst in Southeast Asia, where most markets were closed Friday for the end of Ramadan.

Indexes opened down at least 1%, and at midday Singapore's Straits Times Index was off 1.7%. The Philippines' PSEi benchmark slid 2.2%, hitting levels last seen in April 2017 and putting the index less than 1.5% from entering **bear-market** territory, a 20% drop from its most recent high.

While there is still hope for the easing of trade tensions between the U.S. and China, "equity markets will view this environment of uncertainty negatively," said United Overseas Bank.

The issue has hung over global markets for months, though equities in many locations had weathered it relatively well. The **S&P 500** ended last week with a 5.3% gain for the second quarter, more than reversing the first quarter's modest drop. Even with Monday's drop, Japan's Nikkei has rebounded 5.5% this quarter.

But Chinese equities have been noted laggards.

The Shanghai Composite Index, made up of many of the mainland's biggest companies, logged a 21-month closing low Friday and has fallen four straight weeks, the longest losing streak since December. Down 4.6% since April 1, the benchmark is on pace for a third straight quarterly decline. The Shanghai Composite hasn't done that since 2011.

The U.S. and China "have promised to meet sanction with sanction, and an escalation that threatens global growth is a real risk," said Michael McCarthy, chief market strategist at CMC Markets. "However, an underlying acknowledgment that no one wins in a trade war may see common sense prevail."

Investors may not be so sure.

With China threatening potential tariffs on quickly growing U.S. oil imports, crude futures fell further in Asia on Monday following roughly 3% slides for both the U.S. and Brent international benchmarks Friday. That was on fresh signs major global producers will decide to boost output caps in a meeting later this week.

July U.S. oil futures were down 1.9% at $63.84 a barrel in midday Asian trading Monday while August Brent fell 1% to $72.70.

Meanwhile, havens across asset classes rose. Gold futures rose 0.3%. That was after Friday's 2.3% drop, the most in 18 months, which left the precious metal at its lowest level since December. Ten-year U.S. Treasury yields eased to 2.91% from 2.926% late Friday in New York. And the yen was broadly up about 0.2%.

As **S&P 500** futures fell 0.5%, one pocket of equities strength in the Asia-Pacific was Down Under.

There, New Zealand's benchmark closed just short of notching its eighth record high in 10 sessions while Australia's S&P/ASX 200 rose 0.2% to build on Friday's gain, the index's biggest since last July. Both countries could benefit from increased trading activity with China.

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The New York Times

Business/Financial Desk; SECTB
Wall Street Is Taking Trade Jitters In Stride

By PETER EAVIS
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1
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At a conference held by a top investment bank in Manhattan last week, attendees were asked to submit what they thought was the biggest risk to the global economy. When their concerns showed up on the conference screen, these words were the most popular: Trump, trade war and protectionism.

Outside, meanwhile, the **stock market** was having another up day.

In recent weeks, against the expectations of many on Wall Street, investors have not run for the exits as President Trump has stepped up trade brawls with China, Canada and the European Union. On Friday, when the Trump administration and China announced tit-for-tat tariffs on $50 billion of goods from each country, the **Standard & Poor**'**s500 index** finished barely lower. The index has gained 2 percent since the end of February, when Mr. Trump began to take action on trade in earnest, and it remains up 30 percent since his election in November 2016.

Why have the markets held up when the prospect of a trade war unnerves many on Wall Street? The United States economy appears to be a picture of health and corporate earnings are surging. That seems to have investors betting that the collateral damage will be manageable.

The Federal Reserve Bank of Atlanta predicted that the United States economy could grow at 4.8 percent rate in the second quarter, which would be the second-highest quarterly growth rate in the past decade. Unemployment is at multiyear lows, retail sales are strong, consumer confidence is high and the inflation rate remains relatively subdued. This strong run could continue if tax cuts for businesses and consumers prompt higher spending.

And, most important to investors, companies' earnings are set to rise at their fastest pace since the years immediately following the financial crisis. Wall Street analysts expect the profits of companies in the **S**.**&P**. **500** to surge 26 percent this year, after a 17 percent rise last year.

Rising profits might explain why investors are putting more money in the United States **stock market** while getting out of other countries. In the past six weeks, a net $29 billion has poured into funds that invest in United States stocks, while $13 billion flowed out of those focused on European stocks, according to Bank of America Merrill Lynch. At the start of this year, analysts expected solid growth around the world, but now Europe's economy is showing signs of weakness, and turbulence has returned to the markets of some developing countries.

But there are few signs in the United States that anxiety about trade is causing a significant pullback in business spending. ''We really don't see it in the numbers,'' Jerome H. Powell, the chairman of the Federal Reserve, said last week. ''It's just not there.''

Economists are not forecasting big hits to the United States economy from the trade policies either in effect or imminent. Goldman Sachs's economists predicted that the $50 billion of tariffs against China would shave no more than two-tenths of a percentage point off gross domestic product after two years.

Investors may also believe that this period of high tension and tariff threats are the prelude to some sort of deal. The decision to extend a lifeline to ZTE, the Chinese electronics firm subject to United States penalties, showed that the Trump administration and its Chinese counterparts are capable of agreement.

Of course, the trade battles could escalate instead. Mr. Trump has threatened to impose an additional $100 billion of tariffs on China, which would most likely retaliate with its own tariffs. That would do more economic damage and cause some nervy days in the **stock market**, but not necessarily calamity, said Brad W. Setser, a fellow for international economics at the Council on Foreign Relations. Countries, he said, have ways to soften the blow. ''You would start to see some real disruption and higher short-term costs but not the sort of costs that would trigger a recession'' in either the United States or China, he said.

Still, there are signs of fear lurking in the **stock market**.

The **S**.**&P**. **500** remains below its peak hit in January, and some analysts say the trade tensions may be holding it back. ''Why hasn't the overall market made a new high considering all the fiscal stimulus?'' David Rosenberg, chief economist at Gluskin Sheff, said. Stocks of technology companies and smaller companies have done particularly well in recent weeks, indicating that investors right now are drawn to companies that are less vulnerable to trade wars, Mr. Rosenberg added.

Also, it is too early to conclude that the United States can mostly shrug off trade battles. Many American businesses have operations abroad or get a large share of their revenue from foreign markets. The retaliation by other countries has barely begun.

Tariffs push up the costs for businesses, which in turns crimps their profits. If companies start to warn that profits will come in below expectations because of trade, the stock markets in the United States could decline sharply.

Home-building companies provide an example of what might happen. United States homebuilders face a range of rising costs. One of them is they have to pay more for Canadian softwood lumber after the Trump administration imposed tariffs of 20 percent on that product last year. The Standard & Poor's index for stocks in home-building companies is more than 10 percent below its recent peak.

The United States economy could start to disappoint. Interest rates are rising, in part, because the United States federal government is borrowing large sums to cover the fiscal shortfall that resulted from the recent tax cuts. Higher interest rates can quickly crimp growth. This may happen as the economies in Europe are wobbling and those of several large developing countries are showing signs of stress. ''There is reason to suspect that we slow the pace of growth in the second half,'' said James W. Paulsen, a **stock market** strategist at the Leuthold Group.

Despite some nerves, investors seem to believe any any trade war fallout would be manageable. (PHOTOGRAPH BY RICHARD DREW/ASSOCIATED PRESS) (B5)

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WSJ PRO CENTRAL BANKING

Economy
Japan Logs First Trade Deficit in Three Months; Japan's trade surplus with the U.S. in May fell 17.3% from a year earlier to ¥340.7 billion

By Mayumi Negishi
328 words
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TOKYO—Japan logged its first trade deficit in three months in May on a surge in imports of aircraft and aircraft engines from the U.S., data from Japan's finance ministry showed Monday.

Japan posted a trade deficit of ¥578.3 billion in May, overshooting an estimate for a deficit of ¥21 billion in a Nikkei survey, as global trade tensions simmered and Japan, like other U.S. trade partners, was under pressure to lower its trade surplus with the U.S.

Imports also rose in tandem with a rise in crude **oil prices**, with imports from Saudi Arabia leading the way.

The resulting jump in imports outweighed an 8.1% rise in exports from a year ago, boosted by a surge in demand for liquid crystal display processing tools from China, and cars from the United Arab Emirates.

The rise in Japan's overall exports—the 18th straight gain—was largely in line with a 7.5% increase expected by economists polled by The Wall Street Journal.

The Trump administration has refused to give its closest allies, including Japan, a temporary or permanent exemption on its steel and aluminum tariffs. Japan has said it reserves the right under the World Trade Organization rules to impose retaliatory tariffs.

Japan's trade surplus with the U.S. in May fell 17.3% from a year earlier to ¥340.7 billion. U.S. President Donald Trump has been critical of the Japan's high trade surplus with the U.S.

Exports are expected to continue growing on the back of strength in the global economy, while imports will also likely to maintain solidness due to higher energy prices and a recovery in domestic demand, analysts said.

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International New York Times

business
Just the Fear of a Trade War Is Straining the Global Economy

By PETER S. GOODMAN, IAN AUSTEN and ELISABETH MALKIN
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LONDON — Only a few months ago, the global economy appeared to be humming, with all major nations growing in unison. Now, the world's fortunes are imperiled by an unfolding trade war.

As the Trump administration imposes tariffs on allies and rivals alike, provoking broad retaliation, global commerce is suffering disruption, flashing signs of strains that could hamper economic growth. The latest escalation came on Friday, when President Trump announced fresh tariffs on $50 billion in Chinese goods, prompting swift retribution from Beijing.

As the conflict broadens, shipments are slowing at ports and airfreight terminals around the world. Prices for crucial raw materials are rising. At factories from Germany to Mexico, orders are being cut and investments delayed. American farmers are losing sales as trading partners hit back with duties of their own.

Workers in a Canadian steel mill scrambled to recall rail cars headed to the United States border after Mr. Trump this month slapped tariffs on imported metals. A Seattle customer soon canceled an order.

"The impact was felt immediately," said Jon Hobbs president of AltaSteel in Edmonton. "The penny is really dropping now as to what this means to people's businesses."

The Trump administration portrays its confrontational stance as a means of forcing multinational companies to bring factory production back to American shores. Mr. Trump has described trade wars as "easy to win" while vowing to rebalance the United States' trade deficits with major economies like China and Germany.

Mr. Trump's offensive may yet prove to be a negotiating tactic that threatens economic pain to force deals, rather than a move to a full-blown trade war. Americans appear to be better insulated than most from the consequences of trade hostilities. As a large economy in relatively strong shape, the United States can find domestic buyers for its goods and services when export opportunities shrink.

Even so, history has proved that trade wars are costly while escalating risks of broader hostilities. Fears are deepening that the current outbreak of antagonism could drag down the rest of the world.

Before most trade measures fully take effect, businesses are already grappling with the consequences — threats to their supplies, uncertainty over the terms of trade and gnawing fear about what comes next.

"Just talking about protectionism is causing trouble," said Marie Owens Thomsen, global chief economist at Indosuez Wealth Management in Geneva. "It's an existential risk to the world economy."

After two years of expansion, airfreight traffic was flat over the first three months of the year, according to the International Air Transport Association . Dips have been especially pronounced in Europe and Asia.

Container ships, the workhorses of global commerce, have seen no growth in freight since last fall in seasonally adjusted terms, according to a key index .

A gauge of world trade tracked by Oxford Economics, a research firm in London, recently registered its weakest showing since early 2017.

"Let us not understate the macroeconomic impact," the managing director of the International Monetary Fund, Christine Lagarde, warned this past week about trade conflicts. "It would be serious, not only if the United States took action, but especially if other countries were to retaliate, notably those who would be most affected, such as Canada, Europe and Germany."

Threats to trade are emerging just as the global economy contends with other substantial challenges.

The Trump administration's decision to reinstate sanctions on Iran has lifted **oil prices**, adding pressure to importers worldwide. Europe's economy is weakening , with Germany — the continent's largest economy — especially vulnerable. Central banks in the United States and Europe are withdrawing the cheap money they sent coursing through the global financial system after the crisis of 2008, lifting borrowing costs.

The Trump administration has embroiled the United States in increasingly acrimonious conflicts with huge trading partners.

The United States last year imported more than $600 billion in goods and services from Canada and Mexico, the two other nations in the North American Free Trade Agreement — a deal Mr. Trump has threatened to blow up . Americans bought more than $500 billion in wares from China, and another $450 billion from the European Union. Collectively, that amounts to nearly two-thirds of all American imports.

"If you seriously disrupt any of these three, you're going to feel the effects," said Adam Slater, lead economist at Oxford Economics. "If you disrupt all three at once, you're going to feel it quite severely."

In Houston, still recovering from the devastation inflicted by Hurricane Harvey , the steel tariffs loom like another storm on the horizon.

The Greater Port of Houston, a network of nearly 200 terminals lining 25 miles of channel, is one of the busiest seaborne cargo hubs on the planet. It is also a major local employer, and the largest importer of steel in North America. Steel imports have been surging, especially pipes used by the energy industry.

Sixteen years ago, when President George W. Bush put tariffs on steel, imports fell substantially. Such memories now stoke modern-day fears.

"We're kind of in a wait-and-see mode," said Roger Guenther, executive director for the Port of Houston Authority.

For companies that make steel and aluminum, the American tariffs have presented a direct and menacing challenge to their businesses.

At Alta, the steel mill in Edmonton, the metals tariffs delivered an immediate crisis. Roughly one-fifth of the company's business involves shipping steel to American customers.

Suddenly, the border separating Canada from the United States was effectively enshrouded in fog. The company redirected rail cars destined for customers in the United States, incurring extra freight charges reaching 100,000 Canadian dollars (about $76,000).

Lawyers for some of Alta's customers have suggested that certain products might be classified to avoid tripping the American tariffs, which apply only to specific types of steel. Yet for now, the company is waiting for rulings from overwhelmed American customs officials.

"We do not know when we will get an answer out of the U.S. government," Mr. Hobbs said. "Nobody, including the U.S. border protection agency, knows what to do."

Across Europe, steel makers fret about an indirect consequence of Mr. Trump's tariffs — cheap Chinese steel previously destined for the United States, now redirected to their continent.

"We have seen increases," said Mathias Ternell, international affairs director at Jernkontoret, a Swedish steel industry association in Stockholm. "This is what Swedish companies and European companies worry about the most."

Mr. Trump portrays trade hostilities as a necessary corrective to the United States' trade deficits with other nations. But economists and business leaders note that many imports are components that are used to manufacture goods at American factories.

For buyers of steel and aluminum inside the United States, the tariffs have increased prices, discouraging investment.

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Electrolux, the Swedish manufacturer of household appliances, recently postponed plans to upgrade a stove factory in Tennessee, citing uncertainties created by the tariffs.

In the suburbs of Austin, Tex., Matt Bush, vice president of a small company that makes structures used in office buildings and retail spaces, said steel tariffs would force his company to pay as much as $50,000 a month extra for metal.

“You have to imagine all the people who are purchasing raw steel and aluminum for input into their business are in the same predicament,” he said. “And it’s probably staggering how far that reaches.”

Spain has emerged from a depression to become one of the fastest growing economies in Europe . Trade conflict is directly challenging that trajectory.

In the Spanish city of Toledo, Extol, a company that makes parts for the automobile and railroad industries, has recently seen customers demand supply contracts lasting no more than three months, rather than the usual one-year duration. With the price of aluminum rising, buyers are reluctant to commit, said the company’s chief executive, Fernando Busto.

“We are watching events with enormous worry,” Mr. Busto said. “The political decisions of Donald Trump are resulting in turbulence and **volatility**.”

Far beyond the realm of metal, the impact of trade skirmishes are rippling out, hitting small businesses and consumers.

In Mexico, anxiety about trade has persisted ever since Mr. Trump took office, given his threats to tear up the North American Free Trade Agreement, and his designs on constructing a wall along the border. Ordinary Mexicans have absorbed the hit as the peso has plunged in value, raising the cost of everyday goods from the United States.

“That president is driving us to bankruptcy,” said Gustavo Ferreyra Olivares, a fruit seller who has operated a stall at a covered market in Mexico City for 35 years. “Trump is the one who has raised the prices.”

Most of the fresh fruit at his stall was grown in Mexico. But Granny Smith apples nestled in molded cardboard bore the USA label. So did a pile of glistening Gala apples, and neat lines of Red Delicious.

Under Nafta, Mexico has grown into the world’s largest importer of American apples. But sales are down because the price has gone up by nearly one-fifth in the past week alone.

The Mexican government recently imposed 20 percent tariffs on American apples in response to Mr. Trump’s duties on steel. That will make it harder for Mr. Ferreyra to sell his American produce. He envisions farmers hurting on the other side of the border, too.

“Mexico is a big importer of apples,” he said. “If we decide to boycott them, they will all have to stay up there.”

Global commodities markets are wrestling with the impacts of trade conflict, especially as China seeks alternatives to American suppliers.

In recent years, as the ranks of China’s middle class have grown, so has the national appetite for pork. Raising growing numbers of pigs has forced China to import increasing volumes of American soybeans.

But China has taken direct aim at American farms in retaliation for Mr. Trump’s metals tariffs, threatening duties on soybeans from the United States. Chinese pork producers have turned their sights to Brazil and Argentina, the only countries that now produce enough soybeans to offer a potential alternative to the American supply.

On the other side of the Atlantic, Jesper Pagh sat in his office in Copenhagen and watched the result — rising prices for soybeans on world markets.

Mr. Pagh oversees the livestock feed business at the DLG Group, an agribusiness conglomerate that supplies customers in Sweden, Germany and Denmark. His company has traditionally tapped South America for soybeans. Now, Chinese competition was increasing the cost.

American soybeans were suddenly available, but they presented a mismatch. Europe imports soybean meal, not the beans. In the United States, the crushing plants that make meal were already tied up by domestic customers.

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A veteran of the commodity world, Mr. Pagh is accustomed to prices that fluctuate. His company relies on long-term supply contracts, limiting its vulnerability to price shifts.

Still, here was a new variable.

"It's another factor that's affecting the **volatility** and the level of nervousness in the market," Mr. Pagh said. "It's not something that really keeps me awake at night, but, of course, it can escalate."

Ian Austen reported from Ottawa and Elizabeth Malkin from Mexico City. Reporting was contributed by David Montgomery in Austin, Tex.; Rachel Chaundler in Zaragoza, Spain; Christina Anderson in Stockholm; Gaia Pianigiani in Rome; and Cao Li in Hong Kong.

PHOTOS: The ThyssenKrupp steel mill in Duisburg, Germany. As the trade conflict broadens, effects are being felt at factories from Germany to Mexico, where orders are being cut and investments delayed. (PHOTOGRAPH BY LUKAS SCHULZE/GETTY IMAGES); The Bayport Container Terminal, a deep water port in Houston. As a large economy in relatively strong shape, the U.S. appears to be better insulated than most from the effects of trade hostilities. (PHOTOGRAPH BY TODD SPOTH FOR THE NEW YORK TIMES); The Canada Goose factory in Toronto. Canada would be among the countries most affected by a trade war, according to Christine Lagarde, the managing director of the International Monetary Fund. (PHOTOGRAPH BY MARK BLINCH/REUTERS) (A20)

* Chinese Tariffs Are Already Hitting Trump Voters

* Trump Upends Global Trade Order Built by U.S.

* Trump's Warning Shot on Trade Risks Igniting a Wider Conflict

* Trump Just Pushed the World Trade Organization Toward Irrelevance

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THE WALL STREET JOURNAL.

World

Steep Oil and Strong Dollar Make Toxic Brew for Global Economies; 'Brutal' rally in dollar-priced crude hammers governments, strains consumers from U.K. to Brazil

By Paulo Trevisani in São Paulo and Tom Fairless in Frankfurt
1,269 words
17 June 2018
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For Americans, rising **oil prices** are threatening $3-a-gallon gasoline and pushing up prices for plane tickets. In many other parts of the world, today's crude rally is more painful—sparking protests, gas lines and emergency subsidies to quell unrest.

That is because many consumers outside the U.S. face a double whammy when—like now—the dollar gets stronger at the same time that **oil prices** rise. While petroleum is produced all over the globe, when it is sold to refiners and other buyers it is almost always priced in dollars.

It is, in the words of Brazilian Finance Minister Eduardo Guardia, "a challenging external scenario."

After Brazil's military brought an end to a crippling strike by truck drivers over high fuel prices, Mr. Guardia called the oil rally "brutal" for his country.

Brazil is among the handful of oil-dependent countries in Latin America and Southeast Asia that have turned to costly fuel subsidies. Across swaths of Africa, higher fuel costs and weakening local currencies have hit prices for food and electronics.

Fast-rising crude, on its own, has been pressuring global growth for months. Swiss bank UBS figures that today's international crude price, around $75 a barrel, would boost global inflation by more than half a percentage point, compared with the $50 barrels the world enjoyed as recently as last year.

Brent crude, the international benchmark, has eased off a recent 3½-year high of around $80, on expectations that the Organization of the Petroleum Exporting Countries will boost output when it meets this week. Before that retreat, oil was up more than 20% this year.

There are global winners, along with losers. The U.S., squeezed over the decades in past oil rallies, is looking pretty comfortable this time. In recent years, America has boosted production significantly, making it much less dependent on imports.

Overall economic growth in big crude producers like the U.S. and Canada could rise by almost a third of a percentage point with today's prices, says UBS.

In import-heavy economies like China and the eurozone, however, growth could slip a tenth of a percentage point, UBS figures.

That may not sound like a significant hit overall, but fuel prices can be particularly painful for specific swaths of any economy. This month, Chinese truckers refused to move goods and blocked roads in a handful of cities, protesting higher fuel costs.

Exacerbating the pain in many countries is a strengthening dollar. The WSJ Dollar Index, a measure of the dollar compared with a basket of 16 major currencies, has strengthened 6% since February.

In Europe, dollar strength against the euro has helped make crude today about 30% more expensive than when oil was at a low in February.

For European consumers, gasoline-price shocks are often dampened by the continent's generally steep taxes on the fuel. That makes the cost of oil a smaller percentage of the overall price of a liter of gas.

This year's price increase, though, has been so steep that many drivers are feeling the squeeze. Gasoline prices in Britain rose faster in May than in any month on record, according to RAC, a drivers' lobby group, which called it a "hellish month." A lower pound against the dollar and higher **oil prices** were a "toxic combination," an RAC spokesman said.

"I fill up two or three times a week. I feel it," said Cristinel Bulai, an Uber driver in London. "When, in one year, every month you see a little bit more, you say, 'whoa, whoa.'"

Brent crude is still well below the $100-plus a barrel it fetched from 2011 through 2014, and prices probably aren't high enough to knock the European economy from its recent upward trajectory.

Still, the oil and dollar rally act like a tax, limiting consumers' discretionary spending. That threatens a pullback in consumption that can eventually hit growth. It can also feed into inflation and pressure central banks to boost borrowing rates. Inflation in Spain jumped to an annualized 2.2% last year from minus 0.2% in 2016, largely due to higher energy prices.

The pain has been greatest in economies where dollar strength has been even more pronounced. In Brazil, gasoline is up 28% and diesel fuel for trucks more than 27% over the past year. The Brazilian real has fallen 11% this year against the dollar.

The two-week strike by Brazilian truckers stranded goods across the country, triggering warnings about possible shortages from grocery stores, hospitals and McDonald's outlets. To end the walkout, President Michel Temer rolled out the military and promised truckers $3 billion in diesel-fuel subsides and tax cuts.

Brazil's government has restricted how often fuel suppliers can raise prices, at once a month. As energy prices rose, economists polled by the central bank slashed a full percentage point of growth off Brazil's forecast output this year, to 2%.

In Indonesia, where the rupiah has fallen to its weakest level against the dollar in more than two years, fuel prices are an election issue. President Joko Widodo has promised not to raise prices of subsidized fuels and electricity through 2019, when he is expected to run for a second term. In April, he required fuel retailers, including foreign firms Royal Dutch Shell PLC and Total SA, to seek government approval before raising prices they charge at the pump.

Jakarta also said it would dramatically increase diesel subsidies. Thailand and Malaysia—where newly elected Prime Minister Mahathir Mohamed made it a campaign pledge—have both ramped up spending to stabilize pump prices.

"Governments are promising to cap fuel prices to win votes and elections," said Hak Bin Chua, an economist at Maybank Kim Eng in Singapore.

While Africa is a big oil producer, much of the continent is energy-poor and dependent on imports—and several governments are also contending with pressure on their currencies. In Nigeria, the continent's biggest crude exporter, a government cap on what drivers pay at the pump has led to gasoline shortages as retailers struggle to pay for refined fuel imports.

In Sudan, the ninth-largest African economy, street protests have broken out over soaring bread prices, pushed up by the rising costs of delivery and wheat imports. Fuel prices have soared fivefold in recent months, bringing weeks of long, overnight lines at gasoline stations across Khartoum and other cities, as the government struggles to pay for fuel imports.

Hussein Adawi, a sugar importer, said he and his rivals also face higher operating costs as they spend time sourcing dollars to finance both fuel purchases and sugar imports. Sometimes that takes several weeks for a single shipment.

"We can't even get fuel to deliver supplies to customers," he said.

Nicholas Bariyo in Kampala, Uganda, Ben Otto in Jakarta and Sarah Kent in London contributed to this article.

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The New York Times

The Week Ahead
Business Day
Central Bankers Will Debate Policy, and OPEC Meets on Output

By The New York Times
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Here's what to expect in the week ahead:

Central bankers will debate economic policy.

The mysteries of how prices and wages are determined will be the theme of discussions by economists and central bankers at the European Central Bank's annual forum, which starts on Monday in Sintra, Portugal. The participants will debate questions such as why wages in many developed countries have been stagnant and what effect powerful online business like Google and Amazon have on consumer prices. The event concludes on Wednesday with a panel discussion that will include Jerome H. Powell, the president of the Federal Reserve; Mario Draghi, the president of the European Central Bank; and Haruhiko Kuroda, governor of the Bank of Japan.

Senate to vote on amendment blocking Trump's ZTE deal.

The Senate is expected to vote on Monday on a provision that would restore harsh penalties on ZTE, the Chinese telecommunications giant that violated American sanctions, setting up a rare fight between lawmakers and the White House. The measure, tucked into a broader military policy bill, is supported by both Republicans and Democrats. It would undo an agreement reached in recent weeks by the Commerce Department to have the company pay a $1 billion fine, replace its senior leadership and allow American inspections in exchange for relief from the penalties. But senators must first reconcile their military bill with one passed by the House, and the White House has vowed to use that weekslong negotiation to try to kill the ZTE provision before it can become law.

Small businesses' trade concerns may chill reception of Trump.

President Trump will speak at the 75th anniversary lunch of the National Federation of Independent Business on Tuesday. The White House said that his remarks would focus on the benefits of the Republican tax overhaul and the administration's deregulation agenda. While small business optimism has been on the rise as a result of some of Mr. Trump's economic policies, the president's reception could be less boisterous than he might expect. Many business groups are concerned that Mr. Trump's trade policies could blunt the effects of the tax cuts, raising costs on companies and consumers alike.

Fox's board will weigh Comcast's $65 billion offer.

Rupert Murdoch and the board of 21st Century Fox plan to consider Comcast's $65 billion offer for the bulk of its businesses at a meeting that had already been scheduled for this Wednesday. If they determine that the bid is reasonably likely to result in a better proposal than the Walt Disney Company's $52.4 billion offer, then Mr. Murdoch and Comcast can start negotiating. Disney, however, will have the opportunity to counter if Fox ultimately determines it prefers Comcast's bid.

Bank of England is expected to hold interest rates steady.

The Bank of England's monetary policy committee will announce its latest decision about interest rates on Thursday. It is expected to hold the bank rate steady at 0.5 percent.

Economic data that was published last week gave a mixed picture on the British economy. Retail sales, bolstered by sunny weather and royal wedding celebrations in May, rose 1.3 percent from the month before. But industrial production slipped 0.8 percent in April from the month before.

The committee’s vote will give some indication of how its members view the numbers, according to Peter Dixon, a senior economist at Commerzbank. “Obviously the weakness of industrial production argues for a change of view, but the strength of retail sales may well confirm them in their belief that the soft patch in the early months of the year was a temporary effect driven by the weather,” Mr. Dixon wrote.

The Fed will release results of stress tests of big banks.

The Federal Reserve is scheduled to release on Thursday the results of its annual stress tests of major banks, a measure of whether the banks can withstand an economic downturn or an unexpected **financial market** calamity. Last year’s tests strained one bank but did not produce any failures; this year’s are expected to be harder. Six foreign banks will have their United States operations publicly evaluated for the first time: Barclays, BNP Paribas, Credit Suisse, Deutsche Bank, RBS and UBS. All eyes are on Deutsche Bank, which is in the midst of a major restructuring.

Europe’s finance ministers will discuss a Greek bailout.

Greece and its creditors will try to agree Thursday on a blueprint to help the beleaguered country stand on its own once it comes off its third, and final, international bailout later this summer. As Greece emerges from a ruinous crisis, its creditors are drawing up plans to ensure the country is never again a problem for Europe.

OPEC faces pressure to increase output.

Pressure is building on the Organization of the Petroleum Exporting Countries to ease the 18-month production curbs that have helped prices of Brent crude more than double to around $73 a barrel since their lows in early 2016. OPEC and other major oil producers including Russia plan to meet in Vienna on Friday and Saturday, and the group is already in the sights of President Trump, who has called prices artificially high. But how much the producers will lift output remains under debate.

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THE WALL STREET JOURNAL.

Business

Executives Fear Trade Conflicts Could Dent Economic Growth; Uncertainty over tariffs and tightening credit and labor markets could offset boosts from the U.S. tax overhaul

By Ezequiel Minaya, Tatyana Shumsky and Nina Trentmann
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17 June 2018
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Corporate finance leaders are worried that the good times won't last as an increasingly cloudy long-term economic outlook plays out against the backdrop of trade spats and geopolitical risk.

The passage of the U.S. tax overhaul eliminated significant uncertainty and strengthened earnings for many companies. Economic data from Washington to Beijing has been strong as global growth is estimated to climb to 3.9% this year, according to the International Monetary Fund. Capital spending by companies in the **S&P 500** rose about 24% to $166 billion during the first three months of the year compared with 2017, according to Credit Suisse Group AG data.

"That's a very business friendly environment to be operating in, better than in the recent past," said John Shrewsberry, Wells Fargo & Co.'s finance chief.

Longer-term forecasts are less optimistic. The IMF warns that the boost from the U.S. tax cuts will fade beginning in 2019. Economists surveyed by The Wall Street Journal worry that a recession could begin in 2020 as the Federal Reserve raises interest rates.

Some CFOs say a downturn appears overdue, amid signs of tightening credit and labor markets. And the specters of trade tensions and political turmoil from Mexico to London to Washington are haunting even the rosiest of company outlooks.

The widely cited Global Economic Policy Uncertainty Index surged 64% between January and May, reaching its highest level in a year even as the capital spending boom got under way.

Nick Bloom, an economics professor at Stanford University and an author of the index, attributed the surge to U.S. President Donald Trump's tougher stance on trade, saying the leader "means business in introducing tariffs and pulling away" from the Group of Seven industrialized nations.

The White House is levying tariffs on tens of billions of dollars of Chinese goods starting in July, a move that is likely to spark retaliation from China. The Trump administration also is seeking to rewrite the North American Free Trade Agreement with Canada and Mexico.

The trade conflicts have given businesses pause, said Mark Zandi, chief economist at Moody's Analytics. He said companies are clearly increasing capital outlays, but he believes the investment growth would be greater without the trade tensions.

"I think that it is having an impact on investment decisions and hiring decisions," Mr. Zandi said. "Businesses are not pulling back. But they are not fully engaging. Investment spending growth is good. But I think it would be even stronger if not for this cloud created by these trade tensions."

The uncertainty surrounding tariffs and trade both in the U.S. and globally has forced Donald Allan, chief financial officer at tool maker Stanley Black & Decker Inc., to double the amount of time he spends on contingency planning.

"I'm spending at least 40% of my time on that type of stuff, if not more," Mr. Allan said, adding that he frequently consults a variety of external experts from investment bankers to lobbyists to industry associations to get a range of perspectives.

The goal is to make sure "that we're effectively managing all of the risks but also making sure that we're not overreacting," Mr. Allan said.

For Verizon Communications Inc., the concern tied to trade friction was any possible impact it could have on the company's supply chain, said CFO Matthew Ellis. The scope of any disruption is likely to be limited as the telecommunications giant is focused on the U.S., though the company imports some networking equipment from overseas.

"You do your best to make sure you have contingency plans," he said. "You think through, 'Am I solely reliant on one particular supplier, one outcome?'"

Other companies also are bracing for a potential decline in economic sentiment. Discovery Inc., the New York-based media and TV company, plans to have money on hand now that it completed the acquisition of Scripps Networks Interactive Inc. in March. "The new Discovery is a free cash flow machine," CFO Gunnar Wiedenfels said Wednesday. He forecasts that cash left over from operations, including capital spending, will reach $2.3 billion this year.

"Having free cash flow in these times of uncertainty gives us a lot of flexibility," Mr. Wiedenfels said.

Mr. Trump's high-profile talks with North Korea, the unfolding impact of Britain's exit from the European Union, and turmoil in the Middle East and Venezuela, are among the additional geopolitical stresses demanding the attention of finance chiefs.

Amid this backdrop, according to Gregory Daco, chief U.S. economist at Oxford Economics, companies have the more predictable concern of an economy that is "fairly advanced in a business cycle."

CFOs are increasingly wary of rising costs associated with putting out a product or service—such as labor, transportation and energy, he said.

"Until the dust settles, people just definitely have to stand back and wait for that to happen," said Wells Fargo's Mr. Shrewsberry.

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The New York Times

Foreign Desk; SECTA
Is This All-Out War? Who Is Going to Feel The Consequences?

By NEIL IRWIN
1,177 words
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In the first year of the Trump administration, the president's threats to upend the global trade system seemed like mostly bluster -- lots of threats, not much action.

Not anymore.

The administration moved forward Friday with a 25 percent tariff on $50 billion of Chinese imports. In recent weeks, it imposed taxes on imported steel and aluminum, including that from close allies like the European Union and Canada. And those actions both follow earlier measures on washing machines and solar panels.

All of which prompts some important questions: Is the United States engaged in what should be classified as a trade war? And what are the economic consequences likely to be?

Is this a trade war?

Definitely maybe.

A ''trade war'' refers to measures and countermeasures on import restriction that escalate over time, causing trade between two countries to break down.

But it is more a term of art than something with a specific definition. Everyone would agree that the Depression-era period of escalating tariffs was a trade war. Everyone would agree that, say, George W. Bush's 2002 steel tariffs and the retaliation by Europe was not. But the exact line between trade skirmish and trade war is subjective.

''Yes, we are now in a trade war,'' said Mary Lovely, an economist at Syracuse who studies trade. She emphasizes two factors. First, the Trump administration is signaling that it will meet Chinese retaliation with further retaliation, and second, ''the two sides are no longer engaged in productive talks to defuse tensions.''

Chad Bown, a senior fellow at the Peterson Institute for International Economics, is more cautious. Is this a trade war? ''In my view not yet,'' he said. ''My view of a trade war is when all countries start responding unilaterally, and without respect to international rules in terms of the levels of tariff retaliation that they engage in.''

So far, China, the European Union and other trading partners have responded within the confines of World Trade Organization rules.

What's the logic behind the administration's action?

For many years, American companies have complained of being treated shabbily as they try to do business in China. They often must partner with Chinese companies to be allowed to do business in the country, and frequently complain that their most advanced technologies are being stolen, among other concerns.

The Trump administration's list of goods to be subjected to the tariffs is aimed at these high-tech sectors, including aerospace, telecommunications equipment and robotics.

China has said it will place tariffs on $50 billion worth of American imports in retaliation. That's where things get interesting. The Trump administration is threatening to escalate things further if China retaliates, pulling another

$100 billion of goods into the mix. This increases the possibility that the dispute will spiral to encompass ever larger swaths of goods.

Will it work?

China views development of its high-tech industries as core to its economic strategy of the future and won't want to give up advantages in those sectors lightly. On the other hand, the substantial U.S. trade deficit with China means the American side has more potential Chinese imports on which to slap punitive tariffs than the Chinese do, a potential source of leverage.

The Trump administration's negotiating strategy has been erratic. At one point last month, there seemed to be progress toward an accord in which China would buy more American agriculture and energy products. That would have helped reduce the United States' trade deficit with China, one of the president's major goals. But it wouldn't have done much of anything about the longer-term issues around technology theft, and those talks fell apart.

The United States might have a stronger negotiating position if it were joined by allies like Canada, Japan and the European Union. But given the steel and aluminum tariffs and tensions with Canada, the United States finds itself on its own in talks with China.

Is this going to crash the U.S. economy?

Probably not.

The United States has gross domestic product of nearly $20 trillion, so a new tax on $50 billion (or, eventually, $150 billion or more) of Chinese imports is a rounding error. Even when you count the costs of steel and aluminum and other tariffs that have resulted from the president's aggressive trade, it's hard to get to numbers that move the dial much on overall growth.

As countries retaliate, they can certainly cause damage for individual American industries that export, but the reality is most of the economic activity in the United States is for domestic consumption. Exports constitute about 12 percent of G.D.P.

That's not to play down the potentially heavy damage in the industries caught in the middle. Soybean futures prices fell Friday, as commodities traders predicted China would buy fewer soybeans in retaliation. Some major industries that use steel and aluminum are complaining of sharply higher prices, which in turn makes them less competitive against global competitors.

"The questions are does this escalate from here, is this part of a much bigger process, and how do business confidence and **financial markets** respond?" said Lewis Alexander, chief U.S. economist at Nomura. "With these relatively modest first-round things, it's hard to make the case that it's material" to the overall economy.

The risk comes if things spiral out of control in ways that crater the **stock market** or lead businesses to pull back significantly on their investment spending. Keep in mind the way that trade disputes can cause economic damage without triggering a recession. Gary Cohn, the former White House economic adviser, said this week that tariffs could wipe out economic gains from the tax cut passed late last year. Still, with the economy in relatively strong shape, there is a big difference between "not growing as fast as it would without a trade war" and outright recession.

Will this mean higher prices?

The initial tariffs on Chinese goods are not focused on consumer products. They are to be levied on products mainly purchased by businesses, such as industrial equipment. That could mean upward pressure on inflation eventually, but in subtle ways.

Even if the dispute spreads to consumer goods, the actual amount American consumers will pay depends on many factors, including the availability of domestic substitutes and the competitiveness of the industry. For any given product, it is hard to predict how much of a 25 percent tariff will be passed through to consumers versus absorbed by producers and retailers.

Still, consumers ultimately pay the bill for trade barriers in one way or another. At the start of the year, the administration put a 20 percent tariff on imported washing machines; the price of laundry equipment is up 17 percent since then.

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The setting for a June 2017 trade meeting between the U.S. and China in Beijing, in calmer days. (PHOTOGRAPH BY JASON LEE/REUTERS)

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The New York Times

Business/Financial Desk; SECTB
Tumultuous Week Ends on a Down Note for Markets

By THE ASSOCIATED PRESS
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United States markets closed out a whirlwind week with a modest loss on Friday as investors gauged how much to fret about the Trump administration's decision to step up the trade dispute between the world's two biggest economies.

The White House announced tariffs on $50 billion of imports from China, and China's almost-immediate response was a promise to retaliate with its own of the same scale. Stocks sank from the start of trading, and the **Standard & Poor's 500-stockindex** was down 0.7 percent at one point before paring its loss as the day progressed.

At the close, the **S.&P. 500** was down 3.07 points, or 0.1 percent, at 2,779.42. The **Dow Jonesindustrial average** fell 84.83, or 0.3 percent, to 25,090.48, and the **Nasdaq composite** dropped 14.66, or 0.2 percent, to 7,746.38.

Attention has been focused on central banks this week because they are in various stages of pulling away from the emergency stimulus put in place after the Great Recession. The Bank of Japan decided on Friday to keep its stimulus program on track, for example. A day earlier, the European Central Bank said it would halt its bond-buying program after the end of the year, though it also pledged to hold off on rate increases through the summer of 2019.

The Federal Reserve is further along this path. On Wednesday, it raised its benchmark rate for the fourth time in the last year and indicated two more increases may be on the way in 2018, which was more aggressive than some investors expected. It said it was making the moves because of the stronger economy, and that may mean something counterintuitive for the lay investor: The stronger the economy becomes, the more likely the Federal Reserve will be to raise interest rates quickly, and that would hurt stock prices.

''Stocks and the economy might go separate ways,'' said Matthew Miskin, a market strategist with John Hancock Investments. ''The economy might actually feel good for the first time in a decade, but the problem is that those tend to be the periods at the end of the cycle.''

The biggest losses Friday came from the energy sector, where stocks fell with a sharp drop in the price of oil. Crude sank amid speculation that oil-producing countries could push to increase production at next week's OPEC meeting.

Benchmark United States crude fell $1.84 to $64.85 a barrel. Brent crude, the international standard, lost $2.50 to $73.44 per barrel. That helped drag energy in the **S.&P. 500** down 2.1 percent for the largest loss among the 11 sectors that make up the index.

Markets abroad were also generally weaker. In Europe, the DAX in Germany lost 0.7 percent, and the CAC-40 in France dipped 0.5 percent. In London, the FTSE 100 lost 1.7 percent. In Asia, the Kospi in South Korea shed 0.8 percent, and the Hang Seng in Hong Kong fell 0.4 percent. The Nikkei 225 index in Japan was an outlier and rose 0.5 percent.

Treasury yields fell for a second straight day, and the yield on the **10-year Treasury** sank to 2.92 percent from 2.94 percent late Thursday.

Gold dropped $25.20 to settle at $1,278.80 per ounce, silver fell 78 cents to $16.48 per ounce and copper lost 8 cents to $3.14 per pound.

Natural gas rose 6 cents to settle at $3.02 per 1,000 cubic feet, heating oil lost 7 cents to $2.09 per gallon and wholesale gasoline fell 7 cents to $2.02 per gallon.

The dollar rose to 110.62 Japanese yen from 110.59 yen late Thursday. The euro rose to $1.161 from $1.1584, and the British pound remained at $1.3277.

CHART: The **S**.**&P**. **500 Index**: Position of the **S**.**&P**. **500 index** at 1-minute intervals on Friday. (Source: Reuters)

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THE WALL STREET JOURNAL.
U.S. EDITION

EXCHANGE --- Heard on the Street: How to Spot Signs of Pain in the Trade Wars --- Look beyond the economic data for early indicators

By Justin Lahart
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[Financial Analysis & Commentary]

Serious trade disputes generally don't end until the countries involved feel the pain. The problem is that pain may not become acute until some time after the damage has been done.

The Trump administration stepped up its trade feud with China on Friday, drawing a promise of retaliation from China. This followed an escalation of the U.S.-Canada trade spat after last weekend's Group of Seven summit.

So far, the impact has been muted. The economy is fine, inflation is in check, the **stock market** -- despite **volatility** around some tariff announcements -- is only about 3% below the record it set in January.

With a few exceptions, such as lumber prices hitting a record after the U.S. imposed tariffs on Canadian wood, the rhetoric has so far been harsher than the reality.

Investors need to look beyond the economic data to see the first impacts of the trade disputes. Economists say there are three early indicators to watch. First is the market. On Friday, stocks were down but only modestly, possibly because investors have decided Mr. Trump's threats are largely empty. But shares of companies especially exposed to trade such as Caterpillar and Boeing, were down more than 2%. In fact, market reaction can send a signal to the administration that it has pushed too hard.

Second is the voters, especially in communities where jobs are dependent on trade. So far that has been modest, but the new China tariffs could create more of a groundswell of public opinion.

Third is when companies start talking about disruptions in their businesses. There are hints of that happening. At an investor conference on Tuesday, for example, heating, ventilation, and cooling company Lennox International said uncertainty surrounding tariffs has led it to put on hold plans to expand operations in Mexico.

Official economic data provide very little insight into the workings of global supply chains, and as the disruptions Japan's 2011 earthquake and tsunami amply demonstrated, companies themselves often lack crucial knowledge about their own supply chains.

The danger is that by the time consequences of the recent trade actions become apparent, the economic impact could have already become significant.

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Streetwise: Tech's Market Dominance Isn't a Crisis

By James Mackintosh
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15 June 2018
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Corrections & Amplifications

A Streetwise column on June 15 about technology's market dominance incorrectly referred to the 2001 recession as occurring in 2000.

(WSJ Aug. 18, 2018)

(END)

As the race to become the first company worth $1 trillion enters the final lap, technology monopolies are dominating the **stock market**. The five biggest companies by market value are U.S. tech stocks: Apple, Amazon, Alphabet, Microsoft and Facebook. Between them they accounted for more than one-third of the $2.7 trillion increase in value of the **S&P 500** in the past 12 months.

Worse, the top five now make up more than 15% of the S&P, the most for any top five since early 2000. Is it time to worry that the market is getting top heavy?

History suggests not, as a handful of companies have been far more dominating in the past. But that doesn't mean we should be unconcerned. The first risk to investors is that they turn out to be wrong to think that disruptive tech companies will be immensely profitable in the future. The second risk is that the outperformance of a small group of huge companies is a sign that the market is approaching the end of the cycle, as it was ahead of the 1990, 2000 and 2008 recessions, as well as in 1973.

Start with the good news: Apple, with a market value of $937 billion, is about 4% of the S&P on its own, the most of any company since Exxon Mobil in 2008, and before that Microsoft in the dot-com bubble. But go back further and the S&P looks much better distributed: At the start of the 1970s, IBM was 9% of the index, while AT&T and General Motors both had a bigger share than Apple has today.

The same goes for the top five, which had a higher share of the S&P than they have today from 1964 until 1983, according to calculations by Tim Edwards of the index investment strategy team at S&P Dow Jones Indices. However, there used to be a longer tail of small companies, and the S&P now makes up a much larger proportion of the total value of the market.

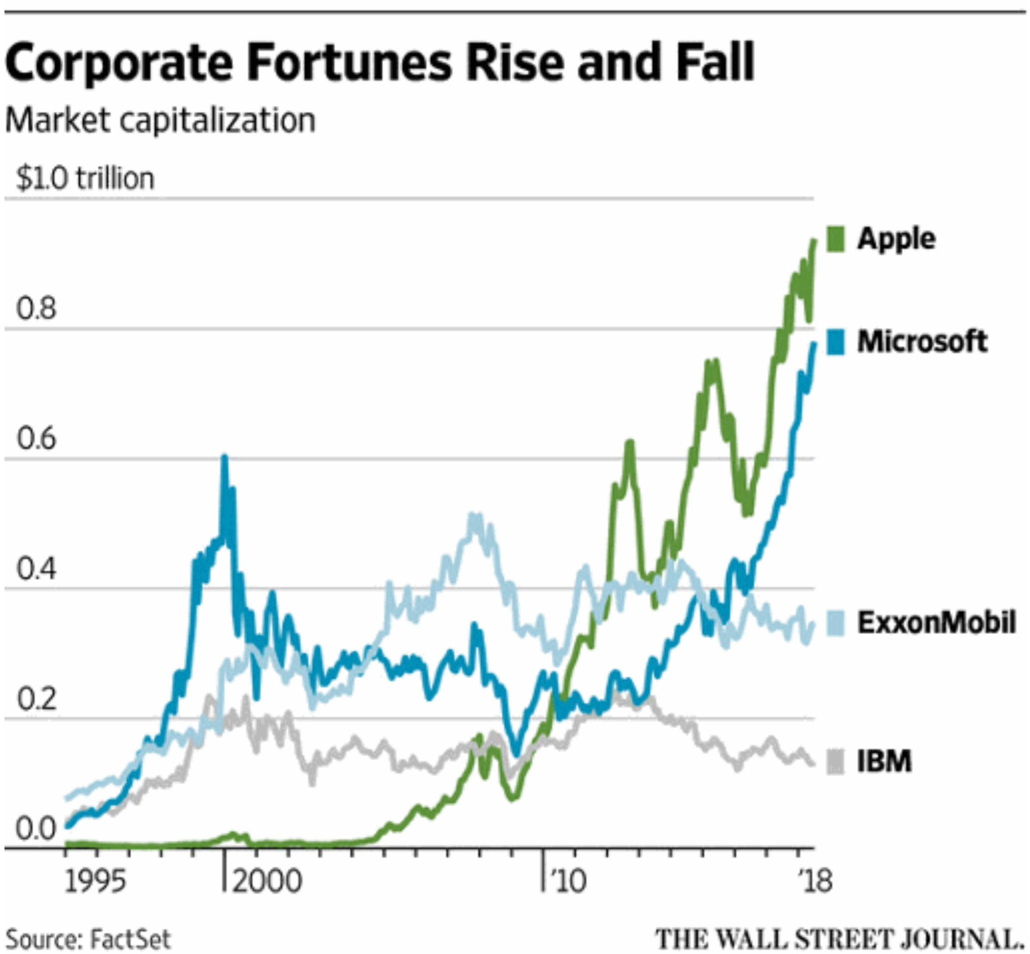
What's different is that this time all five share a single characteristic, that of being disruptive tech stocks with strong grips on their customers. Shareholders have bought into the idea that these companies will dominate the market for many years to come, reaping the rewards of their heavy spending on research and development and expansion into new areas of business. In the past, the most similarity was in 1980, when three stocks were oil dependent: industry supplier Schlumberger, Exxon and Amoco's predecessor. Even in the dot-com madness at the end of 1999, Exxon, retailer Walmart and industrial conglomerate General Electric remained among the five biggest.

Such concentration by type of company should be troubling. It requires the belief that something deep has changed in the nature of business, and the big tech companies have better defenses for their profits than big companies had in the past. Or that they are able to exploit technologies in ways that other companies aren't, and that governments won't step in, as in the past, to restrict such highly profitable monopolies. Or perhaps that visionary leaders and innovative corporate cultures mean the companies are destined to beat more conventional competitors in the future, too. But a lot of money is riding on the idea that the big five's fat profit margins or rapid growth are impervious to competition, even from one another.

It is also unusual that a small group of large companies should do so much better than everyone else. The scale of the outperformance is extraordinary: An investor who put the same money into each of the big five a year ago is up 38%, ignoring dividends, while the S&P is up 14%.

The simplest measure of large-stock performance within the S&P is to compare the ordinary index weighted by market value, where the biggest have a much bigger effect on market moves, against an equal-weighted version. Usually the equal-weight S&P does better, as smaller members of the index outperform the dullards at the top. But as the business cycle and market cycle grow old, it is common for investors to concentrate on a smaller number of big stocks, leading the equal-weight index to underperform. That is what happened ahead of the 1990 downturn, the popping of the dot-com bubble in 2000 and the 2008 crash after Lehman failed. It's happening again now.

But this time might be different. While the tech giants are beating the rest of the S&P, smaller stocks are beating the S&P, too, so it may be more about tech excitement than a rotation into big companies. Equally, the tech giants are no mere dot-com flash. But it is rare for the biggest stocks to outperform for long.



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THE WALL STREET JOURNAL.

Markets

Trade Fears Threaten Best Year in Commodities Since 2002; New tariffs announced by the U.S. and China spark selloff in raw materials across the board

By Benjamin Parkin and Ira Iosebashvili
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Commodity markets, reveling in their best year since 2002, tumbled Friday as new tariffs announced by the U.S. and China reignited fears of a trade war between the world's two biggest economies.

West Texas Intermediate, the benchmark for U.S. crude oil, slumped 2.7% to $65.06 a barrel, halting a four-day winning streak. Gold slid 2.3% to the lowest level since late 2017, while industrial metals like copper, aluminum and lead sank at least 2% and cotton dropped 2.9%.

Optimism over synchronized growth in the global economy had propelled raw materials sharply higher this year. Prices of resources across the board from lumber, cotton and oil to copper and nickel hit multiyear highs.

That **bullish** run started to unwind Friday as escalating trade tensions between the U.S. and China prompted investors to question the global growth outlook. A White House statement said the U.S. would implement a 25% tariff on $50 billion of Chinese goods . Beijing responded by saying it would also launch tariffs on hundreds of American products next month. In addition to being the world's second-largest economy, China is also the top consumer of many raw materials.

"We now have potential for a full-blown trade war," said Bart Melek, head of commodity strategy at TD Securities . "If I was an investor who made money, I may want to cash out here."

Trade worries weighed on other markets Friday, with the **S&P 500**, the broad gauge for stocks, slipping 0.1% and currencies of export-dependent Asian countries like South Korea and Thailand also weakening.

But no other major market felt a bigger impact than commodities, which up to this point have largely been resilient in the face of trade tensions, rewarding investors with gains while stocks have languished and many emerging markets have retreated. Returns from commodities so far this year have been the highest since 2002, according to an ICE BofAML commodity index. But in recent weeks, signs have been mounting that while U.S. growth is humming along, other economies are starting to lose steam—a potential hazard to demand for raw materials.

"So far, the specter of looming tariffs has not rattled the markets all that much," said Edward Meir, an independent consultant with INTL FCStone . "But they are gradually turning from threats to actual implementation and this will be a harder variable to ignore."

Heightening trade worries coincided with a strengthening dollar and a more-hawkish Federal Reserve , which raised rates earlier this week by a quarter percentage point and penciled in two more increases in 2018. Commodities are priced in dollars and when the U.S. currency strengthens, they become more expensive to foreign investors.

Falling **oil prices** have also unnerved investors. Crude prices have eased from more-than three-year highs in recent weeks on expectations that the Organization of the Petroleum Exporting Countries and its allies would soften curbs to output that have been in place since January 2017. OPEC meets in Vienna next week.

The selloff in commodities follows a period of weakness in assets from emerging markets, which are closely tied to commodities since many export raw materials. This month, a sharp decline in Brazilian stocks and the country's currency fueled wider losses in assets from Mexico to South Africa.

Prices for agricultural commodities also fell Friday, including cotton, which declined 2.9%. Cotton had soared this year due to drought in key U.S. growing regions and China's announcement that it would raise cotton import volumes, which traders expected would be a boon to U.S. producers.

Soybean prices fell over 6% this week, hitting the lowest point in almost a year. China, the U.S.'s largest customer, this week hit American soybeans with retaliatory duties.

U.S. farmers have ramped up production of soybeans in recent years, largely to meet demand from China, but that has been overshadowed by a series of bumper harvests in Brazil. Analysts say Chinese duties on soybeans, which are mostly grown in Midwestern states, would be an easy way to hurt President Donald Trump 's base.

Gluts of everything from oil to wheat that helped trigger the slump in commodity prices in the first place haven't necessarily changed enough to turn around commodity markets entirely, analysts say. The U.S., for example, is producing more crude than ever, and concerns about labor disruption at a major Chilean copper mine have receded.

"I don't think this is the end," said Ira Epstein, a strategist with Linn & Associates. "But you've got to get through the bump, the shock. It's really here."

Julie Wernau contributed to this article.

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More

* MoneyBeat: The Lumber Market is Getting Exciting

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THE WALL STREET JOURNAL.

Markets

OPEC Meeting, Tariff Concerns Weigh on Oil Prices; Impact on global economy from disruption of trade seen having an impact on crude consumption

By Sarah McFarlane and Benjamin Parkin
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Oil prices fell Friday as traders braced for higher crude production and disruption to global trade.

West Texas Intermediate futures fell 2.7% to $65.06 a barrel at the New York Mercantile Exchange. Brent crude, the global oil benchmark, was down 3.3% at $73.44 a barrel on London's ICE Futures exchange.

Oil prices have eased from more than three-year highs in June on bets that the Organization of the Petroleum Exporting Countries and its allies will decide to raise production at a meeting next week. Curbs to output have been in place since January 2017.

The Trump administration's decision to proceed with tariffs on $50 billion worth of Chinese goods—sparking retaliation from Beijing—also pressured prices, as traders bet the dispute threatened demand.

"If there's any impact on the global economy from disruption of trade due to tariffs, that's going to have an impact on oil consumption," said Andy Lebow, a senior partner at Commodity Research Group.

Combined with the upcoming OPEC meeting, Mr. Lebow said, the trade tension was prompting traders to liquidate their bets that prices would rise.

While Saudi Arabia is considering an increase of 500,000 to 1 million barrels a day and Russia wishes to raise output as much as 1.5 million barrels a day, some OPEC members including Iran and Venezuela don't support an increase, according to Carsten Fritsch, an analyst at Commerzbank.

Iran is facing the reinstatement of sanctions by the U.S. later in 2018 after President Donald Trump withdrew from the international agreement that had eased sanctions in return for curbs to Iran's nuclear program. Analysts expect Iran's oil exports will suffer as a result.

In Venezuela, an economic crisis has crippled oil production. Higher oil prices are helping offset the country's lost revenue, with prices having risen around 60% over the past year as global supplies tightened.

Given the resistance from some members, the increase is more likely to be 500,000 barrels a day, Mr. Fritsch said.

Some analysts believe that volume is already in the market.

"Between Saudi Arabia and Russia, the first 0.5 million barrels a day is likely to be already in the pipeline and on the water when OPEC meets next week," said Olivier Jakob, head of energy consultancy Petromatrix.

OPEC is due to meet in Vienna on June 22.

Some puzzled oil traders pointed to the apparent lack of market reaction to a threat to Libyan crude supply as a sign that sentiment was souring. Libya's National Oil Corp. said Thursday that attacks on eastern ports had shut down a quarter of the country's output.

Among refined products, gasoline futures fell 3.2% to $2.0232 a gallon while diesel contracts slid 3.3% to $2.087 a gallon.

Write to Sarah McFarlane at sarah.mcfarlane@wsj.com and Benjamin Parkin at Benjamin.Parkin@wsj.com

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THE WALL STREET JOURNAL.

U.S. Markets
Markets
U.S. Stocks Slide as Trade Tensions Heat Up; Investors fear the Trump administration's tariffs on Chinese goods could spiral into a trade war

By Akane Otani and Riva Gold
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The **Dow Jones Industrial Average** posted its biggest one-week slide since March, as mounting fears over a potential trade war sent shares of industrial firms lower.

After months of exchanging threats, the U.S. and China unveiled plans Friday to hit each other with tariffs on billions of dollars in goods.

The moves marked the latest deterioration of relations between the world's two biggest economies, something that has kept investors and analysts on guard in recent months.

Even as U.S. economic data have been relatively upbeat, with reports this week showing retail sales soaring and jobless claims falling, many remain wary of the possibility that restrictive trade policies could hit a wide range of industries and derail the global economy.

Those fears have capped investors' appetite for risk, many say, explaining why the **stock market** has struggled for momentum.

"For the first four months of the year, all of these threats were there, but no one really thought the clouds were going to materialize. Now we're back to the wall of worry," said Jim Tierney, chief investment officer of concentrated U.S. growth at AllianceBernstein.

The **Dow Jones Industrial Average** fell 84.83 points, or 0.3%, to 25090.48 on Friday for a loss of 0.9% this week, while the **S&P 500** fell 3.07 points, or 0.1%, to 2779.42 and rose less than 0.1% for the week. The **Nasdaq Composite** lost 14.66 points, or 0.2%, to 7746.38 but added 1.3% for the week, buoyed by gains in the technology sector.

