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Transcript: Q&A With Fed Vice Chairman Richard Clarida in Washington; Official discusses the use of forward guidance as a policy tool, the costs and benefits of quantitative easing, and how the central bank won't be influenced by political criticism

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Federal Reserve Vice Chairman Richard Clarida answered questions at a Peterson Institute for International Economics event in Washington on Thursday, Oct. 25, 2018. He talked about the use of forward guidance as a policy tool, the costs and benefits of quantitative easing, the global impact of Fed policy, and how the central bank won't be influenced by political criticism. Peterson Institute President Adam S. Posen served as moderator of the discussion.

ADAM S. POSEN: Can I start by just following up directly on some of your remarks about the labor market conditions?

RICHARD H. CLARIDA: Yeah.

MR. POSEN; I think it was really helpful for you to remind people that in the past two recoveries – I can read the quote – "in the past two U.S. expansions, gains in real wages in excess of productivity growth were not accompanied by a material rise in price inflation." So one way of reading what you said is that – I think you said, but I – but certainly one way of reading what you said is there aren't necessarily any alarm buttons going off based on labor market data alone.

MR. CLARIDA: Not to me right now, today, yeah.

MR. POSEN: So at what point do you use labor market conditions to update your estimate of R-star? Because it sounded like you were saying notwithstanding labor market conditions I think we have to make our best guess on R-star and we're accommodative. But do you ever use the lack of wage inflation or the possibility of real wage growth to update your views on R-star?

MR. CLARIDA: Adam, the way I think about it is I would – I would use wage data and a wide range of other data to think about the expectations for price inflation. As I argued, historically there's not a simple mechanical textbook link between wages and price inflation.

You know, add a little editorial comment: The original Phillips paper was about wages and unemployment, not necessarily prices and unemployment. And the Fed's mandate is price stability for consumer-price index. So I would use a wide range of data to update my views about future price inflation.

MR. POSEN: So in your previous role commenting on Fed policy publicly –

MR. CLARIDA: Yeah. Yeah.

MR. POSEN: – as you did at Pimco and Columbia, you were part of discussions about the desirability of potentially the [Federal Open Market Committee] allowing some overshooting of the inflation target, whether it's to make up for past undershoots –

MR. CLARIDA: Yeah

MR. POSEN: – or for the sake of allowing the economy to run hot.

MR. CLARIDA: Yeah.

MR. POSEN: How do you think about this possibility now that you're a member of the FOMC?

MR. CLARIDA: I really take a lot of wisdom and look hard at the academic literature on this. It's a starting point, however. You know, the classic recent discussion of this is in [economist] Mike Woodford's textbook. Some also theoretical work that I have done have talked about that.

I think in practice in those situations that is one tool to get an economy towards price stability. The economy now is operating at price stability, so that right now is not a relevant consideration to me because at my first meeting the Fed is actually at that price stability goal. But again, I'm aware of that theoretical literature and understand that argument, but I don't think that's relevant to me today.

MR. POSEN: Well, let me just follow up on that. Roughly a year ago at our Rethinking Macro conference, [former Fed Chairman] Ben Bernanke presented his views about having a conditional price-level target if you get near the zero lower bound, if you've been in a liquidity trap, or even if you don't want to call it that. So some people, like me, would raise: Well, we have the opposite timing consistency problem of what academics and modelers wrote about 30 years ago, which is central banks say they're going to promise to overshoot or average 2 percent inflation during the crisis, but then once the crisis is over they renege and say, no, no, inflation's at target, we're not going to overshoot.

MR. CLARIDA: Right.

MR. POSEN: Am I missing something here?

MR. CLARIDA: No, you're not. And indeed, that is an element of that literature that I just referred to. And as I said, I'm certainly familiar with that literature, but right now – today – I don't think that's a relevant consideration for me.

MR. POSEN: OK. Continuing in this notion of bridging from academic to real world, which of course you're uniquely positioned to do, how do you think about the tool of forward guidance that was the flavor du jour a couple years ago? I mean, we all heard [Fed] Chair [Jerome] Powell's remarks at Jackson Hole about not putting a little too much faith in the stars. What's your take on the Fed's experience and other central banks' experience using forward guidance?

MR. CLARIDA: Let's talk about the Fed. So the first episode of forward guidance – explicit forward guidance by a Fed was really under Chairman [Alan] Greenspan back in the '04 to '06 cycle when we had the measured pace, which was part of the statement and communicated to **financial markets**. Under, you know, very challenging circumstances after the global financial crisis, the Bernanke Fed used some stronger forms of forward guidance, what folks like myself and other talking heads called calendar-date guidance. And then there was also a period when the Fed was making reference to macroeconomic thresholds; for example, unemployment.

So I think that there – that forward guidance as an instrument of policy has been and can be an effective tool of policy. I think it becomes more and less relevant depending upon circumstances and likely depending upon how far away the central bank thinks it is in terms of, you know, its policy rate process. But certainly I think – I do believe – you know, I think someone once said that forward guidance, you know, maybe it doesn't work in theory, but it works in practice. So I do think that forward guidance is a tool that central banks can deploy.

Other central banks, as well – you're more of a scholar than I am, Adam – but as I read statements from the [European Central Bank] and [Bank of Japan], they…definitely have that flavor as well, given their current circumstances.

MR. POSEN: So, Rich, moving – you're the top scholar on this stage. But moving from academics into practice, in the latest round of announcements we heard that you will be chairing a new committee of the FOMC specifically to look at communications.

MR. CLARIDA: Yes.

MR. POSEN: So it's obviously not just forward guidance or not even forward guidance. What's the remit of this committee? What can we look forward to you and your colleagues coming out with?

MR. CLARIDA: The committee was just announced at the September meeting, so it's early days. The committee is comprised of myself, [Fed] governor Lael Brainard, [Boston Fed President] Eric Rosengren and [President] Rob

Kaplan from the Dallas Fed. And so we are really beginning the process now to assess the priorities that the committee should be focused on. So I don't have anything for you on that today, but maybe at a future visit to Peterson I will.

MR. POSEN: Well, I'd love to have a future visit. I don't mean to be obnoxious, but presumably there's some reason why you have the committee, right?

MR. CLARIDA: The communications subcommittee has been in place at the Fed now for some time. It takes on a range of issues. So early committee took on the summary of economic projections or the consensus statement. So the mandate evolves as the circumstances evolve.

MR. POSEN: Got it. Thank you for clarifying that.

So now really moving to the day to day, I would be remiss and I know you feel you would be remiss, given recent events, what do you think of the market movements this month, this week, the last 24 hours?

MR. CLARIDA: (Laughs.)

MR. POSEN: How should we think about that, as a monetary policy maker?

MR. CLARIDA: Well, I begin with the fundamentals of the economy, which as I said in my speech I think are very, very solid: rapid growth, strong labor market, inflation in line with the goal. So that's a positive.

You know, that said, you know, changes in financial conditions are something that's relevant for the economic outlook, and any central bank, if they are sustained, needs to take into account. So what it – what it says to me is that, as I indicated in my remarks, you really want to continue to look at a wide range of real and macro and financial data to get a sense of where the economy is heading, and you know, financial conditions are one piece of that. But on a sustained basis.

MR. POSEN: Right. And just to be clear, you're saying asset prices of varying sorts are indicators of financial conditions, not just futures on the Treasury and –

MR. CLARIDA: Yeah. Oh, absolutely. So broadly, yeah.

MR. POSEN: OK. More generally, I mean, we know we have Randy Quarles as vice chair for supervision. I'm not going to ask you about supervision. But more generally, central banks around the world, including the Fed, are thinking about do they use what's called macroprudential tools. And the macro piece of that word suggests that there's some interaction of those measures –

MR. CLARIDA: Sure.

MR. POSEN: – with your monetary policy conditions. Additionally, there are people who have said – I believe incorrectly, but others disagree – that moving the instrument interest rate is actually the way to get after some financial imbalances. And we know even though – we know that that is a concern that's been expressed by other members of the FOMC at various times recently.

MR. CLARIDA: Right. Yeah.

MR. POSEN: So this is a very broad topic, but as the vice chair for monetary policy, how much do you think the Fed should be looking at some active measures, active policy-making with regard to financial imbalances as opposed or in addition to the mandates you've talked about? And how much should that be, countercyclical capital buffer or some theoretical other tool versus moving the interest rate?

MR. CLARIDA: Very important question. And I think that one of the things that I have come to conclude after looking at it as an academic and market observer is macroprudential is very important, but I think there are good reasons to believe that it's probably very country-specific; that is, the macroprudential tools that might work in the U.K. or Continental Europe or the Nordics might not work in the U.S.

One reason for that, obviously, is differences in our credit markets. You know, something like 80 percent of U.S. credit is intermediated outside of the banking sector, whereas in Europe about 80 percent of credit is. And so I think the tools that could be potentially effective in the U.S. may differ from the tools that work in other countries.

I come into this with a – with a view that as a – sort of a general starting point I would think that, you know, using monetary policy instrument is a pretty blunt instrument in a lot of cases. I think that's a term not unique to me. But it is an important – it is an important issue, and it's certainly something that, you know, I'm studying and, obviously, the Fed is looking into intensely.

But I think the challenge, as I've said, is we just don't have a lot of experience with macroprudential, certainly in the U.S., and whatever experiences other countries have had perhaps may not be that relevant. So it's an important issue, but at least as far as I'm concerned there's still a lot to learn about it.

MR. POSEN: Yeah. And I would just point out that it's – absolutely as you say, Rich, it depends very much on the nature of the mortgage market, the credit market, but also there's governance issues. At Bank of England, where I was, they consciously – the government set up two separate committees to deal with financial stability and monetary policy, financial policy. In the U.S., it's obviously one joint FOMC that makes all of the decisions.

MR. CLARIDA: Yeah.

MR. POSEN: Do you see a role for someday specifying some guidelines on how these get coordinated, or is that just an impossible fool's errand?

MR. CLARIDA: I guess I wouldn't say it's an impossible fool's errand. Sitting here today I don't have anything concrete for you on –

MR. POSEN: Right. No, no, no.

MR. CLARIDA: Not because it's unimportant. It's very important. But it's hard – yeah, yeah.

MR. POSEN: Right, no, no, but it just – it's not evident. No, that's cool.

MR. CLARIDA: Yeah.

MR. POSEN: Let me continue the sort of monetary policy recent history tour because, of course, you've been an observer and an academic researcher, as well as now a policy maker. Looking back since 2008, the Fed, the Bank of Japan, the ECB, the Bank of England, but obviously most importantly the Fed for this purpose, did engage in what's been called quantitative easing. There's been a number of studies coming out. Our friends across the street under David Wessel [director of the Hutchins Center on Fiscal and Monetary Policy at the Brookings Institution] did an event reflecting on this recently. My colleague at the Peterson Institute Joe Gagnon and former Fed official Brian Sack just did a recent paper – I think it's called "A User's Guide to QE" – that's getting a lot of notice. Not so much asking you to evaluate anybody else's work, but based on your reading of the evidence, where is QE now? How should we have looked at its successes or failures? Is it dangerous? It is something you want to keep in the tool kit?

MR. CLARIDA: Yeah, so my thinking on that – and I said so at the time, and I haven't changed my mind – is that QE, especially the earlier rounds of QE were justified and were effective. I have also come to believe and have written that as – and I think Chair Bernanke himself used this terminology, which I agree with – like anything in economics, there are – there are benefits and costs. And I'm of the general view that the various rounds of QE over time, that the benefits were diminishing and the potential costs were going up. But it's certainly something that I would not want to rule out of the – of the tool kit.

MR. POSEN: Could you just say a bit more about what you see as the potential costs were that you mentioned? I mean, the benefits, I think, are – you can disagree about the empirical size, but we all sort of understand what they were. They were stimulative monetary policy. So what were the costs, in your view?

MR. CLARIDA: Well, I think that there is a potential cost in terms of selecting potential assets to buy, right? So it's not a Treasury-only portfolio, and as a consequence that is – the intent was to change the rates of return and the prices of those assets, and in general I'm uncomfortable with monetary authorities getting into that side. But I, again, am not critical of the decision that was made in '08. You know, I think that – I think there are potentially – you know, certainly diminishing returns. And I think – although I haven't seen Joe's recent paper, I think there is some evidence of that as well. So I think that would be the ones that I would point to.

MR. POSEN: Thank you. We are the Peterson Institute for International Economics.

MR. CLARIDA: Yeah.

MR. POSEN: International Economics. You have a very distinguished career writing about and looking at things well beyond the U.S.

MR. CLARIDA: Yeah.

MR. POSEN: So let me turn for a minute to the international side. As you said, the Fed's mandate has to do with U.S. inflation and employment goals, U.S. financial stability. But as you also said, global developments matter to achieving those goals.

MR. CLARIDA: Absolutely.

MR. POSEN: So, as the Fed moves forward, how should it be thinking about such important matters as international capital flows and how they get driven by the Fed's interest-rate differentials versus others, but also structural factors? I mean, we all remember Chairman Bernanke's – then-Chairman Bernanke's speech about the savings glut.

MR. CLARIDA: Yeah.

MR. POSEN: And there is still a very global imbalance of our savings versus other people's savings. How does this affect what you think about monetary policy conduct?

MR. CLARIDA: Well, there are a lot of dimensions to it. I'll focus on one or two. I think as a general proposition it's important to run a forward-looking monetary policy. And so when you're – when you're evaluating your instruments in terms of your goals, you have to factor in how the rest of the world is impacting a lot of parts of the economy. You know, your trade, your exports, your capital inflows – because the dollar is a reserve currency – developments abroad impact the entire constellation of our yields and returns. And so that's a very important consideration in terms of doing a good outlook or forecast for the economy. So I think primarily that's the way I think about the way the international data impacts the way that I think about policy.

I think that it's important that the goals of the Fed are to achieve low and stable inflation and full employment. And I think on average, if the Fed achieves that, that's a positive for the global economy as well.

MR. POSEN: I am choosing not to come in here and say, well, what about the poor emerging markets who are disabled by Fed rate hikes, because we know the Fed cannot officially care about that. It can feel the pain. But can I ask you just a little bit more on this?

MR. CLARIDA: Sure. Yeah.

MR. POSEN: So, in terms of affecting the U.S. forecast, right, so you've got right now arguably one of the most – leave aside the politics, obviously – you have one of the most challenging international forecasts. We have a dollar that's been rising and looks set to continue to rise, but who knows. We have tariffs; again, whether or not you like them, they are a reality.

MR. CLARIDA: Mmm hmm.

MR. POSEN: You should read the stuff on our website and you should not like them, but we'll leave that aside. (Laughter.) Which obviously has some price effects, some employment effects.

MR. CLARIDA: Yeah.

MR. POSEN: You have arguably new or at least increased forms of geopolitical risk around the world. Again, I'm not asking you to comment directly on any of these. But do you feel that these are factors that are – we're in new territory? Do you feel the U.S. is still largely a more closed economy, larger economy than others, and these are secondary factors? Just more generally, how should we be thinking about these as we move ahead?

MR. CLARIDA: Well, certainly, you know, relative to decades ago when I started my career, the U.S. is a more open economy than it was, and as I said in some ways financially very open because of the interconnectedness of global **financial markets**. So I think that is a reality, Adam.

I guess what I would say, as I mentioned in my remarks, you know, you've spotted some potential issues in the global economy. But certainly, as I said, I do believe policy today remains accommodative. And I think – I would also mention in this regard that I think Fed communication is important, as well. And so, as I've said, you know, global factors enter, as I – as I indicated.

MR. POSEN: Yeah. Yeah, I'm not trying to put you on the spot, but that would seem to imply, by omission, that the current-account deficit of the U.S., rising and expanding, is not of direct concern to the Federal Reserve.

MR. CLARIDA: Well, I think you look – you certainly want to look at the capital flows into the U.S., and obviously, you know, as I've written, as I'm sure you understand, the current account is a global, general equilibrium phenomenon, so it needs to be understood in that context.

MR. POSEN: And therefore, bilateral current-account deficits are particularly not worth focusing on – (laughter). Just a note.

Staying in the international sphere for another moment –

MR. CLARIDA: Yeah, yeah.

MR. POSEN: – when we look back at the global financial crisis, a number of commentators – myself included, but also people with far better chops – have pointed out that the swap lines – the dollar swap lines the Federal Reserve made available to other central banks were extremely effective in stopping the panic and seemed to work very well.

You have seen this from both the market perspective and the policy perspective. This is obviously not an issue of today –

MR. CLARIDA: Right.

MR. POSEN: – but look – again, just as we went through QE, and other tools, and forward guidance, what are your reflections on the use of the swap lines that the Fed undertook during the global financial crisis?

MR. CLARIDA: Well, as I look back at the program, what strikes me is that the goal of putting the swap lines in place was this contagion from the global dollar funding markets into the U.S. And so, again, even though these were swap lines set up with foreign central banks, the initial objective was to attenuate or try to insulate the global spillovers into the U.S. dollar funding markets. I think that was the goal, and I think the studies that have looked at that program indicate that it was successful.

Of course, as you know, Adam, but just for the folks in the audience, that program is structured so that the Fed is facing other central banks as counterparties, not individual borrowers directly, and there is no – and there is also structure that there is no currency risk, so it was a pure provision of liquidity in a situation of duress, and I think the studies indicate that it was effective.

MR. POSEN: Very good.

Finally, you've been admirably concise and clear, which is a wonderful thing for a central banker to be – as opposed to when you and I were growing up, and the goal was to be discursive and therefore unclear. So thank you for that.

MR. CLARIDA: You are welcome.

MR. POSEN: I am going to –

MR. CLARIDA: I think. (Laughs.)

MR. POSEN: Well, so now I'm going to have to ask you for another clear statement.

MR. CLARIDA: Yeah.

MR. POSEN: President Trump has had a lot to say in public lately about his apparent displeasure with the Fed removing accommodation. He has tweeted this, he said this in a Wall Street Journal interview.

Some consider this an attack on the Federal Reserve's independence in setting monetary policy. I, as a student of this, know it's – at least in terms of public comments – pretty unprecedented for the last few decades –

MR. CLARIDA: Uh-huh.

MR. POSEN: – from a U.S. president.

How – thinking about Fed communications as well as policy, how does the Fed react to this kind of new pressure from the outside?

MR. CLARIDA: Well, Adam, let me tell you the way that I think about it. As a student of monetary policy, I know that history indicates that central bank independence is important in order to achieve objectives given to central banks. The Fed's mandate is given to it by Congress – price stability and maximum employment – and the Fed has a degree of independence in running the policies that over time can best serve to achieve those objectives. And I think that – I think that's very important.

I think that the Fed is and will continue to be very transparent and accountable about why we're implementing the policies we are to achieve those goals, and I have every intention of continuing to do that, as I'm sure all of my colleagues will, as well.

MR. POSEN: You and I, when we first met, you were very gracious to me. I had just started as a Federal Reserve – as an economist at the Federal Reserve Bank of New York. You were already a distinguished professor at Columbia. We were both working on studies of what was then a very important central bank, the Bundesbank.

MR. CLARIDA: Yeah.

MR. POSEN: And so we're familiar with a central bank that has at times gotten very tetchy about perceived incursions on its independence, and we've seen what's happened with the ECB. I don't obviously ask you to talk any more about foreign central banks, but there are people who worry that – looking back at what happened with the ECB – that one possible outcome of public pressure on an independent central bank is the central bank would be reluctant to pause in hiking or reluctant to cut rates when circumstances warrant because they don't want to look like they are caving in to political pressure.

Can you reassure us?

MR. CLARIDA: It will – it will in no way be a consideration as far as I'm concerned. We have a very clear mandate. The data shows up every month in terms of inflation and unemployment, and our job is to sustain what is a very healthy and robust economy right now. And that's what I'm going to do.

MR. POSEN: I have no doubt that that is what you are going to do.

We are both honored but also enlightened to have had you with us today. Thank you very much, Vice Chairman Clarida.

MR. CLARIDA: Thank you, Adam.

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* Clarida Says Strong Growth Supports Case for Continued Rate Rises

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THE WALL STREET JOURNAL.
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Oil Exports Test Ports' Capacity

By Rebecca Elliott
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As pipeline bottlenecks crimp the U.S. shale boom, some companies are racing to address the next potential constraint on American oil output: Export terminals face a struggle to keep up with an expected increase in shipments to foreign markets.

Oil exports have been a release valve for U.S. producers in the three years since Congress lifted a longtime ban on overseas crude sales. Exports topped 2.1 million barrels daily in September and are projected to approach four million barrels within two years, according to S&P Global Platts Analytics.

Yet a surge of crude from prolific West Texas wells, which has already pushed regional pipeline networks to capacity and made it more expensive for some companies to move their oil to market, could challenge port infrastructure.

Existing U.S. shipping terminals are already ill-equipped to handle the growing load, because only one can fully accommodate the giant tankers used to ship oil to Asia and Europe. That has at least four companies, including commodities trader Trafigura Group Pte. Ltd. and pipeline builder Enterprise Products Partners LP, planning new or expanded terminals to load up the big ships.

"You need more efficient ways of loading oil out of the Gulf Coast," said Kevin Jebbitt, head of crude-oil trading for Trafigura, which has requested permits to build a deep-water port near Corpus Christi, Texas.

The terminals can cost more than a billion dollars to build, and some experts believe there won't be sufficient long-term demand for all of the facilities being proposed. So companies interested in constructing these terminals are racing to complete their projects quickly to ensure success.

The Permian basin of West Texas and New Mexico has been the primary engine behind soaring U.S. crude production, which recently topped 11 million barrels daily. Inadequate pipeline capacity has reduced prices of oil in the area and forced some companies to curtail drilling.

Crude in Midland, Texas, sold for $23 a barrel below the Houston price in August, reflecting the added costs companies have to shoulder to move crude to market without pipelines, though that differential has since contracted to about $10, according to S&P Global Platts Analytics. The firm estimates that by the end of this year, Permian drillers will be producing about 400,000 barrels of oil a day less than they would have without pipeline constraints.

Last month, Marathon Oil Corp. Chief Executive Lee Tillman said at an industry conference that the company had removed a drilling rig in the Permian in the face of bottlenecks. He touted the benefits of having operations in multiple basins, saying it means the company doesn't have to "accelerate our activity into pricing headwinds."

Relief is set to arrive next year in the form of new pipelines aimed at carrying crude to the coast for export. But congested docks and waterways could hamper export growth and depress regional **oil prices**.

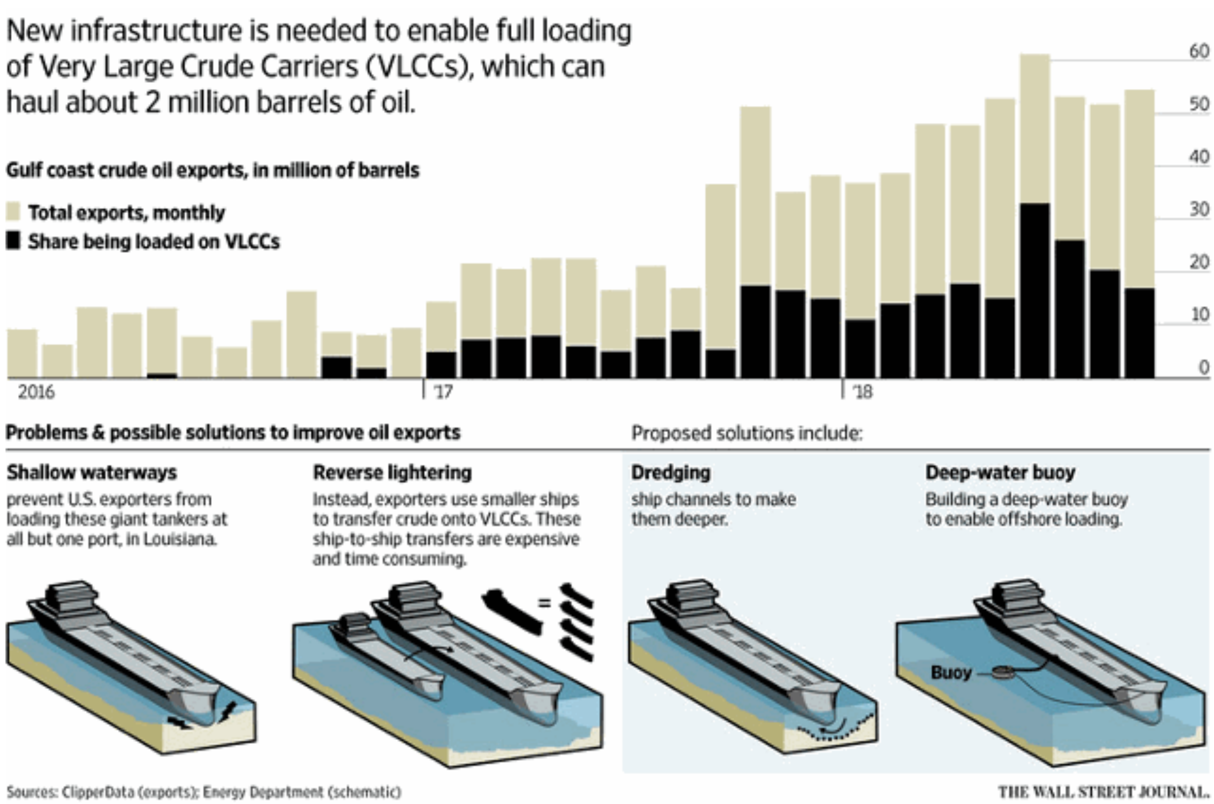
"Infrastructure takes a lot more time than the market typically expects," said J. Alexander Blackman, an executive at the Houston trading company Standard Delta LLC. "When export terminal capacity is maxed out, U.S. oversupply gets trapped in storage onshore, which leads to lower prices."

On paper, Gulf Coast terminals appear to have room to accommodate millions of additional barrels of Permian crude, which is lighter and less sulfurous than the oil preferred by many domestic refineries. Crude exports could more than double next year before overloading existing and planned shipping infrastructure, according to estimates by S&P Global Platts Analytics.

However, some exporters worry ports could become congested as companies try to push more oil across a limited number of docks while navigating narrow, shallow channels. Most U.S. facilities also aren't deep enough to fully load Very Large Crude Carriers, or VLCCs, which can hold up to 2 million barrels of oil. The Louisiana Offshore Oil Port, south of New Orleans, is the sole exception, but it is primarily used for imports.

Instead, companies must load smaller vessels onshore, then transfer the crude onto the giant tankers in open water. Those ship-to-ship transfers cost between $700,000 and $1 million per loading, according to E.A. Gibson Shipbrokers Ltd.

"You're bumping up pretty close to maximum capacity now," said Trafigura's chief economist, Saad Rahim.



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THE WALL STREET JOURNAL.

Business

U.S. Manufacturers See Signs of New Risks; Caterpillar's tariff costs and 3M's slower growth in China threaten their outlooks

By Austen Hufford and Doug Cameron
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Caterpillar Inc. and 3M Co. provided a gut check for U.S. manufacturers, revealing in their third-quarter reports mounting risks that spooked investors.

Industrial shares sold off on Tuesday after manufacturers flagged challenges including rising costs, a stronger dollar and concerns over growth in China.

Shares in Caterpillar closed down 7.6% on Tuesday, having been 10% lower at one point, and 3M lost 4.4%. Shares in Harley-Davidson Inc. fell 2.2% after the motorcycle maker said it sold fewer Hogs in the third quarter than a year earlier. The S&P machinery index is down 4.2% this week.

The selloff is the clearest signal yet that fortunes could be turning for manufacturers after a year of strong production and sales driven in part by tax cuts and high consumer confidence.

"There are chinks in the armor," for major U.S. manufacturers, said Jefferies analyst Steve Volkmann.

The earnings reports shook the broader market, which stabilized after Caterpillar executives on a call with analysts offered assurances that the tariff costs and higher inventories of its equipment at dealerships were manageable. "We feel that the business continues to be strong in most of our end markets," Chief Executive Jim Umpleby said.

But rising costs, including from tariffs on trade between the U.S. and China, were top of mind for many investors.

Caterpillar said tariffs the Trump administration implemented earlier this year on foreign steel and aluminum made parts for the machinery it manufactures in the U.S. more expensive. Caterpillar said tariff-related costs for this year would likely come in at the low end of the previous range of $100 million to $200 million it forecast. 3M expects the tariffs to push up costs by about $20 million this year and $100 million next year.

3M also said sales of its face masks and other products in China were dropping as economic growth there cools. Paint-and-coatings maker PPG Industries Inc. said last week that demand in China was falling due to lower spending on cars. China's economic growth of 6.5% in the third quarter was its weakest pace since the financial crisis.

"We see other signs of slowing in China; the automotive build rates are down significantly and that has a knock-on effect," 3M Chief Executive Michael Roman said. 3M reported slower sales growth across most of its business lines in the third quarter.

Caterpillar executives said they expect strong business in China next year. Chinese officials have said the government is prepared to spend more on infrastructure if growth slows, a development that analysts said could boost Caterpillar's machinery sales there.

China's economic troubles are due in part to the trade fight with Washington that has seen officials in both countries apply tit-for-tat tariffs to hundreds of billions of dollars in bilateral trade. Lennox International Inc., a maker of heating and cooling systems, said Monday that it would move some production out of China to avoid those hurdles.

"I'm not sure Chinese tariffs are going to be short-term and so we are taking action to sort of avoid the tariffs by moving to Southeast Asia and other low-cost countries that can meet our requirements," Lennox Chief Executive Todd Bluedorn said.

Scott Wine, chief executive of boat-and-motorcycle maker Polaris Industries Inc., warned this week of "more severe" costs if the Trump administration implements more duties on Chinese goods.

Harley, meanwhile, said a stronger U.S. dollar had dented its earnings from the international sales the company is increasingly relying on to drive growth. Milwaukee-based Harley said the stronger dollar cost it $7.4 million in the latest quarter.

3M and other manufacturers have raised prices to offset rising costs. Caterpillar said it would raise prices on most machines and engines by as much as 4% next year. Last week, paint maker PPG Industries Inc.and consumer goods giant Procter & Gamble Co. said they were raising prices to reflect higher commodity costs. United Technologies Corp., which makes Pratt & Whitney jet engines and Otis elevators, said on Tuesday it would continue to raise prices across its portfolio next year if tariffs were still in place.

"Ultimately, these tariffs can all get passed on to the consumer in one form or another," United Technologies CEO Greg Hayes said. The company expects tariff costs of about $53 million this year and $160 million next year.

The conglomerate said its third-quarter profit dropped 7% as higher costs offset an increase in revenue.

Some manufacturers this week have said a nationwide shortage of trucking capacity and rising **oil prices** are pushing up their transport costs. Others are having trouble finding parts they need to raise production. Heavy-duty truck maker Paccar Inc. said on Tuesday its margin was hurt by parts shortages in North America.

Caterpillar reported adjusted earnings of $2.86 a share in its third quarter, above last year's $1.95, 2 cents higher than the $2.84 expected by analysts polled by FactSet, as higher prices and increase volume offset rising costs.

That is the narrowest beat for Caterpillar since it missed expectations by one cent in April 2016. Since that miss, reported results have been 29% higher than expectations, compared with 0.8% higher Tuesday.

The Deerfield, Ill.-based company reaffirmed its adjusted earnings-per-share guidance for the year of $11 to $12.

3M said sales fell 0.2% from a year earlier to $8.15 billion. The St. Paul-based company said it expects earnings for the year to be between $8.78 and $8.93 a share, down from the range of $9.08 to $9.38 a share it previously guided.

Harley, which also announced a recall on Tuesday of 238,300 motorcycles due to a clutch defect, said revenue from motorcycles and related products rose 17% in the third quarter from the year earlier to $1.12 billion. Analysts had predicted $1.07 billion.

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Document WSJO000020181023eean00565

THE WALL STREET JOURNAL.

Markets
OPEC, Russia Hike Oil Output as Iran Production Falters; Crude production from key member Iran continued to fall, coming down by 150,000 barrels a day last month

By Christopher Alessi
682 words
11 October 2018
03:32 PM
The Wall Street Journal Online
WSJO
English

LONDON—An increase in crude oil production in September by OPEC and its ally Russia more than made up for declining Iranian output, the oil-cartel said Thursday, as it vowed to keep filling the gap created by impending U.S. sanctions on the Islamic Republic.

In its closely watched monthly oil market report, the Organization of the Petroleum Exporting Countries said its crude production rose by 132,000 barrels a day last month to average 32.76 million barrels a day.

Output from Russia—the group's largest production ally—increased by 150,000 barrels a day to reach a new post-Soviet record of 11.54 million barrels, OPEC said in the report.

At the same time, crude production from key member Iran continued to fall, coming down by 150,000 barrels a day last month to average 3.45 million barrels a day, according to OPEC.

The report comes weeks ahead of a Nov. 4 deadline that will see the introduction of U.S. sanctions on countries and foreign companies that buy Iranian crude. Iran's oil production and exports have been falling steadily since President Trump pulled the U.S. out of a 2015 international agreement to curb Iran's nuclear program, setting the stage for the reimposition of sanctions.

The shortfall from Iran has fueled investor concerns of tightening global supply, which has bolstered **oil prices** over the past few months. Those fears were heightened in recent weeks, as investors speculated that OPEC and its allies might not be able to fill the gap—due to choice and signs of dwindling spare oil capacity.

But speaking at a news conference Thursday, OPEC Secretary-General Mohammed Barkindo said the group and its partners were "willing to make sure the market remains well-supplied" by continuing to increase production.

He noted however that he was worried the oil industry needed to catch up with $1 trillion of investments that were delayed, canceled or frozen when prices hit record lows between 2014 and 2016.

Oil prices soared further over the past three weeks after OPEC and its partner producers—led by Russia—decided in late September to not to raise output at a faster rate than planned. Brent crude—the global benchmark—temporarily breached the $85 a barrel threshold for the first time in roughly four years.

OPEC and 10 producers outside the cartel, including Russia, first teamed up nearly two years ago to hold back crude output by around 2% of global supply, in an effort to rein in a supply glut that had weighed on prices since late 2014. But in late June, Saudi Arabia—the de-facto leader of OPEC and the world's largest exporter of crude—and Russia engineered a deal to begin gradually raising production, in part to try to put a cap on rapidly rising prices.

On Thursday, **oil prices** fell in tandem with a selloff across global markets driven by concerns about slowing economic growth that could ultimately curb oil demand. Brent was trading down 1.26%, at $82.04 a barrel in afternoon trade.

Mr. Barkindo said that "some of our powerful consumers seem to be very uncomfortable" about current conditions, citing a letter he received recently from India. He added that oil stocks levels, which OPEC has worked to reduce, could increase again next year amid weakening demand growth.

OPEC said total global oil supply rose by 230,000 barrels a day, to average 99 million barrels a day last month.

The group lowered its global oil demand growth forecasts for this year and next by 80,000 barrels a day and 50,000 barrels a day respectively. The revisions were mainly the result of slower economic growth in industrialized European and Asian countries, as well as in emerging markets in Latin America and the Middle East, OPEC said.

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THE WALL STREET JOURNAL.

Markets

IEA Lowers Oil-Demand Growth Forecasts; Agency the trade dispute between China and the U.S. could have a knock on effects for oil demand

By Christopher Alessi
567 words
12 October 2018
04:54 AM
The Wall Street Journal Online
WSJO
English

LONDON—Global oil demand will grow at a slower pace than expected this year and next amid economic risks stemming from trade tensions and higher **oil prices**, the International Energy Agency said Friday.

In its closely watched monthly oil-market report, the Paris-based organization lowered its oil-demand growth forecasts for 2018 and 2019 by 110,000 barrels a day to 1.3 million barrels a day and 1.4 million barrels a day, respectively.

The IEA said higher **oil prices** have dented consumer appetite, particularly in emerging markets, while the trade dispute between China and the U.S. threatens global economic growth with knock on effects for oil demand.

The demand revisions come as **oil prices** surged to four-year highs in early October, with Brent crude—the global benchmark—temporarily breaching the $85-a-barrel threshold. Prices have been bolstered by declining Iranian production and exports ahead of the enactment of U.S. sanctions on the country's oil industry next month.

Brent crude, the global benchmark, ended Thursday 3.4% lower at $80.26 a barrel.

The IEA said Iranian supply fell to a 2½-year low in September as buyers continued to reduce their purchases before the Nov. 4 deadline. Crude production fell by 180,000 barrels a day month-on-month, to stand at 3.45 million barrels a day last month, the agency said.

President Trump in May pulled the U.S. out of a 2015 international agreement to curb Iran's nuclear program, setting the stage for the reimposition of sanctions.

Still, in the mid-to-long term, the IEA said there is "no peak in sight" for global oil demand. "The drivers of demand remain very powerful, with petrochemicals being a major factor," the report said.

The IEA said both global oil demand and supply were nearing new "historically significant peaks," at around 100 million barrels a day.

Despite the declines in output from Iran, other members of the Organization of the Petroleum Exporting Countries and its partner producers such as Russia have been ramping up production to fill the gap, according to the IEA.

OPEC crude output rose by 100,000 barrels a day in September, to 32.78 million barrels a day, with the biggest increase coming from Saudi Arabia, where supply climbed to 10.52 million barrels a day. That is roughly on par with OPEC's own estimate provided in its monthly oil-market report that was published on Thursday.

Output from Russia climbed by roughly 160,000 barrels a day to reach a record 11.36 million barrels a day in September, the IEA said.

OPEC and Russia agreed in late June to begin gradually ramping up crude production after more than a year of holding back output.

Those increases, combined with surging U.S. and Canadian oil production, mean the "oil market is adequately supplied for now," the IEA said.

But the agency said reductions in Iranian output, combined with threats of further supply disruptions in Libya and Venezuela, suggest the market "is clearly signaling its concerns that more supply might be needed."

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* OPEC, Russia Hike Oil Output as Iran Production Falters

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THE WALL STREET JOURNAL.

Markets

The Best and Worst of Crisis-Mode Investing, 10 Years Later; In the panic of 2008, some who ran for cover found it in unusual places

By Peter Santilli
314 words
1 October 2018
The Wall Street Journal Online
WSJO
English

In the gloom that hung over the financial world in late 2008, it would have been difficult to imagine U.S. stocks were poised to embark on their longest bull run in history. Those bold enough to brave the headwinds have been rewarded with dizzying returns, particularly in technology stocks.

The bursting of the dot-com bubble was still a fresh memory at the time and many of today's tech behemoths were still finding their way. Apple had released its first iPhone a little more than a year earlier and Facebook was still a private company. When Lehman Brothers failed on Sept. 15, 2008, the prevailing atmosphere didn't feel like the beginning of something great.

With the just completed third quarter marking the anniversary of that momentous day, here is a look at how different assets performed in the ensuing decade.

Safe havens like bonds and gold were popular bets in the years after the crisis, then cooled off when the stock rally gained momentum.

U.S. stocks

The rally has been led by the technology and consumer discretionary sectors, while energy shares have largely missed out.

International stocks

The **S&P 500**'s total return since the Lehman collapse has eclipsed that of the Stoxx Europe 600, while both benchmark indexes have been outdone by India's S&P BSE Sensex.

Bonds

Investment-grade corporate bonds have outperformed longer-term Treasurys and other forms of government debt.

Commodities

Precious metals gold and silver have been among the best performing commodities since the financial crisis, but their luster pales in comparison to the 10-year growth in orange-juice futures.

Currencies

Few currencies have outperformed the U.S. dollar since the crisis.

Document WSJO000020181001eea1000p1

THE WALL STREET JOURNAL.

Markets

Former Forest City CEO Albert Ratner to Oppose Brookfield Acquisition; Co-chairman emeritus argues that shareholders could receive more for their shares if they wait about 26 months to sell

By Cara Lombardo
615 words
25 October 2018
The Wall Street Journal Online
WSJO
English

Forest City Realty Trust Co.'s former chief executive, the son of one of its founders, plans to publicly oppose a deal to sell the nearly 100-year-old property empire and urge other shareholders to do the same, according to people familiar with the matter.

Albert Ratner, who controls nearly 1% of Forest City's stock, is preparing to send a public letter arguing that a deal to sell Forest City for roughly $6.8 billion to Brookfield Asset Management Inc. was ill-conceived and that the company could have a higher value in the future, according to a draft of the letter reviewed by The Wall Street Journal.

His opposition challenges a deal already on shaky ground after Forest City's board narrowly endorsed it in a 7-to-5 vote. Shareholders, including two activist investors who have already agreed to support the deal, are set to vote on the transaction Nov. 15.

Mr. Ratner is a member of the well-known family that started Forest City and that also includes New York real-estate developer Bruce Ratner.

Toronto-based Brookfield agreed in July to buy Forest City for $25.35 a share, or $11.4 billion including Forest City's debt. The price represented a 26.6% premium to Forest City's **stock price** before reports surfaced that the two were in talks.

Forest City's residential and commercial portfolio includes landmark properties such as the headquarters for the New York Times. It attracted Brookfield partly because it is concentrated in growing urban markets including Boston, San Francisco and Dallas.

Albert Ratner, 90 years old, says in his letter that the split board agreed to the deal "at the wrong price, at the wrong time, through a flawed process." He argues that based on the company's own net-asset-value analysis, shareholders could receive 48% more on a discounted basis for their shares if they waited roughly 26 months, when tax restrictions stemming from the company's 2016 conversion to a real-estate investment trust expire. That is similar to arguments made by the dissenting directors, according to the company's recently filed proxy.

Directors who supported the deal argued it is the best option given that estimated future values aren't guaranteed, according to the proxy.

Mr. Ratner, who served as CEO from 1975 to 1995 and is a co-chairman emeritus, writes that the company shouldn't have initiated a sale process so soon after overhauling its board and making other changes meant to improve its **stock price** such as converting to a REIT and cutting costs and debt. He also notes the proxy indicates the board was deadlocked at 6-6 before Chief Executive David LaRue changed his vote.

Cleveland-based Forest City was founded by Mr. Ratner's father and others in 1920 and has historically been controlled by the Ratner family. In recent years it has come under pressure from investors including activist Scopia Capital Management LP; it removed its two-tiered stock structure and converted to a REIT to attract investors who focus on the sector.

Scopia and fellow activist Starboard Value LP, which together with their allies own roughly 14% of the company, joined Forest City's board as part of an overhaul earlier this year and have agreed to vote their shares in favor of the deal.

Brookfield's offer requires signoff from a majority of the holders of shares outstanding.

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THE WALL STREET JOURNAL.

Markets

U.S. Dollar Lower on Sluggish Housing Data; Shortfalls in U.S. data undercut the case for the Federal Reserve to keep raising rates at its current pace

By Ira Iosebashvili
245 words
19 October 2018
01:32 PM
The Wall Street Journal Online
WSJO
English

The dollar edged lower Friday, weighed down by weaker-than-expected U.S. economic data and a renewed appetite for risk among some emerging market investors.

The WSJ Dollar Index, which measures the U.S. currency against a basket of 16 others, was recently down 0.2% to 89.90.

Sales of previously owned U.S. homes fell 3.4% in September from the previous month, the National Association of Realtors said Friday, extending a weak stretch for the housing market in a period of otherwise strong U.S. growth.

Shortfalls in U.S. data undercut the case for the Federal Reserve to keep raising rates at its current pace and tend to weigh on the dollar, which becomes more attractive to foreign investors when borrowing costs rise. Most investors believe the Fed will raise rates for a fourth time this year in December.

Some money managers sought out emerging market currencies Friday, after Chinese officials rushed to reassure investors that the country's economic fundmanetals are solid, despite slowing growth and recent **stock market** declines.

The dollar was recently down 0.6% against the Russian ruble and fell 0.1% against the Brazilian real, while also losing 0.2% against the South African rand.

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THE WALL STREET JOURNAL.

Markets

SEC Won't Release 'Speed Bump' Study It Promised Two Years Ago; Investors expressed surprise at decision not to publish the study, which the agency committed to in 2016

By Cezary Podkul
615 words
24 October 2018
01:14 PM
The Wall Street Journal Online
WSJO
English

The Securities and Exchange Commission won't release a study of the impact of brief delays in stock trading on market quality and pricing that investors have been expecting for two years.

The SEC committed in June 2016 to complete the study when it reinterpreted one of its rules to allow so-called "speed bumps" that briefly pause trades before relaying them to exchanges for execution. The move allowed IEX Group Inc. to become the first exchange to offer a trading venue that slows the speed of trading.

IEX argued that the 350-microsecond delay helps prevent rapid-fire traders from racing ahead of typical investors and unfairly profiting off of their speed advantage. That claim was disputed by high-tech trading firms that warned the speed bump could increase trading costs for investors.

In late June, shortly after the two-year window expired for the SEC to complete the study, The Wall Street Journal filed a public-records request to obtain a copy. The agency responded on Oct. 16 with a heavily redacted, 18-page document, "Report on the Effects of IEX's Intentional Access Delay on Market Quality, Including Price Discovery."

A spokesman for the SEC declined to share any of the study's findings and said the agency has no "immediate plans to release it to the public" because it deems the report internal.

The SEC has premised policy actions on in-house economic studies before and has publicly issued studies after rules became effective to assess how well they worked. But the agency also has discretion to withhold records it deems to be part of the "deliberative" rule-making process.

Investors expressed surprise at the decision not to publish the study.

"The expectation was that this would be public information," said Ken Bertsch, executive director of the Council of Institutional Investors, which represents pensions and other large investors. "I don't know why it's so secret."

The Modern Markets Initiative, a Washington organization representing high-frequency-trading firms, also expected the SEC's study to be published. "It's in the public interest for this information to come out," said Kirsten Wegner, the group's chief executive.

In June, SEC economist Edwin Hu published a separate study that looked at the impact of IEX's speed bump on trading quality. That study—which does not represent the views of the SEC or its commissioners—found a decrease in trading costs for some stocks.

A spokesman for IEX said the exchange does not know the findings of the SEC's report but expects the results to be similar to Hu's study, which IEX lauded as a validation of its business model.

Since the SEC granted IEX's application to become an exchange, others have also begun to experiment with trading delays, including the Chicago Stock Exchange and the New York Stock Exchange. However, exchanges utilizing speed bumps still account for only a small fraction of overall trading volume.

Without more guidance from the SEC, it's hard for exchanges to know if they're making the right choice by introducing speed bumps, according to Tyler Gellasch, executive director of Healthy Markets Association, which represents large investors.

"This looks like it may have some of that information," he said of the SEC's study.

Dave Michaels contributed to this article.

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* New 'Speed Bump' Planned for U.S. **Stock Market**

* 'Flash Boys' Exchange IEX Wins First Listing

Document WSJO000020181024eeao004mp

THE WALL STREET JOURNAL.

Business

Higher Costs Hit PPG; Paint and coatings maker sees uneven growth in emerging markets

By Austen Hufford
420 words
18 October 2018
05:51 PM
The Wall Street Journal Online
WSJO
English

Paint and coatings maker PPG Industries Inc. said higher prices and cost cuts weren't enough to cover rising expenses for its ingredients.

Pittsburgh-based PPG reported Thursday that adjusted earnings per share dropped to $1.45 in its third quarter from $1.52 a year before.

Chief executive Michael McGarry said the company will continue to raise prices to cover rising costs. "We're going to have to continue to push increases all through 2019," he said on a call with analysts and reporters.

PPG's shares rose 0.9% to $98.99 on Thursday.

PPG said last week that it was paying more for the chemicals it uses to make paint and coatings, as well as for oil, shipping and labor. Shares dropped 10% that day, the biggest decline in a decade, bringing them down to early-2017 levels.

The company said it expects fourth-quarter logistics and transportation costs to rise in the "mid-teen percentage" compared to a year before and raw material costs to rise at the "low end of mid-single-digit percentages."

PPG also said it expects continued **volatility** in demand for its products, which are used in cars, houses and smartphones. The company expects global economic growth to remain positive but said it saw increasing industrial production **volatility** as well as inconsistent growth in emerging markets as the third quarter progressed. The company said demand for its coatings in China fell due to lower consumer spending on cars.

Last week The Wall Street Journal reported that activist hedge fund Trian Fund Management LPowns 2.9% of PPG. Trian hasn't said publicly what changes, if any, it is pursuing at the company. PPG said it has welcomed shareholder input.

The company repurchased about $250 million of its shares in the third quarter and expects to use about $1 billion on acquisitions and share repurchases in the fourth quarter.

Revenue rose 1.1% to $3.82 billion in the third quarter, largely matching the company's guidance, while the cost of goods sold rose 7.1%.

The company reported a profit of $378 million, or $1.55 a share, in its third quarter, compared with $610 million, or $2.36 a share, in the same quarter a year before. Adjusted earnings per share came in at the top end of PPG's recent guidance.

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THE WALL STREET JOURNAL.

Heard on the Street
Markets

U.S. Inflation Data Key to Global Markets' Next Moves

By Nathaniel Taplin
420 words
11 October 2018
06:04 AM
The Wall Street Journal Online
WSJO
English

Don't expect the Fed to save U.S. stocks—or emerging-market economies—even if the sound of crumbling markets gets much louder.

Following Wednesday's big U.S. selloff, the American grizzly moved decisively into Asia and Europe on Thursday. Shares in Shanghai closed down 5.2%, their worst single day since early 2016, while Japan's Topix dropped 3.5% and Korea's Kospi fell 4.4%. The Stoxx Europe 600 slid by 1.8% in early trading.

