WSJ PRO FINANCIAL REGULATION

Markets

Goldman Sachs Banker Arrested for Insider Trading; Woojae 'Steve' Jung allegedly used a friend's account to trade ahead of mergers he learned about at work

By Dave Michaels
440 words
31 May 2018
04:53 PM
WSJ Pro Financial Regulation
RSTPROFR
English

WASHINGTON—A banker at Goldman Sachs Group Inc. was arrested Thursday and charged with insider trading after authorities alleged he traded ahead of mergers and acquisitions that he learned about while working at the bank.

Woojae "Steve" Jung, 37 years old, earned about $140,000 from illegal trades in both stocks and **bullish** call options, the Securities and Exchange Commission said in a separate civil lawsuit filed in federal court in Manhattan.

Mr. Jung allegedly traded in shares of at least 12 companies, including SanDisk Corp. and WebMD Health Corp., with pending or anticipated mergers and acquisitions, according to the SEC. He used a South Korean friend's account to conceal his involvement in the transactions, the SEC said.

Mr. Jung's illicit trading lasted from 2015 to 2017, the SEC said. The bank's internal records show he accessed information about the deals during the period when he placed his trades, according to the federal criminal complaint. Mr. Jung accessed his friend's brokerage account more than 600 times, the SEC said.

Mr. Jung joined Goldman in 2012 and has worked in both New York and San Francisco for the bank. A LinkedIn profile carrying his name says he handled deals in the technology, media and telecommunications sectors and earned an M.B.A. from the University of Pennsylvania's Wharton School. A Goldman spokesman said Thursday that Mr. Jung was placed on leave from the firm.

Mr. Jung didn't respond to a message seeking comment. Court records don't show an attorney for him.

Mr. Jung faces a possible prison sentence if convicted in the criminal case. The SEC's civil lawsuit asks a court to order that Mr. Jung turn over any ill-gotten profits and pay a monetary penalty.

The SEC also wants Mr. Jung's friend, Sungrok Hwang of Seoul, to give up his trading profits from the scheme. Mr. Hwang couldn't be reached for comment. The SEC's complaint says the men attended the same university in South Korea.

"Jung tried to insulate himself by allegedly placing trades in the brokerage account of a friend who lived overseas," said Joseph Sansone, chief of the SEC's market-abuse unit. "Like others before him, Jung's alleged scheme failed when our data analysis uncovered the account's suspicious trading pattern and, despite Jung's attempts at evasion, traced the trading back to him."

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Document RSTPROFR20180531ee5v0008d

THE WALL STREET JOURNAL.

Heard on the Street
Markets

Wacky Prices Pinch Oil Producers' Profits; The differences between various types of crude are currently bigger than usual and in some cases counterintuitive

By Spencer Jakab
388 words
31 May 2018
04:04 PM
The Wall Street Journal Online
WSJO
English

"**Oil prices** rose yesterday."

That sound bite is usually enough for those with a casual interest in the direction of the world's most important commodity, whether it is because they own a few hundred shares of Exxon Mobil or want to know how much next weekend's road trip will cost. For those in the energy market, though, it isn't so simple—especially now.

Crude oil not only comes in myriad varieties with varying physical properties—light or heavy, sweet or sour—but it also is pumped, or in the case of heavy crude, mined, all over the world. That means different prices. Right now those differences are bigger than usual and in some cases counterintuitive. The culprits include surging U.S. shale output, fewer barrels from the Middle East and transport bottlenecks in North America.

The discount of Northwestern European Brent over West Texas Intermediate, priced at Cushing, Okla., was $9.29 a barrel Thursday morning. It was even higher before the U.S. lifted its export ban. Before U.S. oil output began surging, though, slightly higher-quality WTI usually fetched a premium.

But many U.S. producers would love to get even today's depressed WTI price. Oil delivered at the Midland Hub in the booming Permian Basin is now about $10 a barrel lower or nearly $20 below Brent. Analysts at Raymond James see that continuing until late 2019 when more pipelines relieve the glut.

Canadian producers of heavy crude have it even worse with Western Canada Select spot prices at a discount of over $22 to Brent. Their transport bottlenecks may last even longer. The Canadian governmentwas forced to buy a pipeline from U.S. company Kinder Morgan to expedite an expansion project.

Finally, a key oil variety from Russia, the world's No. 1 producer, hit its highest discount to Brent in six years, according to S&P Global Platts, as buyers saw a surfeit of similar grades.

Investors in companies from EOG Resources to Suncor to Lukoil are collectively leaving billions of dollars on the table.

"**Oil prices**" may be near a multiyear high, but some oilmen are happier than others.

Document WSJO000020180531ee5v004bm

THE WALL STREET JOURNAL.

Markets

EPA Gives $30 Million-Plus in Ethanol Credits to Oil Refiners, Angers Corn Growers; The credits were designed for small refineries facing economic hardship, but courts have ruled some applicants were unfairly denied in recent years

By Timothy Puko and Christopher M. Matthews
1,170 words
31 May 2018
05:27 PM
The Wall Street Journal Online
WSJO
English

The Trump administration is giving two oil refiners tens of millions of dollars' worth of retroactive biofuels credits, unprecedented help for refining operations that is refueling a fierce conflict between energy companies and corn growers.

The decision hands the equivalent of more than $30 million to HollyFrontier Corp. and Sinclair Oil, after a federal court's 2017 ruling that the Obama administration had improperly denied requests the companies had made for economic hardship help in 2015.