Shares of agricultural and industrial companies, which some fear could be especially vulnerable to punitive trade measures from China, were hit by a fresh wave of selling.

Caterpillar slid $3.12, or 2%, to $150.02, while Boeing fell 4.54, or 1.3%, to 357.88, and United States Steel shed 1.57, or 4.2%, to 36.05.

Energy shares also tumbled as U.S. crude oil fell 2.7% to $65.06 a barrel and posted its fourth consecutive weekly decline, with some analysts attributing the selling to bets that major producers will decide to raise production next week.

Stocks elsewhere came under pressure, with the Stoxx Europe 600 down 1% as bank stocks fell alongside government bond yields.

Investors had sent the euro sharply lower and bought government bonds Thursday after the European Central Bank signaled that interest rates would likely remain unchanged at least through the summer of 2019. The ECB's move stood in contrast to the Federal Reserve's suggestion on Wednesday that it could pick up the pace of interest-rate increases this year and next.

The Fed's decision "was a great vote of confidence in the U.S. economy," said James Athey, senior investment manager at Aberdeen Standard Investments.

Meanwhile, the Bank of Japan decided Friday to stick to its ultra-easy monetary policy.

Japan's Nikkei Stock Average rose 0.5%.

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THE WALL STREET JOURNAL.

Markets

The Score: The Business Week in 7 Stocks; The Journal's weekly guide to the ups and downs of the business world

By Laine Higgins
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AT&T Inc. - ▾6.2% Wednesday

In a landmark decision Tuesday, the U.S. Justice Department's attempt to block AT&T's proposed $81 billion acquisition of Time Warner Inc. was struck down, touching off a rally for other media stocks. The ruling clears the way for further large-scale media mergers, and investors speculate the industry-wide consolidation could be a boon to companies struggling to compete with the deep cash reserves of industry-disruptor Netflix Inc.

"If you're going to be a modern media company, you're going to need a variety of offerings," John Stankey, the AT&T executive charged with overseeing the combined company's assets, told the Journal.

Shares of AT&T fell 6.2% on Wednesday before closing the Time Warner deal a day later, while Comcast Corp.'s stock jumped 4.6% on Thursday after making an unsolicited $65 billion offer for 21st Century Fox Inc. assets and sparking a bidding war with Walt Disney Co.

USG Corp. - ▴3.9% Monday

Warren Buffett last year called his nearly 20-year investment in building-materials maker USG "disappointing," and in recent months his Berkshire Hathaway Inc. strayed from its usual playbook to urge the company to consider a sale. The effort paid off Monday, when the Chicago-based maker of Sheetrock gypsum drywall said it had agreed to be acquired by Gebr. Knauf KG for $7 billion. The sale allows Berkshire to unload its 31% stake without pushing down USG's **stock price**. Back in May, shareholders including Berkshire voted against the election of four directors to the USG board after it spurned Knauf's first two approaches--the first time Mr. Buffett said he could recall that his conglomerate has opposed a company's slate of nominees.

Dave & Buster's Entertainment Inc. - ▴17% Tuesday

Shares of Dave & Buster's Entertainment rose 17% on Tuesday after the company beat analysts' expectations for first-quarter earnings and announced that its current finance chief will replace longtime Chief Executive Stephen King. The gain was one of the largest since the company's 2014 initial public offering and brought shares into positive trading territory this year. Executives also touted the rollout of a line of proprietary virtual-reality video games, with its first Jurassic World-themed title debuting Thursday. The company is hoping that patrons come for the dinos and stay for dinner to end its streak of quarters with declining comparable sales, including last quarter's 4.9% dip.

Boston Scientific Corp. - ▾6.2% Wednesday

Boston Scientific shares took a wild ride over the past week, first soaring on a Journal report Monday that medical-device maker Stryker Corp. had made a takeover approach, and then tumbling back to where they started when Stryker said Wednesday it wasn't currently in merger talks. A deal would create a company with more than $20 billion in annual sales, offering a range of medical devices from knee and hip replacements to heart valves and endoscopes. But for now it appears the two companies aren't on the verge of being stitched together.

H&R Block Inc. - ▾18% Wednesday

Before the Republican tax bill passed late last year, President Donald Trump predicted that H&R Block would be "the only people that aren't going to like this." On Tuesday, the company said it plans to close about 400 U.S. offices and adjust pricing for its tax-preparation services, in part because the new tax law is expected to reduce the complexity of filing returns for millions of Americans. Another culprit: more filers are using digital tools to prepare their taxes. "We aren't as relevant as we need to be to today's consumer," CEO Jeff Jones said as he vowed to reposition the firm. The stock's 18% drop was its worst decline in 30 years.

Amazon.com Inc. - ▲0.4% Wednesday

Less than a month after passing it unanimously, the Seattle City Council voted Tuesday to repeal a per-employee tax on big companies that had been projected to raise about $47 million for homeless services. Skyrocketing home prices spurred by Seattle's tech boom are behind the city's large concentration of homeless people, which ranks third in the U.S. according to the Department of Housing and Urban Development. Seattle is also home to business giants like Starbucks Corp. and Amazon, which took an uncharacteristically aggressive tack in lobbying against the tax. Amazon, the city's largest employer, threatened to halt the planned expansion of its headquarters if the $275-per-head tax took effect, but said it would resume construction in light of the repeal.

ZTE Corp. - ▼42% Wednesday

Chinese telecommunications firm ZTE saw $2.7 billion of market value erased on Wednesday, as the Hong Kong-listed stock plummeted 42% in its first day of trading since the middle of April. ZTE shares were initially halted after the U.S. Commerce Department banned American companies from doing business with the Chinese firm for violating the terms of previous U.S. sanctions against Iran and North Korea in 2017. Then last week, Mr. Trump extended an olive branch, and Commerce Secretary Wilbur Ross offered to keep ZTE afloat in exchange for fines and management changes. The policy reversal caused the end of ZTE shares' trading hiatus, though investors are wary of the company's future viability.

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THE WALL STREET JOURNAL.

Business

UPS's $20 Billion Problem: Operations Stuck in the 20th Century; As the package giant tries to satisfy America's 21st-century shopping-and-shipping mania, it is striving to bring its delivery network out of a past era

By Paul Ziobro
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MESQUITE, Texas—In the sticky Southern heat, hundreds of workers streamed in for the 11 a.m. shift last month at United Parcel Service Inc.'s local package-sorting facility, one of dozens nationwide that help it move millions of parcels daily.

In a windowless room, a 30-year-old analog control panel about the size of a chest freezer monitors operations, with rows of green and red lights indicating when something goes awry in the building's web of conveyor belts.

"Thirty years ago, this was top-notch," UPS plant engineering manager Dean Britt said of the control panel. Today, the panel's computing capabilities "can probably fit on your phone," he said, "and not even a good phone."

The site, and other similar UPS facilities, haven't automated much over decades—despite a rush of new warehouse technology in many industries. Today, the company is paying a price.

As UPS tries to satisfy America's 21st-century shopping-and-shipping mania, parts of its network are stuck in the 20th century. The company still relies on some outdated equipment and manual processes of the type rival FedEx Corp. discarded or that newer entrants, including Amazon.com Inc., never had.

UPS says about half its packages are processed through automated facilities today. At FedEx, 96% of ground packages move through automated sites. UPS workers are unionized; FedEx's ground-operations workers aren't.

Now, the century-old delivery giant is playing catch-up. As part of that effort it plans capital spending of more than $20 billion over the next three years. Much of that will go toward opening new automated facilities, UPS says, and technology upgrades to route packages around bottlenecks. It is a bigger annual expense, adjusted for inflation, than when UPS broadened from a ground operation and built up its cargo airline in the 1980s.

UPS says it plans to process all packages, aside from some larger ones or those that travel a short distance, through automated hubs by 2022. "We definitely need to do these kinds of things to remain competitive," says UPS's chief information officer, Juan Perez.

The reason for the intensive push is the way in which UPS's business has been flipped on its head. The bulk of its shipments once went to corporations or retailers. Now, its brown-clad U.S. drivers deliver more than half of its packages to homes, thanks to e-commerce. Drop-offs at suburban homes generally aren't as profitable as delivering large orders to an office or downtown shop, UPS says.

UPS embraced e-commerce early even though some executives worried about chasing lower-margin deliveries, say some former UPS executives. Bottlenecks caused by online orders have led to delays and sent some industrial, health-care and other corporate shippers into the arms of FedEx, they say.

UPS also faces competition from Amazon, which is building out a delivery network of planes, trucks and vans to handle more of its online orders, especially in cities and suburbs. UPS spokesman Steve Gaut says the company has won business customers from rivals in recent years and declined to discuss Amazon's strategy. "There is tremendous opportunity" in delivering online orders, he says, "irrespective of how other companies may shift their strategies with respect to UPS."

Profit margins at UPS's domestic unit fell to 12.1% last year from 13.5% in 2013, while the unit in the same period added more than $6 billion in revenue, which hit $40.7 billion last year. Investors, accustomed to UPS's low spending, sent its stock tumbling in January after executives disclosed they would increase capital outlays.

"You have to do it," says Jerome Dodson, chairman of Parnassus Investments, owner of roughly $800 million of UPS shares, speaking of capital spending, "but I was amazed as to how high it was."

UPS is negotiating with the International Brotherhood of Teamsters to renew a five-year contract, which expires July 31. Representing 260,000 UPS drivers, sorters and other workers, the union wants UPS to hire more full-time workers to help handle the surge in packages. It has opposed technology such as autonomous vehicles and drones and is wary of projects that do work with fewer employees.

"The problem with technology is that it does ultimately streamline jobs," says Sean O'Brien, a Teamsters leader in Boston. "It does eliminate jobs. And once they're replaced, it's pretty tough to get them back."

FedEx, with no unionized workforce in its ground network, doesn't have to worry as much about labor strife. And because it built its ground network more recently, it hasn't had to retrofit older facilities with automation. "For an older hub, automating is like heart surgery," says Ted Dengel, FedEx Ground's managing director of operations technology. "We can drop automation in before a package hits a facility."

UPS acknowledges that its older base and unionized workforce present challenges that rivals such as FedEx don't have.

Blue chip

UPS founder James E. "Jim" Casey spoke about the dilemma of change 70 years ago. "A hard part of management's problem," he said in an annual speech, "is to know when to make changes and when to hold fast to what is good."

UPS grew out of Mr. Casey's small Seattle bicycle delivery service, American Messenger Co., in 1907. It used Model T Fords to deliver local department-store orders, eventually crossing state lines and building a company that now has a fleet of more than 100,000 vehicles and nearly 600 aircraft. He was chief executive for five decades and a director until his 1983 death at 95.

The company avoided flashiness and was known for its steady approach to business. It was employee-owned until an initial public offering in 1999. A reliable blue chip, it rewarded public shareholders with steady performance, dividend payments and share buybacks.

Then e-commerce happened.

As online-shopping volume grew, UPS relied on what a former UPS executive calls "a Band-Aid" approach to upgrading its network, patching it up by adding extra shifts or extending hours, or retrofitting parts of older buildings with new equipment. UPS says the union hasn't impeded spending on automation. The cost and size of the machines needed to automate an older facility are now low enough to allow UPS to retrofit older facilities and build new ones, it says.

The company's prior capital-spending strategy was appropriate when e-commerce growth created a 2% uptick in volume in 2015, says UPS finance chief Richard Peretz. But America's appetite for online shopping only grew. "When you're under 2%," he says, "you're thinking a lot different about putting up these buildings than when you're up 4 or 5%."

In short order, facilities such as the 34-year-old Mesquite hub emerged as weak links. While some 80,000 UPS delivery drivers fan out almost every day, UPS relies on an unseen army of workers to process packages through its sorting centers, some who work in ways that haven't been updated much since the founder ran the business.

In Mesquite, the process starts with unloading boxes from trucks onto conveyor belts. A worker must align each box so a scanner can read the delivery label on the front, top or one side. That's in contrast to the more-modern six-sided scanners used in newer hubs, which can scan a package no matter how it is loaded on the belt.

The packages move inside to a line of about 50 workers. Nine conveyor belts turn—three along the ground, three waist-high and three just overhead. A sorter must pick a package, quickly decipher the label and place the box onto the correct belt. Around the corner, a worker sorts packages down chutes, where loaders fill truck trailers.

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By contrast, automated sorting facilities use scanners to read a box's destination and equipment called shoe pucks push packages down the proper chute.

A medium-size package at Mesquite gets four "touches," as warehouse operators refer to acts of handling. Each touch adds a chance for a sorting error or damage. With 40,000 pieces processed an hour out of Mesquite, even rare human misfires can add up. Mis-sorted packages can add an extra day to a delivery, UPS says.

Automated hubs

All FedEx ground hubs are automated. Typical of its processes is how packages are handled in a one-year-old facility in Edison, N.J., where FedEx workers touch most packages twice—for the unload and the load.

Amazon's operations, too, bristle with automation. It has been years ahead of many logistics firms in warehouse automation, from driverless forklifts to robots that bring shelves to workers.

UPS's effort to catch up can be seen 36 miles from Mesquite in Fort Worth, where machines scan boxes, sort them by destination and send them to outbound vehicles. New equipment such as six-sided scanners mean workers don't have worry about which side is up. The facility, with 750 workers, can process about the same number of packages daily as Mesquite, which has 1,170. In Fort Worth, packages get two touches.

The building's brain is an air-conditioned control room where 10 UPS employees sit before a wall of flat-screen monitors showing live video feeds. The computer system detects jams and other malfunctions. Workers can reroute where the conveyors send packages. "There's no human element" in rerouting a package in the building, says UPS engineer Travis Jensen. "There's a keyboard." A few workers walk alongside the belts to do tasks such as replacing any package that falls off, a rare occurrence.

Newer automated hubs are slowly arriving at UPS. It is adding about 5 million square feet of automated processing capacity, or 6.7% in additional capacity, to its network this year.

UPS says automated equipment isn't enough. Jack Levis, UPS director of process management, oversees about three dozen employees adding a layer of software over UPS's sorting network that would help manage package flows, including between automated facilities and older ones.

Such capability is critical as it handles more packages, including during the peak holiday season. The technology would divert additional packages from heading to areas overwhelmed by volume. "Imagine systems that will predict problems before they happen," Mr. Levis says. "You'll look like Sherlock Holmes."

Some analysts and consultants say the upgrades are overdue, especially as UPS has in recent years faced capacity crunches during the holiday season. In 2017, UPS was overwhelmed for a few days after Thanksgiving while FedEx was able to more easily reroute traffic. UPS says an unexpected surge in online orders backed up the network temporarily.

Morgan Stanley analyst Ravi Shankar says investors have questioned how UPS got by with less spending than FedEx, asking, "What took you guys so long?"

While UPS spends heavily on automation, FedEx is winding down a period of heavy investment in its ground network, having spent about $10 billion since 2005. The Memphis, Tenn., company started as an express airline in the 1970s, adding ground deliveries in 1998 with the acquisition of Roadway Package System, which was created in 1985 to rival UPS by using new bar-code-scanning technologies. UPS began using bar codes the next year.

FedEx is now honing its network of 37 ground hubs in the U.S. and Canada, paring back in some places. It mothballed its $259 million ground hub in Indianapolis. It built its Edison, N.J., ground hub to be flexible: It uses only about a third of the building's space, with room to expand in short order with whatever equipment it may add. It installed a sorting system quickly last year ahead of the holiday season.

The setup lets FedEx adjust its network based on the more **volatile** flows of online orders, something UPS hopes to do more adeptly with increased automation.

On Atlanta's west side, UPS's spending is taking shape in a 1.2 million-square-foot hub. Inside the concrete frame, engineers are testing six-sided scanners while contractors weld chutes and line the rafters with wires. The building, if all remains on schedule, will handle truckloads of holiday orders this year from Amazon and other retailers. It will be UPS's second-largest U.S. ground hub after one in the Chicago area.

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Martha Molina, 50, a UPS sorter in Mesquite for the past 20 years, says she isn't worried about the addition of automated sort centers that require fewer workers. "It's something that we need to do to progress."

Write to Paul Ziobro at Paul.Ziobro@wsj.com

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The New York Times

Business Day
Stock Investors Shrug Off an Intensifying Trade War

By Matt Phillips
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The world's two largest economies appear to be escalating their trade war. In the United States, at least, investors do not seem to be terribly worried.

The Trump administration said on Friday that it was proceeding with the imposition of tariffs on $50 billion in Chinese goods. The Chinese government quickly said it would respond in kind.

An intensifying trade war — with the potential for pockets of painful economic fallout — is the kind of event that could spook investors. That has not happened.

Stocks are off slightly, with t he **Standard & Poor's 500**-**stockindex** slipping 0.1 percent on Friday. Yields on bonds declined, a sign that investors were seeking a bit more safety. Commodities, the raw materials that fuel the global economy, dipped too. The price of American crude oil sank more than 2 percent on Friday.

The decline in **oil prices** affected shares of energy giants like Exxon Mobil and Chevron. Companies like Caterpillar, Boeing and Deere, which could be hit by Chinese tariffs, weighed on indexes.

But the overall market drop has been mild compared with the steep slides — some of more than 2 percent in a day — that rattled global stock markets earlier this year, when investors were fretting about the possibility of rising interest rates. And there are some clear reasons that markets are reacting in a relatively blasé fashion right now.

"The simplest answer is that by our calculations the fiscal stimulus is about 10 times greater than the potential drag from trade," said Jason Trennert, chairman of the Wall Street research firm Strategas Research Partners.

The stimulus he refers to is actually twofold: federal tax cuts and increased government spending. The twin propellers are pushing huge sums of money into the United States economy, which already appears to be in extremely good shape.

In May, unemployment fell to 3.8 percent, a new 18-year low. After a lull earlier this year, consumer spending appears to be picking up again, a powerful boost given that consumption accounts for roughly 70 percent of the United States economy. By comparison, trade, the value of imports and exports, accounts for a little more than 25 percent.

The increase in consumer spending is good news for companies, whose profits are already swelling because of the Trump administration's tax cuts. Analysts expect that earnings for companies in the **S**. **& P**. **500** will be up more than 24 percent over the next 12 months, according to Bloomberg data.

Still, there are some ominous signs elsewhere in the financial world, including evidence of distress in so-called emerging markets like Turkey and Argentina. At times in the past, such turmoil has spread to other markets, leading to global turbulence.

For now, in the **stock market** at least, investors are taking their cues from solid economic data rather than theoretical risks.

And while the **S**. **& P**. **500** has not hit a new high since late January, it does seem to be gaining traction. The benchmark index is up more than 5 percent since the end of March.

* U.S. and China Expand Trade War as Beijing Matches Trump's Tariffs

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The New York Times

Business Day; Economy
Feeling Good About the Economy? You're Probably a Republican

By Ben Casselman and Jim Tankersley
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Americans are feeling better about the economy. Or at least Republicans are.

A combination of low unemployment, peppier economic growth and a record-setting **stock market** has pushed measures of consumer confidence to their highest levels since the dot-com boom of the late 1990s and early 2000s. That optimism is spilling over into spending, as well: Retail sales rose in May at their fastest pace in six months.

But the strong economy hasn't overcome an even more potent force: partisanship. Sixty percent of Republicans believe they are better off now than they were a year ago, compared with 17 percent of Democrats, according to a survey conducted in early June for The New York Times by the online polling firm SurveyMonkey.

The same partisan split appears in the survey's broader measure of consumer confidence, which is based on five questions about respondents' spending plans and views of the economy. Republicans are optimistic and becoming more so. Democrats are pessimistic and have seen barely any improvement in their outlook despite the steadily improving economic data.

The pattern is a mirror image of the picture before President Trump took office. Back then, it was Democrats who were far more positive about the economy, a situation that reversed almost immediately upon Mr. Trump's inauguration.

Who Gets the Credit?

The economy has made steady progress since Mr. Trump took office, with the unemployment rate recently dropping to 3.8 percent, its lowest level since 2000. Most economists see that improvement as a continuation of gains made under former President Barack Obama, although they say recent tax cuts and spending increases could provide a short-term lift to economic growth over the next few years.

Republicans are counting on the strong economy to buoy them in congressional elections this fall. Party leaders in the House and Senate celebrate every new measure of economic news, and have been quick to claim credit for it.

"This economy is on a roll, there is just no two ways about it," Speaker Paul D. Ryan, Republican of Wisconsin, said this month. "This economic momentum — it doesn't happen by accident. We don't just fall into this stuff. We've worked hard to create an economic environment where this kind of growth is possible."

No one tries to claim more credit than Mr. Trump, who frequently touts the strength of the recovery on Twitter.

He may be getting through to voters. A majority of Americans — 56 percent — give Mr. Trump at least some credit for the improving economy.

Joe McGrath, a sales manager for a lighting manufacturer outside Philadelphia, said that by cutting taxes and loosening regulations, Mr. Trump and Republicans in Congress had "really turned American business and the American economy loose."

A conservative Republican, Mr. McGrath, 56, said that he didn't support Mr. Trump during the presidential primaries in 2016, and that he still didn't always like Mr. Trump's approach. But on policy, Mr. McGrath said, Mr. Trump won him over by following through on the promises he made during the campaign.

Republicans overwhelmingly attribute the economy's progress to Mr. Trump. Democrats, perhaps unsurprisingly, are likelier to say Mr. Obama had more to do with it. But nearly a third of Democrats say Mr. Trump has earned at least some credit.

Nick Holland, a 27-year-old Democrat living in Atlanta, said there was no question that the economy was doing well, adding that this was at least in part because of Mr. Trump.

"He definitely deserves some credit," Mr. Holland said. "I definitely didn't vote for him, but this is why people did, because he's a businessman."

Still, Mr. Holland said Mr. Obama had probably played a bigger role in setting the economy on firm footing. And he said he was unlikely to support Republicans in the fall elections because other concerns, such as police and school shootings, outweighed economic issues for him.

History suggests that the state of the economy is rarely a deciding factor in midterm elections. The president's party has lost seats in years when the economy was humming, such as 1966, and gained them in years when it was weak, such as 2002. Political scientists have found that the presidential approval rating is a much better predictor of how the president's party will fare in the midterms.

Looking Up

Politics isn't the only factor in people's views of the economy. Adults from higher-earning households are more confident, regardless of partisanship. (Still, low-income Republicans are more optimistic, on average, than even wealthy Democrats.) Men also tend to be more confident than women, and whites are more confident than members of minority racial and ethnic groups.

There has been improvement among virtually all groups, however. Confidence among African-Americans is the highest since Mr. Obama was president. Mr. Trump has repeatedly pointed to low black unemployment as evidence that his economic policies are benefiting groups that often face discrimination in the labor market.

Steven Saenz, who is Hispanic, graduated from college in the teeth of the recession, and went to architecture school in part to avoid entering the weak labor market. Even so, it took him nine months after completing his degree to find a job, and two more years to feel stable.

Now, however, Mr. Saenz has a good job at a Dallas architecture firm, and last year bought his first home with his wife. Still, Mr. Saenz, 32, said he and his wife watched their spending closely.

"Just being a product of graduating in the recession, I tend to focus more on saving," he said.

Tax Support Stalls

Ever since they passed their $1.5 trillion tax-cut bill in December, Republicans have predicted that voters would come to love it. They were buoyed in February when, according to a previous survey, the law briefly earned the support of a majority of Americans. But the surge in support has stalled, and the law now evenly divides Americans, with 48 percent in favor and 47 percent opposed. There is no sign in the polling that the law will help Republicans court independent voters, who oppose the law by 54 percent to 40 percent, in the fall.

But the law appears to have helped Republicans' election prospects in one important way: It appears to have made Republican voters feel better about the economy.

The share of Americans who say they and their families are better off financially than they were a year ago has jumped since December, to 36 percent from 29 percent. That jump is almost entirely concentrated among Republicans, and it coincides with the signing of the tax cuts. The improved sentiment could give Republican voters a reason to turn out in November — to reward the lawmakers they see as having given them a financial lift.

"It's clear that the tax bill did have a significant impact on Republican confidence," said Laura Wronski, a research scientist at SurveyMonkey.

Nancy Steele, a retired psychologist near Allentown, Pa., said she saw more cynical motives in the tax bill.

"They were striving to give lots of people a tax break hoping it would help them in the November elections," she said.

Ms. Steele, a Democrat, said she was concerned about projections that the tax law would add hundreds of billions of dollars to the national debt over the next decade. Mr. Obama also added to the debt, she said, but unlike Mr. Trump, he inherited a financial crisis.

“Going that much in debt just to buy votes this coming November, I don’t think, is such a good thing,” she said.

Most Democrats agree with Ms. Steele. Nearly 70 percent say they believe the tax cuts will add to the deficit. Only 22 percent of Republican voters say they believe that. A plurality of them — 37 percent — say the tax law will actually reduce the deficit.

Those voters are echoing Trump administration officials, such as Treasury Secretary Steven Mnuchin, who have predicted the tax cuts will more than pay for themselves. Economists roundly disagree with them. No detailed, independent analysis of the law has concluded that it will avoid adding to the deficit, let alone reduce it. The congressional Joint Committee on Taxation estimates that the law will add $1 trillion to deficits over the course of a decade, even after accounting for additional economic growth it might spur.

* How Good Is the Trump Economy, Really?

* New Milestones in Jobs Report Signal a Bustling Economy

* The Jobs Recovery: A Longer View

* Fed Officials Worry the Economy Is Too Good. Workers Still Feel Left Behind.

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THE WALL STREET JOURNAL.

Economy
U.S. Consumer Sentiment Rose in Early June; Confidence buoyed by strong economic growth, low unemployment and rising wealth levels

By Sarah Chaney
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U.S. household confidence rose in the beginning of June as Americans felt better about their current economic situation, but their expectations for the future dropped, possibly due to concerns about tariffs and rising gas prices.

The University of Michigan Friday said its consumer sentiment index was 99.3 in June, up from a 98.0 final reading for May.

Sentiment about current economic conditions rose solidly in the beginning of June, while economic expectations dropped.

Consumers held more favorable views of buying conditions for household durable—or long-lasting—goods, said Richard Curtin, the survey's chief economist.

"Greater certainty about future income and job prospects have become the main drivers of more favorable purchase plans," Mr. Curtin said.

Meanwhile, consumers were less optimistic about the future of the economy, potentially due to two factors, said Chris Christopher, IHS Markit Executive Director.

"They're sort of worried maybe that **oil prices** will [rise] back to those high levels and they have been increasing a bit. And the other thing is they're a little nervous about maybe a trade war or tariffs," Mr. Christopher said.

The Trump administration announced Friday that it will impose tariffs on $50 billion of goods from China, raising the potential for a trade war between the world's two biggest economies.

Consumers are expecting the inflation rate to rise. Americans' expectations for the year-ahead inflation rate rose to 2.9% in June, the highest expected inflation rate since 2015. Longer-term inflation expectations rose to 2.6%, after hovering at a 2.5% rate for several months.

Despite the drop in economic expectations, overall consumer sentiment levels remain elevated. Measures of how consumers feel about the economy climbed after Donald Trump was elected president in 2016, and have been buoyed by strong economic growth, low unemployment and rising wealth levels.

Americans' confidence in the job market offers a positive outlook for consumer spending, Mr. Curtin said.

Recent economic data have underscored these gains in consumer spending.

Personal-consumption expenditures, a measure of household spending on everything from health care to magazines, increased a seasonally adjusted 0.6% in April from the prior month, the Commerce Department said earlier. That was the largest increase in five months.

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Markets

Gold, Copper Prices Fall on Trade Friction, Oil Selloff; Investors are concerned the trade conflict will hurt China's economy and slow global growth

By Ira Iosebashvili
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Gold prices fell to their lowest level since late last year Friday and copper prices declined as investors reacted to U.S. tariffs on China and a selloff in oil.

Gold for August delivery was recently down 2.2% at $1,280.20 a troy ounce on the Comex division of the New York Mercantile Exchange, the lowest level since late December.

Copper for July delivery fell 2.6% to $3.1380 a pound.

The selling comes following news that President Donald Trump approved tariffs on about $50 billion of Chinese goods, as the U.S. ratchets up its trade fight with Beijing.

Investors are growing increasingly concerned that the intensifying trade conflict with China will hurt that nation's economy and slow global growth. China is the world's top consumer of many commodities, including copper.

"Tariffs on China could be a game changer for metals markets," said George Gero, managing director at RBC Capital Markets.

Gold is also being hurt by expectations of a more hawkish Federal Reserve, after the central bank raised its policy rate one-quarter percentage point and penciled in two more increases in 2018 earlier this week.

Expectations of higher rates tend to hurt gold, which struggles to compete with yield-bearing investments when yields rise.

A drop in **oil prices** also dragged down copper. Crude prices were recently down 2.6%, as investors looked ahead to next week's meeting between major producers in Vienna where a decision to raise production is expected.

Big moves in oil tend to sway copper and other raw materials, as some investors trade in a single basket, with the largest share dedicated to oil.

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Economy
Transcript: Media Q&A With New York Fed President William Dudley; The central banker reflects on his years at the helm of the New York Fed

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William Dudley spoke with reporters during his last weekday as president of the Federal Reserve Bank of New York on Friday, June 15, 2018. He talked about what he thinks his bank did right under his leadership and how it can improve, as well as the economic outlook, concerns about U.S. fiscal policy, how the central bank sets monetary policy, and how he feels about handing over the reins to John Williams—the San Francisco Fed president who is succeeding Mr. Dudley in New York. Here is a transcript of the exchange, lightly edited for length and clarity.

WILLIAM DUDLEY: Yeah. I'm just going to answer the question I get asked the most: How do – how do you feel – (laughs) – about stepping down? And, you know, the answer is that, you know, I feel mixed, bittersweet.

On one hand I feel really good because lots of things are in good places. You know, if you think about the U.S. economy, we're pretty close to our dual-mandate objectives of maximum employment and price stability. If you look at the financial sector, it seems like the banking system is in much better shape – more capital, more liquidity, less risk on the books as far as we can assess it at this point. And I think the Federal Reserve Bank of New York as an institution is stronger than it was 10 years ago. I think we've – you know, we've changed how we orient ourselves to the community. I think it's – the outreach, I think, is much broader, both in terms of **financial markets**, where we've really talked to a broad set of individuals, not just the sell side but also the buy side; but also the regional road trips, which most of you – that you guys have been on for the last, you know, many, many years; and the advisory groups, where we've broadened out our contacts with the community. So I feel – I feel pretty good about all that.

The thing that's bittersweet is that there's lots of cool stuff to work on and I'm not going to get to work on it. It's a lot more fun doing policy than commenting on policy from the outside. So, you know, all the issues about how monetary policy is going to evolve – floor versus corridor system; you know, what should the Fed do, if anything, to minimize the risk of being pinned at the zero lower bound; you know, supervision; how do we resolve effectively a large cross-border firm – I think we've made a lot of progress there, but I don't think we're actually done yet. In the payments space, there's the whole issue of faster retail payments in the United States. We're pretty – we're sort of lagging behind the rest of the world, and a big question for how do we get the faster retail payments in the U.S., number one; and, number two, what's the Fed's role. The Fed's going to have to play some important role in that because we're the final mile to central bank money, and that's going to – I think it's going to be very, very important to work out over the next coming months and years.

We have a number of projects here at the Fed that are pretty important that we have to complete, like reference rates. We now have SOFR [secured overnight financing rate], so we have, I think, a viable reference rate that's compliant with Iosco [International Organization of Securities Commissions] principles. But now we got to get everybody to move – (laughs) – to SOFR off of Libor [London interbank offered rate], and that's going to be an interesting challenge, too, over the next couple years.

So John Williams is a great choice for the president of the New York Fed. I'm also proud of the fact that we're having a sort of seamless transition. A lot of the reserve banks, when the president steps down, there's been a gap before the new president takes the reins. That's not going to happen here. My last minute is 11:59 p.m. on Sunday evening and John's first minute is 12 midnight – (laughs) – on Monday morning, so there's not going to be any gap here. And we've been spending a lot of time getting John, you know, up to speed on all the issues here in New York. He's obviously very knowledgeable since he's been in the Federal Reserve for a number of years, spent his whole career in the Fed and last, you know, five or six years as the president of the San Francisco Fed.

So I think people here are excited about having John come onboard. He's a very talented guy. So I'm pleased that it's going to be a very nice, seamless handoff.

So fire away.

Q: Oh, it's Mike from The Wall Street Journal here.

I guess kind of given that this is, you know, the last hurrah here, ask you, you know, what moment you are – maybe you're proudest of over the last decade that you've been at the Fed. And what was the one thing that over your tenure you thought the Fed could have done better or maybe even just dropped the ball and you would have liked to have seen something different happen?

MR. DUDLEY: Well, I don't think there's like one thing that sort of jumps out as that's the thing. But I think – you know, I think how the Federal Reserve Bank of New York responded during the financial crisis in terms of diagnosing what was wrong in terms of **financial markets** and financial institutions, and coming up with viable solutions that could, you know, help restore trust and get people back to interacting with other, you know – borrowers and lenders starting to interact again with one another is something I'm pretty proud of.

The New York Fed played a huge role in the first big capital stress test, the SCAP [Supervisory Capital Assessment Program], and, you know, that – in a lot of ways that was sort of the turning point of the financial crisis. I remember when that – when the results were published, the next day I came into the office and a major hedge fund published a piece that said – it was a huge headline in big, you know, caps – we agree with the Fed. And then I knew we sort of had turned the corner, that we actually had a regime here that people viewed as fully credible. So I'm very proud of that.

I'm proud that we've gotten monetary policy, you know, back to a place where we're normalizing policy, the balance sheet is shrinking. We've done that in a way without creating a lot of, you know, market indigestion at this point. I wouldn't say mission accomplished because we still have a ways to go on that, but I'm pretty proud of that.

And, obviously, the fact that the economy is doing so well – you know, we're basically at our dual-mandate objectives, within a whisker of our dual-mandate objectives – is also something I'm very pleased about.

In terms of things that the Federal Reserve could do better, there's always things you can do better. So I think the one thing that I think that I would hope that the Federal Reserve can continue to work on – and we've actually done quite a bit of work on this here – is how do you get to the point where you can identify incipient risks before they actually manifest themselves and deal with them before they actually cause problems for the system. So, you know, we've done a lot of good work in remedying problems that we discovered during the financial crisis – you think about tri-party repo reform; you think about the work we've doing now on reference rates; you think about money market fund reform; you think about, you know, capital liquidity for the largest banking institutions – but a lot of that is ex post. It's after the problem has been revealed. It would be great if we could do a better job anticipating the problems and solving the problems before they actually manifested.

Now, I'm not saying that that is easy. That is really, really hard. That's sort of the holy grail. But that's sort of what you want to aspire to as, you know, any institution, including the central bank.

Q: Hi, Bill. So how high do you think interest rates will have to go in this expansion? And maybe if you have a couple different possible scenarios in mind, like, which do you view as the most likely outcome there?

MR. DUDLEY: You know, I think my views are, you know, not that different than what you saw in the [Fed's] summary of economic projections that was put out on Wednesday. I mean, I think the federal-funds rate will probably have to climb a little bit above neutral because the unemployment rate is already – from most people's vantage points is below a, you know, sort of sustainable level of unemployment consistent with stable inflation. So a little – you know, I think the move will be eventually to a slightly tight monetary policy.

But, you know, there's a lot of uncertainty about what that rate actually is going to be because there's a lot of uncertainty about what the neutral rate is. You know, people have point estimates, and most people think the short-term real interest rate consistent with a neutral policy is lower than it's been in the past because of demographic changes and also the fact that productivity growth has been a bit lower. But there's a lot of just uncertainty about that. So I'm sort of expecting that the peak in the federal-funds rate in this cycle will be lower than in past cycles, but I have quite a bit of uncertainty about that.

You know, one thing that probably also raises uncertainty is we have a lot of policy questions that are still open outside of monetary policy. So fiscal policy is on an unsustainable path. You know, it's pretty unusual to be doing

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large doses of fiscal stimulus when the economy is already close to full employment, but that's what's happened both in terms of the tax-cut legislation and then the increases in the spending caps for discretionary domestic and also for defense spending. So those are going to add a lot of stimulus to the economy in '18-'19 and a bit more – and I think it's probably going to go all the way into 2020. So that could also affect, you know, exactly what the trajectory of rates are and how high rates have to go. I think there's just a lot of uncertainty on that point.

You know, I think the thing I always want to point to people is don't overinvest in the SEP projections. That's just the – you know, that's just people's estimate today of what the most likely path is. But around that central path there's a pretty wide range of uncertainty. I think that [Federal Reserve] Chair [Jerome] Powell has been doing a good job, I think, you know, pointing out to people that we have a lot of uncertainty about what's going to happen, you know, in 2019 and 2020, and so don't get so overinvested in that. There's no commitment in the SEP. All it is is a forecast of expectations at this point in time. And as the economy changes and the world changes, you know, that path will change too.

Another big, important issue is the uncertainty about what's going to happen in terms of trade and immigration policy. You know, I am a little concerned that trade policy could evolve in a way which leads to higher trade barriers and immigration policy could evolve in a way that leads to much less immigration to the U.S., therefore less productive capacity for the economy. That could also have implications for the economic outlook and for the path of interest rates.

Q: Hey, Bill. An early congratulations. I enjoyed the road trips along the way for the last few years.

Let me pick up on the fiscal stuff, actually. You know, you've been outspoken about protectionism and running up the deficit, but I wonder if you think today's fiscal policies require, you know, maybe stepping outside of those normal boundaries at the Fed of not commenting on fiscal policies. And, in fact, could I also push you a little further and ask, what is the biggest risk on that front of running up deficits and pushing the economy there? Thanks.

MR. DUDLEY: Well, clearly, fiscal policy is out of the – outside of the Fed's purview, and so that's a decision for the Congress and administration to make in terms of what's the appropriate fiscal policy. I think the point is, though, just to point out that, you know, if fiscal policy is on an unsustainable path, which it seems to be, that creates a risk for the economy because something that's unsustainable has to end at some point. And how that happens, I think, is very, very unclear. So I view that fiscal policy is just adding to a bit of risk in terms of the economic outlook and the economic forecast.

You know, when it will manifest itself, how it will manifest itself, I think that's highly uncertain. But I would – you know, I'd feel more comfortable if I knew how fiscal policy was going to get put back on a sustainable path. Is that going to be something that's going to be done proactively, or is that going to be done only after the **financial markets** force that adjustment?

Q: I guess this somewhat follows up on that question. But do you worry – you know, when you talk about the unsustainable fiscal outlook, do you worry at a point, say in a rising rate cycle with the Treasury borrowing, as much as it's borrowing that – you know, that the – that the government could run into problems finding enough people to buy the debt? I mean, is there – what are the risks on the fiscal situation on that front?

MR. DUDLEY: I don't think – that would be something that, you know, I wouldn't put high up on my list of things just because I think that the U.S. is very credible in the world in terms of our ability to service our debts and the dollar is viewed as a very good store of value. You know, if you look at reserve currency holdings around the world, the dollar is still very dominant in that sense. But, you know, you could – you could see a point where, you know – remember the bond market vigilantes era back, I guess, in the early days of the Clinton administration, where, you know, interest rates were higher because of the fiscal deficits, and that then fed back to even more debt-service costs? And so that's not a great – a great dynamic.

You know, a couple of things that have caused me to be worried about the fiscal side. Number one, as the Fed normalizes our balance sheet, our – and this is back to the U.S. Treasury will fall, so that's – and that's well-known.

Number two, debt-service costs are going to go up a lot. You know, the total amount of public debt outstanding roughly tripled between 2007 and 2017, but debt service went up very marginally, something on the order of about 15 percent, all because interest rates were so low over that – over that period. If we get back to sort of more normal interest rates, the debt-service costs are going to go up very dramatically.

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And the last thing, of course, is, you know, people like me – baby boomers – are going to retire, and there's going to be some pretty significant consequences for Social Security spending and Medicare spending as a consequence. You know, the trajectory right now looks like deficits are going to be in sort of the 5 percent range over the next few years, but that assumes continued economic expansion. So what happens if there's actually a recession? Then the deficits could go up quite a bit faster than that. So I think it's – it's not a problem that the markets are focused on at this point. It's sort of over the horizon. But, you know, I'm pretty confident that it is a real problem, and just because people aren't focused on it now doesn't mean it's not going to come back and manifest itself in some way that might make the – might make it more difficult for, you know, the U.S. government broadly speaking, the Federal Reserve to keep the economy on a – on an even keel and a good course.

Q: Are you worried that the political – the political environment doesn't seem to take this on in any way?

MR. DUDLEY: Well, I mean, you know, I – I'm not going to comment on the political environment. That's not really my role. I'm just sort of identifying a potential – we talked before about, you know, what I wanted to have the Fed do; you know, identify problems that are incipient and deal with them before they actually manifest themselves. The same sort of applies to the fiscal path, right? If you wait until it actually becomes a problem, the problem is going to be more severe if you – compared to if you address it sort of proactively. So the same thing applies for that.

Q: Yes. So just going back to the SEP, I mean, it seems like there's a bit of an elephant in the room in that, you know, your NAIRU [non-accelerating inflation rate of unemployment] estimate is 4½ percent, but you see unemployment going down to 3½ percent, and so you need restrictive policy to kind of get that back into balance. And so my question is just, like, how do you think the Fed is going to be able to sell, you know, the necessity to put a million people out of work in order to keep inflation in check when – you know, it might have been a little easier in the – in the '70s because inflation was so high. But given it's so low now, how is the Fed going to be able to do that?

MR. DUDLEY: You know, I guess I wouldn't characterize the problem that way. I think I would characterize the problem a little bit differently. The problem is trying to generate a sustained high level of employment. And the way you can keep employment at a high level on a sustained basis is you keep inflation in check. So inflation in check is sort of a necessary condition to keep the economy in a position where you can actually keep employment at a high level. If anything, I would just say there's a lot of uncertainty about where is the neighborhood. And it may turn out that the neighborhood is lower than what we—than what we thought.

And so I wouldn't want to be, you know, too definitive about the neighborhood being 4½ percent. That's an estimate that we have today, but you know, if you look at, you know, the last, you know, half a dozen years, that estimate's been coming down over time. Also, there may be, you know, a little bit more productive capacity in the labor market than we think. As the labor market's tight, we've seen the labor-participation rate flatten out of the last year. And that may suggest that there's actually more potential people that could be encouraged to come back into the workforce, which I would view as a very positive thing because if we can get people back into the workforce, you know, developing their skills, developing their human capital, then that actually increases the productive capacity of the economy, and so that's something that sort of leans against any sort of incipient inflation issue.

Q: Hi, again. As we're speaking here, the White House just put 25 percent tariffs on Chinese goods, so that's a check in. But I will pivot away from fiscal.

And if I could ask you about emerging markets just quickly, you know, with you overseeing the balance sheet over your tenure there. You know, we're seeing some of the same strains as we did at the taper tantrum in 2013. Since then, the Fed has tried to sort of clarify its messaging around the balance sheet. ... Do you think emerging markets can absorb the rest of the planned runoff of the balance sheet with a broader slowdown?

MR. DUDLEY: Well, I mean, I think we don't know for sure exactly what the full consequences of the balance-sheet normalization are going to be. But I would say at this point – I would say, you know, with respect to U.S. markets, the reaction has been extremely mild, I would say probably even milder than I would have anticipated. You know, there has been some spillover potentially to emerging-market accounts. But again, it's also hard to sort of say how much of that is due to the normalization of the balance sheet versus other factors.

You know, if you look at a country – you know, some of these countries have large fiscal deficits, and they have large current-account deficits. So they're dependent on foreign capital to continue on their current fiscal path. That probably would have been problematic in any case. So you know, sort of laying this all at the feet of the balance-sheet normalization problem I think is probably, you know, going a little bit too far.

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I would also say, compared to the taper tantrum, you know, what we've seen is pretty modest. And the market seems to be doing a pretty good job of differentiating between countries. If you look at the countries that have had the greatest problems, those are the countries where the fundamentals are most problematic in terms of fiscal deficits and current-account deficits.

Q: OK. And just to follow up, you know, the estimates as to the end point of the balance sheet seem to have crept up over the last few years, just, you know, where supply needs to sort of end the process. You know, has that really risen, you know, in your own head? And why has that potentially changed?

MR. DUDLEY: Well, I mean, I guess I was always more in the camp that the demand for reserve was going to be higher in the new environment because of, you know, changes in regulation, like the liquidity coverage ratio, that increases the demand for high-quality assets. And so I always sort of thought it would be sort of towards the upper end of the range of estimates, rather than to the lower end. I think what's happened is – all that people have observed in the marketplace is that the federal-funds rate has crept up a bit relative to the interest rate we pay on excess reserves. And so people are making an inference from that, that maybe the demand for reserves is higher than they previously thought.

I think – you know, I think the evidence at this point is not that strong. You know, there's other reasons why the federal-funds rate may have crept up relative to the interest on excess reserves. I mean there's been upward pressure on money market rates more generally, in part because of the increase in Treasury-built supply. But I think that's really what's happening. I don't – you know, I don't think it's a huge problem or issue if it turns out that the banks, you know, demand a trillion dollars of excess reserves versus $500 billion of excess reserves, and that would cause us to stop the balance-sheet normalization process somewhat earlier. I don't think it's, you know, problematic in any way.

So I think it's an interesting question from a monetary policy-making perspective. But I don't think it has huge, you know, ramifications for – you know, on me – the financial system, the economic outlook.

Q: As you head out the door, have you made any final recommendations to your colleagues about, you know, say the future of monetary policy regimes, like, higher inflation targets, price level targeting, you know, that sort of thing?

MR. DUDLEY: Well, you can see in the speech – the last outlook speech I gave – I did talk about some of my preferences. So I'm very much in the camp of I prefer a floor system rather than a corridor system. You know, I think I – I think my views carry a little bit more – maybe more weight than the average person because I actually ran the open market desk at – you know, when I was the head of the market's group. And I saw how difficult it was in the financial crisis to keep just the precise amount of reserves in the system that sort of keeps the federal-funds rate at the right level under a corridor system.

I also think a floor system is better, because it allows you to have much – it allows you if you're in a bad economic environment where financial conditions are deteriorating and the financial stability is at risk, it allows you, in a floor system, to have, introduce large backstop facilities, without worrying that those backstop facilities will be drawn on, those draws will add reserves to the banking system that you'll then have to turn around and drain if you're in a corridor system. So I would – I would refer you back to that speech. All those – my ideas – you know, my views haven't changed from then.

There's a lot of talk about, you know, changing the inflation target. And I'm pretty skeptical about that, mainly because Congress sets the mandate for us in terms of price – you know, they say they want maximum employment and price stability. I think it would be hard to go back to Congress and say, well, before we thought price stability was around 2 percent. How about 3 percent – (laughs) – or some different number? So I think I'm quite skeptical of that, of raising the inflation target.

And on the whole issue of price-level targeting, I think I – I think I understand the logic of why you might want to go down that path, because it might better anchor inflation expectations if you're trapped at the zero lower bound. But there's a lot of communication challenges with price-level targeting. So I guess my preference would be to have something that's much simpler, potentially something like just saying, look, we're going to try to achieve 2 percent inflation on average, so that people would understand that if inflation was running below 2 percent for a number of years, that you would tolerate inflation a little bit above 2 percent for a number of years.

That would be a switch from the current regime. The current regime is a – (inaudible) – regime. So, if inflation went below 2 percent for a number of years, we don't deliberately try to push inflation above 2 percent to offset it. We just sort of forgive the error. So I think a 2 percent inflation rate on average might be a very simple, small change. But these are – these are issues that the committee's going to have to decide on.

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As I said at the top, you know, I'm going to miss getting to work on these policy issues. And, you know, someone else is going to have to take the ball now and run with it. But I think we have a very able committee. You know, I was very pleased with Jay [Jerome Powell] coming in, if it wasn't going to be [former Fed Chairwoman] Janet [Yellen]. And I'm a big fan of Janet, obviously. You know, we've worked very, very closely. But my view was that if it wasn't going to be Janet, Jay was a very, very fine choice.

Q: I wanted to ask you too about central bank independence, because it seems like it's becoming a bigger topic of debate, not just in the U.S. but across the developed world and Europe, let alone in emerging markets. And of course, we had a bunch of central bank chiefs at the Bank of England a few weeks ago talking about it. And it seems like there's a growing unease about that, maybe, like, not as confident as they sounded in the past. What is your sort of perspective on that? And, you know, how big a challenge do you see that to be going forward? And what should the Fed do?

MR. DUDLEY: Well, I think that – you know, we have to be very clear, I think, about what we mean by independence. Independence doesn't mean that the central bank gets to go out and do whatever they want. Independence means that once the Congress, or, you know, the parliament, or, you know, the government has set the goals of monetary policy, that there's – the central bank should have some independence in terms of how they actually implement policy to achieve those goals. So the goals are not set by the central bank. So, you know, it's very important to emphasize that the independence is about the conduct of monetary policy to achieve the goals that are set by the government for the central bank.

And I think the reason for, you know, favoring independence is very simple. And people have evaluated this very closely looking at the historical record. Independence with respect to the conduct – the day-to-day conduct of monetary policy leads to better economic outcomes. You know, I used to work closely with [former Treasury Secretary] Bob Rubin when he was at Goldman Sachs. And then Bob went to the U.S. Treasury – you know, went to the White House and then the U.S. Treasury. And, you know, he – and when I talked to him about this, you know, he completely got that being critical of the central bank is not productive, because it basically puts markets on edge, it generates higher risk premiums in **financial markets**, and it – and it makes the Fed's job more difficult to be credible in the execution of monetary policy.

So ever since – I would say, at least going back to the early days of the Clinton administration, it's been pretty well accepted in the U.S. that letting the Fed have independence with respect to the day-to-day conduct of monetary policy does lead to better economic outcomes. And I think that's something that – you know, it's in the interest both of the Federal Reserve, and it's also in the interest of Congress and the administration. I mean, we all want to have better economic outcomes. We want monetary policy that works in an effective and efficient way. And so, you know, I'm really surprised that there should even be an argument about his at this point, because I think the empirical record's pretty clear that this kind of independence actually leads to better outcomes.

Q: You said earlier, Bill, and I was happy to hear that you're going to keep commenting on policy, even if you can't make policy decisions. I'm sure the three of us would love to stay in touch with you on that front. You know, just what can you – what can you say about what you plan to do going forward? You know, I'm seeing that [former Fed Chairman Ben] Bernanke, [former Treasury Secretary Timothy] Geithner and [former Treasury Secretary Henry] Paulson are doing this project on the financial crisis. Is that something you want to focus on? What can you tell us about what you plan to do next?

MR. DUDLEY: Well, Tim Geithner used to always have an expression, plan beats no plan. And I'm – for the very near term, I'm inverting that. No plan beats plan. Just going to basically take it easy, decompress, and then think about what I want to do next. So I really don't have any great plans.

I will be participating in the working symposium in September. That's the Geithner, Paulson, Bernanke event. I'm obviously very interested in, you know, sort of documenting exactly what went right, what didn't go right in terms of the financial crisis and the Fed's – and the administrations, both Bush and Clinton – Obama's response to that. I think, you know, the more we can learn the lessons from the crisis well we can have a playbook for the next time we get into that kind of situation, recognizing that every type – those kind of events are always unique and different. So I'm really pleased that they have this project under way, because I think it's really useful to get this all down on paper so that, you know, next time we have a little bit better playbook.

Related Article

* Dudley Heading Toward Retirement Confident Economy Has Bright Future

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Asia's Emerging Markets Top Some Peers --- Central banks in the region, their credibility improved, take action after oil, dollar gain

By Saumya Vaishampayan
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Asia wasn't spared when investors soured on emerging markets around the world in late April, a shift driven by the dollar's resurgence.

Stocks in Malaysia and Indonesia have tumbled in recent months. Several Asian currencies have depreciated against the dollar this year, including the Indian rupee and Philippine peso. Government-bond yields have surged, with the 10-year yield in Indonesia shooting up to 7.28% from 6.31% at the end of December.

But investors say Asia's emerging markets look stronger than some of their peers, thanks to actions they have taken since the 2013 "taper tantrum," when investors fled emerging markets after the Federal Reserve signaled it was getting closer to reducing stimulus. Those moves have bolstered central-bank credibility in the region. That hasn't happened to the same degree in Argentina or Turkey, the two countries at the center of this spring's emerging-market turmoil.

The relative comfort with emerging Asia's central banks and improvements in the region's economic weak spots, such as inflation and current-account balances, have started to lure back some long-term investors.

"Our marginal dollar is going into Asia," said Eric Wong, a fixed-income portfolio manager at Fidelity International in Hong Kong. "That's where we're pivoting."

The latest monthly figures still point to sharp outflows from Asia in both April and May. Foreign investors pulled an estimated net $8 billion from emerging Asian stocks and bonds last month, making it the region hit worst by the exodus of cash, according to the Institute of International Finance.

The scale in part reflects Asia's habitual dominance of foreign portfolio flows into emerging markets: The region posted the biggest net outflows or inflows into those markets in 19 of the past 24 months through May, according to the IIF's data.

The region's central banks have leapt into action in recent weeks following a surge in **oil prices** and the dollar's rebound, which makes it more expensive for countries to repay dollar-denominated debt.

India last week raised its main lending rate to 6.25% from 6% for the first time in more than four years. The Reserve Bank of India said it lifted the rate because of a rise in inflation -- which it has targeted since 2015 -- and that it had room to respond to risks to its inflation outlook.

"The central bank is gaining credibility by raising [rates] when inflation is rising . . . rather than succumbing to what the government might want, like keeping rates low ahead of elections," said Karan Talwar, investment specialist for emerging markets fixed income at BNP Paribas Asset Management in Hong Kong.

Indonesia's central bank last month raised rates twice in less than two weeks to stem the slide in its currency, the rupiah. In prior years, such rapid moves might have looked like panic measures. But Bank Indonesia held a call with investors just a few hours after that second meeting, demonstrating an improved communication strategy since the taper tantrum, said Roland Mieth, an emerging-markets portfolio manager at Pacific Investment Management Co. in Singapore.

Investors say the recent interest-rate decisions in Asia, especially in Indonesia, should help stave off destabilizing currency swoons, which is what happened before Argentina's and Turkey's banks were forced to act.

"Indonesia is a reflection of what emerging markets are graduating into," said Jens Nystedt, a senior portfolio manager at Emso Asset Management in New York.

Turkey's central bank raised its benchmark interest rates last week in a move that briefly lifted the lira from near-record lows. However, market participants continue to question the bank's independence since President Recep Tayyip Erdogan, who opposes higher rates, said he wants a bigger say in monetary policy if he wins elections on June 24.

Asian stock markets' skew toward technology shares could help buffer them from broader emerging-market swoons, given investors' ardor for the sector. Tech shares, including the likes of Alibaba Group Holding Ltd. and Tencent Holdings Ltd., recently had a 27% weighting in the MSCI's Asia Pacific index excluding Japan, which includes stocks from emerging economies such as China, India and Indonesia -- higher than the 18% tech weighting for MSCI's world index.

Countries with twin deficits -- in their budget and current account -- could still be vulnerable to investor outflows when sentiment turns on emerging markets, regardless of their central-bank policies. Those with high levels of foreign asset ownership in Asia, such as Indonesia, are especially sensitive to foreign capital flight.

Investors are also considering what Malaysia's election last month, in which Mahathir Mohamad's opposition party surprisingly won, means for its fiscal outlook. Mr. Mahathir has since scrapped a goods-and-services tax and pledged to implement a new sales tax that is expected to bring in less revenue, which could threaten its ratings from ratings firms, said Mr. Mieth from Pimco.

Fidelity International's Mr. Wong said one reason he has become more positive on Asia is that higher yields could start to attract local investors back into the market, especially cash in China that is sitting on the sidelines.

"A lot of Asian investors buy their own debt in Asia, and that's a very strong technical that you don't find in Latin America, where there are a lot of tourist investors," said Mr. Wong. "They are the first ones to bail when the party's over."

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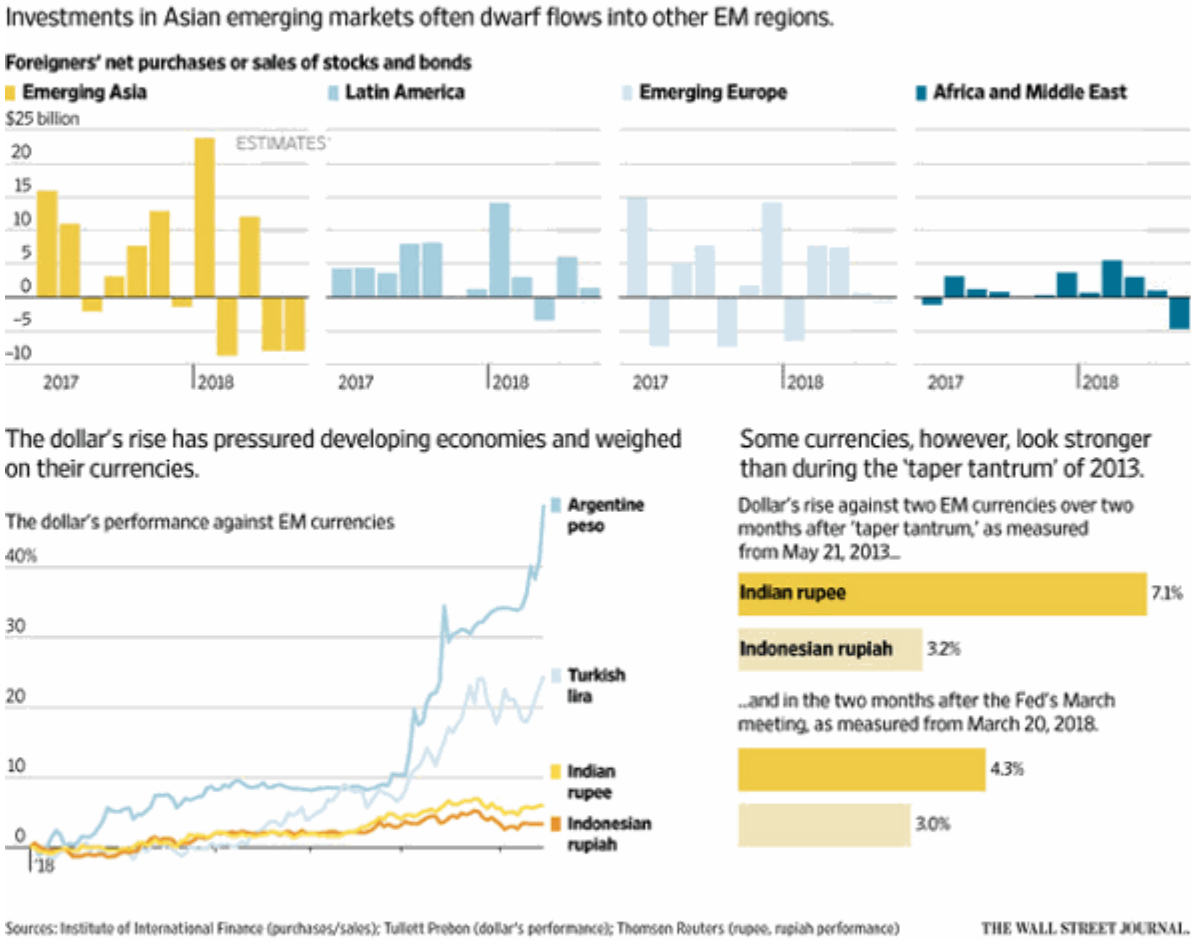

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WSJ PRO FINANCIAL REGULATION

Markets

Otting Walks Back Discrimination Comments | Fed Caps Big Banks' Credit Exposure | Rubin's Take: Crypto's Growing Pains; The Wall Street Journal's financial regulation newsletter for Friday, June 15, 2018.