Voices from President Trump down are already calling for the Federal Reserveto moderate its rate-hiking course—as it has often done before when panic hit stocks. But with U.S. unemployment at its lowest since the 1960s, **oil prices**above $80 a barrel, and leading inflation indicators such as wages moving higher, it will take something worse than a **stock-market** hiccup and presidential grumbling to move the Fed.

Nor will pressure from overseas derail the U.S. central bank: Mr. Trump isn't the only policy maker following an "America first" line. In 2015, the Fed was willing to hold fire to let China fight off large-scale capital outflows and a debt-deflation trap. Three years on, Chinese markets are tumbling again and its currency is under pressure. But money has yet to start flooding out of China and official data so far show growth holding up. With the trade conflict heating up, there seems little spirit of generosity toward China in the U.S. right now.

If even China's concerns can't move the Fed, policy makers in lesser emerging markets look out of luck. The finance minister of Indonesia—where the central bank has been raising rates rapidly to defend its currency—this week openly pressed the Fed to take emerging markets' problems into account. But while China accounts for roughly 15% of global gross domestic product, Indonesia's share is just 1%.

Several emerging markets have already been hammered this year. The bad news is that they nearly always come off even worse during periods when U.S. stocks are declining sharply. That makes Thursday's U.S. inflation data key. A soft reading might induce investors to quickly forget this week's kerfuffle. But if it surprises on the upside, expect more carnage in U.S. markets—with few places to hide at home or abroad.

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THE WALL STREET JOURNAL.

Business

PPG's Warning on Costs Reverberates; The paint company's stock takes a hit amid broader concern for manufacturing profits

By Austen Hufford
375 words
9 October 2018
03:01 PM
The Wall Street Journal Online
WSJO
English

PPG Industries Inc.'s shares fell sharply Tuesday after the paint company said costs are rising at the fastest pace in two years, raising broader concern about profits for U.S. manufacturers.

Pittsburgh-based PPG said late Monday it is paying more for the chemicals it uses to make paint and coatings as well as for oil and shipping. Its share-price drop Tuesday led the broader **S&P 500** Chemicals Index down 2.8%.

"PPG's comments have made us more cautious on the outlook for the entire chemicals group," Seaport Global Securities analyst Michael Harrison wrote in a note.

Manufacturers have benefited from the robust U.S. economy, booking strong orders and raising output. But supply-chain constraints and rising costs have limited the gains for some companies. Other manufacturers have raised prices on goods ranging from mobile homes to lawn mowers as material and freight costs have climbed this year.

PPG said it would raise prices and accelerate cost-cutting to recover some of the lost margin. The company, which is scheduled to report its third-quarter results on Oct. 18., said it expects earnings per share of $1.41 to $1.45, well below the $1.59 that analysts polled by Factset have been expecting.

Many other manufacturers, including PPG competitors Sherwin-Williams Co. and 3M Co., are slated to report quarterly results in the coming weeks.

PPG said Monday that demand in China is also softening. Adhesives maker H.B. Fuller Co. said two weeks ago that uncertainty related to tariffs and trade tensions between Beijing and Washington had decreased purchases from Chinese consumers and companies.

PPG is facing a Securities and Exchange Commission investigation that the company disclosed in June. The probe came after the company fired its controller and accused him of directing subordinates to override internal controls to improperly raise profit measures. The company has restated results related to annual reports for 2016 and 2017 and five previously filed quarterly reports.

PPG shares were down 9.4% at $99.25 in afternoon trading Tuesday.

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Document WSJO000020181009eea90066a

THE WALL STREET JOURNAL.

Markets

Gold Extends Rally With Dollar Sliding; Prices have pared some of their 2018 losses lately, lifted by safe-haven buying as stocks and the dollar have fallen

By David Hodari and Amrith Ramkumar
421 words
15 October 2018
03:43 PM
The Wall Street Journal Online
WSJO
English

Gold prices extended a recent rebound Monday, climbing to their highest level since late July as the dollar weakened and investors braced for further **stock-market volatility**.

Front-month gold for October delivery rose 0.7% to $1,226.40 a troy ounce on the Comex division of the New York Mercantile Exchange. Prices have pared some of their 2018 losses lately, lifted by a bout of safe-haven buying as stocks and the dollar have fallen. Some investors favor gold during times of market turbulence because of its relative stability, and a weaker dollar makes the metal cheaper for overseas buyers.

U.S. stocks staying at record levels, a strong dollar and higher Treasury yields that can make gold less attractive have hurt the metal throughout the year, but analysts say recent market jitters have finally given the gold market a spark.

"After many months, investors are looking at bullion with much more interest and the price is moving consequently," said Carlo Alberto De Casa, chief analyst at ActivTrades.

Still, some analysts expect the **stock market** and dollar to stabilize later in the year, following fresh earnings and economic data, a trend that could limit gold's gains moving forward.

Major stock indexes swung between small gains and losses Monday, while the WSJ Dollar Index, which tracks the dollar against a basket of 16 other currencies, dipped 0.2%.

Elsewhere in precious metals, most-active silver futures added 0.6% to $14.727 a troy ounce. Palladium was up 1.6% at $1,078.20 and platinum climbed 0.8% to $846.30.

Among base metals, front-month copper for October delivery fell 0.4% to $2.7805 a pound. Worries about a slowing Chinese economy and tariffs weakening demand for materials have sent prices down almost 15% from their June four-year highs, and investors are waiting to see whether the U.S. and China can resolve their trade spat in the coming weeks.

In London, 0.7% to $2,027 a metric ton. Zinc was down 1.8% to $2,599, tin closed up 0.1% at $19,145 and nickel edged down 0.3% to $12,615. Lead rose 1.6% to $2,085.

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THE WALL STREET JOURNAL.

Markets

Gold Prices Edge Down; Stocks' move may have encouraged some investors to cut their holdings of gold, a popular destination for nervous market participants

By Ira Iosebashvili
254 words
17 October 2018
05:46 PM
The Wall Street Journal Online
WSJO
English

Gold prices edged lower Wednesday, pressured as U.S. stocks retraced earlier losses and the dollar strengthened

Gold for October delivery closed down 0.3% at $1,223.70 a troy ounce on the Comex division of the New York Mercantile Exchange.

The **S&P 500** erased its early losses to close nearly flat, after a string of sharp price swings in recent days. Wednesday's move by stocks may have encouraged some investors to cut their holdings of gold, a popular destination for nervous market participants.

Gold prices are up 2.7% so far this month.

Prices extended losses in after-hours trading, after minutes from the Federal Reserve's latest meeting suggested the central bank intends to continue raising interest rates at its current pace. Expectations of higher rates tend to weigh on the price of gold, an asset that struggles to compete with yield-bearing investments when borrowing costs rise.

A rise in the dollar also dented gold, which is denominated in the U.S. currency and becomes more expensive to foreign investors when the dollar appreciates. The WSJ Dollar Index, which tracks the U.S. currency against a basket of 16 others, increased 0.4% to 89.81.

In base metals, October copper was down 0.1% at $2.7670 a pound.

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Document WSJO000020181018eeah0012x

THE WALL STREET JOURNAL.

Markets
Copper Climbs on Soothed China Fears; Front-month copper for October delivery added 1.1% to snap a five-session losing streak

By David Hodari and Amrith Ramkumar
608 words
19 October 2018
02:36 PM
The Wall Street Journal Online
WSJO
English

Corrections & Amplifications

The price of gold closed Friday at $1,225.30 a troy ounce. An earlier version of this article incorrectly stated that price as $1,235.30.

Copper prices rebounded Friday after Chinese officials lined up to urge market calm, though the industrial metal remained on course to end the week lower after the country's weaker-than-expected growth figures.

Front-month copper for October delivery added 1.1% to $2.7680 a pound on the Comex division of the New York Mercantile Exchange to snap a five-session losing streak. Worries about the Chinese economy slowing and tariffs also contributing to weaker demand for materials used heavily in construction and manufacturing have pushed prices more than 16% below their June four-year highs.

But Friday's advance came after Chinese officials called for confidence in China's economic outlook. The rare joint effort followed Chinese GDP data, which revealed the weakest pace of economic expansion since the financial crisis.

The world's second largest economy grew by 6.5% in the third quarter from the previous year, down from 6.7% in the second quarter. That pace undershot the expectations of economists polled by The Wall Street Journal, who had forecast growth of 6.6%.

Despite those figures, Chinese equities rallied, with both the major Shenzhen and Shanghai indexes climbing 2.6% after the effort from Beijing officials to soothe nervous investors.

That reassurance reflected in base metals, with analysts pointing out positive indicators that coincided with the weak headline growth figure.

Infrastructure building numbers and another strong showing for construction starts were both well-received by the market, according to Vivienne Lloyd, a senior analyst at Macquarie.

Copper prices are often swayed by sentiment over the health of Chinese economic growth—the country accounts for approximately 50% of global demand—and the base metal has this week been at the mercy of broader market swings.

Despite Friday's rise, it was still on course to end the week lower, with sentiment for China-exposed assets still downbeat. The yuan hit a fresh 21-month low against the U.S. dollar Thursday, and the Shanghai Composite Index has lost about a quarter of its value so far in 2018.

Investors have become increasingly jittery in recent weeks over a cocktail of factors including rising U.S. bond yields, trade war fears and global growth.

China's slowing growth reflected that "the trade dispute with the U.S. is presumably beginning to have an impact," Commerzbank analysts said in a note.

In London trading, aluminum for delivery in three months edged down 0.5% to $2,003 a metric ton. Zinc dropped 2.1% to $2,626, tin was up 0.8% at $19,170, nickel rose 0.8% to $12,450 and lead was down 0.5% at $1,992.

Among precious metals, front-month gold for October delivery edged down 0.1% to $1,225.30 a troy ounce, though a weaker dollar pushed the metal to a third consecutive weekly advance. The dollar's slight pullback lately and a pickup in market **volatility** have helped gold trim some of its 2018 decline, but analysts still think higher interest rates could pose a challenge moving forward. Higher Treasury yields make gold less attractive to investors, and a stronger dollar makes it more expensive for overseas buyers.

Most-active silver futures rose 0.3% to $14.650 a troy ounce, platinum added 0.5% to $836 and palladium climbed 0.5% to $1,069.90.

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THE WALL STREET JOURNAL.

Markets

SEC Ruling Takes Aim at Stock-Exchange Profits; The Securities and Exchange Commission decision blocking higher fees for certain stock-market data casts doubt on a crucial and growing source of revenue that has helped exchanges make up for the declining income from trading

By Alexander Osipovich, Dave Michaels and Gretchen Morgenson
2,179 words
16 October 2018
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The Wall Street Journal Online
WSJO
English

In recent years, U.S. stock exchanges thought they had a guaranteed profit machine that could revive their sagging businesses: selling market data at ever-higher prices to a captive audience of Wall Street banks and traders.

On Tuesday, the Securities and Exchange Commission unanimously ruled against the New York Stock Exchange and Nasdaq Inc. in a 12-year legal dispute over market-data fees.

The five-member commission shot down a pair of requests to raise fees for certain NYSE and Nasdaq data, saying the exchanges hadn't justified the price increases. The decision is the first time the SEC has rejected fee increases for the exchanges' most lucrative class of **stock-market** data feeds. It casts doubt on a crucial source of revenue that has helped make up for declining trading-fee income.

The SEC's decision sided with the Securities Industry and **Financial Markets** Association, or Sifma, a major financial-industry trade group that had accused the exchanges of "exploiting their monopoly over market data." Brokers say big and small investors alike will benefit if regulators rein in skyrocketing market-data costs.

The SEC also put into limbo over 400 other market-data fee increases that were challenged by Sifma. The regulator didn't reject those price increases but told the exchanges to review brokers' complaints that they undermine competition, giving the exchanges a year to complete the effort. The move puts pressure on the stock exchanges to restrain fees or disclose more about why they are necessary, which exchanges have historically resisted.

"Today's decision is a victory for ordinary investors in our stock markets—who have, for too long, been paying steep costs for an uneven playing field," said SEC Commissioner Robert J. Jackson Jr. He added that "exchanges will have to show that competitive forces, not market power, justify any increase."

A NYSE spokeswoman said the decision represents a "troubling shift by the SEC" toward "regulatory overreach prioritizing the interests of powerful Wall Street interests," adding the exchange didn't believe the decision would withstand its challenge. Nasdaq said in a statement that it was "disappointed" by the ruling and would appeal in federal court. "This decision represents the latest in a 20-year-long series of attempts to over regulate the best capital markets in the world, in order to benefit the largest financial institutions," it said.

Brokers, including those that serve retail-oriented investors such as mutual funds and pension funds, say they are essentially required by SEC rules to buy the exchanges' data. Those costs, brokers say, act as a tax on the industry, which they either swallow or pass on to customers.

The SEC's Republican commissioners faulted the exchanges for providing regulators with only a cursory basis to judge the fees. The exchanges, Hester Peirce and Elad Roisman wrote in a statement, have never explained which traders need such data and what other options they have for obtaining it. Absent such information, they wrote, the SEC can't judge whether the fees are so high they keep some traders out of the market, a form of discrimination that public exchanges aren't allowed to practice.

Data has emerged as a lucrative business for the three big exchange groups that dominate the U.S. **stock market**: NYSE parent Intercontinental Exchange Inc., known as ICE, Nasdaq and Cboe Global Markets Inc. Until the 2000s, exchanges made only a small share of revenue from data and sometimes even gave data away free. Now, revenues from ICE's and Nasdaq's various data-related businesses rival what the companies make from trading.

That shift coincided with an explosion in demand. The importance and sheer volume of market data has grown in the past few decades due to the widespread adoption of electronic trading and the rise of ultrafast traders who need lightning-quick information about price moves.

Exchanges sell data on current stock prices and recent trades, as well as on how much supply and demand there is for stocks at different price levels. High-frequency traders use such data to power their computerized trading strategies. Brokerages, including banks UBS Group AG and JPMorgan Chase & Co., use it to ensure they are giving their clients—hedge funds, pension funds and other big investors—the best price on each trade.

Building on their core equities-data business, exchanges have pushed into related areas, such as bond-price data and market-analysis software. From 2014 to 2017, total annual revenues from market-data services for the big three exchange companies surged 45% to $2.3 billion, according to an analysis by the Committee on Capital Markets Regulation, a research group whose members include big banks and asset managers.

Exchanges said the analysis overstates the size and growth rate of their data business. Disclosures from ICE, Nasdaq and Cboe show their combined **stock-market** data revenues were around $560 million in 2017, although that doesn't include connection fees that traders and brokers must pay to access such data. The figure also excludes sales of options and futures data.

"There is absolutely no evidence that anyone would benefit from harmful government price-setting intervention, other than the Wall Street interests that continue to perpetuate these myths in a self-interested bid to further lift their profits," a NYSE spokeswoman said before the SEC ruling.

So far, small investors haven't seen much impact from rising data costs, and their overall trading costs have generally fallen in recent years. Well-known names in retail investing have nonetheless joined Wall Street banks in complaining about fee increases. Charles Schwab Corp., Fidelity Investments and T. Rowe Price Group Inc. were among 24 companies that signed a letter to the SEC in December blasting the exchanges' "oligopoly" over **stock-market** data.

Clearpool Group Inc., a startup electronic brokerage whose office is just a few blocks from the Big Board's historic headquarters in lower Manhattan, said its yearly outlays for NYSE equities data climbed to $343,000 in 2015 from $212,000 in 2013, a 62% increase. Since then, Clearpool's NYSE data expenses have dropped, because it stopped paying for the priciest data feeds, the company said. "What we've seen is a steady increase in the pricing," said Clearpool CEO Joe Wald.

The SEC's ruling will likely make it tougher for exchanges to raise fees for data and related charges for connecting to their computer systems. The SEC has already started to scrutinize such fee increases more closely, in a broad effort to ensure they don't undermine competition, according to regulators and traders involved in the fight.

A federal appeals court said last year that the SEC fell down on the job of scrutinizing similar fees in the options market and ordered the agency to improve its oversight. The court ruling "has raised the bar for the commission on our review of [exchange] filings," Brett Redfearn, the SEC's director of trading and markets, said at an industry conference on Oct. 4.

U.S. stock exchanges have long used their status as pillars of American capitalism to get their way in Washington. From 2016 through September, the SEC didn't reject any of 95 exchange proposals related to connection fees, according to an analysis by Mr. Jackson, the SEC commissioner.

The SEC's Sifma ruling reopens fundamental questions about the role of exchanges. Should they be utilities working for the good of markets, or, as for-profit companies, should they focus on making money for shareholders?

The NYSE's metamorphosis into a Big Data company started in the 2000s, after new SEC rules aimed at breaking the decades-old NYSE-Nasdaq duopoly took effect. Founded in 1792, the NYSE dominated U.S. stock trading for most of American history. As recently as the 1990s, it handled more than two-thirds of U.S. equities trading on a dollar basis.

The rise of rival exchanges and electronic trading platforms eroded the Big Board's market share. Today the NYSE handles about 23% of U.S. stock-trading volume.

As it battled low-cost competitors, the exchange's traditional business suffered. From 2008 to 2017, the NYSE's net revenue from transaction fees fell by more than 40% to $196 million, according to an analysis by Equity Research Desk, a research firm.

Seeking to lift its flagging fortunes, the NYSE turned to its trove of trading data. On an average day, around 1.7 billion shares change hands on the NYSE's markets. Vast volumes of digital messages zip around the Big Board's 400,000-square-foot data center in Mahwah, N.J., each of which represents a trade or a pending order to buy or sell stocks. The NYSE compiles those messages into high-speed electronic feeds that it sells to brokers and traders.

The NYSE also broadcasts stock prices through a cheaper, slower public data feed, called the securities information processor, or SIP. This is used by retail brokers such as TD Ameritrade Holding Corp. and internet search engines like Google and Yahoo.

Banks and electronic-trading firms say the SIP is too slow to be useful. Sifma has accused the NYSE and other exchanges of underinvesting in the SIP to steer big-ticket customers to pricier data feeds. The NYSE and other exchanges deny that contention.

Wall Street veterans, including former NYSE executives, say the Big Board stepped up its focus on data after its conversion to a for-profit company in 2006. They add that the process accelerated after Atlanta-based ICE completed its takeover of the NYSE in 2013.

ICE's latest focus is amassing control of crucial financial data flows. Last year, 45% of the company's net revenues came from market-data sales and related fees, up from 9% in 2011. That includes the sale of data from its exchanges as well as from nonexchange businesses.

ICE has said that sales of real-time **stock-market** data account for just 2% of its annual revenue and haven't been growing quickly.

Chief Executive Jeffrey Sprecher has rejected allegations in the past that ICE abuses its market power to make outsize profits from data. "That's a false narrative," he told The Wall Street Journal in an interview last year, stressing that the Big Board's customers were free to buy less-expensive data feeds.

Brokers say part of the problem is well-intentioned SEC regulations that were designed to protect investors but ended up providing a profit opportunity for the exchanges.

Under a rule adopted in 2005, brokers must send customer orders to whichever exchange is displaying the best price for a stock. Brokers say that means they have to buy price data from all 13 U.S. exchanges currently in operation. All but one of those markets are now owned by the NYSE, Nasdaq and Cboe. The other, IEX Group Inc., doesn't sell premium data feeds and has attacked its larger rivals for their data practices.

The SEC requires brokers to give their clients the best execution possible on orders. Regulators have said that requires brokers to use the exchanges' fastest and deepest data feeds to price customer orders, if the brokers also use that data for any of their own trading.

Data is among many costs facing brokers, and it helps determine how much they charge their customers, including mutual funds and pension funds. Richard Johnson, an analyst with research firm Greenwich Associates, says rising data costs help explain why the average brokerage commission paid by financial institutions has held steady at about 2.6 cents per share since 2010, after dropping for the three decades before then.

High-frequency trading firms say they have also been hammered by the mounting cost of exchange data. Such firms use powerful computer algorithms to zip in and out of stocks in fractions of a second. If a firm can get information about a move in stock prices slightly faster than its rivals, it can use that to beat the competition. That's a big incentive to upgrade to the fastest available data feeds and connections.

In 2012, Nasdaq introduced a new version of its Totalview-ITCH data feed that traders say was just two millionths of a second faster than the next-best version. The cost was an additional $25,000 a month, but many high-speed firms paid up.

"We're in a competitive market," said Adam Nunes, head of business development at Hudson River Trading LLC, a high-speed trading firm. "We need to buy it in order to compete with other trading firms."

Liz Hoffman contributed to this article.

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WSJ PRO CENTRAL BANKING

Economy

Derby's Take: Dallas Fed Chief Robert Kaplan's Personal ‘Black Swan'; For Mr. Kaplan, the forces that could waylay the economy are no mystery

By Michael S. Derby
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English

Sometimes the thing that brings you down comes straight out of the blue. Other times, it's staring you right in the face.

For Dallas Fed President Robert Kaplan, the forces that could waylay the economy are no mystery. In a Wall Street Journal interview Tuesday, Mr. Kaplan said he often is asked to say what his personal "black swan" could be, in reference to the idea of unpredictable or unknown factors that can cause big damage.

"My definition of the term ‘black swan' is the thing that's staring you in the face…that you refuse to acknowledge, even though it is obvious to you," Mr. Kaplan said.

For Mr. Kaplan, the main risk to the outlook isn't some unexpected breakdown in **financial markets** that fans the flames of contagion and causes a recession that most never saw coming. He isn't worried about a replay of the factors that lead to the financial crisis.

Instead, the threats to the U.S. outlook are aging populations, slowing workforce growth and an education system that doesn't do enough to teach math and science skills, Mr. Kaplan said. Add to that surging government debt levels that at some point will become a serious challenge to finance if not tamed, he said.

"These are things that are explicit. They're not secrets," he said. "It keeps me up at night if we see those things and they're staring us right in the face and we're not acknowledging them and talking about them."

Mr. Kaplan isn't without hope. "We are quite capable" of addressing these problems, and he said these issues are important enough for him to keep speaking out on them.

Mr. Kaplan's list of threats recalls how former Defense Secretary Donald Rumsfeld famously expounded on knowing what you know, and knowing what you don't know. The Dallas Fed leader's list fits squarely in Mr. Rumsfeld's "known knowns" category in that many experts have been warning about these very factors for some time.

The question is whether lawmakers can do something to address these issues. Everything on Mr. Kaplan's list is outside the Fed's purview and tool kit. The Fed has a soapbox and Mr. Kaplan is using it, but it remains far from clear if elected leaders are listening.

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WSJ PRO CENTRAL BANKING

Economy

U.S. Housing Construction Fell in September, Continuing Weak Stretch; Broader trend shows continued construction growth, as starts grew by 6.4% in the first nine months of 2018 compared with the same period a year earlier

By Sharon Nunn
457 words
17 October 2018
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English

WASHINGTON—Housing construction fell last month, continuing a weak stretch for the housing market driven by rising borrowing costs and expensive properties that are out of reach for most Americans.

Building declined 5.3% in September from the prior month, according to the Commerce Department's latest housing report. Building permits, which can signal how much construction is in the pipeline, also fell. That stagnant construction is mirrored in recent readings of home-builder sentiment, which have pulled back throughout this year.

"Builders seem to have taken a cautious stance with sales of new homes easing this year and inventories of unsold homes moving upward," Michael Moran, chief economist at financial services firm Daiwa Capital Markets America, said in a note to clients after the report was released.

Though home-price growth has moderated in recent months, it has outpaced wage growth for years. The median new-home sales-price annual growth has bounced between 5% and 10% throughout 2018, whereas hourly wages have grown about 2% to 3% on an annual basis this year. Supply constraints, such as lack of buildable lots and increasing construction material costs, are helping drive up the price of new homes.

"As there are less buyers at each price point, the appropriate market response is a slowdown in sales and an eventual easing in price momentum," said LendingTree Chief Economist Tendayi Kapfidze. "We need affordability to improve for the housing market to regain momentum."

Meanwhile, even as overall economic conditions should support demand, with a rock-solid job market and continued robust GDP growth, mortgage rates have begun to approach 5%, a level that could deter home buyers. A spate of recent economic data has illustrated this conundrum; demand should be strong, but rates and home prices are dampening it.

To be sure, the broader trend shows continued new-home construction growth, as starts grew by 6.4% in the first nine months of 2018 compared with the same period a year earlier. And this particular data set is **volatile** from month to month and can be subject to large revisions. September's 5.3% drop for starts came with a margin of error of 11.3 percentage points.

The Commerce Department's Wednesday report also showed starts declined in September for single-family construction and apartment buildings. Permits last month were down for buildings with five or more units and were up for single-family homes compared with August.

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WSJ PRO CENTRAL BANKING

Markets

Risk of Bank-Like Regulation Fades for Big Financial Firms; The federal council overseeing financial stability rescinded oversight of Prudential Financial

By Ryan Tracy
857 words
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05:12 PM
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English

WASHINGTON—U.S. regulators released Prudential Financial Inc. from federal oversight Wednesday, the strongest signal yet that the risk of heightened post-financial-crisis supervision is fading for firms outside the banking sector.

The Financial Stability Oversight Council unanimously rescinded Prudential's designation as a "systemically important financial institution," or SIFI, a label that comes with tighter scrutiny from the Federal Reserve.

The decision followed a yearslong campaign by Newark, N.J-based Prudential to reverse regulators' 2013 determination that its failure could threaten the economy. It means that only the biggest banks, because of their size and complexity, are considered systemically important in the U.S..

Prudential was the last of four nonbank firms to escape the designation. And unlike the other companies, Prudential won the decision without changing its business model.

Trump-appointed officials are also considering policy changes expected to reduce the chance that nonbanks—insurance companies, hedge funds, and other firms—are ever designated a SIFI again.

"The council's decision today follows extensive engagement with the company and a detailed analysis showing that there is not a significant risk that the company could pose a threat to financial stability," U.S. Treasury Secretary Steven Mnuchin said in a statement. He chairs the council of senior officials from the Fed and other agencies, which unanimously backed the move.

Prudential Vice Chairman Mark Grier praised a decision he said "reflects our core business model and the nature of our life insurance products or retirement products."

"The original analysis was flawed," he said in an interview. "This time we have it right."

Wednesday's decision could save Prudential tens of millions of dollars in regulatory costs. Fed examiners, present in Prudential's offices since 2013, will vacate the premises, leaving New Jersey state supervisors with primary responsibility for overseeing the firm's global operations.

Prudential, whose shares rose about 2% Wednesday, has more total assets today than when it was designated a SIFI. Regulators acknowledged Wednesday it also has greater derivatives exposures and a complex legal structure that could make it hard unwind in a crisis.

Jeremy Kress, an assistant professor at the University of Michigan who has argued against de-designating Prudential, said the decision sends the message "that other firms can grow with impunity without having to worry about this type of regulation."

Regulators said their Obama-era predecessors relied on a flawed analysis of Prudential involving a "highly unlikely" scenario where policyholders demanded cash en masse. Previously, officials had said it was appropriate to consider extreme scenarios for firms of Prudential's size.

Changes to SIFI-designation rules are one part of the Trump administration's push to reverse Wall Street regulations it views as heavy-handed, including regulations on bank capital and trading.

The systemically important designations date to the 2010 Dodd-Frank law. Congress, seeking to prevent bailouts such as those given to American International Group Inc. and Bear Stearns Cos., created the council and empowered it to subject a risky financial company to more intrusive oversight if regulators judged its failure could put the economy at risk. That included insurers who had historically been state regulated. As recently as 2016, four nonbank firms wore the SIFI designation. They were American International Group Inc., MetLife, Inc., General Electric Co.'s GE Capital unit and Prudential.

Others firms, including BlackRock Inc. and Berkshire Hathaway, also were scrutinized. Though regulators ultimately decided those firms didn't qualify as SIFIs, designation still loomed as a threat for any Wall Street giant.

Today, that risk appears all but eliminated.

MetLife convinced a federal judge to overturn its designation in 2016 . It also spun off about a fifth of its operations, including products that were expected to be subject to some of the highest federal capital requirements.

Regulators later removed the SIFI label from GE Capital and AIG, but only after the companies shrank and jettisoned risky businesses.

Eliminating SIFIs has long been a goal of Republicans who argued the Obama administration used designation power arbitrarily, distorting **financial markets** by creating a class of "too big to fail" firms.

Under Mr. Mnuchin, the financial oversight council is also rewriting Obama-era rules for designations, responding to a November 2017 Treasury Department report that said the designations should be a last resort.

The report said regulators should focus on risky activities and crack down on individual firms only if the benefits outweigh costs, stopping short of suggestion by some conservatives and financial firms that Congress repeal designations altogether.

Critics of the Treasury's approach say it could leave regulators blind to risks building inside a potentially "too big to fail" firm - until it is too late.

"The quantifiable benefits of designation will only outweigh the costs when the probability of the firm's failure becomes material," said Amias Gerety, who managed the SIFI designation process as a Treasury Department official during the Obama administration.

Leslie Scism and Allison Prang contributed to this article.

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WSJ PRO CENTRAL BANKING

Economy
Business Prices Firmed Up in September; Uptick in producer-price index comes after two months of sluggishness

By Sarah Chaney
319 words
10 October 2018
11:29 AM
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English

A gauge of U.S. business prices showed signs of bouncing back in September after a slowdown over the summer.

The producer-price index, a measure of the prices businesses receive for their goods and services, increased a seasonally adjusted 0.2% in September from a month earlier, the Labor Department said Wednesday.

The rise in September prices came after two months of sluggishness and was propelled by a hefty increase in transportation prices.

Prices excluding the often-**volatile** food, energy and trade-services categories were up a robust 0.4% in September, the largest monthly increase since January.

From a year earlier, overall producer prices rose 2.6% in September. Producer-price inflation measured on a 12-month basis peaked at 3.4% in June, but has since weakened each subsequent month.

So-called core prices, though, have been stronger. Excluding food, energy and trade, prices rose 2.9% on the year in September after gradually moving upward this year.

In the longer term, annual gains in the overall index have risen since the beginning of 2016, while the core measure has also drifted higher.

The producer-price index usually follows the same trends as other broad inflation gauges, though it doesn't always translate into what consumers pay.

Signs of easing inflationary pressures have emerged in other recent reports. The core personal-consumption-expenditures price index, which excludes food and energy products, was flat in August from July, the Commerce Department said.

Despite historically low unemployment, inflation hasn't shown signs of breaking out in a worrisome way, Federal Reserve officials have said.

Fed officials foresee a jobless rate below 4% over the next three years, but don't expect inflation will rise much above 2%.

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WSJ PRO CENTRAL BANKING

Economy
Consumer Prices Rise 0.1%, Less Than Forecast; Modest price increases caused the pace of inflation-adjusted earnings to rise at the strongest rate in six months

By Harriet Torry
844 words
11 October 2018
02:51 PM
WSJ Pro Central Banking
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English

WASHINGTON—Consumer prices rose less than expected for the second straight month, a sign inflationary pressures remain in check despite solid economic growth and low unemployment.

While that's good for American households finally starting to see their inflation-adjusted earnings rise, it also deepens the puzzle for the Federal Reserve as officials weigh how much to raise interest rates in the months ahead. Low unemployment calls for more rate increases, but slow inflation doesn't.

The consumer-price index, which measures what Americans pay for everything from hair spray to hotel room service, rose 0.1% in September after rising a seasonally adjusted 0.2% in August, the Labor Department said Thursday. September's slight increase undershot economists' expectations of a 0.2% rise.

In the 12 months through September, overall prices rose 2.3%, the smallest year-over-year change since February and down sharply from the near-3% year-over-year increases seen this summer. Excluding the more **volatile** food and energy components, core prices were up 2.2% on the year in September, the same rate as in August.

Two consecutive months of 0.1% increases in inflation "show the economic seas are calm when it comes to inflation despite the hurricane of selling hitting the world stock markets," said Chris Rupkey, chief financial economist at MUFG Union Bank.

September's low inflation reading was heavily influenced by a drop in energy costs, the steepest month-over-month decline in the price of used cars and trucks in 15 years and a strong dollar that has held down the price of other commodities in recent months.

Rising interest rates and faster economic growth in the U.S. compared with other developed economies have helped push the dollar higher in recent months, which is likely keeping a lid on the prices of goods either purchased overseas or that compete with imports. The WSJ Dollar Index, which measures the greenback against a basket of other currencies, rose about 7% from April to September.

Energy prices, which have risen nearly 5% over the past year, slipped 0.5% in September, as gasoline prices fell 0.2%.

Economists said that although lower gasoline prices dragged down inflation in September, that's unlikely to repeat in October since prices at the pump have risen in the early part of this month.

The decline in used auto prices is also likely to reverse in October as Americans hit by Hurricanes Florence and Michael replace damaged vehicles.

In a positive sign for American workers, modest prices increases caused the pace of inflation-adjusted earnings to rise at the strongest rate in six months, according to Thursday's report. Average hourly earnings rose a seasonally adjusted 0.3% in September.

With unemployment down to 3.7%, wages may finally be picking up. Hourly wages, adjusted for inflation, were up 0.5% in September from a year earlier, and though that isn't spectacular, it's the strongest year-over-year pace since January.

With the jobless rate in September at the lowest level since the Vietnam War, some companies are raising wages to attract and retain workers.

Costco Wholesale Corp. boosted entry-level hourly pay by $1 to $14 earlier this year "and I believe that you'll see more pressure on it," Chief Financial Officer Richard Galanti said last week after the retailer posted strong sales growth in its most recent quarter.

Some retailers are also raising prices this quarter to combat wage inflation. PepsiCo Inc. Chief Financial Officer Hugh Johnstonsaid last week that rising transport costs due to a shortage of truck drivers mean it will increase prices on single-serve Frito-Lay products by 4% to 5% in the fourth quarter.

Fed Chairman Jerome Powell wants to raise rates gradually over the coming year, premised on the assumption that core inflation is gradually rising.

The Fed has "got time to assess this and other reports" before the central bank's Dec. 18-19 policy meeting, said JPMorgan Chase & Co. economist Michael Feroli, when officials will next submit projections for the economy and interest rates in years to come. Thursday's CPI report is "one piece in a bigger puzzle," he said.

Fed policy makers in September raised their benchmark short-term interest rate to a range between 2% and 2.25%. Officials signaled they expected to lift the rate again later this year and through 2019 to keep a strong economy on an even keel.

The risk that inflation climbs higher and faster than anticipated could require the Fed to raise rates "a little bit quicker," Fed Chairman Jerome Powell said at his Sept. 26 press conference. He added, "We don't see that. We really don't see that."

"Inflation is low and stable," he said.

Theo Francis contributed to this article.

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WSJ PRO CENTRAL BANKING

Economy
U.S. Retail Sales Rose Less Than Expected in September; Americans reined in their spending at restaurants and department stores

By Harriet Torry
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15 October 2018
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English

WASHINGTON—American consumers reined in their spending at restaurants and department stores in September, resulting in the second straight month of weak spending as the holiday season approaches.

Sales at retail stores and restaurants rose a seasonally adjusted 0.1% in September, the Commerce Department said Monday. That undershot economists' expectations for a 0.7% month-over-month increase, and matched the rate of spending in August. Retail sales rose 0.6% in July.

Hurricane Florence, which made landfall in coastal North Carolina in mid-September, may have muddied the data last month. Economists attributed a sharp drop in spending on dining out to the storm. Sales at food services and drinking places fell 1.8% last month, the category's steepest month-over-month drop in nearly two years.

The Census Bureau said it couldn't isolate the effect of the hurricane, although companies in its survey said the storm "had both positive and negative effects on their sales data while others indicated they were not impacted at all."

"The September figures were unquestionably soft, but there was a lot going on," said Amherst Pierpont economist Stephen Stanley in a note to clients, pointing to payback last month from strong retail spending in the spring and summer, and warm weather that may have dampened back-to-school apparel sales.

Retail sales data can be **volatile** from month to month, and economists said September's spending was likely hindered by one-offs rather than a sudden slowdown in underlying consumer demand, which has been strong in recent months.

"We're still at the moment probably seeing what's the tail end of the tax cut boost," said Ian Shepherdson, chief economist at Pantheon Macroeconomics.

Measures of consumer confidence have remained high recently, supported by low unemployment and broader economic growth.

Looking ahead, James Bohnaker, an economist at research firm IHS Markit, said the recent selloff in equity markets and rising gasoline prices could cause consumers to think twice about additional discretionary spending in the holiday season for retailers.

"Shoppers have gotten used to having extra money in their bank accounts as a result of the 2018 tax cuts, but that stimulus would be largely diffused by rising gas prices," he said in an analyst note.

Home goods and beauty products maker Helen of Troy Ltd. last week reported higher sales and profit for its second quarter, which ended Aug. 31, but warned earnings could fall in the current quarter due to commodity and freight inflation, and tariffs on goods it imports from China.

"The second half of the year is not without its challenges, including rising input costs and the adverse impact of tariffs," Chief Executive Julien Mininberg said on a conference call last week.

The Atlanta Fed said the latest retail sales data caused it to downgrade its estimate of third-quarter consumer spending, and as a result it lowered its GDPNow real-time growth estimator to 4.0%, down from 4.2% in the Oct.

10 estimate. The Atlanta Fed estimate compares with the 3.6% estimate offered by private forecasting firm Macroeconomic Advisers.

While motor-vehicle sales recovered in September after declining in August, sales fell 0.1% in September when excluding motor vehicles, missing economists' expectations for a 0.4% rise and marking the biggest drop since May 2017.

Retail sales aren't adjusted for inflation, and the stronger dollar may have contributed to the lower sales number by pushing down prices of certain imports like clothing, meaning less money in the cash registers of clothing retailers. The WSJ Dollar Index, which measures the U.S. currency against a basket of 16 others, is up about 4% this year.

Sales at department stores fell 0.8%. Sales at nonstore retailers, such as purchases made online or from mail-order catalogs, increased 1.1% last month and were up 11.4% on the year.

The Federal Reserve closely eyes consumer spending data as a gauge of economic growth, and central bank officials pointed to strong consumer spending as a factor in their decision to raise their benchmark interest rate in September to a range between 2% and 2.25%. They are widely expected to raise the rate again by a quarter percentage point in December.

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WSJ PRO CENTRAL BANKING

Economy

Derby's Take: Growth Trackers Point to a Hot Third Quarter for U.S. The Atlanta Fed's GDPNow tracker estimates third-quarter economic growth at 4%

By Michael S. Derby
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The latest round of real-time growth trackers suggests the economy remains on a very strong path, one that could keep alive at least some anxiety about the inflation outlook and how the Federal Reserve might respond.

Two trackers released Monday show the economy performing well above its estimated long-run potential. While these estimates are quite **volatile** and subject to change, if their current levels hold it means whatever slack is left in the economy continues to be wrung out, increasing the risk of higher inflation in the future.

The Atlanta Fed's closely watched GDPNow tracker pegs third-quarter economic growth at 4%, down from the most recent estimate of 4.2% for the seasonally adjusted annual growth rate.

Meanwhile, the privately produced estimate from Macroeconomic Advisers pegs growth for the same period at 3.6%, unchanged from the last time the research firm updated its view. Macroeconomic Advisers has fourth-quarter growth at a cooler but still strong 2.7%.

Those numbers are well above the Fed's estimate that the economy's long-run growth rate stands at around 1.8%. The strength of the economy, most notably the unemployment rate's ability to grind ever lower, is motivating its push to raise short-term interest rates.

So far, there's little reason to think that inflation, which has finally moved up to around the Fed's 2% inflation target, is about to break significantly higher. Recent price pressure data has cooled a bit, and inflation expectations have been steady and relatively low.

But jobs data could finally ignite higher wages that in turn could start pressuring inflation higher.

Economists at Goldman Sachs estimated in new research that a 4.5% jobless rate would correspond with full employment, compared with the current 3.7% unemployment rate. The bank expects to see 3% unemployment by 2020. But it isn't too worried, saying because of "well-anchored inflation expectations, a labor market overshoot is likely to result only in above-target inflation, not persistently accelerating inflation."

Someone who is a bit anxious about where growth and the job market are heading is former Federal Reserve Chairwoman Janet Yellen. She said Monday that further declines in already low unemployment could spark unwanted inflation gains.

"I am worried about the economy overheating," said Ms. Yellen, adding that the economy likely can't sustain growth rates over 3% now without that happening.

But the hot growth data could start cooling off as the stimulative impact of tax cuts wanes in the years ahead. The Fed's path of modest rate rises in part depends on that happening. If it doesn't, the central bank may be forced to move more aggressively.

Write to Michael S. Derby at michael.derby@wsj.com

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WSJ PRO CENTRAL BANKING

Markets
Big Stock Windfall? New Rule Defers Taxes With Real Estate Investment; U.S. aiming to attract $100 billion in development with 'opportunity zones' created by tax overhaul

By Peter Grant and Gregory Zuckerman
1,093 words
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Corrections & Amplifications

Aron Betru is managing director of the Center for **Financial Markets** at the Milken Institute. An earlier version of this story misspelled his first name as Aaron. (Oct. 1)

Billions of dollars have started piling into new real-estate funds targeting disadvantaged U.S. neighborhoods, as investors line up to capitalize on a section of last year's tax overhaul.

The tax bill created more than 8,000 tax-advantaged "opportunity zones." They range from parts of New York, Los Angeles and Washington, D.C., to rural areas and the entire U.S. territory of Puerto Rico. On Thursday, Treasury Secretary Steven Mnuchin predicted the zones will attract over $100 billion in private capital.

Opportunity-zone investments could be "the biggest thing to hit the real-estate world in perhaps the past 30 or even more years," says Bruce Stachenfeld of law firm Duval & Stachenfeld.

The zones have multiple tax benefits. Anyone with capital gains—from real estate, Amazon shares or most any other source—can defer taxes on them until 2026 if they roll those gains into investments in these designated zones. Investors can also get a discount of up to 15% on those taxes when they eventually pay them. And capital gains from qualified investments in the zones that are held for at least 10 years won't be taxed at all.

"Billions of dollars, maybe more, will be coming into the market, with the investors saying, 'We only want to put this money into these communities because of these tax benefits,'" said Seth Pinsky, executive vice president of New York developer RXR Realty, which is exploring creating an opportunity-zone fund.

So many investors are expected to take advantage of the tax break and invest in these zones that it will cost the government $7.7 billion between 2018 and 2022. The cost will shrink to $1.6 billion over 10 years as deferred taxes are paid, according to the Joint Committee on Taxation. Unrealized capital gains on stocks and mutual funds held by U.S. households alone total about $2.3 trillion, according to a report by the Milken Institute's Center for **Financial Markets**, citing research from the Economic Innovation Group.

The tax benefits apply to most equity investments in the zones, including real-estate development and operating businesses such as restaurants, stores and technology startups. But most of the initial investments are expected to be in real estate, partly because opportunity-zone tax law provides the most benefits to investors who can quickly deploy a lot of capital.

"Doing a $300-million real-estate development project is so much easier than 300 different $1-million operating-company investments," said Aron Betru, managing director with the Milken center.

Developers and investors say there are still many unanswered questions, including whether the tax breaks will produce the intended benefits for targeted neighborhoods. They're hoping for more clarity when the Internal Revenue Service issues further guidance, which is expected to happen any day.

The program—which was partly conceived by Sean Parker, the entrepreneur who helped launch Facebook and Napster—has raised concerns among community groups about the impact on existing residents of low-income areas. "There's a tipping point where the people who were there before get pushed out, and the people who come in are the people who are benefitting," said Mr. Pinksy.

But real-estate investment firms, developers and others are already vying for positions at the starting line. Mr. Betru says he has heard about close to 20 firms that have either started raising or are planning to raise funds ranging from $100 million to $500 million.

James Lang, a tax attorney in Greenberg Traurig's Tampa, Fla., office, says he has fielded 10 to 15 calls each day on the topic since July and his firm has assembled about 45 lawyers to focus on opportunity-zone investing.

Some developers that happen to be working on projects inside zones already find themselves in prime positions. Florida-based firm Waypoint Residential was planning a 250-unit rental apartment project in the suburbs of Louisville, Ky., before the area was designated an opportunity zone.

Raising capital turned out to be a breeze, said Scott Lawlor, Waypoint's chief executive. "We were 50% oversubscribed within two weeks."

Developers are aware that opportunity-zone investments will be risky despite the tax benefits. To qualify, real-estate investments have to be ground-up projects or major rehabilitations.

"When this much dough forms this quickly with this much of a buzz around it, you just have to step back" and be careful, said Mr. Lawlor.

The zones could be a major boon for real-estate fundraising, which has been getting tougher. A total of 48 private real-estate funds closed globally in the second quarter of 2018 for a combined $23 billion, down from $38 billion raised by 75 funds in the first quarter, according to data firm Preqin.

Small-to-midsize firms with experience investing in disadvantaged areas have largely been the first movers in the opportunity-zone business. Firms that announced plans to raise funds include Youngwoo & Associates, of New York, whose current projects include redeveloping the historic Bronx Post Office into a retail and office project, and Washington, D.C.–based Fundrise, which is considering possible investments in Los Angeles, Oakland, Dallas and Seattle.

Jessica Millett, co-chair of Duval & Stachenfeld's Tax Practice, said that in addition to real-estate developers, she has also received interest in opportunity zones from investment bankers, advisers representing technology executives and other investors.

Some large banks already involved in economic development have also become active in the zones. For example, Goldman Sachs Group Inc.'s urban investment group has already made $70 million worth of deals in opportunity zones in 2018 and has over $1 billion of possible transactions in the pipeline, according to Margaret Anadu, the group's head.

Other big names in real-estate investment, such as Blackstone Group, KKR and Apollo Global Management LLC, are expected to sit on the sidelines for now, according to people close to the firms. These firms tend to make larger investments than the deals that will likely be made in opportunity zones.

"Deals will happen, but I don't think it will be billions of dollars of equity from one manager," said Ralph Rosenberg, KKR's global head of real estate.

Ruth Simon contributed to this article.

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WSJ PRO CENTRAL BANKING

Politics

Trump Complains About Rising Interest Rates, Calling the Fed ‘My Biggest Threat'; The president says he is not happy with Fed Chairman Jerome Powell

By Kate Davidson
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President Trump reiterated his complaints that the Federal Reserve is raising short-term interest rates too fast, calling the U.S. central bank "my biggest threat."

"It's independent so I don't speak to him, but I'm not happy with what he's doing, because it's going too fast," Mr. Trump said in an interview with the Fox Business Network, referring to Fed Chairman Jerome Powell, whom he nominated last year.

"You looked at the last inflation numbers, they're very low," he said while arguing for a slower increase in interest rates.

The president acknowledged Mr. Powell was his pick to replace former Fed Chairwoman Janet Yellen, and said he wasn't blaming anyone.

"I put him there, and maybe it's right, maybe it's wrong," he said, adding, "I put a couple of other people there that I'm not so happy with too. For the most part, I'm very happy with people."

In the interview, Mr. Trump said Mr. Powell is "being extremely conservative, let me use a nice term." But he demurred when asked directly if Mr. Powell would be out of a job if his decisions prove misguided. "Well number one, I don't appoint for another four years, five years," the president said, "so look, I am not happy with what he's doing."

The law is vague about whether a president can fire a Fed chairman, who serves a four-year term.

Mr. Trump has nominated three of the four current members of the Fed's board of governors: Mr. Powell, Vice Chairman Richard Clarida and Vice Chairman for Supervision Randal Quarles. Three other Trump nominations to the board are still awaiting Senate confirmation.

The president's comments are his latest criticism leveled at the central bank. On Oct. 9, he repeated his displeasure with the Fed and said he believed inflation remained in check. "I think the Fed has gone crazy," he told reporters the next day, in the middle of a **stock market** selloff.

Mr. Powell said earlier this month he sees little sign the economy is overheating, but defended the Fed against Mr. Trump's criticism that policy makers are raising rates too fast.

Consumer prices, a broad measure of inflation, rose less than expected for the second straight month in September, the Commerce Department said last week, suggesting price pressures remain in check. In the 12 months through September, overall prices rose 2.3%, the smallest year-over-year change since February.

The Fed's preferred inflation gauge, the personal-consumption expenditures index, rose 2.2% in August from a year earlier, above the Fed's 2% target.

Trump's repeated critiques represent a break from previous White House protocols, dating back to the early 1990s, not to comment on monetary policy or otherwise criticize the central bank.

Former Fed Chairwoman Janet Yellen said Monday the president's attacks on the Fed are "counterproductive."

"There's no law against that," she said. "But I don't think it's wise."

Write to Kate Davidson at kate.davidson@wsj.com

Related

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WSJ PRO CENTRAL BANKING

Economy

Kudlow: Trump Not Pressuring Fed | Jobs Report What to Watch | India, Mexico Keep Rates on Hold | Derby's Take: Fed Rate Tweak Expectations; The Wall Street Journal's central banking newsletter for Friday, October 5, 2018

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Good day. In today's newsletter, Trump economic adviser Lawrence Kudlow says the president isn't trying to impose his opinions about interest rates on the Federal Reserve, the U.S. central bank may need to make another technical rate tweak, and the central banks of India and Mexico both kept rates unchanged despite inflationary pressure. We also preview what to watch in the September jobs report due Friday.