Shares in HollyFrontier and other refiners spiked briefly after the news. Refiners' shares have doubled, and in some cases tripled, in the past year as the Environmental Protection Agency has handed out a slew of similar waivers from obligations under federal law to blend biofuels into their products. The waivers were designed for small refineries facing economic troubles but some have been awarded to businesses owned by some of the biggest and most successful U.S. companies.

The most recent credits, awarded months ago and first reported Thursday by Reuters, are the first publicly known retroactive waivers. They mark the latest twist in a conflict that has brewed for years and peaked with about a half-dozen White House meetings since Mr. Trump became president.

Experts view the credit decision as a sign that the conflict is no closer to resolution, and critics say it undermines a last-ditch effort at a compromise at the most-recent White House meeting.

Tensions between the two industries have been building since well before Mr. Trump became president, the result of a 2005 law that requires refineries to blend about 10% plant-based ethanol into the fuel they produce, or buy credits from rivals to cover their blending obligations. Congress created the mandate hoping to reduce carbon emissions and wean the U.S. from foreign crude at a time when **oil prices** had begun to soar.

Small refineries with less than 75,000 barrels a day of capacity—even if owned by a large company—can get a waiver from the ethanol requirement if they prove the mandates are causing "disproportionate economic hardship," according to the EPA website. For years, the EPA regularly rejected requests from refiners seeking waivers, but courts have ruled in recent years that many of those decisions were unfair.

This year, the EPA rejected just one of some 30 applicants through late April, encouraging more refiners to consider applying for the first time. It has received applications from oil giants Exxon Mobil Corp. and Chevron Corp.

Some refiners have asked about waivers that would allow them to recoup costs from years past, according to a person familiar with the matter. The agency doesn't intend to entertain such requests, but is also bracing for court challenges to that decision, according to a senior administration official.

Opponents among corn growers and biofuels advocates criticized the EPA's action, calling it evidence that EPA chief Scott Pruitt is backtracking on commitments to uphold federal mandates for how much ethanol is blended into gasoline.

EPA officials and industry lawyers said the award was a narrow response to a court ruling.

Renewable Fuels Association and the National Corn Growers Association, among others opponents, filed suit Wednesday against the EPA for other waivers it has granted, including two to operations owned by HollyFrontier. Other suits may follow, industry experts say.

Three weeks ago, both corn growers and refiners touted a deal offered during the last White House meeting that was largely based around expanding ethanol use during summers, credits for exported ethanol and adjustments to the waiver program, according to people briefed on the arrangement.

But each side interpreted the deal outlines differently, some aspects would take months of new rule-making and White House officials have hesitated to release a statement they had drafted to clarify the terms, according to one of the people.

The Trump administration has struggled for months to find compromise options that would hold up in court and get support from both sides. The decision could make those negotiations tougher, by reinforcing a perception among biofuels advocates that the EPA always works against them, said Benjamin Salisbury, policy analyst at B. Riley FBR Inc.

"It's not a break," he added. "But the seeds of distrust are there, and it's still going to be hard to find a win-win solution, if it exists."

The EPA granted HollyFrontier about $34 million in usable credits earlier this year related to biofuel blending obligations—labeled in the industry as renewable volume obligations, or RVOs—at one of its Wyoming refineries stretching back to 2015.

"In the first quarter of 2018, we increased our inventory of RINs"—renewable identification numbers, as the biofuel credits are known—"and reduced our cost of products sold by $33.8 million representing the fair value of the 2018 RINs generated because of the Cheyenne Refinery's exemption of its 2015 RVO," HollyFrontier said in a regulatory filing.

A HollyFrontier spokesman didn't immediately respond to a request for comment.

An EPA spokesman called the actions "narrow in scope" and consistent with legal rulings.

"The Agency has been revisiting some prior denials in light of a recent court opinion holding that EPA had been applying the hardship exemption for small refineries too narrowly," the spokesman said in a statement. "Last summer, the Tenth Circuit found that EPA cannot make an exemption conditional on a refinery showing that its continued survival was at risk."

Corn growers say the EPA's actions have left them at a disadvantage.

"Administrator Pruitt needs to understand that his actions to continue to grant waivers, now retroactively, to oil refineries is undermining the Renewable Fuel Standard—a program that Administrator Pruitt told Congress he was committed to upholding," Iowa Republican Sen. Joni Ernst said in a statement. "From granting waivers to oil refineries left and right to dragging his feet on fulfilling the President's promise to farmers on E15, Administrator Pruitt is undermining the RFS," or renewable fuel standard.

Lawyers who work with refiners said Mr. Pruitt is following the law and upholding the mandate. "Hardship waivers are necessary because the rule causes harm to small refineries and is badly in need of reform," said LeAnn Johnson Koch, an attorney at Perkins Coie who works with merchant and small refineries. "Granting exemptions is not the fix. It's a Band-Aid."

The EPA also gave Sinclair Oil similar credits for obligations in years past, said a person familiar with the matter, but the value of those credits is unclear. Sinclair Oil is privately held and isn't required to disclose such details. Susan Schoolfield, a spokeswoman for the company, declined to comment.

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Document WSJO000020180531ee5v0050l

THE WALL STREET JOURNAL.

U.S. Markets
Markets

Stocks Drop After U.S. Imposes Tariffs on Steel, Aluminum; Investors sell off shares of big industrial manufacturers; Boeing is among the Dow industrials' biggest decliners

By Michael Wursthorn and Mike Bird
790 words
31 May 2018
05:27 PM
The Wall Street Journal Online
WSJO
English

The **Dow Jones Industrial Average** tumbled more than 250 points Thursday after the Trump administration made good on its plan to impose tariffs on steel and aluminum imports.