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Rubin's Take: Crypto's Growing Pains

Banking Regulator Walks Back Comments on Discrimination

Fed Limits Credit Exposure Big Banks Can Have With Each Other

Ether Shouldn't Be Subject to SEC Regulation, Official Says

Study Finds ‘Speed Bumps' Help Protect Ordinary Investors

Crypto's Growing Pains

Cryptocurrencies have lost a bit of their shine during the first half of 2018, after 2017 ended with astronomical prices for the most popular currencies such as bitcoin.

There's no single cause for the significant price drops since then, but much of the decline can be attributed to the persistent manipulation concerns from regulators, the omnipresent threat of hacks hanging over exchanges, and the ability of investors to bet against bitcoin prices via bitcoin futures.

As federal regulators have dug deeper into cryptocurrency issues, combating manipulation in underlying spot markets has been a primary focus.

Last week, my colleagues and I reported that the Commodity Futures Trading Commission had subpoenaed the four major cryptocurrency exchanges that make up the index for CME Group Inc.'s bitcoin futures, as part of a broader investigation into possible bitcoin price manipulation.

That article contributed to a drop in the price of bitcoin, which has continued to fall over the past week. But it wasn't the only factor. Much of the price drop in recent days was attributed to worries stemming from the hack of Coinrail, a South Korean exchange—the latest in a series of breaches of crypto platforms.

Finally, the past six months have allowed investors to do something that wasn't really possible before December 2017: bet against bitcoin, both as a unique asset and as a proxy for the entire cryptocurrency phenomenon.

A May research note from the Federal Reserve Bank of San Francisco found that the Dec. 17 launch of bitcoin futures at CME triggered a collapse in the price of bitcoin because it allowed investors to bet on its price falling.

Given the avalanche of bad news for cryptocurrencies, it probably should come as no surprise that there's an army of investors out there eager to bet against them.

Key Developments in Washington, on Wall Street, and Beyond

Banking Regulator Walks Back Comments on Discrimination

A top bank regulator said his review of low-income lending rules won't undermine curbs on bias in banking, as he walked back an earlier statement that he hasn't "personally observed" discrimination.

"There is a lot of evidence of inequity in the world," Comptroller of the Currency Joseph Otting told the Senate Banking Committee a day after he clashed with House Democrats over the issue.

Mr. Otting said he wanted to "correct the record" from Wednesday's testimony. He said he believes discrimination exists, but he hasn't personally experienced it.

Fed Limits Credit Exposure Big Banks Can Have With Each Other

A banking regulator capped the amount of exposure the largest banks operating in the U.S. can have with each other, putting in place a long-awaited rule to reduce the chance of snowballing credit risk in the financial system during times of crisis.

The rule, completed Thursday by the Federal Reserve, would limit the credit exposure that eight "systemically important" U.S. banks have with each other to 15% of high-quality capital, including JPMorgan Chase & Co., Wells Fargo & Co., and Citigroup Inc. The same limit would apply to foreign banks with a U.S. holding company with $500 billion or more in assets.

Under the rule, all banks with $250 billion or more in total assets will have to cap their credit exposure to any other company to 25% of high-quality capital.

Ether Shouldn't Be Subject to SEC Regulation, Official Says

The world's second-most valuable cryptocurrency isn't an investment that should be regulated as stocks and bonds are, a senior U.S. regulator said Thursday.

The remarks, made by a top Securities and Exchange Commission official, indicate ether is clear from SEC oversight that could have imposed significant regulatory scrutiny on the foundation and programmers involved with creating it in 2014. Ether is a cryptocurrency, on par with bitcoin, that isn't subject to the extensive investor-protection rules the securities regulator enforces, SEC Corporation Finance Director William Hinman said.

"Based on my understanding of the present state of ether, the Ethereum network and its decentralized structure, current offers and sales of ether are not securities transactions," Mr. Hinman said in remarks prepared for a San Francisco conference.

Analysis: Crypto Market Rallies on SEC's Official's Ether Stance

Study Finds ‘Speed Bumps' Help Protect Ordinary Investors

A brief delay in stock trading can help protect ordinary investors from high-frequency traders, according to a study by an economist at the Securities and Exchange Commission.

The study, published Wednesday, bolsters the case for the business model of IEX Group Inc., an upstart exchange that slows down trading with a "speed bump" that pauses inbound orders for 350 microseconds before relaying them to its exchange for execution. IEX also delays outbound updates to its market data feed.

When it sought SEC approval to become an exchange in 2015, IEX said the delay would prevent rapid-fire traders from racing ahead of typical investors and unfairly profiting off the speed advantage. That claim was disputed by high-tech market maker Citadel LLC, which warned the SEC that allowing speed bumps would "increase transaction costs for all investors." The study found a decrease in trading costs for some stocks.

Analysis: Big Banks' Regulatory Bonanza Not as Advertised

In the early days of the Trump administration, expectations were high for sweeping financial deregulation that would be a boon to bankers. While much of that agenda has been realized, large banks have reason to be disappointed.

This week marks the first anniversary of a U.S. Treasury Department report that laid out the administration's deregulatory vision for banks and credit unions.

One year on, the biggest winners are small and mid-sized lenders, plus non-bank financial institutions that effectively compete with the largest lenders but under far less scrutiny, says Karen Petrou, analyst at Federal Financial Analytics.

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The Bank Branch is Dying—Just Not At These Banks

Banks across the U.S. have closed nearly 9,000 branches this decade. Yet many smaller banks are in building mode, a sign that broader economic growth is taking hold and community lenders are recovering after lean postcrisis years.

More than 1,200 banks expanded their number of branches from 2012 to last year, according to data from the Federal Deposit Insurance Corp. Many of those are tiny—their assets averaging $1.65 billion, or less than 0.1% the size of the nation's largest bank, JPMorgan Chase & Co.

Still, the number of small banks adding to branch counts is meaningful, exceeding institutions closing locations over the same time frame by more than 200, according to the FDIC data.

Former HSBC Executive Convicted of Fraud for Front-Running

A federal jury in Brooklyn on Monday found a former high-ranking HSBC Holdings PLC executive guilty on charges that he misused information about a client's $3.5 billion currency trade to make millions of dollars for the bank.

Mark Johnson, HSBC's former global head of foreign-exchange cash trading, was the first banker to face criminal charges stemming from a U.S. Justice Department probe into foreign exchange rate manipulations. He was convicted on eight counts of wire fraud and one count of wire-fraud conspiracy; he was acquitted on a ninth wire-fraud count.

Chinese Insurance Regulator Pleads Guilty to Bribery Charges

China's former chief insurance regulator confessed in court to charges he took bribes worth $3 million, paving the way for the sentencing of an official whose downfall symbolized Beijing's battle against financial risk.

During a one-day public trial Thursday, prosecutors accused Xiang Junbo of abusing his power and accepting money and gifts worth 19.42 million yuan both directly and indirectly over 12 years as a financial sector official, until his removal as head of the insurance regulator in April of last year, state-run Xinhua News Agency reported.

Judges Wouldn't Consider Forgiving Crippling Student Loans—Until Now

For decades, bankruptcy judges refused to consider reducing student loans. That is now changing, and some judges are throwing lifelines to people struggling to repay their debt.

In interviews with the Wall Street Journal, more than 50 current and former bankruptcy judges, frustrated at seeing borrowers leave federal courtrooms with six-figure debts, say they or their colleagues are more open to chipping away at the decades-old guidelines that determine how such debt is treated.

"If the law's not going to be improved by Congress, we have to help these young people who are drowning in student loan debt," said U.S. Bankruptcy Court Judge John Waites in South Carolina.

China Tech Giants' Costly Wars to Go Cashless

The biggest battle between China's two Internet giants is taking place in shopping malls, street-food stalls and nail salons across the country—anywhere you might pay with the swipe of a phone.

For the past year, Alibaba Group Holding Ltd. and Tencent Holdings Ltd. have been locked in a costly rivalry over mobile payments. This spring, Alibaba affiliate Ant Financial Services Group posted a rare quarterly loss after spending aggressively on discounts and financial rebates to expand users of its Alipay network keep abreast of the pay function in Tencent's enormously popular messaging app WeChat.

The explosive ascent of mobile payment in China means the stakes are high. Hundreds of millions of Chinese now use their smartphones to pay for everything from bus and taxi rides to meals and movie tickets--making wallets with cash or credit cards increasingly superfluous.

Pleading for Student Loan Forgiveness

Nearly 45 million people carry student debt in the U.S.—the total amount has more than doubled over the past decade to $1.4 trillion—most backed by the federal government. It has eclipsed credit cards as the largest source of consumer debt after mortgages. Almost every other type can be extinguished in bankruptcy, but legal

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standards made college debt largely untouchable. Borrowers typically must repay student loans over their lifetime, even those facing extreme financial hardship.

Consumer bankruptcy lawyers are starting to notice that judges are being more flexible. One Las Vegas law firm recently filed the first cancellation request in its 14-year history after hearing a judge at a conference voice concern over student loans. Other lawyers said growing sympathy among judges is making lenders more willing to reach resolutions out of court.

Such rulings are rare because few troubled borrowers attempt to cancel their student loans, because of the historically slim chances of victory. Last year, only 473 people of the millions repaying student loans sought relief using bankruptcy, according to a Wall Street Journal analysis.

No one tracks outcomes of student-loan cancellation cases, and only a handful advance to the point where a judge rules. In one examination of cases in 2017, judges ruled on student-loan debt 16 times, according to lawyer Austin Smith who analyzed WestLaw's database of key decisions. In those decisions, judges preserved student-loan debt in 12 cases, and canceled it in three. One borrower got partial relief.

Friday, June 15

NA

The U.S. Financial Stability Oversight Council plans to meet in a closed session where one agenda item includes the discussion of a non-bank financial company designated "systemically important".

Tuesday, June 19

8:30 a.m.

Comptroller of the Currency Joseph Otting delivers the keynote address at a prudential regulation conference, co-hosted by the Securities Industry and **Financial Markets** Association and The Clearing House.

noon

Federal Deposit Insurance Corp. Chairwoman Jelena McWilliams speaks at the prudential regulation conference.

11:30 a.m.

Goldman Sachs Chairman and CEO Lloyd Blankfein speaks to the Economic Club of New York.

Graduate Students at Historically Black Colleges Struggle With Loan Repayment

Historically black colleges and universities have some of the lowest shares of graduate student loan borrowers who made progress repaying their federal student loans five years after entering repayment, according to an analysis by Jason D. Delisle of the American Enterprise Institute. Mr. Delisle looked at higher education institutions with 100 or more graduate students and studied their progress paying down federal student loans between 2009 and 2014. He found 12 of the top 20 graduate and professional schools with the highest share of borrowers who hadn't reduced their principal balance in the five-year period are historically black colleges and universities.

Staying Silent About Bond Markups Is a Gambit

"Federal prosecutors decided that lying to your customers about the price you had paid for bonds is fraud," but banks that quietly let customers pay excessive markups may not be protected from charges, Matt Levine writes in a Bloomberg opinion piece. The Securities and Exchange Commission's recent enforcement action against Bank of America Merrill Lynch shows "the rule here is not that you have to disclose your markup. The rule is that you have to disclose—or, preferably, avoid—excessive markups. What makes an excessive markup is a bit in the eye of the beholder," he says.

Federal prosecutors in Manhattan are investigating whether Michael Cohen, the longtime personal lawyer for Donald Trump, illegally engaged in secret lobbying, people familiar with the investigation said, as part of the government's broader probe into Mr. Cohen's business dealings.

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Abraaj Group, the emerging-markets private-equity firm under pressure from creditors and investors, said Thursday its Cayman Islands-based holding company filed for liquidation, in what could be one of the industry's largest-ever failures.

Jho Low, the alleged mastermind of one of the world's largest purported frauds, has reached out to authorities in Malaysia, offering to drop his claim to more than a billion dollars in assets in return for immunity from criminal prosecution. Prime Minister Mahathir Mohamad rejected the offer.

Greece's parliament approved the last big austerity package of its eight-year bailout program Thursday, preparing the country for its full return to financing itself on bond markets beginning this summer.

Equifax has recruited an IBM executive to lead its technology efforts as the credit bureau looks to rebound from its massive 2017 data breach.

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WSJ PRO CENTRAL BANKING

Economy

ECB to End Bond-Buys | Draghi Takes Risk on Guidance | Powell Puts His Stamp on the Fed | BOJ Bucks Trend | Hannon's Take: ECB Taper Shows Benefit of Experience; The Wall Street Journal's central banking newsletter for Friday, June 15, 2018

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Hannon's Take: ECB Taper Shows Benefit of Experience

ECB to End Bond-Buying Program in December as Crisis-Era Policies Wind Down

ECB Takeaways: Draghi Takes Unexpected Risk on Rate Guidance

Powell Puts His Stamp on the Fed

Bank of Japan Bucks Global Trend of Monetary Tightening

ECB Taper Shows Benefit of Experience

The European Central Bank announced Thursday the end of a bond-buying program that was controversial among Germans. But participants in **financial markets** responded with a shrug, not a tantrum, which shows that much has been learned about normalizing policy since 2013.

The reaction this week was a far cry from 2013, when the Federal Reserve's then-chairman, Ben Bernanke, signaled the U.S. central bank's asset-purchase program would wind down, sparking widespread turbulence, particularly in emerging markets.

Why the difference? The most obvious reason is that **financial markets** have already been through the Fed's taper, and everyone now knows what a rate-rising cycle looks like under the "new normal." Back in 2013, nobody could be sure exactly what would follow the end of bond purchases.

At the Fed, the process of raising interest rates has been very gradual. After the crisis, the Fed raised rates from near zero for the first time in late 2015 and didn't move again for a year. The rate rise announced Wednesday was just the seventh quarter-percentage-point increase in 2 ½ years, moving the benchmark federal-funds rate to a still very low range between 1.75 and 2%. This contrasts with a more brisk approach before the crisis, when the Fed lifted the rate to a peak of 5.25% in June 2006, from 1%, in 17 steps over two years.

But just to be on the safe side, the ECB offered some forward guidance Thursday, pledging to keep its key interest rate at minus 0.4% "at least through the summer of 2019." That is more explicit than the "gradual and limited" assurances offered by other central banks when characterizing their likely tightening process.

Going in to the ECB meeting, market participants had been expecting a first rate move around the middle of 2019, so the central bank has extended that by at least two and perhaps three months, depending on your understanding of "summer." For me, it ends on September 21. It is worth noting that Mr. Draghi's term ends in October of that year, and he may want to leave the honor of raising rates and declaring victory of a sort to his successor. Or he may want to claim it for himself.

That combination of experience and innovation meant that markets eased through a landmark moment in crisis-era central banking without experiencing much of a crisis themselves.

Key Developments Around the World

ECB to End Bond-Buying Program in December as Crisis-Era Policies Wind Down

The European Central Bank is closing a chapter on one controversial policy, government bond purchases, while extending the life of another: negative interest rates. The central bank Thursday laid out plans to wind down its giant bond-buying program by the end of this year, but said it likely would wait "at least through the summer of 2019" before raising its deposit rate, now at minus 0.4%. The ECB's decision to start phasing out some of its easy-money policies—a day after the U.S. Federal Reserve raised its benchmark interest rate and signaled two more increases this year—comes despite mounting evidence that the eurozone economy is slowing, amid threats ranging from international trade conflicts to political turbulence in Italy.

WSJ Pro Graphics: The long story of QE in the U.K., U.S., BOJ and ECB

WSJ Pro Graphics: Here's how ECB policy decisions have affected the euro in recent years

ECB Takeaways: Draghi Takes Unexpected Risk on Rate Guidance

The ECB was widely expected to announce an end to its bond-buying program Thursday and so it did. However, there were a number of not fully anticipated twists, as ECB President Mario Draghi and his colleagues sought to prevent **financial markets** from pricing in an early rise in the key interest rate. That pricing in would result in a sharper-than-desired tightening in financial conditions when the outlook for the eurozone economy is far from certain. Here are five takeaways from a big day for the central bank.

Rates Back In Driving Seat For Markets, As ECB Ends Bond Buying

The ECB announced the end of its €2.5 trillion ($2.9 trillion) bond-purchase program Thursday, but investors reacted as if stimulus had just been extended. Stocks rallied and the euro sank because just as the ECB announced the end of end so-called quantitative easing, it also pledged that interest rates would remain unchanged at least until summer of next year. That was the first time the ECB had made such a clear commitment, and it was the announcement investors were most interested in. The positive response on Thursday is a fresh signal that central banks' decadelong sway over markets is set to stay, even as unconventional stimulus like bond-buying is fazed out, investors said. Some investors say that central banks' most important measure to influence markets is interest rates.

Strong Spending Data Shows U.S. Economy Chugging Ahead of Europe and Asia

Powell Puts His Stamp on the Fed

Jerome Powell gave Federal Reserve communications a makeover Wednesday, one way he is putting his stamp on the central bank early in his term as chairman without departing from his predecessors' policies. Mr. Powell, a former financier and the Fed's first leader in decades without a Ph.D. in economics, showed how he plans to remodel the central bank's messaging at his press conference: Deliver short answers. Use simple language. And double the frequency of such public events next year.

Fed Limits Credit Exposure Big Banks Can Have With Each Other

A banking regulator capped the amount of exposure the largest banks operating in the U.S. can have with each other, putting in place a long-awaited rule to reduce the chance of snowballing credit risk in the financial system during times of crisis. The rule, completed Thursday by the Federal Reserve, would limit the credit exposure that eight "systemically important" U.S. banks have with each other to 15% of high-quality capital, including JPMorgan Chase & Co., Wells Fargo & Co., and Citigroup Inc. The same limit would apply to foreign banks with a U.S. holding company with $500 billion or more in assets.

Bank of Japan Bucks Global Trend of Monetary Tightening

The Bank of Japan decided Friday to stick to its ultra-easy monetary policy, bucking the global trend largely because inflation in Japan isn't getting close to the central bank's 2% target. The decision contrasts with other central banks including the Federal Reserve, which on Wednesday raised its policy rate for the second time this year and set the stage for two more increases in 2018. The European Central Bank on Thursday laid out plans to wind down its giant bond-buying program by the end of this year.

Argentina Central Bank Gets New President

Argentina's Central Bank President Federico Sturzenegger resigned Thursday as the peso continued to lose value against the dollar, a week after authorities reached a deal with the International Monetary Fund for financial support. Mr. Sturzenegger will be replaced by Luis Caputo, the current finance minister, according to a statement from the president's office. The Finance Ministry will be merged into the Treasury Ministry, the statement said.
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Friday

9:15 a.m. EDT

Federal Reserve releases May U.S. industrial production

1:30 p.m. EDT

Dallas Fed's Kaplan speaks

Global Debt and Equilibrium Interest Rates

Jose Asturias, Manuel García-Santana and Roberto Ramos explore the economic impact of the road infrastructure project Golden Quadrilateral in India in a Bank of Spain paper. The researchers investigate "the gains from improved infrastructure using a framework in which 'firms matter.'" They calibrate their model to the Indian manufacturing sector and find real income gains of 2.7%. "We also find that allocative efficiency accounts for 7.4% of these gains," they write.

Fed's Powell Orchestrates a Masterful Move

The central bank chairman's "plain-English" approach to monetary policy is working, writes Danielle DiMartino Booth in Bloomberg View. "The wimpy hiding-behind-the-skirts policy of only four press conferences a year -- gone. Verbose statements extending past 800 words (the June statement ran all of 320 words) -- gone. Hiding behind shady data that incite more questions than answers -- gone. What's next? The distracting and meaningless dot plot? Give Powell time. Rome wasn't built in a day and the Fed cannot be reformed overnight."

Goodbye ECB Bond-Buying, Hello Forward Guidance

The winner from this week's central bank meetings could well be the dollar, writes Richard Barley for The Wall Street Journal. "The European Central Bank hasn't finished surprising investors yet. Thursday it brought the end of its massive bond-buying program closer, but pushed any interest-rate increases further out. The more dovish message won, sending the euro sinking against the dollar."

The International Monetary Fundwarned that the economic boost from last year's tax cuts in the U.S. will fade in 2019 and 2020, and the U.S. economy will then slow considerably.

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The New York Times

Business/Financial Desk; SECTB
Markets Mainly Rise on Strong Economic Signals

By THE ASSOCIATED PRESS
696 words
15 June 2018
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NYTF
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Stocks in the United States mostly rose Thursday, as markets get accustomed to the idea of investing with less of a safety net from central banks around the world.

The European Central Bank laid out its plan to pull back from the stimulus it has pumped into markets, but it also said it plans to hold off on raising interest rates for longer than some investors expected. More evidence arrived that the American economy is improving, meanwhile, which helped send the **Standard & Poor**'**s 500**-**stockindex** to its fourth gain in the last five days.

The **S**.**&P**. **500** rose 6.86 points, or 0.3 percent, to 2,782.49. The **Dow Jonesindustrial average** slipped 25.89, or 0.1 percent, to 25,175.31, and the **Nasdaq composite** rose 65.34, or 0.8 percent, to 7,761.04, a record. Roughly four stocks rose for every three that fell.

For years since the Great Recession, central banks around the world have thrown massive amounts of stimulus at markets, chiefly through the purchase of billions of dollars of bonds each month. That era neared its end after Europe's central bank said it will begin phasing out its bond-buying program in the autumn before ceasing it after December.

The European Central Bank also said it will hold off on raising interest rates until at least the summer of 2019, which was more accommodative than some investors had expected.

Its American counterpart, the Federal Reserve, has already halted bond purchases and has increased interest rates seven times since late 2015. Its latest move came Wednesday, when it raised its benchmark rate by another quarter of a percentage point and indicated two more increases may come this year thanks to the improving economy. Higher rates can stave off inflation, but they can also hinder economic growth.

''It is momentous because you're moving to something more normal,'' said Brent Schutte, chief investment strategist at Northwestern Mutual Wealth Management. ''At the same time, you're moving grudgingly toward that. Central banks around the world are going to err toward being more accommodative, and they don't want to cause a market shock.''

Both the Fed and the E.C.B. have said that their next moves will depend on what the economic data says, and if growth is strong enough, they will raise rates more quickly.

On Thursday, the data for the United States economy were nearly uniformly encouraging.

Retail sales jumped in May after shoppers spent more at home-and-garden stores, gas stations and restaurants. It was the strongest gain in six months, and it fits with economists' projections that economic growth is picking up following a slowdown during the first quarter of the year.

A separate report showed that fewer American workers filed for unemployment claims last week than expected, an encouraging sign for the labor market.

The yield on the **10**-**year Treasury** fell to 2.94 percent from 2.97 percent late Wednesday. It gave up gains from the prior day, when the Federal Reserve surprised some investors by speeding up its timetable for rate increases.

Lower interest rates can hurt banks by crimping the profit they make from making loans. Financial stocks in the **S**.**&P**. **500** fell 0.9 percent for the biggest loss among the index's 11 sectors.

On the winning side were dividend-paying stocks, whose payouts look more attractive when interest rates are falling. Utilities, telecom stocks and real-estate investment trusts were among the top-performing sectors in the **S**.**&P**. **500**.

The dollar rose to 110.59 Japanese yen from 110.55 yen late Wednesday. The euro fell to $1.1584 from $1.1788, and the British pound fell to $1.3280 from $1.3358.

In the commodities markets, benchmark United States crude rose 25 cents to settle at $66.89 per barrel.

Gold rose $7.10 to settle at $1,304.00 per ounce.

CHART: The **S**. **& P**. **500 Index** Position of the **S**. **& P**. **500 index** at 1-minute intervals on Thursday. (Source: Reuters)

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Business/Financial Desk; SECTB
In Europe, a Hard Line on Easy Money

By JACK EWING
1,273 words
15 June 2018
The New York Times
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1
English
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RIGA, Latvia -- A trade war with the United States looms. Populists have taken power in Italy, posing a new threat to the euro. Growth is sluggish, and there is even talk of another banking crisis.

It would not seem the ideal time to put the brakes on Europe's economy. But that is what the European Central Bank is preparing to do.

For more than a decade, the central bank unleashed a wave of cash to stimulate growth, effectively saving Europe from the wrenching consequences of its debt crisis. The bank said Thursday that the era of easy money was over, and outlined plans to completely remove its support by December.

In essence, the bank is declaring the region cured, or at least strong enough to stand on its own. It is signaling that it doesn't want to be in the business of saving politicians from themselves or responding to every dip in growth with a new dose of stimulus. And it is under pressure to remain in sync with a crucial trading partner after the United States Federal Reserve raised its main interest rate on Wednesday.

What will happen next is uncertain, because the European Central Bank has pumped unprecedented amounts of money into the economy. There may be unpleasant surprises: think real estate bubbles, more wobbling banks or a surge in bankruptcies.

''It's not the right time,'' said Zsolt Darvas, a monetary policy expert at Bruegel, a think tank in Brussels. ''If you look at what happened in the last few quarters, everything became more disappointing.''

That may be an understatement. In addition to a slowdown in growth, Italy is gripped by political turmoil after populists took power on an anti-euro platform. Trade relations with the United States are at their poorest in decades, and most likely will get worse as Europe plans punitive duties on an array of American products as retaliation for President Trump's tariffs on steel and aluminum. And Deutsche Bank, one of the region's most important lenders, is in crisis.

In countries like Italy, there lurk an unknown number of so-called zombie companies -- businesses that have avoided bankruptcy only because of low interest rates and tolerant banks. A rise in interest rates could prompt a mass collapse of those weak companies.

Some economists are even resurrecting the word ''stagflation'' -- a dreaded condition in which inflation rises at the same time that growth stagnates. The region's residents would face the prospect of paying more for everyday goods even as their wages stayed the same.

The European Central Bank's Governing Council, which met in the Latvian capital of Riga on Thursday, largely dismissed those concerns. The council set out a timetable for ending the most important element of its stimulus efforts by the end of the year.

The central bank will cut stimulus in half after September, and end it altogether after December. In a concession to those who think it is being too hasty, the council said it would not raise its benchmark interest rates until after the summer of 2019. By historical standards, money will remain cheap.

Still, those decisions mark a clear change of direction.

Since 2015, the European Central Bank has been handing money around in a way possible only for an organization that has a license to print it.

It bought almost 2.5 trillion euros, or $3 trillion, in debt that had been issued by not just governments, but all manner of public utilities, breweries, grocery chains, consumer goods conglomerates and automakers. In effect, the bank became the world's biggest bond fund.

The point was to flood **financial markets** with so much cash that companies and governments would have to pay little or no interest to raise money. And the strategy worked.

Interest rates fell so low that, for a time, blue-chip companies could borrow money essentially for free. Real estate prices recovered. In countries like Germany and the Netherlands, shops and restaurants are desperately trying to find workers because the labor market has bounced back so strongly. Growth in the eurozone in 2017 was the best since 2007, before the financial crisis.

But early this year, warning signs started to appear. Factories reported fewer orders, and Mr. Trump issued a threat -- since carried out -- to slap tariffs on steel and aluminum imported from Europe. On Thursday, the European Union's member states unanimously backed a plan to impose import duties on €2.8 billion worth of American products.

The new disruptions to trade have unsettled businesses. Companies like ABB, a supplier of power equipment based in Zurich, or Voestalpine, an Austrian maker of steel components for the auto industry, have had to pay more to deliver special steel alloys to their American subsidiaries. The specialized steel is not available from United States suppliers, they say.

Now, the 19 countries that share the euro must face these challenges with substantially less central bank support.

Economists at the Swiss bank UBS estimated that the bond-buying program has added 0.75 percentage points per year to economic growth since 2015. Put another way, that means the central bank was responsible for about a third of the growth rate last year.

The central bank's own estimates are more modest, but not by much. That means vulnerable countries could be in for a shock when the bank takes the money away.

One of the biggest risks is Italy. Its national debt is among the highest in the world. Italy's new government includes leaders who have talked of leaving the euro. Growth is meager, and unemployment is 11.2 percent, more than three times the rate in Germany.

Central bank support has provided reassurance to investors that Italian government bonds are a safe bet. But that confidence is fickle. The market interest rates on Italian debt spiked during chaotic attempts in recent months to form a government of two populist parties. They fell only after leaders tempered their rhetoric about resurrecting the lira.

Mario Draghi, the president of the European Central Bank, is no stranger to Italy's issues -- earlier in his career, he was the highest-ranking civil servant in the Italian Finance Ministry. He indicated on Thursday that the bank would take action only if there were signs that problems in Italy were spreading to other countries.

"We certainly monitor **financial markets** carefully, but so far we haven't seen contagion," Mr. Draghi said during a news conference in Riga.

Mr. Draghi also acknowledged that trade tensions with the United States had worsened considerably. Disruption of the world trade order could "create very serious damage," he said.

As insurance against such risks, the central bank kept its options open. The end of quantitative easing depends on "incoming data," the central bank said in a statement. Mr. Draghi suggested that bond purchases could be ramped up again if needed.

But his clear message was that the European Central Bank will not be thrown off course by the machinations of populist politicians, a few months of unsettling economic data or threats by Mr. Trump to impose duties on German cars.

"We have taken these decisions knowing that the economy is in a better situation," Mr. Draghi said.

In the same breath, though, he betrayed a trace of doubt. There is also, he added, "increasing uncertainty."

Follow Jack Ewing on Twitter: @JackEwingNYT.

Mario Draghi, the president of the European Central Bank, warned that trade tensions could "create very serious damage." (PHOTOGRAPH BY ILMARS ZNOTINS/AGENCE FRANCE-PRESSE -- GETTY IMAGES) (B6)

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The New York Times

National Desk; SECTA
Fearing Wrath of Trump, Republicans Back Down On Issues of Free Trade

By ALAN RAPPEPORT and NICHOLAS FANDOS
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WASHINGTON -- They have issued concerned news releases and sent solemn tweets. But when it came time to stand up to President Trump on tariffs this week, Senate Republicans took a pass, casting aside the party's long-held commitment to free trade for fear of poking the bear.

At least that is how Senator Bob Corker interpreted the outcome of the intraparty fight over how to combat Mr. Trump's protectionist policies.

''Gosh, we might poke the bear,'' Mr. Corker, a Tennessee Republican who is retiring, said with fake outrage as he laced into his colleagues for disavowing their beliefs on trade because they are scared of the president and the prospect of losing power.

The decision by Republican leaders this week to block a vote on Mr. Corker's amendment to an annual defense policy bill that would have required the president to get congressional approval to impose tariffs on national security grounds was something of a watershed. Republican leaders maintained that the measure would have created procedural issues that could jeopardize the underlying defense policy bill. They privately called Mr. Corker's reaction hyperbolic, and other Republicans said they would continue to make their differences with the president clear.

But the amendment's defeat, without a vote tallied, was a setback for a core Republican principle, and it played out in public on the Senate floor, underscoring just how far most congressional Republicans would go to avoid confronting Mr. Trump ahead of the November midterm elections. The increasingly lonely forces of opposition within the party are coming from those who are leaving politics or those in the chattering classes safely removed from a Republican electorate overwhelmingly aligned with the president.

''There's no question that leadership in general is wary of doing anything that might upset the president,'' Mr. Corker said on Wednesday, describing his party's following of Mr. Trump as ''cultish.''

Other Republicans were equally deflated on Wednesday, but the path forward was not clear. Senator Mitch McConnell of Kentucky, the majority leader, is reluctant to put forward legislation that Mr. Trump does not support because he does not want to waste time making Republican senators take difficult votes ahead of a possible veto.

''It's terribly disappointing,'' said Senator Patrick J. Toomey , Republican of Pennsylvania, who helped write the Corker trade amendment. He added: ''We are the Senate. We're not potted plants. We should be doing what we think is right.''

Douglas Holtz-Eakin, the former director of the Congressional Budget Office and president of the conservative American Action Forum, said the Republican trade rebellion collapsed because the party is genuinely divided on the issue these days -- and laying bare those divisions would not help Republican election prospects. The fear of a seething presidential tweet has left some in the party paralyzed.

''They're going to have to pick a place to make a stand, and they haven't,'' Mr. Holtz-Eakin said.

One area where many Republicans are continuing to hold strong against Mr. Trump is national security. While they have buckled on trade, the next test will be whether Republicans will dare Mr. Trump to veto the defense policy bill over ZTE, the Chinese telecommunications company.

Senate Republicans have joined Democrats to include in the defense measure an amendment that would restore harsh penalties on ZTE for violating American sanctions that the Trump administration has moved to lift. If it makes it to the president's desk, the provision would undercut the settlement that the Commerce Department reached with the company this month that essentially threw it a lifeline at the request of China's president, Xi Jinping .

The White House on Wednesday signaled that it would try to strip that amendment out when House and Senate negotiators hash out a final National Defense Authorization Act.

''The administration will work with Congress to ensure the final N.D.A.A. conference report respects the separation of powers,'' Hogan Gidley, a White House spokesman, said, insisting that the new agreement makes ZTE pay for its violations and gives the government sufficient oversight of the company to protect the United States.

Senator Marco Rubio , Republican of Florida, who has been a vocal advocate of the Senate's approach, said the White House was entitled to its opinion, but he stood firm.

''ZTE poses a significant national security threat to U.S. telecommunications, and we shouldn't be doing anything that allows them to stay in business,'' Mr. Rubio said.

Consternation over ZTE has created bipartisan backlash against Mr. Trump, and lawmakers have been more willing to defy him on national security issues than trade disputes.

''ZTE combines two potent issues: economic security with China plus national security,'' said Senator Chuck Schumer of New York, the Democratic leader. ''Both China trade policy and national security have broad and deep support in both parties.''

Trump administration officials have argued that the president is using the threat of tariffs and showing flexibility over ZTE as part of a broader strategy to overhaul America's trade deals, reorient commerce with China and strike a peace agreement with North Korea. His Republican allies in Congress contend that he should have the space to maneuver.

''I'm tired of senators trying to undercut President Trump at every turn, especially in the middle of a negotiating process,'' Senator David Perdue , a conservative Georgian and ally of Mr. Trump, said on the Senate floor on Wednesday.

He moved on Wednesday afternoon to strip the ZTE provision from the defense bill, only to be blocked.

While Republicans appear ready to swallow their worries about trade for the moment, an all-out trade war could restore their nerve. Breaking with the president has its risks, but rattled **financial markets** and slower economic growth are also problematic in an election year.

Mr. Trump could roll out more tariffs on China as soon as this week, and countries are preparing to hit back with tariffs of their own on American products, from Kentucky bourbon to Harley-Davidsons.

Next Wednesday, Senator Orrin G. Hatch , Republican of Utah and chairman of the Finance Committee, will hold a hearing on the tariffs and question Wilbur Ross , the commerce secretary, about their potential harm to American consumers.

After a meeting at the Capitol with the Senate Foreign Relations Committee on Wednesday, Chrystia Freeland , Canada's foreign minister, warned that her country had retaliatory tariffs ready to be unleashed on July 1. She said that Canada was rolling them out more in sorrow than in anger and that she hoped retaliation could be avoided.

''The answer is very simple: The United States has to remove these unfair illegal tariffs from Canada,'' Ms. Freeland said.

Senator Bob Corker, Republican of Tennessee, on Wednesday criticized his party's following of President Trump as ''cultish'' because lawmakers are scared of the president and the prospect of losing power. (PHOTOGRAPH BY AL DRAGO FOR THE NEW YORK TIMES)

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THE WALL STREET JOURNAL.
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REVIEW & OUTLOOK (Editorial)
Powell Doesn't Get High

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Federal Reserve Chairman Jerome Powell may have uttered the most unlikely words in the history of central banking Wednesday when he responded to a question at a press conference by saying "our mandate has nothing to do with marijuana." We can think of times when the Federal Open Market Committee has behaved as if its members were smoking something, but we think it's safe to say that interest rates aren't high now.

The FOMC stayed on its very gradual pace of raising its target fed funds rate a quarter-point at a time -- to a range of 1.75%-2%. That hardly seems hawkish given that the economy is growing at a 3% or so annual clip if not faster in the current quarter.

"The economy is so strong," Mr. Powell said at his press conference. "The U.S. economy is in great shape."

The committee's members raised their consensus estimate for economic growth this year to 2.8% from 2.7% in March and a mere 2% for this year in June 2016. That still could be too conservative, but it shows that even the Fed's heavily Keynesian economic models are getting more rationally exuberant, at least through this year. The FOMC members also now expect the U.S. unemployment rate to fall to 3.6% by the end of the year from 3.8% today.

But that doesn't mean the Fed is veering from the monetary path that Mr. Powell inherited when he took the central bank's chair in February. The financial press made much Wednesday of the FOMC's removal of its forward guidance from previous statements that rates would remain "below levels that are expected to prevail in the longer run."

Investors briefly bid up the **10-year Treasury** yield above 3% on the news before it fell back to 2.97%. But forward guidance has always seemed overrated as a policy tool, and with growth picking up it was becoming a threat to the Fed's credibility going forward.

All the more so with Wednesday's report that producer prices rose 0.5% in May, putting them up 3.1% for the last 12 months. The biggest lift was from **oil prices**, but the increase was 0.3% even without food and energy, or 2.4% in the last year. That's above the Fed's inflation target of 2%. Inflation is clearly on the rise, and the Fed has to be alert that it doesn't let expectations of price increases insinuate themselves into business decisions. Then the FOMC may want to start smoking something to forget the risks it might pose to what for now is an excellent economic outlook.

(See related letter: "Letters to the Editor: Let's Hope Jerome Powell Isn't Wrong Like Bernanke" -- WSJ June 23, 2018)

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THE WALL STREET JOURNAL.

Heard on the Street
Markets
Big Banks' Regulatory Bonanza Not as Advertised; The largest Wall Street banks have reason to be disappointed with the progress on financial deregulation so far under Trump

By Aaron Back
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In the early days of the Trump administration, expectations were high for sweeping financial deregulation that would be a boon to bankers. While much of that agenda has been realized, large banks have reason to be disappointed.

This week marks the first anniversary of a U.S. Treasury Departmentreport that laid out the administration's deregulatory vision for banks and credit unions.

One year on, the biggest winners are small and mid-sized lenders, plus non-bank financial institutions that effectively compete with the largest lenders but under far less scrutiny, says Karen Petrou, analyst at Federal Financial Analytics.

The most significant change was a bill signed by the president that raised the threshold at which banks must submit to annual Federal Reserve stress testing, to $250 billion of total assets from $50 billion. This was a major change in the Dodd-Frank regime that will be a boon to around two dozen mid-sized banks and clears the way for more mergers and acquisitions among smaller banks.

Regulators also have taken some actions to loosen regulations hitting the top Wall Street institutions, including a proposal for streamlined enforcement of the Volcker Rule that bans proprietary trading.

But other actions actually have cut against the biggest banks. Most notably, the Federal Reserve's proposed changes to the stress tests introduce a new capital buffer that may raise capital requirements on investment banks like Goldman Sachs and Morgan Stanley while making the process less predictable for all of the largest banks.

Another major letdown for these institutions is the lack of follow-through on the Treasury's recommendation to re-examine the so-called "gold plating" of international standards whereby "globally systemically important" U.S. banks are required to hold higher levels of capital than their peers abroad. They also are subject to more stringent requirements on the liquid assets they must hold and the loss-absorbing debt they must issue.

According to an analysis by the Federal Deposit Insurance Corp., globally systemically important banks in the U.S. on average held tangible capital equivalent to 6.9% of total assets at the end of last year compared with 4.8% at their European peers.

The Treasury report stated that this "can make U.S. institutions less competitive globally" and "can sometimes create an undue burden of higher costs to our economy."

Yet there is no talk emanating from the Fed today of lessening this burden. Asked about the regulatory agenda at a press conference on Wednesday, Fed Chairman Jerome Powell said he has a "full docket" ahead of him, but he focused mainly on the need to tailor rules for smaller institutions.

That may not be an accident. Doing anything to help top banks like Wells Fargo and Goldman Sachs remains a tough sell politically in Washington.

Despite this, large-cap bank stocks have outperformed regional ones since the election. The large-cap KBW **Nasdaq** Bank Index has risen 44% over the period compared with a 35% rise for KBW's regional bank index.

Much of that is likely can be attributed to macro factors like higher interest rates and increased trading activity in the markets. Investors shouldn't expect much more upside based on deregulation for the biggest lenders, though.

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U.S. Markets
Markets

S&P 500 Rises as Central Banks Signal Gradual Tightening; ECB reassures markets by pledging that rates in the eurozone won't start to rise at least until next summer

By Jon Sindreu and Danielle Chemtob
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U.S. stocks stabilized Thursday, suggesting investors are coming to terms with central banks' plans to gradually leave behind a decade of unprecedented monetary stimulus.

After the Federal Reserve signaled Wednesday that U.S. interest rates will likely go up four times in 2018—instead of three, as had been widely believed—the European Central Bank said Thursday it would end its bond-buying program in December. But the central bank reassured markets by pledging that rates in the eurozone wouldn't start to rise at least until summer of next year.

"The Fed and the ECB and other central banks have taken the market to places they've never been before, and now they want to gently nudge it back to somewhere closer to where it was in the past," said Brent Schutte, chief investment strategist at Northwestern Mutual Wealth Management Co.

The **Dow Jones Industrial Average** slipped 25.89 points, or 0.1%, to 25175.31, after waffling between small gains and losses throughout the day. The **S&P 500** rose 6.86 points, or 0.2%, to 2782.49, and the technology-heavy **Nasdaq Composite** gained 65.34 points, or 0.8%, to 7761.04 in its 20th record close this year. All three indexes slumped in the previous session.

Mike Loewengart, vice president of investment strategy at E*Trade, said the Fed's decision was warranted given strong U.S. economic data, which continued to buoy stocks Thursday.

Retail sales for May rose 0.8% from a month earlier to $502 billion, the biggest one-month jump since November. The number of workers filing new claims for unemployment benefits fell below expectations, a signal of further tightening in the labor market. The number of claims workers made for longer than a week decreased to its lowest level since 1973.

And inflation has shown signs of accelerating, with consumer prices last month rising at an annual pace not seen since 2012.

Investors were positively surprised by ECB officials saying they expect key interest rates to remain unchanged at least through summer 2019, suggesting that policy will remain more expansionary than investors were expecting.

"Today's decision is a truly Solomonic compromise between the hawks and the doves," Carsten Brzeski, an economist at ING, wrote to clients, adding he believes the ECB has managed to please market expectations on both sides.

Some were worried that tighter policy could hurt the eurozone economy, which has been showing signs of losing some momentum.

But James Ragan, director of wealth management research for D.A. Davidson, said the upside from U.S. economic growth is greater than any weakness in the eurozone.

"It certainly could be a constraint for corporate performance in the second half of the year, but offsetting that right now is just the strength in the U.S. economy," he said.

Shares of financial stocks in the **S&P 500** slumped Thursday alongside government-bond yields. The yield on the **10**-**year Treasury** note traded at 2.948% after settling at 2.979% the previous day. Lower yields tend to hurt lending profitability.

Stocks that investors consider bondlike, such as those in the S&P's utility and real-estate sectors, rebounded from Wednesday's losses, gaining 1.2% and 0.8%, respectively.

News that the Trump administration is preparing to levy tariffs on tens of billions of dollars of Chinese goods as early as Friday weighed on stocks expected to be hurt by higher costs from tariffs. The S&P's industrials sector edged lower, and shares of aerospace giant Boeing and heavy-machinery manufacturer Caterpillar fell.

But many investors have become desensitized to trade-related headlines.

"Investors might be cautious in the very near term, but overall they're kind of discounting some of the trade fears," said Mr. Ragan.

Still, he said, the market needs to move past the trade headlines in order to push the **S&P 500** to a new high. The broad index is 3.1% off its record set in late January.

After Comcast topped Disney's offer to buy most of 21st Century Fox with a roughly $65 billion bid on Wednesday, shares of both companies continued their rally. Disney's shares rose $2.44, or 2.3%, to $108.75, and Comcast's shares jumped 1.50, or 4.6%, to 33.82.

Elsewhere, the Stoxx Europe 600 climbed 1.2%, recouping earlier losses after the ECB announcement, and the euro dropped 1.8% against the dollar.

Another of the world's top central banks, the Bank of Japan, is scheduled to make a policy announcement Friday.

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WSJ PRO FINANCIAL REGULATION

Markets

Study Finds ‘Speed Bumps' Help Protect Ordinary Investors; SEC economist's conclusions bolster models like upstart exchange IEX, which aims to slow ultrafast traders

By Cezary Podkul
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A brief delay in stock trading can help protect ordinary investors from high-frequency traders, according to a study by an economist at the Securities and Exchange Commission.

The study, published Wednesday, bolsters the case for the business model of IEX Group Inc., an upstart exchange that slows down trading with a "speed bump" that pauses inbound orders for 350 microseconds before relaying them to its exchange for execution. IEX also delays outbound updates to its market data feed.

When it sought SEC approval to become an exchange in 2015, IEX said the delay would prevent rapid-fire traders from racing ahead of typical investors and unfairly profiting off the speed advantage. That claim was disputed by high-tech market maker Citadel LLC, which warned the SEC that allowing speed bumps would "increase transaction costs for all investors." The study found a decrease in trading costs for some stocks.

In June 2016, the SEC granted IEX's application to become an exchange and since then others have also begun to experiment with trading delays, including the New York Stock Exchange and the Chicago Stock Exchange.

While the study doesn't officially resolve the issue of trading delays—it represents the view of one agency economist, Edwin Hu, not the SEC itself or its commissioners—its findings could encourage the regulator to approve more alternative exchange models like IEX's speed bump.

Mr. Hu studied the universe of U.S.-listed stocks and compared those that traded most frequently on IEX against those that had limited executions on the exchange and thus didn't benefit as much from its speed bump. He found a decrease in trading costs for the frequently traded stocks, equivalent to about 20 to 50 cents for every 100 shares traded.

"The evidence seems to be consistent with IEX's speed bump resulting in improved market quality for some stocks," Mr. Hu said in an interview.

An SEC spokeswoman declined to comment. A spokesman for Citadel didn't immediately respond to a request for comment.

IEX cheered the report's findings.

"This clearly contradicts the ‘doom-and-gloom' predictions," said John Ramsay, IEX's chief market policy officer. "It's good to have independent verification of the healthy effect that we have had on the trading system."

Other factors could explain why trading costs declined over the period that Mr. Hu examined, including the fact that stock prices were going up. Stock prices are a part of the ratio for calculating trading costs, and as they rise, that ratio would fall, said Robert Battalio, a finance professor at the University of Notre Dame.

"It's an interesting study, but there are other factors that need to be ruled out," Mr. Battalio said.

Mr. Hu's research found that IEX's launch as an exchange didn't change the quality and reliability of prices across the fragmented **stock market**. The exchange still accounts for a small portion of overall **stock market** volume, about 2.5%, according to a spokesman.

Mr. Hu's study likely isn't the last word from the SEC on the issue. To allow IEX to use its speed bump, the SEC in June 2016 reinterpreted one of its rules to allow for intentional trading delays. At the time, the agency said it would conduct a separate study to measure the impact of such delays.

Dave Michaels contributed to this article.

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THE WALL STREET JOURNAL.

Business

Goodbye London: Unilever Set to Lose Its Place in the FTSE 100; Consumer giant is consolidating its British and Dutch legal structure in the Netherlands

By Saabira Chaudhuri
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One of the U.K.'s biggest companies looks set to leave the FTSE 100, the country's blue chip **stock index**.

Unilever PLC said Thursday it was "extremely unlikely" it would keep a place in the index after it consolidates its British and Dutch legal structure in the Netherlands. It currently operates as two separately listed companies, Unilever PLC in the U.K. and Unilever NV in the Netherlands.

The move could force some investors—namely funds that track the FTSE 100—to ditch the company's shares. It will also rob British and foreign investors invested in the index of some of their exposure to consumer goods. Unilever will still retain a listing in London but not one that allows it to be included in the FTSE, of which it is one of the largest components.

On the flip side, Unilever's weighting in pan-European indexes will increase. It will also be listed in the Netherlands and the U.S.

"It's very clear to us that it's extremely unlikely that the new NV shares will be included in the FTSE UK series," said Unilever Chief Financial Officer Graeme Pitkethly said at a conference in Paris. Despite the disappointment—Unilever had initially hoped to stay in the index—he maintained that "simplification is the right thing for the company."

Unilever in March said it would unify its dual structure, picking the Dutch city of Rotterdam as its headquarters over London. The decision came after a monthslong review sparked by an unwelcome $143 billion takeover proposal from Kraft Heinz Co. early last year.

The existing structure has been in place since Lever Bros., an English soap maker, and Margarine Unie, a Dutch margarine producer, agreed to join forces in 1929. The structure has evolved since then, but the company continues to operate like separate legal entities fused under a group-wide set of senior managers and directors.

Critics had complained Unilever's structure is unwieldy and can interfere with deal making—including by hindering the company's ability to use stock to make big acquisitions. The shares of the two operating companies aren't convertible and the value of a single share in each company must remain equal. That has made it tough to issue new stock to fund a deal.

Apart from making M&A easier, moving to a single share class eliminates certain administrative burdens. Board members must currently attend back-to-back shareholder meetings in London and Rotterdam once a year.

Mr. Pitkethly said he expects documentation about the consolidation to be filed early in the third quarter.

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The New York Times

National Desk; SECTA
With Economy Near 'Normal,' Fed Sticks to Plan to Lift Rates

By JIM TANKERSLEY and NEIL IRWIN; Matt Phillips contributed reporting from New York.
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WASHINGTON -- The Federal Reserve raised interest rates on Wednesday and signaled that two additional increases were on the way this year, as officials expressed confidence that the United States economy was strong enough for borrowing costs to rise without choking off economic growth.

Jerome H. Powell, the Fed chairman, speaking in unusually blunt terms at a news conference on Wednesday, said the economy had strengthened significantly since the 2008 financial crisis and was approaching a ''normal'' level that could allow the Fed to soon step back and play less of a hands-on role in encouraging economic activity.

The Fed's optimism about the state of the economy is likely to translate into higher borrowing costs for cars, home mortgages and credit cards over the next year as the central bank raises interest rates more quickly than was anticipated.

Wednesday's rate increase was the second this year and the seventh since the end of the Great Recession and brings the Fed's benchmark rate to a range of 1.75 to 2 percent. The last time the rate topped 2 percent was in late summer 2008, when the economy was contracting and the Fed was cutting rates toward zero, where they would remain for years after the financial crisis.

''The decision you see today is another sign that the U.S. economy is in great shape,'' Mr. Powell said after the Fed's two-day policy meeting. ''Most people who want to find jobs are finding them.''

[During a news conference, Mr. Powell said he wants to ''start with a plain English summary of how the economy is doing.'' He certainly did that.]

The increases this year are part of a gradual series of steps to return rates to historically normal levels, and they reflect both the Fed's confidence in America's economic strength and its commitment to bring the inflation rate to its target of 2 percent.

But the march toward higher interest rates comes as much of America's work force continues to experience slow wage growth, despite a tight labor market that should, in theory, translate into higher wages as businesses compete for workers.

The rise in consumer prices over the last year has effectively wiped out any wage increases for nonsupervisory workers, the latest Consumer Price Index data suggests.

That is odd for an economy with a tight labor market, with unemployment running at a 3.8 percent. And some analysts say it is a reason for officials to slow their pace of rate increases, since the benefits of a hot economy have not yet translated into a significant wage increase for workers.

At a comparable time of low unemployment, in 2000, ''wages were growing at near 4 percent year over year and the Fed's preferred measure of inflation was 2.5 percent,'' both above today's levels, Tara Sinclair, a senior fellow at the Indeed Hiring Lab, said in a research note. ''Too many increases too quickly could choke the economy before we really see how good it could get.''

Mr. Powell played down concerns about slow wage growth, acknowledging it is ''a bit of a puzzle'' but suggesting that it would normalize as the economy continued to strengthen.

The Fed chairman said growth was being lifted, at least in the short term, by tax cuts and government spending increases signed into law by President Trump last year. And he dismissed, for now, concerns that Mr. Trump's trade policies, including tariffs on steel and aluminum imports, were hurting growth, saying the Fed had yet to see any data indicating an impact.

''So right now, we don't see that in the numbers at all. The economy is very strong, the labor market is strong, growth is strong,'' he said, adding, ''I would put it down as more of a risk.''

In a statement released at the end of the two-day meeting, Fed officials noted that economic activity had been rising ''at a solid rate'' -- a change from their May statement, when they called the rate ''moderate.'' Fed officials now expect the economy to grow at a 2.8 percent rate this year, up from a 2.7 percent forecast in March. The unemployment rate is now projected to fall to 3.6 percent by year's end, down from a forecast of 3.8 percent in March.

''The changes from the Fed today should not come as a surprise, given recent economic developments, but they nonetheless signal a more hawkish outlook for the next few quarters,'' Eric Winograd, a senior economist at AllianceBernstein, said in a research note.

The Fed now faces a tricky balancing act as it tries to calibrate how to keep the economy chugging along. Raising rates too quickly could snuff out the economic recovery, which has finally begun to gain steam after years of sluggish growth. But not raising rates fast enough could allow inflation to spiral out of control, driving up prices and potentially plunging the economy back into a recession.

A few Fed officials have raised concerns that the inflation trend could accelerate rapidly, forcing the Fed to raise rates faster than expected to keep the economy from overheating. They appeared to have won a convert in Wednesday's projections, which now show that a majority of officials expect rates to rise to a range of 2.25 to 2.5 percent by the end of this year.

Officials continue to project three additional increases in 2019, but reduced the number of forecast increases for 2020 from two to one.

A faster pace of rate increases could slow economic growth, potentially frustrating Mr. Trump. But Fed officials signaled a willingness to allow inflation to remain slightly above their 2 percent target for several years -- which would be accommodative for growth.

Officials raised their headline inflation rate forecast for the year as well, to 2.1 percent from 1.9 percent. The Fed now predicts inflation will run slightly above its target rate of 2 percent through 2020, at 2.1 percent each year, a slight overshoot that Fed officials have roundly indicated they are comfortable with, in part because of slow wage growth.

Financial markets had been widely expecting the Fed to raise the benchmark rate, and the reaction among investors was muted, even as the official monetary policy statement struck some as signaling growing confidence that rate increases would continue, and might even proceed at a faster pace.

The **stock market**, which had been modestly positive for most of the day, turned slightly negative after the rate decision was announced at 2 p.m. Short-term Treasury bond yields, closely tied to monetary policy, rose faster than yields on longer-term bonds which take their cues from forecasts for economic growth and inflation, suggesting that investors in the bond market see economic growth continuing but not picking up sharply.

It was the second news conference for Mr. Powell, who succeeded Janet L. Yellen in the job this year. But this was the meeting where Mr. Powell made several clear breaks from his predecessors, in a series of changes around process and communication that could ultimately have big implications for monetary policy and the economy.

He began his session with the news media with what he called a ''plain English'' description of what the Fed had done and why, a contrast with the practice of Ms. Yellen and her predecessor, Ben S. Bernanke, both Ph.D. economists who prefaced their appearances with long prepared statement loaded with monetary policy jargon.

And he stood before reporters, in contrast to Ms. Yellen and Mr. Bernanke, who both chose to sit at a desk for their post-meeting news conferences.

Mr. Powell announced that he would begin holding a news conference after every Fed policy meeting starting in January; currently such a session is held only after four of eight annual meetings.

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While he insisted that this was not meant to signal any change in the direction of policy, it opens up more flexibility for the Fed as it sets interest rate policies. **Financial markets** currently expect interest rate increases only in meetings with a news conference; now the Fed will have the option of making more than four policy moves a year without unnecessarily surprising markets.

''The June communication really ushered in the Powell Fed,'' said Julia Coronado, an economist and president of MacroPolicy Perspectives. ''He stood at a lectern instead of sitting at a desk, he is moving toward more frequent communication, and the communication style from the statement to the press conference is direct and pragmatic.''

And the Federal Open Market Committee, which Mr. Powell leads, changed its statement describing its rate increase in a way that removed a mainstay of its monetary policy of recent years. Dating to the Bernanke era, the Fed has used ''forward guidance'' to signal the future direction of interest rates.

For example, at the March policy meeting, the committee said its interest rate target was ''likely to remain, for some time, below levels that are expected to prevail in the longer run.'' That language was excised from the policy statement released on Wednesday, saying only that the ''timing and size'' of future rate increases will be determined by many factors.

Jerome H. Powell, the Fed chairman, called the interest rate increase on Wednesday ''another sign that the U.S. economy is in great shape.'' Markets dipped on the news. (PHOTOGRAPHS BY MARK WILSON/GETTY IMAGES; DREW ANGERER/GETTY IMAGES) (A18)

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THE WALL STREET JOURNAL.
U.S. EDITION

Fed Lifts Rates as Economy Heats Up --- Increase is second this year; most central bank officials expect at least four in 2018

By Nick Timiraos
863 words
14 June 2018
The Wall Street Journal
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English
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WASHINGTON -- Federal Reserve officials signaled Wednesday they could pick up the pace of interest-rate increases this year and next to keep a rapidly expanding economy on an even keel.

Central bank officials voted unanimously to raise their benchmark federal-funds rate by a quarter-percentage point to a range between 1.75% and 2%. It is their second rate rise this year, and they penciled in a total of four increases for 2018, up from a projection of three at their March meeting.

"The decision you see today is another sign that the U.S. economy is in great shape," said Fed Chairman Jerome Powell at a press conference following the Fed's two-day policy meeting. "Growth is strong. Labor markets are strong. Inflation is close to target."

Eight of 15 Fed officials now expect at least four rate increases will be needed this year, up from seven in March and four in December.

Stocks fell as investors calculated higher borrowing costs could weigh on earnings. Major stock indexes were little changed ahead of the decision but later wobbled and closed near session lows. The **Dow Jones Industrial Average** declined 119.53 points, or 0.5%, to 25201, and U.S. government bond yields climbed after the decision, with the **10**-**year Treasury** rising to 2.979% from 2.959% on Tuesday. Yields rise as prices fall.

"One more person out of 15 now sees four hikes instead of three. For markets, that's a big deal. For economists, maybe not," said Mike Feroli, chief U.S. economist at JPMorgan Chase & Co.

Fed officials have upgraded considerably their economic outlook over the past year -- first because of a synchronized upturn in global growth beginning last summer, and later after Congress approved stimulus in the form of tax cuts and increased federal spending.

Other changes in the Fed's outlook Wednesday were relatively minor and paint an optimistic picture for the U.S. economy despite some recent risks from abroad, including trade tariffs and **volatility** in emerging-market economies.