And now on to today's news and analysis…

Trump Adviser Kudlow: President Not Trying to Exert Pressure on Fed

Chief White House economic adviser Lawrence Kudlow said Thursday that President Trump isn't trying to apply political pressure to the Federal Reserve nor to its chairman, Jerome Powell. Speaking at a meeting of the Washington Economic Club, Mr. Kudlow, director of the National Economic Council, said the president has his opinions about interest rates, but he isn't trying to impose them on central bank officials. "The Federal Reserve is independent," he said.

Expectations Mount for Fed Technical Rate Tweak

The Federal Reserve may have to make another change to a setting in its monetary policy tool kit to keep short-term rates where it wants them to be, some analysts increasingly believe.

They expect the Fed will have to do again what it did back in June when it lowered the interest on excess reserves rate relative to the top end of the federal-funds rate target range.

That June tweak in the excess reserves rate came as the fed-funds rate was persistently pushing up against the high end of the Fed's target range, instead of floating comfortably in the middle of the range.

The country's yawning budget deficit in the wake of tax cuts, which is driving a big increase in government debt issuance, is a main factor pushing up short-term market rates. Falling reserve levels as the Fed winds down its bond portfolio are also a factor.

The fed-funds target range stands at 2% to 2.25% after last week's increase. The interest on excess reserves rate, which until June had defined the top end of the fed-funds target range, stands at 2.2%. The effective fed-funds rate is now pushing up against the tweaked IOER rate.

The timing of any change isn't certain. If the Fed held off until December, when it is expected to boost the fed-funds target range to 2.25% to 2.5%, some analysts say the IOER rate would then likely be pegged at 2.4%.

"If evolving conditions are pushing the funds rate up relative to the Fed's administered rates, the FOMC doesn't need to raise the IOER quite as much to achieve the desired increase in overnight market rates," Wrightson ICAP economists said in a research note. "The odds now strongly favor a December tweak," the firm said, adding: "We expect the Fed to raise the IOER by 20 basis points rather than 25 in December."

Jefferies economist Ward McCarthy said that, given the newness of the current rate control regime, the Fed is having to find its way forward through experience. He also believes officials don't have to wait for an FOMC meeting to make the tweak: "The next adjustment could come at any time if the upward drift persists."

5 Things to Watch in the September Jobs Report

The Labor Department releases its broadest look at the U.S. job market for September on Friday. Economists surveyed by The Wall Street Journal expect employers added 180,000 jobs during the month and see the unemployment rate ticking down to 3.8%. Here are five things to watch in the report.

Bank of Mexico Leaves Rates Unchanged, Warns of Inflation Risk

The Bank of Mexicoleft interest rates unchanged Thursday in a split decision, warning that inflation risks remain that could prompt it to tighten monetary policy in the future. The central bank decided to keep the overnight interest-rate target at 7.75% by a majority, with one board member voting for a quarter-percentage-point increase to 8%.

India Central Bank Keeps Key Policy Rate Unchanged

India's central bankleft its main lending rate unchanged Friday as it waited to see how the inflationary pressures from rising **oil prices** and a weakening rupee would play out in the Indian economy. The Reserve Bank of India kept its repurchase rate at 6.5%.

Exchange Executive Says SEC Trading Experiment Will Cost Investors ‘Millions'

Stripping stock exchanges of the ability to offer incentives to lure trading will cost investors "millions of dollars," according to one of the largest U.S. market operators. The remarks on Thursday by Chris Concannon, president and chief operating officer of Cboe Global Markets Inc., add to the growing fight between **stock-market** operators and their regulator, the Securities and Exchange Commission. The SEC has proposed a two-year pilot program that exchanges say would undermine a key leg of their strategies: a widely used pricing system in which exchanges pay rebates to attract orders and charge fees to other traders.

Elon Musk Tweet Mocks the Securities and Exchange Commission

Elon Musk risked reigniting a battle with federal securities regulators on Thursday when he appeared to openly mock the Securities and Exchange Commission only days after the Tesla Inc. chief executive settled fraud charges with the agency. Seemingly without prompt, Mr. Musk sent a tweet in the early afternoon that suggested the SEC was enriching investors betting against the electric-car maker. "Just want to [say] that the Shortseller Enrichment Commission is doing incredible work," Mr. Musk tweeted. "And the name change is so on point!"

Mark Cuban Prodded Musk to Settle SEC Charges

A 15-minute phone call from billionaire Mark Cuban helped break an impasse between Mr. Musk and federal securities regulators on charges that he misled investors in an August tweet saying Tesla would go private at $420 a share. Late last Thursday night—after Mr. Musk initially walked away from an agreement to settle the civil Securities and Exchange Commission charges—one of his lawyers asked Mr. Cuban, owner of the Dallas Mavericks, to prod Mr. Musk to reconsider, people familiar with the call say. Mr. Cuban, who won a five-year battle with the SEC after it charged him with insider trading a decade ago, told Mr. Musk he would face a long court fight that would take him away from managing his companies.

Cryptocurrencies, Trading Scams Draw More Fines

Enforcement actions and fines by the federal derivatives-market regulator ticked up in the last fiscal year, buoyed by cryptocurrency cases, spoofing schemes and settlements dating back to the financial crisis. The Commodity Futures Trading Commission reported taking significantly more enforcement actions in fiscal 2018, which ended Sept. 30 and is the first full fiscal year under Trump-appointed leadership.

8:30 a.m. EDT: U.S. Labor Department releases September jobs report; U.S. Commerce Department releases August international trade data

12:30 p.m. EDT: Dallas Fed's Kaplan speaks in Waco, Texas

12:40 p.m. EDT: Atlanta Fed's Bostic speaks on financial literacy and economic education in Atlanta

3 p.m. EDT: Federal Reserve releases August U.S. consumer-credit data

Former Federal Reserve Chairwoman Janet Yellen has been elected president of the American Economic Association for 2019.

The number of Americans filing applications for new unemployment benefits fell last week, indicating Hurricane Florence likely had a fairly modest impact on the labor market.

The National Federation of Independent Business said a record net 37% of small business owners had raised employee's compensation, citing findings from their September 2018 jobs report.

South Korean inflation accelerated to a one-year high of 1.9% in September, bolstering the case for the central bank to tighten monetary policy in coming months.

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

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The New York Times

Foreign Desk; SECTA
Saudi Arabia Can Sabotage Oil Prices. But That Could Backfire.

By CLIFFORD KRAUSS and RICK GLADSTONE
1,338 words
17 October 2018
The New York Times
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Late Edition - Final
5
English

The Saudis have warned that they could push oil prices to $100 or $200 a barrel, an act that would probably plunge the American and global economies into recession. They have suggested that United States defense companies could forfeit tens of billions of dollars in deals that could instead go to Russia or China.

These threats by Saudi Arabia's monarchy in recent days were its answer to America's own threats of punishment over the disappearance and reported killing and dismemberment of a dissident journalist that has shocked the world.

Yet petroleum and defense experts have largely discounted such possibilities.

While Saudi Arabia is still the leading producer in the Organization of the Petroleum Exporting Countries and can exert enormous influence over oil prices, it is no longer the energy superpower that American motorists feared during the Arab oil embargo era of the 1970s.

And as longstanding clients of the American arms industry, the Saudis cannot easily switch to other providers.

''They depend more on us than we depend on them,'' said Daryl G. Kimball, the executive director of the Arms Control Association in Washington.

Saudi and American officials have moved to defuse the uproar over the Oct. 2 disappearance and reported killing of the journalist, Jamal Khashoggi, at a Saudi consulate in Turkey. Still, the possibility remained of an escalation in the crisis, including American sanctions and Saudi retaliation.

Here is a look at Saudi Arabia's economic leverage over the United States -- or absence of it -- and why it matters.

Has Saudi Arabia's coercive power in the oil market diminished?

To some degree, yes.

The United States is far less dependent on Saudi Arabia and other OPEC members than even a decade ago, when a drilling frenzy began in shale fields across Texas and North Dakota. American production has more than doubled since 2007 -- to 10.5 million barrels a day, from 5.1 million barrels a day -- and the United States has become a major exporter for the first time in decades.

The United States imports only 800,000 barrels a day from Saudi Arabia -- 600,000 fewer per day than a decade ago -- and much of that goes to a Gulf of Mexico refinery owned by Saudi Aramco, the Saudi national oil company.

A cutoff of Saudi oil, which represents less than 5 percent of American supplies, would harm Aramco and cut Saudi government revenue. And the United States could replace those supplies with oil from other countries or from its own fields.

Jason Bordoff, a Columbia University professor and founding director of its Center on Global Energy Policy, said that while the Saudis have a significant ability to curtail production and raise the price, it is a weapon they are unlikely to use.

"It would have a severe negative impact on the global economy," he said. "It also would be very self-defeating. It would undermine the reputation they built as a reliable supplier for 45 years."

What about the U.S. defense industry's reliance on the Saudis?

Saudi Arabia is by far the biggest foreign recipient of American-made weapons and military gear, according to a database compiled by the Stockholm International Peace Research Institute.

But while President Trump has made much of Saudi Arabia as a critical client of United States defense contractors, punctuated by its commitment last year to purchase $110 billion in American weapons, much of that commitment has yet to be fulfilled.

Some experts said that even if Congress moves ahead to penalize the Saudis by suspending arms sales -- as appeared increasingly likely in recent days -- the economic impact on the United States would not necessarily be painful.

"It would hurt the stockholders of the defense companies, but these companies will do just fine without these weapons sales," Mr. Kimball said. "It's not like they're Sears Roebuck."

Hasn't the drop in Iran's oil sales given the Saudis more power in the market?

Yes and no.

Saudi Arabia welcomed Mr. Trump's withdrawal from the Iranian nuclear accord and the resumption of American sanctions, which have cut Iran's ability to sell oil. But the United States is depending on Saudi Arabia to replace Iranian supplies that had been going to Asian markets.

A collapse of American-Saudi cooperation would undercut their mutual goal of ostracizing the Iranian government. Any reduction in Saudi exports would be welcomed by Iran, the kingdom's archenemy, which would benefit from an increase in prices.

David Goldwyn, who was the State Department's top energy official in the first Obama administration, said the Saudi threat to curtail production had not been taken seriously by the oil markets, so far at least.

Any Saudi curtailment, he said, "would undermine their primary foreign policy objective, which is containment of Iran."

The Saudis, Mr. Goldwyn said, are also loath to create economic conditions that would accelerate shifts to electric vehicles, hastening the obsolescence of their primary export.

So is the Saudi threat largely empty?

Memories of oil embargoes by Saudi Arabia and OPEC, and the gasoline lines that they caused a half century ago, are fading. Still, Saudi Arabia is an oil power with persistent influence over prices.

It currently produces more than 10 percent of the world's supplies. As Venezuela's production plummets because of political problems, and as renewed American oil sanctions on Iran bite further, the Saudi influence will be amplified.

Ed Hirs, an energy economics professor at the University of Houston, said a threat to the oil markets lurked if Congress were to cut arm sales to Saudi Arabia.

In response, he said, the Saudis "could cut production, which would raise the price of oil, which would have a negative impact on the U.S. economy -- or they could increase production dramatically and drive the crude price down, which would damage the U.S. oil industry incredibly."

In recent months, Saudi Arabia has increased its production and exports to help satisfy Asian customers worried about supplies. The kingdom has coordinated with Russia, which is also increasing production, further relieving price pressures. And OPEC has gone along with the supply increases, despite complaints from Iran.

At the same time, the Trump administration is eager to keep gasoline prices low, especially as the midterm elections approach.

What has happened to the price of oil since the Khashoggi crisis erupted?

A diplomatic fight between the governments of Saudi Arabia and the United States would normally unsettle oil traders, but **oil prices** have remained stable in recent days, with the benchmark Brent crude selling in the $80-per-barrel range.

Concerns about a slowing global economy and reports of ample stockpiles have outweighed any worries about a possible rift between the Saudi kingdom and the Trump administration.

"The market is shrugging it off," Michael C. Lynch, the president of Strategic Energy and Economic Research, a Massachusetts-based consultancy, who sometimes advises OPEC.

"People know that the Saudis don't want to chase away customers by suggesting their oil supplies are not secure," he said, "and they think Trump will accept whatever explanation the Saudis give in the end, because he doesn't want to lose his big defense contracts."

Others, however, suggested that the oil market was not impervious to the crisis over Mr. Khashoggi, especially because the case has raised basic questions of judgment and leadership in the Saudi royal family.

"Previously, we imagined Saudi Arabia as a bulwark not only in a regional alliance system, but also as the main keeper of stability in the oil market," said Amy Myers Jaffe, a Middle East oil analyst at the Council on Foreign Relations. "Now, the success of that whole role is being called into question, and the fragility of that stature has been revealed."

A Saudi Aramco refinery. Much of the Saudi oil imported by the U.S. goes to an Aramco refinery. (PHOTOGRAPH BY AHMED JADALLAH/REUTERS)

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THE WALL STREET JOURNAL.

Markets

Puerto Rico Bonds Soar, Pointing to Hope for Restructuring; A deal would clear one of the largest obstacles to emergence from the bankruptcy court protection

By Matt Wirz
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22 October 2018
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The Wall Street Journal Online
WSJO
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Puerto Rico **bond prices** soared Monday after the federal oversight board that runs the U.S. territory's finances released a revised fiscal plan that raises expectations for disaster funding and economic growth.

Prices of Puerto Rico's benchmark general obligation bond due 2035 jumped 10% to about 60 cents on the dollar, according to data from the Municipal Securities Rulemaking Board, reflecting higher expectations for bondholder recoveries.

Improving economic expectations have set the stage for a potential compromise with the hedge funds that hold much of the island's $13 billion general obligation, or GO, bonds and have formed a unified group to negotiate a restructuring with the government and oversight board. A deal would clear one of the largest obstacles to Puerto Rico's emergence from the bankruptcy court protection it entered in May 2017.

Puerto Rico's recent financial improvements have galvanized a dozen or so hedge funds holding about $4.7 billion of Puerto Rico's municipal bonds to set aside their differences and form a "supergroup" to negotiate a restructuring with the island's government, a person involved said.

The new group will consolidate at least three committees of investors holding Puerto Rico general obligation bonds—the last large category of creditors that has yet to reach a restructuring agreement with the Commonwealth. The oversight board reached deals during the summer with holders of $26.5 billion of bonds issued by its power utility and sales-tax authority.

The group will comprise a gamut of hedge-fund managers. Some, like Brigade Capital Management and Fir Tree Partners, have already reached agreements with Puerto Rico to restructure different classes of debt they also own. Others, like Aurelius Capital Management LP, have pursued a more confrontational approach by suing the island's government and the oversight board to get a higher recovery on their claims.

Aurelius disclosed in a court filing Friday that it had sold $116 million face amount of uninsured general-obligation bonds since August, reducing its investment in the securities by about one-quarter, to $353.6 million.

A spokesperson for Aurelius declined to comment.

The varied membership of the group raises questions about how effectively it can align interests and strategies.

"I think it's a positive sign provided they come with an open mind and perspective," said Christian Sobrino, the representative of Puerto Rico Gov. Ricardo Rosselló on the federal oversight board managing the island's financial and economic overhaul. "Everyone can appreciate that all-out litigation hasn't gotten us to where we want to be at this point."

Dealing with the supergroup will allow Puerto Rico and the oversight board to more efficiently bargain while limiting the prospect they would seek to pit different bondholders against each other, the person involved said.

While this will hopefully spur a negotiated settlement, the combined group may also start sharing litigation costs with bondholders that have already filed suits to make sure the island's government remains under legal pressure, the person said.

Hopes of higher payouts spurred a flurry of trading in general-obligation debt, with over $90 million of the 2035 bonds trading hands, the highest volume since early September, according to data from the MSRB. Valuations of the island's other debt classes also climbed, and prices of Puerto Rico's power utility bonds due in 2040 rose to about 64 cents on the dollar Monday from approximately 62 cents last week.

The progress on the utility and sales-tax bond restructurings, and Puerto Rico's gradual recovery from Hurricane Maria, have lifted prices of the general obligation bonds by 154% from the start of the year.

The bonds traded above 80 cents before the island defaulted.

The draft plan forecasts $82 billion in disaster funding for the island, up from $62 billion in a version of the plan certified in June.

It also raised estimated revenues from taxes and federal funds for the fiscal year ending in June to $22.5 billion from $17.5 billion previously.

The revised plan didn't specify exactly what data it used to calculate the new figures, but bondholders have been expecting an upward revision for several months based on a steady increase in cash reported by the Puerto Rico Department of Treasury. The Treasury reported a balance of $3.4 billion through Oct. 5, compared with $1.78 billion at the start of the year.

But the board and analysts stressed a need to overhaul an economy that has been weakening for years, even before Hurricane Maria hit the island last fall, and that is still projected to return to fiscal deficit after disaster aid winds down.

"I'd be concerned if GO bondholders relied on a short-term boost provided by federal disaster relief to drive their assessment of Puerto Rico's long-term ability to pay debt," said Brad Setser, a senior fellow at the Council on Foreign Relations.

Puerto Rico's debt service should range between 5% and 10% of its continuing revenue excluding federal funds, which will total just over $15 billion annually once the aid effect dissipates, and the government has already allocated about $1 billion to repay bonds backed by sales tax, he said.

Write to Matt Wirz at matthieu.wirz@wsj.com

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THE WALL STREET JOURNAL.
U.S. EDITION

Heard on the Street
The U.S. Central Bank Might Not Be a Friend to Investors

By Justin Lahart
443 words
12 October 2018
The Wall Street Journal
J
B14
English

[Financial Analysis and Commentary]

Inflation didn't heat up last month. One might have expected that to provide a modicum of relief for jittery investors, but the rules have changed.

The Labor Department said Thursday that overall consumer prices rose 0.1% in September from August, less than the 0.2% gain economists were expecting and putting them 2.3% above their year-earlier level. Core prices, which exclude food and energy costs, likewise rose 0.1%, and were up 2.2% from a year earlier, matching August's year-over-year gain. Economists thought core prices would run a little warmer as well.

With **financial markets** rattled over the prospect of higher interest rates, this ought to have counted as welcome news after Wednesday's drubbing. Instead, stocks fell Thursday.

There are any number of reasons why, including trade tensions and worries over what China's slowing economy might do to global demand, but another reason might be investors' growing recognition that the Federal Reserve isn't going to be their friend.

For one thing, the Fed is no longer as worried about **financial-market** fragility as it was as recently as early 2016, when the economic fallout from sliding global markets led it to dial back plans to raise interest rates. The economy is healthy, and it is getting a dose of additional stimulus from this year's tax cuts and government-spending increases. Certainly there is some point at which falling stocks would lead the Fed to forgo raising rates again when it meets in December, but that point is probably far below where the market is now.

Moreover, while the Fed is certainly paying attention to inflation numbers, it is probably more focused on how tight the job market is getting.

The unemployment rate last month was at levels last seen in the 1960s, and with hiring outpacing growth in the number of available workers, it is likely heading lower still. As long as that trend continues, the central bank is unlikely to stop raising rates.

Indeed, if wage growth continues to pick up, the Fed might even decide it needs to tighten its policy more quickly.

The danger exists that the Fed may end up tightening too aggressively, putting the economy at risk.

But with stock valuations still on the steep side and earnings-growth expectations running high, stocks could fall for other reasons. Even if what the Fed decides to do is exactly right for the economy, it might not please investors.

page,5043

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Economy

Fed's Daly Says Gradual Rate Rises Seem Prudent; The central banker delivers her first public remarks as San Francisco Fed president

By Michael S. Derby
534 words
16 October 2018
06:23 PM
WSJ Pro Central Banking
RSTPROCB
English

Mary Daly, in her first public comments since becoming president of the San Francisco Fed, said Tuesday the central bank's slow and steady pace of rate rises is appropriate.

Ms. Daly declined, however, to specify what she thinks the U.S. central bank should do at its coming policy meetings, at which she will hold a voting role after taking office earlier this month. "I'm not going to give you my vote," she said at a gathering at Wellesley College in Massachusetts.

"The way I'm approaching it...is very consistent with the way the [rate-setting Federal Open Market Committee] has been approaching it while I haven't been a member or participant, and that is you make a gradual pace of normalization" to help keep the economy moving forward, Ms. Daly said.

When the Fed raises rates "it's like you put a toe in the water and see how many ripples it makes in the economy," Ms. Daly said. "Does it get the impact you hope for? Does it slow the economy in the way you hoped for so we can have a soft landing to this sustainable pace? Or did it do more than you thought it would do, or less than you thought it would do?" she said. The official added that after an increase, "you wait a little bit, collect more data, and put another toe in the water."

The Fed has raised rates three times this year, taking its overnight target rate range to between 2% and 2.25%. It is expected to raise rates again before the year closes out and then push them up further next year. Fed officials are seeking to keep a strong economy from overheating.

Ms. Daly, who was director of research at the San Francisco Fed before becoming president, offered an upbeat take on the outlook that jibed with views held by many of her colleagues. Echoing her predecessor John Williams, who is now leader of the New York Fed, Ms. Daly described the U.S. as having a "Goldilocks" economy, meaning it isn't too hot or too cold, and said the Fed's biggest challenge is keeping the expansion moving forward with the "blunt" tool of monetary policy.

Ms. Daly said, at 3.7%, the jobless rate is well under any measure of full employment. She said inflation is right around the Fed's 2% target. Financial conditions "will remain accommodative and certainly supportive of growth." She also said recent market **volatility** wasn't a big concern to her and she welcomed signs market participants are catching up with the Fed's view on interest-rate rises.

Ms. Daly said she will base her policy decisions on the available evidence, while letting her life experience help guide her judgment.

"The people that help you the most don't agree with you," Ms. Daly said, adding that she will actively seek out alternative views on the issues confronting the Fed.

Write to Michael S. Derby at michael.derby@wsj.com

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The New York Times

Business/Financial Desk; SECTB
China's Economy Decelerates To Slowest Pace in a Decade

By ALEXANDRA STEVENSON
1,262 words
19 October 2018
The New York Times
NYTF
Late Edition - Final
4
English

Sputtering growth, soaring debt and an escalating trade war with the United States are increasingly weighing on China's economy.

China's government on Friday reported that the economy grew by 6.5 percent over the three months that ended in September compared with a year ago. While fast by global standards, the pace is China's slowest since early 2009, during the depths of the global financial crisis.

China has reported growth figures over the past two years that painted a picture of an economy that is gamely chugging along, despite the country's lingering problems and widespread doubts over the reliability of official numbers. A different narrative has emerged this year, one of a slowing economy that is forcing Beijing to make some difficult choices.

Chinese shoppers have said they are spending less and downgrading their purchases, like staying home instead of going out, or drinking beer instead of cocktails. Wages are stagnant. Investment in splashy infrastructure projects has dropped sharply.

China's **stock market** is firmly in the red -- it has fallen by 30 percent since a peak in January -- making it one of the world's worst performing. The currency has weakened and is hovering near a 10-year low against the American dollar. Companies are complaining that they cannot get money from lenders, and a handful are defaulting on their loans.

All of this is before factoring in China's intensifying trade war with the United States. Friday's report is the first since the two countries began to impose tit-for-tat tariffs starting in early July.

So far it has only marginally dented China's $12 trillion economy. In recent weeks, Chinese officials have pointed to figures that show overall trade remains robust despite the conflict.

On Friday, officials blamed ''an extremely complicated and severe international situation'' for the lower-than-expected growth figures but also sought to lift confidence with statements of support from the central bank and market regulators.

In a wide-ranging interview with state media that was posted later midday, Liu He, China's economic czar, said that trade frictions with the United States had cause ''impact on the **stock market**, but the psychological effect is bigger than the actual impact, frankly speaking.''

He added that the United States and China were in contact, without elaborating. Trade discussions were put on hold in September after the Chinese declined an invitation by Treasury Secretary Steven Mnuchin to hold fresh talks.

For China, revving up the growth engine is complicated

During periods of economic slowdown, China has turned to local governments to prompt growth through big infrastructure and development projects. That approach fueled growth but saddled key parts of the economy with debt.

The exact numbers aren't clear, but experts agree that the debt load is vast. In a report this week, S&P Global estimated that China's local governments are carrying as much as $6 trillion in shadowy debt off the books. That is equivalent to roughly three-fifths of China's entire economic output. Analysts at the ratings firm called it ''an alarming level.''

China has been trying to throttle back the lending, but that has hurt growth. Growth in spending on highways, rail and public facilities has fallen to a record low this year. From the start of the year through the end of September, the growth in infrastructure spending fell to 3.3 percent compared with the same period last year, according to the National Bureau of Statistics.

Now, Beijing appears to be rethinking its austerity efforts. Officials are beginning to encourage new investment. To reduce the bill, they are asking the private sector to help out. This week it announced that 1,222 infrastructure projects worth $362 billion would be financed by private companies.

The health of the Chinese consumer is critical

China's expanding middle class and its increasingly expensive consumption habits have been an important pillar for growth as China moves away from its dependence on exports and big investment projects.

Retail sales stayed buoyant, rising 9.2 percent in September from the previous year, as Chinese consumers continued to buy cars, appliances, smartphones and other goods. The strong numbers will help officials in Beijing to argue that the trade war has left China's domestic economy largely untouched.

But economists warn that the overall rosy picture could change. For example, car sales began to slow in September, according to the China Passenger Car Association.

''A month from now may be just the time retailers start to buckle,'' wrote analysts at China Beige Book International. The group, which surveys big businesses in China, said retailers reported the worst payroll health of any sector in recent months.

Retail numbers could also fall as Beijing cracks down on nonbank lenders and peer-to-peer lending platforms, which have been a source of credit for many consumers in recent years. Property development has slowed, too, as fewer people buy new homes.

The trade war could prove a drag

In September, the United States put tariffs on $200 billion worth of products coming from China. President Trump has given no indication that he will back down anytime soon.

Chinese export figures for September jumped 14.5 percent compared with a year earlier. That unlikely number probably is not a sign that trade is doing well. Some exporters attributed the rise to American companies ramping up orders before new tariffs make their purchases more expensive.

''We know customers tried to clear as much finished product in transit to the U.S. as possible before the deadline,'' said Peter Levesque, the managing director of Modern Terminals in Hong Kong. That could happen again, as American importers try to bypass the next deadline of Jan. 1 for a 25 percent tariff on Chinese goods.

While much of the impact of the trade war has yet to be felt, experts say it won't take long for a slowing economy to start to feel the pinch, especially as officials grapple with other economic problems. The trade war could shave as much as 1.6 percent off China's economic growth figures next year, according to a recent report from the International Monetary Fund.

''We're not going to be able to see it in the numbers that are provided and that will just add to the uncertainty,'' said Paul Gruenwald, global chief economist at S&P Global Ratings. ''It's going to be hard to pinpoint any pressure because we don't have enough data.''

But, he added, ''there is definitely pessimism. It's just a question of how much it will slow things down.''

Officials look to shore up confidence

Just before releasing the economic growth figures on Friday morning, the websites for China's central bank, insurance and securities regulators posted news media interviews with senior officials giving support to the market. The chairman of the securities regulator went as far as to appeal to certain market participants to buy stocks.

"We encourage private equity funds to purchase shares of listed companies and participate in mergers and acquisitions of listed companies," said Liu Shiyu, the chairman of the China Securities Regulatory Commission.

Earlier this month, the People's Bank of China pulled a financial lever that effectively pumped $175 billion into the economy and the market.

-- Cao Li contributed research.

Chinese shoppers are spending less, downgrading purchases and staying home instead of going out. (PHOTOGRAPH BY NICOLAS ASFOURI/AGENCE FRANCE-PRESSE -- GETTY IMAGES)

Document NYTF000020181019eeaj00044

THE WALL STREET JOURNAL.

Heard on the Street
Markets
Latest Peril for Oil Companies: Colorado Voters; A ballot measure could crimp exploration in the state's booming oil and natural-gas fields

By Spencer Jakab
530 words
21 October 2018
09:00 AM
The Wall Street Journal Online
WSJO
English

American oil producers are having a rough October with crude prices down by more than 10% in just two weeks. A ballot measure in Colorado could make November pretty lousy too.

One doesn't immediately associate Colorado with energy production and, until the shale boom, that would have been accurate. But output last year was a respectable 350,000 barrels a day or about five times what it had been a decade earlier. That was more than three members of the Organization of the Petroleum Exporting Countries produced.

An explosion last April that claimed two lives has set events in motion that could cap that rapid growth, though, denting the fortunes of companies that own acreage in the state. A gas line connected to a well that passed very close to a home was blamed for the tragedy. A ballot measure, Proposition 112, would keep wells 2,500 feet from any "structure intended for human occupancy."

The problem is that, according to two studies, that would leave as much as 85% of nonfederal land off-limits. Even worse, while Colorado isn't crowded, much of the good acreage is in the Denver-Julesburg Basin near major population centers.

While existing wells would be grandfathered in, the rapid decline of unconventional oil and gas production could hurt companies' expansion plans and, according to some, reduce production. Analysts at Robert W. Baird have put together a "DJ Index" of companies such as SRC Energy, Anadarko Petroleum, Noble Energy and PDC Energy that would be negatively impacted. Since it appeared likely in early August that the measure would be on the ballot, the index has retreated by 26% through Thursday compared with a 6% drop for a broader index of exploration and production stocks.

Energy economist Philip Verleger is more sanguine. He notes that, if **oil prices** remain high, energy firms can simply drill longer lateral wells to reach oil from a greater distance. That is more expensive, though, and some areas will be off limits even then.

The fortunes of exposed companies have been buffeted by the few polls published, including one that showed 50% support. Opponents of Proposition 112, not surprisingly, have deeper pockets. The Robert W. Baird analysts note that they have raised about 40 times what proponents have. Gov. John Hickenlooper, a Democrat who was once a petroleum engineer, opposes the measure, as do most Colorado politicians.

Of course fracking has a PR problem and elections are difficult to call. Unlike Texas or Oklahoma, few families in Colorado have members working in the industry and it has a relatively brief history in the environmentally conscious state. Investors who believe that money wins elections might wish to put their own money where their mouths are. Even if **oil prices** remain under pressure, Colorado drillers could bounce.

Write to Spencer Jakab at spencer.jakab@wsj.com

Related

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WSJ PRO PRIVATE EQUITY

Markets

BlackRock Reports First Investor Outflow in Three Years; Investors pulled a net $3.1 billion from the world's largest money manager in the latest quarter

By Dawn Lim
866 words
16 October 2018
06:03 PM
WSJ Pro Private Equity
RSTPROPE
English

BlackRock Inc.'s cash machine is slowing, presenting new challenges for the world's largest asset manager.

Clients withdrew a net total of $3.1 billion during the three months ended September 30, the first quarterly outflow from BlackRock since the second quarter of 2015. That included a net withdrawal of $17.3 billion from funds exposed to stocks.

The pullback was most evident on Wall Street, with the biggest client withdrawals coming from large institutions instead of retail customers. It was the second straight quarter these clients – ranging from insurers to pension funds – pulled their money.

"We're seeing more and more clients just pausing," BlackRock Chief Executive Laurence Fink said in an interview.

The institutional withdrawals could portend more trouble for smaller asset managers that are already wrestling with slowing demand for Wall Street's most popular investment products, a pricing war and investor unease about everything from rising interest rates to trade tensions.

Net inflows into all U.S. mutual funds and exchange-traded funds fell 46% in the first three quarters of 2018 compared with the year-ago period, according to data tracked by Morningstar.

The BlackRock results raised new questions on Wall Street about how well the money management giant will fare if investor anxiety deepens and markets decline. The firm faces heightened competition in everything from its indexing business to fees to a new effort to step up investments in private markets.

Its shares dropped 4% on Tuesday, even as broader U.S. benchmarks rallied. BlackRock shares are now down about 20% so far this year. That is a steeper decline than the Dow Jones U.S. Asset Managers Index, which is down 17% in the year to date.

"BlackRock is held to a higher standard by Wall Street in terms of gathering assets and they didn't live up to that today," said Kyle Sanders, an analyst with Edward Jones.

But he added that BlackRock could be better prepared than others to weather a downturn because of its sprawling array of strategies.

"They've got a better mousetrap because different funds can capture changing market cycles," Mr. Sanders said.

BlackRock rose to prominence as a money manager that served large institutions. Over the last decade it also became one of the biggest beneficiaries of a shift by investors to low cost, passively managed investments that track indexes.

Last year it pulled in the equivalent of $1 billion a day thanks largely to interest in these cheaper products, or more than $698,000 a minute. That torrent of cash – it ended the year with a net inflow of $367.3 billion -- helped BlackRock pass $6 trillion in assets for the first time.

That flood is now slowing. Net flows into BlackRock's index mutual funds and iShares exchange-traded funds were $11.7 billion during the third quarter, down from net flows of $70 billion a year ago.

What hurt BlackRock most in the three months ending September 30 were the actions of its institutional investors, who pulled a net of $30.85 billion from non-ETF equity index funds. Mr. Fink attributed that pullback to "ongoing divergent monetary policy and geopolitical uncertainty."

It is also still confronting the larger industry trend by investors away from actively managed funds that make specific bets on stocks and bonds to beat the market. BlackRock clients pulled $1.1 billion from actively managed funds in the third quarter, the first outflows in those investments since the first quarter of 2017.

The outflows reported during the quarter included a large change in the amount BlackRock holds for cash management accounts. One corporate client pulled about $23.5 billion from an account set aside for uses such as mergers and acquisitions, said a person familiar with the matter.

There were also some positive signs in the BlackRock results. Its third-quarter earnings of $1.22 billion were up 29% from the comparable quarter a year ago. Its assets under management rose to $6.44 trillion at the end of the quarter, up 2.3% from the second quarter of this year.

There were other indications that BlackRock is having some success reaching into new areas to offset **volatility** in earnings and offer more services to investors. Technology-services revenue rose to $200 million in the latest quarter, up from $169 million, thanks to BlackRock tools that are used by financial institutions to assess risk.

It also is making a push into private equity, real estate, infrastructure and alternative strategies, which represent 2% of its total assets. The firm said it raised $4 billion in new commitments for alternative investments and put $2 billion to work into deals.

Allison Prang contributed to this article.

Write to Dawn Lim at dawn.lim@wsj.com

More

* BlackRock CEO Pulls Out Of Saudi Conference (Oct. 15)

* BlackRock's Big Private-Equity Bet; Edison Raises $365 Million Fund (Oct. 11)

* BlackRock, Fidelity Launches Hit By Chinese Share Decline (Sept. 9)

* BlackRock Among Investors Hit By Turkey Turmoil (Aug. 15)

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WSJ PRO VENTURE CAPITAL

Pro Private Markets
VC Daily: Accelerator Funding Rising; IPO Window Open; Synthetic Biology

1,430 words
15 October 2018
03:01 AM
WSJ Pro Venture Capital
RSTPROVC
English

Good day. Accelerators are booming. With the prominence of Y Combinator, Techstars and others, funding is pouring into the sector as limited partners look to get an early piece of the next Airbnb or Dropbox.

Meanwhile, early-stage venture investors often say they don't worry about **volatility** in the public market. But the steep drops in the global markets last week had to have some VCs checking their phones. The good news: Anaplan priced its IPO at the top of its range, then rose 43% in trading Friday.

We also have a Take on the rewards and perils of investing in startups focused on synthetic biology.

And now on to the news...

Today's Top Stories

Accelerators rising: Accelerators have doubled the funding raised so far this year compared to 2017. In the third quarter alone, investors put $35.1 million into accelerator programs like Techstars, up from $7.4 million at the same time last year. In the wake of Y Combinator, Techstars and 500 Startups, dozens of accelerators have cropped up across the country in recent years. WSJ Pro's Heather Mack has more.

IPO window holding open: The trading debut of Anaplan Inc. offered a hopeful sign that recent market stress wouldn't squelch that red-hot IPO market. Shares of Anaplan, a business-planning-software company, rose 43% in their first day of trading on Friday to close at $24.30. The increase—coming after the company priced the shares late Thursday at the high end of an upwardly revised range—shows that two days of harrowing market declines earlier in the week have had a limited impact on demand for new issues. WSJ's Maureen Farrell and Kimberly Chin have more.

Dot-dom déjà-vu: Tech startups, and their valuations, are booming in China. But where some investors see dynamic exuberance, others see a market increasingly threatened by a confluence of forces including onerous domestic regulations and global trade tensions. The biggest risk? Another dot-com reckoning, the Chinese version of a cycle that erased billions of dollars of value from America's tech sector in the 2000s and chilled tech investment for years. WSJ's Phred Dvorak and Liza Lin have more.

Mack's Take: Some Synthetic-Biology Startups Thrive, But Many Struggle

By Heather Mack

Investor dollars are swarming to synthetic biology startups, which apply engineering techniques to organisms to produce microbes that can go on to form drug compounds, renewable energy sources, or meat alternatives.

However, not all of these startups are the same. Startups that provide services to create synthetic biology for clients have seen a clear path to growth, but those that aim to create synthetic-biology products themselves have faced challenges.

That's because selling and scaling sector-specific materials like cultured meat, sustainably produced building material and biofuels is still a costly and labor-intensive endeavor.

Instead, the companies that have managed to find customer traction and revenue are those that provide the facilitating tools, such as Twist Biosciences' large-scale DNA synthesis platforms and Ginkgo Bioworks Inc.'s customized microbe engineering services.

Read Mack's Take.

Exits

Chinese cancer drug developer Innovent Biologics Inc. is pushing ahead with an initial public offering in Hong Kong, despite a global markets rout and the recent poor performance of other biotechnology startups that have listed in the city. The company is trying to raise up to $423 million in a stock sale that could value the Suzhou-based upstart at more than $2 billion, according to people familiar with the situation. Read more.

RealPage Inc., a publicly traded provider of software and data analytics to the real-estate industry, has agreed to acquire Rentlytics Inc. for an initial purchase price of about $57 million in cash. San Francisco-based Rentlytics provides cloud software that visualizes rent, occupancy, delinquency rates and other data to real-estate portfolio managers. The company had raised $13 million in funding from investors including Trinity Ventures, Rincon Venture Partners and Grey Wolf Venture Capital.

Publicly traded Alliqua BioMedical Inc. and Adynxx Inc. have entered into a merger agreement to create a Nasdaq-listed company focused on developing non-opioid therapies for the treatment of pain. San Francisco-based Adynxx earlier secured funding from TPG Biotech and Domain Associates. The combined company will be named Adynxx.

Online gaming startup Roblox Corp. has acquired PacketZoom Inc., a mobile app performance technology provider, for an undisclosed amount. PacketZoom was backed by Baseline Ventures, First Round Capital, Tandem Capital, Founder Collective and Arafura Ventures. Last month, Roblox landed $150 million in Series F funding led by Greylock Partners and Tiger Global Management, with participation from investors including Index Ventures, Meritech Capital Partners and Altos Ventures. Both companies are based in San Mateo, Calif.

VC Funds

Micron Technology Inc. said it would invest up to $100 million in startups with a strong focus on artificial intelligence and machine learning through its Micron Ventures arm. The Boise, Idaho-based chipmaker said it would earmark 20% for startups led by women and other underrepresented groups. Launched in 2006, Micron Ventures invests in technology startups aligned with Micron's strategic interests.

Rhythm Venture Capital has held the first close of its new fund, Rhythm Fund X. The venture firm, with offices in New York and Los Angeles, provides seed and Series A investments in the digital health, health-care services, biotech and life sciences sectors. The amount wasn't disclosed.

New Money

Berkeley Lights Inc., a biotechnology startup that makes devices and software for the development of cell-based therapeutics, has raised $95 million in Series E financing. Japanese electronics company Nikon Corp. led the round. Existing investors including Walden-Riverwood Ventures and Sequoia Capital participated alongside new investors Cota Capital, KTB Network and others. The financing brings Berkeley Lights' total raised to date to $225 million. Read more.

Purplebricks Group PLC has entered into a joint venture with Axel Springer SE to jointly take a 25.9% stake in German online estate agent Homeday, Dow Jones Newswires reported. Purplebricks said the NewCo JV will invest €25.4 million ($29.4 million) in Homeday.

More funding deals:

Aktana Inc., a San Francisco-based provider of data analytics to life science companies, has raised more than $21 million in Series C funding led by Leerink Transformation Partners. www.aktana.com

Pipedrive Inc., a New York-based sales management tool provider, has secured an additional $10 million in Series C funding to close the round at $60 million. Deutsche Telekom Capital Partners provided the add-on investment, with Insight Venture Partners and Bessemer Venture Partners leading the original $50 million financing in June. www.pipedrive.com

Foundry College, a San Francisco-based online two-year college that teaches skills to working adults that are unlikely to be automated in the near future, has pulled in a $6 million investment from Learn Capital. foundrycollege.org ciValue, an Israel-based customer analytics provider, has raised $6 million in Series A financing. Nielsen and Sonae IM led the round, which included participation from Emery Investments. www.civalue.com

GoodTime, a San Francisco-based startup whose technology streamlines the job interview process, has closed a $5 million Series A round. Bullpen Capital led the investment, and was joined by GSV Capital and Array.vc. www.goodtime.io

SystemOne, a Springfield, Mass.-based infectious disease diagnostics company, has secured $5 million in Series A funding. Rise Fund led the round, with participation from investors including EchoVC and B&Y Venture Capital Partners. Eghosa Omoigui, general partner at EchoVC, has joined the company's board. www.systemone.id

Papa Inc., a Miami-based startup that connects senior citizens to college students for assistance with everyday tasks, has picked up $2.4 million in seed funding. Initialized Capital led the round with participation from Sound Ventures. www.joinpapa.com

BDC Capital's Women in Technology Venture Fund has made three new investments in women-led Canadian startups. The companies include accounts-payable startup Beanworks, sales team chat app Kiite, and manufacturing analytics provider Eigen Innovations.

The WSJ Pro VC Team

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The New York Times

BREAKINGVIEWS
Business/Financial Desk; SECT
I.P.O. Procrastinators Might Now Face a Long Wait

By LIAM PROUD
443 words
16 October 2018
The New York Times
NYTF
The New York Times on the Web
English

Get the DealBook newsletter to make sense of major business and policy headlines -- and the power-brokers who shape them.

Rising interest rates, trade war tensions and the threat of Brexit may mean that some I.P.O. procrastinators have missed their chance.

The Spanish oil group Cepsa on Monday became the latest market hopeful to put its **stock market** debut on hold. It joined the Dutch car-leasing company LeasePlan, which was seeking a 7.5 billion euro (about $8.8 billion) price tag according to Bloomberg, but last week said it would not proceed "due to market conditions." The Chinese streaming service Tencent Music Entertainment has also paused plans to raise $2 billion in a U.S. listing until equity markets stabilized, Reuters reported.

Blaming the markets is far from a catchall excuse, though. The German brake maker Knorr Bremse last week raised 3.9 billion euros with an offering priced in the middle of its expected range, and the shares are up slightly since. And shares in Shurgard, a self-storage group that priced its Brussels I.P.O. near the bottom of the range, rose about 5 percent on its first hours of trading on Monday. The lesson is that, even in turbulent times, investors will support modestly-priced companies with business models that are easy to understand.

Prospective shareholders will use a bigger magnifying glass when examining harder-to-value prospects. While Tencent Music has a listed peer in Spotify, its strategy for getting listeners to pay for music in piracy-heavy China is unclear. LeasePlan struggled to reassure investors who worried that corporate clients would slash company car spending in the next recession. And Mubadala, an Abu Dhabi state investor that owns Cepsa, was seeking proceeds of 2 billion euros at a valuation premium to Spanish rival Repsol, based on Breakingviews calculations.

The trio may have missed the boat for a while. Europe's Stoxx 50 **stock index** has not yet recovered from a worldwide rout on Oct. 10. So long as the Federal Reserve keeps tightening monetary policy, higher bond yields are probably here to stay. Add United States-China trade tensions and the fallout from a possible no-deal Brexit next year, and it's hard to imagine investors taking a chance on risky I.P.O.s for some time.

Liam Proud is a columnist at Reuters Breakingviews. For more independent commentary and analysis, visit breakingviews.com.

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THE WALL STREET JOURNAL.

Markets
Mutual-Fund Investors, Beware: There's a Tax Trap Waiting for You; There's a way to avoid a tax hit related to funds in taxable accounts, with some proper analysis and planning

By Tom Herman
834 words
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Taxpayers, watch out for a painful tax trap that can easily ensnare unsuspecting investors in **stock-market** mutual funds held in taxable accounts.

This warning can be important for some investors who are planning large new investments in **stock-market** mutual funds for taxable accounts between now and year-end. The trap could result in a surprisingly unpleasant tax hit that needn't have occurred with number-crunching and proper timing.

First, a little background. Mutual funds generally pay out all, or nearly all, of their net realized capital gains each year to their investors. (Realized gains refer to profits that the funds actually made during the year—not their paper gains.) Funds typically make distributions late in the year, especially during December.

Those distributions typically are taxable for investors who hold fund shares in taxable accounts. That's true whether the investor pockets the distribution or reinvests it back into the fund. Thus, that taxpayer who invests in a fund shortly before a year-end capital-gains distribution typically winds up getting back part of that investment in the form of a year-end payout—and owing taxes for the current year.

In effect, you could wind up owing taxes "on gains realized by the fund earlier in the year, prior to the time you bought the shares," says Jere Doyle, senior vice president and wealth strategist at BNY Mellon Wealth Management.

That's why tax experts urge investors to consider the following:

• Before making large new investments in mutual funds in coming weeks, check to see whether the fund you're considering is planning a year-end capital-gains distribution.

• If so, find out how much and when. Many fund companies typically post this information on their websites late in the year, including a breakdown of how much of those gains are long term and how much are short term. Some already have done so.

• If the scheduled payout will be significant enough to make a big difference in your tax bill for 2018, consider delaying investing in that fund until after the date to qualify for the distribution. Or, pick another fund, at least temporarily. "Don't buy a tax headache," says Mark Wilson, president of MILE Wealth Management in Irvine, Calif., whose site, CapGainsValet.com, monitors taxable payouts.

• Beware of making any important investment decisions based solely on taxes. But do pay close attention to possible tax considerations, says Sidney Kess, a senior consultant at Citrin Cooperman and of counsel to the law firm Kostelanetz & Fink. "You can save a lot of money" with careful research and nimble timing, he adds.

Internal Revenue ServicePublication 550 has more details on the tax implications.

The subject can be especially surprising and confusing for people who reinvest their distributions in additional fund shares, says Christine Benz, director of personal finance at investment research firm Morningstar Inc. "It's a little counterintuitive," she says.

Ms. Benz says investors may assume they shouldn't have a taxable event if they're merely investing their distributions back into the fund. "You don't have the cash," she adds, "but you are still liable for taxes on the distribution, assuming you're not in the zero bracket," for capital-gains purposes, and are holding the fund in a taxable account.

It isn't clear yet how large this year's distributions will be. As Mr. Wilson points out, most fund companies haven't yet announced their capital-gains distribution plans. It's also unclear how the recent market turbulence might affect the picture.

Still, Mr. Wilson says he already has spotted some especially large estimated capital-gains payouts planned for this year.

Looking ahead, Ms. Benz predicts that large amounts of capital-gains distributions will flow from actively managed U.S. equity funds again this year, making this an important topic for many investors in taxable accounts to monitor. As she points out, this isn't an issue to be concerned about when investing in an individual retirement account or other tax-sheltered accounts.

As the WSJ's Jason Zweig reported, in late August, Harbor Capital Advisors, which runs Harbor International Fund, announced plans for an exceptionally large capital-gains distribution. For the latest details, see Harbor's website.

Mr. Herman is a writer in New York City. He was formerly The Wall Street Journal's Tax Report columnist. Send comments and your tax questions to taxquestions@wsj.com.

Ask a Question

Have a question about your taxes or tax planning? Email taxquestions@wsj.com

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The New York Times

Economic View
Business Day
Why Our Beliefs Don't Predict Much About the Economy

By Robert J. Shiller
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English

The more we learn about how people really think, the more we must rethink economic theory.

Changes in fundamental beliefs play a major role in the fluctuations of the economy. That's the implication of two fascinating new studies that show how people systematically change their beliefs in thinking about the financial future. At the moment, the knowledge that economists have accumulated about this subject suggests that we should have a high degree of humility — not only in forecasting where we are going, but in describing where we have been.

In a 2018 paper, Julian Kozlowski of the Federal Reserve Bank of St. Louis, Laura Veldkamp of Columbia University and Venky Venkateswaran of New York University attribute some of the economic pain that occurred after the 2008 financial crisis to a change in beliefs that may still be playing a role 10 years later.

Before financial tremors began to be felt in 2006, practically no one viewed a crisis of the magnitude of the Great Depression as being remotely possible, these authors say. The financial crisis changed that perspective, and people have continued to worry about this newly discovered threat, with the result that risk-taking has been inhibited and government-controlled interest rates — so-called riskless rates — have remained relatively low.

The scholars show that after an outlier event like the 2008 financial crisis occurs, standard statistical techniques show a sudden and persistent increase in the probability that such an event will occur again.

Now that such a financial crisis is forever in our data set, it is rational, they say, to continue to worry about another such crisis, even decades later. Those worries can hold back the economy.

Consider what this means for housing.

The real (inflation-corrected) S&P/CoreLogic/Case-Shiller National Home Price Index fell 36 percent from 2005 to 2012. Going all the way back to 1890, home prices had never fallen so sharply.

Before 2008, people might have rationally given the likelihood of such a fall a zero probability. Now that we have experienced it, the probability will never be zero again.