Investors broadly sold off shares of big manufacturers and globe-spanning corporations over concerns that tariffs imposed on steel and aluminum products from Canada, Mexico and the European Union would ignite a trade war that could hurt corporate profits, stoke inflation and possibly disrupt the synchronized global growth that fueled much of the market's historic climb last year.

After Commerce Secretary Wilbur Ross said Thursday morning that tariffs would be imposed on those countries as soon as Friday, Mexico, Canada and the EU

all promised retaliatory measures on steel and aluminum from the U.S., as well as on various goods, food and agricultural products.

"There has to be recognition by the market that any tariffs imposed by any government on any trade across borders is a tax on the system," said Jason Pride, chief investment officer for private clients at Glenmede Trust Co. While the proposed tariffs so far amount to a small portion of the affected countries' economies, analysts said, the tit-for-tat responses have the potential to lead to a protracted trade war.

The Dow industrials slid 251.94 points, or 1%, to 24415.84. The **S&P 500** shed 18.74, or 0.7%, to 2705.27. The **Nasdaq Composite** fell 20.34 points, or 0.3%, to 7442.12, as shares of tech companies fared better than peers.

Despite the weak performance Thursday, all three indexes notched a second consecutive month of gains. The Dow added about 1% in May, while the **S&P 500** and **Nasdaq** rose 2.2% and 5.3%, respectively.

Stocks sensitive to the higher costs that would likely come from the trade tariffs were among the Dow industrials' biggest decliners. Shares of aerospace giant Boeing fell $6.03, or 1.7%, to $352.16, while heavy machinery manufacturer Caterpillar slid 3.55, or 2.3%, to 151.91.

Shares of consumer-staple companies, which provide some of the goods Mexico is targeting, also fell. Procter & Gamble, for example, shed 1.72, or 2.3%, to 73.17.

Assets that are considered to be relatively safe, meanwhile, moved higher. Shares of utility companies rose, since they tend to be more stable during periods of economic stress and pay hefty dividends, and U.S. government bonds strengthened.

Investors will closely watch for further trade developments on Friday, as well as to see whether the May jobs report, which will be released prior to the **stock market**'s open, offers any signs as to whether inflation is firmly moving higher.

The yield on the benchmark 10-year U.S. Treasury note moved down to 2.824% from 2.842% on Wednesday. Yields fall as **bond prices** rise.

"This has the potential to create more economic uncertainty," said Anthony Saglimbene, a global market strategist at Ameriprise. He is **bullish** on the **stock market** overall but said trade tensions have a potential to "derail" the economy.

The broad declines in the **S&P 500** were exacerbated by losses among Dollar Tree and Dollar General after the retailers disappointed investors with weaker-than-expected earnings.

Dollar Tree tumbled 13.76, or 14%, to 82.59 after it missed estimates on earnings and revenue and cut its outlook for the remainder of the year. Dollar General fell 9.04, or 9.4%, to 87.48 after it reported lower-than-expected profits.

In Europe, stocks erased earlier gains after the tariffs were announced. The Stoxx Europe 600 fell 0.6% to end May lower.

In addition to the trade tariffs, a political impasse in Rome continued to weigh on the minds of investors, who fear President Sergio Mattarella's decision to block the formation of a euroskeptic coalition government could disrupt the currency bloc. The deadlock means that Italy's voters may soon return to the polls.

"It doesn't seem like something that'll be resolved quickly, so I need to be comfortable that there isn't too much of a risk to the rest of Europe," said Nicole Kornitzer, portfolio manager at Buffalo Funds specializing in European equity investments for U.S. clients.

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More on Italy's Political Crisis

* Italian Populists Revive Coalition Talks

* Italian Markets Were Primed for a Blowup

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THE WALL STREET JOURNAL.

Markets

Stocks' May Gains Cut Short by Trade Fears, Europe Woes; Strong first-quarter earnings growth helped power shares early in the month, but then came Italy and a ramped up trade dispute

By Chelsey Dulaney
837 words
31 May 2018
07:03 PM
The Wall Street Journal Online
WSJO
English

Stock markets rallied at the start of May, shrugging off the prospect of a trade war, weakness in emerging markets and signs of political instability in Europe. But by the end of the month, these developments had pared stock gains and left many investors wondering if they had been too complacent.

Strong first-quarter earnings growth helped power stocks higher in early May. Technology shares were again a top performer, rising after companies like Apple Inc. and Facebook Inc. announced plans for stock buybacks. Higher **oil prices** also helped lift energy stocks.

A strengthening dollar and rising U.S. bond yields upended currencies and bonds in the developing world, renewing concerns about the ability of developing nations to withstand central banks pulling back from monetary stimulus. Argentina, which raised interest rates to 40% to protect its currency, and Turkey suffered the most.

In Europe, global investors looked past political divisions in Italy until this week when the possibility of a new election that could strengthen antieuro forces caused the government's bond yields to soar. Worries appeared to ease later this week, as two antiestablishment parties struck a deal Thursday on reviving a coalition government.

Those concerns spilled over to the U.S., where the **Dow Jones Industrial Average** dropped nearly 400 points on Tuesday and Treasury yields fell. The yield on the **10**-**year Treasury** note dropped below 2.8% after climbing above 3.1% earlier in the month.