"It's a stay-the-course story," said Roberto Perli, an analyst at research firm Cornerstone Macro. Because it is too soon to judge how much any of the international risks pose to U.S. growth, "they are right to take a wait-and-see approach here," he said.

Most Fed officials expect the central bank will need to raise rates at least three more times next year and at least once more in 2020, leaving rates in a range between 3.25% and 3.5% by the end of 2020, the same end point officials projected in March.

"Officials seem more comfortable about both the consequences of past actions and their policy intentions," said Mohamed El-Erian, chief economic adviser at Allianz SE, the German insurance giant.

The new interest-rate guidance shows the U.S. central bank sticking to a plan to raise short-term rates above a so-called neutral level that would neither stimulate nor slow the economy. It also suggests officials expect to reach that neutral level slightly sooner than before, most likely in about a year.

In a further reflection of the Fed's changing policy footing, the postmeeting statement dropped language added four years ago that said officials expected to hold their benchmark rate "for some time" below neutral.

Officials modified their economic forecasts slightly, projecting modestly stronger growth and inflation this year and lower unemployment than they had in March. They didn't change their view about the rates of growth, unemployment or inflation they expect over the long run, a sign they see most of the recent fiscal stimulus fading eventually.

Mr. Powell also said he expected temporary factors, such as a recent rise in **oil prices**, to push inflation above the Fed's 2% target this summer, but he dismissed the development as a short-lived one.

Their estimate of the neutral fed-funds rate didn't change compared with projections released in March. Nine of 14 officials put it at either 2.75% or 3%.

The increase announced Wednesday will leave the fed-funds rate around 1 percentage point below that neutral level. But because many officials expect they will need to raise rates above neutral to a level that would slow growth, they face difficult debates ahead over how much higher to lift rates, and at what pace.

The challenge for central bankers is to boost borrowing costs enough to prevent the economy from overheating, but not so much that it tips into recession.

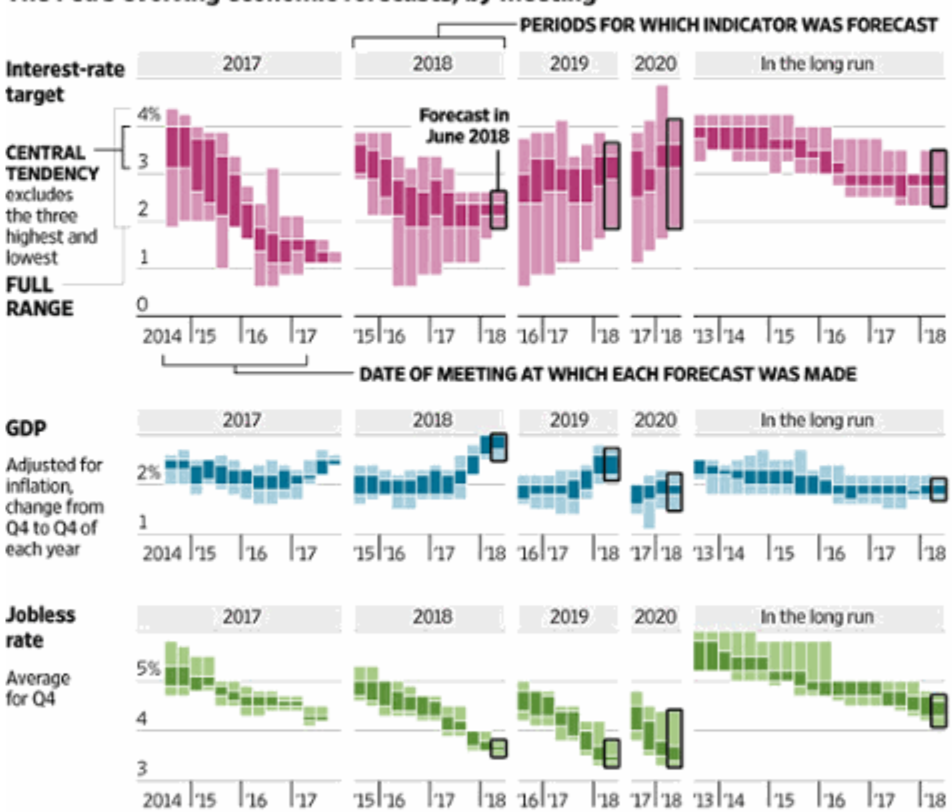
These are very different tensions than the one the Fed faced in recent years, when it repeatedly delayed raising rates from near zero amid a fitful U.S. recovery and financial turbulence abroad.

"I would say I like the results so far," said Mr. Powell. "We've been very, very careful not to tighten too quickly . . . We had a lot of encouragement to go much faster and I'm really glad we didn't."

Familiar Forecasts

Federal Reserve forecasts for interest rates in coming years held steady while unemployment rates are predicted to continue shrinking.

The Fed's evolving economic forecasts, by meeting



Notes: GDP and unemployment are seasonally adjusted; rate-target forecasts prior to June 2015 are interpolated from dot-plot figures.
Source: Federal Reserve via Federal Reserve Bank of St. Louis

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THE WALL STREET JOURNAL.

Markets

Gold Rises to Month High After Fed Rate Hike; Traders turn their attention from central banks to geopolitical tension

By Benjamin Parkin and David Hodari
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Gold prices climbed to the highest close in a month on Thursday as traders turned their attention from central banks to geopolitical tension.

Front-month contracts for June delivery rose 0.6% to $1,304 per troy ounce at the Comex division of the New York Mercantile Exchange, the highest close since May 14.

The Federal Reserve on Wednesday said it would raise interest rates by a quarter-percentage point. Higher rates typically weigh on gold prices, prompting investors to ditch the precious metal as they seek yield-bearing assets like bonds. But a number of factors help attract buyers to the market.

On the one hand, the Fed's rate increase was no surprise. Analysts said the decision, along with its expected course of two further increases this year, was largely baked into prices. On the other, the Trump administration's reported plan to levy tens of billions of dollars worth of tariffs on China in the days to come had traders preparing for a new bout of geopolitical upheaval.

"We can talk about monetary policy all you want, but if the real economy is impacted by real politics here and you see a trade war," said Bart Melek, head of commodity strategy at TD Securities, "that will impact investment, that will impact global trade activity and ultimately employment...That is one reason gold is staying at these levels."

Periods of geopolitical uncertainty typically boost demand for gold as a so-called safe haven that can retain underlying value, while other asset classes may see more **volatile** swings.

Protracted tension between the U.S. and everyone from China to the European Union to Canada has brought limited benefit to the gold market so far, in part because traders were waiting for the outcome of the Fed's interest-rate meeting earlier this week.

At its meeting, the Fed signaled it could lift rates at a slightly faster pace than previously anticipated. Officials projected a total of four rate increases this year, up from three at their previous March meeting. That would leave two more to come in 2018, which many investors already expected. The central bank also strengthened its inflation outlook for the U.S. economy, which some view as positive for gold.

"The move is less about the rate raise from the Fed and more about investors increasing their exposure to gold as an inflation hedge," said Kash Kamal, an associate at BMO Capital Markets.

The European Central Bank on Thursday said it would end its bond-buying program by the end of this year, phasing out an era of easy-money policies, while likely holding off raising interest rates until next year. That sent the euro lower and helped turn the dollar higher.

The WSJ Dollar Index, which measures the greenback against a basket of currencies, rose 0.9% to 87.94 after falling overnight. The stronger currency had a limited impact on gold prices, which tend to suffer with a higher dollar because it makes the precious metal more expensive for foreign buyers.

Some analysts pointed to considerable obstacles for the gold market, despite its resilience on Thursday. Rising interest rates would likely put a ceiling over on prices in the months to come, said Capital Economics.

"We doubt this will mark the beginning of a prolonged rally," the research firm said. "Indeed, while we don't expect prices to plummet, we still think that Fed tightening will prove too strong a headwind for gold prices this year."

Copper prices, meanwhile, fell alongside other industrial metals on fears that Chinese environmental directives may stymie demand. June-dated contracts slid 1% to $3.2165 a pound.

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THE WALL STREET JOURNAL.

Economy
U.S. Retail Sales Soared in May; Biggest one-month jump since November

By Josh Mitchell and Eric Morath
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WASHINGTON—Americans spent a big chunk of their paychecks on retail goods in May, one of several developments helping lift the economy to a stronger phase of growth this year.

Sales at U.S. retailers rose 0.8% from a month earlier to $502 billion, the Commerce Department said Thursday. That marked the biggest one-month jump since November.

Americans boosted spending on cars, building supplies, sporting goods, healthcare products, clothing and other goods. Excluding auto sales, which tend to fluctuate significantly month to month, retail spending grew 0.9%.

The report far exceeded economists' expectations of a 0.4% increase in overall retail sales and a 0.5% rise in sales excluding autos.

The report suggests low unemployment, rising wages, and tax cuts are prodding Americans to spend. That, in turn, is boosting merchants' sales while stoking stronger growth in the world's largest economy.

Some economists project U.S. economic output is expanding at a roughly 4% annual rate in the second quarter, which would mark the strongest growth in several years. Output grew at a 2.2% pace in the first quarter, not far off the average growth of the economic expansion that began in mid-2009.

Retail sales aren't adjusted for inflation, and one factor behind the latest rise in spending is higher prices retailers are charging for their items. For example, a rise in gasoline prices, tied to rising **oil prices**, helped push up sales at gasoline stations by 2% last month.

But Americans' spending on goods is rising even after accounting for inflation. Retail sales rose 5.9% in the year through May, roughly double inflation, as measured by the Labor Department's consumer-price index.

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WSJ PRO FINANCIAL REGULATION

Markets

Former HSBC Executive Convicted of Fraud for Front-Running; Mark Johnson found guilty on nine counts related to a $3.5 billion currency trade

By Rebecca Davis O'Brien
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Corrections & Amplifications

A former HSBC Holdings PLC executive was found guilty in October on charges that he misused information about a clients $3.5 billion currency trade, a scheme that netted around $7.3 million in profits for the bank. A previous version of this story incorrectly described some of those profits as fees. (June 14, 2018)

A federal jury in Brooklyn on Monday found a former high-ranking HSBC Holdings PLC executive guilty on charges that he misused information about a client's $3.5 billion currency trade to make millions of dollars for the bank.

Mark Johnson, HSBC's former global head of foreign-exchange cash trading, was the first banker to face criminal charges stemming from a U.S. Justice Department probe into foreign exchange rate manipulations. He was convicted on eight counts of wire fraud and one count of wire-fraud conspiracy; he was acquitted on a ninth wire-fraud count.

A lawyer for Mr. Johnson said his legal team planned to appeal the verdict, adding, "Today an innocent man was convicted."

"Mark Johnson exploited confidential information provided by a client of the bank to execute trades that were intended to generate millions of dollars in profits for him and the bank at the expense of their client," Bridget M. Rohde, the acting U.S. Attorney in Brooklyn, said in a statement. She said the office would continue to prosecute those who "undermine public confidence in the operation of the **financial markets** by engaging in fraudulent schemes."

A sentencing date hasn't been set. The wire fraud charges carry a maximum sentence of 20 years in prison.

A spokesman for HSBC didn't immediately respond to requests for comment. Mr. Johnson left HSBC earlier this year.

Mr. Johnson, a British citizen, wasn't accused of rigging exchange rates, the main focus of the broader Justice Department probe.

Instead, he and a colleague, Stuart Scott -- HSBC's former European head of currency trading -- were charged in connection with a practice known as front-running, in which someone with advance knowledge of a major market order buys for their own account, then earns a profit when the larger transaction drives up the price.

Mr. Scott, who left HSBC in 2014, is in the U.K. fighting extradition and wasn't tried alongside Mr. Johnson. A lawyer for Mr. Scott couldn't immediately be reached for comment.

In 2011, HSBC won the bidding to handle the conversion of $3.5 billion worth of dollars into British pounds on behalf of Cairn Energy PLC, an Edinburgh, Scotland-based oil-and-gas company, according to evidence presented at trial.

Prosecutors alleged that the days and hours leading up to the transaction, HSBC traders in London and New York stockpiled millions of pounds in HSBC accounts, at Mr. Johnson's direction. At trial, jurors heard recordings of phone calls that prosecutors said showed Mr. Johnson using coded language to fellow currency traders to set off the buying spree.

When the transaction went through, on Dec. 7, 2011, Messrs. Johnson and Scott executed it in a way that drove up the price of the pound, prosecutors alleged, allowing them to sell HSBC's stockpiled currency at a higher price, while Cairn's proceeds from the exchange shrunk.

"This is not a coincidence -- this is a conspiracy," Brian Young, a trial attorney for the Justice Department, said in the prosecution's closing arguments.

The scheme netted around $7.3 million in profits.

Prosecutors used cooperating witnesses and the bank's recordings of Mr. Johnson's phone calls to argue he and others had conspired to use the client's confidential information to make money for HSBC and secure larger bonuses. "This is not how people talk when they are engaged in honest business transactions," Mr. Young said in closing arguments.

When Cairn noticed the rising price of the pound that day, another HSBC employee blamed it on purchases by a "Russian buyer," according to evidence presented at trial.

In one phone call recorded by HSBC and played at trial, Mr. Johnson said to Mr. Scott, "I think we got away with it." Mr. Johnson's lawyer said the statement reflected concern about the other employee's "misrepresentation" about the Russian transaction.

During the trial, lawyers for Mr. Johnson argued that he had been acting in the client's best interest, that prosecutors were trying to criminalize normal currency trading activity and had twisted their client's words to create the illusion of a conspiracy. In closing arguments, defense lawyer John Wing said prosecutors hadn't found "evidence of anything remotely close to criminal conduct."

Mr. Johnson, who was arrested at John F. Kennedy airport in New York in July 2016, testified in his own defense at trial, at times seeking to explain comments he made in the recorded calls as jokes or misunderstandings.

Earlier in October, the U.S. Federal Reservefined HSBC $175 million for failing to adequately supervise its foreign-exchange trading business, citing the alleged conduct by Messrs. Johnson and Scott as examples of the lack of oversight.

In 2012, the bank avoided criminal money-laundering charges by entering into a $1.9 billion settlement and a five-year deferred prosecution agreement with the Justice Department. In 2014, the bank paid $614 million to settle allegations that it rigged benchmark currency rates.

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WSJ PRO CENTRAL BANKING

Economy

U.S. Jobless Claims Fell Last Week, Reflecting Tight Labor Market; Continuing claims made by workers out for longer than a week fell by 49,000 in the week ended June 2

By Eric Morath and Josh Mitchell
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English
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WASHINGTON—The number of Americans filing new claims for unemployment benefits fell last week, the latest sign employers are reluctant to dismiss workers in a tight labor market.

Initial jobless claims, a proxy for layoffs across the U.S., decreased by 4,000 to a seasonally adjusted 218,000 in the week ended June 9, the Labor Department said Thursday. Economists surveyed by The Wall Street Journal expected 225,000 new claims last week.

Data can be **volatile** from week to week. The four-week moving average of claims, a more-stable measure, decreased by 1,250 to 224,250 last week-just above the lowest levels recorded since the 1960s, when the labor force was much smaller.

A very low level of layoffs is one of a number of signs of an extremely tight labor market.

The unemployment rate fell to 3.8% in May, the lowest since April 2000, the Labor Department said earlier this month. The number of open jobs this spring exceeded the number of unemployed Americans seeking work for the first time on records back to 2000.

"Most people that want a job can find one," Federal Reserve Chairman Jerome Powell said at a news conference on Wednesday.

Responding to a strong labor market and modestly rising inflation, Fed officials voted Wednesday to raise interest rates by another quarter-percentage point to a range between 1.75% and 2%, and signaled they could lift them at a slightly faster pace this year.

Thursday's report showed the number of claims workers made for longer than a week decreased by 49,000 to 1,697,000 in the week ended June 2. That was the lowest level since 1973. That figure, known as continuing claims and essentially a measure of the number of people on unemployment rolls, is reported with a one-week lag.

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Tariffs Pinch Consumer-Staples Stocks --- Levies by EU, Canada and Mexico bruise U.S. firms that export food to those markets

By Michael Wursthorn and Danielle Chemtob
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The Wall Street Journal
J
B12
English
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Escalating trade tensions have made times even harder for shares of companies that provide everyday goods.

Already struggling with pricing pressures and sluggish growth, the fortunes of consumer-staples companies in the **S&P 500** were further shaken after Canada, Mexico and the European Union retaliated against the U.S.'s imposition of tariffs on steel and aluminum imports.

Canadian Prime Minister Justin Trudeau pledged to impose billions of dollars of tariffs on steel, aluminum and other U.S. goods, such as food and agricultural products. Mexico's Economy Ministry is targeting lamps, berries, grapes, apples, cold cuts, pork chops and cheese products, among other goods the U.S. produces and sends there. The EU will start imposing 2.8 billion euros ($3.3 billion) worth of tariffs in July, including 25% levies on peanut butter, orange juice and cranberries, among other goods.

"It's just sort of the piling-on effect, and that's why you've seen sentiment be so dire" among consumer-staples stocks, said Michael Scanlon, a managing director and portfolio manager at Manulife Asset Management who manages a fund of around $2 billion in assets.

The Consumer Staples Select SPDR Fund, one of the largest exchange-traded funds to track food-and-beverage stocks and other consumer companies, has fallen 10% so far this year, compared with a 3.8% increase for the **S&P 500**. Consumer-staples stocks in the broad **stock-market** index are on track for a second consecutive quarterly decline, a first since 2016.

Stock prices throughout the sector are already buckling under the weight of declining pricing power, rising commodity costs and greater demands from retailers that food-and-beverage producers reinvest more of their capital into overhauling operations, factors Credit Suisse said in a note will likely contribute to a decline in margins over the next two years.

"There isn't a lot of growth there, so when you're looking at relative opportunities [in the market], staples are at the bottom of the list," said Mark Stoeckle, chief executive and senior portfolio manager of Adams Funds.

Beverage makers like Molson Coors Brewing Co., whose shares are down 19% so far this year, and PepsiCo Inc., off 12%, told analysts that they are already seeing inflationary pressures, including rising aluminum costs and increases in freight and fueling expenses. Food makers like Tyson Foods Inc. and Hormel Foods Corp. that export items like pork to Mexico are bracing for a decline in sales.

Shares of Tyson, which sells a variety of deli meats in addition to its line of poultry products, lost nearly 4% last month and remains down roughly 13% so far this year.

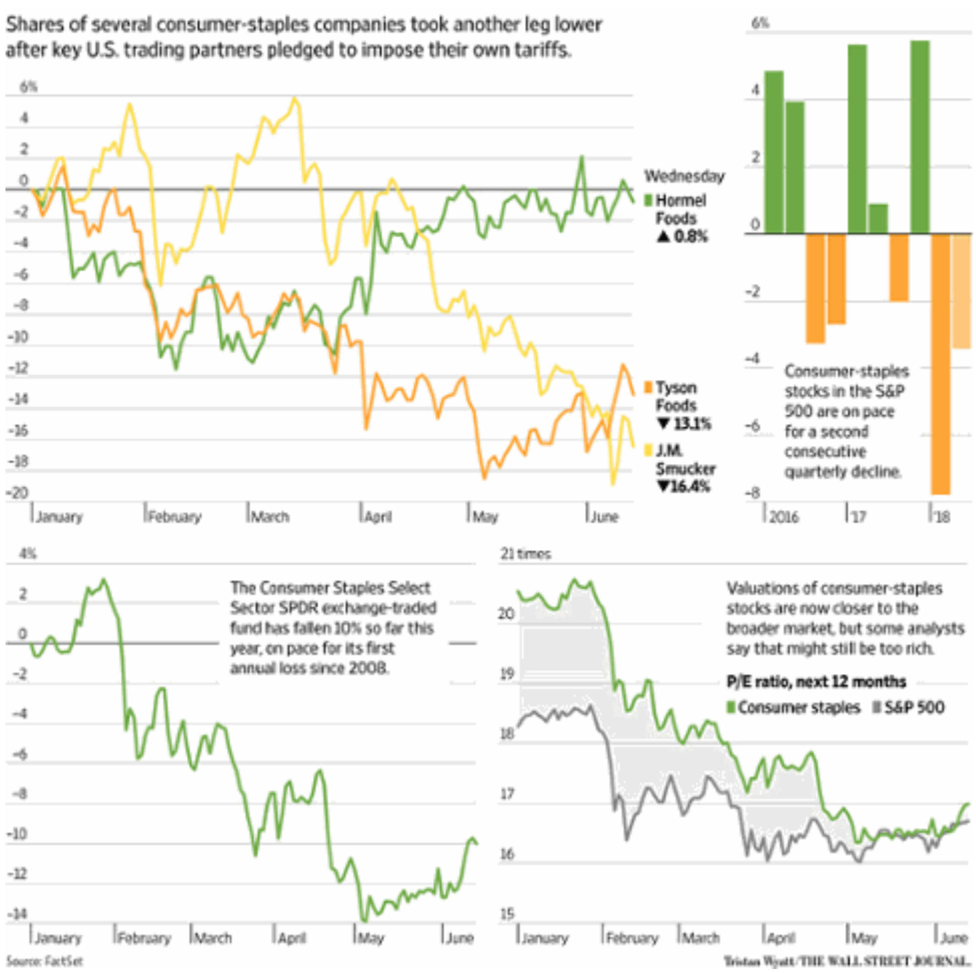
"Trade flow is incredibly important to Tyson Foods, and we continue to urge our political leaders to support efforts to provide certainty to markets," Tyson Chief Executive Thomas Hayes told analysts last month.

Hormel Foods, the maker of Spam canned pork, fell more than 3% on May 31 -- the day Mexico and other governments announced retaliatory measures -- to drag the stock into the red for the year. And J.M. Smucker Co., known for its berry-based jellies and juices, has lost over 16% this year as trade tensions escalated.

Consumer-staples valuations have come down since January, but some investors say the sector is still too rich to attract investor interest given the tepid pace of growth. Consumer-staples stocks are trading at 17 times earnings over the next 12 months, lower than the multiple of 21 times they traded at in late January, but about on par with the broader **S&P 500**, according to FactSet.

While the tariffs announced so far aren't onerous enough to have a detrimental impact on the economy, analysts worry that escalating tensions -- such as those between the U.S. and Canada following the Group of 7 meeting in Ottawa this month -- could spark a protracted trade war. The higher costs companies are forced to bear would likely filter down to consumers, who are already coping with higher gas prices and other signs of firming inflation.

That could crimp the U.S. economic upswing, which got a boost late last year after Republicans passed a sweeping tax overhaul that some analysts say helped extend the **bull market** past its ninth year.



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WSJ PRO CENTRAL BANKING

Economy
Fed Sets Stage for More Increases | Fed Adjusts Rate Setting | ECB May Signal QE's End | China's Debt Taming Stings | Harrison's Take: Jobless Estimate Makes No Sense; The Wall Street Journal's central banking newsletter for Thursday, June 14, 2018

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Harrison's Take: The Fed's Estimate Of Long-Run Unemployment Makes No Sense

Fed Raises Interest Rates, Sets Stage for Two More Increases in 2018

Fed Adjusts How It Raises Short-Term Rates to Keep Them Anchored

ECB Seen Signaling the End of Bond-Buying Program

China's Push to Tame Debt Starts to Sting Economy

The Fed's Estimate Of Long-Run Unemployment Makes No Sense

The last time the unemployment rate was at 4.5% was in March 2017, more than a year ago. Since then, it has come down to 3.8% and will likely continue falling in the months to come.

Meantime, inflation has shown no signs of accelerating rapidly. In fact, it weakened through the spring and summer of last year. The economy at large doesn't appear to be overheating despite robust hiring in a tight job market.

And yet Federal Reserve officials think 4.5% is the natural rate of unemployment, that is, the lowest it can go without risking a damaging burst of inflation. That is according to the projections they released following their policy meeting Wednesday.

Frankly, that is hard to believe. If they were correct in their estimate of the natural rate, we would have seen threats of economic overheating by now.

Fed Chairman Jerome Powell suggested as much in his press conference.

"It may be" that the actual natural rate of unemployment is lower than 4.5%, he said. "You can't be too attached to these unobservable variables," he said. He might have shrugged.

In February, during a congressional appearance, Mr. Powell offered his own personal view of the natural rate of unemployment: "I'd say it's somewhere in the low 4's but what that really means is it could be 5 and it could 3.5"

So why haven't officials brought down their long-range forecasts for unemployment?

One answer could be that unlike their projections for the next three years – which can be tested against real data in the future – there is no way of determining whether officials' long-range forecasts are anywhere near the mark. That might give them a little less incentive to change their forecasts in the face of new evidence.

Fed-watchers and investors parse these Fed economic forecasts very closely. But these puzzling long-term unemployment forecasts suggest we do so at our peril.

Key Developments Around the World

Fed Raises Interest Rates, Sets Stage for Two More Increases in 2018

The Federal Reserve said it would raise interest rates by another quarter-percentage point and signaled it could lift them at a slightly faster pace this year to keep a strengthening economy on an even keel. The latest increase, the second this year, will bring the benchmark federal-funds rate to a range between 1.75% and 2%. Officials penciled in a total of four rate increases for this year, up from a projection of three increases at their March meeting. "The economy is doing very well," Fed Chairman Jerome Powell said at a news conference after the meeting. "Most people who want to find jobs are finding them, and unemployment and inflation are low."

WSJ Pro subscribers can read every word of Powell's Press conference via this transcript

Parsing the Fed: How the June Statement Change From May

ICYMI: Live Blog Recap

Fed Adjusts How It Raises Short-Term Rates to Keep Them Anchored

The Fed on Wednesday tweaked the way it raises short-term interest rates to keep them from floating too high. The change, announced after the conclusion of the central bank's two-day policy meeting, is aimed at better anchoring short-term rates that are surging, primarily because of increased Treasury bill issuance.

Key Takeaways From Fed Day

The Fed raised short-term interest rates for the second time this year and projected two more rate increases by year's end, while Mr. Powell expressed optimism about the U.S. economy and said he would begin holding more news conferences starting in 2019. Here are five takeaways from the Fed meeting.

ECB Seen Signaling the End of Bond-Buying Program

Thursday could mark the end of an era for the European Central Bank, or at least the beginning of the end. The central bank for the eurozone—the second-largest economic bloc after the U.S.—could Thursday signal the winding down of its €2.5 trillion ($2.9 trillion) bond-buying program. This is a keenly anticipated move that would draw a line under a controversial crisis-era stimulus tool and start the clock on interest-rate hikes, following the path of the Federal Reserve.

China's Push to Tame Debt Starts to Sting Economy

China's economy is starting to feel pain from Beijing's monthslong effort to curb debt, with business activity slowing and the central bank deciding to not follow the U.S. Federal Reserve in adjusting interest rates. Across the board, business activity from investment to retail sales slowed in May, official data released Thursday showed, suggesting that the world's second-largest economy is facing growing headwinds.

Thursday

7:45 a.m. EDT

European Central Bank releases policy statement

8:30 a.m. EDT

ECB's Draghi holds press conference in Riga, Latvia

2:10 p.m. EDT

Federal Reserve Board holds open meeting on large financial institution rules

Friday

Time N/A

Bank of Japan releases policy statement

2:30 a.m. EDT

Bank of Japan's Kuroda holds press conference

4:45 a.m. EDT

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ECB's Coeuré speaks

6:30 a.m. EDT

Bank of Russia releases policy statement

9:15 a.m. EDT

Federal Reserve releases May U.S. industrial production

1:30 p.m. EDT

Dallas Fed's Kaplan speaks

When the Fed Speaks: Arguments, Emotions, and the Microfoundations of Institutions

The more the Federal Reserve's chairperson "discussed taken-for-granted assumptions underlying the monetary policy framework, the more this actually created uncertainty in the broader **financial market**," Derek Harmon found in an article for the journal Administrative Science Quarterly. "This market reaction is also influenced by emotions present at the time of the speech that shape how the event is interpreted. Speeches conveyed in an overall more positive tone suppress this reaction, while more fear in the business media amplifies it. Moreover, supplementary analyses conducted on speeches during the financial crisis suggest that when the taken-for-grantedness of these assumptions has weakened, reaffirming them no longer creates uncertainty to the same extent," he writes.

Japanese Banks and Negative Interest Rates

Japanese deposit takers responded to the Bank of Japan's negative interest rate policy by increasing credit and their appetite for risk, according to an analysis by Gee Hee Hong and John Kandrac published by the International Monetary Fund. "We find that banks responded to the prospect of a NIRP-induced profit shock by broadening their appetite for risk, which included an increase in credit supply," they write. "Consequently, our results demonstrate that the transmission of monetary policy through banks is preserved when nominal rates are negative. However, central banks that are concerned about the extent of risk taking in the banking system may find reason for caution in our results."

The Fed's Statement Was Short, but It Wasn't Sweet

The Fed "lopped off 80 words of longstanding language from its postmeeting statement which discussed how rates were ‘likely to remain, for some time, below levels that are expected to prevail in the longer run,'" notes Justin Lahart for The Wall Street Journal. "This amounted to policy makers saying they don't expect to keep leaning with the economy, and that maybe they will need to start leaning against it." Fed Chairman Jerome Powell's announcement that the Fed will hold a press conference following each of its policy meetings is one step toward this possibility, Mr. Lahart says: "This will make it easier for the Fed to raise rates at any meeting, rather than just the four each year that are accompanied by news conferences."

Greg Ip's Analysis: What To Do With an Overshoot

"The Federal Reserve's dilemma is intensifying: when has the economy had too much of a good thing?" writes Greg Ip for The Wall Street Journal." "In forecasts released at the end of their meeting Wednesday, Fed officials again raised their projections for economic growth, and lowered their projections for unemployment," Mr. Ip notes, adding the Fed also raised its median forecast for inflation in 2018, 2019 and 2020. "For these projections to make sense, Fed officials must either raise their inflation target, assume some serendipitous boost to the economy's potential growth rate or decline in the natural unemployment rate, abandon their economic models, or run much tighter monetary policy, especially after 2020. For now, this last option seems the likeliest."

A gauge of U.S. business prices rose in May, the latest sign that inflation pressures in the economy are firming as the U.S. faces increasing tariff threats and a tightening labor market.

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The New York Times

STOCKS & BONDS
Business/Financial Desk; SECTB
Wall Street Skips a Beat as the Fed Raises Interest Rates Again

By THE ASSOCIATED PRESS
1,052 words
14 June 2018
The New York Times
NYTF
Late Edition - Final
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U.S. stocks slipped Wednesday after the Federal Reserve raised interest rates and said it expects to increase rates two more times by the end of the year. Investors bet that several huge deals are more likely to happen after a federal court cleared AT&T's $85 billion purchase of Time Warner.

Wall Street was already certain the Fed would raise interest rates Wednesday. The central bank's decision makers also said they plan to raise rates two more times later this year for a total of four increases. Investors had debated all year if rates would rise three or four times, and some are concerned that if rates rise that quickly, it could stifle economic growth because consumers and businesses will have to pay more to borrow money.

The Fed's projections might have been unwelcome, but they weren't a shock: for months there have been signs the economy is getting stronger. Another came on Wednesday, when the Labor Department said wholesale prices climbed at a faster pace in May. The Fed says inflation is likely to increase and projects unemployment will hit a 50-year low in a few months, and it wants to keep inflation under control.

"There was nothing terribly surprising in the announcement," said Jeremy Zirin, head of investment strategy for UBS' global wealth management business. He said the Fed's new forecasts "appeared largely to simply reflect the economic reality of the last two or three months."

He added that the Fed didn't have a big change of heart either: the Fed's projections changed because one additional policymaker forecast four rate increases instead of three.

The ruling in the AT&T-Time Warner trial sent ripples through the media and telecommunications industries. Shares of Twenty-First Century Fox jumped as investors anticipated Comcast's offer for Fox's entertainment businesses. It came just after trading ended, as Comcast announced a $65 billion bid. The ruling also gave investors more confidence that two big takeovers in the health care field will now go through.

The **S&P 500 index** fell 11.22 points, or 0.4 percent, to 2,775.63 after it closed at a four-month high Tuesday. The **Dow Jonesindustrial average** lost 119.53 points, or 0.5 percent, to 25,201.20.

The **Nasdaq composite** slipped 8.09 points, or 0.1 percent, to 7,695.70. The Russell 2000 index of smaller-company stocks shed 5.76 points, or 0.3 percent, to 1,676.54.points. Both indexes finished at record highs Tuesday.

Judge Richard Leon said AT&T can buy Time Warner and rejected the government's argument that the deal would stifle competition and lead to higher cable bills. The purchase will give the wireless and cable giant control of CNN, HBO and the Warner Bros. movie studio. Time Warner climbed 1.8 percent to $97.95 while AT&T lost 6.2 percent to $32.22.

Media companies rallied. Netflix gained 4.4 percent to $379.93 and CBS gained 3.6 percent to $54.26.

Comcast had said it was preparing to make an offer for Fox's entertainment divisions, but was waiting for the judge's ruling. Fox jumped 7.7 percent to $43.66 Wednesday and was little changed in late trading. Comcast fell 0.2 percent to $32.32.

Fox has agreed to sell those businesses to Disney for $52.4 billion in stock, setting up the possibility that Disney will have to raise its offer. However Disney added 1.9 percent to $106.31.

Investors now view CVS's effort to buy health insurer Aetna as more likely to go through, and they felt similarly about Cigna's offer for pharmacy benefits manager Express Scripts. T-Mobile USA and Sprint made smaller gains. Investors have been skeptical the government would allow the third- and fourth-largest wireless carriers to combine.

Erik Gordon, a professor at the University of Michigan's Ross School of Business, said the ruling is probably a good sign for the two health care deals because, like AT&T and Time Warner, those acquisitions won't reduce the number of companies competing in an industry, unlike a Sprint-T-Mobile merger. But investors might be drawing overly broad conclusions from Leon's ruling, Gordon said.

"The judge's decision is based on some very particular facts of the AT&T-Time Warner case," he said, including the growing popularity of streaming services and greater competition for advertising revenue. "This isn't a case that's about a big sweeping legal philosophy."

Bond prices turned lower as investors expected interest rates to rise. The yield on the **10**-**year Treasury** note rose to 2.97 percent from 2.96 percent late Tuesday.

The dollar rose to 110.55 yen from 110.33 yen. The euro rose to $1.1773 from $1.1750.

Benchmark U.S. crude rose 0.4 percent to $66.64 a barrel in New York. Brent crude, used to price international oils, gained 1.1 percent to $76.74 per barrel in London.

Wholesale gasoline added 1.7 percent to $2.13 a gallon. Heating oil picked up 1.1 percent to $2.19 a gallon. Natural gas advanced 0.8 percent to $2.97 per 1,000 cubic feet.

Gold added 0.1 percent to $1,301.30 an ounce. Silver gained 0.6 percent to $16.99 an ounce. Copper inched up 0.1 percent to $3.25 a pound.

Germany's DAX rose 0.4 percent. France's CAC 40 and the FTSE 100 in Britain took tiny losses.

The Nikkei 225 in Japan rose 0.4 percent and South Korea's Kospi fell less than 0.1 percent. Hong Kong's Hang Seng dropped 1.2 percent.

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AP Markets Writer Marley Jay can be reached at http://twitter.com/MarleyJayAP His work can be found at https://apnews.com/search/marley%20jay

This is a more complete version of the story than the one that appeared in print.

CHART: The **S**. **& P**. **500 Index**: Position of the **S**. **& P**. **500 index** at 1-minute intervals on Wednesday. (Source: Reuters)

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The New York Times

Business/Financial Desk; SECTB
Bitcoin Price Was Manipulated, Fueling '17 Boom, Study Finds

By NATHANIEL POPPER
911 words
14 June 2018
The New York Times
NYTF
Late Edition - Final
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English
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SAN FRANCISCO -- A concentrated campaign of price manipulation may have accounted for at least half of the increase in the price of Bitcoin and other big cryptocurrencies last year, according to a paper released on Wednesday by an academic with a history of spotting fraud in **financial markets**.

The paper by John Griffin, a finance professor at the University of Texas, and Amin Shams, a graduate student, is likely to stoke a debate about how much of Bitcoin's skyrocketing gain last year was caused by the covert actions of a few big players, rather than real demand from investors.

Many industry players expressed concern at the time that the prices were being pushed up at least partly by activity at Bitfinex, one of the largest and least regulated exchanges in the industry. The exchange, which is registered in the Caribbean with offices in Asia, was subpoenaed by American regulators shortly after articles about the concerns appeared in The New York Times and other publications.

Mr. Griffin looked at the flow of digital tokens going in and out of Bitfinex and identified several distinct patterns that suggest that someone or some people at the exchange successfully worked to push up prices when they sagged at other exchanges. To do that, the person or people used a secondary virtual currency, known as Tether, which was created and sold by the owners of Bitfinex, to buy up those other cryptocurrencies.

''There were obviously tremendous price increases last year, and this paper indicates that manipulation played a large part in those price increases,'' Mr. Griffin said.

Bitfinex executives have denied in the past that the exchange was involved in any manipulation. The company said on Wednesday that it had never engaged in ''any sort'' of market or price manipulation. ''Tether issuances cannot be used to prop up the price of Bitcoin or any other coin/token on Bitfinex,'' Jan Ludovicus van der Velde, Bitfinex's chief executive, said in a statement.

The new paper helped push down the already sinking price of Bitcoin and other cryptocurrencies on Wednesday. The price of Bitcoin fell as much as 5 percent after the report was published, approaching its lowest point of the year. Bitcoin is now down more than 65 percent from the highs it hit late last year.

The authors of the new 66-page paper do not have emails or documents that prove that Bitfinex knew about or was responsible for price manipulation. The researchers relied on the millions of transaction records that are captured on the public ledgers of all virtual currency transactions, known as the blockchain, to spot patterns. This method is not conclusive, but it has helped government authorities and academics spot suspicious activity in the past.

In particular, Mr. Griffin and Mr. Shams examined the flow of Tether, a token that is supposed to be tied to the value of the dollar and that is issued exclusively by Bitfinex in large batches. They found that half of the increase in Bitcoin's price in 2017 could be traced to the hours immediately after Tether flowed to a handful of other exchanges, generally when the price was declining.

Other large virtual currencies that can be purchased with Tether, such as Ether and Zcash, rose even more quickly than Bitcoin in those periods. The prices rose much more quickly on exchanges that accepted Tether than they did on those that did not, and the pattern ceased when Bitfinex stopped issuing new Tether this year, the authors found.

Sarah Meiklejohn, a professor at the University College London who pioneered this sort of pattern spotting, said the analysis in the new paper "seems sound" after reviewing it this week.

Philip Gradwell, the chief economist at Chainalysis, a firm that analyses blockchain data, also said the study "seems credible." He cautioned that a full understanding of the patterns would require more analysis.

Mr. Griffin previously wrote research pointing to fraudulent behavior in several other **financial markets**. He drew attention for a 2016 paper that suggested that a popular financial contract tied to the **volatility** in **financial markets**, known as the VIX, was being manipulated. A whistle-blower later came forward to confirm those suspicions, and now several active lawsuits are focused on the allegations.

Beyond his work at the University of Texas, Mr. Griffin has a consulting firm that works on financial fraud cases, including some in the virtual currency industry.

"The relationship between Tether and the price of Bitcoin has been flagged for months within the community," said Christian Catalini, a professor at the Massachusetts Institute of Technology who specializes in blockchain research. "It is great to see academic work trying to causally assess if market manipulation is taking place."

The new paper is not the first academic work to identify manipulation in the virtual currency markets. A paper published last year by a team of Israeli and American researchers said much of Bitcoin's big price increase in 2013 was caused by a campaign of price manipulation at what was then the biggest exchange, Mt. Gox.

Follow Nathaniel Popper on Twitter: @nathanielpopper.

An Bitcoin advertisement in Tokyo. The cryptocurrency has been a legal form of payment in Japan since April 2017. (PHOTOGRAPH BY SHIZUO KAMBAYASHI/ASSOCIATED PRESS) (B1); A cryptocurrency mining computer at the Computex exhibition in Taipei, Taiwan, this month. (PHOTOGRAPH BY TYRONE SIU/REUTERS) (B4)

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The New York Times

Business/Financial Desk; SECT
Confidence in Twitter Is Growing, and Its Stock Is Up -- But Can It Keep Going?

By JAMIE CONDLIFFE
532 words
14 June 2018
The New York Times
NYTF
The New York Times on the Web
English
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Get the DealBook newsletter to make sense of major business and policy headlines -- and the power-brokers who shape them.

Twitter is having a moment.

The social media company's stock closed at a three-year high of $43.49 Tuesday and is up 155 percent over the past 12 months.

Why? Well, it's surely not because of its user growth. Twitter's user count was 336 million last quarter -- just 3 percent higher than a year ago. But despite stagnant growth in user numbers, there are several reasons investors seem enthusiastic about Twitter. Here's a rundown.

There may be more money to be made. User growth might be sluggish, but according to JPMorgan, it's what you do with the users that counts. Doug Anmuth, an analyst with the bank, issued a note explaining that the platform is making better use of its existing users. Engagement among Twitter's users has improved for six quarters and click-thru rates have grown. That's helped the company wring more money out of advertisements, Mr. Anmuth wrote.

Twitter is finally profitable, though barely. Twitter turned a profit -- $91 million on $732 million in revenue -- for the first time in the fourth quarter of 2017. That became more than a blip when Twitter surprised investors with a $61 million profit in the first quarter. It's too early to say if that's a trend. But it is worth noting that it required heavy cost-cutting -- in sales, marketing, research and development, and stock-based compensation -- to achieve.

Welcome to the **S**.**&P**. **500**. Earlier this month, S&P Dow Jones Indices announced Twitter would replace Monsanto in the **Standard & Poor**'**s500 stockindex**. The news helped push the **stock price** above $39 for the first time in three years.

Tech stocks are up. After a tumultuous couple of months -- which coincided with the period in which the Facebook's handling of user data in the Cambridge Analytica scandal provoked much ire toward big tech firms -- investors are returning to technology.

What now? The growth is unlikely to continue at the same pace. Symbolic achievements like entering the **S**.**&P**. **500** don't come along every week, and achieving profitability via cost-cutting is in stark contrast to many other tech firms, like Google and Facebook, that have cash rolling in.

Plus, joining the **S**.**&P**. **500** is not necessarily a recipe for strong performance in the twelve months that follow. From The Wall Street Journal earlier this week:

New entrants to the **S&P 500** outperformed the index by a median of 17 percent in the year leading up to their inclusion in the index, according to a Ned Davis Research analysis going back to 1973. Yet one year after their inclusion, stocks tended to underperform, lagging behind the **S&P 500** by a median of 4.1 percent.

Our columnist Andrew Ross Sorkin and his Times colleagues help you make sense of major business and policy headlines -- and the power-brokers who shape them. Get the DealBook newsletter.

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The New York Times

U.S.; Politics
Fearing Wrath of Trump, Republicans Back Down on Free Trade

By Alan Rappeport and Nicholas Fandos
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WASHINGTON — They have issued concerned news releases and sent solemn tweets. But when it came time to stand up to President Trump on tariffs this week, Senate Republicans took a pass, casting aside the party's long-held commitment to free trade for fear of poking the bear.

At least that is how Senator Bob Corker interpreted the outcome of the intraparty fight over how to combat Mr. Trump's protectionist policies.

"Gosh, we might poke the bear," Mr. Corker, a Tennessee Republican who is retiring, said with fake outrage as he laced into his colleagues for disavowing their beliefs on trade because they are scared of the president and the prospect of losing power.

The decision by Republican leaders this week to block a vote on Mr. Corker's amendment to an annual defense policy bill that would have required the president to get congressional approval to impose tariffs on national security grounds was something of a watershed. Republican leaders maintained that the measure would have created procedural issues that could jeopardize the underlying defense policy bill. They privately called Mr. Corker's reaction hyperbolic, and other Republicans said they would continue to make their differences with the president clear.

But the amendment's defeat, without a vote tallied, was a setback for a core Republican principle, and it played out in public on the Senate floor, underscoring just how far most congressional Republicans would go to avoid confronting Mr. Trump ahead of the November midterm elections. The increasingly lonely forces of opposition within the party are coming from those who are leaving politics or those in the chattering classes safely removed from a Republican electorate overwhelmingly aligned with the president.

"There's no question that leadership in general is wary of doing anything that might upset the president," Mr. Corker said on Wednesday, describing his party's following of Mr. Trump as "cultish."

Other Republicans were equally deflated on Wednesday, but the path forward was not clear. Senator Mitch McConnell of Kentucky, the majority leader, is reluctant to put forward legislation that Mr. Trump does not support because he does not want to waste time making Republican senators take difficult votes ahead of a possible veto.

"It's terribly disappointing," said Senator Patrick J. Toomey , Republican of Pennsylvania, who helped write the Corker trade amendment. He added: "We are the Senate. We're not potted plants. We should be doing what we think is right."

Douglas Holtz-Eakin, the former director of the Congressional Budget Office and president of the conservative American Action Forum, said the Republican trade rebellion collapsed because the party is genuinely divided on the issue these days — and laying bare those divisions would not help Republican election prospects. The fear of a seething presidential tweet has left some in the party paralyzed.

"They're going to have to pick a place to make a stand, and they haven't," Mr. Holtz-Eakin said.

One area where many Republicans are continuing to hold strong against Mr. Trump is national security. While they have buckled on trade, the next test will be whether Republicans will dare Mr. Trump to veto the defense policy bill over ZTE, the Chinese telecommunications company.

Senate Republicans have joined Democrats to include in the defense measure an amendment that would restore harsh penalties on ZTE for violating American sanctions that the Trump administration has moved to lift. If it makes it to the president's desk, the provision would undercut the settlement that the Commerce Department reached with the company this month that essentially threw it a lifeline at the request of China's president, Xi Jinping .

The White House on Wednesday signaled that it would try to strip that amendment out when House and Senate negotiators hash out a final National Defense Authorization Act.

"The administration will work with Congress to ensure the final N.D.A.A. conference report respects the separation of powers," Hogan Gidley, a White House spokesman, said, insisting that the new agreement makes ZTE pay for its violations and gives the government sufficient oversight of the company to protect the United States.

Senator Marco Rubio , Republican of Florida, who has been a vocal advocate of the Senate's approach, said the White House was entitled to its opinion, but he stood firm.

"ZTE poses a significant national security threat to U.S. telecommunications, and we shouldn't be doing anything that allows them to stay in business," Mr. Rubio said.

Consternation over ZTE has created bipartisan backlash against Mr. Trump, and lawmakers have been more willing to defy him on national security issues than trade disputes.

"ZTE combines two potent issues: economic security with China plus national security," said Senator Chuck Schumer of New York, the Democratic leader. "Both China trade policy and national security have broad and deep support in both parties."

Trump administration officials have argued that the president is using the threat of tariffs and showing flexibility over ZTE as part of a broader strategy to overhaul America's trade deals, reorient commerce with China and strike a peace agreement with North Korea. His Republican allies in Congress contend that he should have the space to maneuver.

"I'm tired of senators trying to undercut President Trump at every turn, especially in the middle of a negotiating process," Senator David Perdue , a conservative Georgian and ally of Mr. Trump, said on the Senate floor on Wednesday.

He moved on Wednesday afternoon to strip the ZTE provision from the defense bill, only to be blocked.

While Republicans appear ready to swallow their worries about trade for the moment, an all-out trade war could restore their nerve. Breaking with the president has its risks, but rattled **financial markets** and slower economic growth are also problematic in an election year.

Mr. Trump could roll out more tariffs on China as soon as this week, and countries are preparing to hit back with tariffs of their own on American products, from Kentucky bourbon to Harley-Davidsons.

Next Wednesday, Senator Orrin G. Hatch , Republican of Utah and chairman of the Finance Committee, will hold a hearing on the tariffs and question Wilbur Ross , the commerce secretary, about their potential harm to American consumers.

After a meeting at the Capitol with the Senate Foreign Relations Committee on Wednesday, Chrystia Freeland , Canada's foreign minister, warned that her country had retaliatory tariffs ready to be unleashed on July 1. She said that Canada was rolling them out more in sorrow than in anger and that she hoped retaliation could be avoided.

"The answer is very simple: The United States has to remove these unfair illegal tariffs from Canada," Ms. Freeland said.

Senator Bob Corker, Republican of Tennessee, on Wednesday described his party’s following of President Trump as “cultish.” | Al Drago for The New York Times | Chrystia Freeland, Canada's foreign minister, warned that her country had retaliatory tariffs ready to be unleashed on July 1. | Al Drago for The New York Times

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WSJ PRO CENTRAL BANKING

Economy

Five Takeaways From the Fed Meeting; Fed leader stresses the U.S. economy ‘is in great shape' and he wants to see more evidence inflation will remain on target

By David Harrison
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The Federal Reserve raised short-term interest rates for the second time this year and projected two more rate increases by year-end, while Chairman Jerome Powell expressed optimism about the U.S. economy and said he would begin holding more press conferences starting in 2019. Here are five takeaways from the Fed's June meeting.

The Economy Is Doing Really Well

If there was one simple message that Federal Reserve Chairman Jerome Powell wanted to convey Wednesday it was that the U.S. economy is doing well. "The U.S. economy is in great shape," he said in his postmeeting press conference. "Growth is strong, labor markets are strong, inflation is close to our target." Economists at the Atlanta Fed estimate the economy could grow at an annualized rate of more than 4% in the second quarter, the highest since 2014. And the unemployment rate has fallen to 3.8%, the lowest level in 18 years. Inflation, meanwhile, remains under control and there are no signs for now of new financial bubbles forming. For Mr. Powell and his colleagues at the Fed, the goal is to keep the momentum going.

More Powell Pressers

To better communicate with the American public, Mr. Powell said he would begin holding press conferences following every Fed meeting beginning in January, rather than only at every other meeting. The move was expected. Mr. Powell took pains to note that his decision to speak more often shouldn't be read as a sign that the Fed intends to pick up the pace of rate increases, an interpretation made by some in the markets. "Having twice as many press conferences does not signal anything about the timing or pace of future interest rate changes," he said. "This change is only about improving communications."

No Victory Parade Just Yet

Inflation has hit the Fed's 2% target for the past two months after undershooting it for much of the past six years. That is good news for Fed officials who were puzzled why inflation was so weak despite solid growth in the economy and the labor market. But Mr. Powell said two months isn't enough to make Fed officials rest easy. "The recent data have been encouraging, but after many years of inflation below our objective, we do not want to declare victory," he said. Officials want to make sure inflation is around 2% "on a sustained basis," he added. That doesn't mean the Fed would try to tamp down inflation should it go above the 2% target for a little while. In fact, Mr. Powell said higher **oil prices** could well push inflation above 2% temporarily without prompting much Fed response. "That transitory development should have little, if any, consequence for inflation over the next few years."

Fed Path Still Gradual

The main headline out of this meeting was the fact that officials now pencil in four rate increases in 2018, up from three. But don't read too much into that change. The message from the central bank is that officials still expect to gradually raise interest rates as the economy improves. Should economic conditions change, they could decide to move faster or slower. "We've been very, very careful not to tighten too quickly," Mr. Powell said. "That patience has borne fruit." The Fed chief said officials have come under pressure in recent years to move faster as the economy has improved "and I'm really glad we didn't."

Tax-Cut Effects Still TBD

It has been almost six months since President Donald Trump signed the tax cuts into law. But it is still too soon to assess how successful they will be, Mr. Powell said. Theoretically, the tax cuts should boost overall demand in the economy, encourage businesses to invest and encourage more people to work, the Fed chief said. But the magnitude and the timing of those effects are uncertain, he said. Fed officials see the tax cuts as contributing to a 2.8% growth rate by the fourth quarter of the year, but their long-term growth projections remain around 1.8%, not far from where they have been for years. That suggests officials expect tax cuts to deliver a temporary boost and then fade. "You have a lot of uncertainty around what the effects will be," Mr. Powell said. "They could be large. We hope they're large. But I think our approach is going to be to watch and see."

Write to David Harrison at david.harrison@wsj.com

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THE WALL STREET JOURNAL.

Economy
Five Takeaways From the Fed Meeting; Fed leader stresses the U.S. economy 'is in great shape' and he wants to see more evidence inflation will remain on target

By David Harrison
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The Federal Reserve raised short-term interest rates for the second time this year and projected two more rate increases by year-end, while Chairman Jerome Powell expressed optimism about the U.S. economy and said he would begin holding more press conferences starting in 2019. Here are five takeaways from the Fed's June meeting.

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To better communicate with the American public, Mr. Powell said he would begin holding press conferences following every Fed meeting beginning in January, rather than only at every other meeting. The move was expected. Mr. Powell took pains to note that his decision to speak more often shouldn't be read as a sign that the Fed intends to pick up the pace of rate increases, an interpretation made by some in the markets. "Having twice as many press conferences does not signal anything about the timing or pace of future interest rate changes," he said. "This change is only about improving communications."

No Victory Parade Just Yet

Inflation has hit the Fed's 2% target for the past two months after undershooting it for much of the past six years. That is good news for Fed officials who were puzzled why inflation was so weak despite solid growth in the economy and the labor market. But Mr. Powell said two months isn't enough to make Fed officials rest easy. "The recent data have been encouraging, but after many years of inflation below our objective, we do not want to declare victory," he said. Officials want to make sure inflation is around 2% "on a sustained basis," he added. That doesn't mean the Fed would try to tamp down inflation should it go above the 2% target for a little while. In fact, Mr. Powell said higher **oil prices** could well push inflation above 2% temporarily without prompting much Fed response. "That transitory development should have little, if any, consequence for inflation over the next few years."

Fed Path Still Gradual

The main headline out of this meeting was the fact that officials now pencil in four rate increases in 2018, up from three. But don't read too much into that change. The message from the central bank is that officials still expect to gradually raise interest rates as the economy improves. Should economic conditions change, they could decide to move faster or slower. "We've been very, very careful not to tighten too quickly," Mr. Powell said. "That patience has borne fruit." The Fed chief said officials have come under pressure in recent years to move faster as the economy has improved "and I'm really glad we didn't."

Tax-Cut Effects Still TBD

It has been almost six months since President Donald Trump signed the tax cuts into law. But it is still too soon to assess how successful they will be, Mr. Powell said. Theoretically, the tax cuts should boost overall demand in the economy, encourage businesses to invest and encourage more people to work, the Fed chief said. But the magnitude and the timing of those effects are uncertain, he said. Fed officials see the tax cuts as contributing to a 2.8% growth rate by the fourth quarter of the year, but their long-term growth projections remain around 1.8%, not far from where they have been for years. That suggests officials expect tax cuts to deliver a temporary boost and then fade. "You have a lot of uncertainty around what the effects will be," Mr. Powell said. "They could be large. We hope they're large. But I think our approach is going to be to watch and see."

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THE WALL STREET JOURNAL.

Business

Side Effect of Rising Oil Drilling: Indigestion for Gas Frackers; As companies step up oil production, the natural gas byproduct is weighing on already low gas prices and on gas producers

By Christopher M. Matthews
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Corrections & Amplifications

EQT Corp. is poised to be the largest gas producer in the U.S., following its acquisition of Rice Energy Inc. at the end of 2017. An earlier version of this article incorrectly stated Exxon Mobil Corp. was largest natural gas producer in the U.S. (June 13, 2018)

Higher **oil prices** are helping many American shale drillers. But they are hurting companies that frack for natural gas.

As companies respond to rising **oil prices**by drilling more for it, they often unearth gas as a byproduct. That has further weighed on already low gas prices, pressuring shale frackers in regions that primarily produce gas.

The average share price for the five top companies focused on the oil-rich Permian Basin in Texas and New Mexico are up more than 16% over the past year. Share prices for the top five producers focused on the Marcellus Shale in Appalachia, the country's largest deposit of natural gas, are down more than 9%.

"It's going to be tough for the Marcellus for a while," said Brian Lidsky, managing director at oil-and-gas research firm PLS Inc. "There is just a tidal wave of gas coming out of the Permian."

Like most shale drillers, those focused on natural gas in the Marcellus—a group that includes Cabot Oil & Gas Corp., EQT Corp., Range Resources Corp., Antero Resources Corp., and Southwestern Energy Co.—have been under investor pressure to live within their means, curtail excessive spending and improve returns. And they have come closer to doing that.

As a group, those companies spent about $106 million more than they made in the first quarter of 2018, according to a Wall Street Journal analysis of S&P Global Market Intelligence data. That is down from outspending cash flow by more than $274 million in the previous quarter and more than $735 million in first quarter of 2017.

Still, investors have been reluctant to put more money into gas drillers, and the reason is simple: Gas has been cheap for years and doesn't look primed to go up soon.

Demand for natural gas is predicted to rise globally over the next decade as many countries switch from coal-fired power plants to gas-powered ones. However, that isn't expected to solve gas drillers' problems in the short term. U.S. gas production will outpace domestic consumption through 2019, according to the Energy Information Administration.

Natural-gas futures for July delivery closed at $2.939 a million British thermal units on Tuesday and have been below $4 since 2014. Prices passed $10 in 2008 and had stayed above the $4 mark before 2012. Many banks and analysts predict average prices will be below $3 for years. Meanwhile, U.S. **oil prices** have climbed to more than $65 a barrel for the first time since 2014.

"We are mostly a gas company, so it is fair that we are judged on the price of gas," said William Way, the chief executive of Southwestern Energy, which was the third-largest gas producer in the contiguous U.S. in 2017, after Exxon Mobil Corp. and Chesapeake Energy Corp. EQT is now poised to be the largest gas producer this year, following its acquisition of Rice Energy Inc. at the end of 2017.

Southwestern Energy's strategy has been to cut costs and squeeze out efficiencies over the past two years while weathering the storm, according to Mr. Way. The road has been painful.

The company's share price is about a 10th of what it was in 2010. The company was burdened with debt when Mr. Way became CEO in 2016—$4.6 billion in debt in December 2016—following an ill-timed acquisition of Marcellus acreage from Chesapeake in 2014 for nearly $5 billion, just before gas prices sank. That debt represented more than 83% of its total capital.

After he took the top role, Mr. Way quickly laid off 40% of the company's staff and shut down all of its drilling rigs. "We had to reinvent ourselves as a $2.75 gas company instead of a $4.50 gas company," he said.

Southwestern Energy is now seeking to sell all its assets in the Fayetteville shale in Arkansas, which analysts say could be worth more than $2 billion. The company will use a significant portion of that to pay down debt, now about $3.4 billion, and reinvest in the Marcellus, where it has begun drilling again, albeit with modest growth targets.

Some hold a measure of optimism.

Todd Heltman, a senior energy analyst at Neuberger Berman Group LLC, an asset-management firm that owns shares in shale producers, noted that prices for gas-focused shale companies have rebounded a bit since earlier this year, with investors having potentially seen a bottom for gas producers.

"They're no longer growing for the sake of growing, and buying for the sake of buying," Mr. Heltman said. "And I do think investors have gotten too **bearish** on natural gas."

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THE WALL STREET JOURNAL.

Markets

U.S. Demand Boosts Oil Prices; The oil cartel and major producers like Russia are set to convene this month

By Christopher Alessi and Benjamin Parkin
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Oil prices bounced to the highest close this month as strong U.S. demand ate into crude and fuel inventories.