These scholars are correct, but the situation, in my view, is even worse than they imply. That's because there is evidence from behavioral economics that people are not entirely logical, and do not actually rely fully on logic or standard statistical techniques.

This behavioral economic perspective is embraced by Nicola Gennaioli of Bocconi University and Andrei Shleifer of Harvard University in their remarkable new book, "A Crisis of Beliefs" (Princeton University Press, 2018).

Focusing on the **stock market**, Professor Gennaioli and Professor Shleifer demonstrate how changeable expectations for the future really are. People tend to believe that recent trends will continue, whatever they may be, and then, when things shift, they change their expectations again.

These authors, referring to previous research with Robin Greenwood at Harvard, examined six separate surveys of expected returns on the **stock market**, some looking at individuals, and some focusing on professionals. The surveys correlated substantially with one another, showing that they were actually measuring popular beliefs about the **stock market**.

But Professor Gennaioli and Professor Shleifer also showed that these expectations for future returns were systematically wrong, showing no ability to predict what actually happened.

These kinds of mistakes tend to follow certain psychological laws. Professor Gennaioli and Professor Shleifer stress that people have what they call “diagnostic beliefs,” a concept related to the “representativeness heuristic” described in 1974 by the psychologists Daniel Kahneman and Amos Tversky.

Diagnostic beliefs work like this: A physician, in trying to diagnose a patient’s illness, orders a blood test that reliably gives a positive result for all patients who have a certain disease. Unfortunately, the test also gives many false positives. It is easy to assume the patient has the disease. But the test may just be a false positive.

The market boom leading to the 2008 financial crisis was the result of mistaken beliefs like the doctor’s diagnostic errors, the researchers say. These diagnostic beliefs were based on what seemed to be a “kernel of truth,” Professors Gennaioli and Shleifer say: Investors had a high return in the market. But they exaggerated the meaning of that kernel of truth, creating a market bubble.

More broadly, fundamental beliefs about the economy change through time. Thus, for example, the remarkable performance in the United States **stock market** since 2009 and in the housing market since 2012 are a result of a newly emergent belief system, reinforced not just by presidential statements or even by tax cuts but by a psychological dynamic that operates according to well-defined psychological principles, based, erroneously, on the belief that past growth in market prices is strong positive evidence for more growth in the near future.

The problem for economics research today is to try to clarify these changing belief systems, their impact on the economy, and their duration. Further study may well show that the economic effects of beliefs founded on false premises can be profound for decades after the initial changes take place.

Robert J. Shiller is Sterling Professor of Economics at Yale.

Hanna Barczyk

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THE WALL STREET JOURNAL.

Economy

As U.S. Tariffs Bite, China Moves Again to Spur Its Economy; The reduction to banks' reserve requirement will free up nearly $175 billion

By Chao Deng
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Corrections & Amplifications

Fitch Ratings last month lowered its 2019 China growth forecast by 0.2 percentage point to 6.1%. An earlier version of this article incorrectly stated Fitch cut its forecast by 0.2%. (Oct. 8)

BEIJING—China's central bank is freeing up nearly $175 billion to get commercial banks to boost their lending and pay off short-term borrowings, the latest effort by Beijing to lift growth in a slowing economy as its trade fight with the U.S. escalates.

In a statement Sunday, the People's Bank of China said it would reduce the amount of reserves most commercial banks are required to hold by 1 percentage point, effective Oct. 15.

The move comes as the U.S. has imposed tariffs on $250 billion of Chinese goods and has vowed additional import taxes on $257 billion of products.

Chinese leaders are eager to get ahead of any potential economic impact of the trade spat and boost confidence in a flagging **stock market**, economists say. Stocks in Shanghai have sunk about 15% since the beginning of the year, while the yuan has weakened by more than 9% against the U.S. dollar since mid-April.

The central bank said the cut will free up 1.2 trillion yuan ($174.72 billion) in total. Of that, 450 billion yuan ($65.52 billion) will be for banks to repay short-term debt coming due this month and 750 billion yuan will be released into the **financial market**. Big Chinese banks will face a reserve-requirement ratio of 14.5%, down from 15.5% currently.

The cut in the reserve-requirement ratio, coming after a weeklong holiday on the Chinese mainland, was widely expected. Chinese leaders have already lowered banks' reserve-requirement ratios three times this year, and rolled out fiscal measures such as reducing individual income taxes and urging local governments to boost infrastructure spending.

"In the current trade-war situation, they don't want to be seen with a weak economy," Ding Shuang, an economist at Standard Chartered, said of policy makers' intentions. "They are very serious about the growth target this year."

The latest round of U.S. tariffs on $200 billion of Chinese goods took effect last month. At the beginning of next year, the Trump administration plans to raise tariffs on these products to 25% from 10% currently.

The punitive measures are already taking a toll on Chinese manufacturing. Privately owned makers of cars, machinery and other products stopped expanding in September as export orders dropped, while output by large, state-owned manufacturers continued to weaken.

Economists also expect the U.S. tariffs on Chinese goods to weigh on China's export sector by next year. Fitch Ratings last month lowered its 2019 China growth forecast by 0.2 percentage point to 6.1%, citing concerns about trade tensions with the U.S.

Beijing's efforts to keep the economy growing carry risks. Analysts say the latest easing move will likely put pressure on an already depreciating Chinese yuan. A weaker currency would help Chinese exporters that are already bruising from the trade fight, but too much depreciation risks stoking concerns about the Chinese economy and capital outflows.

On Sunday, the central bank released data showing foreign-currency reserves falling in September to their lowest levels in over a year. The bank has moved to shore up the yuan, including by reintroducing a mechanism for setting the currency's daily official value against the dollar.

Policy makers have the option of further supporting the currency, including by strengthening capital controls, Zhang Ming, an analyst at state think tank Chinese Academy of Social Sciences, wrote in a note after the PBOC cut. It is unlikely the yuan will weaken beyond 7 per dollar, he added.

Economists say they believe a major stimulus package similar to the one Beijing used after the 2008 financial crisis is unlikely because this year's growth remains on track to reach the government's target of about 6.5%.

Too much policy easing risks undoing the progress authorities have made to keep high debt levels in check. Easy access to credit for much of the past decade has driven up Chinese debt to more than 240% of GDP as of end-2017; efforts over the past two years to control debt have reined in leverage within the financial system, but not the broader economy.

Further complicating Beijing's efforts to prop up the economy are concerns about rising consumer prices, in part fueled by a recent outbreak of African swine fever that caused a shortage of pork, as well as skyrocketing rental prices in many Chinese cities.

Targeted measures in recent years haven't alleviated funding pressures for small- and medium-size private enterprises, as banks see smaller businesses as riskier and prefer lending to state-owned firms. Economists expect policy makers to unveil further easing through fiscal measures and potentially more cuts to banks' reserve-requirement ratios. "The intention is to shift to a neutral policy with an easing bias," said Standard Chartered's Mr. Ding.

The central bank has so far refrained from raising interest rates after the Federal Reservelifted its benchmark rate in September. Higher rates in the U.S. tend to strengthen the dollar, putting stress on emerging-market currencies.

Chinese policy makers have so far avoided cutting the benchmark rate, as that would be viewed by investors as a more drastic easing measure than reducing banks' reserve-requirement ratios. Such a move risks putting even more pressure on the yuan and further diluting Beijing's efforts to control debt.

Grace Zhu and Lingling Wei contributed to this article.

Write to Chao Deng at Chao.Deng@wsj.com

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World News: China Gives Economy a Jolt

By Chao Deng
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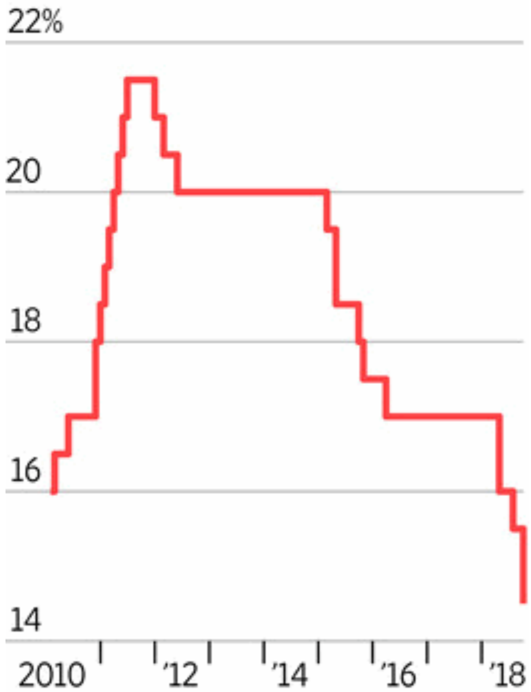
Grace Zhu and Lingling Wei contributed to this article.

Loosening the Reins

In hopes of stimulating the economy, China reduced the amount of money that banks must keep in reserve.



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THE WALL STREET JOURNAL.
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Investing in Funds & ETFs (A Special Report) -- Alternative Investments --- Ready to Invest in Commodities? Not So Fast: A strong dollar and the weak demand in China and elsewhere have depressed prices, and fund investors are feeling it; There might not be a turnaround soon

By Dan Weil
953 words
8 October 2018
The Wall Street Journal
J
R7
English

Now may not be the time to invest in commodities. At least not if you're looking for a short-term profit.

That's because the asset class has performed poorly over the past four months -- and experts don't anticipate much of a rebound in coming months.

After rising 4% from the beginning of the year through May 24, the Bloomberg Commodity Index has since dropped 5% as of Oct. 5. Fund investors are feeling it: Lipper's natural-resources funds category squeaked out a 0.4% return for the third quarter, while gold-oriented funds specifically slid 16% and are down 22% for the year to date. (Gold itself is down 8%.)

A strong dollar and weak demand overseas, particularly in China, have depressed commodities. Many commodities are priced in dollars, so when the currency is strong it makes commodities more expensive for foreign buyers in their own currencies.

"We think the trend is soft heading into year-end. Agriculture and metals are both under pressure," says Rob Haworth, senior investment strategist with U.S. Bank Wealth Management. "The real problem is that the dollar will continue to be a headwind."

Mr. Haworth expects the dollar to stay strong through year-end as the Federal Reserve raises interest rates once more this year, which would mark the fourth boost of 2018. Higher interest rates lift the dollar by making fixed-income investments denominated in dollars more attractive.

Sluggish economic growth overseas also will keep a lid on commodity prices, Mr. Haworth and others say. "We had synchronized global growth last year," he says. "Now we have flat to slower growth for the rest of the world." For example, the European Central Bank recently lowered its estimate for eurozone GDP growth to 2% for this year and 1.8% for 2019.

Even in the U.S., economists expect growth to decelerate from the 4.2% annualized pace it registered in the second quarter. More than 60 economists surveyed by The Wall Street Journal predict growth will slow through the first quarter of 2019, when they see it hitting 2.4%. Slow growth means tepid demand for commodities.

The most popular commodity for individual investors is gold. The metal's 8% drop this year through Oct. 5 puts it at $1,201 an ounce. "Historically, gold has been an inflation hedge," says Karim Ahamed, an investment adviser at HPM Partners in Chicago. "So you might expect that people would be concerned with the inflation rate in the current environment and thus invest in gold." But that hasn't happened. The consumer-price index climbed 2.7% in the 12 months through August, compared with 1.9% for the 12 months through August 2017.

Gold also generally benefits from global turmoil, with investors flocking to it as a haven, Mr. Ahamed notes. But that too hasn't happened this year. "So what gives?" he asks. First, there's the dollar's strength, he says. The Bloomberg Dollar Index has climbed 7% since Feb. 1. The currencies of China and India, the two biggest consumers of gold, are particularly weak, making gold more expensive there and damping demand.

Rising U.S. interest rates also have hurt gold, because the metal doesn't pay any income, making it less appealing than investments that do, Mr. Ahamed says.

Base metals, such as copper, also are slumping. Copper has dropped 16% from the beginning of the year through Oct. 5, to $2.75 a pound. China has been the largest consumer of industrial metals over the past 30 years, Mr. Ahamed says. But China's economy has slowed in recent years; in the second quarter of this year it grew 6.7% from a year earlier, compared with a 6.9% expansion for all of last year. Also, the government is shifting to focus more on the consumer sector and less on the manufacturing sector.

"China propelled the last boom in commodities, from the 1990s through 2008, and that doesn't seem likely to repeat," says Amanda Agati, co-chief investment strategist at PNC Financial Services Group.

Meanwhile, bountiful supply and weak demand have hurt agricultural commodity prices, experts say. China's tariffs on U.S. soybeans also have had an impact. Soybean prices have slid 10% this year through Oct. 5, to $8.69 per bushel.

Experts are a bit more optimistic about oil than they are about other commodities. Most of them see crude fluctuating in a narrow range in coming months. Economic sanctions against Iran and social turmoil in Venezuela are likely to limit production in those countries, supporting prices. But rising output in the U.S. will weigh on prices, experts say.

Sandy Fielden, director of research for commodities and energy at investment research firm Morningstar, goes further than most, pronouncing himself "**bullish**" on oil.

He sees U.S. production leveling off because of restraints in the Permian Basin. Research indicates producers there are close to productivity limits. And Mr. Fielden doesn't expect demand to decline.

But like others, he is **bearish** on commodities overall. "It now looks like the world economy is on top of the cycle," Mr. Fielden says. "So if emerging markets weaken and we have trade disputes, there's not too much headway for commodities."

Mr. Weil is a writer in West Palm Beach, Fla. He can be reached at reports@wsj.com.

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U.S. News: Trump Says Fed Is Moving Too Fast

By Nick Timiraos
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English

President Trump repeated his displeasure with higher short-term interest rates set by the Federal Reserve, but said he hadn't spoken with Fed Chairman Jerome Powell about his frustration because he didn't want to meddle with monetary policy.

Speaking to reporters outside the White House on Tuesday, Mr. Trump said he believed the Fed was increasing its benchmark rate too fast given the apparent lack of inflationary pressures in the economy.

"The Fed is doing what they think is necessary but I don't like what they are doing because we have inflation really in check," Mr. Trump said. The president said he was concerned higher rates would slow down economic growth.

"You don't see that inflation coming back," Mr. Trump said. "Now, at some point it will. . . . I just don't think it's necessary to go as fast" on rates.

The Fed has raised its benchmark rate three times this year, most recently last month to a range between 2% and 2.25%. Officials penciled in another quarter-percentage-point rate rise this year, with the increase likely to occur in December.

Higher rates are meant to prevent the economy from overheating, including by keeping inflation from rising unsustainably. Inflation has been running near the Fed's 2% target this year for the first time in several years. Most Fed officials project price pressures will run slightly higher in the coming years because unemployment is below their estimates of a jobless rate consistent with stable prices.

Mr. Trump hadn't spoken with Mr. Powell about his concerns because, he said, "I like to stay uninvolved with that."

A Fed spokeswoman declined to comment Tuesday.

Yields on the benchmark **10**-**year Treasury** climbed last week to their highest level since May 2011 as investors took more seriously the prospect of future rate increases amid stronger economic growth.

Yields edged lower Tuesday, closing at 3.208%, compared with 3.227% on Friday.

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THE WALL STREET JOURNAL.

Politics

Trump Criticizes Fed Rate Increases Again, but Says He Hasn't Spoken to Fed Chair Powell; President cites lack of inflationary pressures

By Nick Timiraos
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9 October 2018
05:53 PM
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An increased supply of Treasury debt, stemming from a rising federal budget deficit, is one of several factors that analysts say have pushed yields higher this year. Increased deficits and rising rates both drive higher debt-service payments by the federal government.

Mr. Trump is the first president since George H.W. Bush to weigh in on monetary policy. President Bill Clinton's economic advisers successfully convinced him not to second guess the Fed, arguing the approach would ultimately reassure investors inflation would be held in check and hold down government borrowing costs. Presidents George W. Bush and Barack Obama maintained that precedent.

Mr. Trump has often described himself as a "low interest rate" person and on several occasions since July has said he is unhappy with the Fed's moves to raise rates recently.

Mr. Powell said last week the Fed's nine-person rate-setting committee is guided solely by its reading of economic data when it fashions a consensus around where to set its policy rate. "This is just who we are and, I think, who we'll always be," he said, dismissing concerns that politics would enter into officials' decision-making.

Speaking in New York earlier on Tuesday afternoon, Kevin Hassett, the White House's top economist, said critical comments about interest-rate increases from Mr. Trump shouldn't be construed as an infringement on the central bank's freedom in setting monetary policy.

"President Trump says what he thinks, but he respects the independence of the Fed," he said.

Write to Nick Timiraos at nick.timiraos@wsj.com

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U.S. News: U.S. Seeks to Slow Rules for Cleaner Marine Fuels

By Timothy Puko and Benoit Faucon
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A3
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The Trump administration is pushing to ease the rollout of new international rules to power commercial ships with environmentally cleaner fuels, fearing the measures will drive up costs for consumers and businesses.

The rules, set roughly a decade ago by the International Maritime Organization, an arm of the United Nations, take effect on Jan. 1, 2020, and aim to slash the amount of sulfur in fuel for oceangoing ships.

The International Energy Agency, which advises governments on energy policies, has warned that the measures -- by banning cheap energy sources and requiring ships to run on premium fuels -- could cause a surge in demand for specific fuels that ripples across commodity markets and affects prices for crude, diesel and other petroleum products.

The new maritime demand is expected to tighten supplies, especially for low-sulfur diesel but also in oil markets more broadly. That could raise prices for all types of fuels -- from heating oil in Pennsylvania to boating fuel in Florida and gasoline across the U.S. just as the presidential primaries enter full swing, analysts said.

The White House says the administration is focused on the damage rising fuel costs might have on the economy, but some administration officials concede the timing of the implementation could have political implications in an election year.

"Few things terrify an American president more than a spike in fuel prices," said Bob McNally, a former energy adviser to then-President George W. Bush. "If President Trump learns that IMO 2020 risks a big fuel **oil-price** spike in the winter of a presidential election, he is going to object."

A spokesman said the White House isn't seeking to withdraw from the agreement, and declined to characterize administration plans as an effort to delay implementation. Instead, the shipping and energy markets may face less disruption if the rules were phased in in the name of "experience building," he said.

Such a move is necessary to "mitigate the impact of precipitous fuel-cost increases on consumers," the White House said in an email.

Shipping and energy executives said the cost for shipowners of the cleaner fuels would amount to about $15 billion a year.

White House officials are alarmed by internal and external projections that suggest the global economic costs could surpass $100 billion, with the U.S. portion of that potentially rising to more than $10 billion.

These analyses remain estimates, and officials say there is no certainty how much costs will rise.

The White House is gauging the support of other countries for a more staggered approach, according to senior administration officials. The administration is backing a shipping-industry proposal for enforcement of the new measures to gradually increase over time, an approach that will be discussed at a U.N. IMO conference next week.

Major flag states like Panama, Liberia and the Marshall Islands, along with trade bodies, have said the IMO should examine a possible "grace period" of a few months until all oceangoing vessels empty their tanks of high-sulfur fuel. Some have also asked for ships not to be penalized if they can't get the cleaner fuels at some ports.

The rules are aimed at cutting pollution from commercial ships using high-sulfur fuel, which causes respiratory ailments and can aggravate heart disease. Ships contribute about 13% of total sulfur-dioxide emissions, the U.N. said.

Costas Paris contributed to this article.

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WSJ PRO CENTRAL BANKING

Markets

How One Stubborn Banker Exposed a $200 Billion Russian Money-Laundering Scandal; A British employee of Danske Bank dug into the details and tried to alert his superiors

By Bradley Hope, Drew Hinshaw and Patricia Kowsmann
3,470 words
23 October 2018
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WSJ Pro Central Banking
RSTPROCB
English

TALLINN, Estonia—It took a £1 payment to uncover one of the world's biggest money-laundering scandals.

Howard Wilkinson, a British trader at a Danish bank's branch in Estonia, noticed that a London business, which moved more than $1 million through the branch almost daily, had filed a report with the U.K. government claiming it had no income or assets. Downloading the report cost Mr. Wilkinson one pound.

The discrepancy didn't immediately strike him as malicious. Later, he began tugging on the thread. And five years after Mr. Wilkinson raised the alarm, his old employer, Danske Bank, last month announced that more than $230 billion had flowed from Russia and other former Soviet states through its tiny branch in Estonia. A large part of this was probably illicit money, the bank has said.

It is a money-laundering scandal on a grand scale, broaching one of the West's rawest subjects, its tense relationship with Russia. The money involved is equal to more than all the corporate profits in Russia in a year. The scandal has tarred the reputation of Denmark, a country ranked among the world's most transparent, and wiped out nearly half the **stock-market** value of the Scandinavian country's largest bank, which knew about the problems for years before they became public. Its star CEO has resigned.

The revelations have ignited soul-searching in Europe about the cost incurred by some of its banks to survive the global financial crisis, especially how they welcomed flows of thinly monitored money from countries with weak rule of law. Regulators increasingly wonder whether their defenses against criminal money are broken, given how so much moved through the brand-name bank of a Scandinavian nation.

The U.S. Department of Justice has started a criminal investigation into the Danske matter, and the Treasury Department and Securities and Exchange Commission are also investigating. Following Danske's September release of a report on its internal investigation, shareholders are bracing for the possibility of a huge fine. The bank says it still doesn't know whose billions moved through the remote branch over nearly a decade.

From his home in the English countryside, Mr. Wilkinson, 47 years old, said that he had no idea of the scale when he first began poking into a few of his bank's dealings. He described himself as shocked and disillusioned.

"If you wanted to launder money all you need to do is find an obscure branch in a bank with a good name," he said. "And nobody is going to ask you any questions."

A Wall Street Journal review of hundreds of pages of internal bank documents, including memos and client records, along with interviews with dozens of officials and bankers involved with Danske's Estonian operations reveals how a multibillion-dollar money-laundering pipeline remained open for years, and how a midlevel career banker, fixated on detail, finally brought it down.

"We want to make it absolutely clear that this case in no way reflects the bank we want to be," Danske said in a written statement after being asked about the Journal's findings. "We will do everything it takes to ensure that we never find ourselves in the same situation again."

"Good, Easy Money"

The chief executive of Denmark's biggest bank thought he was about to die in a plane crash. Peter Straarup's flight to Copenhagen had lost cabin pressure and was dropping thousands of feet toward the Baltic Sea.

It managed a safe emergency landing, but Mr. Straarup later described the 2006 incident to a friend as a portent of the trouble ahead. He was returning from Helsinki to announce that Danske would take over Finland's Sampo Bank and absorb its million customers.

The acquisition came with a little-mentioned subsidiary in Estonia headquartered in a six-story former factory with an unhappy history. Hitler's military produced radios in the building before the Soviets repurposed it for tank components. After communism's collapse, a new bank, named Eesti Forekspank, took over the building.

During a 2006 visit, Russian Central Bank Deputy Chairman Andrei Kozlov, who was conducting a crackdown on money laundering, complained to Estonian officials that the bank, which had changed hands a couple of times, was servicing customers suspected of financial wrongdoing such as tax evasion or corruption. Three months later, he was gunned down as he left a soccer match. A Russian court ruled it was a contract killing ordered by a businessman displeased with his laundering crackdown.

Two months after that, in November 2006, Danske agreed to buy the bank as part of its deal for Sampo Bank, which owned it. Mr. Wilkinson became an employee weeks later.

An Oxford graduate who had traveled the Nordics, he initially went to work at a bank in Finland, where former colleagues remembered him as a skilled but argumentative trader who once started a yearlong gripe over a monthly charge on his checking account.

Estonia offered a faster pace than Finland. The markets department Mr. Wilkinson led, with nine employees on the corner of the fourth floor, traded millions of dollars daily in currency and bonds, called "flow business." In the years after the financial crisis, some European banks were in fragile shape—Danske had state help—but its Estonia branch was reporting strong results for such a small country.

The Englishman felt at home in the open-plan office with its international mix of youthful new hires and experienced bankers. He didn't entirely understand its business model, though. Ninety percent of Danske's Estonia profits, an internal memo would later explain, came from a department on the third floor, which served a lucrative customer type Mr. Wilkinson had never dealt with before, termed nonresident depositors.

Those customers didn't live in Estonia, and their companies did little business there. Most were Russian, and their reasons for banking in tiny Estonia weren't always evident. Many of the nonresident depositors yanked incoming money out of their accounts within days of its arrival, sometimes hours.

Mr. Wilkinson managed market transactions related to those customers, mostly currency trades and buying and selling treasuries. "Good, easy money," he called it. Returns on equity approached 400%, a bank memo said.

His first hint of unease came five years into the job, as his colleagues rushed to take their summer 2012 holidays. A young junior account manager asked for help wrapping up paperwork on a British client.

The client—listed in the U.K. as Lantana Trade LLP—was registered next door to a suburban London hardware store, according to documents. They show it had moved $480 million through the Estonian branch in about five months.

When Mr. Wilkinson downloaded the business's records, what he saw made no sense. "Net Assets," said a filing it made to Companies House, the British registrar that collects company data: "0.00."

A simple clerical error, Mr. Wilkinson said a bank compliance officer reassured him weeks later, adding that Danske had asked Lantana to submit a new, correct version to Companies House. He forgot about it.

A year later, in September 2013, a senior bank official said Lantana was no longer a client, Mr. Wilkinson said. He added that another official told him that one of Lantana's owners was a relative of Vladimir Putin, which was denied by spokesman for the Russian president. Lantana couldn't be reached.

"It sat in the back of my head that there was something that wasn't quite right," Mr. Wilkinson said.

"The Alpha Male"

Danske's excellent returns from Estonia were helping power the rise of a tall and elegant gray-haired banker several rungs above Mr. Wilkinson, who championed the Estonian branch's business before the board of directors.

Thomas Borgen, then in charge of international banking for Danske, impressed other executives with his ramrod posture and soothing intonation, colleagues recalled. "He's extremely charismatic…unquestionably the alpha male in the room," said an adviser to a board member.

The Estonian branch's profits were a point of pride during a European business slump. "This was his baby," the adviser said.

In 2010, Mr. Straarup, Danske's CEO, grew concerned about the high level of Russian transactions going through the branch. Barron's magazine had contacted the bank about the possible involvement of its Estonian branch in a North Korean arms-smuggling case in Thailand, although the ensuing article didn't identify the bank.

Months later, Mr. Straarup asked Mr. Borgen: Was he comfortable with the exposure to nonresident clients? Mr. Borgen, according to a person who attended the meeting, said he hadn't come across any cause for concern. Mr. Straarup declined through a spokesman to comment, and Mr. Borgen didn't respond to requests for comment.

Russia's central bank, which maintained a measure of independence in a country sliding into autocracy, kept a blacklist of hundreds of thousands of individuals barred from Russia's banking sector on suspicion of financial crimes. Many of those people were popping up as clients of the Danske branch next door in Estonia, the Russian central bank complained to Estonia's banking supervisor, the Financial Supervision Authority.

Estonia's FSA had just two employees to conduct money-laundering reviews, one of them part-time. It took six months to assess a single bank's practices, and larger banks than the local Danske branch had priority. Estonia's maximum fine for money laundering was €32,000—a few hours' worth of profits at the branch.

In addition, European Union directives discouraged Estonian inspectors from entering the bank building without permission from their Danish regulatory counterparts. Denmark's FSA oversaw the business because Danske had made it a branch rather than a subsidiary.

The Estonian regulators, despite their limited jurisdiction and resources, raised red flags, mailing about six letters to Denmark's FSA between 2007 and 2014. The complaints became caustic as years went by.

One Estonian FSA letter "is brutal…close to the worst I have ever read…and I have read some harsh letters," a Danske compliance officer emailed a colleague.

Denmark's FSA says it raised the Estonian regulators' concerns with Danske Bank and was assured that the bank regularly sent people to check the branch and they found no problems.

Danske, meanwhile, was hoping to open a U.S. branch. In late 2012, Denmark's FSA issued a statement of support to the Federal Reserve saying that Danske followed correct anti-money-laundering procedures.

Danske's anti-money-laundering chief later emailed colleagues about issues at the Estonian branch, saying: "The Danish FSA has helped the Bank in a critical situation. They are now very worried that any situation may arise."

Danske and the Federal Reserve declined to comment when asked about the exchange.

In 2013, Mr. Borgen, the charismatic chief of international banking, became Danske's CEO. "People were in awe of" Mr. Borgen, a person close to the board said. "He was producing these enormous returns."

At a meeting that year of the European Banking Authority, with top officials from across the Continent present, a shouting match erupted, said people familiar with the session. The Estonians yelled across the room that criminal Russian money was washing through their country, and Denmark, a founding member of NATO, was doing little to stop it.

"In simple terms, we were quite pissed off," said Raul Malmstein, then-chairman of Estonia's FSA. "They were not doing anything."

Mr. Wilkinson's daughters had finished opening their presents on Christmas 2013 when, in the holiday calm, a thought buried deeply away came to mind. Had Lantana—the London business that moved millions through the Estonian bank while listing its assets as zero—properly amended its filing to U.K. authorities, as he'd been told 18 months before?

The day after Christmas, Mr. Wilkinson spent another pound to download Lantana's amended filing. On the third page, Lantana said that as of as of May 31, 2012, its bank accounts held £15,689, equal to about $20,500. Bank records showed it had close to $1 million on deposit with Danske that day.

Lantana had replaced one lie with another. Worse, some of Mr. Wilkinson's colleagues probably knew, he guessed. "At that point there's a problem, and the question is how big is the problem," he said.

The next morning, before dawn, Mr. Wilkinson emailed four Danske officials in Copenhagen, with the subject "Whistleblowing disclosure — knowingly dealing with criminals in Estonia branch."

"Dear Sirs," he wrote. "The bank may itself have committed a criminal offence…. There has been a near total process failure."

Mr. Wilkinson imagined Danske's executives would investigate his allegations, make changes, and they'd all share a pleasant handshake.

Two days later, a bank executive dashed off a terse response on his phone to Wilkinson: "Thanks for drawing our attention to this. It must be investigated asap."

"regards"

"We're Not the Police."

Danske's executive board met during the first week of 2014, now with Mr. Borgen as CEO. The Christmas whistleblower email was discussed, but board members weren't provided a copy and it didn't cause much alarm, according to two people familiar with the meeting.

The board had other incoming items to deal with. JPMorgan Chase & Co. had ceased clearing dollars for the Estonian branch over money-laundering concerns at nonresident accounts. Also, with the financial crisis fading, European banks had less appetite for taking on legally risky clients to obtain deposits. The Estonian branch had proposed a freeze on some new clients deemed too risky, according to a Danske PowerPoint document.

Mr. Borgen offered an alternative plan, said people close to the board: Sell the branch.

Two days after that board meeting, Danske senior management received another email from Mr. Wilkinson. He had checked three more clients. All three had filed false assets and income reports to the British authorities, he wrote.

In Estonia, the Englishman's campaign infuriated co-workers: "We're not the police," a branch executive snapped in one heated meeting, Mr. Wilkinson recalled.

One day around February 2014, Estonian government inspectors barged into the building, without permission from Copenhagen, and pulled thousands of documents. They sent Danske Bank a scathing, 340-page report listing lengthy violations.

The report was in Estonian. It wasn't translated into English or Danish for another three years.

Danske management did order an internal audit team to do some digging, around the same time. Mr. Wilkinson found the team members motivated and intelligent. They interviewed him at length by phone.

A report the audit team prepared was damning. A summary of it said the Estonian branch wasn't able to identify the true source of funds—a basic banking requirement—and "therefore acts against [anti-money-laundering] legislatory principles."

The draft report said the branch's head of international banking, who helped oversee nonresident accounts, had told the auditors his employees weren't recording the true owners of the companies because, in the report's language, "it could cause problems for clients if Russian authorities request information." The banker couldn't be reached for comment.

In March 2014, Mr. Wilkinson checked what 12 additional Danske clients had reported to British authorities. Each moved millions but reported scant income or assets. Mr. Wilkinson made a total of four complaints. He didn't find a single Danske client that correctly reported its income to the government where it was registered.

It took a phone call to break Mr. Wilkinson's zeal.

The internal audit team's draft report, the product of a two-month investigation, was being watered down under pressure, an auditor called to tell him. The bank's auditing chief wouldn't give Mr. Wilkinson a copy.

The report would permanently remain a draft. If it was made final, Denmark's banking supervisor would have access to it.

In April 2014, a colleague told Mr. Wilkinson that Estonian branch management had been listening to recordings of his calls with auditors. He felt spooked—and infuriated.

He resigned. "After over seven years with the bank, I've decided it's time to do something else," he emailed management.

Seconds later, Mr. Wilkinson sent an email he had pre-written to Danske's chief risk officer: If Danske didn't report the false accounts to Estonian police, then he would.

Three hours later, the officer responded: "I can assure you that the issues you have raised are receiving a huge amount of attention both locally and in Copenhagen."

Estonia at the time was ranked as the second-best country on earth in combating money laundering, by a standard called the Basel AML index, while corruption watchdog Transparency International rated Denmark the world's most transparent country that year. What was unusual, Mr. Wilkinson concluded, wasn't that a name-brand branch had turned a blind eye to its customers, but that it got caught.

At the end of April 2014, he cleaned out his desk. Danske Bank's top legal officer hired a consulting firm to investigate allegations of misconduct at the Estonian branch. The hiring decision was overturned by two executive-board members.

In June, the board of directors met. Mr. Borgen had told colleagues two banks were considering buying Danske's Baltic portfolio, including the Estonian branch. Let the business carry on a bit longer, he said.

"CEO found it unwise to speed up an exit strategy as this might significantly impact any sales price," the minutes of the meeting say.

Board members swallowed their misgivings, according to people familiar with the session. "Nobody ever disagrees with Thomas," said one. "He was regarded as the most successful CEO Danske Bank had ever had…. He had steered the bank through a very difficult time."

"My Own Small Bit"

Danske didn't find a buyer for the Baltic business. The nonresident business at the Estonian branch carried on for another year. Then, in 2015, Bank of America Corp. and Deutsche Bank AG, the last two correspondent banks still processing U.S. dollar transactions for the Estonian branch, both said they would stop dealing with the branch's clients on money-laundering concerns. Late that year, Danske pulled the plug on its nonresident business and shut thousands of accounts.

In early 2017, Danish newspaper Berlingske published reports describing Danske Estonia money-laundering schemes. In September of that year, Danske opened an internal investigation.

Mr. Borgen dismissed notions he would have to resign, people close to the board recalled. He told an investor as recently as June there was nearly zero chance Danske would have to pay a significant fine. He expected to stay on after the investigation, people close to the board recalled.

As Danske's investigators, based partly on Mr. Wilkinson's tips, combed through stacks of transaction records, the scale of the money flows remained a mystery. After a year of work, the investigators had managed to review less than half of the branch's 15,000 clients.

"The vast majority of these customers have been deemed suspicious," Danske said in the September report of its internal investigation.

The investigators determined that the branch had handled €200 billion, equal to $233 billion, in largely suspicious transactions. They were unable to figure out who owned the lucrative nonresident companies that banked there. Those clients' money has long since vanished into a labyrinth of offshore companies around the globe.

The internal investigation mostly exonerated top management, including Mr. Borgen. It accused dozens of low-level employees of wrongdoing.

Mr. Borgen said he would resign as CEO nonetheless. "Danske Bank has failed to live up to its responsibility," he said. "I deeply regret this."

Mr. Wilkinson was following events from the kitchen table of his countryside home. Even he was flabbergasted by the scale. "Surreal," he says.

If he filed any whistleblowing claims to the SEC, there is the possibility under U.S. law he could collect a portion of any fine against the bank. His lawyer declined to comment on whether he has spoken with U.S. or European law enforcement, citing Estonian bank-secrecy laws.

These days, the Englishman looks after his daughters. Sometimes in the evenings, he occupies his mind with a Bletchley Park cipher puzzle book, named after the team of World War II codebreakers that cracked Germany's secret Enigma encryption.

"I've done my own small bit," he said.

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The New York Times

Business Day; DealBook
Tech Earnings Provide a Breather From the Selling

By Michael J. de la Merced
305 words
25 October 2018
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NYTimes.com Feed
NYTFEED
English

Get the DealBook newsletter to make sense of major business and policy headlines — and the power-brokers who shape them.__________

DealBook's one thing to watch today

Strong earnings reports from technology companies since Wednesday's close have provided respite from the selling that had gripped stock markets this month and wiped away this year's gains.

The context: Technology stocks, which had propelled the broader indexes to records this year, continued to be battered Wednesday. Heavyweights like Amazon, Microsoft and Facebook all saw their stock fall by more than 5 percent. Plummeting shares in semiconductor makers also weighed on the market, after Texas Instruments, STMicroelectronics and AMD offered disappointing outlooks. AMD's shares are down 14 percent Thursday morning.

The news: Shares of technology companies are rebounding Thursday, bolstered by the results of some of the sector's most prominent names. Twitter reported a 29 percent year-over-year gain in revenue on Thursday morning, and Microsoft issued strong earnings after the market closed on Wednesday thanks to the performance of its cloud-computing division. And even the troubled automaker Tesla reported its biggest-ever profit, driven by cost-cutting and delayed payments to vendors. Shares in all three were up in early-morning trading on Thursday. The **Nasdaq Composite** is up 2 percent, a day after suffering its biggest one-day decline in seven years.

What to watch: Two more technology titans could provide more good news for the markets this week. Amazon and Google's parent company, Alphabet, are expected to report strong financial results after the closing bell.

Microsoft was among several tech companies to post strong earnings since the markets closed on Wednesday., which could help boost the struggling markets. | Mike Blake/Reuters

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THE WALL STREET JOURNAL.

Business
Rising U.S. Oil Output Forced GOL Airlines to Change Its Hedging Method; A price divergence led GOL to migrate its hedges from West Texas Intermediate to Brent oil contracts

By Tatyana Shumsky
488 words
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The Wall Street Journal Online
WSJO
English

A surge in U.S. crude oil production has helped cause an accounting headache for the finance chief of Brazil's largest airline, GOL Linhas Aereas Inteligentes SA.

The São Paulo-based airline uses options on oil futures to protect itself from unexpected spikes in jet fuel prices. That's because crude oil is refined into jet fuel, and the prices of the two commodities tend to move in tandem.

But earlier this year, a surge of U.S. shale oil output weighed on the U.S. **oil price** benchmark, known as West Texas Intermediate, even as the international oil benchmark, Brent, soared.

This divergence forced GOL to migrate its hedges from WTI oil to Brent oil contracts to maintain hedge accounting treatment, which requires companies to ensure the derivatives they are using offer adequate protection against the risks they seek to hedge.

"You want your hedge to be effective," said Richard Lark, finance chief at GOL. "Because of things going on in West Texas, the correlation with WTI and international jet fuel prices dropped substantially."

GOL has locked in the price of about 80% of the jet fuel it needs for the fourth quarter, and the company has hedged about 50% of its expected fuel needs for the first half of next year, he said.

Some U.S. airlines hedge as far out as two years to lock in fuel costs. Many do so because they have little wiggle room on fares due to a higher proportion of leisure travelers. Such customers are more sensitive to fare changes.

For GOL, the competitive terrain is different. "In our business, we have a fair amount of pricing power with our customers, and that's because about 70% of our client base are business travelers," Mr. Lark said.

So GOL's hedging program is focused on protecting against sudden shocks in jet fuel prices for the next six to nine months, which gives it enough time to raise fares when necessary, Mr. Lark said.

"We have to do a higher level of hedging in the short term to buy us time to adjust prices," Mr. Lark said. "In our case, our first line of defense is not the hedges, it's adjusting fares for the customer and then we try to have the hedging there to buy us time. It's something that's fairly unique to Brazil."

GOL's hedging efforts—against swings in both energy prices and currencies—helped the company recapture 100% of the impact of higher jet fuel and the depreciation of the Brazilian real during the March quarter, said Deutsche Bank analyst Michael Linenberg, in a May 9 note to clients.

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The New York Times

Business Day; Economy

When Sears Flourished, So Did Workers. At Amazon, It's More Complicated.

By Nelson D. Schwartz and Michael Corkery
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English

Half a century ago, a typical Sears salesman could walk out of the store at retirement with a nest egg worth well over a million in today's dollars, feathered with company stock. A warehouse worker hired now at Amazon who stays until retirement would leave with a fraction of that.

Much as Sears has declined in the intervening decades, so has the willingness of corporate America to share the rewards of success. Shareholders now come first and employees have been pushed to the back of the line.

This shift is broader than a single company's culture, reflecting deep changes in how business is now conducted in America. Winner-take-some has evolved into winner-take-most or -all, and in many cases publicly traded companies are concentrating wealth, not spreading it. Profit-sharing and pensions are a rarity among the rank-and-file, while top executives take home an increasing share of the spoils.

Amazon shareholders have benefited more than workers, but Sears, in its heyday, tried to serve both.

The company earmarked 10 percent of pretax earnings for a retirement plan for full-time employees and by the 1950s, the workers owned a quarter of Sears. By contrast, one man at Amazon, the founder and chief executive Jeff Bezos, owns 16 percent of the company and is ranked asthe world's richest person.

Amazon, which changed how Americans shop much as Sears did in its prime, does not disclose what percentage of its stock is owned by employees.

[Here's why some Amazon workers are fuming about their raise.]

But this month, Amazon stopped giving stock to hundreds of thousands of employees, even as it lifted its minimum hourly wage to $15. While the raise garnered headlines, the move to curb stock awards may ultimately be more significant.

Not only does it reverse what had been an unusually broad employee stock ownership program, Amazon's decision underscores how lower-paid employees across corporate America have been locked out of profit-sharing and stock grants.

"What's happened is that shareholders' interests have squeezed out other stakeholders," said Arthur C. Martinez, who ran Sears during the 1990s and was credited with a turnaround. "The mantra is shareholders above all else."

Decades ago, he said, "the people who produced or sold the product were more central than the people in the corporate suite. There was a different mind-set and it's linked to the larger issue of income inequality."

Not only was Sears's program generous, it was also remarkably egalitarian. Contributions were based on years of service, not rank, and the longest-serving workers received nearly $3 for every dollar they contributed. The company phased out the profit-sharing plan beginning in the 1970s. This month, after years of lackluster attempts at revival, the retailer filed for bankruptcy protection.

Sears was hardly alone in corporate America, said Prof. Joseph R. Blasi, who directs Rutgers's Institute for the Study of Employee Ownership and Profit Sharing.

Companies like Procter & Gamble, S.C. Johnson, Hallmark Cards and U.S. Steel all embraced profit-sharing and were part of a corporate movement to encourage the practice, he said.

Among some leading executives in the early to mid-20th century, Professor Blasi said, “there was a notion that wages were not enough and workers had a right to share in the fruits of their labor.”

In the executive suite, however, profit-sharing still flourishes. While 68 percent of workers who earn more than $75,000 benefit from it, only 20 percent of workers earning less than $30,000 do, according to Professor Blasi. The decline of profit-sharing for the latter group has accelerated in recent years, with the median annual grant falling to $300 in 2014 from $921 in 2002.

There are Amazon employees who hold a lot of stock. Four out of the top five executives earned less than $175,000 each in annual salary in the last three years, but got tens of millions of dollars in stock.

By present-day standards, Amazon is relatively generous. In addition to 401(k)’s, full-time employees receive medical insurance and a week of paid vacation their first year.

Fifty years ago, Sears provided all of that plus a much larger annual retirement contribution. While the typical Amazon employee receives $680 from the company in a 401(k), the average Sears worker got the present-day equivalent of $2,744. Dividends on accumulated stock could add thousands annually.

The Sears approach was not without flaws. By putting much of its assets into company stock, it made workers even more exposed to their employer’s fate. It also favored men over women, who lost out when they took time off or left earlier than male colleagues, according to Sanford Jacoby, a professor of management and public policy at University of California, Los Angeles.

Still, it was very popular with employees. “People were retiring with nice chunks of change,” Professor Jacoby said. “People loved this fund and Sears was a wildly successful company.”

If Amazon’s 575,000 total employees owned the same proportion of their employer’s stock as the Sears workers did in the 1950s, they would each own shares worth $381,000.

Until this month, Amazon had been awarding two shares a year to warehouse employees, worth about $3,500 at the current price. The loss of those grants will prevent employees from directly partaking in one of the greatest examples of wealth creation.

To make up for the lost stock grants, Amazon has provided raises of at least $1.25 an hour to employees who had been earning over $15, plus cash bonuses at five, 10, 15 and 20 years of employment. Employees can put 401(k) contributions into Amazon shares.

Several employees interviewed, who insisted on anonymity because they were not authorized to speak publicly, expressed disappointment. Amazon should have saved the dollar and kept giving workers stock, said one warehouse employee in Baltimore.

Amazon insisted workers were not losing out. “The significant increase in hourly cash wages effective Nov. 1 more than compensates for the phaseout of incentive pay and future stock grants,” said a company spokeswoman, Ashley Robinson.

But that approach could make workers feel less connected to Amazon’s success, said Jeffrey D. Shulman, a professor of marketing at the University of Washington. “Going forward, it almost becomes a zero-sum game,” he said. “Now when the company makes a decision, Amazon either puts money into the pockets of shareholders or employees.”

The calculus was different at Sears, said Dan Fapp, a former communications executive who worked there from 1963 to 1999. “If the company did well and the stock went up, your account was worth more,” he said.

“It was not unusual for people to have $250,000 to $350,000 when they retired in the 1960s and early 1970s,” Mr. Fapp said. That’s worth well over $1 million today after adjusting for inflation.

At stores, there were also opportunities for salespeople to increase their base salary through commissions. So-called Big Ticket Men, who sold more expensive goods, earned the equivalent of nearly $50,000 a year.

Stanley Hreneczko, 91, started working at the Sears in Troy, Mich., in 1965. He was a salesman in the appliances department — selling stoves and refrigerators. Thanks to his generous pay and the corporate savings plan, Mr. Hreneczko bought a home in cash and took summer vacations to Arizona and Florida.

“It was like working in heaven,” he said.

Even junior employees were well taken care of.

“Most of these people retired with a good pension,” said Jon White, who worked at Sears for 38 years, most recently as a manager in a store in Lithonia, Ga., before retiring in 2008. “Most of them are comfortable for the most part — cashiers, clerks, replenishers, all kinds of workers.”

Even after Sears scaled back its profit-sharing plan, workers benefited from a pension plan that held a diverse portfolio of stocks and bonds and provided fixed payments based on their salaries and tenure at the company. With Sears in bankruptcy, the federal government is expected to guarantee some or most of those pension payments.

Unlike Sears, Amazon is growing rapidly and the company says it is working harder to increase opportunities for promotion from the warehouse floor into leadership positions.

But its warehouses are staffed primarily by legions of lower-paid hourly employees. Of more than 2,000 workers at its fulfillment center in Carteret, N.J., all but 230 earn less than $17 an hour, or about $35,000 a year. During a recent tour there, one worker, Julia Teran, said she had received six shares during her three years at the company.

“I keep it for my retirement,” Ms. Teran, 58, said of her stock, which is worth more than $10,000. How does she feel about the end of stock grants? “Things change,” she said with a half-smile.

* Why Some Amazon Workers Are Fuming About Their Raise

* Sears, the Original Everything Store, Files for Bankruptcy

* At Walmart Academy, Training Better Managers. But With a Better Future?

* Public Servants Are Losing Their Foothold in the Middle Class

Amazon gave Julia Teran six shares of stock, now worth more than $10,000. But the company will no longer give stock to most warehouse employees. | Demetrius Freeman for The New York Times | During its heyday, Sears offered workers generous stock grants, as shown in this 1957 statement. Sales employees at the retailer could retire with nest eggs that would translate today to well over $1 million. | Courtesy of Joseph R. Blasi | Company contributions to the Sears profit-sharing plan were based on years of service, not position in the corporate hierarchy. | Courtesy of Joseph R. Blasi | Amazon’s warehouse in Carteret. Until recently Amazon gave warehouse workers two shares a year, worth about $3,500 at the current **stock price**. | Demetrius Freeman for The New York Times | Jon White, who worked at Sears for 38 years before retiring in 2008, said the retailer offered generous pensions that allowed workers to lead comfortable lives after they left the company. | Audra Melton for The New York Times

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THE WALL STREET JOURNAL.

Markets
Copper Prices Pressured by Weaker Oil, China Concerns; Gold recently rose 0.2%

By Ira Iosebashvili
229 words
10 October 2018
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The Wall Street Journal Online
WSJO
English

Copper prices fell Wednesday, pressured by a weaker **oil price** and investor concerns over China, the world's largest consumer of the metal.

Copper for December delivery fell 0.9% to $2.7805 a pound on the Comex division of the New York Mercantile Exchange.

U.S. **oil prices** were recently down 2% at $73.49 a barrel. Swings in crude can influence the price of copper, as many investors trade the two commodities as part of a single basket, with a greater share devoted to oil.

Investors were also worried about whether Chinese authorities will be able to support the country's slowing economy in the face of an intensifying trade battle with the U.S. China accounts for some 45% of global copper demand.

Chinese factory output slowed in September amid a sharp drop in export orders, one gauge of the country's manufacturing sector showed last month, offering more evidence that the trade showdown with the U.S. is bruising the world's second-largest economy. Copper is a key component in manufacturing and construction, making it sensitive to economic fluctuations.

In precious metals, gold for December delivery was up 0.2% at $1,193.40 a troy ounce.