Despite the renewed **volatility**, the S&P notched a 2.2% gain in May, its best month since January, and is up 1.2% for the year. The Dow industrials added 1% in May but remain down 1.2% in 2018.

Tech rebounds

After a rocky few months, U.S. stocks bounced back in May as tech giants resumed their gains. The S&P's tech sector added 7.1% in May, as Apple gained 13% and Facebook rose 12%.

Tech shares have soared in recent years, a factor behind the broader market's gains, before hitting a wall in March as investors fretted over the possibility of heightened regulation for the sector. Strong first-quarter earnings reports and plans among many big tech companies to use tax savings to boost share buybacks and dividends helped draw investors back in the past month.

Volatility returns

European assets had a rocky month as political uncertainty returned to the region. Italy is facing the prospect of a euroskeptic administration after the deal Thursday to form a government. In Spain, Prime Minister Mariano Rajoy is expected to be ousted when Parliament holds a confidence vote Friday.

While European markets mostly recovered from a big selloff earlier in the week, the euro remained down 3.2% against the dollar in May while the Stoxx Europe 600 fell 0.6%.

The yield on the 10-year Italian government bond rose to 2.70% from 1.78% in April, according to Tradeweb, while the yield on a similar Spanish bond rose to 1.51% from 1.275%.

Dollar strengthens

The dollar extended a rally that began in mid-April as the WSJ Dollar Index, which measures the U.S. currency against 16 others, rose 1.7% in May. The dollar got help from a variety of trends, including the rise in Treasury yields in the first half of the month and geopolitical uncertainty that drove investors into assets perceived as safe in the latter half.

Emerging markets sink

The rise in the dollar and U.S. interest rates converged to unleash fresh pressure on emerging markets in May. A stronger dollar makes emerging markets' dollar-denominated debts more expensive to pay back, while rising rates encourage investors to pull money from those countries to invest in the U.S.

Argentina's peso tumbled 18% against the dollar in May, leading the country to seek a bailout from the International Monetary Fund amid concerns over its ability to pay its debts. Turkey's currency tumbled 10%, forcing the central bank to raise interest rates in an (mostly unsuccessful) attempt to stem the currency's slide.

Trade is a wild card

U.S. trade policy and its potential impact on economies around the globe remains a focus for investors. The Trump administration has said it would impose tariffs on steel and aluminum imports from Canada, Mexico and the European Union starting Friday. It is also considering new tariffs on vehicle and auto-parts imports, The Wall Street Journal reported.

Those worries have weighed on stocks in export-dependent countries. Germany's DAX **stock index** has fallen 2.6% this week and dropped less than 0.1% in May. In Asia, South Korea's Kospi index fell 3.7% in May, and Japan's Nikkei Stock Average declined 1.2%.

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Document WSJO000020180531ee5v005bt

WSJ PRO CENTRAL BANKING

Economy
U.S. Consumer Spending Strengthened Further in April; Robust spending signals strong start to second-quarter economic growth

By Harriet Torry
609 words
31 May 2018
11:30 AM
WSJ Pro Central Banking
RSTPROCB
English

WASHINGTON—Americans' spending gathered further momentum in April as incomes continued to rise, a sign consumers could drive stronger economic growth in the second quarter.

Personal-consumption expenditures, a measure of household spending on everything from health care to magazines, increased a seasonally adjusted 0.6% in April from the prior month, the Commerce Department said Thursday. That was the largest increase in five months and above the 0.4% rise that economists surveyed by The Wall Street Journal expected.

The spending data "help the case for a pickup" in economic growth in the second quarter after a modest slowing in the first, Jim O'Sullivan, an economist at High Frequency Economics, said in a note to clients.

Rising incomes, extra dollars from last year's tax cut and low unemployment helped propel spending on both goods and services in April, which suggests consumers' momentum is rebuilding after a slowdown earlier this year, when expenditures edged up 0.1% in January and were flat in February. Spending in March was revised up to a 0.5% increase from an earlier reading of 0.4%.

Nonetheless, spending at the pump was a leading contributor to the 0.7% increase in outlays on goods in April, as gas prices climbed that month. Meanwhile cold weather meant demand for household utilities drove the 0.5% increase on services outlays.

Consumer spending accounts for more than two-thirds of U.S. economic output, making it a key driver of the economy.

After Thursday's report, the Federal Reserve Bank of Atlanta raised its estimate of economic output in the second quarter to a seasonally adjusted 4.7% annual rate from a projection of 4% on May 25. Forecasting firm Macroeconomic Advisers raised its projection for second-quarter gross domestic product, too, by 4 percentage points to a 4% growth rate, and JPMorgan Chase & Co. said that recent higher consumer spending "adds upside risk to our recently revised-up estimate of 2.75% GDP growth for the second quarter." Gross domestic product—the dollar value of all goods and services produced in the U.S., adjusted for inflation—expanded at a 2.2% annual pace in the first quarter.

Personal income—reflecting Americans' pretax earnings from wages, salaries, investments and other sources—rose 0.3% in April, in line with expectations. It increased 0.2% in March.

Real disposable personal income, or after-tax income adjusted for inflation, rose 0.4% on the month in April.

While consumers are earning more and spending more, they are saving less. The personal saving rate in April was 2.8%, compared with 3% in March.

As Americans' incomes rise, so is inflation. The price index for personal-consumption expenditures, the Federal Reserve's preferred inflation measure, was up 2% from a year earlier and rose 0.2% from March. Excluding **volatile** food and energy costs, prices rose 0.2% in April, compared with economists' expectations of a 0.1% rise. So-called core inflation was up 1.8% in April from a year earlier.