West Texas Intermediate futures for July rose 0.4% to $66.64 a barrel at the New York Mercantile Exchange on Wednesday, closing at the highest point since May 31. August-dated Brent crude, the global oil benchmark, rose 1.1% to $76.74 a barrel.

The Energy Information Administration said on Wednesday morning that crude oil inventories fell by 4.1 million barrels to 432.4 million barrels, a larger reduction than expected. Analysts and traders surveyed by The Wall Street Journal had forecast a drop of 1.6 million. Gasoline and distillate stocks also fell, surprising traders who had expected increases.

Prices, which traded lower overnight, surged after the report.

"Everywhere you look, demand is strong. Gasoline demand is strong, refinery demand is strong," said Phil Flynn, a senior analyst at the Price Futures Group. "That's supporting prices."

The crude oil market fell from three-year highs made in May as traders bet global supplies would increase. The Organization of the Petroleum Exporting Countries and other major producers like Russia are set to convene next week. Saudi Arabia—the de facto head of the cartel -- and Russia have recently indicated a willingness to increase production in response to steadily rising prices and geopolitical risks to supply in Venezuela and Iran.

Saudi Arabia's oil minister is flying to Russia this week to discuss ways to manage the output boost they say they want to propose at the OPEC summit, officials at the group said.

But other data released Wednesday forecast solid demand. The International Energy Agency said it expected the world's appetite for oil to remain robust throughout 2019. In its monthly report, the agency predicted global oil demand would grow by 1.4 million barrels a day in 2019, on par with this year.

However, the IEA also said it expects non-OPEC oil production to continue to surge, largely driven by the U.S. Non-OPEC supply growth should slow only slightly in 2019, to 1.7 million barrels a day, compared with 2 million barrels a day this year.

Some analysts said rising U.S. output would prove a headwind to the oil market.

"The continuing surge in U.S. output should start to weigh on prices later in the year as more pipeline capacity allows greater quantities of U.S. oil to be exported or refined," said Capital Economics's Thomas Pugh in a note, referring to the domestic data.

Oil traders largely appeared to shrug off a tweet from President Donald Trump saying that "**Oil prices** are too high, OPEC is at it again. Not good!". In April, a similar tweet from Mr. Trump sent the price of oil lower momentarily.

The market's main focus is on the OPEC meeting and the possibility that the cartel and its allies will ramp up production after more than a year of holding back output, said Ole Hansen, head of commodity strategy at Saxo Bank. The deal to reduce production is currently set to expire at the end of this year.

"There is no way around an increase in production by Russia and Saudi Arabia," said Bjarne Schieldrop, chief commodities analyst at SEB Markets. "It does not make sense to risk an overly tight market…just when global economic growth is cooling down."

Among refined products, gasoline futures for July rose 1.7% to $2.1252 a gallon while July-dated diesel contracts gained 1.1% to $2.1851 a gallon.

Summer Said and Benoit Faucon contributed to this article.

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THE WALL STREET JOURNAL.

U.S. Markets
Markets

U.S. Stocks Slip After Fed Decision; Officials pencil in a total of four rate increases for this year, up from three increases projected in March

By Jon Sindreu and Danielle Chemtob
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U.S. stocks slid Wednesday after the Federal Reserve said it would raise interest rates and pencil in a fourth rate increase for this year.

Major indexes were little changed ahead of the decision but later wobbled and closed near their session lows.

The Fed raised interest rates by another quarter-percentage point, bringing the benchmark federal-funds rate to a range between 1.75% and 2%. Eight of 15 Fed officials now expect at least four rate increases will be needed this year, compared with seven officials at the March meeting.

"It's hard to interpret it as all that hawkish when you consider it was just one official changing their interest-rate forecast," said Mark Heppenstall, chief investment officer of Penn Mutual Asset Management.

The **Dow Jones Industrial Average** declined 119.53 points, or 0.5%, to 25201.20, while the **S&P 500** fell 11.22 points, or 0.4%, to 2775.63. Both indexes posted their largest one-day point and percentage declines this month.

The **Nasdaq Composite** fell 8.09 points, or 0.1%, to 7695.70, its second-highest close in history.

U.S. government-bond yields climbed after the decision, as the yield on the **10**-**year Treasury** rose to 2.979% from 2.959% on Tuesday. Yields rise as prices fall.

Concerns about monetary stimulus ebbing have joined worries about politics and trade tensions this year, creating a more-**volatile** environment for markets. For many investors, the key to interpreting these moves is how much longer the economy can keep powering ahead before a new recession kicks in.

"The easy-money policies that really drove this **bull market** are effectively over," said Craig Birk, executive vice president of portfolio management at Personal Capital, "That doesn't mean the market can't continue to advance, but it just no longer has that tailwind."

The biggest risk, said Jeff Mills, co-chief investment strategist for PNC Financial Services Group, is inflation increasing at a faster rate than the market and the Fed are expecting.

The Labor Department on Wednesday said the producer-price index, a measure of prices from the perspective of businesses, rose a seasonally adjusted 0.5% in May from the previous month, above the expected 0.3%. Producer prices increased 3.1% from a year earlier, the largest annual increase since January 2012. Consumer-price index data, released Tuesday, showed a 0.2% increase in prices last month.

"The Fed might be accused of being slightly behind the curve, but with inflation at these levels I suspect they are going to run the economy a little bit hot," said Patrick Spencer, Baird's vice chairman of equities. "The Fed has to be careful because it regulates the banks and doesn't want to have a banking industry dealing with an inverted yield curve."

Shares of financial firms in the **S&P 500** jumped after the Fed decision but later turned lower with the broader market. Higher interest rates typically widen the spread between what banks charge on loans and what they pay on deposits.

Stocks that investors consider bondlike took a hit alongside Treasury prices. The **S&P 500** real-estate sector, which includes real-estate investment trusts that often suffer when interest rates rise, fell 2.3%—extending declines. Shares of utilities fell 0.3%.

The European Central Bank is set to follow Thursday with its own policy meeting. Investors will try to gauge the exact time when eurozone officials will end their bond purchases—a move broadly anticipated for later this year—and whether Italy's political woes are likely to delay their plans.

So far, the ECB has signaled that it remains undeterred.

"It would be remiss of them to reverse any signal they've given," said Richard Hodges, a bond-fund manager at Nomura Asset Management. "They are running out of assets to buy, so if you gave a short-term fillip to Italy, this would raise longer-term concerns about financial stability."

The Bank of Japan will make its monthly policy decision on Friday.

Investors have also reacted positively to a federal judge's ruling that AT&Tcan proceed with its planned acquisition of Time Warner, seeing it as a sign that the field is clear for other corporate mergers to happen. Shares of Time Warner jumped $1.73, or 1.8%, to $97.95, while AT&T fell 2.13, or 6.2%, to 32.22, its largest percentage decline in nearly 10 years. After markets closed, Comcast offered to buy a chunk of 21st Century Fox's entertainment and international assets for roughly $65 billion in cash, setting off a bidding war with Disney.

Overseas, the Stoxx Europe 600 rose 0.2%. Chinese bourses closed lower, with Hong Kong's Hang Seng losing 1.2% and the Shanghai Composite falling 1%. Both were pressured by shares of ZTE, which plunged about 40%—an $8 billion wipeout—on their first day of trading after nearly two months. The selloff reflected investors' unease about the future of the Chinese telecommunications company in the face of crippling U.S. sanctions.

By contrast, investors have mostly shrugged off this week's landmark summit between President Donald Trump and North Korea's leader Kim Jong Un, which was seen by analysts as inconclusive.

Write to Jon Sindreu at jon.sindreu@wsj.com

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The Property Report
Buyers Cherry-Pick REITs

By Esther Fung
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Corrections & Amplifications

Pebblebrook Hotel Trust on Monday sweetened its bid for LaSalle Hotel Properties for a fourth time since its first offer in March. A Property Report article Wednesday about real-estate investment trusts incorrectly said it was the third time.

(WSJ June 14, 2018)

(END)

The mergers-and-acquisition bug has hit the real-estate investment trust industry, the long-anticipated result of the discounts that REIT stocks have been trading at compared with the private-market valuations of their properties.

But the private and public companies that have been in the buying mode haven't been fixated on the REITs that are trading at the steepest discounts. Rather, in many cases, they are looking for targets that own the kind of property most likely to weather a downturn, well aware that a **bull market** in commercial real estate is in its ninth year.

In other cases, buyers are simply going after the REITs that are among the leading owners of certain property types, such as skilled nursing facilities. Buyers can do this partly because the world is awash these days in private equity and debt capital.

"High-quality companies with high-quality growth numbers aren't usually targets for takeouts," said Matthew Werner, managing director at Chilton Capital Management LLC. "But with high-quality companies trading at significant discounts to net asset value at a time of record private capital looking for a home, even the best companies are vulnerable to takeouts."

Since April, there have been eight announced deals for REITs totaling $16.5 billion, excluding debt, according to data from Dealogic, up from two announced deals totaling $4.4 billion in this year's first quarter. In the fourth quarter last year, announced REIT acquisitions totaled $16.4 billion.

A few of the REITs with the strongest balance sheets also are shopping around. For example, San Francisco-based REIT Prologis Inc., the largest owner of industrial space in the U.S., made an all-stock offer for DCT Industrial Trust in April.

Industrial real estate has been among the strongest-performing property types in recent years thanks to the e-commerce revolution, which is increasing demand for warehouses and distribution space. "REITs that benefit from an advantageous cost of capital have lately become somewhat more active on acquisitions, likely seeing an open window in choppy conditions," said real-estate research firm Green Street Advisors.

Student housing is one of the property types that is considered to be a defensive play, as enrollment in colleges are expected to stay steady. One of the target companies in this sector is Memphis, Tenn.-based Education Realty Trust, which owns and manages more than 44,000 beds at 53 universities in 24 states. A number of private-equity firms are in talks to buy that REIT, according to people familiar with the matter.

REIT shares have been sluggish for the past two years due to slowing income growth and concerns about higher interest rates. In 2017, the total returns of the FTSE Nareit All Equity REITs index reached 8.7%, while total returns for the **S&P 500** rose 21.8%.

But the intensifying M&A binge has started to change that. Total returns in the FTSE Nareit All Equity Index outperformed the **S&P 500** for the third straight month in May, reaching 3.5% compared with the **S&P 500**'s 2.4%.

Some of the buyers in the M&A trend have been willing to bet on property types that typically suffer most during a recession, like hotels. Indeed, one of the hottest takeover battles is over LaSalle Hotel Properties, which owns 41 hotels across seven states. Pebblebrook Hotel Trust, another lodging REIT, on Monday raised its offer for LaSalle in a bidding war with Blackstone Group LP.

Pebblebrook, is offering about $4.17 billion for LaSalle in cash and stock, implying a merger price of $37.80 a share, sweetening its bid for the third time since it first made an offer in March that valued the company at $29.95 a share.

The LaSalle board initially dismissed Pebblebrook's offer and then agreed to a $3.7 billion, $33.50 a share bid by Blackstone last month. The board has said it would consider Pebblebrook's revised offer.

Other pending deals include Welltower Inc.'s $2 billion offer to buy Quality Care Properties Inc., which owns skilled nursing and assisted-living properties. Quality Care on Tuesday said another party made an acquisition proposal that could lead to a "superior offer," but didn't give details on pricing.

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WSJ PRO CENTRAL BANKING

Economy
Transcript: Fed Chairman Jerome Powell's Postmeeting Press Conference; Central banker discusses monetary policy, financial regulation, introduces press conferences after every meeting starting in 2019

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Federal Reserve Chairman Jerome Powell held his second press conference as central bank chief on Wednesday, June 13, 2018, shortly after the central bank announced another interest-rate increase and more to come in the years ahead. He discussed the economy, monetary policy and financial regulation and said he would start holding press conferences after every Fed meeting starting in January. Here is a transcript of the exchange, lightly edited for length and clarity.

JEROME H. POWELL: Thanks very much for being here. I know that a number of you will want to talk about the details of our announcement today. And I'm happy to do that in a few minutes. But because monetary policy affects everyone, I want to start with a plain English summary of how the economy is doing, what my colleagues and I at the Federal Reserve are trying to do and why.

The main takeaway is that the economy is doing very well. Most people who want to find jobs are finding them, and unemployment and inflation are low. Interest rates have been low for some years while the economy has been recovering from the financial crisis. For the past few years, we've been gradually raising interest rates. And along the way, we've tried to explain the reasoning behind our decisions. In particular, we think that gradually returning interest rates to a more normal level, as the economy strengthens, is the best way the Fed can help sustain an environment in which American households and businesses can thrive.

Today we've taken another step in that process by raising our target range for the federal-funds rate by a quarter of a percentage point. My colleagues and I meet eight times a year and take a fresh look each time at what is happening in the economy and consider whether our policy needs adjusting. We don't put our interest-rate decisions on hold or on autopilot, because the economy can always evolve in unexpected ways. History has shown that moving interest rates either too quickly or too slowly can lead to bad economic outcomes. We think the outcomes are likely to be better overall if we are as clear as possible about what we're likely to do and why.

To that end, we try to give a sense of our expectations for how the economy will evolve and how our policy stance may change. As chairman, I hope to foster a public conversation about what the Fed is doing to support a strong and resilient economy. And one practical step in doing so is to have a press conference like this after every one of our scheduled [Federal Open Market Committee] meetings. And we're going to do that beginning in January. That will give us more opportunities to explain our actions and to answer your questions. I want to point out that having twice as many press conferences does not signal anything about the timing or pace of future interest rate changes. This change is only about improving communications.

My FOMC colleagues and I will also continue to issue our economic projections on the existing quarterly schedule. Now, let me go into more detail over developments in the economy, our economic projections, and our policy decision.

Economic growth appears to have picked up in the current quarter, largely reflecting a bounce back in household spending. Business investment continues to grow strongly, and the overall outlook for growth remains favorable.

Several factors support this assessment. Fiscal policy is boosting the economy, ongoing job gains are raising incomes and confidence, foreign economies continue to expand, and overall financial conditions remain accommodative. These observations are consistent with the projections that committee participants submitted for this meeting. The median projection for the growth of real [gross domestic product] is 2.8% this year, 2.4% next year, and 2% in 2020. Compared with the projections made in March, this median growth path is little changed.

In the labor market, job gains averaged 180,000 per month over the past three months, well above the pace needed in the longer-run to provide jobs for new entrants into the workforce. The unemployment rate declined over the past two months and stood at 3.8% in May, its lowest level in nearly two decades. Meanwhile, the labor-force-participation rate has been roughly unchanged since late 2013. That is a positive sign, given that the aging of our population is putting downward pressure on the participation rate. And we expect the job market to remain strong.

As you can see in our summary of economic projections, the median of committee participants' projections for the unemployment rate stands at 3.6% in the fourth quarter of this year, and runs at 3.5% over the next two years, a percentage point below the median estimate of its longer-run normal rate. This median path is just a bit lower than that for March.

After many years of running below our 2% longer-run objective, inflation has recently moved close to that level. Indeed, overall consumer prices, as measured by the Price Index for Personal Consumption Expenditures, increased 2% over the 12 months ending in April. The core-PCE index, which excludes prices of energy and food and tends to be a better indicator of future inflation, rose 1.8% over the same period. As we had expected, inflation moved up as the unusually low readings from last March dropped out of the calculation.

The recent inflation data have been encouraging. But, after many years of inflation below our objective, we do not want to declare victory. We want to ensure that inflation remains near our symmetric 2% longer-run goal on a sustained basis. As we note in our Statement of Longer-Run Goals and Monetary Policy Strategy, the committee would be concerned if inflation were running persistently above or below our 2% objective.

Of course, many factors affect inflation, some temporary and others more lasting. And, at any given time, inflation may be above or below 2%. For example, the recent rise in **oil prices** will likely push inflation somewhat above 2% in coming months. But that transitory development should have little, if any, consequence for inflation over the next few years.

The median of participants' projections for inflation runs at 2.1% through 2020. Relative to the March projections, the median inflation projection is a little higher this year and next.

As I mentioned, today we took another step in gradually scaling back monetary-policy accommodation by raising the target range for the federal-funds rate by a quarter percentage point, bringing it to 1¾ to 2%. We also made some changes to our policy statement, reflecting that policy normalization is proceeding broadly, as we have expected.

None of these changes signals a change in our policy views. For example, we removed the language stating that, quote, "the federal-funds rate is likely to remain for some time below levels that are expected to prevail in the longer run." Since we introduced that language a few years ago, the economy has strengthened and the committee has raised the federal-funds rate from near zero to 1¾ to 2%.

As we continue to note in our statement, we expect to make further gradual increases in that rate. As a result, if the economy evolves broadly, as we anticipate, the federal-funds rate will, over the next year or so, move well within the range of estimates of the normal long-run level. Therefore, we thought that now is an appropriate time to remove this forward guidance from our policy statement.

We continue to believe that a gradual approach for increasing the federal-funds rate will best promote a sustained expansion of economic activity, strong labor-market conditions, and inflation near our symmetric 2% goal.

We are aware that raising rates too slowly might raise the risk that monetary policy would need to tighten abruptly down the road in response to an unexpectedly sharp increase in inflation or financial excesses, jeopardizing the economic expansion. Conversely, if we raise interest rates too rapidly, the economy could weaken and inflation could continue to run persistently below our objective.

The committee's gradual approach is reflected in participants' projections for the appropriate path for the federal-funds rate. The median projection for the federal-funds rate is 2.4% at the end of this year, 3.1% at the end of 2019, and 3.4% at the end of 2020. By 2020, the median federal-funds rate is modestly above its estimated longer-run level. These projections are very similar to those made in March. Although the median federal-funds rate edged up this year and next, most participants did not revise their projections.

And I'll conclude by mentioning two additional matters. First, our program for reducing our balance sheet, which began in October, is proceeding smoothly. Barring a material and unexpected weakening in the outlook, this

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program will proceed on schedule, and our balance sheet will continue to shrink. As we have said, changing the target range for the federal-funds rate is our primary means of adjusting the stance of monetary policy.

And finally, as discussed in the minutes of our May meeting, we're making a small technical adjustment in one of our tools for implementing monetary policy. To keep the federal-funds rate in the target range, we rely on the rate of interest on excess reserves, or the IOER rate. Up until now, we have set the IOER rate at the top of the target range for the federal-funds rate. In recent months, the federal-funds rate has moved up toward the IOER rate as short-term interest rates have risen more generally. So, to move the federal-funds rate closer to the middle of the target range, we are now setting the IOER rate five basis points below the upper end of the target range.

This minor technical adjustment has no bearing on the appropriate path for the federal-funds rate or financial conditions more generally.

Thanks for listening, and I'll be happy to take your questions.

Q: Jim Tankersley, New York Times.

I have a question about inflation and a question about growth. On inflation, I'm curious if there is anything that's happened since March that has changed your assessment of the risk of inflation increases beyond what you forecast in the year to come.

And on growth, you mentioned fiscal policy is adding to growth. And I'm curious if you could break that down a little bit further for us and say what effect do you think the recent tax cuts are having on growth.

MR. POWELL: Sure. So since—I wouldn't say anything has happened since March to really change the way I'm thinking about inflation or the way the committee is thinking about inflation. We've seen inflation move very gradually up toward our 2% objective. And part of that has been just idiosyncratic things dropping out from last March, which were holding inflation—measured inflation down. Part of it is just that continued tightening in the labor market and the economy more broadly is pushing inflation up.

So we continue to think and the committee continues to think that we are just about at our 2% goal but, as I mentioned, not ready to declare victory until we sustain that over time, which we haven't done yet.

You also asked about fiscal policy. And there is a range of views on the committee and, I think, more broadly a range of views among economists generally. But I can say that committee members, committee participants generally believe that the fiscal changes—and that includes both the tax cuts, individual and corporate, and the spending changes—will provide meaningful support to demand, significant support to demand over the course of the next three years.

And the question—the other question is, what about the supply side? So it is—it makes sense that if you lower corporate tax rates and allow faster expensing of investment, you will encourage greater investment, that should drive productivity, that should increase potential output. So that really ought to happen as well. I think the amounts and the timing of that coming in are also quite uncertain.

There's also the possibility that there would be more labor supply from lower individual tax rates, again, in amounts and in timing that might be more uncertain.

So that's how the committee generally is thinking about that fiscal policy.

Q: Nick Timiraos, The Wall Street Journal.

So the Fed is about four interest-rate increases, using the projections released today, away from what might be considered a neutral fed-funds rate. And I wanted to ask how you're thinking about what to do once you get to neutral. Under what conditions would you decide, once you get there, that it's OK to stop raising rates? And under what conditions would you want to keep going?

MR. POWELL: So for many, many years, we've been far from maximum employment and stable prices, and so the need for accommodative policy has been—has been clear.

As the economy has strengthened and as we've gradually raised interest rates, the question comes into view of, "how much longer will you need to be accommodative and how will you know? How will you know at what point policy will be neutral, neutral meaning that interest rates are neither pushing the economy up nor trying to restrain it?"

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So we know that we're getting closer to that neutral level. We don't have an exact sense of how that will be. So the committee is discussing very actively the questions that you raise. And really, it boils down to a question of, "what is appropriate policy?" And, you know, you've asked, "how will we know?" So I think we'll be very carefully looking at incoming data on inflation, on financial readings and on the labor market.

We have to acknowledge that there are always wide uncertainty bands around the level of, for example, the natural rate of unemployment, but also what is the neutral rate of interest. What is that rate of interest that pushes neither up nor down? So I think we'll be guided by incoming data on the economy and try to keep our minds open as we move forward.

Q: Howard Schneider with Reuters.

Two-point-one percent—above target—for 2½ years starts to feel like some of the alternate frameworks that have been discussed here, be it price-level targeting or trying to set expectations higher so that you hit your 2. In deciding how symmetric is too symmetric, what sort of parameters are you using on that front?

MR. POWELL: You know our target for our medium-term objective for inflation is 2% PCE inflation. We feel that that target has served the economy well. And I'm strongly committed to it. The committee is strongly committed to it. The sort of barriers to making a material change to that would be very high because, again, we think it's fundamental and we think it's worked.

You asked about price level targeting and that sort of thing. You know, there are some ideas that sort of take cognizance of the fact that rates are lower, we're near the zero lower bound, and that could put downward pressure on inflation expectations if we're going to be down at the zero lower bound, and therefore sort of undermine the credibility of the 2% inflation objective. So the idea is to have kind of a makeup. If you're below target for a while, you have a time of being above target. And the idea is to enhance the credibility of that 2% target. This is an idea that's been written about for many years. It's not something that the committee has looked at seriously. I imagine we will be having discussions about it, but not something that we have on the calendar right now.

Q: Sam Fleming from the Financial Times.

Over the weekend we saw some significant tensions within the G-7 in Canada. There is the potential obviously for further action against China right now, retaliatory action from major U.S. trading partners. How big a risk do you currently see this as being to the United States economy? And what kind of feedback are you getting in terms of corporate-investment intentions? Is this something that's beginning to feature more prominently in your own discussions with major U.S. companies? Thanks.

MR. POWELL: I ought to start by saying that, you know, Congress has assigned us very important jobs and, you know, maximum employment, stable prices. We have a role in financial stability that we share with other agencies. Congress has very specifically given authority over trade to the executive branch. So I wouldn't comment on any particular specific trade actions.

I will say that we of course have—we have broad contacts among business leaders around the country, and the Reserve Bank presidents in particular have that, and so they report in the Beige Book and then in person at the FOMC meeting. And they do come back and they say that concerns about changes in trade policy are rising, I think it's fair to say, and also that you're beginning to hear reports of companies holding off on making investments and hiring people. So right now we don't see that in the numbers at all. The economy is very strong. The labor market is strong. Growth is strong. We really don't see it in the numbers. It's just not there. But so I would put it, then, as more of a risk.

Q: Steve Liesman, CNBC.

Mr. Chairman, you said there is a difference of opinion among economists. But looking at the longer-run GDP growth rates for the members of the committee, there's not a whole lot of difference. It's 1.8 to 2 or 1.7 to 2.1, depending upon how you count it. Is that showing us that not a single member of the committee, including yourself, Mr. Chairman, agrees with economists over at the White House that they can achieve long-run sustained growth rates above or at 3% or higher? Do you believe in that?

MR. POWELL: You know, first of all, that's a reasonable range, I think. It's not that we're all on the same number, but there are a range of views about potential growth. And there's so much uncertainty around this. You know, we don't—the thing about fiscal policy is, you don't have thousands of incidents to—you know, to—you don't have big data, in a way. You have very small data. You've got only a few instances here. So you have a lot of uncertainty

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around what the effects will be. They could be large. We hope they're large. But I think our approach is going to be to watch and see, and hope that in fact we do get significant effects to—you know, to potential growth out of a tax bill. And we're just going to have to see. I think we're looking at a reasonable range of estimates and we're putting—different participants are putting different estimates in, and we're going to be waiting and seeing.

Q: Donna Borak with CNN.

You said earlier that it's still a little too early to declare a victory on inflation. I wanted to circle back on a question that was asked at the initial press conference about what does the Fed say in regards to the inflation target is symmetric? Like, has the committee given any further thought in terms of how comfortable it would be rising above, whether it goes higher than 2.1 if it reaches 2.2, 2.3, and for how long? And now that you're planning to hold these regular press conferences starting next year, how do you explain—how do you plan to explain that to the American people that inflation is not overrunning?

MR. POWELL: You know, what we've said in our statement of longer-run principles and monetary-policy strategy is that the committee would be concerned if inflation were to run persistently above or below 2%—persistently above or below 2%—and that's what we mean by symmetric. We're looking at it equally on either side and it's a matter of persistent overruns.

We know that inflation is going to bounce around. For example, as I mentioned, later this summer there's a good chance that headline inflation will move up above 2% because of **oil prices**. Things buffet inflation back and forth but so we acknowledge that. We understand that, and if inflation were to persistently run above or below 2%, then we would be using our tools to try to move inflation back in the direction of the target.

We do understand, though, that we don't have the ability to precisely hit that target. So we expect that inflation will be above or below, and we just hope that that is—happens on a symmetric basis.

Q: Marty Crutsinger, Associated Press.

At this meeting, you [inaudible] right. You changed the dot plot to move from three to four [rate increases] for this year and you took out a sentence that you had been using for years about how long rates might stay low, but you say that none of this signals a change in policy views. But shouldn't we see from this combination of things that the Fed is moving to a tighter policy?

MR. POWELL: I think what you should see is that the economy is continuing to make progress. The economy has strengthened so much since I joined the Fed, you know, in 2012 and even over the last couple of years. The economy is in a very different place. Unemployment was 10% at the height of the crisis. It's 3.8% now and moving lower.

So, really, what you—the decision you see today is another sign that the U.S. economy is in great shape. Growth is strong, labor markets are strong, inflation is close to target, and that's what you're seeing. For many years, as I mentioned, many years we had interest rates held low to support economic activity, and it's been clear that as we've gotten closer to our statutory goals we should normalize policy and that's really what we've been consistently doing for some years now.

Q: Heather Long from the Washington Post.

Can you give us an update on what the FOMC thinks about wages? Are we finally going to see that wage growth pick up this year? I know you're forecasting a little bit more inflation. But is that going to translate through to wage growth?

MR. POWELL: You know, wages have been gradually moving up. Earlier in the recovery, they were—there are many different wage measures, of course, but so just to—just to generalize, wages were running, roughly, around 2% and they've moved gradually up into between 2 to 3% as the labor market has become stronger and stronger.

I think it's fair to say that some of us—and I, certainly, would have expected wages to react more to the very significant reduction in unemployment that we've had, as I mentioned, from 10% to 3.8%. Part of that can be explained by low productivity, which is something we've talked about at the committee and elsewhere.

But, nonetheless, I think we had anticipated and many people have anticipated that wages—that in a world where we're hearing lots and lots about labor shortages—everywhere we go now we hear about labor shortages—but where's the wage reaction? So it's a bit of a puzzle. I wouldn't say it's a mystery.

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But it's a bit of a puzzle and, frankly, I do think there's a lot to like about low unemployment, and one of the things is you will see pretty much people who want to get jobs—not everybody, but people who want to get jobs many of them will be able to get jobs. You will see wages go up. You'll see people at the—sort of the margins of the labor force having an opportunity to get back into work. They benefit from that. Society benefits from that. So there are a lot of things to really like, including higher wages, as you asked.

Our role, though, is also to—you know, to make sure that maximum employment happens in a context of price stability and financial stability, which is why we're gradually raising rates.

Q: Don Lee from the L.A. Times.

On both inflation and unemployment, the new projections for unemployment's lower than before and inflation higher. And how much is the Fed willing to accept that's an overshoot for both of those before it affects policy?

MR. POWELL: You mentioned that unemployment moved down, inflation moved up, by truly small amounts. If you look at the Summary of Economic Projections, things are moving by just a tick or even a semi-tick between now and March. And you ask—you know, I mean, I think we take a longer-run view that we're shooting for—we're aiming for 2% inflation, inflation around 2%. We know that it'll be above or below. We're not—we didn't overreact, I think, to inflation being under 2%. We won't overreact to it being over 2%. And I think we'll always be using our tools to move inflation in the direction of the target, if it leaves—if it moves away from the target persistently, as I mentioned.

In terms of unemployment, you know, we have to acknowledge that we are—no one really knows with certainty what the level of the natural rate of unemployment is, the rate that is sustainable over a long period of time. And we know that probably that rate has declined as the U.S. population has become more educated, as it has become older. Older and more educated people have lower unemployment rates. We don't know this with precision. So we have to be learning as we go. We've got to be looking at data and informed by what's coming in.

And as I mentioned, I think, at the last press conference, estimates by members of the committee have moved down by a full percentage point since maybe 2012 as we've learned—as unemployment has dropped and inflation hasn't really reacted.

So I can't give you a precise number, but I just—you know, we will be very much informed by incoming data. And this uncertainty is why—the fact that we live in that uncertainty is why we've been gradually raising rates. We're not waiting for inflation to show up. We're go ahead and moving gradually and trying to navigate between two risks, really. One would be moving too quickly. Inflation never gets back to target if we do that. And the other is moving too slowly, and then we have—we have too much inflation or financial instability and we have to raise quickly. And that can also have bad outcomes.

Q: Chris Condon, Bloomberg News.

Mr. Chairman, I have a couple of questions about the interest the Fed pays on excess reserves. And you mentioned, of course, that the IOER was raised by the committee 20 basis points. That's a result, as you said, of the upward drift of the effective fed-funds rate in that target range.

Do you think that that's going to resolve that issue, or might there be further action required by the committee in the future to continue lowering IOER relative to the midpoint of the range? And further, was there discussion among the committee today about what's causing that? Is it purely technical, perhaps related to bill issuance? Or is it telling you something about the level of scarcity and truly excess bank reserves? Thank you.

MR. POWELL: Thanks.

So I would say that, remember, the important thing is that we want the federal-funds rate to trade in the target range. That's the whole idea. IOER is the principal tool by which we assure that that will happen. And we've said in our, you know, basic documents that we will adjust the use of our tools as appropriate. We don't expect to have to do this often or again, but we're not sure about that. If we have to do it again, we'll do it again. Again, don't expect it to happen.

You asked why. And, yes, you know, of course, we're looking carefully at that. And, you know, the truth is we don't know with any precision. Really no one does. You can't run experiments, you know, with one effect and not the other. You know, I think there's a lot of probability on the idea of just high bill supply leads to higher repo costs, higher money-market rates generally, and the arbitrage pulls up the federal-funds rate towards IOER.

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We don't know that that's the only effect. And, you know, we're just going to have to be watching and learning. And frankly, we don't have to know today. What we really need is to have the federal-funds rate trade in the range. And that's what this minor technical adjustment accomplishes.

Q: Edward Lawrence from Fox Business.

So with the numbers that we're looking at, you talked about more people getting jobs. The wages are increasing. Are we seeing with the fiscal policy, a fundamental shift in the economy where we have lower natural unemployment, also possibly a lower rate of natural unemployment, lower inflation?

MR. POWELL: Your question—your first question really is, do we think the natural rate of unemployment is lower? So I think we do believe it has moved down significantly over a long period of time. We don't think that the natural rate of unemployment—you know, it's not one of those variables that moves around a lot. It tends to be driven by slow-moving variables, like the education level of the population, like the functioning of the labor market, and things like that. So you know, it may—it may have moved down too on a cyclical basis lower. As the economy gets hotter and hotter, there's some possibility of that. But you know, the thing is, if you look back, there have been a lot of studies done. And, you know, real-time estimates of the natural rate of unemployment have uncertainty bands, which are—which are quite wide. So we have to remember that and very much be guided by the incoming data.

You ask about inflation. You know, inflation we look about—we look at the 2% inflation objective as something that central banks, the Fed really control. And we have to be strongly committed to achieving that, using our tools to do that. I think in recent years the dominant force has been, you know, disinflationary, has been pushing down on inflation. And so we've been pushing back up. Of course, all those years when we were growing up it was the opposite. Inflation was too high and central banks were constantly pushing down. It's really important that inflation not fall below 2%, that inflation expectations remain well-anchored at 2%. Very important, because the implications of inflation below 2% are that you're closer to the zero lower bound, meaning the Fed has less room to cut, meaning that we'll spend more time there, and we won't be able to do the job that we're assigned to do for our citizens.

Q: Jeanna Smialek with Bloomberg Television.

You guys moved the median unemployment forecast for 2020 down to 3.5% but left the long run at 4.5% today. But you're only forecasting a moderate overshoot on the Fed's fund rate beyond your longer-run value. How are you going to get unemployment from 3.5% up to about 4.5% rate?

MR. POWELL: Yeah, I just would—I would just emphasize that—a couple things. First, we're learning about the real location of the natural rate of unemployment as we go. So it's moved down by more than a full percentage point since 2012. So it's not so simple as thinking, well, boy, we've just got to go ahead and get that right up. If you look at the forecast, two years from now, end of 2020, you're still seeing inflation very close to target. So there's no sense that inflation will—no sense in our models, or in our projections, or forecasts that inflation will take off or move unexpectedly quickly from these levels, even if unemployment does remain low.

So that's—so it's important to know that the unemployment rate forecasts go with the inflation forecasts and go with the rate forecasts. And so each person who's submitting them is submitting, you know, appropriate monetary policy that fits with that person's assessment. And their assessments generally are to support maximum employment and stable prices around 2%. So if we thought that inflation were going to take off, obviously we'd be showing higher rates. But that's not what we think will happen.

Q: If I could just follow up really quickly, then why, I guess, would the longer-run unemployment rate not be a little bit lower and closer to that 2020 number?

MR. POWELL: Yeah. It may be. It may be. We may find that out. You know, the best estimate that we have over the longer-run is that—although, you know, there's a range of views. Some people are in the low 4s. And as, again, I said, the uncertainty bands are, you know, not quite a full percentage point on either side, but three quarters of a percent, that kind of thing. So it's very possible. We have to be—you know, we can't do—we can't be too attached to these unobservable variables. You know, I think we have to be practical about the way we think about these things. And we do that by being grounded in the data and what we see happening in the real economy.

Q: Victoria Guida, Politico.

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I have a couple of regulatory questions. First of all, on the countercyclical capital buffer, I was wondering what are the chances that the Fed is going to need to use that in the next year or two? And then my second question is, there's been a lot of talk lately in Congress about the ability for banks to serve marijuana businesses. And I was wondering if you think that banks should be able to serve those businesses in states where marijuana is legal.

MR. POWELL: So the countercyclical capital buffer gives us the ability to raise capital requirements on the largest institutions when financial stability vulnerabilities are meaningfully above normal. That's the language that we've used. And that's certain a possibility. I wouldn't say that—I wouldn't look at today's financial stability landscape and say that risks are meaningfully above normal. I would say that they're roughly at normal. You have—you know, households are well—you know, are in good shape. They've paid down their debt. Incomes are rising. People have jobs. So households are not really a concern. And banks are highly capitalized, so that's not really a concern.

We see there's some concern with asset prices in a couple of pockets. But overall, if you—if you bake it all in, I think we see, generally, financial vulnerabilities as moderate. Could that change, you ask, over a couple of years? Yeah, it could.

You also asked about marijuana businesses. So this is a very difficult area because we have state law. Many state laws permit the use of marijuana and federal law still doesn't, so it puts, you know, federally chartered banks in a very difficult situation. I think it would be great if that could be clarified. We don't have, you know—it puts the supervisor in a very, very difficult position.

And, of course, this isn't our—our mandate has nothing to do with marijuana, so we don't really—we just would love to see it clarified, I think.

Q: John Heltman with American Banker.

So since you—since even before you were chairman of the Fed, when you were chair of the Supervisory Committee, you laid out a sort of regulatory revision agenda that's actually been pretty consistent. So there was the guidance on boards of governors, there was some changes to the stress tests—not changes to the stress tests, but rather clarification on the modeling, and now more recently the changes to the enhanced supplemental leverage ratio. The Fed has also proposed some changes to the Volcker rule and, as I mentioned a minute ago, changes to the stress tests with the stress capital buffer.

Are these kind of the—are there any new frontiers of regulatory changes that you are envisioning? Or are you just—are you kind of done for the time being? Or what else can we expect from the Fed?

MR. POWELL: It's actually a pretty full docket right now. You had mentioned a number of the things, but I would—I would point out we're having, I guess, a public board meeting tomorrow on the single-counterparty credit limit provision. We've also got quite a lot of work to promulgate rules after S. 2155, that Sen. [Mike] Crapo's bill passed. We've got a lot of work to do under that. We've got to think about how we would reach below that $250 billion threshold to assess and supervise, regulate, you know, financial stability risk below that level.

So what am I missing? There is—oh, net stable funding ratio is out there to be done. So there's a lot of work to do, I think.

You know, and if I can just take this opportunity to say, you know, the financial system all but failed 10 years ago. We went to work for 10 years to strengthen it—stronger capital, stronger liquidity, stress testing, resolution planning. We want to keep all that stuff, we want to make it, you know, even more effective and, certainly, more efficient. We want to tailor those regulations for institutions. We want the strongest provisions to apply to the most systemically important institutions.

So we're committed to preserving and enhancing that structure. But we're finding a lot that we can do in the way of tailoring regulations for the smaller, less systemically important institutions, and that's a lot of what we're working on right now.

Q: You said at the beginning of your press conference that you plan to be more plain-spoken. And so, OK, I wanted to know what you would say to workers who are worried that, you know, that this path of rate hikes that you've laid out will kind of undercut the wage growth they are just starting to see. Thank you.

MR. POWELL: You know, I would say that the economy is in great shape. If you look at household surveys, confidence is high. Look at businesses, confidence is high. If you ask—if you survey workers about the job

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market, they'll say that it's a really good environment to find jobs. If you survey businesses, they'll say that workers are scarce. So I think overall, we have—we have a really solid economy on our hands here.

And so what we're doing is we are trying to conduct monetary policy in a way that will sustain that expansion, keep the labor market strong and keep inflation above—right at—sorry, not above, but right at 2%. That's really what we're trying to do.

And, you know, I would say I like the results so far. We've been very, very careful not to tighten too quickly. I think we've been patient. I think that patience has borne fruit and I think it continues to.

We had a lot of encouragement to go much faster and I'm really glad we didn't. But at this time, continuing on that gradual pace seems—continues to seem like the right thing. If we get a sense that the economy is reacting badly, then we'll certainly react to that.

Q: David Harrison with Dow Jones Newswires.

Where do you see the neutral interest rate is right now? Do you think it's—do you see it sort of inching up because of the recent fiscal stimulus measures? And how will you know when we're getting close to that neutral point? So if—you know, if inflation stays around 2, doesn't go above 2 for a while, do you see a need to actually exceed that neutral point?

MR. POWELL: So I would just point you to the range of estimates at the committee, which I think is 2¼ to 3½, and the median is 2.9, right in there. So that's the range of estimates of the nominal neutral rate of interest. And we do understand that there's high uncertainty around the level, but that's kind of—so you can think of 2.9 as being—which is sort of a full percentage point away from where fed-funds is going to trade after today's decision.

You ask is the neutral rate moving up because of fiscal policy. Yes. I mean, there should be an effect. If you have increased deficits, that should put upward pressure on, you know, a few tenths, let's say. Again, though, we're estimating these things. It's one of these unobserved variables. So it's very hard to—we shouldn't try to speak about it with a lot of precision or confidence. But, yes, that should put upward pressure on it.

How will we know? Well, I think you have to look at inflation. You've got to look at—you've got to look at all of the indicators in the economy and look at inflation, look at unemployment, look at what's happening in the job market. And inflation's really important. It's worth noting that the last two business cycles didn't end with high inflation. They ended with financial instability. So that's something we need to also keep our eye on.

Q: Virginie Montet with Agence France-Presse.

Have you talked during the meeting about when the Fed is going to remove or change the word "accommodative" that described the monetary policy for almost 10 years? And could this change in the vocabulary make the markets nervous? And have you thought already of some options also to know how you're going to call it down the road?

MR. POWELL: Yes, that is something that we discuss. We look at all the language. As you know, we made a significant number of changes at this meeting. So language gets in the statement and then, you know, the economy changes. That's what happens. We really—our approach to policy hasn't changed. And, you know, as I mentioned earlier, for a long time the economy has needed accommodative monetary policy. As the economy has recovered, we've been gradually raising rates. And we will be at a place relatively soon when—again, assuming we stay on this path—when interest rates will be in the zone of what FOMC participants think is roughly neutral. And at that point, it would no longer be accurate for us to say that the committee thinks that policy is accommodative. We know that's coming. We kind of don't think it's here yet, but it's certainly coming. And I think the market will understand that. I mean, the real message is that you're getting close to the neutral rate. It's a characterization about where policy is. It's not a statement really that should upset the markets. But, you know, we'll obviously discuss it carefully in meetings and communicate about it. So—

Q: [inaudible] from the Asahi Shimbun, Japan's newspaper.

Would you expand on the—on your views on the downside risks, especially in regard to our trade issues? Many people are—in the key allies of the United States are concerned that the United States may destabilize the underpinnings of the international [inaudible] order the United States has created and built up in the postwar environment. So—and that will, of course, have very negative economic implications for the global economy, as well as the U.S. economy. So would you have—can I have your views on that?

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MR. POWELL: Sure. So, you know, as I mentioned earlier, I'm really committed to staying in our lane on things. We have very important jobs assigned to us by Congress, and that's maximum employment, stable prices, financial stability. Trade is explicitly assigned to the executive branch by Congress, not to us, so we don't really—we don't really seek to play a role in trade policy. We're not at that level. Those are—those powers and decisions are given to others. And so we want to stick to what we do.

And, you know, as I mentioned earlier, we do hear from our business contacts, which are extensive in the United States, and we do report on that in the minutes. And I just mentioned what those are. There is concern that trade changes could be disruptive. And as I also mentioned, we don't see it in the numbers yet. We really don't. We see a very strong economy across a bunch of fronts.

It hasn't reached everyone. Let's be clear on that. But most people who want a job can find one. We're well aware that there are pockets out there of people who have not felt the recession [sic] yet. But broadly speaking, it's a good economy.

Q: Steve Beckner, freelance journalist reporting for NPR.

About financial conditions, which worries you more—warnings that rising short-term rates are bringing the yield curve closer to inversion, or the fact that long rates have risen very slowly and, in fact, are nearly 20 basis points below their recent high? How do you account for the fact that long rates have been so slow to rise? And what does it say about the inflation outlook as well?

MR. POWELL: So let me briefly mention the yield curve. I mean, the yield curve is something that people are talking about a lot, including FOMC participants. And I—you have a range of views. It's something we're going to continue to be talking about. But it's one of only many things, of course, that we talk about.

I think that that discussion is really about what is appropriate policy and how do we think about policy as we approach the neutral rate? How do we understand what the neutral rate is? How do we know where it is? And what are the consequences of being above or below it? That's really what—when people are talking about the slope of the yield curve, that's really what they're talking about.

We know why—we know why the yield curve is flattening. It's because we're raising the federal-funds rate. It makes all the sense in the world that the short end would come up.

I think you asked—the harder question is what's happening with long rates. And there are many things that move long rates around. Of course, there's an embedded expectation of the path of short rates. There's the term premium, which has been very low by historical standards. And so arguments are made that a flatter yield curve has less of a signal embedded in it.

In addition, I think what you saw most recently that you referred to, Steve, was just risk on, risk off. In a risk-off environment, people want to own U.S. Treasurys. And you see, you know, Treasury prices go up, rates go down, quite a lot. So—but I think ultimately, you know, what we really care about is what's the appropriate stance of policy. And there's a—there may be a signal in that long-term rate about what is the neutral rate. And I think that's why people are paying attention to the yield curve.

Q: Nancy Marshall-Genzer with Marketplace.

Companies are buying back their shares at a record rate. Corporate debt is up. Consumer debt is rising. Are we in a credit bubble? Is that something that you're worried about?

MR. POWELL: So if you look at households, you do not see excess credit growth. You don't see high levels of credit going out; so not so much households. And that really was where the problems were before the financial crisis was particularly in—among household borrowing, particularly around mortgages.

With—you take banks, then, of course, their leverage is significantly lower. Or to say it differently, their capital is significantly higher. If you ask about nonfinancial corporates, that's really where leverage is at levels that are high relative to history. But defaults are low. Interest rates are low. You know, so that's something we're watching very carefully. But again, I don't think we see it as—I think there are a range of views on that. But we are watching nonfinancial corporates.

Households are in good shape, though. And that is so important, because that's where—you know, that's where we got into trouble before. And that's—it's often around property, and particularly housing, where you see real problems emerge. We don't really see that now. So we take some solace from that.

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Q: Myles Udland with Yahoo Finance.

Chair Powell, you referenced a minute ago this idea of cushion, or the fact that the Fed doesn't have as much when rates are low and inflation is low. And I'm wondering if you or the committee has thought about your move to raise interest rates as partly responding to the economy but partly giving yourselves room to navigate in the inevitable future recession, whenever that was to come. And do you think that that has played any part in either your outlook for policy or recent policy decisions? Or is it, you know, just purely based on what the economy is doing?

MR. POWELL: So it doesn't play any part in my thinking, and I'll tell you why. If you raise rates too quickly, you're just increasing the likelihood of a recession. And that's exactly what you don't want to do. So the best thing you can do, I think—I think the incentives actually run in the other direction. If you're—if you're worried about going back to the lower bound, then risk management would suggest that you go a little lower in raising rates and tolerate—and that's likely to be a more sustainable strategy to get further away from the zero lower bound. I think we're far enough now, though, that the risks are kind of balanced. And so I think it's more just—we're just looking at the economy, and what does it need, and how do we sustain the expansion, keep the labor market strong, and try to keep inflation near 2%.

Q: Mark Hamrick with Bankrate.

You talked earlier about wage growth and your basic message to workers. How confident are you that when we do see stock buybacks and the like that workers will get whatever your view of that share is as well, in wage hikes in the near term and in the foreseeable future? Thank you.

MR. POWELL: You know, we don't—we don't have the tools to control that. If companies choose to—companies in our system are free to do what they can, what they need to do, once they've—once they've made profits and have cash to distribute. They can distribute it to their shareholders, they can buyback—either through dividends or through buybacks. They can pay their workers. You know, the part—and we don't play a role in those decisions. The part that we focus on is maximum employment. That's our mandate. So we view maximum employment as the maximum sustainable level of employment, meaning it's not so much that it will cause the economy to overheat.

And so I think we've been committed to that. I think we take that obligation very seriously. And you know, over time when labor markets are strong, and companies are hiring, we should see higher wages. But again, we don't really have the tools that will address the distribution of profits and that kind of thing.

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The New York Times

The Upshot
The Message of the June Fed Meeting: There's a New Chairman in Charge

By Neil Irwin
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13 June 2018
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Jerome Powell has been chairman of the Federal Reserve for more than four months. But with his news conference Wednesday he finally took charge.

Mr. Powell signaled no dramatic about-face from the policies pursued under his predecessor; the Fed's policy committee raised its main target for interest rates, as had been widely expected. By making subtle changes in custom, though, he put a new imprint on the institution, with potentially big implications for monetary policy and the economy.

He began his session with the news media with what he called a "plain-English" description of what the Fed had done and why, a contrast with the practice of his predecessors Janet Yellen and Ben Bernanke, both Ph.D. economists who prefaced their appearances with long prepared statements loaded with monetary policy jargon.

"The economy is doing very well," Mr. Powell said, standing before reporters (Ms. Yellen and Mr. Bernanke both chose to sit at a desk for their post-meeting news conferences). "Most people who want to find jobs are finding them, and unemployment and inflation are low."

Mr. Powell announced that he would begin holding a news conference after every Fed policy meeting starting in January; currently such a session is held after only four of the eight annual meetings.

Although he said this was not meant to signal any change in the direction of policy, it opens up more flexibility for the Fed as it sets interest rate policies. **Financial markets** currently expect interest rate increases only in meetings with a news conference; now the Fed will have the option of making more than four policy moves a year without unnecessarily surprising markets.

And the Federal Open Market Committee, which Mr. Powell leads, changed its statement describing its rate increase in a way that removed a mainstay of its monetary policy of recent years. Dating to the Bernanke era, the Fed has used "forward guidance" to signal the future direction of interest rates.

For example, at the March policy meeting, the committee said that its interest rate target "is likely to remain, for some time, below levels that are expected to prevail in the longer run."

That language was excised from the new policy statement, which said only that the "timing and size" of future rate increases will be determined by many factors.

This change reflects a judgment that the economy is in much sounder shape than it was a few years ago, when its policy rate was stuck near zero and this forward guidance was a tool the Fed used to try to guide interest rates.

Mr. Powell emphasized that thisdropping of forward guidance wasn't a signal of a change in the direction of policy, but rather a reflection of changing times.

Taken together, Mr. Powell signaled a Fed that is broadly confident in the state of the economy, and happy to say so for the audience far beyond the bond traders who hang on the Fed chairman's every word.

But he also sought to change some of the practices of the central bank in ways that will maintain greater flexibility in 2019 and beyond. By doubling the number of news conferences and removing the forward guidance on rates, Mr. Powell will find it easier to adjust on the fly, such as by accelerating the pace of rate increases, if the economy evolves differently than he now forecasts.

A risk with these moves is that the Fed — which has carefully maintained its image as a bastion of cautious, apolitical policymaking in Washington — might become too quick to make abrupt changes, or adopt a tinge of showmanship.

The central bank usually changes its practices glacially, aiming to be boring and predictable. The June meeting may have contained no meaningful change in the direction of policy. But it signaled that Mr. Powell is putting his stamp on the institution and is trying to ensure that the Fed is poised to react decisively and with clear public communication, whatever the economic future may hold.

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WSJ PRO CENTRAL BANKING

Economy
Rising Business Prices Point to Trend in Firming Inflation; Over producer-price index rose a seasonally adjusted 0.5% in May

By Sarah Chaney
576 words
13 June 2018
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WASHINGTON—A gauge of U.S. business prices rose in May, the latest sign that inflation pressures in the economy are firming as the U.S. faces increasing tariff threats and a tightening labor market.

The producer-price index, a measure of the prices businesses receive for their goods and services, rose a seasonally adjusted 0.5% in May from a month earlier, the Labor Department said Wednesday.

Energy-price increases helped drive the overall increase in business prices. Still, prices rose for a broader range of goods and services.

Wednesday's producer-price data come on the back of strong consumer-price figures released Tuesday.

These data point to a firming inflationary trend, driven by higher energy prices, increased threats and the imposition of tariffs, and reduced labor market slack, said Gregory Daco, chief U.S. economist at Oxford Economics.

"That in turn means that inflation is going to firm and continue to firm towards the Fed's target," Mr. Daco said.

When excluding the often-**volatile** food and energy categories, prices were up 0.3% in May from the prior month. Prices excluding food, energy and a **volatile** gauge of margins called trade services increased 0.1% last month.

Transportation prices rose 0.7%, in line with a recent Institute for Supply Management report, in which businesses reported rising transportation costs. Mr. Daco said higher labor costs in the trucking industry, combined with rising energy costs, are pushing up prices for producers.

"You have to add into the third dimension, which is the fact that you're seeing threats of tariffs and implementation of some tariffs putting upward pressure on the costs of some of the transported goods," Mr. Daco said.

The producer-price index has shown strength over the past year. As recently as January 2017, the annual price growth clocked in under 2%.

From a year earlier, overall prices increased 3.1% in May, the largest annual increase since prices also moved up 3.1% in January 2012.

In the longer term, annual gains in the headline index have risen since the beginning of 2016. Rising **oil prices** and improved global demand have helped push the index higher.

The producer-prices measure usually follows the same trends as other broad inflation gauges, though it doesn't always translate into what consumers pay. Signs of building inflation pressures have emerged within other recent reports.

The consumer-price index rose 2.8% last month from the prior year, the strongest annual reading since February 2012, when inflation was 2.9%, the Labor Department said Tuesday.

Ramped-up inflation could cause the Federal Reserve to pick up the pace of interest rate increases this year. Fed officials are widely expected to raise their benchmark interest rate Wednesday, when they will also signal rate plans for the rest of the year.

The Fed's preferred inflation measure, the Commerce Department's personal-consumption expenditures index, rose 2% in April from a year earlier, matching the central bank's annual inflation target for the second straight month.

Write to Sarah Chaney at sarah.chaney@wsj.com

More on the Economy

* Federal Reserve Poised to Raise Rates Again

* Consumer Prices Post Largest Annual Growth in More Than Six Years

* U.S. Budget Deficit Widens 23% October Through May on Weak Revenue Growth

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THE WALL STREET JOURNAL.
U.S. EDITION

U.S. News: U.S., Europe Rate Gap to Widen

By David Harrison in Washington and Tom Fairless in Frankfurt
592 words
13 June 2018
The Wall Street Journal
J
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English
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Central banks in the U.S. and Europe are both expected to move this week to unwind stimulus policies adopted since the global financial crisis a decade ago.

But the likely steps mask a recent divergence in the fortunes of the world's top two economic blocs, which looks set to keep the central banks on different interest-rate tracks for many months to come.

The Federal Reserve is likely to raise short-term interest rates Wednesday and pencil in more increases in coming years, to keep the U.S. economy from overheating.

The European Central Bank could signal on Thursday it won't start raising rates for some time even as it moves to phase out its 2.5 trillion euro ($2.95 trillion) bond-buying program.

ECB officials are pondering the causes of a slowdown in eurozone growth that appears to have continued through the spring, as well as the risks posed by international trade spats, higher **oil prices** and political turbulence in the bloc's No. 3 economy, Italy.

The gap between the two central banks' key policy rates is expected to widen to about 3 percentage points by the end of next year, from about 2 percentage points today, according to forecasts by Fed officials and investors.

That would be the biggest gap since late 2008, when the Fed cut its short-term interest rates far below those of the ECB as it reacted to the subprime crisis.

"With some uptick in political uncertainty, and inflation still below target in the euro area and Japan, monetary policies among the advanced economies look likely to be divergent for some time," said Federal Reserve governor Lael Brainard last month.

That reflects different economic fortunes: The eurozone economy currently appears to be growing at half the speed of the U.S. after outpacing its trans-Atlantic counterpart over the past two years.

The American economy, fanned by the recent tax cuts, could grow by more than a 4% annual rate in the second quarter, according to Atlanta Fed projections, the fastest since 2014. Unemployment hit 3.8% in May, the lowest in 18 years, and inflation has reached the Fed's 2% target after undershooting it for much of the past six years.

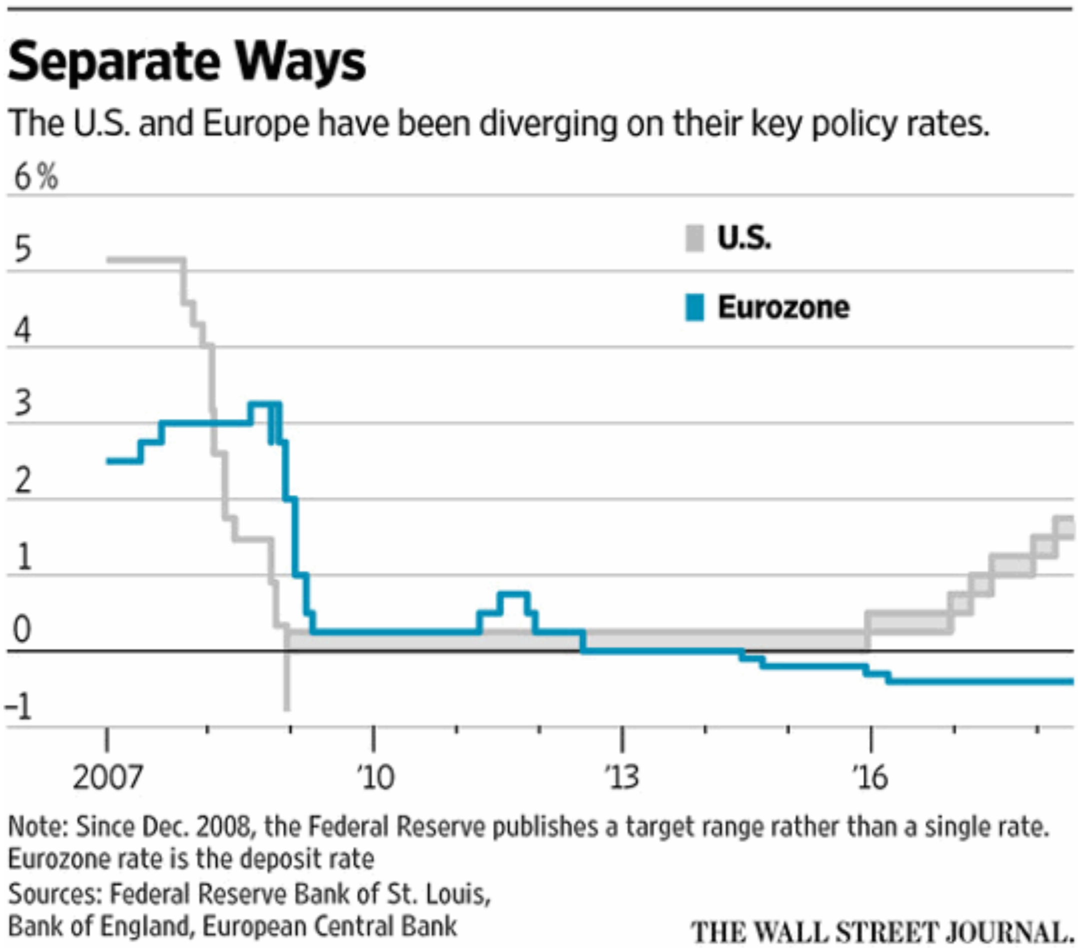
In the 19-nation eurozone, where second-quarter growth is expected to be about 2%, the ECB has signaled it could announce as soon as this week plans to phase out its bond-purchase program, known as quantitative easing, which is credited with supporting the region's economic recovery.

But analysts say that move is probably necessary because the ECB is approaching the limits of what it can buy under rules aimed at limiting the impact on markets, and ensuring the program doesn't finance eurozone governments.

Some investors had until recently expected the ECB to start raising rates this year, but most now don't see a first increase until late next year.