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THE WALL STREET JOURNAL.
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EXCHANGE --- Markets & Finance: OPEC Struggles Push Oil Higher

By Summer Said and Benoit Faucon
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6 October 2018
The Wall Street Journal
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English

Sharp **oil-price** movements above $80 a barrel have become the norm, making a break above $100 before the end of the year a real possibility.

A big reason: OPEC has little visibility into how much oil it can pump to make up for production shortfalls in politically troubled countries including Iran, say analysts and officials in the group.

Many Gulf-region oil producers are already nearing production records. "If there is another disruption in a producer at risk or a rise in Middle East tensions, we are staring down $100" a barrel, said Helima Croft, chief commodities strategist at RBC.

Brent crude, the global benchmark, has jumped nearly 10% in the past month. But it has been a rocky climb: Brent fell sharply on Thursday amid a broad market retrenchment sparked by a selloff of U.S. Treasurys. Late Friday, oil was trading about 0.5% lower at $84.16 a barrel.

Officials from the Organization of the Petroleum Exporting Countries now face two uncertainties: First, estimates vary widely regarding how much production could be disrupted in Libya, Nigeria, Venezuela, Iraq and Iran, the last of which falls under a U.S. ban on oil sales in November. And second, many officials question OPEC's ability to pump enough relief into the market at short notice to replace potential production outages.

"There is a general trend across the Gulf countries," said a senior Persian Gulf oil official. "On paper you have the capacity, but in reality it is too difficult to bring it online fast or test your full capacity."

OPEC pumped just under 32 million barrels a day in April, before President Trump reinstated sanctions on Iranian oil. In one scenario observers envision, Iran would lose 1 million barrels a day of exports.

But if Tehran discontinues all oil exports of 2.7 million barrels a day -- and should Libya's production decline again by 600,000 barrels a day, as it did in June -- other OPEC nations would need to increase output by 3.3 million barrels a day, or 10% of the cartel's output.

Mr. Trump has pressured Saudi Arabia to open the spigots wider before the Iran sanctions take effect on Nov. 5 and the U.S. midterm elections are held the following day.

Saudi Arabia in October is pumping 300,000 more barrels a day than in August and intends to increase output slightly in November, Saudi energy minister Khalid Al-Falih said at a Moscow energy conference this week, adding that the kingdom can boost production by another 1.3 million barrels a day. There is "nothing that is going to hold us back," he said.

Altogether, Iran, Libya, Nigeria and other countries could experience output variations of millions of barrels a day, according to Wall Street Journal estimates based on data from OPEC, the International Energy Agency, U.S. Energy Information Administration and independent analysts.

Uncertainty hasn't been this high since the beginning of the decade, when a combination of previous sanctions on Iran and revolutions in Arab countries pushed **oil prices** to $100.

The coming Iran sanctions haven't followed a predictable playbook. During the Obama administration's international sanctions on Iran oil sales in 2012, the European Union enforced a full embargo on Tehran's crude while Asian nations agreed to reductions of about 20%.

By contrast, Mr. Trump's sanctions are unilateral. China and Turkey are resisting the ban. Worsening the uncertainty is the irregularity of supplies. Amid tightening conditions, buyers have been scrambling for cargoes in Libya and Nigeria, according to officials in both countries.

Libya's production has risen by about 1 million barrels a day since June but its oil chief, Mustafa Sanallah, survived a terrorist attack in September that raised fresh concerns.

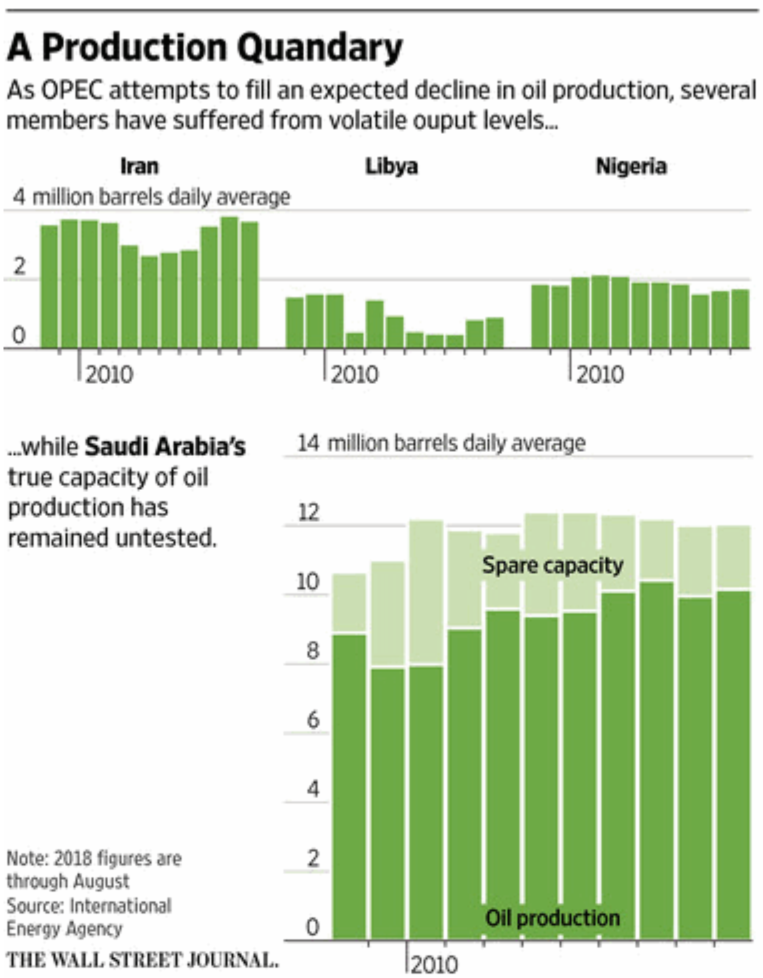
In Nigeria, sabotage frequently interrupts production, a risk that increases as next year's presidential elections draw closer.

Another enigma is how much OPEC -- often considered the oil market's central bank -- holds in its vaults. The International Energy Agency says OPEC's spare capacity stood at 2.69 million barrels a day in August, based on communications from Gulf nations.

Conversations with officials in the region suggest the cushion could be lower by over a million barrels a day.

At a September OPEC gathering in Algiers, Oman oil minister Mohammed Al Rumhy -- a non-OPEC member of the producers' coalition -- said the group had been unable to bring its output to its agreed-upon level.

"That tells me we cannot produce more," he said.



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The New York Times

Breakingviews
Business Day; DealBook
Is Howard Schultz an Asset or a Liability for Starbucks?

By Rob Cox
455 words
10 October 2018
09:01 AM
NYTimes.com Feed
NYTFEED
English

Get the DealBook newsletter to make sense of major business and policy headlines — and the power-brokers who shape them.__________

A presidential run by Howard Schultz may be a double-edged sword for Starbucks investors.

The retired founder of the $78 billion coffee chain is widely expected to challenge Donald Trump for the presidency in 2020. Die-hard Starbucks customers might like to see the man who is responsible for their morning caffeine enter the political fray. But the company's domestic growth will come from Republican states. In the end, Mr. Schultz for president may just be a flat zero for the stock.

Credit Bill Ackman for putting the issue front and center for investors. The founder of the Pershing Square hedge fund revealed on Tuesday that his firm has bought 15 million shares, worth some $870 million at current prices, with a view to a "doppio" — or double, in Italian. The stock has been unloved by the market, Mr. Ackman said, because Wall Street is overly obsessed with same-store sales. As a result, the shares fetch around $58 a piece today, about the same as three years ago.

Mr. Ackman's **bullish** presentation at a conference held by the **financial markets** publication Grant's Interest Rate Observer was underpinned by a conviction that Kevin Johnson, the chief executive of Starbucks, has taken the right steps to increase sales at existing United States outlets, including combating a slump in sales of its famous Frappuccino drinks. At the same time, Mr. Ackman showed a map of the United States where, despite having 14,000 outlets, the company has little penetration in the Midwest and South. Most of those areas are Republican.

The risk is that by taking on Mr. Trump and the G.O.P. in states where Starbucks has little business, Mr. Schultz might become a liability to the company's expansion plans. America is already deeply divided over far lesser things than the taste — and provider — of their coffee. A liberal campaign by Mr. Schultz may be just what rival Dunkin' needs to take its brand beyond New England.

But there's a benefit, too, in Mr. Schultz entering politics. As Mr. Ackman pointed out, the idea that the Starbucks founder might occupy the Oval Office could offer the company protection from retaliation by Chinese authorities: "The last thing the Chinese would do is go after the next American president's company."

Blending those two effects suggests that, for Mr. Ackman and other investors, Mr. Schultz's effect on the stock may be a wash.

Howard Schultz's presidential aspirations should give Starbuck's shareholders pause. | Andrew Kelly/Reuters

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The New York Times

Business Day; DealBook
Are Investors Anxious? Just Look at BlackRock's Results

By Landon Thomas Jr.
315 words
16 October 2018
03:10 PM
NYTimes.com Feed
NYTFEED
English

Get the DealBook newsletter to make sense of major business and policy headlines — and the power-brokers who shape them.__________

BlackRock, the world's largest asset manager, reported a 27 percent increase in its earnings for the third quarter compared with a year ago. But the strong performance masked an increase in investor outflows, driven by growing fears of a **stock market** correction.

During the third quarter, retail and institutional investors yanked $24 billion from BlackRock's index funds, an indication that investor anxiety has been building for several months now — not just over the past week.

“The biggest concern I see is that we may be at peak earnings,” said Laurence D. Fink, BlackRock's chief executive, referring to a worry that the growth in corporate earnings, after the Trump administration tax cuts, will begin to taper off. “We definitely see anxiety.”

Mr. Fink said he was particularly worried about the recent increase in the United States budget deficit, and the fact that countries financing this gap — China, for example — were involved in a trade war with the United States.

Despite the $24 billion in outflows, BlackRock brought in a net $11 billion for the quarter as it took in $33 billion in new money via its exchange-traded funds. As of the end of September, the firm had $6.4 trillion in assets, a record.

Still, the institutional outflows and worries that BlackRock, one of the largest passive fund companies, will suffer as fees for passive funds continue to plummet have had an effect on its **stock price**.

BlackRock's shares are down about 5 percent Tuesday and are off 19 percent for the year.

Laurence D. Fink, BlackRock's chief executive, is concerned that corporate earnings have reached a peak. | Mike Cohen for The New York Times

Document NYTFEED020181016eeag007hh

THE WALL STREET JOURNAL.

Markets
Oil Falls Amid Reports U.S. Could Ease Restrictions on Iranian Crude Sales; Brent crude and West Texas Intermediate futures were both down

By Christopher Alessi
523 words
8 October 2018
03:26 PM
The Wall Street Journal Online
WSJO
English

Oil prices started the week under pressure amid reports the U.S. could grant waivers to some buyers of Iranian crude when oil sanctions on the Islamic Republic go into effect next month.

Light, sweet crude for November delivery fell 0.1% to $74.29 a barrel on the New York Mercantile Exchange, paring losses from earlier in the trading session. Brent, the global benchmark, fell 0.3% to $83.91.

"The U.S. appears to be abandoning its tough stance on buyers of Iranian oil," according to analysts at Commerzbank. It appears that consumer countries are to be given more time, after all, to replace their oil shipments from Iran so long as they at least reduce them significantly," the analysts wrote in a daily note Monday.

In an apparent reversal Friday, a U.S. government official reportedly said the U.S. would consider exemptions for buyers of Iranian crude, such as India, that have been at least reducing imports, according to Reuters.

President Trump in May pulled the U.S. out a 2015 international agreement to curb Iran's nuclear program, setting the stage for the reimposition of economic sanctions. Measures specifically targeting the country's oil sector are set to take effect on Nov 4.

Analysts have predicted about one million barrels a day of Iran's roughly 2.5 million barrels in daily crude exports could be at risk.

A faster-than-expected decline in Iranian crude exports over the past few months, as well as market concerns about whether the Organization of the Petroleum Exporting Countries has the capacity to fill the shortfall, have recently sent crude prices to near four-year highs, with Brent temporarily breaching the $85-a-barrel threshold. Prices have climbed roughly 10% since the start of September.

But news that the U.S. could be taking a softer line on preventing shipments of Iranian crude is "allaying some concerns over market tightening in the immediate term," according to Warren Patterson, a commodities strategist at ING Bank.

The oil complex is also being weighed down following reports last week that Saudi Arabia—the de facto head of OPEC—and Russia could further ramp up production next month despite a decision by the cartel and its production allies at the end of last month to stick to gradual increases first agreed to at the start of the summer.

The selloff is "understandable, as perceived extra supply provides a good excuse to take profit after a strong rally," said Tamas Varga, an analyst at brokerage PVM Oil Associates Ltd. But, he added, the "medium-term **bearish** impact is questionable for two reasons—firstly because of the generally tight fourth quarter of the year and secondly because of the thin global spare capacity.

Gasoline futures rose 0.4% to $2.0937 a gallon, and diesel futures gained 0.1% to $2.3942 a gallon.

Stephanie Yang contributed to this article.

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International New York Times

us

What Could Hold Back a Democratic Wave? Economy, Confidence, Independence

By PATRICIA COHEN and SYDNEY EMBER
1,911 words
25 October 2018
International New York Times
INHT
English

YARDLEY, Pa. — Sitting at her pumpkin-decorated dining room table, Kristen Donnelly ticked off her top political concerns: pay equity for women, gun control and anti-immigrant sentiment. (Her husband of five years has a green card.)

As for the president? "I would never vote for Trump," Ms. Donnelly declared.

An independent, and co-chair of the local chamber's Women in Business committee, Ms. Donnelly, 35, is the kind of educated, affluent suburban woman whom Democrats are counting on to fuel a "blue wave" in November's elections and sweep away the Republican majority in the House of Representatives.

Except that Ms. Donnelly plans to vote for Brian Fitzpatrick, the Republican congressman who represents Pennsylvania's closely contested first district, north of Philadelphia.

"He's definitely on the moderate side," Ms. Donnelly said, praising his support for the nuclear family, the police department and "the idea that America as a nation is good, and that we can continue to protect the American experiment as it stands."

With two weeks until the election, Republican leaders and President Trump are increasingly **bullish** about Republican voters and moderate independents rallying behind the party's candidates rather than taking a chance on a Democratic challenger or a Democratic-controlled House. A healthy economy, Justice Brett M. Kavanaugh's confirmation fight and, most recently, Mr. Trump's ominous warnings and baseless charges about a migrant caravan threatening the border have energized supporters at rallies and candidate forums.

While Democrats remain favored to pick up House seats in the Nov. 6 midterms, which historically produce losses for a president's party, many of the 70 most competitive House races are now exceptionally close. Polls show a majority of registered voters lean Democratic, and Mr. Trump's favorability ratings dragged along the low 40s before rising in recent weeks. Democratic turnout could continue to break records — yet it could also be concentrated in predictable Democratic strongholds rather than crucial swing districts.

Lost in all the talk about a Democratic blue wave is a set of sober reality checks — from the quantifiable to the emotional — that may help Republicans reduce their losses, and possibly even retain their 23-seat majority.

In many neighborhoods with key House races, daily life is pretty good. Unemployment is at a five-decade low. Confidence is spilling over among consumers and businesses. The economy is on track to grow at its fastest pace in years.

Those developments benefit people whom Democrats have targeted, too: Women in upscale, right-of-center, white suburbs where Hillary Clinton edged out a victory; Trump voters in struggling rural and industrial areas with deep Democratic roots; and minorities in racially diverse metro areas.

While the president looms large over this election, drawing out both opponents and supporters, local issues like school funding or mining are in the forefront of some races. In others, Republican incumbents' blend of personality and policy positions has won over independents and moderates.

In recent months, The New York Times interviewed dozens of voters in battleground House districts, and spoke at length with three of them about the nuances of the races in their areas, how politics affected their lives, and their views and concerns about the midterms. These voters have a history of crossing party lines in their districts —

one in Pennsylvania, one in Minnesota and one in California — and discussed what would ultimately persuade them to vote Democrat or Republican.

Ms. Donnelly in Bucks County, for instance, noted Mr. Fitzpatrick's independent streak. "I have had personal interactions where I've told him he's dead wrong," she said, "and he's been very respectful."

His reputation as a moderate and his constituent record have helped Mr. Fitzpatrick pick up endorsements from the State Education Association, the local police and firefighters union and the state's AFL-CIO. "If you're for us, we're for you," said Rick Bloomingdale, the organization's president.

Poll results have been mixed. A recent New York Times/Siena College poll showed Scott Wallace, the Democratic challenger, leading. A recent survey by the independent Monmouth University Polling Institute, put Mr. Fitzpatrick in front by 4 percentage points among likely voters.

"When you look at the underlying political environment in this district, you would expect the Democrat to be ahead," Patrick Murray, the institute's director, said. "But Fitzpatrick has been able to overcome this with a solid reputation among his constituents."

Ms. Donnelly said she is willing to give Mr. Fitzpatrick the benefit of the doubt because "he has earned my trust."

In Minnesota, voters don't publicly declare any party affiliation, but for many years preferences were easy to discern in the state's northeastern Eighth Congressional District, where the economy is powered by the mining, agricultural, timber, tourist and shipping industries. For 67 of the past 69 years, a candidate from the Minnesota Democratic-Farmer-Labor Party has represented this predominantly white, union stronghold in Congress.

So when the Republican candidate Pete Stauber first asked Larry Cuffe, the mayor of the small town of Virginia, for his support at the town's Land of Loon festival last summer, Mr. Cuffe turned him down. "I was already committed to Rick Nolan," the Democratic incumbent, he said.

Then in February, Mr. Nolan dropped out of the race. Within hours, Mr. Cuffe, 65, said he was on the phone, telling Mr. Stauber: "I'm behind you 100 percent." Three other mayors in nearby towns also threw Mr. Stauber their support.

For Mr. Cuffe, a former sheriff and U.P.S. delivery man, the switch wasn't hard, and not just because he knew Mr. Stauber as a police lieutenant in Duluth, or remembered him playing hockey with a Detroit Red Wings farm team.

Like many of his friends and neighbors, Mr. Cuffe voted for Barack Obama and Bill Clinton, but had been drifting away from the Democratic Party.

Trade deals that Democratic administrations had championed brought in cheap foreign steel that led to the closing of a local taconite plant and strings of shuttered storefronts. Environmentalists in the party battled the timber and mining concerns that provide many of the struggling region's best-paid jobs. "It's our way of life," Mr. Cuffe said.

He and others throughout the Iron Range were won over in 2016 by Mr. Trump's outspoken hostility to existing trade deals, support of mining and America First appeals. They helped him become the first Republican presidential candidate since Herbert Hoover to win the district. Mr. Nolan, elected by a wide margin in 2012, hung onto his seat by just 2,010 votes.

Mr. Trump and Vice President Mike Pence have visited several times recently, to give Mr. Stauber a boost and show their 16-point margin victory there was not a black swan event. The president has also helped shore up support by deciding to end a comprehensive federal environmental review of mining in the region.

At a labor picnic to support Democratic candidates, Mr. Cuffe wore a blue "Go PolyMet" cap, the name of a long-disputed copper-nickel mine that would be the first of its kind in the state. The $650 million project on the edge of the Boundary Waters Canoe Area Wilderness promises to bring jobs, but also environmental risks.

Both Mr. Stauber and Joe Radinovich, the Democrat who locked up the nomination in August, support PolyMet.

Mr. Cuffe said that if he had not already promised Mr. Stauber his support, "I would have considered voting for Radinovich."

Still, he noted: "Mining is the big issue, and I don't see that in the Democratic platform."

Local issues play less of a role in Orange County, Calif., where candidates are courting minority voters.

Once a synonym for conservatism, this wealthy overwhelmingly white region is now one-fifth Asian and one-third Latino. The shift has given Democrats hope of winning one or more of the four congressional seats held by Republicans in the county.

Sal Rasheed, who lives with his wife and three children in the 45th Congressional District, is part of that demographic transformation. Mr. Rasheed, a 46-year-old immigrant from South Asia, has been in Southern California for 30 years, 15 of them in Orange County.

Although blacks, Latinos, Asians and other minorities have long been a cornerstone of the Democratic base, they have traditionally low turnout rates. This season, however, party organizers are hoping that Mr. Trump's derogatory comments about some immigrants and African-Americans will spur more people than usual to go to the polls.

Mr. Rasheed is like many voters — white and nonwhite — whose interest in a purring economy and tax cuts overshadows other concerns. There is "more money coming to my account," he said. A manager at an insurance company, Mr. Rasheed added that his firm is hiring more workers and recently increased its contribution to retirement accounts.

Formerly a Democrat, Mr. Rasheed said he is now registered as No Party Preference, California's equivalent of an independent. He voted for Mr. Trump. "People are ignoring a lot of stuff that comes from Trump's mouth," he said. "They are feeling good about everything else."

In 2016, Mimi Walters, the Republican incumbent, won by more than 17 percentage points. Ms. Clinton carried the district by more than five.

Now Mr. Rasheed is planning to vote for Ms. Walters, who was one of a dozen Republican representatives in California to vote for the tax bill. Her opponent, Katie Porter, maintains the tax law hurts middle-class families.

Other Republicans who represent sizable minority constituents — like Will Hurd in Texas's predominantly Hispanic 23rd district — have underscored their independence from the president on immigration while trumpeting the "supercharged economy."

The distinction is not that important to Mr. Rasheed. He is not particularly disturbed by the White House's efforts to keep out people from Muslim countries and Latin America.

"As a legal immigrant who stood in line," Mr. Rasheed said, "it sort of breaks my heart that there are so many immigrants here who are jumping the line."

As Ms. Donnelly, who has a Ph.D. in sociology and an affection for the Hallmark channel, likes to say, everyone is more complicated than they're given credit for. She taps her cherry-red fingernails on the table. When she slips off a shoe, Cerulean blue toenails peek out.

Before making a final decision, she plans to sit down with the latest voter guide and "go through it with a fine-tooth comb."

"I own a uterus and, therefore, I must vote," Ms. Donnelly quipped, "but I refuse to be a one-party voter."

Follow Patricia Cohen and Sydney Ember on Twitter: @PatcohenNYT and @melbournecoal

PHOTOS: In some tight House races the local economy is the most pressing concern. In Virginia, Minn., top, where Larry Cuffe, above, is mayor, some blame trade deals championed by Democratic administrations, and environmental regulations, for plant closings and shuttered storefronts. Kristen Donnelly, left, an independent in Yardley, Pa., favors the incumbent Republican in the local House race. (PHOTOGRAPHS BY JENN ACKERMAN FOR THE NEW YORK TIMES; COREY PERRINE FOR THE NEW YORK TIMES) (A21)

* As Suburban Women Turn to Democrats, Many Suburban Men Stand With Trump

* In a Divided Era, One Thing Seems to Unite: Political Anger

* Far From Washington, Americans' Thoughts Are, Well, Far From Washington

Document INHT000020181024eeap00006

The New York Times

Opinion
Searching for Water Across Borders

By Jeff Nesbit
1,048 words
18 October 2018
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As climate change begins to make water scarcity a critical security issue globally, wealthier countries have begun to look outside their borders to meet their water needs. In moves that have important trade and geopolitical implications, Saudi Arabia and China have come to America to help solve their water problems and feed their people.

In 2014, Saudi Arabia's largest dairy company, Almarai, bought about 15 square miles of farmland in Arizona for $47.5 million to grow alfalfa to feed its dairy cows back home. Huge amounts of water are required to cultivate the crop — nearly four times as much as wheat — which is why the Saudis had come to Arizona.

China, too, had come to the United States for food that requires vast amounts of fresh water to produce. Facing water scarcity issues in and around the Gobi Desert, China has been importing more than half of the world's soybeans, another water-intensive crop, from farmers in the United States and South America. And not just soybeans. In 2013, a Chinese company bought the world's largest pork producer, Smithfield Foods. Until recently, the meat from a quarter of all the hogs raised in the United States — a process that also consumes enormous amounts of water to grow the feed for these animals — ended up in China.

But with the new trade tariffs imposed by the Trump administration, China is turning to other countries for soybeans, and the pork Smithfield is producing in the United States has become even more expensive for China to import.

National security experts have long worried about the implications of water scarcity and food shortages around the globe. In 2014, President Obama's director of national intelligence, James Clapper, warned that those two concerns were among the central elements of the "most diverse array of threats and challenges as I've seen in my 50-plus years in the intell business." He predicted that the intelligence community increasingly would "be confronting" issues involving food, water, energy and disease.

In Syria and Yemen, for instance, some have argued that water scarcity helped push both countries into the turmoil that has engulfed them. The collapse of those countries most likely raised concerns in Saudi Arabia and reinforced its efforts to meet the kingdom's water and food needs elsewhere.

The country, rich from its vast oil deposits, has one of the world's smallest water reserves. Saudi Arabia doesn't have a single lake or river. For thousands of years, the Saudis have depended on wells or the occasional oasis. Infrequent rainfalls replenish shallow aquifers 150 feet or so underground. Wells dug ten times as deep as those shallow aquifers tap into reserves not renewed by rainfall. Once used up, they're gone.

Fifteen years ago, those wells and aquifers started running dry after the Saudis had tapped them to excess to irrigate wheat fields in desert. Today, that water is essentially gone. A 2011 research project in historic Tayma, for instance, found that "most wells [were] exsiccated," meaning that the oasis that had provided water for over two thousand years had been drained in a matter of decades.

With water already a precious commodity in the Middle East, which, along with North Africa, holds less than 1 percent of the world's fresh water, the Saudis had an intractable problem. At first, they tried to conserve the rapidly depleting reserves in their shallow aquifers. They encouraged water-saving taps and shower heads to cut consumption by half, got smarter about water reclamation and irrigation practices, and financed costly deep underground irrigation systems. They stopped growing wheat.

But it wasn't enough. So they turned to the United States and other places rich in water.

A classified United States diplomatic cable disclosed by WikiLeaks in 2010 said that the country's ruler, King Abdullah, told Saudi food companies to find and purchase foreign land with access to fresh water. This was a way "to prevent food insecurity from creating political instability," according to the cable.

It was against this backdrop that Almarai purchased the Arizona farmland. They had concluded it was cheaper to use Arizona land and water to grow hay, then ship it home, than it was to bring water in to irrigate Saudi farmland.

But the purchase has not been without controversy. To grow its alfalfa, Almarai also bought land in California's Palo Verde Valley and is now drawing water from the Colorado River, which also provides drinking water for cities like Los Angeles and Las Vegas. The river's reservoirs recently have experienced near-record lows, creating a **volatile** local political situation. Almarai, which also runs farms in other countries, is now competing with American cities for water in a region of the country that is already struggling to provide enough water to the people who live there, though the company has also been praised for its water conservation efforts there.

China, in its pursuit of water-intensive crops, has proposed building a 3,000-mile railroad through the Amazon to make it easier to import soybeans (the plan has been delayed largely because of objections from environmental activists). China used to grow its own soybeans, but water has become more scarce there, and like the alfalfa grown by the Saudis in Arizona, soybeans require a lot of water — 500 tons to produce just one ton of soybeans.

And water is becoming more precious in some regions of China. Water tables are dropping precipitously in northern China, up to 10 feet a year in some areas there. Drifting sands are covering hundreds of miles of potential cropland south of the Gobi Desert in northern China. The country's plans to divert water from rivers in southern China are running into regional politics, while rivers and streams in the north are still quite costly to clean up. And climate change sits atop all of this, making things potentially much worse.

This is what an imminent climate threat in the world looks like. It may not be affecting the United States as profoundly as it is countries like China and Saudi Arabia. But it is only a question of time — perhaps a very short time — before these threats arrive in America.

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Risk Returning to Leveraged Buyouts

By Miriam Gottfried and Ryan Tracy
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25 October 2018
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English

Four years after a government crackdown on the leveraged-buyout market, risky loans are making a comeback.

Nearly 13% of LBOs in the first nine months of 2018 were financed with debt equating to at least seven times the target company's earnings before interest, taxes, depreciation and amortization, or Ebitda, according to S&P Global Market Intelligence's LCD. That is more than double the level in all of last year and is on track to be the highest since 2014, when 13.5% of deals crossed that threshold and regulators began to crack down on leverage exceeding six times Ebitda.

In another sign of growing risk, the amount of cash private-equity firms are putting into buyouts is falling. Their average equity contribution was 39.6% in the first nine months, also the lowest since 2014.

In a typical LBO, a buyout firm acquires a company mainly with borrowed money, with a goal of selling it later at a profit. The jump in deals that carry extra amounts of debt comes amid a surging economy and generally buoyant **financial markets**, which have fueled risk appetite, and as Washington takes a less aggressive approach to regulating Wall Street.

It is a big change from just a few years ago. In 2014, regulators brought the hammer down on banks stepping outside federal guidelines for underwriting leveraged loans -- shorthand for borrowings by highly indebted companies. Those guidelines had been put in place in 2013 to curb excessive risk taking in the wake of the financial crisis.

Among other things, they discouraged banks from participating in takeovers in which debt is above six times Ebitda, a common proxy for cash flow. When banks didn't follow regulatory guidelines, they sometimes got slapped with warnings, as Credit Suisse Group AG did in 2014.

The Federal Reserve and the Office of the Comptroller of the Currency, the two key agencies overseeing bank lending, had struck a more sanguine tone since President Trump was elected and began to dismantle a number of Obama-era regulations -- though that may be changing.

"That market has evolved really significantly since before the crisis," Federal Reserve Chairman Jerome Powell said at a press conference last month. "The banks take much less risk than they used to," he said, adding that they hold far fewer loans on their balance sheets than they once did. His counterpart, Comptroller Joseph Otting, said last week that nonbank lenders are taking more risks. "Banks have really kind of stayed on the rails," Mr. Otting said.

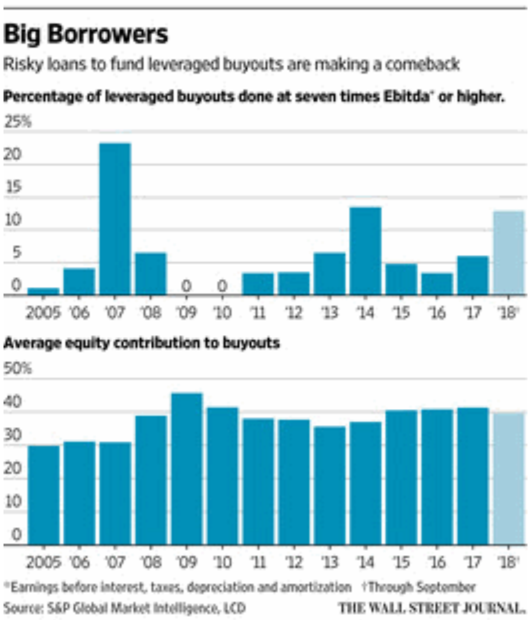
But on Wednesday, after The Wall Street Journal published a story on the increase in highly leveraged deals, the Fed signaled growing concern, taking the unusual step of releasing remarks by a staffer to a private industry conference.

"There may be material loosening of terms and weaknesses in risk management of the leveraged-loan market," Todd Vermilyea, a senior associate director in the Fed's regulatory division, said to the Loan Syndications and Trading Association in New York. "Some institutions could be taking on risk without the appropriate mitigating controls." He said the Fed is taking a closer look at risk-management practices.

Some industry officials point to a ruling last year by a government auditor that called the legitimacy of the lending guidelines into question, and said the Fed and the comptroller's office didn't follow the proper legal process for establishing them. The auditor's ruling "makes it much harder" for regulators to question banks' lending practices, former Comptroller Thomas Curry said in an interview.

Bankers say regulators are now less focused on a borrower's precise leverage and are more concerned with the general health of the company and banks' overall "safety and soundness." The bankers and buyout-firm officials add that many of the deals with higher borrowing levels involve strong companies in more stable sectors such as health care and software. Meanwhile, the appetite for debt among yield-starved investors is ravenous, enabling banks to quickly parcel out the loans to others who then assume the risk.

Whatever the cause, banks have been feeling freer to do deals they might have shied away from just a year ago. KKR & Co.'s $5.6 billion buyout of Envision Healthcare Corp. is among the most highly indebted of the big buyouts this year, with borrowings of over seven times Ebitda. At least eight regulated banks helped finance the deal.



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THE WALL STREET JOURNAL.

World

Exports Keep China's Economy Warm, but Winter Is Coming; As China's overall growth rate slows, exports have been a driver—so far

By Chao Deng
1,083 words
19 October 2018
The Wall Street Journal Online
WSJO
English

GUANGZHOU, China—As China's economic growth weakens faster than expected and uncertainty from the trade fight with the U.S. casts a shadow over business, a surprising driver has been exports. But that may soon peter out.

American clients of Ningbo Frank Electric Co., a Chinese manufacturer of kettles and other household appliances, have been placing orders several months in advance, salesman John Zheng said. "It all looks so good at the moment," he said. "But it won't continue."

China released a gloomy report card Friday on its economy's performance, with the rate of economic growth sliding to 6.5% in the third quarter, the slowest pace since the global financial crisis. Just ahead of the release—and after Chinese stocks fell 3% Thursday, taking losses to nearly 25% since the start of the year—the country's top financial regulators all came out with comments to calm investors.

The rare joint effort was followed up by an interview published by the official Xinhua News Agency with China's economic czar, Vice Premier Liu He, who played down the impact of the trade conflict and suggested low stock prices represent a buying opportunity.

"It shows how concerned they are about the economic outlook and the bearishness across the market," said Zhou Hao, senior emerging-markets economist at Commerzbank.

For months, China's economy has been trending down, with a variety of measures including fixed assets, car sales and retail sales slackening. Meanwhile, firms have been gearing up for U.S. tariffs on Chinese products to hit their bottom lines. That doesn't appear to have happened yet, as U.S. firms have piled up purchases ahead of the tariffs. The usual burst in orders ahead of the American holiday season has also helped.

Chinese exports grew at an average monthly pace of 11.7% during the third quarter, buoying the economy's weak performance. "Thanks to frontloading, negative impact from the trade conflict with the U.S. is limited so far," said Grace Ng, an economist with J.P. Morgan.

But Washington has said it will raise tariff rates on some $200 billion worth of Chinese goods to 25% next year, from the current 10%, and is threatening to impose tariffs on an additional $257 billion of Chinese products. Analysts say it is only a matter of time before the rush of advance orders fizzles and clients begin canceling purchases all together.

Macquarie Capital Ltd. estimates that Chinese export growth will decelerate to between 5% and 10% in the coming months. J.P. Morgan's Ms. Ng predicts exports will start weakening in 2019, knocking overall economic growth to as low as 6.1% next year.

At the annual China Import and Export Fair in the southern city of Guangzhou this week, thousands of Chinese vendors showed off their wares, including electrical appliances, lighting, building materials and hardware. Prospective vendors flooded the exhibition halls of the Canton Fair, as it is known, suggesting health for global trade yet.

But many Chinese firms that rely on the U.S. market are worried about difficult days ahead. American clients of RainMin Illumination Ltd., a manufacturer of LED bulbs that appear in light installations on display at SeaWorld theme parks and festivals such as Burning Man and Coachella, were pushing back orders and emailing to discuss whether the firm will lower its prices.

"It's the biggest challenge since we set up 15 years ago, even bigger than the 2008 crisis," said Liu Xiaoyan, one of the firm's managers.

Mr. Liu eagerly exchanged business cards with prospective buyers from India, although once they left he lamented that their market isn't developed enough to demand the sort of huge installation projects the firm's LED bulbs serve. "It's impossible this time around."

At a booth selling wine refrigerators, Lu Tao worried that revenues of his family business could fall up to 40% this year. He said he is planning to start selling directly to U.S. consumers on Chinese e-commerce website Taobao, cutting out American distributors. The higher prices he could charge would make up for the tariff costs. "A fridge I sell for $300 now can go for $1000," Mr. Lu said.

Analysts expect Chinese leaders to move to prop up growth should exports, investment or consumption weaken too much. Keeping the economy at a steady and relatively fast pace is seen as crucial for the Communist Party to maintain social stability. Beijing has time and again stimulated the economy through fiscal and monetary measures, and in recent months has given **financial markets** more liquidity, while letting the Chinese yuan depreciate to assist Chinese exporters. Policy makers have also successfully urged local governments to issue more bonds, in the hope they will spend on projects again.

Chinese and American businesses are maneuvering to soften the blow of the trade fight. At the export fair, some Chinese vendors said they could make up for some reduction in U.S. orders by selling to other countries. Others boasted that their clients were already thinking about ways to reroute shipping via Taiwan, Mexico and other places not subject to higher U.S. tariffs. A common pitch: China remains No. 1 in the world at delivering well-made products at competitive prices.

Still, analysts say China's economy can't avoid the headwinds as the trade fight chips away at business confidence. They aren't optimistic that tensions between the two countries will ease, even as President Xi Jinping and President Trump prepare to meet at the end of November.

Sandi Kegebein had traveled to Guangzhou from Wisconsin in the hunt for Chinese products for her sourcing company, SC Global Sourcing Inc. Her company has already put in next spring's orders. "We are buying as much as we can," Ms. Kegebein said. Should higher tariffs kick in, she said, the company may switch to buying goods already sitting in American warehouses.

Lingling Wei and Grace Zhu contributed to this article.

Write to Chao Deng at Chao.Deng@wsj.com

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THE WALL STREET JOURNAL.

Markets
Gold Edges Higher as Stock Markets Calm; The haven metal is up 3.2% this month on equities turmoil

By David Hodari
365 words
25 October 2018
06:03 PM
The Wall Street Journal Online
WSJO
English

Gold prices inched higher on Thursday as stock markets stabilized. The haven metal has benefited from strong demand due to turbulence in global equities earlier this month.

Gold for December delivery rose 0.1% at $1,232.40 a troy ounce on the Comex division of the New York Mercantile Exchange. The metal is up 3.2% so far this month.

Meanwhile, copper for December delivery fell 0.1% to $2.7545 a pound in New York.

Gold prices fluctuated as an ugly trading session in Asian equities markets failed to spill over into European hours. Major U.S. stock indexes closed more than 1.5% higher after a tumultuous week.

"We are cautiously **bullish** on gold prices on the premise that current prices are oversold and reflect a significant short position in the speculative market, which we see as transitory," said Robin Bhar, head of metals research at Société Générale, in a Thursday note.

Growing nervousness about geopolitical strife and the prospect of slowing global growth have unsettled investors in recent weeks, with equities markets around the world sharply dropping.

That has been a boon for gold, which had been stagnant for some months before October. Investors had questioned the precious metal's reputation as a haven investment, but jitters across other asset classes have prompted rapid cuts to bets that prices would fall.

"There have been doubts whether gold is a safe haven, but the reaction to recent equities moves has confirmed that it is," said Carsten Menke, commodity analyst at Julius Baer. Cuts on negative bets "could continue if we have more jitters and physical buying from haven-seekers could be strong."

While equities markets have plunged in recent weeks, the U.S. dollar has held on to its gains so far this year. Gold and the dollar tend to move in opposite directions, but gold's recent increase has come despite the 5.1% increase in the greenback so far this year.

Stephanie Yang contributed to this article.

Write to David Hodari at David.Hodari@dowjones.com

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THE WALL STREET JOURNAL.
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Heard on the Street
Don't Bet on Fed Taking a Break

By Justin Lahart
484 words
18 October 2018
The Wall Street Journal
J
B12
English

[Financial Analysis and Commentary]

Many investors seem to think the Federal Reserve is going to pause its rate increases at the beginning of next year. It seems less and less likely that will happen.

Minutes from the central bank's rate-setting meeting last month, released Wednesday, showed that policy makers agreed that both the job market and the economy are strong. The minutes also indicated policy makers "generally anticipated that further gradual increases in the target range for the federal-funds rate would most likely be consistent with a sustained economic expansion." So more rate increases are coming.

A rate increase at the Fed's December meeting, which would stick to the central bank's once-a-quarter pattern, seems almost a foregone conclusion -- interest-rate futures put the chances at about 80%. But the chances of a second rate increase coming by the Fed's March meeting are only around 50%.

What could lead the Fed to pause? It is possible that tariffs and the continuing trade dispute between China and the U.S. really start to bite and the economy will weaken meaningfully as a result. Or perhaps Brexit will rattle **financial markets** and policy makers will be concerned enough about it to hold off on raising rates.

But such possibilities need to be weighed against others: The unemployment rate is just 3.7% and appears almost certain to go lower. By the start of next year the Fed may be weighing whether it should increase its pace of tightening rather than slow it down.

The minutes also should clear up any remaining confusion over why policy makers removed a phrase from their postmeeting statement describing the Fed's stance on rates as "accommodative."

While some investors interpreted that as meaning the Fed believed an end to tightening was in sight, the minutes show that officials reckoned it would be clear that wasn't the case since their projections show they expect rates to go significantly higher.

From an investor perspective, the removal of the "accommodative" phrase might be cause for concern. A big part of why it got taken out is a view at the Fed that it is hard to know precisely what the neutral interest rate, or the just-right rate, is for the economy. The general plan then is to just keep on raising rates gradually until the economy argues otherwise.

But the minutes also noted that the phrase was an aspect of the forward-guidance campaign that the Fed put in place as part of its efforts to prop up the economy -- a promise to keep its foot on the gas. Taking it away amounts to being a little less clear about where rates are headed. For investors, that amounts to a slightly riskier outlook.

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The New York Times

Opinion
Saudi Arabia Has No Leverage

By Ellen R. Wald
1,038 words
18 October 2018
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English

As the fallout continues over the disappearance of the Saudi journalist Jamal Khashoggi, the government in Riyadh is putting on a tough face. If there are sanctions over the alleged murder of Mr. Khashoggi, the Saudis want the world to know, they will fight back.

On Sunday, the Saudi government released a recalcitrant statement: "The Kingdom also affirms that if it receives any action, it will respond with greater action, and that the Kingdom's economy has an influential and vital role in the global economy and that the Kingdom's economy is affected only by the impact of the global economy."

These are empty threats. Saudi Arabia is not in a position to harm the United States. In fact, when it comes to relations between the United States and Saudi Arabia, Washington has all of the leverage. American policymakers shouldn't forget that.

One of Crown Prince Mohammed bin Salman's primary objectives is to diversify the Saudi economy and wean his country off its dependence on oil. Unemployment in Saudi Arabia is at more than 12 percent, and some 70 percent of employed Saudis work for the government. The Saudi labor ministry estimates that the economy needs to create 1.2 million jobs by 2022 to lower unemployment to a still dismal 9 percent.

But because the country lacks business experience and special expertise outside of the oil and petrochemical industries, that won't be possible without foreign — and particularly American — participation. That's why the Saudis have been making so many deals recently: The Public Investment Fund has partnered with AMC to open and run movie theaters across the country because AMC knows how to manage cinemas. Saudi Arabia is pursuing deals for Snap and Amazon to open facilities in the kingdom because they can offer tech opportunities.

It's not just the private sector. The Saudi government bureaucracy also relies heavily on American management expertise. Riyadh has been hiring American consultants since the 1950s, and in recent years American firms like McKinsey, Boston Consulting Group and Oliver Wyman have worked on hundreds of projects for the kingdom. In some cases, Saudi government bureaucrats work side by side with these consultants to implement government programs.

The Saudi Public Investment Fund — the kingdom's sovereign wealth fund, which is estimated to have more than $250 billion in assets — is also closely tied to the American economy. To name just a few of its major investments: It put $3.5 billion into Uber in 2016 and almost half a billion dollars in the start-up Magic Leap this year; it invested $45 billion in SoftBank's Vision Fund, which invests heavily in American technology start-ups; and it made a $5 billion investment with a possible growth to $20 billion in a Blackstone fund for United States infrastructure. Much of the tens of billions of dollars cannot be pulled out on a whim. These start-ups are private companies without open markets for their shares. Prince Mohammed is building a domestic reputation with this tech portfolio, so its success is politically important, too.

All of this is at risk if the dispute worsens between Saudi Arabia and the United States over Mr. Khashoggi's disappearance. Not only could the Saudis not retaliate because their economy is so intertwined with that of the United States, but they will also be susceptible to pressure. Targeted sanctions — if it comes to that — could force consultants to withdraw or cut off the Saudi Public Investment Fund's access to the profits of its investments. More likely, though, is that a continuing dispute would force American businesses like AMC to seriously reconsider involvement in the country because of negative publicity.

What about oil? Whereas Saudi Arabia could once shock the world economy by cutting oil exports or production to raise prices, it no longer has that power. The oil market today is significantly more diverse than it was in 1973, when Saudi Arabia and other Arab petroleum exporters unilaterally raised the price of oil and unsettled the American economy. In fact, the United States now produces more oil than Saudi Arabia, and imports make up a smaller percentage of domestically refined crude oil.

Saudi Arabia cannot embargo or unilaterally raise **oil prices** for the United States without doing greater harm to its own industry and revenues. If Riyadh directed the national oil company, Saudi Aramco, to halt exports to the United States today, it would primarily hurt Aramco itself. Aramco owns Motiva, the largest refinery in the United States, and Motiva is more reliant on Saudi oil than any other part of America's energy ecosystem. If Aramco tried to raise prices by cutting oil production or exports, it would face irate customers in Asia and hurt its own refineries in China and Korea, too.

We do not yet know for certain what happened to Mr. Khashoggi, but President Trump has now said that he believes the Saudi journalist is dead and that there was high-level Saudi government involvement. If the United States determines that Saudi Arabia is at fault, the Trump administration will have a real opportunity. Of course, President Trump has so far indicated that he doesn't have much interest in holding Saudi Arabia accountable. But with calls for a response growing louder on Capitol Hill, the White House should see a strategic opportunity here.

The Saudis are dependent on the United States, and public opinion is increasingly against them. Already, Treasury Secretary Steven Mnuchin has backed out of a high profile finance conference in Riyadh next week. Mr. Trump could use this as a chance to pressure Riyadh to come around on some of his real priorities: the peace deal between the Israelis and the Palestinians that Jared Kushner is trying to broker; a resolution to the dispute with Qatar, which hosts a critical American military base; billions of dollars more in purchases from American industries.

Saudi Arabia is not in a position to threaten the American economy. In fact, the kingdom may be overestimating its own economic clout. It would be a mistake for Riyadh to try to act on its threats against the United States.

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The New York Times

Business/Financial Desk; SECTB
Despite Trump's Anger, Fed Plans to Continue On Path to Raise Rates

By BINYAMIN APPELBAUM
1,064 words
18 October 2018
The New York Times
NYTF
Late Edition - Final
3
English

WASHINGTON -- The Federal Reserve's official account of its latest policy meeting, published Wednesday, does not mention any discussion of President Trump's demands that the Fed should stop raising interest rates.

But it makes clear that Mr. Trump's economic policies are very much on the Fed's mind.

The strength of economic growth, thanks in part to the tax cuts Mr. Trump championed last year, is prompting Fed officials to consider the need to prevent the economy from overheating for the first time since the 2008 financial crisis, according to the minutes of the September meeting of the Federal Open Market Committee.

Most Fed officials predicted in September that the Fed would raise its benchmark interest rate to a mildly restrictive level, above 3 percent, by the second half of 2019.

''It's time to readjust the policy stance at least to neutral,'' Charles L. Evans, the president of the Federal Reserve Bank of Chicago, said Friday on CNBC. ''Let's see how the economy is performing at that point, and then we might have to do a little bit more after that.''

But the Fed remains uncertain about its plans for the coming year, and one reason is that Fed officials also are concerned that Mr. Trump's trade policies could impede economic growth, the minutes said.

The Fed has said Mr. Trump's policies, including tariffs on steel, aluminum and a wide range of Chinese goods, have not yet dented aggregate measures of economic growth.

But the minutes said some businesses told Fed officials that ''uncertainty regarding trade policy'' played a role in decisions ''to forgo production or investment opportunities.'' In particular, it said, ''tariffs on aluminum and steel were cited as reducing new investment in the energy sector.''

The Fed's overall tone remains bright and sunny. The economy is in the 10th year of one of the longest expansions in American history, and officials expect the good times to continue.

The bottom line, the Fed said, was that the economy ''was evolving about as anticipated.'' Spending is up, driven in part by the tax cut, and a few Fed officials said they saw evidence that companies were beginning to increase investment in response to the tax cut, although the minutes did not elaborate.

Fed officials are paid to worry about potential economic problems, and the minutes include a familiar list: Increased disruptions to trade could weigh on growth; slower economic growth in the rest of the world could weigh on the United States; a shortage of workers could begin to increase inflation.

But the minutes said these risks were roughly balanced by the potential for faster economic growth.

The Fed raised its benchmark rate by a quarter percentage point at the September meeting, to a range between 2 percent and 2.25 percent. Investors expect another quarter-point increase at the Fed's final meeting of the year, in December, and the minutes will most likely reinforce that expectation.

The march toward higher rates has drawn a sharp response from Mr. Trump, who has lately seized any opportunity to throw verbal rocks at the Fed, most recently on Tuesday, when he told Fox Business that he regards the central bank's march toward higher interest rates as ''my biggest threat.''

Mr. Trump complained that the Fed is "raising rates too fast" despite the low level of inflation.

The president said he had not spoken directly about his concerns with the Fed's chairman, Jerome H. Powell, adding, "I'm not happy with what he's doing because it's going too fast."