The Federal Reserve targets 2% year-over-year inflation and has been raising short-term interest rates to prevent the economy from overheating.

Write to Harriet Torry at harriet.torry@wsj.com

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Document RSTPROCB20180531ee5v000dx

THE WALL STREET JOURNAL.

Markets

Second Time Is the Charm for Activist Taubman Investor; Shareholders reject hedge fund's proposal to change company's capital, voting structure

By Esther Fung
523 words
31 May 2018
02:02 PM
The Wall Street Journal Online
WSJO
English

Shareholders of Taubman Centers Inc. have elected activist investor Jonathan Litt to Taubman's board, in his hedge fund's second attempt at getting a board seat at the luxury-mall owner amid tepid performance of its shares.

Shareholders, however, didn't support the proposal of Mr. Litt's hedge fund, Land & Buildings Investment Management LLC, to change the company's capital and voting structure.

"The vote is more of a rebuke to Taubman's management, not a revolt against the company," said Alexander Goldfarb, managing director at investment bank Sandler O'Neill & Partners.

Shares of the Bloomfield Hills, Mich.-based real-estate investment trust rose Thursday morning after the vote results, but were down 0.5% at $54.50 by early afternoon. The **S&P 500 index** was also down 0.5%.

Since late 2016, Mr. Litt has been urging Taubman to cut costs and do more short-term leasing in its malls using kiosks and food vendors. Using colorful PowerPoint slides and letters to the board and shareholders, he also has argued that the Taubman family's ownership of Class B shares gave the family outsized control, and that this structure doesn't align common shareholders' interests with the Taubman family's.

Taubman has said that the interests of Class B shareholders and common shareholders are aligned.

Taubman has added four new independent directors since April 2016 and said that Mr. Litt's recapitalization proposal, if passed, will dilute existing common shareholders' ownership.

Taubman said it welcomes Mr. Litt to the board and looks forward to working collaboratively.

Malls and shopping centers have been facing headwinds as retailers suffer from a supply glut of stores, competition from e-commerce, and fast-changing consumer tastes and behavior. Store closures have accelerated in the past two years, and property owners are now undertaking costly redevelopment initiatives, bringing in hotels and residential buildings to draw more shoppers.

Taubman owns 24 malls across the U.S., including tony properties such as the Mall at Short Hills in New Jersey and Dolphin Mall in Miami. The REIT is spending $500 million to spruce up Beverly Center in Los Angeles.

Analysts have criticized Taubman for missteps—such as cost overruns in its mall in San Juan—and for the high expense of renovating Beverly Center. Taubman has asserted that the investment will pay off in the long run.

Mr. Litt had previously agitated for change in other REITs such as Forest City Realty Trust Inc. and Mack-Cali Realty Corp. He has proposed splitting the chairman and CEO roles at Taubman, forming a committee to evaluate ways to improve performance and looking at selling assets.

Analysts say Mr. Litt's efforts may still be in the early stages. "It depends on whether he can persuade other members of the board," said James Sullivan, managing director at BTIG Research. "He now sits with a management team he has been highly critical of."

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Document WSJO000020180531ee5v003ml

The New York Times

The Upshot
The Economy Can Handle Steel and Aluminum Tariffs. The Real Risk Is Erratic Policy.

By Neil Irwin
1,045 words
31 May 2018
01:29 PM
NYTimes.com Feed
NYTFEED
English

Today, we take pity upon the supply chain managers, the financial planners, the logisticians and procurement chiefs at every American company that uses steel and aluminum in its products.

They face a difficult few months trying to adapt their businesses to new tariffs on metals imported from Canada, Mexico and the European Union, which start at midnight Thursday. Some prices are likely to rise, and some business operations may even turn out to be noneconomical in this new trade policy landscape, and shutter entirely.

It's worth keeping some perspective on the direct, immediate damage from the tariffs and likely retaliation from trading partners. Prices for inputs like steel move around all the time, and businesses are generally pretty good at adapting. Those supply chain managers and logisticians are good at their jobs.

But there's a longer-term danger for the American economy that's a lot bigger than the 25 percent tax on imported steel and 10 percent on imported aluminum. It is that the administration's trade policy is displaying an erratic, improvised, us-against-the-world quality that is anathema to businesses that must make long-term decisions about how to deploy capital.

In a market economy, businesses can thrive despite bad policies. Go to any rich country, and you'll find certain tax and regulatory policies that seem bonkers to an outsider. Japan taxes imported American beef at high rates — 50 percent until recently. Most stores in Germany have to close on Sunday. Go to Sweden or South Korea or Canada and you can find rules that impede the free market, yet businesses do just fine.

That's because those policies may be inefficient, but they are stable in their inefficiency. German stores build into their business models the expectation that there will be no Sunday sales, and a beef importer in Japan builds the tariff into its prices.

That stability is part of what differentiates rich countries from poor ones. In poor countries, it tends to be harder for businesses to make long-term investments in part because they don't know what tax and regulatory policies might come down upon them in the future.

And the Trump administration's trade policies in 2018 have been nothing if not inconsistent and unpredictable. The sequence of events on steel and aluminum over the last three months is a prime example.

If you're a little confused at seeing headlines about the imposition of tariffs on steel and aluminum on major trading partners, it is understandable. Didn't that already happen?