A political crisis in Italy last month sent bond markets swinging wildly and raised fears that the new government could push the country out of the eurozone. Rising **oil prices** and the threat of trade wars have also raised concern in Europe and around the world.

The U.S., by contrast has been better insulated, partly because its economy is less reliant on trade and because it is one of the world's top oil producers.



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WSJ PRO FINANCIAL REGULATION

Markets

Mulvaney Seeks 20% Budget Cut at CFPB | BofA Settlement Over Duped Customers | Deng's Take: China's Mega Tech Listings Come With a Catch; The Wall Street Journal's financial regulation newsletter for Wednesday, June 13, 2018.

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Deng's Take: China's Mega Tech Listings Come With a Catch

CFPB Acting Chief Asks Staff to Cut Budget by 20%

Bank of America to Pay $15 Million to Settle Claims that Traders Cheated Customers

Wall Street Investment Banks Face New Hurdle in China

Senate Panel Advances Fed Nominations

China's Mega Tech Listings Come With a Catch

China's plan to get technology giants like Alibaba Group Holding Ltd. quickly trading on the nation's stock markets is a big deal. But regulators are trying to keep investor enthusiasm in check, worried that shares will soar too much—making any potential correction more painful.

The country's securities regulator last week formalized a plan for a new class of yuan-denominated securities called depositary receipts. That provides a mechanism for overseas-listed companies such as Alibaba and smartphone maker Xiaomi Corp. to trade on the mainland for the first time.

At the same time, analysts say the regulator wants to limit the scope of the program. "Regulators are already trying to tamp down the enthusiasm for the products," according to a report by Beijing-based consultancy Trivium/China. "Investors are already lining up" and "that's making regulators uncomfortable," it added.

Authorities approved six mutual funds to invest in the receipts, and according to a media report by Caixin, they plan to limit the amount of money individual investors can contribute to a total of 20 billion yuan ($3.12 billion) per fund. The regulator told funds to impose a ceiling on total subscriptions and "do their best to control the scale of funds raised," according to Caixin.

Analysts say one big concern for Beijing is that local investors will rush to the new tech listings, diverting liquidity from other listed firms. Another worry is that share prices of the new listings will rocket initially and crash later, hurting retail investors.

Chinese authorities will control the listing process by approving firms one at a time, said John Xu, a Shanghai-based lawyer with Linklaters advising banks on the matter. The aim, he said, will be to limit buying to more sophisticated investors.

The first test for Chinese regulators will be the listing of smartphone maker Xiaomi. Earlier this week, the firm was the first to submit its application to list shares on the mainland.

Key Developments in Washington, on Wall Street, and Beyond

CFPB Acting Chief Asks Staff to Cut Budget by 20%

The Consumer Financial Protection Bureau's acting head has asked his staff to draw up plans that would cut the agency's fiscal 2019 spending to 2015 levels, the latest attempt by Mick Mulvaney to reduce the bureau's scope.

"I've asked them to run through the experiment of reducing spending by 20%," to under $490 million, for the year ending next September, Mr. Mulvaney told reporters Tuesday. "We'll be focusing almost exclusively on non-personnel spending," he added, saying the CFPB could cut "tens of millions of dollars in the travel budget alone."

Earlier this year, Mr. Mulvaney asked the Federal Reserve, which funds the CFPB, for $0 in the January-March quarter. The acting chief said the bureau would instead draw down its reserve fund, which he described as too big. He asked for $98.5 million the following quarter, adding in his request that "the bureau should be funded through congressional appropriations."

Bank of America to Pay $15 Million to Settle Claims that Traders Cheated Customers

Bank of America Merrill Lynch will pay over $15 million to settle claims that its traders lied about how much they paid to acquire mortgage bonds, allowing the bank to charge a higher price to clients buying securities.

The sanction includes $10.5 million that must be returned to customers and a $5.2 million civil penalty, the Securities and Exchange Commission said Tuesday. In some cases, the SEC said, Merrill's traders also failed to disclose that their markups "bore no reasonable relationship to the prevailing market prices."

Wall Street Investment Banks Face New Hurdle in China

China's promise to liberalize access to its fast-evolving securities markets comes with a new hurdle for Wall Street firms, leaving them uncertain about meeting hefty asset requirements to do business in the world's second largest economy.

China's leadership made a pledge to ease foreign ownership caps on domestic securities firms to 51% from 49%, in part to cool trade tensions with the U.S. The catch: China's securities regulator is requiring that majority owners have at least 100 billion yuan (about $15.6 billion) in net assets.

The threshold is so high that only a handful of foreign securities firms currently operating in the China market can meet it, according to the Asia Securities Industry and **Financial Markets** Association, or Asifma, a Hong Kong-based industry group.

Senate Panel Advances Fed Nominations

The Senate Banking Committee approved the nominations of two of President Donald Trump's picks for the Federal Reserve's board of governors Tuesday, including economist Richard Clarida to become its vice chairman.

Mr. Clarida, a professor at Columbia University and managing director at Pacific Investment Management Co., advanced with a 20-5 vote, winning support from every Republican on the panel and a majority of Democrats. If confirmed by the full Senate, he would serve as the Fed's No. 2 alongside Chairman Jerome Powell.

The committee also approved the nomination of Michelle Bowman on an 18-7 vote. She is Kansas' bank commissioner and would fill a slot reserved for a community banker or regulator of community banks.

New Accounting Rules Change How Some Companies Sell Goods, Services

New accounting rules are prompting some corporate finance chiefs to change how they do business.

More than half of the **S&P 500** companies disclosed some impact on their accounting policies since December, when new rules unified how companies account for revenues from sales and services. The change, which was in the works for more than a decade, replaces previously disparate, industry-specific rules and aligns U.S. standards closer to international guidelines.

Why It's So Hard to Build a Banking Giant

The boss of French bank Société Générale SA met advisers over several weekends to war-game plans for a megamerger with Italy's UniCredit SpA. That was more than a decade ago.

Today the two banks are still eyeing each other. But prospects for a deal remain far off. And that in a nutshell is the state of European big-bank consolidation. Lots of talk, but little action.

N.Y. Court Ruling Narrows Use of Antifraud Law in Credit Suisse Case

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The New York Court of Appeals handed Credit Suisse Group AG a major victory in a financial crisis-era lawsuit regarding its underwriting of residential mortgage-backed securities.

In a 4-to-1 ruling Tuesday, the appeals court said the New York attorney general's office was too late in pursuing its claims under the Martin Act, a broad law from the 1920s used to police securities fraud. The state attorney general's office argued that the law had a six-year statute of limitations and two lower courts agreed, but the appeals court ruled that it is three years.

The initial complaint filed in 2012 by former Attorney General Eric Schneiderman claimed that the firm had deceived investors in 2006 and 2007 regarding its risk evaluations of mortgage loans underlying the securities. As a result, investors had suffered $11.2 billion in losses, the lawsuit claimed. Credit Suisse has denied the allegations.

U.S. Warns Banks About Human Rights Abusers, Imposes Sanctions

The U.S. Treasury Department issued a warning to banks about human-rights abusers accessing the financial system, and imposed sanctions on two new targets.

Both moves come as the Treasury highlights its role in combating corruption and human rights abuse.

A top Treasury sanctions and counterterrorism official, Sigal Mandelker, is in Africa this week raising concerns about illicit funds flowing out of South Sudan. At a press conference on Monday at the U.S. embassy in Kampala, Uganda, she said regional governments should update their financial systems to detect, disrupt and prevent funds flowing from the war-torn country.

Curtailing French Banks' Borrowing Binge

French regulators announced a plan to impose higher capital requirements on French banks as the European Central Bank is expected to meet Thursday and possibly lay out plans for unwinding its extraordinary stimulus programs. The purpose of the buffers, which were designed in the aftermath of the international financial crisis, is to force banks to accumulate additional capital while the economy is strong, making them more resistant during subsequent times of stress.

The ECB's easy-money policies have spurred a borrowing boom, especially in France. French private-sector debt rose above 130% of the country's economic output at the end of 2017, overtaking the level in Spain to become the highest among the four largest eurozone economies, which also include Germany and Italy. French regulators are particularly concerned about corporate-debt levels, which have risen faster than in most large eurozone economies.

French regulators are concerned that without extra capital, banks could suddenly restrict lending in the future, exacerbating a boom-bust cycle. In a downturn, regulators say they could encourage banks to maintain lending by removing the obligation to hold extra capital. Some of France's banks have been critical, saying capital constraints could unfairly hurt small businesses that rely on banks to finance growth.

Wednesday, June 13

10 a.m.

The House Financial Services Committeeholds a hearing to receive an update from Comptroller of the Currency Joseph Otting.

2 p.m.

The House Financial Services Subcommittee on Capital Markets, Securities, and Investment holds a hearing on two bills related to securities law enforcement.

2 p.m.

The Securities and Exchange Commissionholds a town hall in Atlanta to meet with investors.

Thursday, June 14

8:30 a.m.

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The Securities and Exchange Commission's Investor Advisory Committee meets in Atlanta, its first meeting outside Washington.

9 a.m.

Former National Economic Council Director Gary Cohn speaks with a Washington Post reporter on his 15 months in the administration and corporate America's view of the Republicans' policy plans on deregulation.

10 a.m.

The Senate Banking Committee holds a hearing to receive an update from Comptroller of the Currency Joseph Otting

noon

Former Acting Comptroller of the Currency Keith Noreika speaks to the Women in Housing and Finance on the financial services sector including reflections on his tenure at the OCC.

2:30 p.m.

The Federal Reserve Boardmeets to discuss a final rule establishing single-counterparty credit limits for big banks.

4 p.m.

Comptroller of the Currency Joseph Ottingspeaks at the National Association of Affordable Housing Lenders annual conference.

U.S. Credit-Card Debt Reaches Record Level

U.S. borrowers owed more than $1 trillion in credit-card debt for the first time at the beginning of 2018, and came close to breaking the record for how much debt they repaid, according to a study by personal-finance website WalletHub. Americans paid $40.3 billion in credit-card debt in the first quarter of 2018, the second highest quarterly paydown since 2008, the report says. The average household owed $8,166 in credit-card debt, which is roughly $300 less than the level at the end of 2007, when the most recent recession began, according to WalletHub.

Banks Could Make Small-Dollar Loans—but They Don't

Despite encouragement from the comptroller of the currency to offer short-term, small-dollar installment loans, banks and other lenders may not change their lending behavior much because "banks largely find loans of a few hundred dollars unprofitable and unsustainable due to the high cost and risk of offering these products," Dennis Shaul of the Community Financial Services Association of America writes in an American Banker opinion piece. "Federal data suggests there's ample need for this type of credit," but "history has shown that banks don't do well in meeting the credit needs of the small-dollar-loan borrower," he says. "If banks truly could serve the small-dollar loan customers profitably, they would," he writes.

Former New York state Assemblywoman Pamela Harris pleaded guilty to fraud charges, admitting she pocketed city and federal funding intended for vulnerable children and superstorm Sandy victims.

Netherlands-based Adyen BV, which facilitates payments for companies including hot tech firms like Uber Technologies Inc., is set to go public this week in the largest technology IPO in Europe this year.

Automatic Data Processing Inc.'s finance chief, Jan Siegmund, plans to resign from his post, the payroll-processing company said.

EOS raised $4 billion from investors on the promise of a blockchain platform that could change the way the internet works. But infighting among its fragmented developers shows it still has a way to go before it lives up to the hype.

Send us your tips, suggestions and feedback. Write to:

Andrew Ackerman, Mark H. Anderson, Katy Burne, Sarah Chacko, Lalita Clozel, Chao Deng, Danny Dougherty, Yuka Hayashi, Dave Michaels, Gabriel T. Rubin, Ryan Tracy, Aruna Viswanatha, Jana Zabkova.

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Economy

Powell May Take More Questions | What to Watch | Borrowing Costs Climb | Senate Advances Nominations | Timiraos's Take: Fade the Talk About Changes to the Fed's Plan; The Wall Street Journal's central banking newsletter for Wednesday, June 13, 2018

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Timiraos's Take: Fade the Talk About Changes to the Fed's Balance Sheet Plan

Powell Weighs Taking Questions After Every Fed Meeting

What to Watch At The Fed Meeting

Consumer Borrowing Costs Climb Along With Fed Rate Increases

Senate Panel Advances Fed Nominations, Including Clarida as Vice Chairman

Fade the Talk About Changes to the Fed's Balance Sheet Plan

Of all of the Federal Reserve's policy moves in the past year, the plan to slowly shrink its big asset portfolio ranks near the top of officials' list of their proudest achievements.

So forget about market speculation that they might tweak this plan.

Chairman Jerome Powell said in March it was "proceeding smoothly" and it would take a "very significant and unexpected weakening in the outlook" for officials to consider any changes.

Rumblings about possible changes flared last week when Urjit Patel, the governor of India's central bank, urged the Fed to slow down the process.

Mr. Patel said the program was making it harder for emerging markets to handle a dollar liquidity squeeze driven largely by U.S. fiscal policy—namely, the increase in Treasury debt issuance to cover widening federal budget deficits.

There are three reasons why the Fed is unlikely to follow Mr. Patel's advice.

First, Fed officials' big worry was that their plan would be difficult to communicate and hard to understand, triggering a re-run of the 2013 "taper tantrum" that was particularly costly for emerging markets.

When then-Fed Chairwoman Janet Yellen announced the plan to shrink the balance sheet one year ago, officials hoped it would proceed so smoothly that, eventually, investors would ignore it.

That is more or less what has happened. Changing the strategy now would contradict everything the Fed has said about letting it run quietly in the background.

Second, market **volatility** and the recent run-up in the dollar has less to do with monetary policy and more to do with fiscal policy. Recent tax cuts and government spending increases are expanding the budget deficit at the same time the Fed is stepping back from the Treasury market.

Finally, the Fed's balance sheet run-off is already proceeding very slowly. The portfolio has declined from $4.45 trillion at the end of last year to $4.32 trillion now.

Slowing it down now could invite the "I-told-you-so" reproach from critics of the bond-buying programs who fretted that once launched, they'd be impossible to end.

If Fed officials are concerned about any of this, their preferred solution would be to alter their path of interest rate adjustments, for example by forgoing a rate increase in September or December.

But they aren't likely to change the balance sheet plan.

Key Developments Around the World

Powell Weighs Taking Questions After Every Fed Meeting

Federal Reserve Chairman Jerome Powell is considering holding a press conference after every policy meeting rather than every other meeting, and his appearance Wednesday could help him decide whether it's worth the trouble. At issue for the Fed: Since beginning press conferences in 2011, the central bank has fallen into the pattern of making major policy changes only at meetings followed by a news conference. The tactic has helped the Fed leader communicate its policy changes in more detail than its heavily scrutinized, jargon-filled postmeeting statement. But the practice has lulled markets into thinking the central bank won't act between press conferences.

What to Watch At The Fed Meeting

The Fed is likely to raise short-term interest rates by a quarter percentage point after its two-day policy meeting concludes Wednesday, the seventh such move since late 2015. Officials will also clarify their views on the economic outlook by releasing new projections for rates, unemployment, inflation and economic growth in the years ahead, and Mr. Powell will hold his second press conference. The central bank releases its policy statement and the forecasts—the so-called dot plot--at 2 p.m. EDT, and Mr. Powell will take questions starting at 2:30 p.m. Here's what to watch:

Consumer Borrowing Costs Climb Along With Fed Rate Increases

Borrowing costs for consumers have risen as the Federal Reserve continues to tighten monetary policy, with interest rates on home, auto and credit-card loans reaching multi-year highs in recent months.

Senate Panel Advances Fed Nominations, Including Clarida as Vice Chairman

The Senate Banking Committee approved the nominations of two of President Donald Trump's picks for the Fed board Tuesday, including economist Richard Clarida to become its vice chairman. Mr. Clarida, a professor at Columbia University and managing director at Pacific Investment Management Co., advanced with a 20-5 vote, winning support from every Republican on the panel and a majority of Democrats. If confirmed by the full Senate, he would serve as the Fed's No. 2 alongside Chairman Jerome Powell.

Markets Take It Easy as ECB Edges Toward Exit

A major global central bank is set to wind up its massive bond-buying program. The last time that happened—the Fed's 2013 taper—global markets convulsed for months. This time, in the case of the European Central Bank, markets are digesting the news just fine—for now. But the backdrop implies a tricky road ahead. ECB president Mario Draghi is expected to signal further trims to the central bank's bond-buying program as soon as Thursday. His job of communicating the withdrawal of stimulus comes at a delicate moment. The Fed is likely to raise rates Wednesday. Trade tensions between Europe and the U.S. are high, regional growth is slowing and, notably, Italian politics has set investors on edge in the eurozone.

Eurozone Industrial Production Continues to Falter Ahead of Key ECB Meeting

Industrial production in the eurozone fell more sharply than expected in April, resuming its 2018 decline after a March bounce and underlining doubts about the strength of the economy as the European Central Bank faces a big call on the future of one of its key stimulus programs. Rapidly rising factory output was one of the main drivers of the eurozone economy's surprisingly strong performance in 2017, when it recorded its fastest growth in a decade. If sustained, weakening output would make it difficult for the economy to expand at a similar rate this year.

RBA Gov Lowe Says Australia's Economy on Right Track

Reserve Bank of Australia Governor, Philip Lowe Wednesday said strong first quarter economic growth data showed the economy is on an improving trajectory, and the next move in interest rates will be up, if the expansion continues. Still, the catalyst to an interest rates increase will be rising wages and a return of inflation to around the

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midpoint of the RBA's 2-3% target band, he said. That still seems to be some time off in the future, Gov. Lowe said in a speech to business leaders in Melbourne.

Iceland Keeps Key Interest Rate at 4.25%

Iceland's central bank left its main interest rate unchanged Wednesday amid signs of cooling in its tourism-charged economy. Economic growth in the Nordic nation is expected to ease in 2018, with "weaker export growth and a less rapid increase in domestic demand," the central bank said.

Wednesday

2 p.m. EDT

U.S. Federal Reserve releases policy statement

2:30 p.m. EDT

Fed's Powell holds press conference in Washington

Thursday

7:45 a.m. EDT

European Central Bank releases policy statement

8:30 a.m. EDT

ECB's Draghi holds press conference in Riga, Latvia

2:10 p.m. EDT

Federal Reserve Board holds open meeting on large financial institution rules

Global Financial Cycles and Risk Premiums

Alan M. Taylor, Felix Ward, Moritz Schularick and Oscar Jorda study "the synchronization of financial cycles across 17 advanced economies over the past 150 years." This "comovement in credit, house prices, and equity prices has reached historical highs in the past three decades." They find in a Federal Reserve Bank of San Francisco column, "fluctuations in risk premiums, and not risk-free rates and dividends, account for a large part of the observed equity price synchronization after 1990. We also show that U.S. monetary policy has come to play an important role as a source of fluctuations in risk appetite across global equity markets."

The Market That Still Believes in Global Growth

The stability of high-yield **bond prices** suggests investors still believe that global economic growth will stay robust, writes Richard Barley for The Wall Street Journal. "This calm can't be taken for granted," he writes. "A record 42% of investors thought companies were overleveraged in June's BofAML global fund manager survey. Other markets have had a rude awakening to risk in 2018. However, for now the resilience in high-yield markets is a sign that global growth is still on track and that upsets in Italy and emerging markets can be contained. This canary in the coal mine is still singing."

The U.S. government's budget deficit widened in the first eight months of the fiscal year, reflecting lower revenue from corporate taxes combined with ramped-up government spending.

U.S. consumer prices last month notched the heftiest annual growth since the beginning of 2012, a further sign price pressures in the economy are solidifying.

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The New York Times

STOCKS & BONDS
Business/Financial Desk; SECTB
Indexes Rise as Investors Keep Their Eyes on the Fed

By THE ASSOCIATED PRESS
817 words
13 June 2018
The New York Times
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Late Edition - Final
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English
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Stocks mostly rose in a quiet Tuesday session, as investors reacted calmly to the outcome of a meeting between President Donald Trump and North Korean leader Kim Jong Un, and turned their attentions to this week's trio of central bank meetings.

The **Standard & Poor**'**s500 index** rose 4.85 points, or 0.2 percent, to 2,786.85, closing at its highest level since February 1. The **Nasdaq composite** added 43.87 points, or 0.6 percent, to 7,703.79 and the **Dow Jonesindustrial average** fell 1.58 points, or less than 0.1 percent, to 25,320.73. The Russell 2000, an index that makes up mostly small companies, rose 7.62 points, or 0.5 percent, to 1,682.30.

Both the Russell and the **Nasdaq** set new record highs.

Trump and Kim concluded their summit by committing to working "toward complete denuclearization of the Korean Peninsula" and to "build a lasting and stable peace regime" on the Korean Peninsula.

The broad promises largely reiterated past agreements, while many of the details were left vague and there was no agreement on ending the technical state of war between North and South Korea. A potential deal has the chance of lowering geopolitical tensions in a region surrounded by three of the world's largest economies: Japan, China and South Korea.

"Deal or no deal? Just don't ask what comprises a 'deal' and we are fine. At the risk of sounding a tad frivolous, that appears to be the truth of the matter," said Vishnu Varathan of Mizuho Bank in Singapore of the Trump-Kim summit.

Following the Trump-Kim summit, shares of weapons makers and defense contractors were among the biggest decliners in the **S&P 500**. Raytheon lost nearly 3 percent to $206.61, Lockheed Martin fell 1.3 percent to $315.16 and Northrop Grumman fell 1.5 percent to $329.35.

With geopolitical issues set aside, investors turned their attention toward the current health of the U.S. economy.

The Federal Reserve started a two-day meeting on interest rates on Tuesday. Investors expect the central bank to raise its benchmark rate by a quarter of a percentage point to a range of 1.75-2 percent. However investors' attention will focus more on how many additional rate hikes Fed officials may do this year.

The government said that U.S. consumer prices rose 0.2 percent in May, with surging gasoline costs driving much of the increase. The Labor Department said Tuesday that the consumer price index climbed 2.8 percent last month from a year earlier, putting inflation on its fastest annual pace since February 2012. But core prices -- which exclude the **volatile** food and energy categories -- have risen a milder 2.2 percent over the past 12 months.

Fed officials have been closely watching inflation data, since they have a target of inflation being roughly 2 percent per year. Since core inflation is still tame likely means that the Federal Reserve will raise interest rates only gradually.

On Thursday, the European Central Bank will meet and could outline an end to its stimulus program, while on Friday the Bank of Japan is due to give its latest policy update.

After the market close, investors welcomed news that the $85 billion merger between AT&T and Time Warner will be allowed to go through. The Trump administration had sued to block the proposed merger and a rejection likely would have chilled possible multi-billion dollar deals between 21st Century Fox and Walt Disney; Verizon and CBS; and T-Mobile and Sprint.

Following the judge's decision, shares of Time Warner rose 4 percent and AT&T shares fell 2 percent

Shares of electrical car company Tesla rose $10.67, or 3 percent, to $342.77 after the company announced it would lay off 9 percent of its work force in order to boost profitability. The layoffs target white collar staff, not production workers.

Benchmark U.S. crude closed up 26 cents to $66.36 a barrel. Brent crude, used to price international oils, fell 69 cents to $75.77 per barrel in London.

The yield on the **10**-**year Treasury** note rose to 2.96 percent. The dollar strengthened versus the Japanese yen, the euro and the British pound.

Gold prices fell $3.80 to $1,295.10 an ounce, silver fell 6 cents to $16.89 an ounce and copper fell less than a penny to $3.2495 a pound.

This is a more complete version of the story than the one that appeared in print.

CHARTS: The **S**. **& P**. **500 Index**: Position of the **S**. **& P**. **500 index** at 1-minute intervals on Tuesday. (Source: Reuters); **30**-**Year Treasury Bond**: High yield at auction. (Source: Treasury)

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The New York Times

Business/Financial Desk; SECTB
Why Trade Tumult Hasn't Slowed Stocks

By PETER EAVIS
696 words
13 June 2018
The New York Times
NYTF
Late Edition - Final
8
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Get the DealBook newsletter to make sense of major business and policy headlines -- and the power-brokers who shape them.

President Trump's policies are straining the international trading system that for decades has helped corporate America reap increasing profits. So why is the **stock market** moving higher, while relations between the United States and its largest trading partners are deteriorating?

The **Standard & Poor's 500**-**stockindex** closed up on Monday, the first day of trading after Mr. Trump's pugnacious stance rattled the summit meeting of the Group of 7 nations that was held over the weekend.

The calm makes some sense. Investors think that trade skirmishes could be outweighed by two major reasons to be **bullish**.

First, economic growth in the United States, which has been relatively strong for some time, may now pick up even more. Recent tax cuts might encourage businesses and consumers to spend more. Wall Street analysts expect profits of the companies in the **S**.**&P**. **500 index** to surge by 26 percent this year, which is a remarkable amount. And companies with top-performing stocks, such as Netflix and Microsoft, sell products and services that are unlikely to be the direct target of hostile trade actions.

Second, when Wall Street analysts do drill down to try to discern the impact of specific tariffs on companies, their conclusions are not that worrisome. Take Mr. Trump's levies on steel and aluminum, which are now in effect. These have enraged other countries and will no doubt push up costs for many United States companies that use the metals. But the overall impact on corporate earnings might be muted.

The stock prices of Ford and General Motors -- two companies that should be hurting from the rising metal prices -- have risen since mid-February, when it became clear that the Trump administration was intent on imposing its metals tariffs.

Mr. Trump, of course, is threatening more than just metals tariffs. On Friday, the United States is scheduled to release its final list of products from China that will be covered by a further $50 billion of tariffs. The Trump administration said it would impose the tariffs soon afterward. China has threatened to retaliate.

Yet investors, even though they know a trade war is looming, have not dumped stocks in some of the companies that look particularly vulnerable. Computer chip makers like Qualcomm have a large proportion of their sales in China, but Qualcomm's stock has recently rallied.

That rise helps explain why investors don't appear spooked. Qualcomm's shares have benefited from the expectation that the United States and China would reach a deal over ZTE, the Chinese electronics maker that is the subject of United States penalties. When the White House did strike an agreement, that may have confirmed for investors that the escalating back-and-forth between the Trump administration and Beijing is a negotiating tactic, and that the actual outcomes will be far more benign.

Investors may be less **bullish** about the overall market than they look. The **S**.**&P**. **500** is up only 2 percent since mid-February, when the recent trade tensions began in earnest -- and that small increase has relied heavily on a rally in technology stocks. If it wasn't for concerns over trade, Wall Street's recently upgraded earnings expectations might have pushed stocks to much higher levels than they are at right now.

The imposition of $50 billion of tariffs on Chinese goods is likely to lead to some rocky days for the **stock market**. But unless investors believe that profits are going to get whacked, they appear willing to tolerate Mr. Trump's trade measures.

Our columnist Andrew Ross Sorkin and his Times colleagues help you make sense of major business and policy headlines -- and the power-brokers who shape them. Get the DealBook newsletter.

This is a more complete version of the story than the one that appeared in print.

Despite rising trade tensions, traders in the United States have found reasons to remain **bullish**. (PHOTOGRAPH BY BRYAN R. SMITH/AGENCE FRANCE-PRESSE -- GETTY IMAGES)

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THE WALL STREET JOURNAL.

Markets
ZTE Resumes Trading as Asian Stocks Brace for Fed's Decision; Asian shares mostly lower Wednesday; telecom giant's major suppliers see lift

By Joanne Chiu
470 words
13 June 2018
12:39 AM
The Wall Street Journal Online
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Asian shares were broadly lower Wednesday, as investors look to the Federal Reserve's policy decision and cues on future rate hikes. Japan's Nikkei 225 was the only major regional index to rise, up 0.4%. Major markets including China, Hong Kong, Australia, Malaysia and Singapore were down less than 1%.

Wednesday's Big Theme

ZTE Corp.'s major suppliers in Asia were lifted as the Chinese telecom equipment giant resumed trading following a deal with U.S. authorities to keep it afloat.

What's Happening

ZTE's shares plunged as much as 41% on its first day of trading in nearly two months, reflecting investors' concerns about its future. But the deal is much-needed relief for ZTE's business partners and suppliers across Asia-Pacific.

Those include Hong Kong-listed Mobi Development, a seller of wireless antennas, and Shenzhen-listed telecom systems firm Eoptolink Technology Inc., both of which generate a significant portion of their sales from ZTE. Other suppliers include electronic component makers Genius Electronic Optical Co. in Taiwan and KH Vatec Co. in South Korea.

Mobi's stock—which lost more than a third of its value in the days after ZTE suspended its shares in mid-April—recouped much of its lost ground, rebounding 33%. Genius Electronic Optical jumped 6.1% after losing 21% in the second half of April. And KH Vatec jumped 10.5%.

Market Reaction

Alex Wong, a director at Ample Capital, said ZTE's latest deal with the U.S. showed signs of thawing trade tensions between the two nations. But he cautioned that investors should contain their optimism, as the broader disputes over China's massive trade surplus remain unresolved.

"Trade frictions remain on investors' radar as the U.S. plans to unveil a list of some $50 billion worth" of Chinese import goods under a 25% tariff, he said.

Bocom International analyst Christopher Yim said the share-price rebound of ZTE's suppliers reflects investors' relief at their resumption of business with the company. But overhang remains for those firms from U.S. senators' push to ban American suppliers from selling to ZTE, he added.

Mr. Yim, who earlier this week slashed ZTE's stock target to HK$19.00, expected **volatility** for its shares as the U.S. penalties, loss of revenue over the past two months and the further disruption of business due to proposed management changes would weigh on its profitability.

Elsewhere

S&P 500 futures were up 0.3% in Asia, following overnight gains by major U.S. indexes, led by a continued rally by technology shares.

Write to Joanne Chiu at joanne.chiu@wsj.com

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WSJ PRO FINANCIAL REGULATION

Markets

Wall Street Firms Face a New $15 Billion Hurdle in China; Beijing is expected to allow foreign firms to run their own securities businesses in China, but the devil is in the details

By Chao Deng and Lingling Wei
971 words
12 June 2018
11:26 PM
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Corrections & Amplifications

Ker Gibbs is an independent private-equity investor and former chairman of the American Chamber of Commerce in Shanghai. An earlier version of this article incorrectly said Mr. Gibbs is the organization's current chairman. (June 13)

BEIJING—China's promise to liberalize access to its fast-evolving securities markets comes with a new hurdle for Wall Street firms, leaving them uncertain about meeting hefty asset requirements to do business in the world's second-largest economy.

China's leadership made a pledge to ease foreign ownership caps on domestic securities firms to 51% from 49%, in part to cool trade tensions with the U.S. The catch: China's securities regulator is requiring that majority owners have at least 100 billion yuan (about $15.6 billion) in net assets.

The threshold is so high that only a handful of foreign securities firms currently operating in the China market can meet it, according to the Asia Securities Industry and **Financial Markets** Association, or Asifma, a Hong Kong-based industry group.

To do so, though, the companies would need to apply under their global units—as opposed to smaller regional entities—potentially leaving those wider businesses on the hook for losses or missteps in China, according to people with knowledge of the matter.

Goldman Sachs Group Inc. and Morgan Stanley, which currently hold minority stakes in securities firms in China, are assessing the potential risks posed by the asset-value requirement, according to the people. Japan's Nomura Holdings Inc. and Switzerland's UBS Group AG have applied to set up majority-owned joint ventures in China using their global headquarters, these people said.

JPMorgan Chase & Co. has made the application using its Hong Kong-based Asia entity. One month later, the securities regulator still hasn't formally accepted it.

Overall, the requirement effectively amounts to a new barrier limiting the foreign firms' participation in the fast-growing market, according to the people and business groups. "It's among the highest in the world," said Jacob Parker, vice president of China operations at the U.S.-China Business Council. "This is delaying the submission of applications."

Press officials at China's securities regulator didn't respond to requests for comment.

Domestic firms are also required to meet the threshold. Industry groups and people familiar with the government's thinking said that by setting the bar high the government is hoping that only the fittest companies will pass.

"The direction China is going for is to level the playing field," said Lyndon Chao, head of equities at Asifma. The regulator is trying to put off subpar domestic applicants and "foreign players are just caught in the thick of it, just kind of as collateral damage," he said.

The asset requirement adds to skepticism among foreign businesses and Western governments, which say China's government frequently offers wider access to foreign firms only to undo the promises with burdensome rules or other barriers.

Those complaints have in part fueled the Trump administration's criticism that Beijing unfairly skews business rules to favor its companies, contributing to the U.S.'s $375 billion trade deficit with China. Washington and Beijing have already increased tariffs on several billions of dollars in each other's goods this year. The White House has said it would move forward with additional tariffs on $50 billion of Chinese products shortly after June 15, and Beijing has vowed to retaliate in kind.

In attempts to defuse the tensions with Washington, President Xi Jinping and other Chinese leaders and senior officials have over the past nine months mooted easing access to the financial sector.

Brokerages, banks and credit-rating services are among the areas Beijing has offered to liberalize. Chinese regulators issued draft rules last week that, if adopted, would scrap a 20% ceiling for a foreigner holding a domestic bank.

Global credit-ratings firms are still waiting after Chinese officials promised immediate market access as part of a quick "100-day" market-opening package made after a summit between President Donald Trump and Mr. Xi a year ago. So far, none of the three major credit raters—S&P Global Inc., Moody's Investors Service and Fitch Ratings—have received licenses to operate in China.

For securities firms, the asset-value requirement on ownership is also higher than that in domestic insurance and commercial banking, according to Mr. Parker, with the U.S.-China Business Council.

"They want foreigners to use their global entities and they don't want too many firms coming in," said an adviser to the securities regulator. Even if firms tick all boxes, the adviser suggested that U.S. ones may be at a disadvantage, since ownership approval is "a political decision up in the air with the ongoing trade war."

Even with ownership, opportunities may be limited for foreign firms. China's capital markets are still developing, driven by individual investors, offering less upside for sophisticated Wall Street banks that cater to institutional investors. Margins for investment banking are thinning globally, including in China.

Chinese domestic firms have also built a stronghold on investment banking and sales and trading, with key relationships with state-owned firms. "This is like closing the barn door after the animals have all left," said Ker Gibbs, an independent private-equity investor and former chairman of the American Chamber of Commerce in Shanghai.

Write to Chao Deng at Chao.Deng@wsj.com and Lingling Wei at lingling.wei@wsj.com

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THE WALL STREET JOURNAL.

Business

ZTE Shares Plunge About 40% as Trading Resumes; Trading had been halted for almost two months following devastating U.S. sanctions on the Chinese telecommunications giant

By Dan Strumpf
358 words
12 June 2018
12:01 PM
The Wall Street Journal Online
WSJO
English
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Corrections & Amplifications

ZTE shares fell about 40% in the opening minutes of trading in Hong Kong, wiping out about $3 billion in market value. An earlier version of this article incorrectly stated nearly $8 billion in market value was wiped out. (June 13, 2018)

HONG KONG—Shares of ZTE Corp. lost more than a third of their value in their first day of trading in nearly two months, reflecting investors' unease about the future of the Chinese telecommunications giant following devastating U.S. sanctions.

Shares fell about 40% to 15.36 Hong Kong dollars (US$1.96) in the opening minutes of trading in Hong Kong, wiping out about $3 billion in market value. The trading halt, which began April 17, followed an order from the U.S. Commerce Department banning American companies from selling to ZTE, effectively shuttering its business.

The company got a lifeline last week after Commerce Secretary Wilbur Rossannounced a deal to keep ZTE in business in exchange for fines and a change in management. That deal paved the way for ZTE shares to resume trading, and the company said Tuesday it would restart business operations "as soon as practicable," though the sales ban remains in place until ZTE pays the fines.

But ZTE's fate is again in limbo, as a bipartisan effort to block ZTE's rescue moves forward in Congress. Senior Republican senators indicated Tuesday that their efforts to keep sanctions on ZTE—via an amendment to a must-pass defense bill—aren't being met with opposition from the White House.

"ZTE has lost roughly 1.5 months of revenue at a minimum," said Edison Lee, a telecom analyst at Jefferies, in a note to investors. While he expects ZTE will be back in business next week, "we expect significant near-term selling pressure and a **volatile stock price**."

Write to Dan Strumpf at daniel.strumpf@wsj.com

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* ZTE Shares Set to Resume Trading Following Deal (June 12, 2018)

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THE WALL STREET JOURNAL.

U.S. Markets
Markets

U.S. Stocks Shrug Off Trump-Kim Talks; Judge's ruling giving green light to AT&T-Time Warner deal sparks flurry of after-hours trading

By Michael Wursthorn and Riva Gold
825 words
12 June 2018
06:40 PM
The Wall Street Journal Online
WSJO
English
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Investors largely shrugged off a landmark summit between President Donald Trump and North Korean leader Kim Jong Un Tuesday, but fevered after-hours trading commenced in U.S. stocks following a federal judge's ruling that AT&T Inc. can proceed with its planned acquisition of Time Warner Inc.

Just after the **Dow Jones Industrial Average** closed down 1.58 points, or less than 0.1%, at 25320.73, U.S. District Judge Richard Leon announced his decision, rejecting the Justice Department's allegations that the deal would suppress competition in the pay-TV industry. The ruling caused shares of several big media companies to spike up and down, with investors expecting far-reaching impacts on deal-making activity that could reshape the industry landscape.

AT&T shares fell 1.8% in after-hours trading as of 5 p.m. ET, while Time Warner added nearly 5%. Comcast, which has been planning a bid to buy the bulk of 21st Century Fox's assets that could disrupt Walt Disney's roughly $52 billion deal, declined 2.9%. Any offer from Comcast could raise similar concerns with the Justice Department. Disney shares slid 1.4% and Fox rose 4.3%. Fox and Wall Street Journal parent News Corp share common ownership.

The ruling came after a day in which several analysts said investors were reluctant to make major moves before other big decisions: announcements from the Federal Reserve and European Central Bank this week that could shape the next leg of the global economic recovery that began in the wake of the financial crisis 10 years earlier.

"Investors don't like surprises," said David Campbell, a principal with Bingham, Osborn & Scarborough, a San Francisco-based financial advisory firm that oversees $4.2 billion. "I'm keeping an eye on inflation and interest rates that are relative to that. Surprises with either of those can throw things off a bit."

The **S&P 500** rose 4.85 points, or 0.2%, to 2786.85, while the **Nasdaq Composite** gained 43.87 points, or 0.6%, to 7703.79 to close at a new record.

Meanwhile, the **stock market** appeared to have little reaction to the day of talks between President Donald Trump and North Korean leader Kim Jong Un in Singapore that ended with a vague commitment to denuclearize the Korean Peninsula. Analysts largely said the outcome of the talks remained unclear and that North Korean risks more generally were difficult to price.

"It may be an interesting historic moment, but it's only a modest step in removing that tail risk—markets are taking it somewhat skeptically and want to see much more concrete follow-up," said Larry Hatheway, chief economist and head of investment solutions at GAM Holding.

Fewer than 5% of fund managers surveyed by Bank of America Merrill Lynch in June viewed North Korea as the biggest tail risk for markets, far behind a trade war or a hawkish policy error from the Fed or ECB.

On Tuesday, investors stuck to a strategy that has worked throughout much of the rally over the last decade: buying shares of technology companies. Tech firms in the **S&P 500** gained 0.6%, as shares of Twitter jumped $2.07, or 5%, to $43.49 after a JPMorgan Chase analyst raised the social-media stock's price target.

Defense stocks struggled after Mr. Trump said he would halt joint military exercises with South Korea as long as talks remained productive with North Korea. Shares of Lockheed Martin and Northrop Grumman both fell more than 1%.

Yields on 10-year U.S. Treasurys settled at 2.959%, little changed from a day earlier.

The Fed began its two-day policy meeting in Washington on Tuesday, and investors largely expect officials to raise the benchmark short-term interest rate by another quarter percentage point at its conclusion. On Thursday, the ECB will announce its own policy decision, which could include details on how it plans to wind down its bond-buying program.

Elsewhere, the Stoxx Europe 600 rose 0.1% after paring earlier gains to match the muted index movements in other **stock-market** regions.

Shares of South Korean companies, which generate roughly half their revenues abroad, edged down 0.1% Tuesday, while Japan's Nikkei rose 0.3% and Hong Kong's Hang Seng gained 0.1%.

Write to Michael Wursthorn at Michael.Wursthorn@wsj.com and Riva Gold at riva.gold@wsj.com

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THE WALL STREET JOURNAL.

Business

New Accounting Rules Change How Some Companies Sell Goods, Services; Some CFOs are adjusting business operations to comply with revenue-recognition guidelines

By Tatyana Shumsky
839 words
12 June 2018
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The Wall Street Journal Online
WSJO
English
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New accounting rules are prompting some corporate finance chiefs to change how they do business.

More than half of the **S&P 500** companies disclosed some impact on their accounting policies since December, when new rules unified how companies account for revenues from sales and services. The change, which was in the works for more than a decade, replaces previously disparate, industry-specific rules and aligns U.S. standards closer to international guidelines.

For finance chiefs of some companies, including Red Hat Inc., Ciena Corp. and Mosaic Co., adopting the new revenue recognition standard from the Financial Accounting Standards Board means adjusting their business operations to be in line with the new accounting framework, which is more focused on contracts and when goods and services are delivered to customers.

Around 380 companies in the **stock index** have reported under the new rules as of June 8, and 294 companies in the index disclosed an impact on financial statements from adopting the standard, according to Audit Analytics.

Finance teams spent months rewriting accounting processes and procedures and preparing new financial statements to comply with the new rules. Roughly one in five public companies surveyed by PricewaterhouseCoopers LLP said they spent or expected to spend $1 million or more on this effort.

Software-service provider Red Hat previously would tailor the price for its subscription bundles for each customer. Now, the Raleigh, N.C., company will have uniform pricing and discounts for clients of its open-source software, said Chief Financial Officer Eric Shander. The new reporting rules require companies to more thoroughly account for the cost of sales, such as discounts and marketing efforts.

"We're being much more prescriptive on where you're placing the discount," Mr. Shander said. "It will be more standardized." The company closed 169 deals over $1 million during its fourth quarter, and 81% of them included multiple technologies, he said.

Some companies expect the new rules to accelerate revenue, while others say the timing of when they can record revenue as earned will be delayed, even though their underlying business remains unchanged.

Telecommunications networking-equipment maker Ciena expects to recognize some of its revenue sooner when it switches over to the new rules in November, said CFO Jim Moylan. The company's fiscal year ends in October, giving it some extra time to make the transition.

"We are certainly talking about how we will restructure our contracts in a way to get access to that favorable accounting," Mr. Moylan said.

In the past, Ciena would sell and install its internet-networking equipment, but only pass title and control to the customer when everything was deployed. Under the new accounting rules, the company plans to pass title to its customers sooner so it can record revenue on the equipment first, and later book the revenue on the service as it deploys that equipment, Mr. Moylan said.

"We want to make sure that we're structuring our contracts so that change of title occurs perhaps earlier than it would have," he said.

Other companies doubled down on explaining the accounting changes to investors. Dunkin' Brands Group Inc. held a special call with analysts and investors last October to discuss pending revenue accounting changes. CFO Kate Jaspon again walked stakeholders through the new math during the company's analyst and investor day in February.

Dunkin' now records its franchise fees over the term of the related license, among other changes. Previously, Dunkin' recognized franchise fees up front, either when a new restaurant was opened or when a renewal agreement became effective.

"Given the sweeping changes to revenue accounting rules, we felt it was important to educate our investment community on the impacts to our financial results early in the process and with great transparency," Ms. Jaspon said in a statement. "In doing so, we were able to transition into 2018 with a focus on the fundamentals of our underlying business, which have not changed, and limit any investor confusion from accounting rule changes."

But other companies are opting to adjust operating practices, where possible, rather than disrupt the pattern of revenue investors have come to expect of the business.

Fertilizer maker Mosaic changed some of its arrangements and systems to ensure that revenue could be recorded when control of its products—potash and phosphate—transferred to the customer.

"The policy changes did not affect our business economics," said a Mosaic spokesman, adding that the company complied with the new accounting rules while also providing investors with consistent information.

Most businesses say the tweaks are a way to keep the accounting outcome under the new rules consistent with that of the old rules, said Adam Brown, national assurance managing partner for accounting at BDO USA.

"If historically they've had revenue as you go, then that's where they will consider some changes to preserve when revenue gets booked," Mr. Brown said.

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WSJ PRO CENTRAL BANKING

Economy

Diverging Fortunes in U.S. and Europe Signal Widening Interest-Rate Gap; The Federal Reserve is likely to raise short-term interest rates this week while the ECB could signal it won't start raising rates for some time

By David Harrison in Washington and Tom Fairless in Frankfurt
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Central banks in the U.S. and Europe are both expected to move this week to unwind stimulus policies adopted since the global financial crisis a decade ago.

But the likely steps mask a recent divergence in the fortunes of the world's top two economic blocs, which looks set to keep the central banks on different interest-rate tracks for many months to come.

The Federal Reserve is likely to raise short-term interest rates Wednesday and pencil in more increases in coming years, to keep the U.S. economy from over-heating. The European Central Bank could signal on Thursday it won't start raising rates for some time even as it moves to phase out its €2.5 trillion ($2.95 trillion) bond-buying program.

ECB officials are pondering the causes of a recent slowdown in eurozone growth that appears to have continued through the spring, as well as the risks posed by international trade spats, higher **oil prices** and political turbulence in the bloc's number-three economy, Italy.

The gap between the two central banks' key policy rates is expected to widen to around 3 percentage points by the end of next year, from around 2 percentage points today, according to forecasts by Fed officials and investors. That would be the biggest gap since late 2008, when the Fed cut its short-term interest rates far below those of the ECB as it reacted to the subprime crisis.

"With some uptick in political uncertainty, and inflation still below target in the euro area and Japan, monetary policies among the advanced economies look likely to be divergent for some time," said Fed governor Lael Brainard in a speech last month.

That reflects different economic fortunes: The eurozone economy currently appears to be growing at half the speed of the U.S. after outpacing its trans-Atlantic counterpart over the past two years.

The American economy, fanned by the recent tax cuts, could grow by more than a 4% annual rate in the second quarter, according to Atlanta Fed projections, the fastest since 2014. Unemployment hit 3.8% in May, the lowest in 18 years, and inflation has reached the Fed's 2% target after undershooting it for much of the past six years.

In the 19-nation eurozone, where second-quarter growth is expected to be around 2%, the ECB has signaled it could announce as soon as this week plans to phase out its bond-purchase program, known as quantitative easing, which is credited with supporting the region's economic recovery.

But analysts say that move is probably necessary because the ECB is approaching the limits of what it can buy under rules aimed at limiting the impact on markets, and ensuring the program doesn't finance eurozone governments.

Despite an oil-fueled bump in headline inflation, underlying inflation in the region is hovering around 1%, far below the bank's target of just below 2%. ECB officials have emphasized recently that the bank's monetary policy will remain very loose even after the end of QE, and hinted it might take longer to raise interest rates. Some investors had until recently expected the ECB to start raising interest rates this year, but most now don't see a first rate hike until late next year.

"The end of the buying program does not automatically mean an early rate hike, let alone a real rate-hiking cycle," said Joerg Kraemer, chief economist with Commerzbank in Frankfurt.

In the U.S., the Fed raised rates three times last year after only moving once in each of the previous two years. In Europe, ECB President Mario Draghi signaled for the first time last June that the central bank would gradually phase out its monetary stimulus as eurozone growth accelerated, triggering a protracted appreciation of the euro.

Europe's recovery has since hit a soft patch. Growth slowed to an annualized rate of 1.6% in the first quarter of this year, down from 2.8% in the fourth quarter of last year. ECB officials have highlighted a number of temporary hindrances including cold weather and an outbreak of flu, but recent economic data doesn't show much improvement.

A political crisis in Italy last month sent bond markets swinging wildly and raised fears that the new populist government could push the country out of the eurozone. Rising **oil prices** and the threat of trade wars have also raised concern in Europe and around the world.

The U.S., by contrast has been better insulated, partly because its economy is less reliant on trade and because it is one of the world's top oil producers.

Another reason for the trans-Atlantic divergence is that the U.S. economy has been growing for much longer than the eurozone: The current U.S. expansion is almost nine years old and the nation's second longest on record, but it is only five years since the currency union exited recession.

The Fed stopped buying assets on a large scale in 2014 and began raising rates in 2015. The ECB is only now considering winding down its bond purchases.

The two central banks may also be haunted by past mistakes, said Marcel Fratzscher, president of German economic think tank DIW.

The Fed kept interest rates too low between 2002 and 2005, helping to stoke an asset-price bubble that ended in the global financial crisis, Mr. Fratzscher said. By contrast, the ECB has been criticized for increasing interest rates prematurely in 2008 and again in 2011, in an effort to control inflation—just before the eurozone collapsed into recession.

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WSJ PRO CENTRAL BANKING

Economy
Consumer Prices Post Largest Annual Growth in More Than Six Years; Rising gas and rent prices are helping drive inflation higher

By Sharon Nunn
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WASHINGTON—U.S. consumer prices last month notched the heftiest annual growth since the beginning of 2012, a further sign price pressures in the economy are solidifying.

The consumer-price index, which gauges what Americans pay for goods like lettuce and toys and services like haircuts, rose a seasonally adjusted 0.2% in May from the prior month, the Labor Department said Tuesday. Prices rose 2.8% last month from the prior year, the strongest reading since February 2012, when inflation was 2.9%.

Tuesday's report came before Federal Reserve officials start a two-day meeting in which they are expected to raise rates to keep inflation under control. Still, its preferred inflation gauge shows milder price growth.

"Inflation isn't surging, but it is persistently edging higher," said Jim Baird, chief investment officer for Plante Moran Financial Advisors. "Remember the concerns about deflation just a few years ago? That ship has sailed."

One driver of higher prices this year has been gasoline. The average cost for a gallon of regular gasoline was $2.90 in May, up from $2.48 in December, according to the U.S. Energy Information Administration. Tuesday's report showed energy prices climbed a seasonally adjusted 0.9% last month.

When excluding the **volatile** energy and food categories, so-called core prices also rose 0.2%, signaling broader inflation.

Shelter prices also pushed the headline index higher, growing 0.3% in May. The rent of primary residence subcategory of the shelter index rose 0.3% last month, while lodging away from home prices increased 2.9% in May, the measure's largest increase since last summer.

"We have tight inventory and high demand in rental markets," Wells Fargo Senior Economist Sarah House said.

To be sure, last year's inflation numbers were weaker, making May's price growth reading appear stronger than it may be.

The "more modest short-term run rates tell us that actual price pressures remain more subdued," AllianceBernstein Holding LP Senior Economist Eric Winograd said. The annual "number is likely to continue to rise over the summer as base effects from last year's unusually soft inflation prints fall out of the [annual] calculations."

Price growth in May was uneven. While the medical care, education, communication and new vehicle indexes rose, the food, apparel, recreation and personal care indexes were flat. Household furnishings and operations and used cars and trucks prices fell in May.

Still, the number of businesses willing to up customers' price tags appears to be broadening. Some firms, like Neiman Marcus and Hibbett Sports, have begun indirectly raising prices by selling less discounted products and more fully-priced goods.

Other businesses have hiked prices directly. Sherwin-Williams recently rolled out price increases to help cover the rising cost of raw materials like epoxy and zinc.

"There's more to come," Allen Mistysyn, chief financial officer at Sherwin-Williams, said in a recent earnings call. "Now we have to say [to customers]…'We're providing the service and the quality and all the support you need. We're going to need to get another [price increase] in the near future."

Inflation, long sluggish in the wake of the 2007-09 recession, picked up in recent months. The Federal Reserve, which begins a two-day policy meeting Tuesday, is watching price data closely as it weighs the path of short-term interest rates.

Fed officials are expected to announce an increase in their benchmark short-term interest rate Wednesday, when they also will signal their plans for the second half of 2018. Accelerating price growth could prompt officials to raise rates somewhat more quickly, while fading inflationary pressures could allow them to move gradually to tighten policy.

The Fed's preferred inflation measure, the Commerce Department's personal-consumption expenditures index, rose 2% in April from a year earlier, matching the central bank's annual inflation target for the second straight month.

In a separate report Tuesday, the Labor Department said inflation-adjusted average weekly earnings for private-sector workers rose 0.1% in May from the prior month.

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More on the Economy

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THE WALL STREET JOURNAL.
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S&P 500 Newbies Can Be Risky Bets

By Akane Otani
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Shares of Twitter Inc. have jumped since the announcement of their inclusion in the **S&P 500** last week, but historical data suggest the gains that stocks usually reap after their debut in one of the world's most-followed indexes are fleeting.

Twitter's stock rose 5.9% over the two days after S&P Dow Jones Indices said the social-media network would be added to the **S&P 500**, beating the index's 0.9% gain over that time. Stocks tend to climb on news of their addition to the broad market index, with some attributing the moves to jockeying among portfolio managers whose funds track the index rushing to buy them.

But data challenge the assumption that inclusion in an index boosts long-term stock performance, whether it be because it raises a stock's visibility, acts as a tacit endorsement of the company's future prospects or opens the gateway to the trillions of dollars benchmarked to the index through mutual funds and exchange-traded funds.

New entrants to the **S&P 500** outperformed the index by a median of 17% in the year leading up to their inclusion in the index, according to a Ned Davis Research analysis going back to 1973. Yet one year after their inclusion, the shares tended to lag behind the **S&P 500** by a median of 4.1%.

"There's a tendency to add things after they've had a nice run-up, not before, and I'm always nervous when I see investors saying, 'Oh, now that that stock has been added, I'll jump in,'" said Barry Ritholtz, chief investment officer of Ritholtz Wealth Management. "Anything that's run up that much will eventually come back down."

Twitter more than doubled in the year before its inclusion, versus a 14% climb for the **S&P 500**. Analysts are already unsure if the stock can hold on to its gains. Although it ranks as one of the five best performers in the **S&P 500** in 2018, analysts' average price target for the stock implies they believe it should be trading 25% below current levels, according to FactSet.

To some, the fact that new entrants usually outperform the **S&P 500** the most before they are actually listed suggests that index inclusion doesn't add value to a company's share price.

Whatever outperformance a stock posts in relation to the **S&P 500** after joining the index appears to be driven by existing factors like strong corporate earnings, a New York Federal Reserve Bank staff report found. In comparison, whatever outperformance a stock posts in the days before its inclusion in the index appears to be an "artificial boost" that fades over time, said Paul Hickey, co-founder of Bespoke Investment Group.

"The further in time you go out, the less the impact becomes," Mr. Hickey said.

Changes to the **S&P 500** are made by a committee that meets monthly, according to Luke Shane, a spokesman for S&P Dow Jones Indices. Stocks are chosen on the basis of their size, liquidity and record of corporate profitability, among other factors, with pending announcements closely guarded to avoid prematurely causing stock swings.

Some say the index committee has often steered toward adding companies with widespread appeal -- even if their business models appear to be less stable than that of older companies.

Twitter's turnaround came relatively recently, with the company posting 16 straight quarters of losses before finally swinging to profitability in February, with investors at various points speculating that the company could have to sell itself to remain viable. Meanwhile, revelations that Twitter had overstated its number of users and backlash over its response to accounts posting misinformation or abusive content have continued to spook some investors.

A Twitter representative declined to comment on its inclusion in the index.

Michael Antonelli, equity sales trader at R.W. Baird & Co., said the people who run the **S&P 500** want it to remain relevant. "If Snap had the qualifications, I'm sure they would add it," he said.

Given two companies both meet the index committee's requirements, "would you want to add a fertilizer company or would you want to add Twitter?" Mr. Antonelli said, referring to agriculture firm Monsanto Co.'s recent removal from the **S&P 500**.

Yet with each new addition it makes, S&P Dow Jones Indices faces the risk of adding a stock too late -- potentially exposing investors in passive funds to swings in the **stock market** that they otherwise may not have suffered. The index provider said late Friday that it would add financial-technology firm Broadridge Financial Solutions and petroleum refiner HollyFrontier to the **S&P 500**.

Biotechnology firm Nektar Therapeutics' shares more than quadrupled in the six months leading up to S&P Dow Jones Indices' March announcement that it would be added to the index, soaring past the **S&P 500**'s 13% gain over the same period. The stock then tumbled after data suggested melanoma patients weren't responding as well to the company's treatment as a previous group of patients had, leaving it down 51% since the index provider's announcement.

Stocks joining the index failed to get much of a boost even as investors poured money into index-tracking funds between 2009 and 2018. Ned Davis data showed stocks underperformed the **S&P 500** a year after inclusion by a median of 4.1%, compared with a median underperformance of 3.4% between 2000 and 2008.

Some of the lackluster returns could be due to the fact that passive investing remains a relatively small share of the overall **stock market**, with Credit Suisse estimates in 2017 suggesting less than a fifth of the U.S. market was held by exchange-traded funds or passively managed mutual funds.

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WSJ PRO PRIVATE EQUITY

Pro Private Markets
Activist HG Vora Calls Pebblebrook's Revised Offer for LaSalle Hotel 'Superior'

By Aisha Al-Muslim
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Activist investor HG Vora Capital Management LLC is urging the LaSalle Hotel Properties to consider a lodging real-estate investment trust's latest offer to take over the hotelier.

Pebblebrook Hotel Trust, which owns 6,973 guest rooms across 28 hotels, on Monday raised its offer to buy LaSalle to about $4.17 billion as it works to thwart an agreement the hotelier reached last month with private-equity firm Blackstone Group LP. The New York firm's deal was valued at about $3.7 billion excluding debt.

On Tuesday, HG Vora Managing Member Parag Vora wrote in a letter to LaSalle's board that Pebblebrook's offer is a "superior proposal" compared with the agreement between LaSalle and Blackstone.

LaSalle, which owns 41 hotels offering a total of 10,400 guest rooms, declined to comment on HG Vora's letter Tuesday.

On Monday, LaSalle said its board will review Pebblebrook's proposal to determine whether it presents a superior offer to the deal it reached with Blackstone.

New York-based HG Vora on Tuesday reported a 9.1% stake in LaSalle Hotel Properties, according to a filing with the Securities and Exchange Commission. HG Vora built up its stake in LaSalle earlier this year.

Pebblebrook's revised all-stock bid for LaSalle implies a merger price of $37.80 a share based on an exchange ratio of 0.92 Pebblebrook share for each LaSalle share. LaSalle shareholders also can opt to receive cash for up to 20% of their shares.

Pebblebrook said its offer provides a 13% premium to the per-share price that LaSalle agreed last month to receive from Blackstone. Pebblebrook's offer takes into account the $112 million termination fee LaSalle agreed to pay to Blackstone.

The latest offer was Pebblebrook's fifth pitch to buy LaSalle since its initial $30-a-share all-stock bid in March, which LaSalle rejected, saying it undervalued the company.

HG Vora, an investment firm that invests in REITs and the hospitality industry, has expressed since April its belief that a sale of LaSalle would maximize value for shareholders.

"The strategic merit of combining with Pebblebrook to create an $8 billion upper-upscale and luxury hotel portfolio in prime urban and resort markets is compelling," HG Vora wrote in a letter to the board dated April 2. "The pro forma entity would be the second largest publicly traded hotel REIT by **equity market** capitalization."