Some liberal economists and advocates have also criticized the rate increases. Inflation remains around the 2 percent annual pace that the Fed regards as healthy, and Fed officials have said they see little sign or danger of an acceleration. Critics of the rate increases argue that encouraging continued economic growth would pull more people back into the labor force, and put more money into workers' pockets.

Mr. Powell, for his part, has declined to respond directly to the president's attacks, saying only that the Fed would make policy decisions based on economic data, without regard to political considerations. But he has defended the trajectory of Fed policy, arguing that the central bank is trying to strike a balance between encouraging economic growth and maintaining control of inflation.

Some former Fed officials have criticized Mr. Trump's remarks.

Mr. Powell's predecessor, Janet L. Yellen, said last week that it was "not a desirable thing" for a president to comment on Fed policy. "There's no law against that, but I don't think it's wise."

Investors so far have discounted the influence of Mr. Trump's remarks, but some analysts warn that the attacks are likely to intensify. "Once rates get to 'tightening' levels, we would expect the president to step up his attacks just like he has against drug prices, **oil prices**, unfair trade practices," said Chris Rupkey, chief financial economist at MUFG Union Bank. Mr. Rupkey predicted that the attacks could make the Fed more reluctant to raise rates; other analysts argue that Mr. Trump could spur the central bank to demonstrate its independence by pressing ahead with rate increases.

A quarter-point increase at the December meeting would leave the Fed's benchmark rate about half a point below the 3 percent level that most Fed officials regard as neutral, meaning that the level of interest rates would neither be stimulating nor discouraging economic growth.

Most Fed officials expect to raise rates at least three times next year. That could push the benchmark rate into restrictive territory by the fall of 2019. The minutes said officials favoring such actions thought it might be necessary "to reduce the risk of a sustained overshooting of the committee's 2 percent inflation objective or the risk posed by significant financial imbalances."

Mr. Powell and other Fed officials have emphasized, however, that there is considerable uncertainty about the exact point at which monetary policy would tilt into restrictive territory.

Charles L. Evans, the president of the Federal Reserve Bank of Chicago and a member of the Federal Open Market Committee, which is considering action to prevent the economy from overheating. (PHOTOGRAPH BY ANN SAPHIR/REUTERS)

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THE WALL STREET JOURNAL.

Markets
Risky Deals Return to Leveraged-Buyout Market; Extra debt rises, use of equity cash drops as federal banking regulators ease rules

By Miriam Gottfried and Ryan Tracy
1,143 words
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English

Four years after a government crackdown on the leveraged-buyout market, risky loans are making a comeback.

Nearly 13% of LBOs in the first nine months of 2018 were financed with debt equating to at least seven times the target company's earnings before interest, taxes, depreciation and amortization, or Ebitda, according to S&P Global Market Intelligence's LCD. That is more than double the level in all of last year and is on track to be the highest since 2014, when 13.5% of deals crossed that threshold and regulators began to crack down on leverage exceeding six times Ebitda.

In another sign of growing risk, the amount of cash private-equity firms are putting into buyouts is falling. Their average equity contribution was 39.6% in the first nine months, also the lowest

since 2014.

In a typical LBO, a buyout firm acquires a company mainly with borrowed money, with a goal of selling it later at a profit. The jump in deals that carry extra amounts of debt comes amid a surging economy and generally buoyant **financial markets**, which have fueled risk appetite, and as Washington takes a less aggressive approach to regulating Wall Street.

It is a big change from just a few years ago. In 2014, regulators brought the hammer down on banks stepping outside federal guidelines for underwriting leveraged loans—shorthand for borrowings by highly indebted companies. Those guidelines had been put in place in 2013 to curb excessive risk taking in the wake of the financial crisis.

Among other things, they discouraged banks from participating in takeovers in which debt is above six times Ebitda, a common proxy for cash flow. When banks didn't follow regulatory guidelines, they sometimes got slapped with warnings, as Credit Suisse Group AG did in 2014.

The Federal Reserve and the Office of the Comptroller of the Currency, the two key federal agencies overseeing bank lending, had struck a more sanguine tone since President Trump was elected and began to dismantle a number of Obama-era regulations—though that may be changing.

"That market has evolved really significantly since before the crisis," Federal Reserve Chairman Jerome Powell said at a press conference last month. "The banks take much less risk than they used to," he said, adding that they hold far fewer loans on their balance sheets than they once did. His counterpart, Comptroller Joseph Otting, said at a Washington luncheon last week that nonbank lenders are taking more risks. "Banks have really kind of stayed on the rails," Mr. Otting said.

But on Wednesday after The Wall Street Journal published a story on the increase in highly leveraged deals, the Fed signaled growing concern, taking the unusual step of releasing remarks by a staffer to a private industry conference. "There may be material loosening of terms and weaknesses in risk management of the leveraged-loan market," Todd Vermilyea, a senior associate director in the Fed's regulatory division, said to the Loan Syndications and Trading Association in New York. "Some institutions could be taking on risk without the appropriate mitigating controls." He said the Fed is taking a closer look at risk-management practices, including how borrowers' future earnings are calculated.

Some industry officials point to a ruling last year by a government auditor that called the legitimacy of the lending guidelines into question, and said the Fed and the comptroller's office didn't follow the proper legal process for establishing them. The auditor's ruling "makes it much harder" for regulators to question banks' lending practices, former Comptroller Thomas Curry said in an interview.

Bankers say regulators are now less focused on a borrower's precise leverage and are more concerned with the general health of the company and banks' overall "safety and soundness."

The bankers and buyout-firm officials add that many of the deals with higher borrowing levels involve strong companies in more stable sectors such as health care and software. Meanwhile, the appetite for debt among yield-starved investors remains ravenous, enabling banks to quickly parcel out the loans to others who then assume the risk.

Still, more heavily indebted LBOs could spell trouble down the line.

"For the banks to compete, they need to play ball," said Meghan Neenan, a managing director at Fitch Ratings. "Is it concerning? Absolutely."

Whatever the cause, banks have been feeling freer to do deals they would have shied away from just a year ago, bankers and private-equity executives say. KKR & Co.'s $5.6 billion buyout of Envision Healthcare Corp., which closed this month, is among the most highly indebted of the big buyouts this year, with borrowings of over seven times Ebitda. At least eight regulated banks, including Citigroup Inc., Credit Suisse and Morgan Stanley, helped finance the deal. A banker at one of the lenders said he wouldn't have done the deal a year earlier.

Figures for 2018 are still far from their precrisis peak. In 2007, more than 23% of buyouts had a debt-to-Ebitda ratio above seven times, and the average equity contribution was just 30.9%, LCD data show.

But there have been other signs of froth that are reminiscent of the precrisis heyday of LBOs. Terms on loans known as covenants have weakened, eliminating protections for creditors in the event a company's performance takes a turn for the worse. Private-equity firms also appear to be returning to their precrisis habit of teaming up with each other to bid for big companies.

In one example, Blackstone Group LP, Carlyle Group LP and Onex Corp. have joined Canada Pension Plan Investment Board in a bid for Arconic Inc. that would exceed $10 billion, excluding the aircraft-parts maker's hefty debt load, according to people familiar with the matter.

These so-called club deals enable private-equity firms to hunt bigger targets but often lead to disagreement about strategy among the owners, and that contributed to the failure of many of the big precrisis buyouts, like Toys "R" Us.

Borrowers are also making bigger adjustments to expected cash flows to account for cost savings and revenue growth than they were before the crisis, according to research firm Covenant Review. That has the effect of making leverage look lower.

Write to Miriam Gottfried at Miriam.Gottfried@wsj.com and Ryan Tracy at ryan.tracy@wsj.com

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* Watch Out: Junk Bonds Are Getting Junkier (May 3)

* Auditor's Decision Deals Blow to U.S. Crackdown on Leveraged Loans (Oct. 19, 2017)

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THE WALL STREET JOURNAL.
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Other Markets' Woes Are Boon to Gold Prices

By Ira Iosebashvili
150 words
24 October 2018
The Wall Street Journal
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B13
English

Gold prices rose to their highest level since July, as a sharp decline in stocks fueled demand for safe assets.

Gold for October delivery settled up 1% at $1,233.40 a troy ounce Tuesday on the Comex division of the New York Mercantile Exchange.

Stocks tumbled around the world Tuesday on fresh fears about the health of China's economy and a number of geopolitical concerns.

Some investors buy gold during times of uncertainty, believing it will hold its value better than other assets when markets turn rocky. **Volatile** stock markets have helped boost gold around 2.9% since September.

The Japanese yen is another popular destination for nervous investors, and the dollar fell 0.3% against the yen on Tuesday, trading at 112.44 yen late in New York.

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THE WALL STREET JOURNAL.

Tech

Secretive Data Company Palantir Weighs Giant Public Offering; Bankers have told the firm it could go public with a valuation as high as $41 billion

By Rob Copeland
794 words
18 October 2018
08:00 AM
The Wall Street Journal Online
WSJO
English

Data-mining giant Palantir Technologies Inc., one of Silicon Valley's most secretive companies, is weighing an initial public offering likely to be among the largest in recent years, people familiar with the matter said.

Palantir is discussing with investment banks Credit Suisse and Morgan Stanley plans to go public as soon as the second half of 2019, the people said. Some bankers have told the firm it could go public with a valuation of as much as $41 billion—depending in part on the timing—or twice what it was most recently valued by private investors, the people said.

People familiar with the plans said they remain in flux, and that Palantir could ultimately decide to stay private or offer shares at a lower price to what is being discussed.

The discussions come amid a gusher of technology giants charging toward newly **volatile** public markets. The Wall Street Journal reported earlier this week that ride hailing firms Uber Technologies Inc. and Lyft Inc. are eyeing public debuts. Uber received proposals to go public at a staggering $120 billion valuation, nearly double its value in a private fundraising round just two months ago.

Other well-known startups considering IPOs in the months to come include workplace instant-messaging app Slack Technologies Inc. and delivery service Postmates Inc., the Journal has reported.

Anything close to $41 billion would be a lofty valuation for a company of Palantir's current size. The company has told investors it expects around $750 million in revenue this year, up from roughly $600 million a year earlier. That would equate to an IPO value of 55 times 2018 revenue. Uber's proposed valuation, by comparison, would be no more than 12 times the $10 billion to $11 billion it expects to generate in revenue this year.

Co-founded by famed investor Peter Thiel, Palantir made its name analyzing large volumes of data for intelligence agencies and governments around the world. Its analytics have been credited by investors and its staff with helping the U.S. government hunt down and kill Osama bin Laden, as well as disrupt broader terrorist networks.

Some of its government work has attracted scrutiny. Privacy advocates have assailed Palantir for its role in helping law-enforcement agencies identify suspects in crimes. Protesters this year gathered outside its Palo Alto, Calif., headquarters and tracked down some of the firm's early executives to picket.

Palantir says its systems "facilitate accountability and oversight."

Started in 2004, Palantir counts as an old hand in Silicon Valley. It has roughly 2,000 employees with an average age of 30 years old. Staffers embed on military bases for its defense work, and in factories and corporate offices world-wide for its commercial arm.

Some employees and investors complain that the company has remained private for so long. That has made it hard for them to cash out their private stakes and contributed to some employees' decisions to leave, people familiar with the matter said.

Palantir has long teased about a debut on the public stage. In a 2016 interview with the Journal, Chief Executive Alex Karp said the company was positioned to go public, which would allow employees to "have liquidity at a fair price."

Palantir last raised money—several hundred million dollars—at a $20 billion valuation in a private fundraising round in 2015.

At roughly double that, Palantir would be seeking a valuation far above its peers. Competitor Tableau Software Inc., which went public in 2013, has a market value of around $9 billion. Analysts expect it to post revenue of about $980 million this year.

Investment bankers often provide a rosy outlook for a company's future finances, as well as their projected value in an IPO, to earn their business in going public.

With Palantir, the potentially higher valuation in an IPO reflects in part the firm's improving business prospects, people familiar with the matter said.

After Palantir shared some of its internal metrics with Morgan Stanley bankers, the bank returned with a range of $36 billion to $41 billion for a 2020 public offering, the people said. That range would be lower in the event of an earlier IPO, they said.

Such growth would put Palantir in a rare echelon of public companies, bankers at Credit Suisse separately told the company, according to documents reviewed by the Journal. The Credit Suisse materials advised that there are only two comparable public companies with growth in Palantir's range.

Eliot Brown and Liz Hoffman contributed to this article.

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THE WALL STREET JOURNAL.

Economy

Bank of Canada Widely Expected to Raise Interest Rates; Canada's trade deal with U.S. and Mexico adds confidence to rate expectations

By Kim Mackrael
566 words
23 October 2018
11:04 AM
The Wall Street Journal Online
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English

The Bank of Canada is widely expected on Wednesday to raise its benchmark overnight interest rate by a quarter of a percentage point in response to solid economic growth and a new trade pact with the U.S. and Mexico.

Economists from 10 out of 11 primary dealers of Canadian government securities told The Wall Street Journal they anticipate the Bank of Canada will increase the key rate to 1.75% on Wednesday, up from the current level of 1.50% and marking the fourth increase since mid-2017.

A majority of those surveyed said they expect a brief pause after this week's decision, with the next rate increase likely coming in January 2019.

HSBC Canada did not participate in the survey.

"We're quite confident that they will raise the key rate," Desjardins Securities economist Mathieu D'Anjou said. With markets pricing in higher rates and trade talks concluded, he said, "we don't see why they would not do it."

Canada agreed to a new trade pact with the U.S. and Mexico at the end of September, lifting a cloud of uncertainty that Bank of Canada officials warned was holding back business investment. The deal, known as the U.S.-Mexico-Canada Agreement or USMCA, will replace the North American Free Trade Agreement that had been in place since 1994.

Market watchers who were already expecting a rate increase before the trade deal was concluded said the agreement gave them greater confidence the central bank will move rates higher on Wednesday.

Canada's economic growth has been relatively strong in recent months, while core, or underlying, inflation has held steady around the Bank of Canada's 2% target. The central bank sets interest-rate policy to achieve and maintain 2% inflation. In addition, a quarterly survey of Canadian businesses released this month indicated they were optimistic about their sales prospects even before the new trade deal was reached, further supporting a rate increase this week.

The Bank of Canada last raised its key interest rate in July. The central bank is gradually moving rates higher after keeping them at ultralow levels for years to help the economy recover from the financial crisis and the 2014 plunge in global commodity prices. Analysts say higher rates have helped cool a previously red-hot housing market, and prompted consumers to pare back spending, judging by softer retail data.

Laurentian Bank Securities chief economist Sébastien Lavoie said the Bank of Canada's economic-growth forecast may be revised higher, in part because of the legalization of cannabis, the conclusion of the trade deal and a liquefied natural-gas project that's moving forward on the country's west coast.

"These are all positive," Mr. Lavoie said. On the negative side, he said, the bank will have to factor in lower Canadian **oil prices**, which have dropped sharply in recent months.

"We still think the argument is there to be gradual in raising rates," Royal Bank of Canada economist Josh Nye said. He said he anticipates a total of two rate increase in 2019, in January and April, followed by a longer pause to evaluate the impact of higher rates on Canadian households.

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THE WALL STREET JOURNAL.

World
Turkey Holds Rates Steady as Political Pressure Starts to Abate; The country's economy has come under immense pressure in recent months amid a global selloff in emerging markets

By Yeliz Candemir
603 words
25 October 2018
08:00 AM
The Wall Street Journal Online
WSJO
English

ISTANBUL—As political and market pressure eases on Turkey, the country's central bank kept interest rates steady Thursday, even as investor doubts persist that the government will manage to orchestrate a soft landing for an economy that was among the fastest-growing in the world last year.

Turkey's central bank kept its main policy rate at 24%, as market pressure to raise interest rates has eased somewhat recently. In its meeting last month, policy makers lifted its main rate by 625 basis points in a bid to tame inflation that hit 25% in September, to reach a 15-year high.

In a statement, the central bank said it could further restrict monetary policy if inflation doesn't come down.

The lira was up over 1% against the dollar on Thursday, extending its recent rally. The lira is now up 7.4% against the dollar this month, recouping some of its losses from earlier in the year. It is now down around 33% against the dollar this year,.

In recent months, Turkey has come under immense market pressure, due to a global selloff in emerging markets and a bitter geopolitical clash with the U.S.

The Trump administration had been demanding President Recep Tayyip Erdogan release an American pastor, Andrew Brunson, held in Turkey on terrorism charges. Washington and Ankara levied tariffs on each other's goods and President Trump imposed sanctions against two top Turkish officials, freezing U.S. assets held by Turkey's justice and interior ministers. Mr. Erdogan has accused Washington of waging an economic war against Turkey.

Earlier this month, Turkish officials released Mr. Brunson and some expect the U.S. to lift the sanctions.

The easing of tensions with the U.S. has supported a rebound in the Turkish lira. Nonetheless, the lira is still down 33% against the dollar so far this year, reflecting ongoing concerns about an economy that has boomed on the back of a government-backed debt binge. Last year, the Turkish economy grew 7.4%, the fastest pace of any Group-of-20 country.

Last month, Turkey's Finance Minister Berat Albayrak, who is Mr. Erdogan's son-in-law, announced a new plan to engineer a smooth landing for the economy and bring inflation down to 20.8% this year, before easing to 15.9% in 2019.

Investors, however, have expressed skepticism on the plan, which lacked detail as to how the government will slow the economy without provoking a crash. Under its new plan, the government expects the Turkish economy to slow to 3.8% this year and 2.3% next year. The International Monetary Fund projects Turkey's growth at 3.5% this year and to drop to 0.4% next year.

With relations with Washington improving, Mr. Erdogan may now push the Trump administration to receive an exemption from sanctions that will soon be applied on Iranian oil exports. Such a move would be a major boost for Turkey given that the country imports virtually all of its energy needs. The fall in the lira and a rise in **oil prices** have been a major factor in pushing up Turkish inflation.

The government has also been urging Turkish business to cut prices by at least 10% on goods included in the basket of items used to calculate inflation. Businesses would apply any price cuts voluntarily.

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THE WALL STREET JOURNAL.

Potomac Watch
Opinion

Where the GOP Might Win; Alaska is the reverse of the lower 48 this year, as voters look to revive a bad economy.

By Kimberley A. Strassel
882 words
25 October 2018
06:47 PM
The Wall Street Journal Online
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English

Alaska isn't normally much on the national political radar, but by the end of Nov. 6 it could hold some notable distinctions. It may be the only state in which Republicans pick up a governor's seat. It may also serve as this election year's most powerful reminder of the political and economic perils of wayward government spending.

That will be the outcome if, as polls predict, the Last Frontier puts Republican Mike Dunleavy in the governor's mansion. The 57-year-old former state senator is rarely noted in the lower 48, though he's hard to miss in Alaska. And not just because he's 6-foot-7. His signs paper lawns, barns and fields. He's drawing crowds in rallies stretching from Barrow to Fairbanks to Juneau. His prospects are all the more impressive given that his Democratic competitor, Mark Begich, is a former U.S. senator and hails from one of Alaska's many political dynasties.

What's resonating is Mr. Dunleavy's promise to expand Alaska's economy rather than its government—the opposite of the current approach. Four years ago, Alaska got sideswiped by twin debacles. One was a plunge in **oil prices** that sent its economy into a tailspin. The other was the election of Gov. Bill Walker, who did everything wrong in response. Unable to win a Republican primary, Mr. Walker was elected as an independent and proceeded to govern like a Democrat.

Facing a more than $3 billion budget hole from lost oil revenue, Mr. Walker kept spending—cutting nowhere near enough to respond adequately to a crisis in which the state lost about half its usual revenue. He embarked on a protracted fight for new fees and an income tax (the latter failed). He signed up Alaska for ObamaCare's Medicaid expansion, piling yet more costs on the state. He refused to pay out oil and gas tax credits, further imperiling the industry that provides 85% of state revenue.

These were all economic mistakes, and Alaska has paid the price. While its economy has certainly suffered from the oil hit, the government response has also contributed to what is today the highest unemployment rate in the nation—6.5% in September. State economic growth is almost nonexistent, foreclosures have soared, and CNBC this year ranked the state dead last as a place to do business.

But Mr. Walker's biggest political mistake was slashing Alaska's Permanent Fund Dividend—the annual check to every resident from state oil wealth. Three times now the Walker government has cut the usual payment—at times by more than half—bringing the average check closer to $1,000. It has been a regressive tax hit that sent lower-income families and businesses reeling even at a time of soaring unemployment.

It didn't help that Mr. Walker lectured that he was "saving" the PFD for the future—even as he used some money to pay for state services. Nor did it help that he made clear going into his re-election that he viewed the reduced PFD as a new normal. By last week Mr. Walker's campaign was polling so poorly that he dropped out and endorsed Mr. Begich.

It's unpopular enough when legislators raise taxes. See what happens when you deny families a payout that they expect and depend on annually. It has had the useful effect of turning the PFD into a unique tool for imposing spending accountability, and that's been Mr. Dunleavy's opening.

The central plank of his campaign is a point-blank promise to restore the full PFD payout. This sounds a lot better to most Alaskans than Mr. Begich's crafty claim that he would push for a "constitutional amendment" that would "maintain a sustainable dividend." Alaskans read "sustainable" as more cuts.

Mr. Dunleavy's critics have accused him of buying off the public, and they claim his math for spending cuts and PFD payouts doesn't add up. But Mr. Dunleavy has credibility on the fiscal front. First elected to the state Senate in 2012 on a message of budget discipline, he has broken with his own party on spending questions. His focus is on embracing new private-sector opportunities now that the Trump administration is reversing the effective Obama moratorium on oil and gas development. The ultimate goal is relieve the state's financial difficulties through economic growth. That, and to develop longer-term planning that allows Alaska to weather its boom-bust cycles better.

The Walker withdrawal buoyed Mr. Begich, and the race has tightened. Then again, Mr. Walker's name remains on the ballot, absentee ballots had already started coming in, and Libertarian candidate Billy Toien is also pulling votes. A plurality is enough to win, and a public poll taken after the Walker withdrawal still showed Mr. Dunleavy in the lead.

Alaskans have been painfully made to understand that joining in the lower 48's new prosperity will require first getting their state's own fiscal house in order. Those are the stakes come Nov. 6.

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THE WALL STREET JOURNAL.

World

China Cuts Iran Oil Purchases Ahead of U.S. Sanctions; In boost for Washington, Chinese companies pull back on deals as Saudis pledge to increase supply

By Benoit Faucon
795 words
25 October 2018
04:52 PM
The Wall Street Journal Online
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English

China is cutting some of its oil trade with Iran after vowing for months to resist U.S. sanctions on the exports, providing Washington with an unexpected boost to its efforts to isolate the Islamic Republic.

The move comes as Saudi Arabia, seeking to damp a foreign-relations crisis, said this month that it would increase oil supply, pushing down prices and giving traders further options outside Iran.

The shift by Beijing, Iran's top customer, gives the U.S. a building block in an economic barrier around Iran as it prepares to renew sanctions on the country's energy sector in early November.

China's largest oil refiners, China National Petroleum Corp. and China Petrochemical Corp., haven't booked any Iranian cargo for November, according to people familiar with the matter. China has been importing about 600,000 barrels of Iranian crude a day.

Bank of Kunlun, owned by CNPC, has told its Iranian customers it will stop doing business with them by the sanctions deadline on Nov. 4, according to customers in Tehran.

Bank of Kunlun has been the main Chinese bank carrying payments for Iranian oil exports and financing exports of Beijing's goods to Tehran. Halting payment will make this business with Iran less attractive for both sides.

CNPC, Sinopec and Kunlun didn't respond to requests for comment.

The U.S. has said it is in discussions with partners and allies about enforcing sanctions. A U.S. official said Washington has engaged with China extensively on the matter.

The latest Saudi pledges to ramp up supply came this week as the kingdom sought to damp tensions over the killing of Saudi dissident journalist Jamal Khashoggi on Oct. 2.

"That's helped sanctions and that's harmed Iran," said Adel Hamaizia, a Middle-East associate fellow at London's Royal Institute of International Affairs.

The statements brought **oil prices** down to around $75 a barrel from recent highs around $85 a barrel. With the drop, "refiners can replace Iranian oil at a price they can afford," said Homayoun Falakshahi, an Iran-focused analyst at U.K. consultancy Wood Mackenzie.

The U.S. now has more leverage on nations that had been reluctant to go along with the sanctions, the U.S. official said. Any exemptions or waivers to keep buying Iranian oil beyond early November will be limited in time, as the aim is to bring Iran's exports to zero, the official said.

"There may not be much need for waivers because [Tehran's oil buyers] are stopping business with Iran even before sanctions start," the official said.

Even before the Chinese move, reduced purchases had been eroding Iran's production.

Iran's output declined to 3.3 million barrels a day as of early October, according to a person familiar with production data. That is down from 3.8 million barrels a day in May, when President Trump decided to pull out of an international nuclear deal with Iran and begin the process of reinstating sanctions.

European refiners such as France's Total SA and Spain's Cepsa have stopped buying Iranian oil while others such as Italy's Saras SpA and Eni SpA are winding down trades.

India is among the countries negotiating with the U.S. for a possible sanctions waiver, the U.S. official said, adding that any exemption would be limited to giving India more time to find replacement suppliers.

India imported about 500,000 barrels a day of oil from Iran last month, according to Swedish oil-data firm TankerTrackers.com. But it has told oil companies that it expects to cut that amount to 300,000 barrels a day in November.

Mr. Trump, when asked on Oct. 11 about the decision of some countries like India and China to continue to purchase oil from Iran, told reporters: "We will take care of them."

The U.S. has pressed the Saudis to sustain oil supply to meet demand as Iranian oil is cut off.

As the international response to the killing of Mr. Khashoggi this month at the Saudi consulate in Istanbul put more pressure on Saudi Arabia to comply, Saudi oil minister Khalid al-Falih stepped up plans to boost supplies.

This week he promised a new production increase of 300,000 barrels a day and didn't rule out topping the increase by another 1 million barrels a day if needed.

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* U.S. Hesitates Over Scope of Finance Sanctions on Iran

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International New York Times

us

This Election Season, Republicans' Deficit Focus Goes the Way of the Vuvuzela

By Jennifer Steinhauer
1,270 words
18 October 2018
International New York Times
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English

WASHINGTON — In 2010, Representative Paul D. Ryan issued an ominous threat about the nation's deficit, one repeatedly echoed by Republican candidates as they marched toward a decisive takeover of the House that year.

"Unprecedented levels of spending, deficits and debt," Mr. Ryan, Republican of Wisconsin, wrote, "will overwhelm the budget, smother the economy, weaken America's competitiveness in the global 21st-century economy, and threaten the survival of the government's major benefit programs."

The deficit has once again ballooned, a byproduct of increased spending, large tax cuts and the inexorable rise of Social Security and Medicare expenditures that Congress has repeatedly failed to contain. But alarm bells about this issue have become as passé as vuvuzelas, the Black Eyed Peas and other cultural remnants of 2010.

Republicans heading into the midterm elections have instead turned to boasting about low unemployment or their national security credentials, or attacking Democrats, as well as insisting that the $1.5 trillion tax cut will ultimately pay for itself. The deficit — which the Treasury Department said on Monday had swelled to $779 billion in the 2018 fiscal year, up from $666 billion the previous year — has been reduced to a thing to be ignored, like a loud dinner party guest no one has the gumption to silence.

"The Tea Party wave of 2010 was animated by federal spending, but that has definitely subsided," said Tim Chapman, executive director of Heritage Action for America, a conservative lobbying group that helped fuel the Tea Party movement that year, when the deficit had grown to roughly $1.2 trillion.

Even groups like Tea Party Express have moved on in message. Incumbents who made the deficit a central issue of their first campaigns in 2010 now focus on the strength of the **stock market**, which has struggled in recent days. Nary a one talks about the government's projection that the deficit will top $1 trillion before the 2020 presidential election.

While the deficit problem has many fathers, its exorcism from the Republican agenda has one: President Trump. "The focus of Trump's campaign was not on federal spending," Mr. Chapman conceded. "He wanted to focus on national security and tax cuts and making America great again. When he said that, a lot of the Republican base went with him."

Indeed, the dismissal of debt was one of the earliest and most central components of Mr. Trump's reconfiguring of the entire Republican agenda once he got to Washington. "This is definitely one of the major issues that has transformed the Republican Party under Trump," said Rory Cooper, who served as an aide to former Representative Eric Cantor of Virginia, the majority leader in 2011. "Free trade, Russia, the deficit and frankly the size and scope of government have all fallen to the wayside."

After several years of attempts to reduce the federal deficit through tax increases and spending cuts, the nation's debt load is now on a steady climb. Federal tax receipts rose a mere 0.4 percent over the last fiscal year, largely because of a lower corporate tax rate passed by Congress last year. Federal spending grew 3 percent over the same period, thanks to a sprawling budget measure that will increase spending over the next decade by $300 billion. The budget agreement ended a 2011 law that capped military and discretionary spending by billions and that helped reduce the deficit in recent years.

"The evil party and the stupid party got together and called it bipartisan," Brian Riedl, a senior fellow in budget, tax and economics at the conservative Manhattan Institute for Policy Research, said of the big budget deal. "This is the beginning of a long-term avalanche caused by Social Security and Medicare costs that are only going to get worse every year. I project $2 trillion within a decade or $3 trillion if interest rates return to 1990s levels. So no, the tax cuts will not pay for themselves.”

But tax cuts have been the single major policy success under the Trump administration in Congress, and both continue to say they will be a net positive for the United States Treasury. They are so confident, in fact, that many Republican lawmakers would like to pass another tax cut that would make many of the reductions in the first round permanent. Mr. Trump’s sweet spot has never involved big changes to entitlement programs, even though the biggest fiscal hawks in Congress remain hopeful that he will get there.

“I think this issue still resonates with Republican voters and independent voters,” said Senator Patrick J. Toomey, Republican of Pennsylvania, who led an unsuccessful charge to make big changes to Medicaid during Republican attempts last year to repeal the Affordable Care Act. “Individual candidates may well be focused on other issues, but there are many of us who still feel very strongly about this.”

As to whether Mr. Trump will be helpful going forward on that front, “it’s unclear,” Mr. Toomey said. “I think the president did indicate he was not interested in taking on big entitlement programs early on. Under the right circumstances, I think he could be an ally.”

The net result for Mr. Ryan, now the retiring speaker of the House, is that he will leave a legacy absent the signature issues that propelled his entire legislative career. “This Congress ended up being about tax reform,” Mr. Cooper said. “It was the low-hanging fruit because there was a Republican coalition of Trump Republicans and establishment Republicans that united around tax reform.”

The scores of Republicans who ran on the issue in 2010 and 2012 have largely become quiet about debt so as to not run against the Trump agenda, even as the tax cut has not been popular enough to use as a re-election case. So incumbents have turned to things like national security instead.

“We have always believed candidates need to represent their states and districts,” said Sal Russo, co-founder of Tea Party Express. “So we are not troubled when someone votes crosswise with us if they believe that it’s necessary to adequately represent their constituents. Thus, we will support candidates around a broad range of issues.”

Democrats will most likely not take up the cause in the Republicans’ stead. The base of the party has shown very little interest in the issue and is looking toward candidates who want to expand Medicare to all Americans, as well as other tax-funded programs. What’s more, with Republicans more or less abandoning the issue, they hand Democrats ammunition to charge that their party cares about deficits only when the Democrats are in charge.

“A core part of the Republican brand has been fiscal responsibility,” Mr. Chapman, of Heritage Action, said. “And it is not good for the brand when deficits continue to skyrocket under Republican control. We are working hard to see what we can do in these future legislative spending battles. But the truth is, conservatives have not sufficiently galvanized the majority of the country around the idea that debts and deficits are a major threat to our country.”

PHOTO: Paul D. Ryan, the retiring House speaker, will leave a legacy absent the signature issues that propelled his entire legislative career. (PHOTOGRAPH BY Erin Schaff for The New York Times FOR THE NEW YORK TIMES)

* How the Trump Tax Cut Is Helping to Push the Federal Deficit to $1 Trillion

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THE WALL STREET JOURNAL.

Economy

President's Sustained Criticism of the Federal Reserve Complicates a Tricky Balancing Act; The Fed says it won't be swayed by political pressure; Trump's top advisers haven't joined him in amplifying his attacks

By Nick Timiraos
946 words
16 October 2018
06:12 PM
The Wall Street Journal Online
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English

WASHINGTON—President Trump's attacks on the Federal Reserve complicate a series of already challenging decisions facing the central bank.

Mr. Trump continued his criticisms Tuesday, saying the Fed was "my biggest threat" in an interview with the Fox Business Network. Last week, he said the central bank had "gone crazy" with its recent interest rate increases and blamed the Fed for igniting the largest **stock market** selloff in seven months.

Fed officials say they are gradually raising interest rates to prevent the economy from overheating, and political pressure won't influence their policy actions.

Fed Chairman Jerome Powell and nearly all his colleagues agree rates are still low enough to spur growth at a time when the strong economy doesn't need stimulus. But as they move rates higher, they are likely to become more uncertain about how much further to go and how to communicate their plans to the public.

Mr. Trump's rhetoric could cut two ways on any close policy calls.

If officials on the rate-setting Federal Open Market Committee believe their credibility with markets would suffer if they are viewed as being swayed by such pressure, this could swing them in favor of raising rates, said several former senior Fed officials.

Mr. Trump's criticism "is more likely than not to stiffen their backs on a close call," said Alan Blinder, who was Fed vice chairman from 1994 to 1996. "Many members of the FOMC will not want to see newspaper stories saying they caved to Trump."

On the other hand, if sustained attacks result in tarnishing the Fed's credibility, and hence effectiveness, that could make officials more reluctant to lift rates higher if the data send mixed signals.

"The recent episode of Trump remarks is notable for its relentless nature, especially if it continues," said Derek Tang, an economist at LH Meyer Inc., an economic-forecasting firm. "Powell could come to believe that the cost of further tightening is not merely economic but also political if hikes threaten the viability of the Fed."

A Fed spokeswoman declined to comment on Tuesday. Mr. Powell said earlier this month that the Fed wouldn't be influenced by political pressure. "We just try to do the right thing for the medium and longer term for the country," he said. "We don't let other things distract us."

The Fed last month raised its benchmark short-term rate to a range between 2% and 2.25% and penciled in four more quarter-percentage-point increases through next year.

Mr. Trump's criticism opens a national debate about whether rate increases are justified now, at a time when economic growth is strong but inflation looks contained.

The unemployment rate, at 3.7%, is already below the level most Fed officials regard as consistent with stable inflation, which argues in favor of more rate increases to keep price pressures in check.

Excluding volatile food and energy prices, so-called core inflation rose 2% from a year earlier in August, measured by the Fed's preferred gauge. That is the level the central bank sees as consistent with a healthy economy.

The Fed has enjoyed relative independence in setting policy because it is charged by Congress with making sometimes-unpopular decisions, such as raising interest rates.

Before Mr. Trump, the last president to publicly call for lower interest rates was George H.W. Bush. He blamed his 1992 election defeat partly on Fed Chairman Alan Greenspan's decision not to keep rates lower after the 1990-1991 recession.

The Clinton administration saw that these attacks hadn't deterred the Fed. "Among other things, it was making the president look weak," said Donald Kohn, who was Fed vice chairman from 2006 to 2010. "[Mr. Bush] wanted something, and he couldn't get it."

The Fed began raising rates in 1994, threatening to raise federal borrowing costs right after President Bill Clinton negotiated a hard-won deficit-reduction accord in Congress. "This is the last thing he wanted to see happen," said Janet Yellen, whom Mr. Clinton named to the Fed's board that year, in public remarks Monday.

White House adviser Robert Rubin successfully convinced Mr. Clinton not to attack the Fed, saying such an effort would politicize the central bank and undercut confidence in the administration's economic policies.

"Obviously presidents can speak out if they choose to and give their opinion about policy," Ms. Yellen said. "But I don't think it's wise." She completed a four-year term as Fed chairwoman in February after Mr. Trump nominated Mr. Powell to succeed her.

White House attacks on the Fed could take on more significance if they're joined by members of Congress because the Fed ultimately answers to Capitol Hill. That hasn't occurred under Mr. Trump.

In recent television interviews, Mr. Trump's top economic advisers, including Treasury Secretary Steven Mnuchin, haven't amplified his Fed criticism and have signaled support for Mr. Powell. This suggests his advisers aren't eager to escalate a fight with the central bank.

Moreover, Mr. Trump hasn't sought to shift Fed monetary policy through his picks for the Fed board, a president's primary channel for influencing the central bank. He has nominated mostly nonideological policy experts.

"Trump's bark has been a lot worse than his bite," said Mr. Blinder. "There's been almost no bite."

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Markets

Exchange Executive Says SEC Trading Experiment Will Cost Investors 'Millions'; Cboe president weighs in on fight over rebates between market operators and regulator

By Dave Michaels
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4 October 2018
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WSJ Pro Central Banking
RSTPROCB
English

WASHINGTON—Stripping stock exchanges of the ability to offer incentives to lure trading will cost investors "millions of dollars," according to one of the largest U.S. market operators.

The remarks on Thursday by Chris Concannon, president and chief operating officer of Cboe Global Markets Inc., add to the growing fight between **stock-market** operators and their regulator, the Securities and Exchange Commission. The SEC has proposed a two-year pilot program that exchanges say would undermine a key leg of their strategies: a widely used pricing system in which exchanges pay rebates to attract orders and charge fees to other traders.

"That is a commercial arrangement that we should be free to do," Mr. Concannon said at a Security Traders Association conference here. "Having the federal government saying you can't negotiate for a principal trader to make quotes on your market—that is not logical."

The SEC has said the experiment is intended to test how limiting or eliminating the incentives for some stocks, while leaving others untouched, would affect the U.S. **stock market**. Regulators say rebates pose a conflict of interest for brokers, because they may send investors' orders to exchanges that earn them the highest rebates.

Speaking at the same conference, a senior SEC official defended the experiment and said more than 60 institutional investors support it. "There is a lot of vested interest out there as well, so you can understand why you would be hearing some of the things you would be hearing," said Brett Redfearn, the SEC's director of trading and markets.

Mr. Concannon said his company, which owns and operates the Bats and Direct Edge exchanges, would adjust to the restrictions and won't necessarily lose any market share because of it. The SEC's plan suffers from a flawed assumption, he added. Rebates are mostly paid to high-speed traders that don't have clients, not to brokers who handle customer orders, Mr. Concannon said, showing that concerns about a conflict of interest are overblown.

Mr. Redfearn said the trading experiment would also allow regulators to see whether removing rebates makes trading more efficient for long-term investors, who complain there are too many high-speed traders posting orders just to capture rebates.

Cboe and Nasdaq Inc. said in May that the SEC's experiment would constitute unlawful government price controls on the fees they can charge traders. Nasdaq said the proposal is "arbitrary and capricious and would not withstand judicial scrutiny."

Under current regulations, exchanges' trading fees are capped at 30 cents per 100 shares, a level that also effectively caps the rebates they pay for trades.

The pilot program would test trading on three groups of stocks by setting the maximum trading fees lower than it is under current rules. Lowering the fees would compel exchanges to lower rebates, since exchanges make money on the difference between fees and rebates.

For one sample of stocks, the maximum trading fee would be 15 cents per 100 shares. Another group would have trading fees set at 5 cents per 100 shares. In a third group, exchanges would be prohibited from paying any rebates.

The SEC and stock exchanges have also feuded over the regulator's oversight of how much exchanges charge for data that traders need to price stocks.

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THE WALL STREET JOURNAL.

Business

Frackers Bet on New Terminals to Boost Oil Exports; Companies plan expanded port infrastructure to load big ships as congestion threatens to move to the water

By Rebecca Elliott
1,008 words
21 October 2018
07:00 AM
The Wall Street Journal Online
WSJO
English

As pipeline bottlenecks crimp the U.S. shale boom, some companies are racing to address the next potential constraint on American oil output: the terminals to export crude to foreign markets.

Oil exports have been a key release valve for U.S. producers in the three years since Congress lifted a longtime ban on overseas crude sales. Exports topped 2.1 million barrels daily in September and are projected to approach four million barrels within two years, according to S&P Global Platts Analytics.

Yet a surge of crude from prolific West Texas wells, which has already pushed regional pipeline networks to capacity and made it more expensive for some companies to move their oil to market, could next challenge port infrastructure.

Existing U.S. shipping terminals are already ill-equipped to handle the growing load, because only one can fully accommodate the giant tankers used to ship oil to Asia and Europe. That has at least four companies, including commodities trader Trafigura Group Pte. Ltd. and pipeline builder Enterprise Products Partners L.P., planning new or expanded terminals to load up the big ships.

"You need more efficient ways of loading oil out of the Gulf Coast," said Kevin Jebbitt, head of crude oil trading for Trafigura, which has requested permits to build a deepwater port near Corpus Christi, Texas.

The terminals can cost more than a billion dollars to build, and some experts believe there won't be sufficient long-term demand for all of the facilities being proposed. So companies interested in constructing these terminals are racing to complete their projects quickly to ensure success.

The Permian basin of West Texas and New Mexico has been the primary engine behind soaring U.S. crude production, which recently topped 11 million barrels daily. Inadequate pipeline capacity has reduced prices of oil in the area and forced some companies to curtail drilling.

Crude in Midland sold for $23 a barrel below the Houston price in August, reflecting the added costs companies have to shoulder to move crude to market without pipelines, though that differential has since contracted to about $10, according to S&P Global Platts Analytics. The firm estimates that by the end of this year, Permian drillers will be producing about 400,000 barrels of oil a day less than they would have without pipeline constraints.

Last month, Marathon Oil Corp. chief executive Lee Tillman said at an industry conference that the company had removed a drilling rig in the Permian in the face of bottlenecks. He touted the benefits of having operations in multiple basins, saying it means the company doesn't have to "accelerate our activity into pricing headwinds."

Relief is set to arrive next year in the form of new pipelines aimed at carrying crude to the coast for export. But congested docks and waterways could hamper export growth and depress regional **oil prices**.

"Infrastructure takes a lot more time than the market typically expects," said J. Alexander Blackman, an executive at the Houston-based trading company Standard Delta LLC. "When export terminal capacity is maxed out, U.S. oversupply gets trapped in storage onshore, which leads to lower prices."

On paper, Gulf Coast terminals appear to have room to accommodate millions of additional barrels of Permian crude, which is lighter and less sulfurous than the oil preferred by many domestic refineries. Crude exports could more than double next year before overloading existing and planned shipping infrastructure, according to estimates by S&P Global Platts Analytics.

However, some exporters worry ports could become congested as companies try to push more oil across a limited number of docks while navigating narrow, shallow channels. Most U.S. facilities also aren't deep enough to fully load Very Large Crude Carriers, or VLCCs, which can hold up to 2 million barrels of oil. The Louisiana Offshore Oil Port, south of New Orleans, is the sole exception, but it is primarily used for imports.

Instead, companies must load smaller vessels onshore, then transfer the crude onto the giant tankers in open water. Those ship-to-ship transfers cost between $700,000 and $1 million per loading, according to E.A. Gibson Shipbrokers Ltd.

"You're bumping up pretty close to maximum capacity now," said Trafigura's chief economist Saad Rahim.

Tallgrass Energy L.P., a Kansas-based pipeline company, announced plans this year to build a terminal in the New Orleans area to take in smaller vessels by 2020. The company also is considering an extension that would accommodate VLCCs by late 2021.

Unlike many of the other proposed projects, which would be fed by pipelines from the Permian basin, the facility would capture crude en route from Cushing, Okla., where the West Texas Intermediate benchmark price is set.

"Instead of taking all this crude to an already congested market, if you're going with shale product to the export market, we're in a much better position," said Jason Reeves, who manages the company's terminals business. "There won't be as much competing traffic."

Enterprise has proposed an offshore VLCC loading terminal south of Houston. "It's a bet on Asian demand," Brent Secrest, an Enterprise senior vice president, said at an industry conference in Houston this month.

Still others have proposed infrastructure expansions that would fit smaller tankers, and the Port of Corpus Christi intends to deepen and widen its ship channel.

Even with export demand projected to increase, many expect only some of the proposed new VLCC export terminals to ultimately be built.

"Is it a good business? Yes, it is. But I think the lion's share of the market is going to go to that first mover," said Jorge Piñon, a former oil executive who now directs the University of Texas at Austin's Latin America and Caribbean Energy Program.

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THE WALL STREET JOURNAL.

Markets
Pump Prices Hover Around $3 as Midterms Near; Cost of filling up doesn't seem to budge even with crude prices dropping, overall economy strong

By Dan Molinski
581 words
19 October 2018
08:00 AM
The Wall Street Journal Online
WSJO
English

Oil prices have struggled recently, but prices at the pump have remained stubbornly near a four-year high.

Even as U.S. crude oil slid 6.2% over the last week, the average price for a gallon of regular gasoline in the U.S. slipped by just two cents.

The price stood at $2.89 on Wednesday, according to price-tracking firm GasBuddy. That's 45 cents higher than a year ago and just shy of a four-year-high of $2.98 reached in May.

Gas has "been expensive all year," said Jeanette Casselano, a spokeswoman for motor club federation AAA. She said that it's unusual because historically prices have tended to decline at this time of year.

"What's eye-opening for drivers right now in the fall is that prices aren't dropping like they normally do after the high-demand summer season," said Ms. Casselano.

The U.S. economy remains robust, and recent data showed inflation has been for the most part tame. Consumer prices rose last month less than economists expected. Energy prices, which have risen nearly 5% over the past year, slipped 0.5% in September, as gasoline prices fell 0.2%.

But some Americans say gasoline prices will be on their mind when they vote in November. Fuel costs are also a concern for President Trump: He told reporters on the White House lawn this month, "I don't like $74" oil. In addition, the administration is pushing to slow the implementation of new maritime rules that are expected to tighten fuel supplies.

And despite the recent weakness in oil, anxiety over higher prices continues. Investors and traders are monitoring U.S.-Saudi Arabia relations after the disappearance of journalist Jamal Khashoggi. Output from Saudi Arabia is key to keeping the market balanced after Mr. Trump reinstated sanctions against Iran earlier this year.

Gregory Daco, chief U.S. economist at Oxford Economics in New York, said pump prices won't be a major factor in the midterm elections because they'll be mostly drowned out by low unemployment and a strong U.S. economy. He also said gas prices remain—importantly—below the $3-a-gallon average threshold.

"From a confidence standpoint, there's a big difference between $2.99 gas and $3 gas," Mr. Daco said.

But consumers are already cutting back. Data earlier this week showed Americans reined in their spending at restaurants and department stores in September.

Mike Riley, who owns and operates a welding shop in the north Texas town of Ennis, said gas prices matter to him much more than GDP rates or unemployment statistics.

"Gas prices strike a real sour note for me," Mr. Riley said. "They're definitely going to be on my mind come election time."

Higher pump prices have already prompted him to try to drive less. This month, he ordered threaded steel rods from a supplier in his town, even though suppliers around Dallas, nearly an hour's drive away, had them at a much better deal.

"Once I factored in the gas price and the time, it was cheaper to just buy them here," he said. "A couple years ago, I would have definitely driven to Dallas for the cheaper rods."

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Document WSJO000020181019eeaj00231

THE WALL STREET JOURNAL.

Markets

Endeavor Energy Resources Explores Potential Sale; The Texas oil fracker could fetch $10 billion to $15 billion in a sale

By Sarah Kent,, Ben Dummett and Dana Mattioli
466 words
23 October 2018
06:08 PM
The Wall Street Journal Online
WSJO
English

Endeavor Energy Resources LP is exploring a sale that could value the big private Texas oil fracker at more than $10 billion, according to people familiar with the matter.

The company is working with JPMorgan Chase & Co. and Goldman Sachs to sound out buyers, the people said.

A transaction, should one occur, would be the biggest in a wave of recent deals focused on the Permian basin in West Texas and New Mexico, the engine of U.S. crude production growth in recent years.

Founded by Autry Stevens, a Texas wildcatter who has drilled aggressively in the region for more than five decades, Endeavor has one of the most prized land positions of any oil-and-gas company in the world. Drilling rights on Permian-basin land have sold for more than $70,000 an acre. Endeavor has more than 300,000 acres.

As crude prices crashed in 2014, Endeavor tapped debt markets and used partnerships to work its way through the bust. The company signed multiyear deals with Exxon Mobil Corp. in 2014 and 2015 to develop some of its acreage.

In recent years, Endeavor has hired seasoned industry veterans to help run the company, including Charles Meloy as chief executive and Lance Robertson as chief operating officer. Both had worked for large exploration-and-production companies. Endeavor has also begun to report well and production results on a quarterly basis. The company produced about 64,000 barrels a day in the second quarter, according to an August announcement.

It isn't clear who might be interested in buying Endeavor, but big oil companies like Exxon, Chevron Corp. and BP PLC have been eager to gobble up such assets and with **oil prices** on the rise are expected to generate more cash than they have in years in 2018. They've been raising their spending to boost production of shale assets and pursuing sizable deals. BP, for example, in July agreed to pay $10.5 billion to take over BHP Billiton Ltd.'s onshore oil-and-gas assets in the U.S.

Endeavor had initially sought an initial public offering, but those plans have stalled amid concerns about tepid investor appetite for oil-and-gas stocks, the people said.