The administration first announced the tariffs back in early March, portraying them as an aggressive effort to fight the perfidious behavior of China and other countries to subsidize their domestic metals industries, undermining American national security.

Then, soon after they were announced, the administration gave exemptions to most major American allies, including the European Union, Canada and Mexico. It extended them by 30 days at the start of May, though that was a down-to-the-wire moment.

With those 30 days now elapsed, the administration has this time gone the other direction and removed the exemptions. It's now tariffs for everybody, including the United States' closest military allies. And even that is subject to change as the Trump administration continues to dangle relief on steel and aluminum tariffs in exchange for other concessions.

There has been extensive behind-the-scenes jockeying over those exemptions for the last three months, but there has been no real public accounting of what criteria led to those exemptions in the first place, or what led to their removal. And it is not at all clear how taxing imports of Canadian and European steel and aluminum is going to get China to cut subsidies for its producers.

The imposition of the tariffs on Canada and Mexico added another layer of complexity to the sluggish renegotiation of the North American Free Trade Agreement.

American negotiations with China over its trade practices have been even more erratic. One day, tariffs on $150 billion of imports from China appeared imminent, the next they were put on pause amid infighting by the president's trade negotiation team.

Even more remarkable is that the Trump administration is willing to make threats against all the nation's major trading partners at the same time. A trade war with China would be a big deal; a trade war with Europe would be a big deal; a trade war with Canada and Mexico would be a big deal. The United States is flirting with all three at once.

So imagine you're a business trying to decide whether to build a big new manufacturing facility in Ohio or Indiana or Michigan. You make sophisticated industrial equipment that is exported around the world — a sector where the United States has considerable competitive advantages, and where the jobs tend to pay well. You just got a tax cut, and your **stock price** has been rising, lowering your cost of capital.

But simultaneously you have no idea how much it will cost to buy the steel and aluminum in your products in the years ahead. You have no idea if we'll be in the middle of a trade war with all the countries that are likely to be interested in buying your products.

You may be hoping that the Trump administration's trade brinkmanship will lead to better access for your products abroad. But in the meantime, that's a whole lot of political risk that will weigh on your decisions to hire and invest.

There will be a lot of focus in the weeks ahead on the direct, first-round effects of the steel and aluminum tariffs. No doubt certain products will cost a bit more. Those supply chain managers are facing some late nights.

This bigger cost is harder to measure, but that doesn't make it less real. That is the risk that the United States is not as stable and reliable a place to do business as you once thought.

A worker measuring rolls of aluminum at a factory in Shandong Province in eastern China. | Agence France-Presse — Getty Images

Document NYTFEED020180531ee5v005h9

Economy

U.S. Inflation Firms in April, Stays at Fed Target for Second Month Straight; Underscores policy makers' plans to gradually raise interest rates

By Paul Kiernan
435 words
31 May 2018
09:02 AM
WSJ Pro Central Banking
RSTPROCB
English

Inflation remained at the Federal Reserve's target in April for a second straight month, a sign of firming prices in the U.S. economy that underscores policy makers' plans to gradually raise interest rates.

The personal-consumption expenditures price index, a broad measure that serves as the Fed's preferred inflation yardstick, rose a seasonally adjusted 0.2% in April from March, the Commerce Department said Thursday. From April 2017, the index was up 2%, matching the Fed's annual goal for inflation.

The latest data are likely to reinforce central bankers' view that inflation is finally consolidating at the target after remaining stubbornly low for years despite steady economic growth. This, in turn, could further convince policy makers to stick to their plan of gradually increasing interest rates over the next couple of years.

Excluding **volatile** food and energy prices, the price index rose 0.2%, more than the 0.1% consensus estimate in a survey of economists by The Wall Street Journal. From a year earlier, so-called core prices were up 1.8%.

With **oil prices** on the rise, wages increasing in a tight labor market, and the Trump administration imposing tariffs on some imports, economists widely expect inflation to accelerate further this summer.

That doesn't necessarily mean the Fed will move more aggressively to raise interest rates. Given that the annual price index remained below the 2% objective for most of the past six years, policy makers have signaled they will tolerate some overshoot of inflation in the short term.

Minutes from the Fed's most recent policy meeting, released last week, said an uptick in prices earlier this year provided "reassurance" to policy makers that inflation was on track to reach the central bank's objective. Atlanta Fed President Raphael Bostic, a member of the central bank's rate-setting committee, said last week at a conference in Dallas that it would take "some really, really big information" to depart from the gradual path of rate increases that the Fed has telegraphed.

Most economists expect two or three increases of 0.25 percentage point in the Fed's benchmark short-term interest rate, which currently stands at 1.5% to 1.75%. Investors see a 91.3% probability of a rate increase at the Fed's upcoming June 12-13 policy meeting, according to CME Group, up from 85% on Wednesday.

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Document RSTPROCB20180531ee5v000m9

THE WALL STREET JOURNAL.
U.S. EDITION

Bill Gross Fund Takes Hit From Italy

By Justin Baer
1,021 words
31 May 2018
The Wall Street Journal
J
A1
English

Bill Gross's flagship fund dropped more than 3% Tuesday, an unusually big decline for a bond fund in just one day, and a sign of how the shockwaves from this week's sudden moves in European markets are reverberating.

The Janus Henderson Global Unconstrained Bond Fund may have been wrong-footed by a bet that German **bond prices** would fall relative to their Italian counterparts, analysts said.

Instead, German prices jumped, sending yields plummeting, following the apparent collapse of a prospective Italian coalition government over the weekend.