Shares in LaSalle and Pebblebrook, both based in Bethesda, Md., were unchanged in premarket trading Tuesday.

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THE WALL STREET JOURNAL.
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Heard on the Street
Yield Curve Puts Fed on the Spot

By Justin Lahart
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[Financial Analysis and Commentary]

The chairman of the Federal Reserve, just four months into his term, this week could be in the uncomfortable situation of signaling that a recession is coming.

The Fed seems all but certain to raise its target range on overnight rates by a quarter point for the second time this year on Wednesday. There is a good chance it lifts its estimate for total rate increases for 2018 from three to four.

The Fed's last set of projections, in March, showed that policy makers on balance expected to raise rates three times. But nearly half of them reckoned on four rate increases, and the unemployment rate has since fallen from 4.2% to 3.8%, which is where policy makers thought it would be at year-end. Inflation has gotten a bit warmer.

The difference between three and four rate increases may not matter much to investors, who expect rates to keep rising next year. But it matters a lot for the yield curve, which is edging closer toward inverting, the situation in which short-term rates are higher than long-term rates. That is a longstanding signal that a recession is coming.

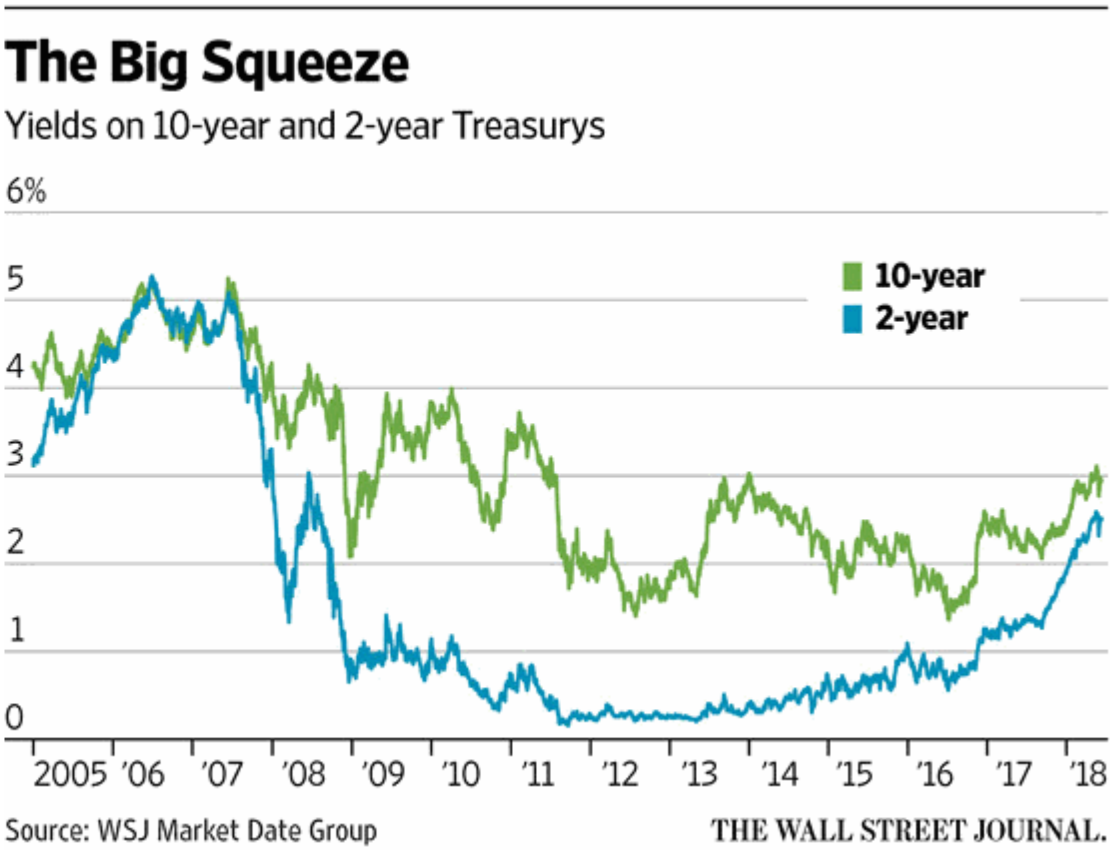
The yield on the two-year Treasury, which reflects investor expectations of what overnight rates will average over the next two years, has climbed to 2.5% from 2.31%. The **10**-**year Treasury** yield of 2.94%, on the other hand, is basically level with where it was in March. That has taken the yield curve, as measured by the difference between the 10-year and two-year Treasury yields, to just 0.4 percentage point -- the smallest gap in over a decade. And it has taken it that much closer to inverting.

The yield curve last was inverted in 2007, just before a recession. It also inverted in 2000. Federal Reserve Chairman Jerome Powell, when he holds his news conference on Wednesday, may be asked to explain why a recession won't follow if the curve inverts again.

He may answer that this time is different. Many policy makers believe the low levels of long-term rates around the world are residual effects of central-bank bond-buying programs rather than rate expectations. Higher rates in the U.S. have made Treasurys attractive to foreign buyers, keeping rates low.

Further, Goldman Sachs economist Jan Hatzius points out that an inverted yield curve isn't the cause of recessions so much as the result of the Fed trying to keep the economy from overheating. The Fed can't hold off on rate increases it thinks are necessary just because of what the yield curve is doing. That risks falling behind and then raising rates even more aggressively later, and making the yield curve invert even more.

Mr. Powell may have a lot of explaining to do.



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THE WALL STREET JOURNAL.
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Trading on Political Risks Returns

By Georgi Kantchev
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After a long period in which investors mostly shrugged them off, political risks are again taking a front seat in moving markets.

For investors, that promises to bring further uncertainty during one of the market's most **volatile** stretches in years.

In recent years, global economic growth and central-bank stimulus have drowned concerns over political risk.

On Monday, markets mainly climbed as President Donald Trump prepared to meet with Kim Jong Un and Italian media reported Rome's antiestablishment government had ruled out leaving the euro. But a bad-tempered meeting of the Group of Seven major economies reignited some investors' worries about trade tensions.

North Korea, stresses in the eurozone and trade tensions have been among a number of political factors spurring often vertiginous moves in stocks, bonds and commodities in recent months.

This confluence of major political events,with additional turmoil in the Middle East and Venezuela,comes as global growth shows signs of slowing and major central banks start withdrawing the easy-money policies that have smoothed markets for several years.

"It's a different, more **volatile** environment so markets are much more prone to react to political risk," said Mark Heppenstall, chief investment officer at Penn Mutual Asset Management.

Typical market barometers of political risk like the Swiss franc and the Dow Jones U.S. Select Aerospace & Defense Index have risen in the past month. Shares of small U.S. companies also have recently been outperforming their multinational peers, which are more sensitive to trade and geopolitical turmoil.

In recent months, markets have crested and ebbed as international trade tensions rose. The U.S. slapped steel and aluminum tariffs on allies in Europe and North America and is locked in at times acrimonious negotiations with China over the trade deficit.

The widely used Global Economic Policy Uncertainty Index, which tracks mentions of the words "uncertain" and "uncertainty" in major newspapers' articles about economic policy, rose in May to its highest level in a year.

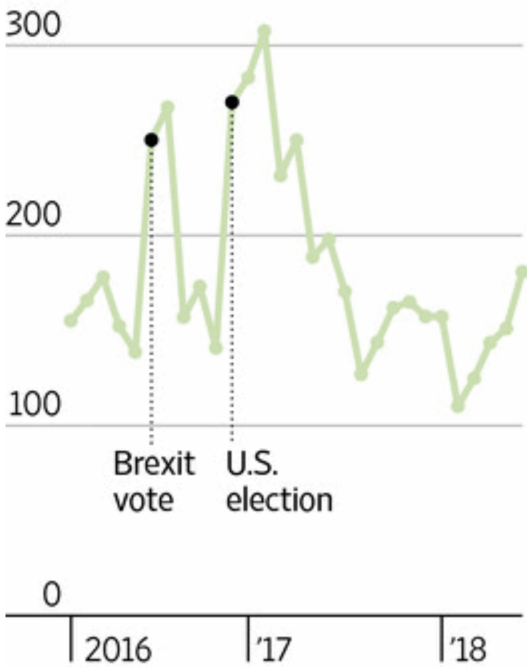
Geopolitical instability is now the No. 1 concern for companies investing in Europe, according to a recent survey by Ernst & Young LLP. In 2016, the last survey conducted, it was the fifth-biggest concern.

For investors, political events are difficult to interpret and their effect on the real economy hard to read at times. As a result, investors expect **volatility** to remain elevated and riskier assets to be under pressure.

In Italy last month, bourses around the world convulsed and the euro fell to a 10-month low after two euroskeptic parties formed a government that sparked concerns the country might exit the eurozone. Markets calmed the next day after assurances to the contrary, but European bonds have continued to whipsaw on the risk, rising again on Monday.

Bumpy Ride

Monthly Global Economic Policy Uncertainty Index



Source: www.policyuncertainty.com

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The New York Times

DealBook
Business Day; DealBook
New Goldman Sachs Fund Will Track Paul Tudor Jones's Feel-Good Companies

By Andrew Ross Sorkin
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The spiritual guru Deepak Chopra had just finished teaching a class about ethics in business at Columbia Business School when he called the billionaire investor Paul Tudor Jones II in the fall of 2012.

"'Listen, one of my students has got a really good idea,'" Mr. Jones said Mr. Chopra had told him. The student had posed two questions: "Why can't companies be an instrument for goodness? Why can't companies focus their capital — human and financial — on being a change agent for societal betterment, a change agent for justness?"

This was long before the E.S.G. movement — the focus on environmental, social and governance issues — became fashionable, and Mr. Jones was struck by the question. So he set out to answer it. Since then, he has built an entire foundation, Just Capital, around the idea and developed a series of metrics to measure corporate America on more than mere profits, using annual polls to determine what corporate practices, including how workers are treated and job creation, matter most to Americans.

Up until now, Mr. Jones's measure of corporate America was simply a list of companies, a ranking that he hoped would encourage chief executives to think more about doing right by society.

But now it is about to become a financial product.

On Wednesday, Goldman Sachs, using Mr. Jones's metrics, will introduce a new exchange-traded fund as part of series of social impact efforts by the firm.

The fund is a feel-good selection of Russell 1000 companies, tracking the top 50 percent of those in each industry based on Just Capital's publicly available model, which scores businesses using a complex formula related to workers, customers, products, environment, jobs, communities and management. Only 6 percent of the calculation of the index relates to how well a company provides investor return.

The top five companies in the 2017 rankings all came from the tech sector: Intel was No. 1, followed by Texas Instruments, Nvidia, Microsoft and IBM.

Whether the formula is a winning one for investors is a bit of an open question. The fund would have outperformed the Russell 1000 by 3.47 percent over the past two years. That's the good news. The bad news is there is no way to test the formula any further back, and each year, the index changes based on shifts in the polling. If Americans become more concerned about job creation and less concerned about worker pay, different companies could be included.

"We rank the companies as best we can," said Mr. Jones, who became famous for shorting the **stock market** before Black Monday in 1987 and went on to found the Robin Hood Foundation, an antipoverty organization. "And it's our best effort — it's not a science. There are many different ways you can debate the decisions that we have had to make, and I'm sure it will evolve and we're going to get better at it."

So it's a bit of a guess how well Just Capital's index will perform over the long term, a point Mr. Jones acknowledges up front.

“I think it outperforms” similar indexes, he said. But he quickly warned that “when we get in a **bear market**, this thing is going down 95 percent of what the other ones are, too.” He added: “Let’s just all be honest about that. We are talking about relative outperformance.”

According to Just Capital, the companies in the fund outperformed the remainder of the Russell 1000 in a number of important, socially conscious ways: They paid 71 percent less in fines for consumer sales-terms violations and 94 percent less in Equal Employment Opportunity Commission fines, produced 45 percent lower greenhouse gas emissions per dollar of revenue, and created American jobs at a 20 percent greater rate. Investors will pay a 0.2 percent fee, which is about half the price of most other E.S.G.-oriented funds.

But Goldman Sachs and Mr. Jones aren’t selling the fund as a quick-buck way for day traders to beat the **stock market**.

Instead, it is being sold as a curated solution at a time when pension funds and other institutional investors are looking to shift their investments into socially responsible funds.

“We are seeing clients think about this product in different ways,” said John Goldstein, a managing director within Goldman Sachs Asset Management. “Some look to it as value-aligned market exposure, while others see a set of drivers of performance in a changing world.”

Whether social impact investing will turn out to be the most profitable way to invest has become one of the biggest questions within the investment world.

Laurence Fink, a co-founder of BlackRock, the largest investment manager in the world, with over $6 trillion under management, told chief executives in a letter this year, “To prosper over time, every company must not only deliver financial performance, but also show how it makes a positive contribution to society.”

Mr. Jones came to the same conclusion several years ago. He said he had been taken aback when he realized how a company’s stock performance correlated with how responsibly it behaved.

“I couldn’t believe it,” he said. The results were sufficiently profound to make him rethink his own business.

“I’ve got to think about, even in my own business, how I am treating my employees, how we’re running and operating this business,” Mr. Jones said. (Among other changes, he said, he and his management team recently tripled the amount of profits his investment fund pays out to charity.)

One major distinction between the new fund and the bevy of other socially responsible funds that have emerged is that it does not exclude any company based on a moral argument, except for tobacco. So the fund can include coal companies, for example, but only those that lead the industry based on his metrics.

No matter their industry, he wants executives and board members to be thinking: “What’s my environmental footprint relative to every one else in my field? Where are my best business practices relative to my competitor? Am I doing as good a job as I possibly can, or is there someone doing better?”

While it may be in vogue to talk about socially responsible investments, until they prove they can perform better over a significant period of time, it will be hard for even the most virtuous investors to plow significant sums into them.

For now, Mr. Jones is happy to get the conversation started.

“The corporate mission as practiced today was designed in 1970 by Milton Friedman, when he famously said the social responsibility of the corporation is to improve its profits,” Mr. Jones said. “The biggest objective I think for those of us at Just is to begin the debate.”

Paul Tudor Jones II, who became famous for shorting the **stock market** before Black Monday in 1987, was prompted to think seriously about corporate responsibility in 2012. On Wednesday, Goldman Sachs will begin offering a fund based on his research. | Michael Nagle/Bloomberg

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WSJ PRO CENTRAL BANKING

Economy

The Fed's Dilemma | Diverging Fortunes Signal Widening Rate Gap | France Tightens Bank Capital | Fairless's Take: ECB Says Inflation Is On Track. But Is It? The Wall Street Journal's central banking newsletter for Tuesday, June 12

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Fairless's Take: ECB Says Inflation Is On Track. But Is It?

The Fed's Biggest Dilemma: Is the Booming Job Market a Problem?

Diverging Fortunes in U.S. and Europe Signal Widening Interest-Rate Gap

France Tightens Bank Capital Requirements Amid Corporate Borrowing Binge

ECB Says Inflation Is On Track. But Is It?

Is the European Central Bank on track to hit its inflation target?

Peter Praet, the bank's chief economist, signaled Wednesday that the ECB could soon phase out its giant bond-buying program, because it is close to meeting its three criteria for assessing whether inflation will sustainably match its target of just below 2%.

The timing of the announcement surprised some economists because it comes just as the eurozone economy appears to be slowing, while facing more threats that range from international trade disputes to political turbulence in Italy. All that could weigh on consumer prices.

To be sure, the region's headline inflation rate did jump to 1.9% in May from 1.2% the previous month, although that was partly due to the recent surge in **oil prices**.

Underlying inflation, stripping out **volatile** energy and food prices, has been little changed for years. It rose to 1.1% in May after averaging about 1% last year.

While higher headline inflation will help push up underlying inflation to some extent, that effect could be canceled out by weaker economic growth, analysts said.

Mr. Praet pointed to wages as key to his new found confidence. Negotiated wages grew by 1.9% on the year in the three months to March compared with 1.6% in the final quarter of last year. But that was mainly due to developments in Germany, which is close to full employment. Unemployment is still high across large parts of southern Europe, where wages are unlikely to accelerate soon.

Investors' expectations of eurozone inflation are below where they were earlier this year, and long-term expectations remain low, analysts said. They noted that the ECB has consistently been overly optimistic in its inflation forecasts.

So why the rush to end QE? Analysts suggested the ECB is simply running out of bonds to buy under the program's self-imposed rules, which are designed to minimize market distortions and prevent the ECB from financing governments.

"It could be that the ECB wants to be done as soon as possible with QE, a deflation-fighting tool of the past that is getting closer to its political and technical limits," said Frederik Ducrozet, an economist with Pictet Wealth Management in Geneva.

Key Developments Around the World

The Fed's Biggest Dilemma: Is the Booming Job Market a Problem?

No question looms larger for Federal Reserve Chairman Jerome Powell than this: How low can the U.S. unemployment rate safely go? Only twice in the past half-century has unemployment fallen to its current rate of 3.8%—for a few years in the late 1960s and for one month in 2000. The '60s episode spurred years of soaring inflation that would take a decade for policy makers to corral. The latter coincided with a technology bubble that, when it burst, caused the 2001 recession. The Fed is likely to announce Wednesday it is raising its benchmark short-term interest rate to a range between 1.75% and 2%, the latest in a series of increases aimed at avoiding such outcomes by keeping the economy on an even keel. Then, Mr. Powell will have to answer the unemployment question. His response will determine how high and fast interest rates will rise, and could define his four-year term as the Fed's new leader—the first in more than 30 years who isn't an economist.

Diverging Fortunes in U.S. and Europe Signal Widening Interest-Rate Gap

Central banks in the U.S. and Europe are both expected to move this week to unwind stimulus policies adopted since the global financial crisis a decade ago. But the likely steps mask a recent divergence in the fortunes of the world's top two economic blocs, which looks set to keep the central banks on different interest-rate tracks for many months to come. The Federal Reserve is likely to raise short-term U.S. interest rates Wednesday and pencil in more increases in coming years, to keep the U.S. economy from overheating, The ECB could signal on Thursday it won't start raising rates for some time even as it moves to phase out its €2.5 trillion ($2.95 trillion) bond-buying program.

France Tightens Bank Capital Requirements Amid Corporate Borrowing Binge

French regulators said Monday they would toughen banks' capital requirements to mitigate the risks of a future credit crunch, an early sign of tighter borrowing conditions emerging across Europe. France's High Council for Financial Stability—which brings together market and financial regulators, France's central bank and finance ministry—said it would apply a "countercyclical" capital buffer to oblige banks to hold capital amounting to 0.25% of risk-weighted French assets. Foreign banks also will be obliged to hold a buffer of 0.25% of their assets in France.

Choice for Malaysian Central Bank Governor Was Involved in 1MDB Probe

A former central-bank governor who was previously involved in an investigation into troubled state investment fund 1Malaysia Development Bhd. is set to return to Bank Negara Malaysiaas its governor, according to two people familiar with the matter. Nor Shamsiah Yunus would replace Muhammad Ibrahim, who resigned as central-bank governor last week. He left following revelations that some $500 million used to buy land from the Finance Ministry was subsequently used to pay down the debt load at 1Malaysia Development, or 1MDB.

Tuesday

Time N/A

U.S. Federal Reserve begins two-day policy meeting in Washington

8:30 a.m. EDT

U.S. Labor Department releases May CPI

Wednesday

2 p.m. EDT

U.S. Federal Reserve releases policy statement

2:30 p.m. EDT

Fed's Powell holds press conference in Washington

Demographics and Long-Run Growth

Thomas Cooley and Espen Henriksen in a VoxEU post explore some of the means by which demographic change contributes to the slowdown of long-run growth. Their analysis shows that aging populations have large

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impacts on long-run growth. "Incentives for late-life labour supply may stimulate economic growth, but should be carefully weighed against the disutility of working when old," the researchers conclude.

Will the Fed Set Off a Recession Alarm?

"The chairman of the Federal Reserve, just four months into his term, could be in the uncomfortable situation this week of signaling that a recession is coming," writes Justin Lahart for The Wall Street Journal. There is a good chance the Fed ups its estimate from three to four rate increases for 2018, Mr. Lahart asserts. "The difference between three and four rate increases may not matter much to investors, who expect rates to keep rising next year. But it matters a lot for the yield curve, which is edging closer toward inverting, the situation where short-term rates are higher than long-term rates. That is a longstanding signal that a recession is coming."

The Fed Can't Save Jobs From AI and Robots

"Technological disruption will make the unemployment rate a very noisy signal of the demand level," writes Martin Feldstein for The Wall Street Journal. "The Fed's policy goal should therefore be shifted so that it focuses solely on price stability, in line with what other central banks now do. Achieving the government's goal of maximum employment will require different policies, like increased job training and the removal of state licensing barriers."

Central Banks and Digital Money

The digitization of money threatens to shake up banking, but is unlikely to weaken the central bank's control over the financial system, writes Peter Bofinger in a posting on VoxEU. "The digitalisation of money has the potential to change traditional structures of the financial system," he writes. "It can redefine the roles of banks and central banks. But by itself, digitalisation does not erode the control of central banks over the financial system. Massive regime changes (abolishment of cash, universal central bank reserves) are possible. However, they would require a political decision and they would not weaken but strengthen the role of central banks."

Secretary of State Mike Pompeo played down the rift between the U.S. and its allies after President Donald Trump split from the other six leaders at Group of Seven summit in Canada amid tensions over U.S. trade demands.

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THE WALL STREET JOURNAL.

Markets

Trump and Kim Shake Hands, but Asian Markets Are Mostly Flat; Indexes in Korea, Japan, Hong Kong and Singapore little changed; U.S. stock futures calm

By Steven Russolillo and Saumya Vaishampayan
696 words
11 June 2018
11:09 PM
The Wall Street Journal Online
WSJO
English
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Markets in Asia were mostly calm on Tuesday as U.S. President Donald Trump and North Korean leader Kim Jong Un met for the first time at a landmark summit in Singapore.

Stocks in Korea, Japan, Hong Kong and Singapore were little changed. U.S. stock futures were flat. The dollar rose against major currencies, sending the WSJ Dollar index up 0.1%. The dollar rose against the Japanese yen but fell against the euro, sending the WSJ Dollar index slightly higher. And the market's so-called fear gauge, the Cboe **Volatility** Index, remained near recent lows.

Messrs. Trump and Kim shook hands at the start of their meeting, a moment that represented a stark turnaround from the months both men spent trading insults. Shortly after meeting Mr. Kim, Mr. Trump told reporters he expected the two would have a "great discussion," adding, "it's my honor and we will have a terrific relationship, I have no doubt."

Both signed a document at the end of the summit. Though it was light on specifics, Mr. Trump said he and Mr. Kim would "meet again...many times."

Market participants cautioned against getting too optimistic about the gathering.

"It's a very important geopolitical event but from a market standpoint, its influence is much more modest," said Tai Hui, J.P. Morgan Asset Management's Asia-Pacific chief strategist.

Regional stocks remained muted, following similarly flat moves earlier this year, when even an accelerating nuclear threat from Pyongyang didn't have much impact on global markets.

"Neither a breakthrough in talks nor another verbal spat between the two leaders would probably make much difference to equity markets in the medium term," said Oliver Jones, a markets economist at research firm Capital Economics, adding that the recent thaw in relations between North Korea and Seoul hasn't had much of a positive impact on markets.

Markets were also unfazed after Mr. Trump tweeted on Monday that Larry Kudlow, his top economic adviser, had suffered a heart attack and been hospitalized.

In South Korea on Tuesday, the benchmark Kospi index flipped between small gains and losses. It remains little changed for the year after surging 22% in 2017. The U.S. dollar slipped 0.2% against the South Korean won.

Korea's **stock market** is dominated by export heavyweights such as Samsung Electronics Co. and carmaker Hyundai Motor Co., meaning its moves are often driven by the shifting outlook for the global economy rather than by geopolitics.

Japan's Nikkei 225 index rose 0.3%. The dollar rose 0.2% against the Japanese yen.

The yen's slide represents market hopes about the summit, said Toru Ibayashi, head of Japanese equities at UBS Wealth Management. Investors have been waiting for a weaker currency to buy stocks, especially tapping into the selling last quarter that has made Japanese shares more affordable.

"They have plenty of reason to buy back, and today is a good day to do that," Mr. Ibayashi said.

Hong Kong's Hang Seng index rose 0.1%. It is among the best performing indexes in Asia so far this year, up about 4%. Singapore's benchmark, the FTSE Strait Times, fell 0.2%.

Movements in other safe assets suggested that investors weren't too concerned about the outcome of Tuesday's talks.

U.S. government debt prices fell, which happens as yields rise. The **10**-**year Treasury** yield rose to 2.963% from 2.959% on Monday, while the 2-year yield was at 2.533% versus 2.528% on Monday.

The small moves in Asian markets come after U.S. stocks had a relatively quiet day on Monday. The **Dow Jones Industrial Average** edged up 0.02%, its sixth gain in the past seven trading days.

The VIX was at around 12, near its low for the year.

Suryatapa Bhattacharya contributed to this article.

Write to Steven Russolillo at steven.russolillo@wsj.com and Saumya Vaishampayan at saumya.vaishampayan@wsj.com

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The New York Times

Business/Financial Desk; SECTB
Markets Turn Focus to Trump-Kim Meeting

By THE ASSOCIATED PRESS
499 words
12 June 2018
The New York Times
NYTF
Late Edition - Final
2
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Global markets rose modestly on Monday, as investors made preparations for President Donald Trump's meeting with North Korean leader Kim Jong-un in Singapore.

European investors also focused on Italy's new government, and its future using the euro.

The **Dow Jonesindustrial average** rose 5.78 points, or less than 0.1 percent, to 25,322.31. The **Standard & Poor's 500**-**stockindex** rose 2.97 points, or 0.1 percent, to 2,782.00, and the **Nasdaq composite** rose 14.41 points, or 0.2 percent, to 7,659.93.

Investors spent most of Monday waiting for Tuesday's meeting between Mr. Trump and Mr. Kim, aimed at settling a standoff over the North's nuclear arsenal.

If successful, the meeting would lower geopolitical tensions in an area that involves three of the world's largest economies: South Korea, Japan and China.

''There's a lot of potential **volatility** that could come this week: We have the Trump-Kim summit and the central bank meetings,'' said Ryan Larson, head of United States equity trading at RBC Capital Markets. ''A lot of the tone for this week will be set out in Trump's meeting with Kim.''

The Federal Reserve will start a two-day meeting on interest rates on Tuesday, wrapping up on Wednesday. Investors expect the nation's central bank to raise interest rates from their current level of 1.75 percent to 2 percent, but most attention will be on how many rate hikes Fed officials are considering doing later this year.

Investors showed little concern over the swipes that Trump took at Canadian Prime Minister Justin Trudeau over the weekend and Monday. Trump roiled a weekend meeting of the Group of 7 major industrial economies by agreeing to a group statement only to rapidly withdraw from it while complaining about Mr. Trudeau's criticism of his tariff threats.

After leaving Canada, Mr. Trump called Mr. Trudeau ''dishonest'' and ''weak'' on Twitter. German Chancellor Angela Merkel said she found Trump's tweet disavowing the Group of 7 statement ''a little depressing.''

European markets closed higher. Italy's main **stock index** jumped 3.4 percent, Germany's DAX rose 0.6 percent and France's CAC-40 rose 0.4 percent.

In individual company news, Pacific Gas and Electric dropped $1.64, or 4 percent, to $39.81 after California authorities said a series of wildfires were caused by the utility company's equipment, raising liability implications.

In energy, benchmark United States crude closed up 36 cents to $66.10 per barrel in electronic trading on the New York Mercantile Exchange.

Gold rose 80 cents to $1,298.90 a troy ounce.

This is a more complete version of the story than the one that appeared in print.

CHART: The **S**. **& P**. **500 Index**: Position of the **S**. **& P**. **500 index** at 1-minute intervals on Monday. (Source: Reuters)

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THE WALL STREET JOURNAL.
U.S. EDITION

Banking & Finance: Words to The Wise For Index Funds

By Asjylyn Loder
448 words
12 June 2018
The Wall Street Journal
J
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English
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Rob Arnott thinks fund managers should move more slowly.

The founder of the investing firm Research Affiliates said some of the world's cheapest index funds track their benchmarks too closely, a "self-inflicted wound" that ends up costing investors billions of dollars.

When index providers announce which companies will be added or deleted -- typically days or weeks ahead of time -- newly added stocks get a boost while those cut from the index tend to fall. Fund managers who move quickly to mimic the index end up buying high and selling low, Mr. Arnott said.

"Most index-fund managers are far more interested in reducing tracking error than in adding value," Mr. Arnott wrote in a paper due out later this month titled "Buy High and Sell Low with Index Funds!"

Mr. Arnott is known as the "godfather of smart beta," an alternative style of indexing that invests based on factors other than company size. The theory is that traditional market-capitalization-weighted indexes, like the popular **S&P 500**, load up on companies with the biggest recent price gains, leaving them vulnerable to asset bubbles.

Mr. Arnott's latest research points to an October 1989 change in the **S&P 500** as the root of the problem. Before that, S&P announced changes to the index after the market closed, and the changes were effective the following day. That left fund managers scrambling to buy and sell the right stocks, and they were often unable to match the benchmark price.

"They're like elephants trying to get through a revolving door, and they're going to move those stocks a lot," Mr. Arnott said.

So S&P started announcing the changes earlier, but trading during the grace period inflates the prices of the new additions and drags down the stocks that are being removed, Mr. Arnott said. By the time the effective date rolls around, investors are stuck overpaying for the new stocks and getting lousy prices for the stocks they must sell.

The index performance suffers, but passive managers can say they are following their mandate to match the benchmark, Mr. Arnott said. A spokesman for S&P Dow Jones Indices declined to comment on the report, saying the company hadn't seen it.

Mr. Arnott's solution: Slower action. Instead of trading when everyone else does, index managers should wait a few months for prices to snap back to normal levels. Deletions outperform the market by more than 21% in the year after being cut while additions lag behind by 1.3%, his research showed.

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Next Stop for Mutual-Fund Fees: Zero

By William A. Birdthistle and Daniel J. Hemel
788 words
11 June 2018
The Wall Street Journal
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A15
English
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How much is a mutual-fund adviser's advice really worth?

How about nothing?

Since 2000 the average annual mutual-fund fee has fallen by more than a third. For funds that track a **stock index**, the average fee is now less than 0.1%, but even that is too high. That fraction of a percentage point means real money over time. If you invest $10,000 in a mutual fund today, and the **stock market** rises 6% a year, a 0.09% expense ratio will cost you more than $1,500 over three decades.

The industry has begun to realize this isn't sustainable. In April Fidelity Investments launched its first-ever free index funds -- that is, funds with a stated expense ratio of zero. The new funds, part of the firm's Flex suite, will be available only to select Fidelity clients, but other mutual-fund advisers will likely emulate the model.

Four factors should facilitate the wider distribution of zero-cost mutual funds in the near future.

First, passive management has become more popular with retirement savers and retail investors alike. In 2000 index funds made up 7.5% of equity mutual-fund assets. In 2017 they accounted for more than 21%. The rise of index investing means fewer Americans are paying sizable fees to portfolio managers, who generally fail to beat the market. This trend has reduced expense ratios significantly.

Second, investors have come to realize that passive investing does not require a fancy index. A fund need not explicitly track the **S&P 500** to offer investors diversified exposure to large-cap U.S. equities, and decoupling a fund from a name-brand index can cut costs. The SPDR **S&P 500** ETF, the largest fund tracking the **S&P 500**, pays three basis points for the right to use the **S&P 500** name. Better to invest in a mutual fund that holds a generic basket of equities and saves on licensing expenses.

Third, mutual funds are increasingly finding that they can generate income from nonfee sources. In fiscal 2017, the Vanguard Total **Stock Market** Index Fund earned more than 63% of its expenses by lending securities. The demand for securities loans has limits, but growth in that market will allow an increasing number of funds to offset some or all of their expenses through loan income. Wise financial institutions will realize that offering a free mutual fund can attract customers to whom they can cross-sell other products, like life insurance and annuities.

Finally, free publicity likely will buoy the first widely available free fund. That will spare investors substantial advertising costs. Marketing added nearly three-quarters of a basis point to the SPDR **S&P 500** fund's expense ratio last year. For smaller funds, the share is likely larger. The first truly free fund open to all will instead be able to rely on media to spread the word.

Free mutual funds will add to the suite of complimentary financial services now available to Americans. More than 100 million people can use the free tax-preparation software offered by the Free File Alliance, a consortium of filing companies including Intuit and H&R Block, though only about three million taxpayers actually use the service. Mint.com manages bill payments for more than 10 million users without fees, while Credit Karma offers credit scores gratis. The online broker Robinhood charges nothing to execute daytime trades for its more than four million users.

The mutual-fund industry is ripe for disruptive change. While free funds won't solve America's retirement-savings problems, they could make a meaningful difference. American workers typically pay tens of thousands of dollars in fees over a lifetime of saving for retirement. Free funds will help ensure more Americans have a secure financial future.

If the notion of a free mutual fund seems exotic, consider that for centuries banks have paid investors to manage their money. That is what we call "interest." While interest rates on bank accounts have fallen dramatically in recent decades, perhaps mutual funds of the future, like banks of the past, will pay us to hold our savings. Meanwhile, eliminating fees seems like a worthwhile goal -- and one that now appears within reach.

Mr. Birdthistle, a professor at Chicago-Kent College of Law, is author of "Empire of the Fund: The Way We Save Now" (Oxford, 2016). Mr. Hemel is an assistant professor at the University of Chicago Law School.

(See related letters: "Letters to the Editor: Zero-Fee Index Fund? Brokers Must Eat Too" -- WSJ June 16, 2018)

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Economy

The Fed's Biggest Dilemma: Is the Booming Job Market a Problem? Jerome Powell, the chairman of the Federal Reserve, has to figure out whether inflation is around the corner. The wrong choice could cripple the economy.

By Nick Timiraos
2,222 words
11 June 2018
10:21 AM
WSJ Pro Central Banking
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No question looms larger for Federal Reserve Chairman Jerome Powell than this: How low can the U.S. unemployment rate safely go?

Only twice in the past half-century has unemployment fallen to its current rate of 3.8%—for a few years in the late 1960s and for one month in 2000.

The '60s episode spurred years of soaring inflation that would take a decade for policy makers to corral. The latter coincided with a technology bubble that, when it burst, caused the 2001 recession.

The Fed is likely to announce Wednesday it is raising its benchmark short-term interest rate to a range between 1.75% and 2%, the latest in a series of increases aimed at avoiding such outcomes by keeping the economy on an even keel.

Then, Mr. Powell will have to answer the unemployment question. His response will determine how high and fast interest rates will rise.

That call could define his four-year term as the Fed's new leader—the first in more than 30 years who isn't an economist. It will shape whether millions left behind in this expansion will get a chance to join in; whether inflation—stamped out and buried over the past quarter-century—makes an unexpected comeback; or whether financial bubbles, which crippled the economy twice in the past 20 years, return.

It will also test Mr. Powell's ability to guide the economy through a patch when historic models don't seem to apply.

Mr. Powell, a lawyer and financier, is no stranger to the Fed. He joined its board of governors in 2012 and managed unglamorous operational issues: payment-processing systems, the revamp of a major interbank lending rate and relations with the system's 12 regional banks as the board's primary go-between.

In his first months as chairman, he has cleared his desk. Monetary policy and taking measure of the economy now consume his time and energy, according to interviews with Fed officials.

He and other Fed officials have been studying the low unemployment episode of the 1960s for clues, poring over simulations to understand what might happen if unemployment keeps falling and debating whether traditional models for joblessness and inflation still work. The Fed has long operated under the framework that if joblessness falls too low, rising labor costs dominate and lead to higher inflation.

Mr. Powell secured two monetary policy experts as top lieutenants. With his extensive input, the White House nominated Columbia University's Richard Clarida to become the Fed's vice chairman.

The White House had interviewed for the job another favorite of Mr. Powell's, San Francisco Fed President John Williams. After the administration passed on Mr. Williams for vice chairman, Mr. Powell played a behind-the-scenes role engineering his selection as the next leader of the New York Fed, considered one of the most important jobs in the Fed system, according to people familiar with the process.

As a Fed governor, Mr. Powell sometimes chafed at the central bank's academic bureaucracy. It generates world-class analysis but sometimes grinds such a fine point that weeks could go by before he would receive an elaborate presentation delivering the answer to a question.

As chairman, Mr. Powell prefers more informal, direct and immediate interaction with the Fed's staff of Ph.D. economists. He frequently arrives for work at 6:15 a.m. and peppers them with questions via email at all hours, according to people familiar with the matter.

The Fed is closer than it has been in at least a decade to achieving both of its congressional mandates—to maximize employment and maintain low, stable inflation. Officials seek 2% annual inflation because they view that as consistent with an economy with healthy demand for goods and services.

The employment debate is taking on more urgency because joblessness is expected to keep falling due to a burst of economic stimulus from recent tax cuts and government spending increases.

If hiring and workforce participation trends since January continue, unemployment would reach as low as 3.3% by December, way below Fed officials' estimates of the level that is sustainable over the long run.

Among the questions preoccupying Mr. Powell: Could a tighter labor market bring in people not already in the job market and raise workforce participation rates? If that happens, the economy will be in a position to draw on those unused resources and keep growing without overheating. That would allow the Fed to raise rates more slowly than it otherwise would.

If there aren't people outside of the labor market ready to enter, the Fed could raise rates more aggressively. Higher inflation requires tighter credit to keep price pressures in check.

The wrong choice could trigger a recession. For now, the Fed is on a course to gradually raise interest rates, and Mr. Powell has signaled continuity with the approach of Janet Yellen, his predecessor. But economists who worked with both Fed leaders said differences in their backgrounds could ultimately lead the current chairman, who uses the nickname Jay, to steer a slightly different course.

"Yellen had 30 years of background in macroeconomic modeling," said Alan Detmeister, an economist at UBS Securities who used to lead the prices and wages section of the Fed. She was convinced that low unemployment rates eventually will lead to higher inflation, he noted, though she resisted a rigid interpretation of the rule in recent years.

"Jay is more willing to look at alternative formulations since he doesn't come with a huge amount of baggage," he said.

The risk of economic overheating was a central topic of discussion last month at a gathering of central bankers at the Bank for International Settlements in Basel, Switzerland, which Mr. Powell and current New York Fed President William Dudley attended.

Key to the Fed's considerations is an economic concept developed in the late 1960s by Milton Friedman known as the natural rate of unemployment. Some economists believe this level balances the supply and demand for labor, and that below it, inflation accelerates—driven by employers paying higher wages to attract workers.

Fed officials' estimates of the natural rate have dropped in recent years as unemployment fell faster than they predicted. Their estimate tumbled from 5.1% three years ago to 4.7% last year to 4.5% in March. By this measure, unemployment is already below safe levels.

Under Ms. Yellen, the Fed held off on multiple rate increases in 2015 and 2016, when the unemployment rate was reaching some officials' estimates of the natural rate. It raised rates just once each year.

"I, frankly, think the committee has done the right thing in doing that, because you do have a recovery of participation," Mr. Powell said in response to questions after a New York speech in February 2017, referring to gains in the share of adults holding or seeking jobs from postrecession lows. "That wasn't at all clear three or four years ago. People were saying…those people aren't coming back."

Officials now seem less sure that low interest rates will keep boosting workforce participation, which has returned to prerecession levels, adjusting for the aging population.

Mr. Powell has said the natural rate of unemployment could be anywhere from 3.5% to 5%.

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The uncertainty reflected in these estimates isn't new, said former Fed Vice Chairman Alan Blinder. "What's new is how very low the unemployment rate is compared to what we thought the natural rate was not very long ago," he said.

Estimates of the natural rate are particularly important to the Fed because economists have long held that inflation rises as unemployment moves down, and vice versa. This so-called Phillips curve, named for the New Zealand economist, A.W. Phillips, who first advanced the framework in 1958, is controversial within the economics profession but remains popular within the Fed.

Fed officials "are tightening on a theory, and that theory is the Phillips curve," said Vincent Reinhart, chief economist of Standish Mellon and former director of the Fed's monetary policy division.

Complicating matters for the Fed, the Phillips curve has been flat for the past 20 years, meaning big swings in unemployment haven't significantly affected U.S. inflation.

Conservatives including President Donald Trump's top economic adviser, Lawrence Kudlow, have dismissed the Phillips curve. They say inflation accelerates not because of hiring booms but due to excess money creation by the Fed.

A few Fed officials have grown skeptical of the central bank's devotion to the Phillips curve for other reasons. They hesitate to rely on a model that would have called for more aggressive interest-rate rises in 2015 and 2016, because the jobless rate implied inflation would soon heat up. In fact, millions of Americans found jobs and inflation remained low.

"We are too focused on the unemployment-rate number," Minneapolis Fed President Neel Kashkari said in an April interview. He calls it a "broken gauge" that doesn't capture extra labor-market slack.

This group argues that if inflation is the worry, the Fed should wait until it sees it moving higher before raising interest rates much, if at all. This would upend the Fed's practice of adjusting rates based on economic forecasts, because monetary policy works with long time lags.

The "traditional and well-founded preference for acting pre-emptively on a forecast is very much called into question" by the feeble response of inflation to declining unemployment, said Mr. Blinder.

A second group of officials rejects this thinking. They say unemployment is well below a sustainable level. They worry it is just a matter of time before imbalances emerge—either excess inflation or financial bubbles—and if they wait until then, they will have to raise rates aggressively, causing a recession.

"When we overshoot by too far, something becomes unsustainable—wages and prices, or assets," said Boston Fed President Eric Rosengren in an interview last month. When the Fed has to play catch-up, unemployment rises "not by tenths of a percentage point, but by percentage points. It's very, very costly."

Mr. Rosengren is an example of how the ground is shifting under Mr. Powell's feet; for most of the expansion Mr. Rosengren was among the Fed's strongest advocates of easy money policies. Now he favors higher rates.

A paper last year by former Fed staffers underscores his worries. Looking at city-level data, economists found inflation picked up more quickly once the jobless rate fell below 3.75%. One of the researchers, UBS's Mr. Detmeister, said the paper argues for maintaining the Fed's current approach of raising interest rates with the goal of anticipating where the economy will be 12-to-24 months ahead. The findings were shared broadly within the Fed, including with Mr. Powell.

Many Fed officials, including Mr. Powell, appear to sit somewhere between these two camps. They aren't ready to dismiss the traditional models. But they also say globalization, technology and demographic changes mean a low-unemployment economy may not face the same price pressures as it did in the 1960s.

Today's economy has more college-educated workers than in the past, which depresses the natural rate of unemployment because they have lower unemployment rates than others.

Fed officials are also hesitant to draw too many lessons from the low-unemployment episode from the late 1960s because people now expect inflation to remain stable.

In the 1960s and 1970s, if inflation went up one year, consumers expected it to rise by at least as much the following year. Officials believe such expectations can be self-fulfilling as workers demand pay increases and businesses raise prices in anticipation.

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But in the early 1980s, the Fed ratcheted interest rates up into the double-digits, slowing inflation dramatically by pushing the economy into a severe recession. It demonstrated the central bank's commitment to keep prices in check, and the approach has held since then.

Fed research published in 2016 used the 1960s experience to measure the point where inflation pressures begin to harm the economy, including by leading expectations of higher prices to become self-reinforcing as they did in the 1970s. The research, which was presented to Mr. Powell, concluded this happens when inflation rises by 3% on a sustained basis, using the Fed's preferred gauge and excluding **volatile** food and energy categories. Using this gauge, inflation is currently rising 1.8%.

Given the anchoring of inflation expectations, Mr. Kashkari said it is no surprise that inflation is unresponsive to low unemployment today. "The more credibility we have with the market and with employees and employers, the less responsive they are going to be to minor changes in the economy," he said.

In the late 1960s, when inflation began to accelerate just months after the unemployment rate dropped below 4%, the Fed cut interest rates, partly due to political pressure.

"Nobody on this committee will allow that to happen," said Mr. Kashkari. "I just don't see any echoes of that today."

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THE WALL STREET JOURNAL.

Markets

The Return of the Political-Risk Trade; Confluence of major political events comes as global growth shows signs of slowing

By Georgi Kantchev
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After a long period where investors mostly shrugged them off, political risks are once again taking a front seat in moving markets.

For investors, that promises to bring further uncertainty during one of the market's most **volatile** stretches in years.

In recent years, global economic growth and central bank stimulus have drowned concerns over political risk. Now it's back.

On Monday, markets mainly climbed as Mr. Trump prepared to meet with Kim Jong Un and Italian media reported Rome's antiestablishment government had ruled out leaving the euro. But a bad-tempered meeting of the Group of Seven major economies reignited some investors' worries about trade tensions.

North Korea, stresses in the eurozone and trade tensions have been among a number of political factors spurring often vertiginous moves in stocks, bonds and commodities in recent months.

This confluence of major political events, with additional turmoil in the Middle East and Venezuela, comes as global growth shows signs of slowing and major central banks start withdrawing the easy money policies that have smoothed markets for several years.

"It's a different, more **volatile** environment so markets are much more prone to react to political risk," said Mark Heppenstall, chief investment officer at Penn Mutual Asset Management.

Typical market barometers of political risk like the Swiss franc and the Dow Jones U.S. Select Aerospace & Defense Index have risen in the past month. Shares of small U.S. companies have also recently been outperforming their multinational peers, which are more sensitive to trade and geopolitical turmoil.

In recent months markets have crested and ebbed as international trade tensions rose. The U.S. slapped steel and aluminum on allies in Europe and North America and is locked in at times acrimonious negotiations with China over the trade deficit.

The widely used Global Economic Policy Uncertainty Index, which tracks mentions of the words "uncertain" and "uncertainty" in major newspapers' articles about economic policy, rose in May to its highest level in a year.

Geopolitical instability is now the number one concern for companies investing in Europe, according to a recent survey by Ernst & Young LLP. In 2016, the last survey conducted, it was the fifth biggest concern.

For investors, political events are difficult to interpret and their effect on the real economy hard to read at times. As a result, investors expect **volatility** to remain elevated and riskier assets to be under pressure.

"There is a growing binary-ism to investors' perceptions of risk," said Peter Atwater, president of research consultancy Financial Insyghts. "When investors have started to price in risk, they have done it with a chain saw, not a carving knife."

Take Italy.

Last month, bourses around the world convulsed and the euro fell to a 10 month low after two euroskeptic parties formed a government that sparked concerns the country might exit the eurozone. Markets calmed the next day after assurances to the contrary, but European bonds have continued to whipsaw on the risk, rising again on Monday.

"The even bigger risk is that as investors see repeated binary behavior, they start to anticipate it," Mr. Atwater said.

To be sure, political risk has moved markets at times in recent years. Britain's Brexit vote and Donald Trump's election sent markets around the world on a wild ride, while tensions in the eurozone and Middle East have reared up occasionally.

But for some time, investors had been relaxed about political risk. Last year, markets marched higher despite escalating rhetoric and threats of military action between the U.S. and North Korea. Turmoil in Syria, including in April U.S.-led strikes on the country's chemical weapons facilities, didn't dent the rally. A series of key elections and a referendum in Europe did little to unnerve investors.

"Last year investors seemed to ignore every risk out there. Now people are more sensitive," said Eric Stein, co-director of global income at Boston-based Eaton Vance.

The growth story recently is showing some signs of wear. Global purchasing managers surveys fell from multiyear highs and economic data in the developed world has missed economists' expectations by a wide margin, according to Citigroup's index on economic surprises. Such data easily exceeded expectations for most of 2017.

Meanwhile, investors realize that the Federal Reserve and other developed world central banks are taking away the backstop of abundant liquidity they had pumped into markets in the aftermath of the financial crisis.

"We do not believe markets are fairly pricing the level of current and potential global geopolitical risk due to distortions such as central bank liquidity," analysts at BNY Mellon Asset Management wrote in an April report.

This week, the Fed is expected to raise its benchmark short-term interest rate by another quarter percentage point. The European Central Bank also meets this week, with officials recently sending signals that they could soon decide to further wind down their massive bond-buying program.

"In such a world if shrinking central bank liquidity investors become more acute to risks like political headlines," Mr. Stein at Eaton Vance said.

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THE WALL STREET JOURNAL.

Markets

Investors Gloomy on the Loonie After G-7 Summit; The U.S. dollar rose 0.3% against the Canadian dollar in Asia early Monday—a bigger swing than elsewhere in the G-7 currency world

By Saumya Vaishampayan
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The biggest loser from the Group of Seven summit might just be the Canadian dollar.

The U.S. dollar rose 0.3% against the Canadian dollar to 1.2962 early Monday morning in Asia. That's a bigger swing than elsewhere in the G-7 currency world: the greenback lost 0.2% against the euro and was flat against the British pound, while it rose 0.1% against the Japanese yen. The U.S., Canada, U.K., Germany, France, Japan and Italy make up the G-7.

The move in the Canadian dollar followed a contentious meeting of the G-7 industrial nations. President Donald Trump said Saturday the U.S. wouldn't endorse the G-7 communiqué—an unprecedented refusal. Mr. Trump also threatened to impose auto tariffs and insulted Canadian Prime Minister Justin Trudeau, who hosted the G-7 summit.

Mr. Trudeau said he warned Mr. Trump that Canada "will not be pushed around" and would press on with retaliatory tariffs against U.S. products.

It wasn't immediately clear whether heated words between the two leaders sent the U.S. dollar higher against the so-called loonie. Other possible drivers included the 0.1% slip in crude oil. Oil is one of Canada's key exports, so a decline in **oil prices** often coincides with a fall in the loonie.

Investors are also likely considering the possibility of interest-rate increases in Canada. The country unexpectedly posted its second straight month of job losses in May, according to data released Friday. Though the data suggested that wage inflation pressures remain: Hourly wages rose at their fastest pace since 2009. The U.S. dollar fell against the Canadian dollar Friday.

The Bank of Canadakept its main policy rate at 1.25% last month and said the data reinforced its view higher interest rates will be needed to keep inflation near its 2% target. The next meeting is scheduled for July.

For now, sentiment on the loonie remains gloomy among fast-money investors. Leveraged funds bet on a decline in the Canadian dollar in aggregate, according to the latest data from the U.S. Commodity Futures Trading Commission.

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THE WALL STREET JOURNAL.

U.S. Markets
Markets

U.S. Stocks Tick Higher Ahead of U.S.-North Korea Summit; S&P 500 builds on last week's broad gains; bond yields rise

By Riva Gold and Gunjan Banerji
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* Italy leads stocks higher in Europe

* Most Asian markets notch gains

* Yield on 10-year Treasury note rises

The S&P 500 drifted higher Monday, led by shares of consumer staples companies, ahead of a historic U.S.-North Korea summit.

Geopolitical tensions have triggered stock swings in recent weeks, but lately, market volatility has ebbed as U.S. share prices have steadily risen. Monday's advance comes as the S&P 500 has gained in four of the past five weeks, leading some analysts to say the market calm that permeated much of 2017 and early 2018 has started to reappear.

"There's a bit of a tug of war going on" between strong corporate fundamentals and geopolitical tensions world-wide, said David Lefkowitz, senior equity strategist at UBS Global Wealth Management.

The Dow Jones Industrial Average initially rose more than 80 points before paring gains and closing up 5.78 points, or less than 0.1%, at 25322.31, its fourth straight session higher. The S&P 500 added 2.97 points, or 0.1%, to 2782.00. The Nasdaq Composite gained 14.41 points, or 0.2% to 7659.93.

Consumer staples companies within the S&P 500 also recorded a fourth session of gains, rising 0.8% as food heavyweights powered higher.

J.M. Smucker climbed $3.65, or 3.6%, to $106.17. General Mills rose 1.51, or 3.5%, to 44.42 and Kellogg added 1.74, or 2.7%, to 65.45.

Some investors said they expect macroeconomic news to swing stock prices later in the week, with the Federal Reserve, European Central Bank and Bank of Japan all meeting and likely offering clues on the path of monetary policy.

The Fed is widely expected to raise interest rates when it meets this week and to update its projections for the years ahead.

Investors will watch closely for the ECB's stance on winding down its bond-buying program, and fresh data on U.S. consumer prices this week, which roiled markets earlier this year.

The yield on the 10-year Treasury note rose for the second session to 2.959% from 2.937% Friday afternoon. Yields fall as prices rise.

"This week has potential for fireworks," said Rob Bernstone, head of index trading at Credit Suisse, referring to the Fed meeting and geopolitical tensions.

On Tuesday, President Donald Trump is expected to meet Kim Jong Un one on one behind closed doors. Meanwhile, a trade feud between the U.S. and Canada escalated this weekend after the Group of Seven industrialized nations summit ended on Saturday.

For now, though, markets have returned to a lower-**volatility** environment, one in which equity indexes slowly march higher, Mr. Bernstone said, reverting to the trend that prevailed much of last year.

European stocks rebounded Monday, with some of Monday's moves attributed to a report in an Italian newspaper that Italy's new economy minister ruled out leaving the euro and said he would focus on structural reforms.

Market-friendly signals from a new Italian government mollified concerns about the future of the eurozone, analysts said.

The Stoxx Europe 600 added 0.7%. Italy's FTSE MIB Index climbed 3.4%.

"Any muttering from [Italy's antiestablishment parties] 5 Star and Lega that they're staying in the euro and have no interest in leaving gets read very positively [by markets]," said Christel Aranda-Hassel, chief European economist at Mizuho International.

Still, "I want to wait and see what the economic program ultimately entails," she said.

Most Asian markets also notched gains ahead of the first meeting between a sitting U.S. president and a North Korean leader Tuesday.

South Korea's Kospi rose 0.8%, Japan's Nikkei added 0.5% and Hong Kong's Hang Seng climbed 0.3%, although Shanghai stocks fell 0.5%.

Write to Riva Gold at riva.gold@wsj.com

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Emerging-Market Rout Feeds Contagion Fear

By Ira Iosebashvili, Ben Eisen and Amrith Ramkumar
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Corrections & Amplifications

A graphic with a Page One article Monday about emerging markets showed maturing emerging-market debt in trillions of dollars. The chart was incorrectly labeled in thousands of dollars.

(WSJ June 12, 2018)

(END)

A rout in emerging markets has sparked concerns that the turbulence could spread from distant corners of the world to the U.S. and elsewhere.

A sharp selloff in Brazilian stocks and its currency late last week fed into a wider retreat that hit assets from Mexico to South Africa and rattled Italy's weakened bond market. Many currencies of developing countries are near multiyear lows, despite a boost from strong commodity prices and solid global growth, while investor allocations to emerging-market-focused bond funds are at their lowest level of the year, according to the Institute of International Finance.

The spasms highlight how a stronger dollar and higher U.S. bond yields can amplify the problems of vulnerable countries, threatening assets that investors recently considered to be comparatively safe.

The repercussions range from increased pressure on economies in Argentina and Turkey, which gorged on cheap debt when interest rates stood near record lows, to the rise of Italy's populist and euroskeptic government, analysts said.

So far, few believe the weakness in riskier markets threatens the nine-year-long U.S. stock advance, but the recent market moves have bolstered the case for caution.

More turbulence could be in store this week, when the European Central Bank and Federal Reserve hold monetary-policy meetings. Many expect the Fed to raise interest rates, which would increase pressure on emerging markets and test the ability of some countries to repay dollar-denominated debt.

"Rising global real interest rates are the No. 1 predictor of financial problems in vulnerable economies," said Kenneth Rogoff, a professor at Harvard University and former chief economist of the International Monetary Fund. "The risks are greater than people realize."

A stronger dollar is a danger for some countries because it weakens their currencies and makes it more difficult to pay back dollar-denominated debt. Higher U.S. rates dim the allure of foreign assets, especially in emerging markets, where investors often take on greater risk in exchange for higher yields and returns.

More than $10 billion has flowed out of mutual and exchange-traded funds that invest in emerging-markets debt and equity in the past six weeks, according to Bank of America Merrill Lynch. The outflow has sparked some declines in assets that rewarded investors with rich yields and big upside moves in recent years: Stock markets in Brazil, Indonesia and Turkey have notched double-digit drops since mid-February, along with many emerging-market currencies.

That weakness is concerning to some, who see it as evidence that the world has slipped out of a brief period in which all economies were accelerating in unison.

"The world confused a lucky confluence of growth factors with a self-feeding synchronized pickup," said Mohamed El-Erian, chief economic adviser at Allianz. "What's becoming more evident today is that with the exception of the U.S., where policy is driving growth, the other factors are proving to be less durable."

Mr. El-Erian said he is keeping a close eye on countries with a lot of government debt, as well as corporate debt, such as Turkey. Companies that borrow heavily in dollars but generate most of their revenue in local currencies, such as some in Latin American countries, are also a worry, he said.

The potential for diminished investment in these countries comes amid soaring levels of emerging-market government and corporate debt.

A record $1.6 trillion of debt issued by governments, financial companies and other businesses in all currencies matures this year, while $1.7 trillion will mature in 2019, according to the Institute of International Finance. That debt, concentrated in China, South Korea, India and other countries, will either need to be paid down or refinanced.

Developed countries that suffer from weaker growth, high leverage or an unpopular government are also vulnerable to rising rates and a stronger dollar, Mr. Rogoff said. Political jitters sent Italy's bonds on their worst one-day slide since 1989 last month, although they have stabilized since. Countries at the eurozone's periphery, such as Portugal and Greece, could also experience "big problems" if global rates continue to rise, he said.

For now, many believe markets will be able to weather the recent turmoil. The World Bank estimates the global economy will grow by 3.1% this year, unchanged from its forecast in January and matching the pace seen in 2017, itself the strongest year since 2011. While recent turbulence has hurt countries with large debt loads, other emerging markets have reduced debt and built up reserves in recent years, analysts said.

Harry Gakidis, a portfolio manager at Acadian Asset Management, said he sees recent **volatility** less as the start of a crisis and more as part of a sporadic selloff that happens from time to time.

"This is what you are getting compensated for," he said.

Rising U.S. bond yields, however, may be wearing away at that sentiment. With two-year Treasury yields at 2.5%, the assets of potentially vulnerable countries become much less attractive, said Edward Al-Hussainy, currency strategist at Columbia Threadneedle Investments.

"Is the return high enough to compensate you for the risks? Clearly the answer across the board is 'no,'" he said.

Daniel Kruger contributed to this article.

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THE WALL STREET JOURNAL.

Markets

Asia-Pacific Stocks Uneven Ahead of Historic Trump-Kim Summit; Investors' eyes on Singapore meeting between the U.S. and North Korean leaders

By Joanne Chiu
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Asia-Pacific stock markets struggled to find direction Monday, the day before the highly anticipated summit between U.S. President Donald Trump and North Korean leader Kim Jong Un in Singapore. Indexes in Japan, South Korea and Hong Kong were up less than 0.5% after early declines. Meanwhile Chinese equities in Shanghai and Shenzhen were down.

Monday's Big Theme

The world's eyes—and those of Asian investors—are on the Southeast Asian city-state, where Messrs. Trump and Kim are set to meet after months of diplomacy.