An IPO hasn't been ruled out, but a sale now appears more likely if the company is valued in line with recent transactions in the area, some of the people said. A smaller asset sale is also possible, the people said.

Bradley Olson contributed to this article.

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THE WALL STREET JOURNAL.
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Airlines Face Rising Wave Of Fuel Costs

By Robert Wall and Sarah McFarlane
705 words
23 October 2018
The Wall Street Journal
J
B1
English

Airline fuel budgets are about to get squeezed by unlikely competitors. Next year, shipowners are expected to start switching to cleaner-burning diesel fuel, part of new emissions controls taking effect globally in 2020.

Airline executives are now warning that the shift could boost the price of fuel for the world's fleet of commercial jets.

Delta Air Lines Inc. finance chief Paul Jacobson said earlier this month that rising crude prices and the fuel switch for oceangoing vessels represented a "net 'bad' for the airlines," adding that Delta's in-house refinery should help offset the negative impact.

Refineries produce three main categories of fuel: gasoline for cars; "distillates," including both diesel and jet fuel; and heavier fuels used for a variety of industrial purposes, including to power many ships. By a marketing convention, jet-fuel prices are usually pegged to diesel prices, typically selling for a few cents more a gallon.

Airline and refining industry officials are bracing for a surge in diesel demand as shipowners switch from heavier bunker fuels. Should diesel prices rise, jet fuel could follow.

"Jet fuel is the unintended consequence" of the new maritime regulations, said Mason Hamilton, petroleum markets analyst at the U.S. Energy Information Administration. "There is a high degree of uncertainty over what is going to happen," he said.

A big unknown is how much demand might increase. Shipowners have various ways to reduce emissions. Switching fuel is one; but some might simply install scrubbers in their smoke stacks, meaning no need for cleaner diesel.

The International Maritime Organization, the United Nations body that sets standards for the global marine industry, is demanding ships slash the sulfur content of their exhaust by more than 85% by 2020.

The Trump administration is backing a more gradual introduction of the cleaner fuel standard, buying fleet operators and refiners more time to adapt and easing anticipated rises in diesel and jet-fuel prices.

Brian Pearce, chief economist at the International Air Transport Association, expects the new maritime regulations will increase the price of jet fuel, but said he is uncertain by how much.

The effect of the new emissions rules could dent U.S. airlines' earnings, said Raymond James analysts. In a relatively benign scenario, big carriers' per-share earnings could fall by 2% to 4% in 2020. In the most extreme case, profits could be cut in half or even wiped out, assuming no changes to such factors as pricing or growth plans, the broker estimated.

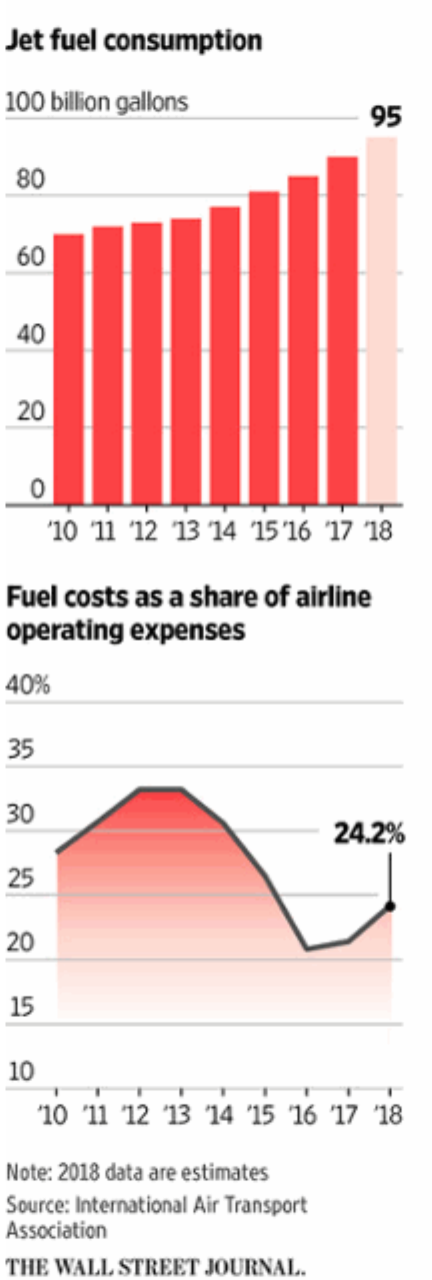
UBS analysts figure airlines in Europe could see a 6% earnings hit from higher prices related to fuel switching by shipowners next year, rising to as much as 21% the following year. In Asia, the dent is forecast to be 12% and 22% for 2019 and 2020, respectively. That could translate into several billion dollars of extra fuel costs for the industry, UBS said.

Jet fuel is now up 40% from the start of the year, according to S&P Global Platts and IATA, which estimates fuel costs make up almost a quarter of an airline's operating expenses. While higher **oil prices** are just one factor in ticket pricing, many airlines have already raised fares amid strong air-travel demand. The average domestic ticket in the U.S. in August cost $485, up from $457 a year earlier, according to the Airlines Reporting Corporation, which collects air-travel data.

"The majority of refineries are running at their maximum," said Dario Scaffardi, chief executive of Italian refiner Saras SpA, meaning they can't easily produce more to keep prices in check. In the U.S., refineries used 95% of their capacity on average in the four weeks to Sept. 21, according to the Energy Information Administration.

Refiners won't crimp on producing jet fuel because of the premium it commands, Mr. Scaffardi said, but he added that won't protect airlines from price increases if greater demand for diesel boosts the price peg for aviation fuel.

"It's likely to be good for refiners," said Chris Midgley, head of analytics at S&P Global Platts, "but not for consumers."



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THE WALL STREET JOURNAL.
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Oil Prices Hit a Low As U.S. Supplies Rise

By Dan Molinski and Sarah McFarlane
332 words
12 October 2018
The Wall Street Journal
J
B13
English

Oil prices fell by the most in two months because of a big increase in U.S. oil inventories, rising crude production from OPEC and broader-market moves away from riskier assets including crude oil.

Light, sweet crude for November delivery ended down 3% at $70.97 a barrel on the New York Mercantile Exchange, a nearly three-week low.

The U.S. benchmark has fallen by $3.99 a barrel over the past two sessions, the largest two-day fall since July 7, 2015. Brent crude, the global benchmark, ended 3.4% lower at $80.26 a barrel.

The Energy Information Administration on Thursday reported a huge, six-million-barrel increase in U.S. stockpiles of crude oil during the week ended Oct. 5. That was four times the 1.5 million-barrel rise analysts expected and put U.S. crude inventories at 410 million barrels, the highest in nearly two months.

It also was the third consecutive weekly rise. While oil inventories are expected to trend higher during the fall when demand is low and refineries partially shut for maintenance, gasoline inventories also rose by nearly one million barrels last week, which suggests demand is even weaker than normal.

"Inventory data has served to kick crude when it's already down," said Matt Smith, director of commodity research at ClipperData. "Another build to crude stocks at a time when prices were already getting swept up in the risk-off sentiment of broader markets."

Meanwhile, sharp declines in stocks on Wall Street for a second day also were pressuring **oil prices** Thursday.

"The derisking that we saw in equity markets swept other markets with it, including oil," said Harry Tchilinguirian, global head of commodity markets strategy at BNP Paribas.

Prices also have declined this week after the International Monetary Fund cut its forecasts for global economic growth.

Document J000000020181012eeac0001f

THE WALL STREET JOURNAL.

Economy

G-20 Finance Chiefs Are Optimistic About Settling Trade Disputes; The finance ministers reached no new resolution, but even agreeing about how to discuss trade principles has sometimes eluded global finance ministers this year

By Josh Zumbrun
629 words
12 October 2018
04:02 AM
The Wall Street Journal Online
WSJO
English

BALI, Indonesia—Finance chiefs representing 20 of the world's largest economies are hopeful they can help resolve the trade tensions that have emerged over the past year among their membership but achieved no breakthrough this week.

The Group of 20 finance ministers met on the sidelines of the annual meetings of the International Monetary Fund and World Bank, to discuss the importance of settling trade disagreements that have begun to take a toll on economic growth and **financial markets**, according to Argentina's Treasury minister, Nicolás Dujovne.

"We agree that international trade is an important engine for growth and we need to resolve tensions that can negatively affect market sentiment and market **volatility**," said Mr. Dujovne, whose country is G-20 chair this year.

The group's finance ministers meet several times throughout the year, culminating in a summit of heads of state, which is set for November in Buenos Aires. President Trump and Chinese President Xi Jinping are planning to meet there to seek a path forward in a trade spat that has led to each side imposing significant tariffs on the other's imports.

While the G-20 reached no new resolution this week, even achieving agreement on how to talk about trade principles has sometimes eluded global finance ministers this year. A gathering of a smaller group of finance ministers in Canada in June ended with Canada, Japan, the U.K., Germany, Italy and France issuing a unified rebuke of U.S. trade policy. That gathering—characterized as a "G-6 plus one," with the U.S. pointedly on the outside—marked a low point in relations among the world's most important finance ministries.

In a contrast to that tense meeting, Mr. Dujovne said, the G-20 is "keeping channels for productive dialogue open," though he said it would fall to member countries to resolve their disputes.

"The G-20 can play a role in providing the ground for discussion, but the differences that still persist should be resolved by the members that are directly involved in the tensions," he said.

Tensions among many advanced economies have eased since June. The U.S., Mexico and Canada have agreed to the terms of a renegotiated version of the North American Free Trade Agreement, and the U.S. has begun trade talks with Japan and the European Union. Treasury Secretary Steven Mnuchin held bilateral meetings with officials from China, Japan, the U.K. and Italy, among others, in Indonesia.

Germany's finance minister, Olaf Scholz, expressed optimism about the state of Europe's talks with the U.S., telling reporters in Bali that he expected trade negotiations between the U.S. and EU "that do not lead to the expectation of a trade escalation" and that there is trust on both sides.

The China-U.S. trade dispute, however, has progressed from threats to the implementation of tariffs, and there are signs that the actions are denting the global economy. This week, the IMF downgraded its forecast for global economic growth this year and now expects 3.7% expansion, down from an estimate in April of 3.9%.

Last year, global trade grew by 5.2%, the best since the 2010 and 2011 rebound from the financial crisis. This year, trade appears on course for 4.2% growth, the IMF said, a 0.9 percentage point downgrade from forecasts in April.

Andreas Kissler contributed to this article.

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* Trump and Xi Plan to Meet Amid Trade Tension

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WSJ PRO CENTRAL BANKING

Markets

India Central Bank Seen Raising Key Rate to 6.75%; Reserve Bank of India raised the benchmark rate twice this year, in June and August

By Debiprasad Nayak
254 words
4 October 2018
03:41 AM
WSJ Pro Central Banking
RSTPROCB
English

MUMBAI--India's central bank is likely to raise its benchmark lending rate this week to cool inflation from rising **oil prices** and a weak rupee.

The Reserve Bank of India's monetary-policy committee, headed by Governor Urjit Patel, is scheduled to announce its rate decisions Friday afternoon. All 12 economists polled by The Wall Street Journal forecast a quarter-percentage-point increase, to 6.75%.

This year the central bank has raised the rate twice, in June and August, by a total 0.5 percentage point.

"Global risks have jeopardized the central bank's policy response framework," said Radhika Rao, an economist at DBS Bank.

The RBI needs to raise rates to safeguard the rupee, ensure ample liquidity and compensate for fiscal-slippage risks before national elections early next year, she said.

The rupee has hit new lows in recent months against a backdrop of a global flight to quality that has hurt many emerging-market currencies.

Foreign investors have sold about $9.5 billion of Indian debt and stocks so far this year, compared with a $25.8 billion inflow in the same period in 2017, according to data from the market regulator.

Most analysts have said the central bank likely won't stop at three rate increases for this year and could decide on a fourth in December.

Write to Debiprasad Nayak at debi.nayak@wsj.com

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THE WALL STREET JOURNAL.
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Inside View: A Universally Bad Idea

By Andy Kessler
868 words
22 October 2018
The Wall Street Journal
J
A17
English

Bad ideas just won't die. Ronald Reagan's goal was to "leave Marxism and Leninism on the ash heap of history." But they keep coming back, albeit in different forms. Of today's bad ideas -- from net neutrality to open curriculum and living wages -- the most dangerous is the universal basic income.

For twisted reasons, Silicon Valley, the embodiment of meritocracy and incentives, thinks universal basic income will be the next great economic force. Facebook co-founder Chris Hughes is helping to fund a UBI pilot program in Stockton, Calif. He even wrote a book about the idea -- something about 1%-ers paying money via tax credits -- hardly original.

He's not alone. Barack Obama has recently expressed interest in the idea. So have Bill Gates, Richard Branson, Mark Zuckerberg, Elon Musk, Marc Benioff and others in Silicon Valley. Why? I figure it's their misplaced guilt about patriarchal dominance over workers displaced by automation. That's a triple crown of bad excuses.

The enthusiasm seems infectious. In July, Chicago Alderman Ameya Pawar told the Intercept, "We need to start having a conversation about automation and a regulatory framework so that if jobs simply go away, what are we going to do with the workforce?" It wasn't a long chat. This summer, Mr. Pawar introduced legislation for a pilot program that would give $500 a month to 1,000 families. Think of it as a new version of walking-around money. Never mind that Chicago can't even afford to fund its public-employee pensions.

It sounds eerily similar to startup incubator Y Combinator's Basic Income Project Proposal. It's the harebrained idea of the organization's president, Sam Altman. A thousand lucky folks would receive $1,000 a month for as long as five years. Another 2,000 would form a control group and might get $50 a month for their troubles.

What troubles? Well, University of Michigan researchers will be asking how they spend their time, if their political and social attitudes change, the effect on crime, and if their children do better on standardized tests. And there will be blood tests too: The study will "measure markers that serve as predictors of later disease as well as cortisol, an indicator of stress." If $1,000 a month lowers your stress, shouldn't everyone get $1,000 a month? Netflix and chill is cheaper.

Mr. Altman has almost sinister plans for UBI. Forget $1,000 a month. He told Spectacle "instead of getting a fixed fee, you get a percentage of the GDP every year." Maybe everything should be owned by the state and divvied up? All he's missing is five-year plans. Perhaps Mr. Altman dropped out of Stanford before taking economics -- or history for that matter.

Not to be outdone, this summer the People's Policy Project -- Get it? Like the People's Republic? -- proposed an American Solidarity Fund. Every citizen over 17 would own a share of this sovereign-wealth fund. Slowly but surely, up to one-third of the assets of the U.S. economy would find their way into the fund. That's $90 trillion for those keeping track at home. Then the investment returns from the fund would be paid out as, you guessed it, a universal basic dividend. This isn't sliding a slippery slope toward socialism, it's a trapdoor.

How would the fund get all those assets? Start with all government-owned land and buildings. Then add a 3% market-capitalization tax on public companies. Apple would owe $30 billion. Add a continuing 0.5% market-cap tax, a 5% levy on initial public offerings and 3% on mergers. Smells Marxian: "government owning the means of production." So much for the ash heap. Then increase the death tax and get rid of every tax deduction. Heck, they better pay hefty universal basic lay-on-the-couch dividends because why would anyone ever go to work again? Companies would have minimal retained earnings to invest in the future, and workers wouldn't keep much of their pay. The fund would shrink annually as the **stock market** imploded.

Progress is about incentives. The reason UBI will fail is the cycle of dependency built into it. It is a gateway drug to collectivism. Turning the U.S. into Venezuela is a universally bad idea.

Remember Mr. Pawar's fear of automation? He's in good company. At a February 1962 press conference, when President Kennedy was asked about a Labor Department estimate that 1.8 million jobs would be replaced by machines each year, he replied, "I regard it as the major domestic challenge, really, of the '60s, to maintain full employment at a time when automation, of course, is replacing men."

In February 1962 U.S. nonfarm payroll stood at 55.2 million. Fifty-six years and several major tax cuts later, jobs stand at 149.5 million. Call it basic and universal capitalism. Let's stick with that, shall we?

(See related letters: "Letters to the Editor: Universal Income, Incentives and Well-Being" -- WSJ Oct. 29, 2018)

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THE WALL STREET JOURNAL.

Opinion

Growth Is on the Ballot; Democrats may use the 2019 debt-limit debate to prod Trump to raise tax rates.

By The Editorial Board
970 words
17 October 2018
07:21 PM
The Wall Street Journal Online
WSJO
English

"If [Donald Trump] were elected, I would expect a protracted recession to begin within 18 months. The damage would in all likelihood be felt far beyond the United States."

—Lawrence Summers, Washington Post, June 6, 2016

"U.S. Is World's Most Competitive Economy for First Time in a Decade"

—Wall Street Journal headline, Oct. 16, 2018

Nearly 21 months into the Trump Presidency, the recession that the chief economist for the Democratic Party predicted would start three months ago still hasn't arrived. Instead the economy is growing at a rate of 4% a year, and the World Economic Forum has the U.S. back at the top of its global competitiveness ranking. We don't cite Mr. Summers' prediction to embarrass him—everyone makes mistakes—but to point out what almost no one is talking about during this midterm election campaign: Pro-growth economic policies are on the ballot.

Not that you can tell from the election noise. Democrats say the most important issue is Donald Trump, and Donald Trump agrees. The President would rather talk about Stormy Daniels and Elizabeth Warren than the economy, and many Republicans have decided that they'd rather talk about immigration than the tax reform and deregulation that have spurred the best run of economic growth since 1999.

Yet if Republicans keep their majority, the economy will be a major reason. They haven't sold their tax reform well, but the growth that it has produced has given them a nine-point edge over Democrats on the economy in a summer Pew Research poll, and improved the public's sense that the country is moving in the right direction. Gallup finds public satisfaction with the way things are going at 37%, 10 points higher than a year ago. Only 12% say the economy is the country's most important problem, a reflection of better times.

The nearby chart shows the shift in the growth trend by quarterly change in GDP over the last four years. The economy barely avoided recession at the end of 2015 and grew by less than 2% over eight consecutive quarters through March 2017. Growth has accelerated since as consumer and business confidence have surged. The Atlanta Federal Reserve estimates that the economy grew by 4% in the third quarter, after 4.2% in the second.

The political point to keep in mind is that none of this was inevitable. It was the result of a decisive and deliberate policy shift that began with the arrival of the Trump Presidency allied with a Republican Congress. The **stock market** began to surge on the day after the election in anticipation of pro-growth policies and the liberation of animal business spirits.

Deregulation lifted the visible foot of government off business, and tax reform broke the logjam on investment created by the highest corporate tax rate in the developed world. Congress overrode late Obama-era rules no fewer than 16 times with the Congressional Review Act, freeing businesses to invest in new opportunities rather than paying to meet new federal regulation. Barriers to oil and gas production and transport were lifted.

Capital investment has surged, exactly as some of us predicted. This was the great deficiency of the Obama expansion, as companies took fewer risks. U.S. oil production is now leading the world again and exports are surging. Bank lending has increased and businesses have had to bid up wages as the job market has tightened.

The Labor Department announced this week that its survey of job openings reached a new high of 7.1 million in August. All of this has helped the U.S. avoid the recession that might well have happened if Democrats had won and taken Larry Summers' policy advice.

U.S. growth is now driving the world economy, not retarding it. The World Economic Forum specifically cites America's entrepreneurial culture, flexible labor market and vibrant financial system as economic strengths. Reviving all three was the explicit goal of the GOP growth strategy after the Obama-era policies had squashed them.

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The question that is too much below the surface of next month's election is whether Americans want to continue this prosperity. The growth revival isn't guaranteed to continue and could be slowed considerably with the return of anti-growth policies.

We're not sure voters or markets fully appreciate the anti-growth risks. The last time Ms. Pelosi was House Speaker, she persuaded George W. Bush to take Mr. Summers' advice of short-term "stimulus" that lifted GDP for a quarter but then sputtered. Democrats also passed an energy bill that wasted tens of billions on green boondoggles. And that was under a Republican President.

Some Americans think the worst we could get is virtuous policy gridlock, but don't be so sure. The GOP Congress reinforced Mr. Trump's best economic instincts and at least offered some rhetorical resistance to his trade protectionism. Democrats will support his tariffs, and maybe demand more, while trying to repeal his tax and deregulation policies.

Mr. Trump will have the veto pen, but Democrats are already planning to use the debt limit debate in 2019 to force him to accept higher tax rates on business and individuals. They might also pair higher taxes with more spending on public works that Mr. Trump promised in 2016. Will Mr. Trump hold firm without the reinforcement of a Republican House and Senate? We're not at all sure of the answer.

One problem with prosperity is that it can lull people into believing it will continue. Voters focus on other priorities. Let's hope they understand the economic stakes on Nov. 6.

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REVIEW & OUTLOOK (Editorial)
Growth Is on the Ballot

955 words
18 October 2018
The Wall Street Journal
J
A18
English

"If [Donald Trump] were elected, I would expect a protracted recession to begin within 18 months. The damage would in all likelihood be felt far beyond the United States."

-- Lawrence Summers, Washington Post, June 6, 2016

"U.S. Is World's Most Competitive Economy for First Time in a Decade"

-- Wall Street Journal headline, Oct. 16, 2018

Nearly 21 months into the Trump Presidency, the recession that the chief economist for the Democratic Party predicted would start three months ago still hasn't arrived. Instead the economy is growing at a rate of 4% a year, and the World Economic Forum has the U.S. back at the top of its global competitiveness ranking. We don't cite Mr. Summers' prediction to embarrass him -- everyone makes mistakes -- but to point out what almost no one is talking about during this midterm election campaign: Pro-growth economic policies are on the ballot.

Not that you can tell from the election noise. Democrats say the most important issue is Donald Trump, and Donald Trump agrees. The President would rather talk about Stormy Daniels and Elizabeth Warren than the economy, and many Republicans have decided that they'd rather talk about immigration than the tax reform and deregulation that have spurred the best run of economic growth since 1999.

Yet if Republicans keep their majority, the economy will be a major reason. They haven't sold their tax reform well, but the growth that it has produced has given them a big edge over Democrats on the economy (nine points in a summer Pew Research poll), and improved the public's sense that the country is moving in the right direction. Gallup finds public satisfaction with the way things are going at 37%, 10 points higher than a year ago. Only 12% say the economy is the country's most important problem, a reflection of better times.

The economy barely avoided recession at the end of 2015 and grew by less than 2% over seven consecutive quarters through March 2017. Growth has accelerated since as consumer and business confidence have surged. The Atlanta Federal Reserve estimates that the economy grew by 3.9% in the third quarter, after 4.2% in the second.

The political point to keep in mind is that none of this was inevitable. It was the result of a decisive and deliberate policy shift that began with the arrival of the Trump Presidency allied with a Republican Congress. The **stock market** began to surge on the day after the election in anticipation of pro-growth policies and the liberation of business animal spirits.

Deregulation lifted the visible foot of government off business, and tax reform broke the logjam on investment created by the highest corporate tax rate in the developed world. Congress overrode late Obama-era rules no fewer than 16 times with the Congressional Review Act, freeing businesses to invest in new opportunities rather than paying to meet new federal regulation. Barriers to oil and gas production and transport were lifted.

Capital investment has surged, exactly as many predicted. Low investment was the great deficiency of the Obama expansion, as companies took fewer risks. U.S. oil production is now leading the world again and exports are surging. Bank lending has increased and businesses have had to bid up wages as the job market has tightened.

The Labor Department announced this week that its survey of job openings reached a new high of 7.1 million in August. All of this has helped the U.S. avoid the recession that might have happened if Democrats had won and taken Larry Summers' policy advice.

U.S. growth is now driving the world economy, not retarding it. The World Economic Forum specifically cites America's entrepreneurial culture, flexible labor market and vibrant financial system as economic strengths. Reviving all three was the explicit goal of the GOP growth strategy after the Obama-era policies had attacked them.

The question that is too much below the surface of next month's election is whether Americans want to continue this prosperity. The growth revival isn't guaranteed to continue and could be slowed considerably with the return of destructive policies.

We're not sure voters or markets fully appreciate the anti-growth risks. The last time Nancy Pelosi was House Speaker, she persuaded George W. Bush to take Mr. Summers' advice of short-term "stimulus" that lifted consumer spending for a quarter but then sputtered. Democrats also passed an energy bill that wasted tens of billions on green boondoggles. And that was under a Republican President.

Some Americans think the worst we could get is virtuous policy gridlock, but don't be so sure. The GOP Congress reinforced Mr. Trump's best economic instincts and at least offered some rhetorical resistance to his trade protectionism. Democrats will support his tariffs, and maybe demand more, while trying to repeal his tax and deregulation policies.

Mr. Trump will have the veto pen, but Democrats are already quietly debating whether to use the debt-limit debate in 2019 to force him to accept higher tax rates on business and individuals. They might also pair higher taxes with more spending on public works that Mr. Trump promised in 2016. Will Mr. Trump hold firm without the reinforcement of a Republican House and Senate? We're not at all sure.

One problem with prosperity is that it can lull people into political complacency. Voters focus on other priorities. The economic stakes on Nov. 6 are significant whether or not voters know it.

(See related letters: "Letters to the Editor: Trump Tweets Obscure Positive GOP Message" -- WSJ Oct. 27, 2018)

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Slump In Home Sales Deepens

By Laura Kusisto and Sharon Nunn
983 words
20 October 2018
The Wall Street Journal
J
A1
English

The housing market is experiencing its longest slump in four years, as the divergence between a booming U.S. economy and weakening home sales that many had dismissed as temporary now looks poised to continue.

A combination of rising mortgage rates and high home prices, a dearth of inventory and a new tax law that reduces incentives for homeownership have weighed on the housing sector this year.

Sales of previously owned U.S. homes fell 3.4% in September from the previous month to a seasonally adjusted annual rate of 5.15 million, the National Association of Realtors said Friday. Sales were down 4.1% from a year earlier, the seventh straight month of declines -- marking the longest slump since 2014, when the market was still recovering from the housing crash.

"Without a doubt there is a clear shift in the market," said Lawrence Yun, the group's chief economist.

Mr. Yun blamed a dearth of inventory for weakening sales in recent months. But he also pointed to signs of strong demand, suggesting that could eventually pull the housing market out of the doldrums, if the home supply increased.

Still, even with rising inventory levels in September, Mr. Yun said fewer people were attending open houses. That shows demand could be faltering and that some potential buyers might be giving up, for now.

Economists said that rising home prices -- up more than 50% nationwide since prices bottomed out in 2012 -- have been a drag on the housing market. More recently, mortgage rates have been shooting higher, roughly a percentage point this year to nearly 5%.

Workers' wages are rising again, up nearly 3% over the past year, but not enough to keep up with years of rapid growth in home prices. The monthly payment to buy the average-priced home has risen 16% since the beginning of the year, according to mortgage-data firm Black Knight Inc.

Affordability is "already more stretched . . . than it has been in previous cycles," said Aaron Terrazas, a senior economist at Zillow.

Real-estate agents say power is shifting more toward buyers. They now have a number of homes to choose from within their budget and feel they need to weigh their options, knowing their home may not appreciate nearly as quickly in the coming years.

Buyers have also returned to putting contingencies on their purchases to protect themselves if the home has hidden physical flaws or doesn't appraise at the purchase price -- a practice that was often waived to make offers stand out during bidding wars when the market was hot.

"Home inspections are back," said Joselin Malkhasian, a Realtor in Boston.

When Phil Morris, a sales executive at Microsoft Corp., moved to Seattle from Oklahoma City last August, "this market was nuts," he said. Mr. Morris, 50 years old, gave up on buying a home and decided to rent instead.

A few months ago, he noticed that the number of homes on the market was "going way up." A 1950s house in West Seattle with three bedrooms and a big backyard caught his eye. He ultimately bought it at a discount of more than $15,000 from the $605,000 asking price.

"That was 100% unheard of" last year, said Mr. Morris's agent, Lindsey Gudger. Sellers have even begun to cover closing costs -- a saving of $5,000 to $7,000 for many buyers -- Mr. Gudger said.

It is rare for the housing sector to slow so significantly even as the job market and **stock market** are booming. Gross domestic product grew at a 4.2% rate in the second quarter, the strongest pace in nearly four years. Meanwhile, companies are on a hiring spree and September's 3.7% unemployment rate is the lowest since 1969.

The last time the U.S. economy saw such a slump in the housing market was after the so-called taper tantrum in 2013, when then-Federal Reserve Chairman Ben Bernanke said the central bank could start winding down its quantitative-easing program, leading to a spike in interest rates. The housing market slowed in late 2013 through much of 2014, before rebounding strongly as mortgage rates eased.

Economists say it is unlikely that the economy and housing market can continue to diverge for much longer.

In one scenario, economists said continued wage growth could put more money in consumers' pockets and lead to a rebound in sales next spring.

Alternatively, economists say a weakening housing market -- which also helps drive furniture sales, building-materials purchases and construction employment -- could start to drag down the broader economy. Home construction has faltered in recent months as well.

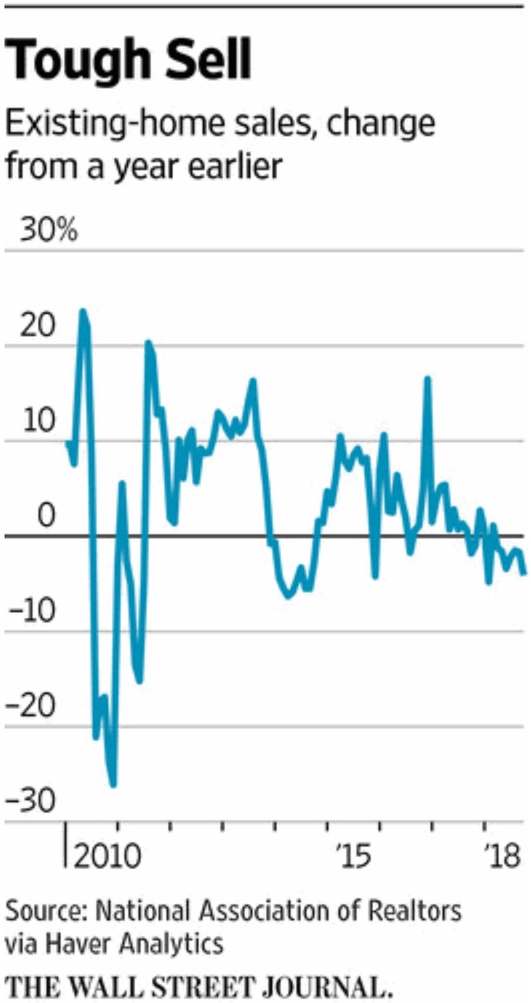
"If this is the first chink in the armor and other parts of the economy start to weaken, driven by increases in rates and consumer confidence starting to wane, then I think it could be the beginning of a really soft year," said Glenn Kelman, chief executive of real-estate brokerage Redfin.

At the end of September, the market had a 4.4-month supply of homes, based on the current sales pace, up from a 4.2-month supply a year earlier. That is below what Mr. Yun considers a balanced market of six months of inventory.

The median existing-home price in September was $258,100, up 4.2% from a year earlier, according to the Realtors group.

News Corp., owner of The Wall Street Journal, also operates Realtor.com under license from the National Association of Realtors.

Some of September's weakness was due to Hurricane Florence, which contributed to sales falling 5.4% from a month earlier in the South, according to the Realtors group. But sales were also down by 2.9% in the Northeast and by 3.6% in the West, regions unaffected by the storm.



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THE WALL STREET JOURNAL.

Economy

Government Debts Not as Daunting When Assets Are Mixed In; Measuring debt against GDP doesn't capture the full picture, according to IMF research that calls for factoring in what governments own, including natural resources

By Josh Zumbrun
781 words
9 October 2018
09:45 PM
The Wall Street Journal Online
WSJO
English

NUSA DUA, Indonesia—Lots of people worry about government debt. But they don't really consider the assets that governments hold—and that should change, according to new research from the International Monetary Fund.

When comparing countries' indebtedness, analysts traditionally use each government's debt as a share of its national economy. But it turns out that some of the most indebted countries have massive asset holdings, against which their debts don't appear nearly as onerous.

"It is not only what you owe; it is also what you own," said Vitor Gaspar, the director of the IMF's fiscal-affairs department.

This seemingly simple issue has never been tackled in depth. Most countries don't provide a consolidated estimate of government assets and liabilities. In a new data set released at the IMF's annual meetings in Indonesia, researchers have tabulated the assets and debts—a complete public-sector balance sheet—for 31 countries covering 61% of the global economy.

Publishing government data that show assets as well as liabilities would help analysts better assess a country's strengths and weaknesses, the researchers said.

Debts include the amounts owed by national and local levels of government, plus other public-sector liabilities such as pension obligations and outstanding currency. Total assets include publicly owned corporations, government pension funds, natural resource wealth, equities, loans owed to the state and so on. Subtracting the debts from the assets yields the country's governmental net worth. The data exclude privately held assets and debts.

Consider the case of Japan. It has the world's largest government debt, exceeding 316% of gross domestic product.

Yet Japan's government bonds are still considered among the safest. That's not only because the government could always print more yen to pay its debts. It's also due to the government's total assets, worth 311% of GDP.

Japan's net worth—assets minus liabilities—is just minus 5% of GDP.

Or consider the U.S., where total governmental debt equals 192% of the economy.

The U.S. has considerable assets too. The government owns the mortgage-finance giants Fannie Mae and Freddie Mac and their multitrillion-dollar mortgage portfolio. A large chunk of student loans is owed directly to the Education Department. The U.S. controls extensive natural resources, and the states have pension funds.

Added together, the U.S. public-sector assets are about 175% of GDP, leaving it with a net worth of minus 17% of GDP.

While the assets of Japan and the U.S. cancel out most of their respective debts, that's not true for all countries, particularly in Europe.

Portugal, the U.K., France and Austria, for instance, have public liabilities far exceeding their assets. Portugal fares the worst, with liabilities of 395% of GDP, and assets of 260%, leaving the nation with a net worth of minus 135% of GDP. The U.K. isn't far behind with a net worth of minus 125%. France and Austria both have net worth of about minus 40%.

On the other end of the spectrum are countries such as Norway, Russia and Australia. All three have total liabilities above 100% of their GDP, but they also have vast natural resource wealth. Norway and Australia also have rich sovereign-wealth funds and retirement funds. Norway and Russia have net worth exceeding 400% of their GDP. Australia's is over 200%.

These insights help better measure a country's vulnerabilities. While Norway's sovereign-wealth fund, for example, might be exposed to a **stock market** crash, Russia would be more exposed to plummeting **oil prices**. The U.S. government's large mortgage portfolio could be hit in a housing downturn.

Mr. Gaspar said the goal of the research isn't to pressure countries to run their balance sheets like businesses, but rather to get governments to focus on reporting and managing their assets for the public good.

Just four countries—Australia, New Zealand, the U.K. and Uruguay—publish full consolidated balance sheets. (Many other countries publish all the individual data points, but not in one place.)

The exercise also provides a clearer picture of which countries have the budget capacity, which economists call "fiscal space," to respond to a downturn.

"Countries that enter a financial crisis without fiscal space suffered deeper and more protracted contractions," Mr. Gaspar said.

Write to Josh Zumbrun at Josh.Zumbrun@wsj.com

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* IMF Warns of Possible Emerging-Markets Crisis

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THE WALL STREET JOURNAL.

Markets
Invesco to Buy OppenheimerFunds From MassMutual; Asset manager also reports increase in profit, stock buyback

By Justin Baer
534 words
18 October 2018
11:17 AM
The Wall Street Journal Online
WSJO
English

Invesco Ltd. agreed to buy rival Massachusetts Mutual Life Insurance Co.'s OppenheimerFunds Inc. unit for $5.7 billion, adding to a string of acquisitions that have transformed the firm into a $1 trillion money manager.

Invesco will pay for the deal with 81.9 million common shares and another $4 billion in preferred shares, making MassMutual the firm's largest stockholder. Including OppenheimerFunds, Invesco will manage more than $1.2 trillion in assets.

Invesco Chief Executive Martin Flanagan has done his part in recent years to touch off a wave of consolidation in an industry criticized for having too many managers, snapping up businesses ranging from Guggenheim Partners's exchange-traded funds arm to a robo-advisory firm.

The emergence of exchange-traded funds and other low-cost options have pressured investment firms to lower fees and seek out new businesses. These so-called passive investments have performed as well as or better than many of those funds offered by managers that pick stocks and bonds, and at a much lower cost.

The shift has ramped up the pressure on active managers to offer new products, slash the fees they charge investors and, in some cases, merge with their peers.

Yet many managers remain reluctant deal makers, mindful that the **stock market**'s rally has driven up prices on potential acquisitions. Others worry potential deals would accelerate the outflow of client money.

"The world has changed and is rapidly moving," Mr. Flanagan said Thursday in an interview. "Hoping for the good old days to come back—that's just not going to happen."

The acquisition will strengthen Invesco's position in some businesses that have been proven resilient to the move toward passive investing, including international and emerging-markets stock funds, Mr. Flanagan said.

OppenheimerFunds, which manages more than $246 billion in assets, also has a strong U.S. sales organization that will mesh well with Invesco's distribution teams overseas, he added.

MassMutual isn't looking to exit from the asset-management business, Chief Executive Roger Crandall told The Wall Street Journal. The deal offered the insurer a chance to hold a big stake in a much larger firm. Buying another firm outright would've proven too costly, he said.

One way Invesco can benefit from the deal is MassMutual move to acquire MetLife Inc.' sales force of about 4,000 agents in 2016, increasing its total fleet to roughly 9,000. About 70% of MassMutual's career life-insurance agents are licensed to sell mutual funds and variable annuities.

Alongside the deal announcement, Invesco reported a profit of $269.6 million, or 65 cents a share for its third quarter, up slightly from $267.5 million, or 65 cents a share, a year earlier. Adjusted per-share earnings were 66 cents, matching analysts' expectations.

Total revenue rose 1% to $966.9 million.

The Atlanta-based asset manager also announced a $1.2 billion stock buyback program to be completed within the next two years.

Nick Kostov and Leslie Scism contributed to this article.

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THE WALL STREET JOURNAL.

Markets

Dollar Falls Against Yen as Investors Seek Safety; Amid global stock slump, greenback gains on emerging-market rivals

By Sam Goldfarb
196 words
23 October 2018
06:14 PM
The Wall Street Journal Online
WSJO
English

The U.S. dollar edged lower Tuesday as a broad shift away from riskier assets boosted the Japanese yen against other currencies.

The WSJ Dollar Index, which measures the U.S. currency against a basket of 16 others, fell for the second time in three days, slipping by less than 0.1% to 90.12.

As investors sold stocks around the world, the dollar fell 0.3% against the yen to ¥112.44, while the euro fell 0.3% to ¥128.97.

The dollar's losses against the yen were partially offset by gains against emerging-market currencies. It gained 1.3% against the Turkish lira to 5.744 per dollar and 0.4% against the South African rand to 14.2569 per dollar.

Heavy selling of stocks kicked off in Asia, where investors reversed a two-day rally. Chinese officials have recently tried to reassure investors that the country's economy is on solid footing, despite slowing growth and recent **stock-market** declines.

Write to Sam Goldfarb at sam.goldfarb@wsj.com

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THE WALL STREET JOURNAL.
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Brent Ducks Under $80 as Supply Rises

By Christopher Alessi and Dan Molinski
293 words
19 October 2018
The Wall Street Journal
J
B11
English

Brent crude fell below the $80-a-barrel threshold for the first time in nearly a month amid a stock selloff and an unexpectedly large rise in U.S. inventories.

The global benchmark, Brent crude, ended 0.9% lower at $79.29 a barrel, its lowest settle value since Sept. 21. Meanwhile, light, sweet crude for November delivery, the U.S. benchmark, ended 1.6% lower at $68.65 a barrel on the New York Mercantile Exchange.

The U.S. Energy Information Administration on Wednesday reported crude oil stockpiles had risen 6.5 million barrels last week to 416.4 million barrels. That compares with expectations of a 1.5 million-barrel rise, according to a Wall Street Journal survey.

Earlier in October, Brent temporarily breached the $85-a-barrel level for the first time in roughly four years.

But prices have come under pressure over the past week, amid global **stock-market** turmoil and signs of weakening oil demand. Both the International Energy Agency and OPEC last week lowered their oil-demand growth forecasts for this year and next, in part due to a gloomier macroeconomic outlook.

Crude oil "stocks are rising in the U.S. and the reason is because pipes out of the U.S. for exports are maxed out while U.S. production is rising," said Bjarne Schieldrop, chief commodities analyst at SEB Markets.

Analysts at consultancy JBC Energy wrote in a daily note on Thursday that the "strong build in U.S. crude stocks was the fourth in a row, meaning that crude stocks have now built by over 22 million barrels in the past four weeks."

Document J000000020181019eeaj00013

THE WALL STREET JOURNAL.

Markets
Morgan Stanley Banker Is Also an Uber Driver; Some bankers go the extra mile to land a deal. Michael Grimes drove many.

By Maureen Farrell and Liz Hoffman
1,025 words
18 October 2018
05:30 AM
The Wall Street Journal Online
WSJO
English

Many Uber drivers are in it for a few extra bucks. Michael Grimes has a bigger prize in mind.

Mr. Grimes, Morgan Stanley's top technology banker, has moonlighted for years as a driver for the ride-hailing service, according to people familiar with the matter. That side hustle—hardly necessary, given his multimillion-dollar Wall Street salary—may help Morgan Stanley win a role on the most hotly anticipated **stock-market** debut in years.

Valuing the nine-year-old company at as much as $120 billion, an Uber IPO would reward investment bankers with tens of millions of dollars in fees and equally valuable bragging rights.

Morgan Stanley and Goldman Sachs Group Inc. recently gave presentations to Uber outlining an IPO that could launch in early 2019, The Wall Street Journal reported Tuesday. Some people briefed on the matter say Morgan Stanley is the odds-on favorite to land the coveted role of top underwriter, which carries higher fees and prestige.

Some bankers have been known to go to extreme lengths to stand out from the competition. Most start with a mastery of the numbers and fluency with entrepreneurs' vision, but some like Mr. Grimes have gone further--he rented an apartment close to one company and studied his daughter's internet habits to get familiar with another.

Investment banks compete fiercely in Silicon Valley, where Morgan Stanley has been the No. 1 underwriter for U.S.-listed tech IPOs in four of the past five years, according to Dealogic. It is a boom-and-bust business, surging when the market is hot—like it is now—and moribund when investor enthusiasm cools.

But picking winners and landing the choicest assignments is never easy. While Uber co-founder Travis Kalanick was CEO, the company told banks that working for competing ride-share services would lock them out of dealings with Uber, according to people familiar with the matter.

The stakes are now higher than ever. After a slow stretch in which many flush startups preferred to stay private, the IPO market is booming.

Global tech companies have sold $123 billion in shares so far this year, versus $84 billion at the same point in 2017, according to Dealogic. Stock-underwriting fees rose a combined 40% at Goldman, Morgan Stanley and JPMorgan Chase & Co. through the first nine months of this year.

Dropbox Inc., Eventbrite Inc. and Spotify Technology AG are among many high-profile companies to go public. The biggest launches are still to come: Uber, Lyft Inc., Pinterest and Airbnb Inc. are all eyeing IPOs in 2019 or 2020.

For Wall Street banks eager to cash in on the offerings, the preparations started years ago.

Goldman backed Uber early. It invested in the company in 2011 at a roughly $200 million valuation, gaining a stake that could turn a billion-dollar profit in an eventual IPO, people familiar with the matter have said. Goldman in 2015 sold to clients of its private bank bonds that convert into Uber shares at a discount to the company's eventual IPO price. Gary Cohn, the bank's longtime No. 2 executive, was a frequent visitor to Uber's San Francisco headquarters and became close to Mr. Kalanick, who said of Goldman in 2015, "we're big fans of those guys."

At a conservative estimate of $1 billion, the profits from its Uber investment would amount to 10% of Goldman's annual pretax profits and could put the bank in an uncomfortable position if it is seen as steering a deal that would result in a personal windfall.

Morgan Stanley has wooed Uber for years. When the bank authorized Uber rides for its employees traveling on business in 2014, it marked the occasion with a press release. In 2016, it arranged a $1.5 billion loan for Uber, the company's first major borrowing and one of the first times a money-losing tech startup had tapped the debt markets.

The same year, Morgan Stanley raised hundreds of millions from its wealthy clients to invest in Uber, despite the fact that the company was unwilling to provide key financial information. The bank currently is the lead arranger of a $2 billion Uber bond sale.

As the IPO looms, Mr. Grimes took center stage. A fast-talking California native with a degree in computer science, he is known to put on a show for clients.

Nearly a year ahead of Snap Inc.'s IPO, he rented an apartment blocks from the Snapchat parent's Venice, Calif., office. When Morgan Stanley pitched music-streaming service Pandora Media Inc. on going public, Mr. Grimes had his bankers wear T-shirts from their favorite rock concerts.

He is known for being obsessive, even controlling, on the hunt for a deal. Before presenting to Pandora's board, Mr. Grimes spent weeks studying his daughter's usage of the website and chose the color of the paper his team's pitch was printed on, a person present at the proposal said.

When seeking a lead role for Morgan Stanley on Facebook Inc.'s 2012 IPO, he insisted on being the "single driver" of the deal, arguing that having a sole bank in charge simplifies the process.

Anupreeta Das and Greg Bensinger contributed to this article.

Write to Maureen Farrell at maureen.farrell@wsj.com and Liz Hoffman at liz.hoffman@wsj.com

Have You Ever Taken an Uber Driven by Michael Grimes?

You can check your "Past Rides" on the app or search your email receipt to find out. Tell us about it for possible inclusion in future coverage by emailing liz.hoffman@wsj.com.

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THE WALL STREET JOURNAL.
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Vacancies At Malls At 7-Year High

By Esther Fung
787 words
4 October 2018
The Wall Street Journal
J
B1
English

Retailers anticipate a strong holiday season, boosted by a healthy economy and burgeoning consumer confidence, but an intensifying slump among shopping-mall operators shows not all are benefiting from the recovery.

Mall vacancy rates rose to 9.1% in the third quarter, their highest level in seven years. Many of the older shopping centers that lack trendy retailers, lively restaurants or other forms of popular entertainment continue to lose tenants or even close down.

Much of the retail sector has bounced back this year after years of losing out to online competitors that have decimated some of the industry's biggest names, including department stores like Macy's and retailers like Payless ShoeSource.

So far this year, shares of retail stocks are enjoying their biggest rally in years, boosted by better-than-expected earnings and a nationwide shopping spree for everything from electronics to apparel.

Robust job growth and a solid economic outlook have pried open wallets. Consumer confidence hit an 18-year high last month, while the **Dow Jones Industrial Average** set another record Wednesday. Wages were already starting to tick higher when Amazon.com Inc. announced this week it was raising its minimum wage to $15 an hour, a move that could put more pressure on other big employers to boost pay.

That momentum looks poised to carry into the crucial holiday shopping season, which begins next month. The National Retail Federation on Wednesday said it expects holiday retail sales in November and December to increase by 4.3% to 4.8% over last year. The forecast, which excludes cars, gasoline and restaurants, compares with an average annual increase of 3.9% over the past five years, the NRF said.

But many lower-end malls are still struggling to benefit from the economic revival, especially in some of the more economically depressed areas in Pennsylvania, Ohio and Michigan. They suffer from a glut of shopping centers but not enough consumers.

The average rent for malls fell 0.3% to $43.25 a square foot in the third quarter, down from $43.36 in the second quarter, according to data from real-estate research firm Reis Inc. The last time rents slid on a quarter-over-quarter basis was in 2011.

"The enclosed mall has been bearing the brunt of this consolidation over the past 24 months, which has resulted in higher vacancies," said Thomas Dobrowski, executive managing director at NKF Capital Markets.

Department-store closings by Bon-Ton Stores Inc. and Sears Holdings Corp in the third quarter accounted for much of the jump in the vacancy rate, said Reis, though several owner-occupied Sears stores were excluded from the numbers, since they don't have leases.

Many mall operators have lost more than one department-store anchor, including the Susquehanna Valley Mall in Synder County, Pa., which suffered reduced foot traffic after J.C. Penney and Sears closed. In Rapid City, S.D., store vacancies shot up at the Rushmore Mall after Sears and Herberger's shut their doors.

"Any mall that is worried about a Sears or Macy's closing has bigger issues," said Alexander Goldfarb, a senior analyst at Sandler O'Neill + Partners L.P.

Not all shopping centers are under pressure. Malls in wealthier neighborhoods with less competition still attract shoppers and continue to fill space. Some landlords are holding on by bringing in more restaurants, discount retailers, entertainment and service-oriented tenants such as theaters, trampoline parks and health-care centers.