Mr. Gross's fund fell 3.04% Tuesday, ranking it last in performance among similar funds this year, data tracker Morningstar said. Similar funds returned, on average, a 0.22% decline in 2018 through Tuesday, Morningstar said.

On Wednesday, Mr. Gross's fund rose 0.34%.

The fund's decline on Tuesday was the latest setback for Mr. Gross, the onetime "bond king" who built Pacific Investment Management Co. into a dominant force in the debt markets, with more than $200 billion at one point under management in his Total Return Bond Fund.

Mr. Gross appeared to signal a call for selling German bonds in his first-quarter letter to investors, noting that a March statement by the European Central Bank had paved the way for higher interest rates across the continent.

Unconstrained bond funds like Mr. Gross's are free to invest in a wider array of securities than those with more traditional fixed-income investments, like U.S. government and corporate bonds. The declines in Mr. Gross's fund are an example of how vulnerable investors can be to sudden reversals in market sentiment at a time of low, if erratically rising, interest rates and strong demand for income-generating investments.

"Even for unconstrained bond funds, it's rare for such a sharp decline," said Todd Rosenbluth, director of ETF & mutual fund research at CFRA.

Mr. Gross gained a global following in part for making bold predictions on the markets -- and placing outsize bets on those convictions. In 2011, as manager of the world's largest bond fund at Pimco, he famously sold all of his U.S. Treasury holdings and used derivatives to place wagers against government-related bonds. Those trades, among others, left Mr. Gross's funds far more susceptible to wrong-way bets than his peers, former colleagues have said.

Slumping performance, client defections and a feud with some of his colleagues greased his exit from Pimco, a firm he co-founded decades earlier. He jumped in 2014 to the smaller Janus Capital Group Inc., where the Unconstrained Bond Fund manages $2.08 billion. That is down from its peak this year of $2.23 billion.

Mr. Rosenbluth said Mr. Gross may have been caught flat-footed during Tuesday's selloff of Italian bonds. He had argued that the yields on ultrasafe German bonds would rise, reflecting improving economic prospects throughout Europe and an increased willingness among investors to take on risk.

Instead, the spread between yields on Italian and German 10-year bonds hit 2.83 points on Tuesday, widening from 2.05 on Friday and 1.57 in early 2018.

The spread between Italian and German bonds was unchanged at 2.828 points on Wednesday, Thomson Reuters said. Stock benchmarks in Europe and the U.S. edged higher.

Calls to a spokeswoman with Janus Henderson Group PLC, formed through the 2017 merger between Janus and the U.K.'s Henderson Group, weren't returned. Reached through a spokesman, Mr. Gross declined to comment.

Italian President Sergio Mattarella's move on Sunday to block the formation of a euroskeptic coalition government has reignited fears that the continent's third-largest economy would exit the currency union, a concern that rattled markets because any move to drop the euro or default on existing bonds could fuel significant losses among European lenders and impair economic growth.

Mr. Gross's Global Unconstrained Bond wasn't the only mutual fund caught up in the selloff. Managed-futures funds, which bet that market trends will continue, also fell sharply as one of those themes -- rising U.S. interest rates -- reversed course.

AQR Capital Management's $10 billion Managed Future Strategy, the biggest of the group, dropped 2.1% on Tuesday on losses from its shorts, or **bearish** bets, on U.S. government-bond futures.

The LoCorr Market Trend Fund, another managed-futures fund, declined 2.2%, while the Equinox Campbell Strategy Fund fell 2.51%.

Many traditional bond funds fared better.

The $2.1 billion Pimco Active Bond ETF, an exchange-traded fund once run by Mr. Gross, rose 0.6% on Tuesday. The $3.2 billion SPDR DoubleLine Total Return Tactical ETF, run by DoubleLine Capital LP's Jeff Gundlach, also gained 0.6%.

Morningstar's director of fixed-income manager research, Miriam Sjoblom, noted that the Pimco and DoubleLine ETFs are two of a breed of actively managed funds that rarely make the sort of esoteric bets that likely hurt Mr. Gross's performance. But even some ETFs with sizable allocations to Italian debt outperformed Mr. Gross.

Italian bonds account for 20% of the iShares International High Yield Bond ETF, which fell 1.7% on Tuesday. The $11.8 billion Vanguard Total International Bond ETF, which has 8.3% of its portfolio in Italian debt, slid just 0.22%.

"In a diversified bond portfolio, where you had some Italy exposure, you generally held up OK," Ms. Sjoblom said.

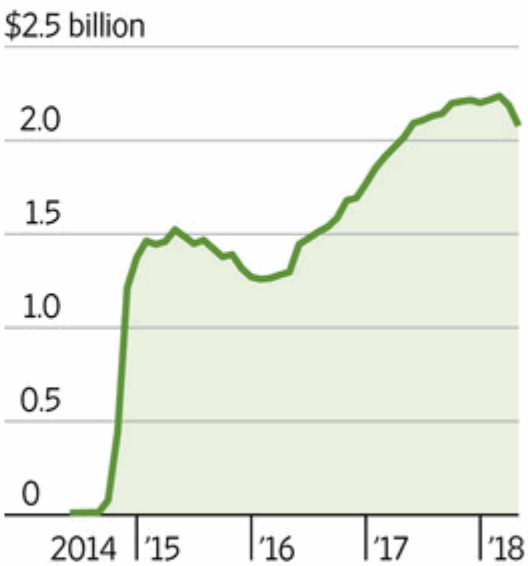
In his first-quarter letter, Mr. Gross said European investors had "piled into the region's safe havens, namely German Bunds," earlier this year after stocks declined sharply, Mr. Gross wrote. German bond yields, which had been on the rise as the nation's economic picture improved, also plummeted, he said.