What's Happening

Along with the summit, meetings at the world's three most important central banks—the Federal Reserve, European Central Bank and Bank of Japan—will keep investors busy assessing trade and geopolitical risk in Asia-Pacific. There will also be a critical vote Tuesday on Brexit strategy in the U.K.'s Parliament.

The events come after an escalation this weekend in the U.S.-Canada trade feud, when Mr. Trump and U.S. officials criticized Canadian Prime Minister and staunch ally Justin Trudeau, and the commander-in-chief walked out of the Group of Seven industrialized nations summit, held in Canada.

The high-stakes Trump-Kim summit marks the first face-to-face meeting between a sitting U.S. president and a North Korean leader. It is ultimately aimed at reaching a denuclearization agreement on the Korean Peninsula, and could reshape the security environment in Asia.

As the chart shows, South Korea's KOSPI **stock index** rose slightly on improved sentiment Monday, ahead of the event. The Korean won stood firmer at 1,072.9 per dollar.

Market Reaction

Stephen Innes, Asia-Pacific head of trading at Oanda, said market expectations of a U.S.-North Korea deal are running high. If the talks go sideways, he added, "there could be a reasonably aggressive regional risk-off move."

Investors shouldn't be too excited by the summit, cautioned Steven Leung, an executive director at UOB Kay Hian. Even a successful meeting wouldn't give much stimulus to the stock markets, he said, as investors will continue to weigh this week's central bank meetings for further trading cues.

"The key central bankers' rate decision and outlook comments would set the tone for fund flows and liquidity movement for markets in Asia in the second half," he said.

Jingyi Pan, market strategist at IG Singapore, also noted the risk posed by the meeting.

"The market does feel that [Trump-Kim summit] has been put together a bit hastily and that the outcome itself could certainly go either way due to very **volatile** leaders," she said. Meanwhile, the likelihood of hawkish intonations stemming from the central bank meetings "isn't going to be a good picture for emerging markets, especially in Asia."

Elsewhere

Oil futures started the week moderately lower in Asia. July West Texas Intermediate, the U.S. standard, was down 0.1% at $65.67 per barrel. **S&P 500** futures were down 0.1% in Asia.

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THE WALL STREET JOURNAL.

Markets

An Uneven Recovery in Stocks; Technology shares have powered much of the market's rebound since the S&P 500 fell into correction territory in early February

By Lauren Pollock and Peter Santilli
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After months of trading in a relatively narrow range, the **S&P 500** is 3.3% below its all-time high set Jan. 26. The broad **stock-market** index slumped more than 10% over the nine trading sessions following that record and entered correction territory on Feb. 8 for the first time in more than two years.

Technology stocks have powered much of the rebound, thanks to a big surge since late April. The sector is this year's best performer of the 11 segments in the index, with a gain of 14%.

Since the **S&P 500** closed at its 2018 low on Feb. 8, about nine out of every 10 technology stocks in the index have risen in price.

Twitter, which was added to the **S&P 500** on Thursday, was one of just 14 current constituents that rose during the index's nine-session slide from its record close to its low point this year. Twitter shares gained 24% during that period and then another 37% from then through Friday.

Electronic Arts has benefited from the popularity of its FIFA, Battlefield and The Sims videogame franchises.

Micron Technology shares have risen more than 50% since Feb. 8. The chip maker has seen strong demand and pricing for memory chips, which have driven the company's sales and earnings to record levels.

In the health-care sector, shares of Abiomed, which joined the index May 31, climbed nearly 80% during the rebound. The company's Impella heart pump has been a key profit driver.

Most **S&P 500** stocks have increased in price since the market entered a correction, but 148 have declined.

In addition to the tech sector, the consumer discretionary and energy sectors have contributed the rebound, rising 10% and 15%, respectively, since the market's low point this year.

TripAdvisor shares were buoyed in February by takeover speculation, and its restaurant and event booking business has reported strong revenue.

Chipotle Mexican Grill has bounced back after a series of food-safety scares and Macy's has posted higher sales thanks to increased consumer spending after closing dozens of stores.

Meanwhile, shares of energy companies such as Andeavor and Hess have risen along with **oil prices** that have surged for much of the year.

The contribution of tech and a few other sectors to the broader market's rally has been outsized, with just four of 11 sectors in the **S&P 500** outperforming the index since Feb. 8.

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The Week Ahead
Business Day
Net Neutrality Goes Away, and a Ruling in the AT&T-Time Warner Case

By The New York Times
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Here’s what to expect in the week ahead:

Rules barring priority lanes on the internet will go away.

Federal internet rules known as net neutrality will officially disappear on Monday. The rules, dating from the Obama administration, require internet providers to give consumers equal access to all content online. The Federal Communications Commissionvoted to repeal the rules in December. The repeal is expected to draw online protests.

Judge to rule on the AT&T bid for Time Warner.

A federal judge on Tuesday will decide AT&T's $85.4 billion bid for Time Warner, a deal that would create a media and telecommunications powerhouse and help set a path for mergers for years to come. The Justice Department sued in November to block the deal, saying the merger would raise prices and hurt competition by allowing AT&T to charge competitors higher licensing fees for Time Warner content. Judge Richard Leon of the United States District Court for the District of Columbia will announce his opinion from the bench at 4 p.m. on Tuesday following a six-week trial earlier this year.

Gas prices may contribute to an increase in inflation.

Inflation in recent years has been like a horror movie villain: feared, but not seen. But with retail gasoline prices now topping $3 a gallon in many parts of the country, inflation may finally be picking up. A report on Tuesday from the Labor Department is expected to show that consumer prices rose 2.7 percent in May from a year earlier, according to economists surveyed by Bloomberg, representing the fastest growth in over a year. Take gas prices out of the mix, however, and economists expect the core index, which excludes **volatile** food and energy prices, to show just a 2.2 percent rise, more or less in line with the trend over the past six years.

Interest rates and views on trade and inflation on Fed agenda.

The Federal Reserve is widely expected to raise interest rates by a quarter of a percentage point when it concludes a two-day meeting on Wednesday, bringing its benchmark rate to a range of 1.75 to 2 percent. It would be the seventh time the Fed has raised rates since the 2008 financial crisis, with the last increase in March. Investors will closely watch the news conference after the announcement by the Fed’s new chairman, Jerome H. Powell, for any signs of new worries over inflation or about the Trump administration's trade policies.

European Central Bank to discuss tapering stimulus.

The European Central Bank will discuss a timetable for winding down its eurozone stimulus program when it meets on Thursday in Riga, Latvia. The bank has been buying government and corporate bonds since early 2015 as a way to pump money into the eurozone economy. But inflation has been picking up, putting pressure on the central bank to dial back the de facto money printing. Top officials of the bank have signaled that the program will be the main topic at the meeting of the policy-setting Governing Council, which is making one of its periodic forays outside Frankfurt. A definitive announcement on the future of the stimulus measures may not come until July, however.

White House plans to publish list of tariffs against China.

The Trump administration plans to release by Friday the final list of the roughly $50 billion in Chinese products that would be subject to tariffs under the president's trade plan. The release is likely to escalate the already-brewing trade war with China. White House officials have said that the tariffs will go into effect shortly after Friday, though that may be delayed to give negotiators from the two countries, who have been continuing trade talks through recent weeks, time to come up with a solution. Companies and trade organizations have been given the opportunity to weigh in on what effect of the tariffs could have since early April, when the administration released an initial list of 1,300 Chinese products that would be taxed.

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THE WALL STREET JOURNAL.

World

Buyers of Iran's Oil Balk at U.S. Push to Isolate Country; Trump administration's pressure campaign on Iran gets scant buy-in from close allies, let alone from biggest purchasers of its oil: India and China

By Bill Spindle and Anant Vijay Kala
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Corrections & Amplifications

A previous version of this story misquoted Treasury Secretary Steven Mnuchin as saying, "We still enforce compliance." Mr. Mnuchin actually said, "We will enforce compliance." June 10, 2018.

The Trump administration's effort to pressure Iran depends on countries deeply skeptical of the U.S. campaign against the Islamic Republic, creating resistance that analysts and officials in those countries say could undercut one critical element of the push: curtailing Iran's oil exports.

The renewed U.S. targeting of Iran's economy comes after President Donald Trumpwithdrew the U.S. last month from a landmark deal in which Iran limited its nuclear program in return for restored business and financial ties with the rest of the world. The other parties to the accord—including the European Union and China, which have begun developing extensive dealings with Iran—opposed the U.S. withdrawal and are trying to maintain the deal.

The last time the U.S. ramped up the pressure on Iran, the Obama administration's targeting of the Islamic Republic's oil sales was a critical tool in disrupting Iran's economy and pushing its leadership toward the agreement to restrict its nuclear program.

Iran came to the negotiating table in 2015 only after its most reliable customers had slashed their oil purchases across the board. European buyers cut back aggressively and voluntarily. Japan and South Korea, close allies of the U.S. that shared its concerns about Iran's nuclear program, reduced their imports of Iranian oil under U.S. pressure. India, Iran's second-biggest buyer, refused to acknowledge U.S. sanctions as legitimate, but nonetheless reduced purchases enough to placate the U.S.

Even China, Iran's best customer then and now, bought less Iranian oil, even as it decried the unilateral U.S. sanctions and vowed to defy them.

Re-creating that scenario could prove challenging after last month's U.S. withdrawal from the deal, known officially as the Joint Comprehensive Plan of Action, analysts and officials say.

The U.S. may get "some reductions, but not a whole lot," said Richard Nephew, a former U.S. State Department official who implemented sanctions during the Obama administration and is now a fellow at Columbia University's Center for Global Energy Policy. "Then we wind up screaming at our allies the Europeans over this and potentially sanctioning them, screaming at the Indians and potentially sanctioning them, while Iran potentially suffers no ill effect."

Trump administration officials say they are taking the same approach as the Obama administration: asking buyers of Iran's oil to voluntarily eliminate or at least reduce their purchases, backed by explicit threats to punish any companies that do business with Iran by denying them access to U.S. markets and financial institutions.

As the Obama administration did, the current administration is giving companies up to six months to start making the reductions voluntarily. But ultimately, said U.S. Treasury Secretary Steven Mnuchin, "We will enforce compliance."

Unlike the last time around, however, the buyers of Iranian oil are uniformly hostile to U.S. goals and likely to delay, resist and outright defy U.S. demands, according to analysts and officials in purchasing countries. Even

U.S. allies in the EU, significant buyers of Iranian oil, hope to keep Iran in the nuclear deal without U.S. participation—something the Iranians say is only possible if oil sales continue unfettered.

To be sure, if Iran, which has said it would stick with the deal for now, ultimately decides to abandon it and resume its nuclear program, some countries that are resisting U.S. sanctions could eventually work more closely with the U.S. again.

In 2012, EU countries voluntarily imposed a complete boycott on oil from the Islamic Republic. Other countries—Japan, South Korea, India—also cut back, driven by the combination of U.S. pressure and a desire to see Iran restrain its nuclear program. Even China, which decried the U.S. oil sanctions and vowed to defy them, reduced purchases of Iranian oil, in part, analysts say, because it wanted Iran to enter into the nuclear deal.

Now the landscape looks very different, analysts and officials say. Although the U.S. threat of shutting companies out of U.S. markets remains potent, the Trump administration so far has no active support or open cooperation from any purchaser of Iranian oil. European governments, which tried to dissuade the U.S. from pulling out of the Iran deal, have announced no plans to cut back on Iranian oil, and privately officials say they hope to avoid doing so.

Still, European companies that buy Iranian oil are dependent on U.S. markets and are expected to curtail purchases under U.S. pressure, though far more slowly than last time. Maersk Tankers AS, one of the world's largest oil-shipping companies, said last month it would stop taking assignments for Iranian oil shipments and wind down existing customer orders. French oil giant Total SA said it has halted investments in an Iranian natural-gas field.

Companies based in other close U.S. allies, such as Japan and Korea, are also likely to grudgingly accede to the Trump administration demands, analysts say.

But that reluctance among U.S. allies could hamper Mr. Trump's efforts with Iran's two biggest customers: China and India. Indeed, some observers wonder whether one or both might actually buy more Iranian oil, especially if it is discounted.

China purchased Iranian oil at a rate of 671,000 barrels a day in April, while India imported 604,000 barrels a day. Together those two countries buy 60% of Iran's total exports, more than double the combined purchases of the next two biggest importers, South Korea and Japan, according to Kpler, an oil-industry consulting firm.

During the last round, India refused to recognize the U.S. oil sanctions, but it did eventually cut imports from Iran by about 20%, enough to avoid sanctions from the Obama administration. The government has recently reiterated that it doesn't recognize unilateral U.S. sanctions on Iran.

But quietly acquiescing to U.S. demands, as the country did last time around, would be far trickier today. Because India, which is heavily dependent on crude imports, lifted controls on gasoline prices at the pump, rising **oil prices** are already hitting Indian consumers directly. That is a huge headache for the ruling party of Indian Prime Minister Narendra Modi, which faces a national election early next year.

Indian government officials say they tell Washington that India needs to maintain good relations with Iran to better help the U.S. India is backing the development of a major port in the Iranian city of Chabahar, as part of a commercial corridor aimed at counterbalancing Chinese influence in Pakistan and Afghanistan, in line with a major U.S. objective in the region.

India will "seek complete exemptions" to U.S. demands it curtail imports from Iran, "or at least limit it to the minimum possible [reductions]," said a senior official in the prime minister's office.

While India isn't a formal ally of the U.S. like many EU countries, Mr. Modi has boasted of a strong relationship with Mr. Trump, whose administration has also prodded India to help in Afghanistan.

"They would make the case that, 'listen, if we don't stay engaged with Iran, and particularly with Chabahar, the only other country that you leave the field open to is China, and do you really want that?,'" said Tanvi Madan, an analyst at Brookings Institution, a Washington think tank.

China is an even tougher challenge. Iran's biggest oil buyer has promised to work with Tehran to avoid disrupting growing investment and trade activity between the two countries. China has also encouraged the use of its currency, the yuan, for international commerce such as oil trading, which traditionally has been conducted almost entirely in dollars. The country recently introduced new crude-oil futures priced in yuan.

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Some analysts see the potential for China to increase its imports of Iranian oil with at least tacit support from Europe. That would help keep the Iran deal in place without U.S. participation by making Iran whole through oil purchases the U.S. gets other parties to cut.

"We have a joint interest in keeping the Iran deal alive," said Nicola Casarini of the Rome-based think-tank Institute of International Affairs at a recent regional security conference in Shanghai.

Rajesh Roy, James T. Areddy, Ian Talley and Benoit Faucon contributed to this article.

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International New York Times

opinion
The Era of American Complacency on Trade Is Over

By PETER NAVARRO
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President Trump arrived at the Group of 7 summit meeting in Canada on Friday amid an expression of "concern and disappointment" from the six other nations' finance ministers over United States trade policies. Conspicuously absent has been any acknowledgment by these ministers of the trade practices that contribute to America's more than $500 billion annual global trade deficit in goods and services.

Consider Germany, with which the United States had a trade deficit in goods of about $64 billion in 2017. While the United States tariff on cars made in Germany and elsewhere in the European Union is 2.5 percent, the European Union tariff is four times as high, at 10 percent. No wonder Germany sells us three cars for every one we export to Germany.

Even when Germany's automakers build facilities in the United States, these so-called factories are more like assembly plants. S.U.V.s in the BMW X series that are assembled in the United States actually contain only 25 percent to 35 percent American-built content — the high-value engines and transmissions are manufactured in Germany and Austria.

Even as Germany runs huge trade surpluses with the United States, it is not on track to meet its financial commitment to the NATO alliance, to spend at least 2 percent of its gross domestic product on defense by 2024. Despite being Europe's wealthiest country, Germany spends a mere 1.24 percent of its G.D.P. on defense.

America's trade deficit in goods with Japan is higher than with Germany: $70 billion in 2017. For every one car America exports to Japan, Japan sends us over 100. High non-tariff barriers, including a complex regulatory system, make it difficult to sell American cars in Japan. Meanwhile, Japan slaps tariffs on a wide range of American agricultural products — as much as 32 percent on oranges, 50 percent on beef, 40 percent on various cheeses and 58 percent on wine.

As for Canada, which has been most strident in its criticism of the United States, it has for decades dumped its lumber into the United States, threatening lumber industry jobs in Alaska, Oregon and other states. It erects high non-tariff barriers that harm our wheat and barley growers and place United States beer and spirits exporters at a disadvantage. Wisconsin dairy farmers know all too well that Canada unfairly manipulates its dairy prices to protect its dairy farmers, hurting United States dairy exports to Canada and other markets around the world.

It's time for our major trading partners — from strategic competitors like China to key members of the Group of 7 — to realize that the era of American complacency in the international marketplace is over. Going forward, President Trump will pursue two goals on behalf of the American nation and people.

First, trade must be not only free but also fair and reciprocal. American tariffs are among the lowest in the world. Our generosity and free market good will has only led to a huge trade deficit and the transfer of wealth abroad.

Second, President Trump reserves the right to defend those industries critical to our own national security. To do this, the United States has imposed tariffs on aluminum and steel imports. While critics may question how these metal tariffs can be imposed in the name of national security on allies and neighbors like Canada, they miss the fundamental point: These tariffs are not aimed at any one country. They are a defensive measure to ensure the domestic viability of two of the most important industries necessary for United States military and civilian production at times of crisis so that the United States can defend itself as well as its allies.

Neither of these goals of the Trump presidency should stand in the way of our longstanding and productive strategic alliances and economic relationships with members of the Group of 7. There will continue to be a strong need to cooperate on issues of mutual interest, including defending democracy and freedom against authoritarianism, and protecting our citizens from terrorism. This also means we should find common ground on fair and reciprocal trade in ways that favor market economics, lower trade barriers and are mutually beneficial to workers across the Group of 7 nations.

President Trump welcomes continuing dialogue and cooperation with Group of 7 members and our other allies and trading partners. But the days of accepting unfair trade practices are over.

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Peter Navarro is assistant to the president for trade and manufacturing policy.

* Peter Navarro, a Top Trade Skeptic, Is Ascendant

* Trade Wars, Stranded Assets, and the **Stock Market** (Wonkish)

* Trump's Negative Protection Racket (Wonkish)

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The New York Times

Business/Financial Desk; SECTB
Consumer Products Lead A Day of Limited Gains

By THE ASSOCIATED PRESS
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The **stock market** shook off a bumpy start and ended modestly higher Friday, led by gains in consumer products companies like Monster Beverage and Procter & Gamble. Health care companies also rose. Energy companies slipped along with the price of oil.

Trading has been muted ahead of the Group of 7 summit in Quebec, which began Friday. The meeting is expected to be tense as other leaders confront President Trump over his protectionist trade policies.

Consumer products companies, which have been out of favor the in last few months, rose for the second day in a row. Over all, major indexes were mostly higher after posting small losses the day before.

The Group of 7 meeting was set to be unusually contentious, as leaders of France and Canada in particular have expressed in tough terms their disapproval of the tariffs Mr. Trump recently imposed on steel and aluminum imports.

Trade tensions have been rattling markets for the last three months, and the Group of 7 summit isn't expected to deliver much relief. That said, there could be a silver lining to the ongoing talks between the United States and its trading partners over the highly unpopular tariffs, according to Scott Wren, senior global equity strategist for the Wells Fargo Investment Institute.

''The end result probably is going to be lower tariffs across the board,'' Wren said. Wren said that ultimately a large number of older tariffs that are currently levied on American imports and exports could be reduced or eliminated.

The **Standard & Poor's 500-stockindex** added 8.66 points, or 0.3 percent, to 2,779.03. The **Dow Jonesindustrial average** rose 75.12 points, or 0.3 percent, to 25,316.53. The **Nasdaq composite** index gained 10.44 points, or 0.1 percent, to 7,645.51.

The Russell 2000 index of smaller-company stocks rose 4.72 points, or 0.3 percent, to 1,672.49. Smaller and more United States-focused stocks have fared better than the rest of the market in recent months as investors have worried that trade frictions could affect large multinational companies. The Russell is on a six-week winning streak.

Wall Street appeared to be slightly less worried about the trade situation this week. The Dow has taken a bigger hit from the trade disputes than other United States indexes, but this week was its best in three months. The **Nasdaq** and Russell 2000 reached record highs on Wednesday.

Among consumer products makers, Monster Beverage climbed 5 percent to $55.48 after its annual shareholder meeting. Mark Astrachan, an analyst for the investment firm Stifel, said the company's sales growth was solid. He said the company planned to raise its prices in the United States later this year in response to higher aluminum prices.

Procter & Gamble gained 1.9 percent to $77.18. Philip Morris International rose 2.6 percent to $79.42 after it raised its quarterly dividend, while Reuters said the company planned to start selling its tobacco-heating Iqos device in India.

United States crude oil slid 0.3 percent to $65.74 a barrel in New York. Brent crude, used to price international oils, fell 0.6 percent to $76.82 per barrel in London.

Bond prices edged lower. The yield on the **10**-**year Treasury** note rose to 2.95 percent from 2.93 percent.

Gold fell 60 cents to $1,298.10 an ounce. The dollar dipped to 109.54 yen from 109.70 yen. The euro fell to $1.1765 from $1.1798.

CHART: The **S**.**&P**. **500 Index**: Position of the **S**.**&P**. **500 index** at 1-minute intervals on Friday. (Source: Reuters)

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EXCHANGE --- Banking and Finance News: Tech's Hot Streak Gets Back On Track

By Stephanie Yang
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Technology funds just closed one of their biggest weeks in inflows, putting the sector on track for a record year.

According to Bank of America Merrill Lynch, tech saw $2.3 billion inflows this week, its second-highest weekly inflows ever. Meanwhile, investors are fleeing other markets, such as high-yield and investment-grade bonds, emerging markets and European equities.

The outperformance is also exacerbating a split between U.S. stocks and the rest of the world, BAML noted, "turbo-charging" a nine-year decoupling as U.S. equities pull ahead.

The data is another sign that tech stocks have returned to favor with investors, after a broad selloff in March on concerns about how privacy concerns could hurt corporate profits.

Now, investors are putting money back into tech companies, propelling the **Nasdaq Composite** to a high for the first time in three months Monday. Tech funds have taken in $17.3 billion so far this year, according to BAML analysts.

Meanwhile, the broader **stock market** is lagging behind. The **S&P 500** and **Dow Jones Industrial Average** have yet to surpass previous highs hit this year, though positive consumer sentiment and strong economic data have helped buoy markets.

On Monday, S&P Dow Jones Indices said it would add Twitter to the **S&P 500** and Netflix Inc. to the S&P 100.

However, investors are running the risk of getting caught on a deep tech selloff by focusing on an "owning tech, trading everything else" strategy, BAML said.

The **Nasdaq Composite** has risen nearly 11% year to date, while the **S&P 500** and the **Dow Jones Industrial Average** have gained 2% and 4%, respectively.

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Business Day; DealBook
Trump's Trade War Faces Its First Big Test: DealBook Briefing

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Here's what we're watching:

• Verizon names its next C.E.O.

• The Justice Department's antitrust chief weighs in on the Fox battle

• Trump will play the G-7 on his terms

• Charles Koch may have forced his brother out

Trump defiant at the G7, but a big trade test looms

As President Trump attends the Group of 7 summit, fiercely at odds with other rich nations over trade, it is important to understand how much has so far gone his way.

If any country is currently well positioned to fight a trade war, it's the United States. Its economy's growth rate is relatively strong — and it may now accelerate . Compared to other nations, foreign trade makes up a small percentage relatively of the U.S. economy, which means it doesn't depend heavily on access to world markets. But other countries rely greatly on access to the U.S., as the country's trade deficit shows. As Mr. Trump has ratcheted up his combative trade strategy, there are few signs that the outcomes critics warned of — a **stock market** slump and an economic crunch – are about to occur. His detractors say his trade policy is incoherent, yet when a country has a strong hand, as the U.S. does, it may matter less that its policies are not carefully choreographed.

But the real test is approaching.

Next week, the Trump administration's fight with China – which could hit far more businesses than the tariffs on steel and aluminum now in effect – enters a crucial phase. The administration is scheduled to release on June 15 a final list of Chinese products covered by $50 billion of tariffs. It said that it will impose the tariffs shortly thereafter. China has threatened to retaliate.

The Trump administration may end up stopping short of an all-out trade war with China. The compromise over ZTE , the Chinese electronics company subject to U.S. penalties, is a sign that Mr. Trump is willing to give ground. But it's hard to see how he can quickly come away with a deal that looks like an unequivocal victory. The United States may get China to agree to buy a certain amount of goods, but such commitments would do almost nothing to tackle the underlying causes of the large U.S. trade deficit with China. China has shown no indication, for instance, that will give up on its Made in China 2025 program .

The Trump administration has two choices. It can settle for relatively unambitious gains and try to spin them as significant. Investors would welcome that outcome. Voters may, too. Alternatively, Mr. Trump can keep demanding big changes in China, and possibly plunge the U.S. into a drawn-out trade war. The imposition of the metals tariffs shows that he is willing to follow through. But it's still not clear how he will respond when his trade measures do significant harm to businesses or the **financial markets**.

That moment may not be far away.

-- Peter Eavis

Verizon names its next C.E.O.

The telecom giant said on Friday that its chief executive of eight years, Lowell McAdam , would be stepping down on August 1. He'll remain chairman.

Replacing him will be Hans Vestberg , currently the president of the company's global networks.

Mr. McAdam's resignation comes after he engineered some of the most significant moves to adapt America's biggest telecom company for a digital era. He bought full control of Verizon's wireless business from Vodafone in 2013 in a $130 billion deal, striking a transaction that had been years in the making. He also led Verizon into the world of digital content, buying companies like AOL and Yahoo .

— Michael de la Merced

Lowell McAdam 's greatest deals

During his tenure as Verizon's C.E.O., Mr. McAdam helped reshape the telecom giant — and part of that was through deal making. Not all of the transactions were particularly flashy, but they tended to follow one of two paths: Overhauling the company's network operations or building up its digital media division (which is now called Oath).

Here are Verizon's top transactions since Mr. McAdam became C.E.O. in 2011, according to data from Thomson Reuters :

• $130 billion buyout of Vodafone 's stake in Verizon's wireless division in 2013

• $4.8 billion acquisition of Yahoo 's core internet business in 2016

• $4.4 billion takeover of AOL in 2015

• $3.1 billion deal for Straight Path, a telecom company whose licenses for wireless spectrum (the network airwaves that are important for data sending) made it the subject of a bidding war with AT&T earlier this year

• $2.4 billion purchase of Fleetmatics , an Irish company that helps companies manage employees on the road, in 2016

There were also big potential deals — the takeovers of CBS and 21st Century Fox to name two — that Mr. McAdam ended up not pursuing.

• Verizon had asked Shari Redstone, the media company's controlling shareholder, if it would ever come up for sale, according to CBS 's lawsuit against Ms. Redstone last month.

• It briefly looked at buying the assets of Fox that Walt Disney ended up agreeing to acquire for $52.4 billion, including the 20th Century Fox movie studio and cable channels like FX.

But in May, Mr. McAdam told CNBC that he wasn't interested in buying "linear" properties — that's industry-speak for traditional content creators. More from that interview:

— Michael de la Merced

Two takes on Lowell McAdam 's legacy

In his seven years as Verizon's C.E.O., Mr. McAdam was known for his relentless focus on his company's wireless network and his aversion to striking big, splashy deals.

As Verizon prepares for the telecom industry's future — where the only certain things are the rise of 5G wireless technology and online video streaming — here's what two research analysts think about what the company has done and where it's headed.

Craig Moffett , MoffettNathanson

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Mr. McAdam will be defined by the deals that he didn't do. Unlike AT&T — which paid nearly $50 billion for the satellite TV service DirecTV and is trying to acquire Time Warner for $85.4 billion — Verizon never struck splashy acquisitions, aside from those of Yahoo and AOL (combined purchase price: $9.2 billion).

But that conservatism has worked in Verizon's favor. DirecTV has steadily lost customers in this age of cord-cutting, dragging down AT&T 's financial health.

"I think he deserves a lot of credit for avoiding some of the traps that some of his peers have fallen into," Mr. Moffett said of Mr. McAdam.

As for the fear underpinning many telecom companies' deal-making — that sticking to basic internet and phone service is boring — Mr. Moffett said Verizon has shown that worry to be unfounded.

"What's so bad about being a distribution channel?" he told me. "Verizon fully understood and embraced that there will always be a place for an advantaged network — and people will pay a premium for it."

Amy Yong, Macquarie

Mr. McAdam's relentless focus on making Verizon's network the best in the U.S. has paid off handsomely, with the company earning a premium from investors based on the strength of its core business.

The big question is whether that will be enough going forward, as rivals AT&T and T-Mobile pursue bold moves.

Verizon's cautious strategy may ending up costing the company. Though AT&T 's bet on wireless video streaming hasn't paid off yet, if it works, it will make that company a formidable creator and distributor of content. And T-Mobile and Sprint could prove to be a strong new rival if their proposed union works out.

"The future is looking very different," she said in a telephone interview. "What worked in the past may not be what works in the future."

— Michael de la Merced

Don't sweat Apple's ordering fewer iPhone parts

A new report suggests that Apple is preparing to sell fewer phones later this year. It may sound worrying. But we've seen similar news before, and the fallout is unlikely to be all that bad.

Nikkei reported on Friday , citing unnamed sources, that Apple has warned suppliers that it will order 20 percent fewer components for its forthcoming iPhones than it did for last year's models. That would obviously suggest that Apple plans to sell fewer phones this year. Apple's stock is down 1.4 percent on the news.

Sound familiar? Sure. Apple has decreased orders for phones in the past: the 5C , the 6S , the 7 , the 8 . It's also shown that it sometimes errs on the side of conservatism ahead of phone debuts: Demand outstripped supply for its current flagship phone, the X, shortly after it went on sale.

The truth is that iPhone sales have been erratic . And sales are likely to struggle in the future because the smartphone market is mature. — most people have one already, and incremental feature improvements mean users don't need to upgrade as frequently. It may also be expecting a dip if its next device doesn't push much beyond the technology inside the X.

But Apple's phones are getting more expensive, so every sale counts for more. And its services businesses — things like Music and Pay — are becoming an increasingly valuable revenue stream, meaning that the company can make more money off existing users even if they don't upgrade to the latest device.

— Jamie Condliffe

Ant Financial isn't so small anymore

Private investors in Ant Financial 's latest fund-raising round gave the Chinese financial firm a valuation of $150 billion. Here how that compares to the **stock market** capitalizations of America's largest banks.

— Jamie Condliffe

Autonomous car safety regulation and investigation needs to catch up with those cars

The job faced by investigators of car collisions is getting more difficult as autonomous car features become more advanced, and the way they do their jobs might need to change to accommodate that.

In March, a Tesla Model X collided with a concrete lane divider as it was driven down a highway in Mountain View, Calif. A new report by National Transportation Safety Board investigators suggested that Tesla's Autopilot technology played a role in the death of a Tesla owner.

From the N.T.S.B. report :

But it's interesting to consider where the information used to draw those kinds of conclusions actually comes from. The Information today reports on how data about autonomy features isn't necessarily collected by default on the recorders that are accessible to many crash investigators, such as those employed by insurance firms:

An update to the rules published by the National Highway Traffic Safety Administration could change that situation, by demanding that automakers log more details about the vehicle's behavior.

But even data logs might not be enough to fully understand an accident. Autonomy features on cars increasingly make use of artificial intelligence to understand and respond to what they see on the road. But Will Knight of MIT Technology Review has explained how understanding the reasoning that's happening inside the so-called artificial neural network — one of the core technologies that modern A.I. uses — isn't straightforward:

Many artificial intelligence researchers are trying to develop ways to make it easier to understand the inner working of A.I. systems. But for now, that's likely to involve looking at complex computer code. That suggests that crash investigation teams, as well as the regulations that are applied to automakers, might require an update in the near future, too.

— Jamie Condliffe

The Justice Department's antitrust chief weighs in on the Fox battle

Comcast is threatening to challenge Walt Disney 's $52.4 billion bid for most of 21st Century Fox . Behind the scenes, it's playing down investors' and analysts' fears of an antitrust response. We may have just gotten a clue about whether it's right.

The head of the Justice Department's Antitrust Division , Makan Delrahim, appears unruffled about a Disney -Fox deal, at least. From an interview at The Deal's conference yesterday:

But Mr. Delrahim also defended his team's effort to block AT&T 's $85.4 billion takeover of Time Warner , saying it was a merger of a kind that federal regulators had sought to block for decades. (A federal judge is expected to rule on the Justice Department's lawsuit against the deal on Tuesday.)

Michael de la Merced's take: That Mr. Delrahim continued to criticize the potential union of a telecom giant and a media company as potentially bad for consumers doesn't augur well for Comcast 's Fox bid.

Trump will play the G-7 on his terms

The president won't attend all this weekend's Group of 7 talks in Quebec — he'll leave midmorning tomorrow , before sessions on clean energy and the climate. That sums up his approach to the summit, where other world leaders are likely to attack his aggressive trade policies.

Michael D. Shear of the NYT likens the weekend to a Thanksgiving from hell :

On the agenda: Chancellor Angela Merkel of Germany will urge Europe to tackle President Trump's policies more assertively , while Prime Minister Theresa May of Britain will counsel restraint . And Prime Minister Justin Trudeau of Canada may do whatever it takes to salvage his image .

It's unclear how — or if — any of that will affect America's trade policies. But diplomatic tensions look set to rise, and economic uncertainty would rise with them.

Elsewhere in trade:

• Senate Republican leaders look set to quash Senator Bob Corker's bid to rein in the president's tariffs.

• An inside look at how Mr. Trump turned up the heat on trade with China.

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• And the people who might make him turn it down again: Iowan soybean farmers .

Did the White House strike a good deal over ZTE?

The Trump administration removed crippling penalties on the ailing Chinese telecom company in exchange for $1.4 billion in fines and other measures. But did some other big gain drive the deal?

Getting Beijing to approve Qualcomm 's takeover of another chip maker, NXP Semiconductors ? Maybe. China's latest trade concessions, which were linked to the Trump administration not imposing certain tariffs? Unlikely.

The answer might be simpler, according to the NYT . Killing ZTE would have left President Xi Jinping of China with a huge political problem, damaging the overall Washington-Beijing trade talks.

The reaction: Critics said the penalties weren't tough enough . And lawmakers were predictably up in arms :

A bipartisan group of senators, including Mr. Rubio and the Senate minority leader, Chuck Schumer, introduced legislation to strictly limit ZTE's operations .

The political flyaround

• The Justice Department said that it won't defend key parts of the Affordable Care Act. (NYT)

• The I.M.F. has agreed to give Argentina a $50 billion financial lifeline as the country tries to reduce its fiscal deficits. (WSJ)

• Federal prosecutors seized years' worth of an NYT reporter's phone and email records as part of an investigation into classified information leaks by a Senate Intelligence Committee aide. (NYT)

• The E.P.A. has changed the way it calculates risks of chemicals — in a way that benefits the chemical industry. (NYT)

Charles Koch may have forced his brother out

When David Koch announced on Tuesday that he was retiring from his family's industrial conglomerate and political network, he cited his health as the reason. But according to The New Yorker , it was a move by his older brother, Charles, who has long been the dominant partner.

More from Jane Mayer:

The deals flyaround

• Jonathan Bush 's resignation from Athenahealth is yet another C.E.O. ouster to come after Elliott Management , known for hardball shareholder activism, invested in a company. (Fortune)

• Deutsche Bank's chairman, Paul Achleitner , has reportedly revived the idea of merging it with a fellow German lender, Commerzbank . (Bloomberg)

• Bayer of Germany has closed its takeover of Monsanto and dropped the U.S. company's name. (Bloomberg)

Google won't work on A.I. weapons, but will work with the military

After an employee backlash over its work with the Pentagon, the tech company has created a set of principles to guide its artificial intelligence projects. The seven rules, published by Google 's C.E.O, Sundar Pichai , rule out projects that could cause injury or violate human rights — but not all forms of defense work.

Jamie Condliffe's take: Defense contracts are too lucrative for Google to give up on entirely, and there's certainly scope for building military A.I. that doesn't cause death and destruction. But the rules' language is vague in places — it might not rule out the development of A.I. for use in cyberattacks, for instance — and employees may push back.

The tech flyaround

• A Facebook bug made the status updates of 14 million users public. Meanwhile, the company is hiring "news credibility specialists." made the status updates of 14 million users public. Meanwhile, the company

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• A National Transportation Safety Board report suggests that an Autopilot mistake contributed to a fatal Tesla crash in Mountain View, Calif., in March. (The Verge)

• During the Bitcoin boom, many long-term holders sold out to new speculators. (FT)

• Sucking carbon dioxide out of the air to fix climate change might be cheaper than we thought. (Ars Technica)

Kentucky Derby winner Justify has a secret co-owner: George Soros

SF Bloodstock and SF Racing Group, a company controlled by top executives at the billionaire's investment firm, has a 15 percent stake in the horse, which is the heavy favorite to win tomorrow's Belmont Stakes.

More from Melissa Hoppert and Matthew Goldstein of the NYT :

Elsewhere in business and sports:

• Amazon has won exclusive U.K. rights to broadcast 20 Premier League matches .

• Are sports teams now too expensive for the average billionaire ?

Revolving door

• Harold Ford Jr ., the former congressman who was fired by Morgan Stanley amid allegations of improper behavior, is said to be planning a return to Wall Street. (Fox Business)

• BlackRock has lost David Horowitz and Benjamin Brodsky, the deputy chief investment officers of its biggest hedge fund, Fixed Income GlobalAlpha. (Bloomberg)

• Gavin Patterson will step down as the chief executive of BT, after the British telecom company said it needed new leadership. (BBC)

• The law firm Kirkland & Ellis has poached Kristin Mendoza from Latham & Watkins as a partner focusing on private equity deals. (Kirkland & Ellis)

The speed read

• How the gig economy is reshaping work: not much. (NYT)

• Economists think the Fed will raise interest rates four times this year. (WSJ)

• Inside a factory that aims to solve housing shortages. (NYT)

• A $3.3 million steak with Warren Buffett ? Call it a smart tax move. (Forbes)

We'd love your feedback. Please email thoughts and suggestions to bizday@nytimes.com .

President Trump boards Air Force One as he heads to G7 Summit in Quebec. | Doug Mills/The New York Times | Lowell McAdam | Drew Angerer/Getty Images | Kevin Lamarque/Reuters | Ng Han Guan/Associated Press | Charles Koch | Bo Rader/The Wichita Eagle, via Associated Press | Jonathan Bush, departing C.E.O. of Athenahealth. | Michele McDonald for The New York Times | Sundar Pichai, Google's C.E.O. | Justin Sullivan/Getty Images | George Soros | Francois Mori/Associated Press

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WSJ PRO CENTRAL BANKING

Economy

China's Trade Surplus Narrows—but Not With the U.S. As overall surplus in May narrowed by 13% from April, surplus with the U.S. widened by 11%

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BEIJING—China's trade surplus narrowed in May on strong imports, through the gap with the U.S. widened—in part, some economists said, because of concerns that trade tensions could worsen in the months ahead.

China reported a trade surplus of $24.92 billion last month, according to customs data released Friday, narrower than April's $28.78 billion and the $32.6 billion forecast in a poll of economists.

Imports were up 26% from a year earlier—driven by rising **oil prices** and bigger purchases of factory inputs, some economists said—accelerating from April's 21.5% and beating forecasts. The higher-than-expected figure came after Beijing pledged to its trading partners to increase purchases and narrow trade gaps.

Stripping out price effects, Julian Evans-Pritchard, an economist with Capital Economics, estimated that import volumes in May were still up a seasonally adjusted 5.2% from April, reversing most of the decline since the start of 2018. The increase suggests that industrial activity remains strong following the easing of wintertime pollution controls, he said.

Washington and Beijing have skirmished over trade this year, increasing tariffs on some products and threatening to do so on tens of billions of dollars in other goods. Beijing in recent weeks extended an olive branch, announcing plans to increase purchases from abroad and reduce tariffs on automobiles and some consumer products ranging from food and cosmetics.

Even so, China's trade surplus with the U.S. in May was up 11% from April, at $24.58 billion, according to Friday's data. Concerns about more tariffs ahead likely caused some companies to front-load shipments, said Liu Xuezhi, an economist with Bank of Communications.

President Donald Trump has said he wants the trade deficit with China—which the Trump administration says reached $375 billion last year—reduced by $200 billion. In the latest round of trade talks between U.S. Commerce Secretary Wilbur Ross and Chinese Vice Premier Liu He, China offered to purchase nearly $70 billion of U.S. farm, manufacturing and energy products if the Trump administration abandons threatened tariffs, The Wall Street Journal reported earlier this week.

Overall, China's exports in May were up 12.6% from a year earlier, about matching April's 12.9% pace, the customs bureau said. Mr. Liu, the economist, said that "the steady export growth showed that the trade frictions with the U.S. has not yet affected China's exports."

Still, he and other economists said uncertainties loom for trade in the months ahead, given the threat of further trouble with the U.S., a softening European economy and a Chinese government campaign to rein in risky lending.

"Even if a trade war is avoided, Chinese trade growth is still likely to edge down over the coming year as the global economy loses momentum and headwinds to domestic demand from slower credit growth intensify," said Mr. Evans-Pritchard.

Grace Zhu

Heard on the Street

* Global Growth Isn't Dead Yet

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THE WALL STREET JOURNAL.

U.S. Markets
Markets
U.S. Stocks Turn Higher to Post Weekly Gains; Analysts attribute the choppy trading to rising trade friction ahead of a G-7 summit

By Georgi Kantchev and Akane Otani
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U.S. stocks climbed to weekly gains as advances across shares of consumer companies helped offset declines in the energy sector.

Stocks spent much of early Friday in negative territory before climbing around midday, supported by broad-based gains.

Analysts attributed the choppy trading to rising friction in international trade, which some worry could weigh on the global economy.

President Donald Trump said U.S. allies had been "taking advantage of the U.S. on trade" as he headed to a two-day summit of the Group of Seven industrialized nations. The moves came after Mr. Trump and French President Emmanuel Macron issued a series of barbed tweets over trade policies late Thursday.

While many investors say trade tensions likely won't be a significant drag on global growth, they expect such headlines to add to what has been a rocky environment for stocks.

"We're going to be **volatile** for a while," said Mark Heppenstall, chief investment officer at Penn Mutual Asset Management. "Short term, trade headlines could be a negative drag."

The **Dow Jones Industrial Average** rose 75.12 points, or 0.3%, to 25316.53. The **S&P 500** added 8.66 points, or 0.3%, to 2779.03 and the **Nasdaq Composite** edged up 10.44 points, or 0.1%, to 7645.51.

For the week, the Dow industrials rose 2.8% and the **S&P 500** advanced 1.6%, while the **Nasdaq** gained 1.2%.

Shares of consumer discretionary companies, which rose amid a flurry of corporate news, finished the week as the best-performing sector in the **S&P 500**.

McDonald's slipped Friday but posted a 6% weekly gain after saying Thursday it was planning to cut jobs around the country. Kohl's also boosted the consumer-discretionary sector, rising 14% for the week to $77.76, after analysts at Deutsche Bank and Credit Suisse raised their price targets for the stock.

Those gains helped offset weakness in energy shares in the **S&P 500**, which retreated Friday as U.S. crude for July delivery fell 0.3% to $65.74 a barrel and notched its third consecutive weekly decline.

Technology shares also paused after the **Nasdaq** had closed at records for three straight sessions through Wednesday. Apple shares slid 1.76, or 0.9%, to 191.70, with some analysts attributing the selling to reports that the company had told suppliers to produce fewer iPhone parts for devices launching later this year.

Elsewhere, weak data from Germany, Europe's largest economy, weighed on sentiment Friday, adding to signs of a slowdown in the eurozone. Industrial output was down 1.0% in April from March while exports slipped 0.3%.

"It's almost like a hangover which does not want to go away," ING economist Carsten Brzeski said in a note to clients.

The Stoxx Europe 600 fell 0.2%, posting its third consecutive weekly loss.

Hong Kong's Hang Seng Index shed 1.8%, while Japan's Nikkei Stock Average finished down 0.6%.

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THE WALL STREET JOURNAL.

Markets

What Regulatory Worries? Global Tech Stocks Reach New Heights; At the center of the selloff earlier this year, tech giants are again riding high

By Riva Gold and Steven Russolillo
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Tech is back.

The global technology giants at the center of a steep selloff in stocks this spring are climbing to new highs, propelled by blockbuster earnings and a surge in business spending.

Just a few months ago, investors dumped big positions in tech stocks, wiping out $601 billion in market value from the **S&P 500** tech sector alone in just three weeks. Their concern: more regulation and consumer scrutiny over data privacy.

Now, the **Nasdaq Composite** is hitting new highs and the MSCI World Information Technology sector is up 9.1% this quarter—currently outperforming the wider MSCI World Index by the largest margin since the dot-com era.

Although tech stocks wobbled near the end of the past week after a long streak of gains, better-than-expected first-quarter earnings and signs that U.S. companies are spending more on technology have helped the sector regain its dominant position.

Facebook Inc. shares traded around records this past week and Apple Inc. is again within striking distance of becoming the first $1 trillion U.S. company. Chinese e-commerce titan Alibaba Group Holding Ltd. and internet search giant Baidu Inc. have recovered from double-digit percentage declines earlier this year to rise 12% and 18% this quarter, respectively. Even Europe's small technology sector has outperformed the Stoxx Europe 600 by 8 percentage points over that period.

The threat to the sector of increased regulation and a global trade war haven't completely gone away. But convinced about these companies' earnings prospects, investors poured $2.3 billion into tech-sector funds in the week through Wednesday, the second-largest weekly addition on record, according to EPFR Global, dwarfing any outflows in February, March or April combined.

"I think the [tech] worries were misplaced," said Matthew Peron, chief investment officer at City National Rochdale. "We're in a growth cycle, and ultimately I don't see trade or political dust-ups derailing what is a secular issue."

Technology stocks contributed 75% of the **S&P 500**'s return in May, according to Bank of America Merrill Lynch data, and now represent 26% of the index.

Even the stocks at the center of market worries in March have found new fans.

In mid-March, shares of Facebook fell roughly 18% in just over a week. Investors were concerned that its handling of user data would lead to a steep fall in users and increased regulatory scrutiny that could threaten its advertising-focused business model.

"There was this feeling around data protection that this was the beginning of the end—no one would allow their information to be shared," said David Older, head of equities at asset manager Carmignac, who invested an additional $150 million into Facebook as it fell on a bet that its revenue wouldn't be affected.

In late April, Facebook's first-quarter results showed robust numbers for daily active users and advertising revenues. That has helped its shares climb roughly 27% since their low point in the selloff.

It wasn't just Facebook. The **S&P 500** tech sector delivered 33.7% earnings growth in the first quarter. That cut the price tag the sector trades on to just 19 times forward earnings, from 20 in January, according to FactSet.

"What do equity investors feel they can really count on now? It's not trade policy, not the [Federal Reserve], it's earnings," said Dave Donabedian, chief investment officer at CIBC Atlantic Trust Private Wealth Management, who owns several companies in the tech sector.

Just 3.6% of analysts now hold a "sell" rating on the **S&P 500** tech sector, around the lowest since 2013, according to FactSet. The largest 20 technology stocks globally now have a combined market capitalization of more than $6 trillion, according to strategists at Goldman Sachs.

Investors have also brushed aside other regulatory concerns. Many were worried that GDPR—the European Union's new privacy law—would hurt profits at large technology companies by restricting access to user data and adding to compliance expenses.

So far, for large companies such as Facebook and Google parent Alphabet Inc., "there seems to be minimal impact," said Jason Helfstein, internet analyst at Oppenheimer & Co. "If anything, it benefited them on a relative basis," he said, as customers appear more willing to consent to share data with companies having stronger brand power.

At the same time as regulatory concerns fade, tech companies look set to benefit from U.S. tax cuts.

American companies are using those savings to buy new technology products, according to multiple surveys of chief financial officers' spending plans.

Michael Kelly, global head of multiasset at PineBridge Investments, said he has recently built a basket of roughly 100 global stocks that he believes will benefit from a surge in business spending, including companies that sell robotics and artificial intelligence.

"Enabling technologies are on everybody's wish list for Christmas," he said.

Recent gains by Alibaba and Tencent Holdings Ltd., China's two largest tech companies, have exceeded some U.S. rivals. Both now have market capitalizations above $500 billion, placing them among the world's top 10 most valuable companies.

Tencent, the world's largest videogame publisher by revenue, is still 13% below its record, a dynamic that investors say is appealing.

"We believe Tencent has one of the most solid business models in China if not Asia overall," said Felix Lam, senior portfolio manager for Asia-Pacific equities at BNP Paribas Asset Management in Hong Kong.

Even in Europe, where technology companies make up a smaller part of the market, the sector has been a recent leader. Software company Dassault Systèmes SE is up 35% so far this year and Swiss-based Logitech International SA is up 33%.

To be sure, concerns about regulation and trade are likely to hang over the sector, with tech shares falling Thursday amid reports that members of Congress have begun scrutinizing Google's relationship with China's Huawei Technologies Co.

Hardware companies and those heavily reliant on revenues from both the U.S. and China could also be vulnerable to trade tensions, some investors say.

Meanwhile, some of the tax-related changes to earnings won't deliver the same boost after 2018, analysts say.

The sector is "having a sugar high here from fiscal stimulus plus tax cuts," said Carmignac's Mr. Older. "The trends are real and will continue, but you probably have one to two quarters of this type of euphoria before things start to normalize."

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THE WALL STREET JOURNAL.

Markets

U.S. Dollar Rises Against Euro Ahead of Group of Seven Meeting; Currency was down more than 5% against the Brazilian real as central bank says it will intervene

By Ira Iosebashvili
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The dollar rose against the euro and other currencies Friday as investors braced for a Group of Seven industrialized countries meeting this weekend where trade tensions are expected to dominate.

The euro was recently down 0.2% at $1.1770. The WSJ Dollar Index, which measures the U.S. currency against a basket of 16 others, was up 0.04% at 86.84.

In emerging markets, the dollar was recently down more than 5% against the Brazilian real. Brazil's central bank has vowed to intervene in markets to steady its falling currency, according to reports. The dollar has gained nearly 12% against the real this year.

"The markets viewed the interventions as a credible measure," said Alvise Marino, a strategist at Credit Suisse.

In the longer term, fiscal pressures and political concerns likely to spur **volatility** in the real, he said.

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The New York Times

Opinion
The Era of American Complacency on Trade Is Over

By Peter Navarro
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President Trump arrived at the Group of 7 summit meeting in Canada on Friday amid an expression of "concern and disappointment" from the six other nations' finance ministers over United States trade policies. Conspicuously absent has been any acknowledgment by these ministers of the trade practices that contribute to America's more than $500 billion annual global trade deficit in goods and services.

Consider Germany, with which the United States had a trade deficit in goods of about $64 billion in 2017. While the United States tariff on cars made in Germany and elsewhere in the European Union is 2.5 percent, the European Union tariff is four times as high, at 10 percent. No wonder Germany sells us three cars for every one we export to Germany.

Even when Germany's automakers build facilities in the United States, these so-called factories are more like assembly plants. S.U.V.s in the BMW X series that are assembled in the United States actually contain only 25 percent to 35 percent American-built content — the high-value engines and transmissions are manufactured in Germany and Austria.

Even as Germany runs huge trade surpluses with the United States, it is not on track to meet its financial commitment to the NATO alliance, to spend at least 2 percent of its gross domestic product on defense by 2024. Despite being Europe's wealthiest country, Germany spends a mere 1.24 percent of its G.D.P. on defense.

America's trade deficit in goods with Japan is higher than with Germany: $70 billion in 2017. For every one car America exports to Japan, Japan sends us over 100. High non-tariff barriers, including a complex regulatory system, make it difficult to sell American cars in Japan. Meanwhile, Japan slaps tariffs on a wide range of American agricultural products — as much as 32 percent on oranges, 50 percent on beef, 40 percent on various cheeses and 58 percent on wine.

As for Canada, which has been most strident in its criticism of the United States, it has for decades dumped its lumber into the United States, threatening lumber industry jobs in Alaska, Oregon and other states. It erects high non-tariff barriers that harm our wheat and barley growers and place United States beer and spirits exporters at a disadvantage. Wisconsin dairy farmers know all too well that Canada unfairly manipulates its dairy prices to protect its dairy farmers, hurting United States dairy exports to Canada and other markets around the world.

It's time for our major trading partners — from strategic competitors like China to key members of the Group of 7 — to realize that the era of American complacency in the international marketplace is over. Going forward, President Trump will pursue two goals on behalf of the American nation and people.

First, trade must be not only free but also fair and reciprocal. American tariffs are among the lowest in the world. Our generosity and free market good will has only led to a huge trade deficit and the transfer of wealth abroad.

Second, President Trump reserves the right to defend those industries critical to our own national security. To do this, the United States has imposed tariffs on aluminum and steel imports. While critics may question how these metal tariffs can be imposed in the name of national security on allies and neighbors like Canada, they miss the fundamental point: These tariffs are not aimed at any one country. They are a defensive measure to ensure the domestic viability of two of the most important industries necessary for United States military and civilian production at times of crisis so that the United States can defend itself as well as its allies.

Neither of these goals of the Trump presidency should stand in the way of our longstanding and productive strategic alliances and economic relationships with members of the Group of 7. There will continue to be a strong need to cooperate on issues of mutual interest, including defending democracy and freedom against authoritarianism, and protecting our citizens from terrorism. This also means we should find common ground on fair and reciprocal trade in ways that favor market economics, lower trade barriers and are mutually beneficial to workers across the Group of 7 nations.

President Trump welcomes continuing dialogue and cooperation with Group of 7 members and our other allies and trading partners. But the days of accepting unfair trade practices are over.

Peter Navarro is assistant to the president for trade and manufacturing policy.

* Peter Navarro, a Top Trade Skeptic, Is Ascendant

* Trade Wars, Stranded Assets, and the **Stock Market** (Wonkish)

* Trump's Negative Protection Racket (Wonkish)

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THE WALL STREET JOURNAL.
U.S. EDITION

U.S. News: Household Wealth Reaches Milestone

By Harriet Torry
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Americans' wealth surpassed the $100 trillion mark for the first time in early 2018, as rising home prices offset the hit to households' assets from a **stock-market** swoon in the first quarter.

Household net worth -- the value of all assets such as stocks and real estate minus liabilities like mortgage and credit-card debt -- rose by 1% from the previous quarter, or more than a trillion dollars, to a record $100.768 trillion, according to a report released by the Federal Reserve on Thursday.

Still, that increase in wealth was considerably less than the roughly $2.5 trillion by which U.S. households saw their net worth rise in the final quarter of 2017.

Households' net worth was close to seven times their disposable personal income in the first quarter, at 683%. That was a slight cooling from the fourth quarter of 2017, when it hit 685%, but remains well above the earlier prerecession peak of about 650% in 2006.

The slower pace of wealth accumulation in early 2018 was largely due to stocks' rocky first quarter. Investors' worries about whether growing inflation would lead to higher short-term interest rates coupled with concerns about international trade tensions pushed the **S&P 500** and the **Dow Jones Industrial Average** into declines for the quarter.

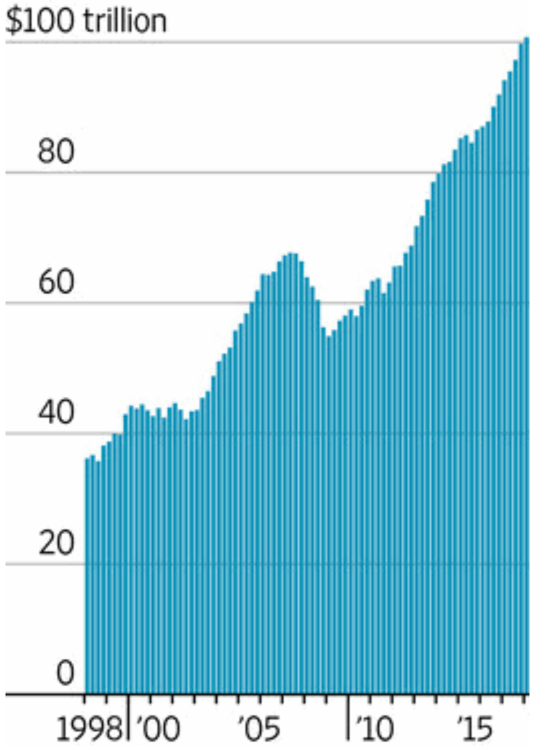
Yet the pullback in the **stock market** was offset by rising property valuations. The value of households' real estate rose by $489.6 billion, reflecting continuing increases in home prices. They rose 1.7% in the first quarter, according to the Federal Housing Finance Agency's house-price index.

The data on household net worth includes assets held by nonprofits, although nonprofits make up a relatively small proportion of household wealth. The report presents its data only in aggregate, providing no details of how assets are distributed among households.

In addition to the buffer from home equity, households have $9.493 trillion in deposits, which include checking and savings accounts and certificates of deposit.

New Heights

Household net worth



Source: Federal Reserve

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THE WALL STREET JOURNAL.
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Copper Prices Near Four-Year High

By Benjamin Parkin and Amrith Ramkumar
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English
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Copper prices leapt to nearly their highest level in more than four years as threats to production and renewed confidence in global growth sent investors flocking to the industrial metal.

The copper market stagnated in the early months of 2018, but prices have rallied since last week.

"It seems to be on fire at the moment," said Robin Bhar, head of metals research at Societe Generale.

The rally in copper prices and the growing comfort of investors with the health of the global economy stand in contrast to the turbulence hitting emerging markets. Apprehension over recent labor unrest, shaky economic growth and a presidential election slated for October have rocked markets in Brazil lately, with the country's Bovespa **stock index** falling 3% Thursday to its lowest level of the year. The Brazilian real, meanwhile, tumbled 1.4% against the dollar to a fresh multiyear low.

Most-active copper contracts for July delivery touched $3.3155 a pound at the Comex division of the New York Mercantile Exchange, just shy of the highest point since early 2014, before pulling back to close at $3.275. Prices have risen nearly 6% this week, ending several months of trading in a narrow range.

Labor negotiations between BHP Billiton PLC and miners at its Chilean Escondida operation, the world's largest copper mine, sparked much of the buying, traders said. Talks broke down last year, prompting a 44-day strike that boosted copper prices. Authorities in India also recently ordered Vedanta Resources PLC to close its Tamil Nadu-based copper smelter, which contributes 400,000 tons to annual global supply, after multiple people were killed at antipollution protests.

Steady growth in China and globally has also helped the copper market. The World Bank estimated this week that the global economy will grow 3.1% this year, in line with 2017 despite recent upheaval in global trade relations. Recent data also showed healthy factory activity in China, which consumes about half of the world's copper.

A lower dollar made copper a more attractive investment. The WSJ Dollar Index, which measures the currency against a basket of 16 others, fell 0.1% Thursday. A weaker dollar makes dollar-denominated commodities less expensive for holders of other currencies.

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