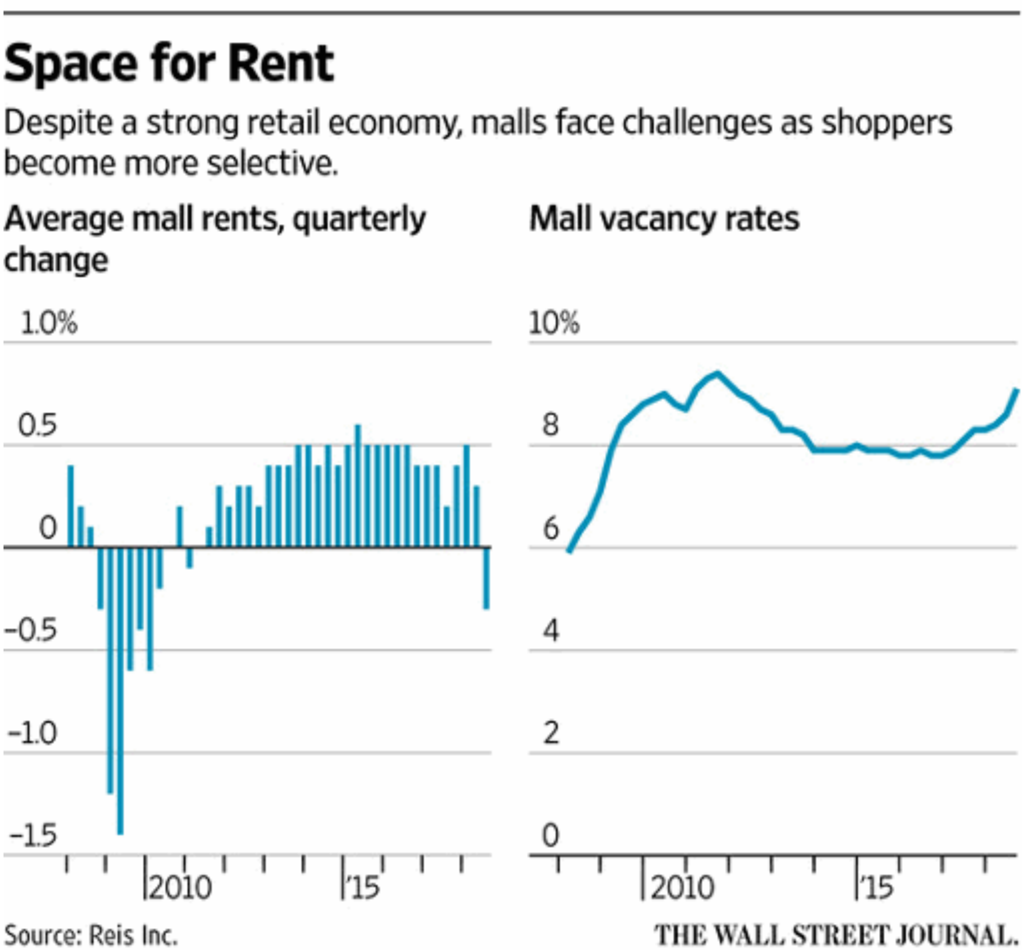
Some developers are even betting that malls offering new experiences or the right retail mix can still thrive, especially outlet malls offering popular brand names at a discount. This fall in Staten Island, N.Y., BFC Partners plans to open Empire Outlets, with 350,000 square feet of retail space and names like Brooks Brothers and Nordstrom Rack.

Canadian developer Triple Five Worldwide Group of Cos. is building American Dream Miami, a $4 billion project that would be the largest -- and most expensive -- mall in the U.S. The Florida project includes a 6.2 million square-foot complex with 2,000 hotel rooms, indoor ski slopes and a water park featuring submarine rides.

Dying malls haven't crimped all retailers. Many are scrutinizing their bricks-and-mortar footprint and investing more to develop their online presence to cater to a wider pool of shoppers who use different channels.

In the second quarter, e-commerce sales accounted for 9.6% of total retail sales after adjusting for seasonal variations, up from 9.5% in the previous quarter, according to U.S. Census Bureau data.

Sarah Nassauer contributed to this article



Document J000000020181004eea40001n

THE WALL STREET JOURNAL.

Politics

Pittsburgh Shooting, Pipe-Bomb Arrest Colors Campaigning for Midterm Election; Republicans and Democrats are honing their strategies in the battle for Congress

By Joshua Jamerson
2,134 words
28 October 2018
05:35 PM
The Wall Street Journal Online
WSJO
English

The Pittsburgh synagogue shooting on Saturday and the arrest a day earlier in the case of pipe bombs sent to prominent Democrats are forcing Republicans and Democrats to adapt on the fly in the final full week of campaigning before midterm elections.

A group of Pennsylvania Democrats, including Gov. Tom Wolf, Sen. Bob Casey and Rep. Mike Doyle, canceled a political bus tour that was scheduled to come through Pittsburgh and Carlisle, Pa., on Sunday.

Mr. Doyle in an interview indicated that he and others would be looking to take action to prevent similar future events.

"These next couple of days are going to be for mourning and then after that it's going to be about action; people are just so tired of this," he said. "Eleven people went into a place of worship [Saturday] and didn't realize they were saying their last prayer … . Isn't any place sacred anymore?"

A campaign event for Sen. Heidi Heitkamp (D., N.D.) on Saturday night began with a moment of silence in honor of the Pittsburgh victims. Both Ms. Heitkamp and her GOP opponent, Rep. Kevin Cramer, have stressed the need for civility in Washington.

At a debate the night before the shooting, Ms. Heitkamp said she had been moved by House GOP Whip Steve Scalise (R., La.) who spoke at a prayer breakfast about the shooting where he had been critically injured without casting partisan blame.

"We have to be accountable for our words," Ms. Heitkamp said. "We have to understand that words matter and we have to reflect the goodness of America in how we conduct our business in the U.S. Senate."

In Nashville, protesters interrupted a Senate campaign rally by Rep. Marsha Blackburn (R., Tenn.) on Sunday, including when she called for a moment of silence for the Pittsburgh victims. "Marsha Blackburn is a white supremacist," one of the protesters shouted. After the woman was removed, Ms. Blackburn said, "How despicable that you can't even have a moment of silence." At least six protesters were physically removed, one carried kicking and screaming, and another in handcuffs.

Her opponent, Phil Bredesen, a former Democratic governor, after a Saturday campaign rally called on candidates to dial back their campaign rhetoric. "It really is time to turn the volume down a little bit on this rhetoric, I think, on all sides, and I hope we can do that," he told reporters.

President Trump continued to strike a parallel tone on Monday morning, ordering flags to be lowered to half-staff and calling for unity, while also castigating the media, which he said was partially responsible for the angry national discourse.

"The Fake News Media, the true Enemy of the People, must stop the open obvious hostility," the president said on Twitter.

Mr. Trump on Saturday denounced the shooting as a "wicked act of pure evil and anti-Semitic" and said "there must be no tolerance for anti-Semitism." He also said that gun laws had little to do with the shooting in Pittsburgh. He repeated his suggestion that armed guards be placed in more public and private spaces. "If they had protection inside, the results would've been far better," Mr. Trump said. "This is a dispute that will always exist, I suspect."

The White House Sunday planned to add a stop in Pittsburgh to the president's schedule, a White House official said, noting that the details were still under discussion with local leaders and law enforcement.

Scott Wallace, a Democrat running to unseat GOP Rep. Brian Fitzpatrick in a closely watched race in the Philadelphia suburbs, expressed concern at rising anti-Semitic violence since 2016.

"And no, Mr. President, the synagogue is not at fault for being insufficiently armed," Mr. Wallace said. "It is time for all Americans to firmly reject the politics of hatred and intolerance.

A Republican political event in Roswell, Ga., included an opening prayer to "wrap our arms around" Jews who are grieving, but the tragedy wasn't otherwise mentioned.

Rep. Karen Handel (R., Ga.) in an interview after the event decried the violence but declined to offer an opinion on Mr. Trump's response. "That's not for me to make a judgment on, candidly," Ms. Handel said. "I'm here doing my campaign and focusing on my actions and my deeds."

Across town, Ms. Handel's Democratic opponent, Lucy McBath, opened her remarks at a house party for local Democratic candidates by talking about the pain she feels with each mass shooting. "Every time this happens," she said, "it's like a sucker punch in my gut, because I feel like we just can't move fast enough." Ms. McBath's son was killed in a 2012 Florida shooting, and she subsequently became a gun control advocate.

Robert Bowers, the 46-year-old suspect who has been charged with killing 11 people at the Tree of Life Synagogue in Pittsburgh, had expressed hatred for Jews in numerous online posts and made anti-Semitic comments, including "all Jews must die," during an exchange of fire with police, a law-enforcement official said.

The events of recent days come as Republicans and Democrats had already scheduled a late-stage blitz of campaign ads and big rallies with marquee surrogates, including President Trump and former President Barack Obama, before Election Day on Nov. 6. Both parties also are racing to exploit or shore up signs of weakness on the campaign battlefield.

Democrats are injecting millions into the re-election bid of New Jersey Sen. Bob Menendez, who battled corruption charges last year and wasn't convicted. Mr. Trump, meanwhile, is planning a late rally in Florida, where GOP candidates show signs of lagging behind in both the Senate and governor races. Mr. Trump will hit eight states over the final days before the elections, targeting seats that Republicans are defending and others that Democrats are vulnerable to losing.

Democrats need a net gain of 23 seats to retake control of the House. They need to flip two GOP seats and hold all of their 26 Senate seats on the ballot this year to regain the majority in that chamber, a prospect that dimmed in recent weeks given improving Republican polling.

The bipartisan consensus among political insiders is that Republicans have high chances to keep power in the Senate, while Democrats appear poised to retake the House. Democrats say they feel so confident about their chances in the House that they have begun expanding resources beyond their core set of pickup opportunities and putting more money into districts where the GOP has held a stronger edge.

The Democratic Congressional Campaign Committee, the campaign arm of the House Democrats, is rallying behind candidates in races against such GOP incumbents as Rep. Fred Upton of Michigan, Rep. Brian Mast in Florida and a pair of Republicans in Pennsylvania: Reps. Mike Kelly and Scott Perry. At the same time, the DCCC has pulled back from a rural Minnesota district, which could be the one House seat that Republicans flip.

"The GOP is retreating deeper into their battlefield," said Meredith Kelly, communications director for the DCCC.

One Republican operative in Washington acknowledged that the environment for House Republicans remains **volatile** but said the DCCC's moves come less out of strength than from unease about their path to the majority. "In order to get to the 218, they're spreading money around to create more options," this person said.

Outside Republican groups, such as the Congressional Leadership Fund, the super PAC aligned with House Speaker Paul Ryan, has pulled out of a handful of tossup districts in recent weeks—a sign that the districts may be beyond salvaging.

Charlie Gerow, a longtime GOP strategist in Pennsylvania politics, said the question at this point doesn't appear to be if the Democrats take the House, but by how big a margin. "That's certainly not something I'm excited to say, but that's certainly how it looks to me right now," Mr. Gerow said.

Mr. Gerow called Pennsylvania, where the Democrats have their sights on a handful of GOP seats, the "ground zero" of whatever new majority emerges. "Republicans are certainly going to lose seats in the PA delegation. The question is: How many?" he said.

There don't appear to be any instances of Senate races where either party, with nine days left until ballots are counted, is willing to retreat and shift money elsewhere.

The three Democratic Senate incumbents most at risk are Sens. Heitkamp, Claire McCaskill of Missouri and Joe Donnelly of Indiana, strategists from both parties say. The National Republican Senatorial Committee, the Senate GOP's campaign arm, is still spending money in all three—even in North Dakota, where Ms. Heitkamp is trailing by double digits against Mr. Cramer.

In all three states, the Democrats appear to have an edge in late-stage television advertising. The Democratic candidates and their aligned groups plan to spend $18.9 million on ads between Oct. 23 and the elections, compared with $16.6 million from Republican candidates and allied groups in the same time frame.

"There's no shortage of money," said Matt Canter, a Democratic polling expert and former aide with the Democratic Senatorial Campaign Committee.

For Republicans, picking off any of the Democratic incumbents could offset losses expected elsewhere and lead to a bigger governing majority. Republicans acknowledge that they are at risk of losing the Arizona seat currently held by Sen. Jeff Flake, who isn't running for re-election, as well as the seat currently held by Sen. Dean Heller (R., Nevada), the most vulnerable GOP incumbent.

Democrats have also made Senate races competitive in deep-red states Texas and Tennessee.

More than 12 million Americans have already voted in the 40 states where such data is available, according to data from state election officials analyzed by TargetSmart, a Democratic firm. Still, both parties are ramping up the number of big-name surrogates hitting the campaign trail to boost turnout on Election Day.

On the Republican side, there has been no bigger campaigner than Mr. Trump, who last week swung through North Carolina, Wisconsin and Texas, where he sought to shore up support for Sen. Ted Cruz, who is facing an insurgent campaign from Democratic Rep. Beto O'Rourke. Many Democrats and Republicans expect Mr. Cruz to prevail despite Mr. O'Rourke's massive fundraising hauls.

Starting Wednesday and going through Monday, Mr. Trump is scheduled to hold rallies in Indiana, Georgia, Montana, Ohio, Tennessee and West Virginia, aides said. Mr. Trump may campaign in some of those states more than once, a White House official said.

Mr. Trump's advisers are pleased with fundraising totals for Matt Rosendale, the party's Senate nominee in Montana, and encouraged by early voting returns in Nevada, Arizona and Tennessee.

Still, aides are preparing the president for potential disappointments. They're telling him that in the past eight decades, fewer than 10 Senate seats have flipped in favor of a president's party during any midterm race. "Just not losing seats—staying even—would be a huge victory for the Republican Party," a senior White House official said.

Brad Parscale, Mr. Trump's re-election campaign manager, said spending from the Trump re-election campaign on the midterm elections will total more than $20 million.

Mr. Trump has used his presence on the campaign trail recently to inject a tough stance on immigration into the final days of the race, seizing on reports of a caravan of mostly Central American migrants making its way through Mexico toward the U.S. GOP candidates are also using the caravan in its ads.

CLF, the PAC linked to Mr. Ryan, launched an ad in a competitive Minnesota House district Friday, dubbing the caravan as "full of gang members and criminals." In Tennessee, Republican Senate nominee Marsha Blackburn put out an ad warning that "people from the middle east" were in the caravan, echoing a similar suggestion that earlier came from Mr. Trump. The White House provided no evidence that such people are in the caravan.

On the Democratic side, former Vice President Joe Biden is headed to North Dakota this week to campaign with Ms. Heitkamp. Former President Obama, who on Friday hit the campaign trail for Democrats in Wisconsin, is headed to Michigan on Monday to campaign with Gretchen Whitmer, who is in a closely watched race for governor, and Sen. Debbie Stabenow, who is expected to easily win re-election.

Michael C. Bender, Kristina Peterson, Janet Hook and Erin Ailworth contributed to this article.

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Business
Today's Logistics Report: Trump Eyes Slower Sulfur-Rule; Piggies Go to Market; Materials Markup; Today's Top Supply Chain and Logistics News From WSJ

By Jennifer Smith
1,002 words
19 October 2018
01:00 PM
The Wall Street Journal Online
WSJO
English

Sign up: With one click, get this newsletter delivered to your inbox.

The Trump administration is jumping into the shipping-industry debates over looming new pollution restrictions. The White House wants to slow the rollout of the rules taking effect in 2020 aimed at slashing the amount of sulfur in marine fuel, the WSJ's Timothy Puko and Benoit Faucon write. The target already has maritime operators and their shipping customers sparring over the higher costs of cleaner fuel "scrubber" technology being added to ships. The rising costs could send ripples across commodities markets just ahead of the U.S. presidential election. The White House is backing a proposal to gradually phase in enforcement of the new rules to avoid disruption to the shipping and energy markets and shield consumers from "the impact of precipitous fuel cost increases." That ship may already have sailed: American energy companies oppose a slowdown, and the U.S. has yet to make a formal objection to the International Maritime Organization.

American hog farmers are taking collateral damage from the U.S.-China trade war. China's tariffs on U.S. pork have climbed as high as 70%, the WSJ's Jacob Bunge and Lucy Craymer report, and the resulting supply-chain upheaval is sending Chinese buyers elsewhere. Chinese meat consumption has exploded as incomes rise, spurring an uptick in domestic pork production and drawing some $1 billion in U.S. pork sales to the China and Hong Kong markets. But meat processors there are widening their supplier base now to guard against shortages as U.S. prices soar and an outbreak of African swine fever in China threatens the domestic supply. The new flows of business to Europe and Latin America have Spanish farmers anticipating a spike in sales, and China's efforts to buy low-cost pork abroad suggest U.S. producers may have to cut prices if they want to stay in the game.

Inflation is starting to help consumer-goods makers offset higher production and distribution costs. Unilever PLC and Nestlé SA are raising prices and finding that consumers are willing to pay more and trade up to more expensive items, the WSJ's Saabira Chaudhuri writes. Both companies reported higher third-quarter sales, buoyed by new pricing power after years of falling or stagnant consumer prices. Nestlé said it raised prices for bottled water in the U.S. to reflect higher packaging and distribution costs, while Unilever is charging more for beauty and personal care products because of higher oil and chemical costs. It's a welcome shift for a sector that has been battered by competition with discounters and Amazon.com Inc.'s growing sales of household staples, and comes as more industrial suppliers also are sending price increases downstream through supply chains.

SUPPLY CHAIN STRATEGIES

Paint maker PPG Industries Inc. can't raise its prices fast enough to cover rising commodities costs. The company plans to keep pushing price increases through 2019, the WSJ's Austen Hufford writes, as it pays more for chemicals it uses to make paints and coatings, and its oil, shipping and labor expenses rise. The company expects raw material prices to keep climbing, and projects that its freight costs will grow in the "mid-teen percentage" in the fourth quarter. Meanwhile, Chinese demand is falling for PPG's coatings, which are used on vehicles, houses and smartphones, as consumers there spend less on cars. That **volatility** is expected to continue, squeezing the company between uncertain demand and steeper logistics costs heading into peak shipping season.

QUOTABLE

Number of the Day

9%

Year-over-year increase in U.S. seaborne imports from China in September, according to Panjiva.

IN OTHER NEWS

China's economic growth slowed to 6.5%, its weakest pace since the financial crisis. (WSJ)

Initial jobless claims in the U.S. fell by 5,000 last week. (WSJ)

A measure of manufacturing activity in the mid-Atlantic region is expanding. (WSJ)

Alcoa Corp.'s quarterly revenue jumped 14% on higher aluminum prices. (WSJ)

Swiss-based MSC Cruises is ordering four ultraluxury cruise ships worth $2.3 billion. (WSJ)

Contract chip-making giant Taiwan Semiconductor Manufacturing Co. cut its annual revenue growth target for the third time amid growing trade tensions. (Nikkei Asian Review)

Retailers and logistics firms plan to hire 704,000 workers this holiday season, according to Challenger Gray & Christmas. (Dallas Morning News)

Third-quarter revenue at forwarder Kuehne + Nagel International AG grew 12.4% but rising costs held profit growth to 3.3% over last year. (Lloyd's Loading List)

JP Morgan Chase & Co. is projecting a turnaround in shipping's dry bulk market next year. (Shipping Watch)

A measure of confidence in the U.K. logistics sector fell at the steepest rate since 2015. (Motor Transport)

Grain shipments through the St. Lawrence Seaway soared 45.6% in the six months ending September 30. (Watertown Daily News)

Odyssey Logistics & Technology Corp. is buying AFF Global Logistics for $465 million. (American Shipper)

FedEx Corp. is acquiring Australian freight forwarder Manton Air-Sea Pty Ltd. (Memphis Commercial Appeal)

Ryder System Inc. is expanding its last-mile fulfillment hubs in Toronto, Atlanta and Lathrop, Calif. (DC Velocity)

U.S. highway congestion added nearly $74.5 billion in trucking operating costs, an industry group says. (Food Logistics)

Trailer orders soared to a record high of more than 56,000 units in September. (Commercial Carrier Journal)

Walmart Inc. expects to save more than $20 million a year by switching to a new floor wax. (MarketWatch)

ABOUT US

Paul Page is editor of WSJ Logistics Report. Follow him at @PaulPage, and follow the entire WSJ Logistics Report team: @costasparis, @jensmithWSJ and @EEPhillips_WSJ. Follow the WSJ Logistics Report on Twitter at @WSJLogistics.

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THE WALL STREET JOURNAL.

Heard on the Street
Markets
U.S. Banks Make Hay of European Trading Rules; Goldman Sachs and Morgan Stanley gain from consolidation in equities trading

By Paul J. Davies
538 words
19 October 2018
04:44 AM
The Wall Street Journal Online
WSJO
English

No banker likes new regulations, but European investment bank chiefs will feel more aggrieved than normal this year.

The reason? A set of rules for securities trading that came into force in January appears to be handing U.S. banks a big competitive advantage.

Goldman Sachs and Morgan Stanleyboth highlighted the benefits to their equities trading revenue during third-quarter earnings calls. The cost to European banks will become apparent when they start reporting from Wednesday.

Goldman, Morgan Stanley and JPMorgan are the world leaders in trading equities, which has been the bright spot for investment banks this year. The equities business has increasingly become a game where bigger is better: It is highly automated and requires heavy investment in software and algorithms that help investors make their trades faster and at lower costs.

The biggest U.S. players already had an advantage. But the new European rules, known as the second Market in Financial Instruments Directive, or Mifid II, have had the unintended consequence of giving U.S. banks another leg up.

These rules expose the actual fee for making a stock trade because they have forced banks to disaggregate other equity services, such as stock research. Previously all brokerage costs were swept into an ill-defined commission. For equity fund managers, the ever-growing competitive pressure from super-cheap passive funds has made trading costs a big focus.

As the new European rules took effect, many fund managers talked about cutting back on the number of brokers they would use. The latest results suggest they have been following through on this promise. "Mifid II is an important driver of something that's happening across the system, which is consolidation in the top three scale players," Goldman Chief Financial Officer Marty Chavez told investors Tuesday. "We've seen, especially in Europe but also globally, market share concentrating in the top three."

Equities trading has been good for U.S. banks this year as bouts of **volatility** have prompted more buying, selling and hedging activity among clients. Altogether, revenue is up 18% over the first nine months for the big five compared with the same period last year.

U.S. banks were already taking market share in the first half. European banks' equities revenue was up less than 12% in dollar terms from the first half of 2017, compared with 23% growth for U.S. banks.

Some European players have been doing better than others. Barclays's first-half equity-trading revenue was up almost 40% year-over-year in dollar terms; BNP Paribas and UBS also saw strong growth. Deutsche Bank was the big loser.

New equity sales by companies raising money help to drive other equity trading. In another bad sign for European banks, equity fundraising and related activity was down 51% in the third quarter versus the same period last year in Europe, compared to a 5% rise in the Americas, according to Refinitiv.

It is getting harder to succeed in stock trading for European companies—and regulators really haven't helped.

Write to Paul J. Davies at paul.davies@wsj.com

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THE WALL STREET JOURNAL.

Markets
Gold Prices Lower as Dollar Climbs; Gold for December delivery was recently down 0.4%

By Ira Iosebashvili
190 words
24 October 2018
12:13 PM
The Wall Street Journal Online
WSJO
English

Gold prices fell Wednesday, pressured by a rise in the dollar.

Gold for December delivery was recently down 0.4% at $1,231.60 a troy ounce on the Comex division of the New York Mercantile Exchange.

Weaker-than-expected eurozone manufacturing data hit the euro and boosted the dollar Wednesday. The WSJ Dollar Index, which measures the U.S. currency against a basket of 16 others, was recently up 0.3% at 90.37.

A stronger dollar tends to weigh on gold, which is denominated in the U.S. currency and becomes more expensive to foreign buyers when the dollar rises.

Prices for gold are still up around 2.8% since the end of last month, buoyed by **volatility** in global stock markets. Some investors buy gold in turbulent times, believing it will hold its value better than other assets when markets turn rocky.

In base metals, copper for December delivery was up 0.1% to $2.76 a pound.

Write to Ira Iosebashvili at ira.iosebashvili@wsj.com

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THE WALL STREET JOURNAL.
U.S. EDITION

REVIEW & OUTLOOK (Editorial)
The Bond Market's Signal

331 words
5 October 2018
The Wall Street Journal
J
A16
English

Recall the hyperventilation about an inverted yield curve? So much for that. The sound you hear is the bond market popping as stronger economic growth sends long bond rates to new highs. The yield on the **10**-**year Treasury** climbed more than 10 basis points on Wednesday to 3.159% and closed even higher on Thursday at 3.196%, as investors weighed signals of a strengthening labor market and business investment.

Not long ago various market sages warned that tightening by the Federal Reserve would push up short-term rates and result in an inverted yield curve presaging a recession. Instead the curve is steepening as investors forecast higher economic growth.

ADP on Wednesday said 230,000 jobs were added last month, and the Institute for Supply Management's measure of service industry growth hit the boom territory of 61.6%. The National Federation of Independent Business on Thursday reported in its monthly survey that hiring at small businesses picked up, and 37% of members reported raising compensation to attract or retain workers.

This doesn't mean that rising yields are a free lunch. The Federal Reserve's quantitative easing explicitly sought to flatten long-bond yields to push investors into riskier assets, including equities and corporate debt. As the Fed unwinds its bond portfolio, it's not clear what will happen to the prices of those assets, though you'd expect that what goes up on Fed manipulations could come down when the music stops.

The question is how much a washout in some frothy asset classes would affect the real economy. For now at least the economy remains very strong on the rising tide of tax reform, deregulation and the end of political hostility to job creators. Bond yields were bound to rise sooner or later, and better to do it against the backdrop of the strongest economy since 2004, and maybe since the late 1990s.

Document J000000020181005eea500016

THE WALL STREET JOURNAL.
U.S. EDITION

Business News: Oil, Ruble Lift Russian Economy

By Avantika Chilkoti
564 words
17 October 2018
The Wall Street Journal
J
B5
English

U.S. sanctions have driven the price of oil and the ruble apart -- leaving Russia with expensive crude and a cheaper currency, a combination that is helping its economy.

The price of oil, Russia's main export, has risen almost 14% since mid-August. This is largely because of the coming resumption of U.S. sanctions against Iran, choking off the supply of crude from that country.

The ruble has declined 15% since April, when Washington imposed sanctions on Russia for alleged meddling in U.S. elections and other aggressions.

So, just as the price of dollar-denominated oil rises, those greenbacks are worth more when translated back into a weaker ruble.

In recent days, oil and the ruble have changed directions again, with both crude and the dollar declining. But for months, the Russian economy benefited as a rising **oil price** and a falling rublerefilled government coffers and sent profit soaring at the country's giant energy groups. This year, shares of oil producers Rosneft Oil Co. and Lukoil Oil Co. are up 56% and 39%, respectively, handily outperforming Western peers.

"Russia is much better off with higher oil and a weaker ruble because, from a budgetary perspective, that's a double positive," said Viktor Szabo, emerging-markets debt-portfolio manager at Aberdeen Standard Investments.

Emerging markets generally have been hit by the rising U.S. dollar and interest rates, trade worries and domestic political concerns in individual countries such as Turkey. The ruble has the added weight of U.S. sanctions.

In August, the ruble fell further after the U.S. put more sanctions on Russia over an alleged nerve-agent attack in the U.K. andthreatened to follow through with a second round of measuresin 90 days' time if Russia doesn't meet a list of three criteria involving stopping the use of biological and chemical weapons.

The risk for the U.S. is that sanctions aren't having the intended affect.

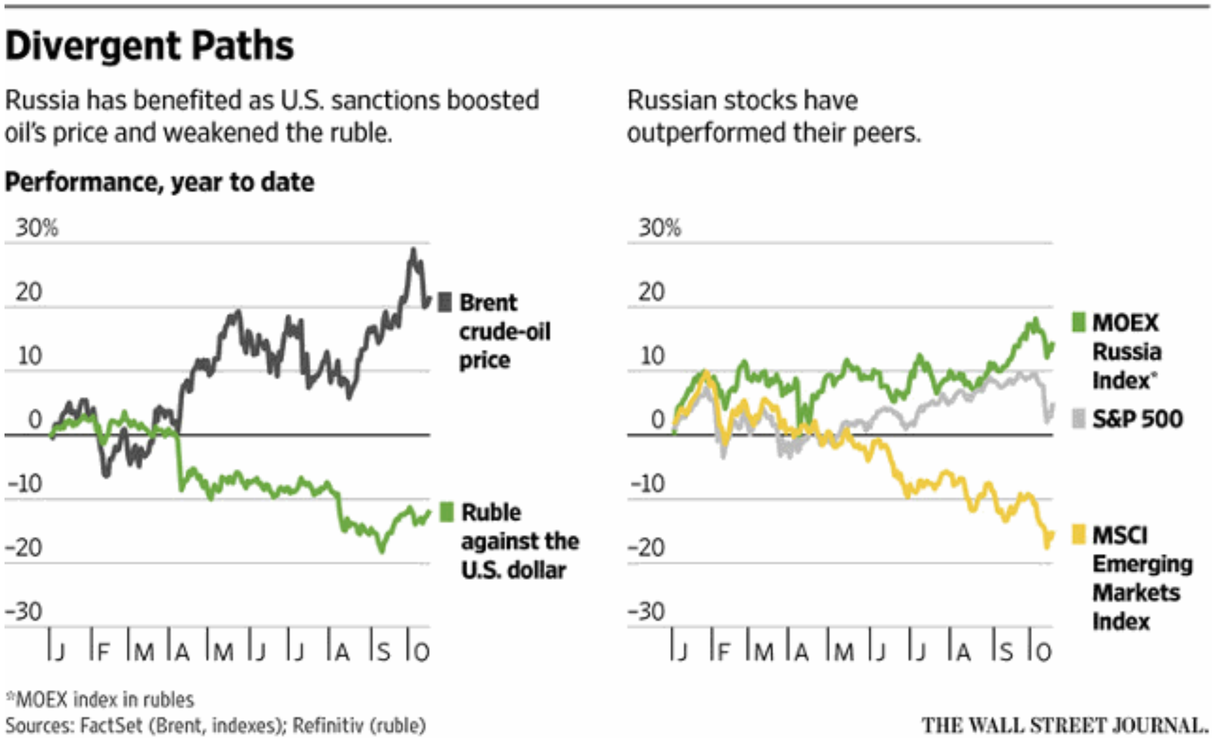
At the end of last year, a barrel of oil brought in just over 3,835 rubles for Russian sellers, when translated back from the dollars it is sold in. Now, each barrel brings inroughly 5,260 rubles, an increase of almost 40%.

The sanctions are also helping the country lower its foreign debt at a time it had started to rise for the government and companies, according to Societe Generale. That is occurring both as the fall in the ruble deters issuers from taking on dollar-denominated debt and amid concern the U.S. will impose sanctions on trading in Russia's dollar debt.

Russian private and government debt held by foreign investors has been falling since 2016, reaching 32% of gross domestic product in the first quarter, according to Societe Generale.

To be sure, years of sanctions have hurt the Russian economy. A spate of Western penalties against Russia since Vladimir Putin's decision to annex Crimea in 2014 have wiped out half of the ruble's value and reduced investment in the energy sector.

Some Russian markets have also suffered more recently. Since the start of this year, the yield on a U.S. dollar-denominated Russian government bond maturing in September 2023 has risen to around 4.275% from around 3.28%. Prices fall as yields rise.



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THE WALL STREET JOURNAL.
U.S. EDITION

Banking & Finance: TD Ameritrade, Virtu Back New Crypto Exchange

By Telis Demos and Alexander Osipovich
366 words
4 October 2018
The Wall Street Journal
J
B10
English

Many of the **stock market**'s biggest players have taken a hands-off approach to bitcoin and other cryptocurrencies. That could start to change.

Names familiar to the trading world, including retail brokerage TD Ameritrade Holding Corp. and high-speed trading giant Virtu Financial Inc., are backing an exchange called ErisX, which plans to trade cryptocurrencies and related derivatives, according to the companies. ErisX unveiled its new business plan Wednesday.

Separately, another derivatives exchange, trueEX LLC, announced plans to launch a bitcoin swap.

Crypto so far has struggled to attract mainstream investors and button-down financial firms. Big, established exchanges have tried to bring bitcoin to Wall Street with mixed results.

Crypto markets are **volatile**, and some regulators worry they are vulnerable to manipulation.

ErisX hopes to bring digital currencies closer to traditional asset classes by appealing to brokers, including some used by small retail investors.

"We wanted to find something that brings cryptocurrency to customers where they can see it on an actual exchange, something they feel comfortable with in regulated space," said J.B. Mackenzie, head of futures and foreign exchange trading at TD Ameritrade, which has more than 11 million funded retail accounts.

CME Group Inc., the world's largest exchange group, and its smaller rival Cboe Global Markets Inc. both introduced bitcoin futures in December.

Such contracts let traders bet on whether the price of bitcoin will rise or fall without having to hold the digital currency.

Next year, ErisX aims to launch direct or "spot" trading of digital coins, as well as futures contracts that would enable investors to receive coins at a future date -- a contrast to CME and Cboe bitcoin futures that pay out cash based on a calculation of bitcoin's price. ErisX plans to require trades to be fully funded, a move that will limit the ability of investors to place risky bets in an already **volatile** market.

"The traditional aspects of our market will create an environment that is open to a wide range of traders and intermediaries," said Thomas Chippas, chief executive of ErisX.

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THE WALL STREET JOURNAL.
U.S. EDITION

Heard on the Street
Oil Markets Can't Ignore Saudi Threat

By Spencer Jakab
277 words
16 October 2018
The Wall Street Journal
J
B11
English

[Financial Analysis and Commentary]

Relax -- this isn't 1973. But don't relax too much.

Oil prices ticked higher over the weekend when the Saudi Press Agency put out an ominous statement from an unidentified senior official threatening a hard response to actions the U.S. might take in response to the suspected murder of journalist and U.S. resident Jamal Khashoggi. It said Saudi Arabia would "respond with greater action."

But memories of 45 Octobers ago, when the "oil weapon" was unsheathed by Arab oil exporters led by Saudi Arabia and crude prices quadrupled, bear no resemblance to today's reality. For one, that embargo is acknowledged to have backfired in the long run. For another, the White House is bending over backward to defuse the situation with President Trump dispatching Secretary of State Mike Pompeo to Riyadh and even suggesting to journalists on Monday that "rogue killers" might have been behind the alleged murder.

Mr. Trump needs Saudi Arabia more than usual at the moment. With Iran sanctions getting tighter, Venezuela's production collapsing and **oil prices** hitting a four-year high before last week's tumble, the only meaningful spare capacity today is from the Gulf kingdom.

A figure close to the Saudi royal court wrote that the market couldn't "rule out the price jumping to $100 and $200 a barrel or maybe double that figure."

That isn't in the cards, but even a less accommodative Saudi response to any shortfall with Iran could put upward pressure on prices in coming months.

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Climate
After Nobel in Economics, William Nordhaus Talks About Who’s Getting His Pollution-Tax Ideas Right

By Coral Davenport
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NEW HAVEN, Conn. — William D. Nordhaus, the Yale economist who shared the Nobel in economic science this week, has pointed words for some of the experiments so far with his theories on taxing polluters to fight climate change.

“It was a catastrophic failure in the European Union,” he said just days after not only being awarded the Nobel, but also seeing his life’s work embraced in a landmark United Nations assessment of the global threat of climate change. That document, approved by more than 180 nations, described Professor Nordhaus’s ideas as essential for slowing the carbon dioxide emissions that are rapidly warming the atmosphere.

But in other places around the world — notably, parts of Canada and South Korea — politicians have adapted the idea in ways that not only show signs of working, but that also reframe it not as a tax, but as a financial windfall for taxpayers. Other governments, including China and some individual states in the United States, are also testing different ways to force companies to pay to pollute.

In short, the world is becoming a laboratory for theories that Professor Nordhaus developed decades ago, when global warming was an abstract future threat. By contrast, this week’s United Nations report amounts to a stark warning of immediate risk.

The report, from the Intergovernmental Panel on Climate Change, said that if greenhouse gas emissions continued unabated, the atmosphere would warm up to 1.5 degrees Celsius, or 2.7 degrees Fahrenheit, by 2040, leading to irrevocable damage including severe food shortages, coastal inundations and the displacement of tens of millions of people as soon as 2040. If the planet keeps warming to 2 degrees Celsius, or 3.6 degrees Fahrenheit, the effects could include devastating floods and droughts and the permanent loss of the world’s coral reefs.

The Nobel, which Professor Nordhaus shared with the New York University economist Paul M. Romer, was widely perceived as a rebuke to President Trump, who has called climate change a hoax and sought to roll back the United States’ existing climate change policies. It is also seen as a broader challenge to powerful Republican political voices in the United States, among them the libertarian billionaire brothers Charles and David Koch and the anti-tax activist Grover Norquist, who have attacked lawmakers who support a carbon tax, making it among the most **volatile** ideas in American politics.

On Wednesday, Professor Nordhaus discussed his carbon pricing theories and the political landscape. The exchanges have been edited and trimmed.

Why is carbon pricing seen as political poison in the United States?

It’s been caught up in the politics, and it just happens that this particular policy is one that has faced the wrath of a whole group of thinkers. Grover Norquist, energy companies, it’s the Koch brothers and their foundations, it’s people using fair tactics and foul tactics — it’s been caught up as one of the issues in the Great Divide.

This anti-tax movement has been so powerful and so harmful in the United States. There have been a large number of conservative economists in the United States who have endorsed the idea of a carbon tax.

Where has carbon pricing been successful? Where has it failed?

We learned with the European Union that once you go beyond the simple, idealized version of carbon prices and into implementation, it's a very different thing. One of the things we found out: One of the problems with cap and trade [a system in which governments place a cap on countries' carbon-dioxide pollution and companies then pay for, and trade, credits that permit them to pollute] is that it is dependent on predicting what future emissions will be. But if those projections are wrong, the system fails.

With the E.U., their projected carbon emissions were high, but the actual carbon emissions were low, and the carbon price fell drastically, from $30 to $40 per ton down to single digits. So the price was so low it did not have an effect in lowering emissions. It was flawed design. If the models had predicted too few emissions, and the price had gone to $1,000 per ton. we would have had a different problem.

The carbon tax has different problems, but not this one. The price of carbon is independent of the amount of emissions.

When I talk to people about how to design a carbon price, I think the model is British Columbia. You raise electricity prices by $100 a year, but then the government gives back a dividend that lowers internet prices by $100 year. In real terms, you're raising the price of carbon goods but lowering the prices of non-carbon-intensive goods.

That's the model of how something like this might work. It would have the right economic effects but politically not be so toxic. The one in British Columbia is not only well designed but has been politically successful.

What went wrong when President Obama tried to implement a carbon price in 2009?

I did not talk to Obama about this directly, but I spoke with many of his advisers over the years.

One of my very, very few disappointments in Obama when he was president is that he did not come out in favor of carbon tax. I'm sure he did the political calculus on this. He should have come out and talked not just about climate change and its dangers but how to use a carbon tax to fix it. He was a great speaker a great educator but this is one where he let us down, I think.

How do you think a carbon tax could get bipartisan support?

Things change over the long run. What is toxic or opposed in one generation gradually becomes accepted in the next. Social security took a long time. It was opposed for many, many decades but since Reagan is has been widely accepted.

On carbon taxes, people's views have changed from being very hostile, to conservative economists embracing this, to the I.P.C.C. saying, this is the approach.

I have to be hopeful that, if we continue to work on this, the public will get there on the science, and make an exception to the toxicity of taxes. It will help if it's tied to something popular — if, as a result of the revenue from a carbon tax, you get a check in the mail, or it funds health care.

In terms of implementation, it's not much more difficult to implement than a gasoline tax. Gasoline taxes are very easy to implement.

But gasoline taxes are also politically toxic.

Only in this country! In other countries, people are grown-up, and they can live with taxes.

The problem is political, rather than one of economics or feasibility. It's because it's used as a weapon. At some point, I'm hopeful that grown-ups will take over and we will do what is necessary. I hope so. If we don't, then things will just get worse and worse.

Do we have enough time to avoid the warming that will bring severe and damaging effects of climate change?

It's not going to happen in time for 1.5 degrees. It's very unlikely to happen for 2 degrees. We'd have to be very pessimistic about the economy or optimistic about technology for 2 degrees. If we start moving very swiftly in the next 20 years, we might able to avoid 2 degrees, but if we don't do that, we're in for to changes in the Earth's system that we can't begin to understand in depth. Warming of 4, 5, 6 degrees will bring changes we don't understand because it's outside the range of human experience in the last 100,000 to 200,000 years.

We've been going backward for the last two years. Maybe we can stop going backward and start going forward.

Professor Nordhaus said the problem of carbon taxes was political, rather than one of economics or feasibility. | Monica Jorge for The New York Times

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THE WALL STREET JOURNAL.

Economy

RBA Says External Risks to Australia Rising; Already the Australian dollar, which is traded in markets as a liquid proxy to China, has weakened sharply in the last year

By James Glynn
679 words
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SYDNEY—Sharply escalating trade tensions between the U.S. and China represent a growing external risk to Australia's economic outlook, the Reserve Bank of Australia warned Friday.

In a biannual report card on financial sector stability, the RBA said Australia, a major exporter of mineral and energy products to the global economy, would be in the firing line of any slowdown brought on by the worsening trade spat.

"Australia would be sensitive to a sharp contraction in global growth or dislocations in global **financial markets** because of the importance of trade and capital inflows," the RBA said.

"Downside risks to (global) growth have become more prominent since the previous review," the central bank added.

"If the imposition of trade barriers were to intensify, or if it materially affected business sentiment and decisions, the negative impacts on economic growth could be more significant," it said.

The comments come as global growth forecasts have started to be lowered with economists factoring rising threats to global trade.

Australia's burgeoning exports of natural gas and record exports of iron ore to Asia are major drivers of the economy. Any lasting slowdown in China or broader-Asia would immediately be felt Down Under.

"A worsening in external conditions could see downturn in the domestic economy, reduced availability and higher cost of offshore funding, and falls in asset prices," the RBA said.

Already the Australian dollar, which is traded in markets as a liquid proxy to China, has weakened sharply in the last year, falling from around US$0.8000 to just above US$0.7000 now. Many forecasters expect a further fall below US$0.7000 in 2019.

The retreat in the currency is partly due to widening interest rate differentials between Australia and the U.S., and jittery emerging markets. But the drop also reflects what the International Monetary Fund now describes as a dimming global growth outlook.

On the domestic front, the RBA continues to note risks around record levels of household debt, but appears to be more relaxed on the issue.

"This doesn't appear to be a large risk to the financial system. The majority of this debt is well secured, with only a small portion having a high loan-to-value ratio," it said.

"The pace of increase in household indebtedness has slowed in aggregate, households appear well placed to manage their obligations, given currently low interest rates and the improvement in lending standards," the RBA added.

Still, large debt burdens continue to pose a broader threat to consumer spending and economic growth, it added.

Some pockets of household financial stress are evident, but the RBA added that "this is not widespread."

Australia's housing market has faced stiffening headwinds as its banking regulator continues to enforce tough criteria for mortgage lending.

Concerns around record consumer debt and flat wages growth in recent years has prompted a crackdown on riskier lending, stifling credit to fund the buying of homes, especially for property investors.

House prices have been sliding over the last year, led by weakness in Sydney and Melbourne. The drop has come despite interest rates remaining at record lows, with economists forecasting the slide could extend into 2020.

Banks have also become more cautious in lending due to the harsh spotlight of a government inquiry into the misdeeds of the finance sector.

A recent interim report on the matter was scathing, alleging widespread wrongdoing by banks, while also attacking regulators for inaction in enforcing laws.

Economists fear the pressure on house prices will eventually damp consumer sentiment and spending, slowing the economy.

Morgan Stanley said this week that the likelihood of a hard landing in Australian property is growing.

"This would bring negative wealth effects from weaker property prices and high leverage causing a pullback in spending and activity, driving unemployment up to 8%," the U.S. investment bank said in a report.

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Investing in Funds & ETFs (A Special Report) -- In Translation --- SOFR

By Simon Constable
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English

A benchmark borrowing cost known as the secured overnight financing rate, or SOFR, is gaining traction as a replacement for the better known but sullied Libor as the rate underpinning a range of global debt instruments.

Libor, or the London interbank offered rate, is supposed to represent the average rate banks charge each other for short-term loans. Based on a daily bank survey, Libor came under fire during the financial crisis when allegations emerged that traders had colluded to set it at levels that benefited their employers. Because many auto loans and mortgages are tied to Libor, the manipulation affected millions of borrowers.

"All sorts of business loans are based on a certain spread above Libor," says Gus Faucher, chief economist at PNC Financial Services, Pittsburgh.

The scandal led to billions of dollars in fines on the banks involved in the rigging. Separately, financial regulators and other interested parties looked into creating indexes of vital borrowing costs with the idea of replacing Libor. SOFR (pronounced so-fer) is one of those new rates. It measures the cost of borrowing money from one day to the next when the borrower pledges Treasurys as security.

In June 2017, the Alternative Reference Rate Committee of the New York Federal Reserve chose the SOFR as its preferred alternative to Libor and announced that it would start publication of the rates this year.

Because SOFR rates are based on actual transactions processed through Fixed Income Clearing Corp., they are less prone to manipulation. The rates are weighted by the amounts borrowed.

Whether or not SOFR eventually replaces Libor, **financial-markets** pros likely will be hearing much more about it as banks decide whether to use it in loan contracts.

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THE WALL STREET JOURNAL.

Markets

The Bad Trade-Offs Emerging Markets Face; Emerging markets are risking long-term growth to keep the market turmoil contained

By Saumya Vaishampayan and Josh Zumbrun
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WSJO
English

BALI, Indonesia—Emerging markets worried about their falling currencies and investors rushing to the exits are raising interest rates and keeping a lid on spending, even though doing so is likely to hurt their long-term prospects.

Central banks in developing countries including Indonesia and the Philippines have raised their official borrowing costs multiple times this year to keep up with rising rates in the U.S. Economic growth has already slowed in the Philippines from earlier in 2018. While the Indonesian economy grew at the fastest pace in more than four years in the latest quarter, the worry is that higher rates there could start to drag.

Countries are making these trade-offs for fear the turmoil that has gripped emerging markets such as Turkey and Argentina could spread more broadly.

"The main question is, for how long will you see markets discriminating good guys from bad guys," Colombia's central bank chief Juan José Echavarría said.

Tough policy decisions by governments in the developing world could help keep the market trouble contained. The risk is that it crimps the long-term growth prospects for these countries, and for the global economy as a whole.

Central bankers and finance ministers attending the annual gathering of the International Monetary Fund and the World Bank in Bali, Indonesia, debated the ability of emerging markets to withstand higher interest rates, which make their dollar debts more expensive to repay. The Federal Reserve has signaled it will continue to lift interest rates through next year, and the European Central Bank has indicated it will push ahead with its plan to phase out its easy-money policies.

Policy makers said they are reassured that investors have so far separated the stronger from the weaker countries as investors soured on emerging markets this summer. The currency slumps in Argentina and Turkey, which are both facing deep economic troubles, have far outpaced the declines elsewhere this year.

But some also expressed concerns that the response to the turmoil could hurt emerging-market growth prospects. Countries could feel compelled to run current account surpluses to fend off **financial markets**, even though they need to incur deficits at this stage of their development, said Tharman Shanmugaratnam, chairman of the Monetary Authority of Singapore.

"It's very normal to expect the emerging markets that need investment to have some current account deficits," said Subhash Chandra Garg, India's economic affairs secretary.

Investors seeking juicy returns poured money into emerging markets in 2017. This year, however, higher U.S. rates, a strong dollar and the troubles in Turkey and Argentina have slammed developing economies, sending prices of their stocks and bonds falling. The MSCI Emerging Markets Index fell into bear territory, commonly defined as a 20% drop from a recent high, in September.

The turmoil has sharpened an enduring dilemma for emerging markets: They must spend heavily to develop their economies, but that leaves them vulnerable to instability during periods of capital flight.

The deficit-fueled growth strategies pursued years ago by countries such as South Korea and Singapore aren't as available now that capital moves more quickly around the globe, said Andrés Velasco, dean of the School of Public Policy at the London School of Economics and Political Science and a former finance minister of Chile.

"It is very hard even for a well-behaved country with all the right policies to follow the path of sustained current-account deficits, high investment and high growth," he said. "The flows of capital that are necessary to make this happen tend not to be…as reliable as you would need them to be."

South Africa's central bank has kept its benchmark rate steady at 6.5% even after it fell into a recession in the second quarter, depriving its economy some relief from easier monetary policy in an attempt to prevent capital outflows. The rand has slumped nearly 15% against the dollar this year.

The Philippine central bank's current bias is to continue tightening monetary policy, Deputy Gov. Diwa Guinigundo said.

"It is also very important that one should consider the impact of your tightening on the real sector," Mr. Guinigundo said.

Write to Saumya Vaishampayan at saumya.vaishampayan@wsj.com and Josh Zumbrun at Josh.Zumbrun@wsj.com

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World News: Trump Swipes at Fed After Selloff

By Vivian Salama and Nick Timiraos
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English

President Trump put the Federal Reserve at the middle of Wednesday's **stock-market** selloff just minutes after the White House issued a statement playing down the drop by pointing to solid economic fundamentals.

"The Fed is making a mistake," Mr. Trump told reporters in Erie, Pa., after stock markets suffered their biggest decline in more than seven months. "I think the Fed has gone crazy."

Mr. Trump has for weeks grumbled about the central bank's campaign to gradually lift short-term rates, which it has been doing to guard against inflation.

Of the **stock market**, he said, "Actually, it's a correction that we've been waiting for, for a long time. But I really disagree with what the Fed is doing, OK?" A Fed spokeswoman declined to comment.

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