"Given these conditions, it is difficult to find the rationale for [10-year] Bunds to be yielding just 0.50% and yields on German government debt up to six years in maturity to be negative," he wrote.

Asjylyn Loder contributed to this article.

Falling Kingdom?

Asset growth at Bill Gross's Unconstrained Bond Fund



Source: Morningstar

THE WALL STREET JOURNAL.

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Document J000000020180531ee5v0001y

THE WALL STREET JOURNAL.
U.S. EDITION

Fed Seeks to Loosen Volcker Rule for Banks

By Ryan Tracy and Telis Demos
966 words
31 May 2018
The Wall Street Journal
J
A1
English

WASHINGTON -- The Federal Reserve proposed on Wednesday easing a rule designed to curb risky trading in the wake of the financial crisis, one of the most significant deregulatory measures for banks since President Donald Trump took office.

The proposal, unanimously advanced by the Federal Reserve and known as Volcker 2.0, means JPMorgan Chase & Co., Goldman Sachs Group Inc. and other banking behemoths would face fewer audits of individual securities and derivatives transactions. The banks wouldn't have to spend as much time proving compliance, and traders would generally have more freedom to buy and sell securities.

While financial firms have been seeking the changes for years, regulators said the proposal wouldn't bring back the highflying days before the financial crisis when Morgan Stanley and other powerhouses booked billion-dollar losses. Still, critics said the proposal gives banks too much leeway and could create loopholes that allow banks to engage in risky trading.

The proposal is part of a broader regulatory rollback that includes a recently enacted law easing rules on small banks and less aggressive leadership at the Consumer Financial Protection Bureau.

Congress told regulators to draft the rule in 2010, named for former Federal Reserve Chairman Paul Volcker, to bar big banks from hedge-fund-like speculative trading activities. That prohibition remains.

Regulators said they want to enforce the rule differently because the existing practices are costly and confusing. The Fed and other agencies wouldn't audit individual transactions as often, but they would check to see that bank managers set limits on traders aligned with expected customer demand. The law allows hedging and market-making on customers' behalf.

The proposal "will allow firms to conduct appropriate activities without undue burden and without sacrificing safety and soundness," Fed Chairman Jerome Powell said.

Citigroup Inc. Chief Executive Michael Corbat told investors on Wednesday that the bank advocates the "spirit of Volcker."

But "we're all somewhat perplexed and challenged by the implementation," Mr. Corbat said, citing the "presumption of guilt," the lack of a single regulator and the collection of trading data that the government doesn't appear to use.

Four other U.S. agencies are expected to follow the Fed in proposing the changes over the next week. They will take public comments before completing the proposal.

The proposal is drawing strong support, including the backing of banking regulators who were tapped by former President Barack Obama, a Democrat. A separate proposal on bank capital rules has sparked opposition from Obama-nominated regulators.

Fed Vice Chairman for Supervision Randal Quarles, who was nominated by Mr. Trump, said the changes were a "first effort," suggesting more could be proposed later.

"This isn't about allowing formerly banned types of proprietary trading," said Gabriel Rosenberg, a lawyer who works with banks, referring to a bank trading for its own benefit. "This is really a rationalization of the program."

Some critics said the proposals could create loopholes.

"Sadly, this Volcker 2.0 proposed rule appears to weaken rather than advance the implementation" of the rule, said Andy Green, a former aide to Sen. Jeff Merkley (D., Ore.), an author of the Volcker rule. "The result will be more banks betting against, rather than serving, their customers."

Mr. Volcker said in a written statement that the proposal must "not undermine the core principle at stake -- that taxpayer-supported banking groups, of any size, not participate in proprietary trading at odds with the basic public and customers' interests."

The proposal would broadly loosen compliance requirements for all banks, though it would grant the most relief to firms with small trading desks.

In practice, judging whether a given trade complies with the Volcker rule has been difficult for regulators and for bankers. Banks have spent millions of dollars developing systems to measure trading activity and model future customers' demand. Wednesday's proposal wouldn't do away with those systems, but it could allow banks to simplify them.

Observers have said **financial markets** aren't functioning as well as they could because big banks are nervous that certain positions may violate the Volcker rule, though there is an open debate on the rule's precise effect. Mr. Quarles has said the impact on liquidity is unarguable, though hard to measure. Another Fed official said many factors are affecting **financial markets**, including new trading technologies.

Big banks have already cut back on trading businesses in search of more stable revenue sources. It isn't clear those jobs will return, even with Wednesday's proposed changes.

The current generation of top bankers, many of whom cut their teeth in businesses outside of trading, have said that whatever happened to Volcker they aren't planning for a return of proprietary trading desks.

"I'm not sure banks should put large parts of their capital at risk in proprietary trading or proprietary investing positions," James Gorman, Morgan Stanley chief executive, told analysts in April.

Wednesday's proposal would eliminate a presumption that positions held for fewer than 60 days violate the rule unless bankers prove otherwise, directly addressing Mr. Corbat's criticism. Instead, regulators would look to how positions are defined under accounting rules to determine whether they constitute short-term trading.

Regulators also would presume traders were complying with the rule if they stayed within limits set by their trading desks, but the government would regularly review those limits to make sure they were set appropriately.

If a trading desk booked gains and losses that exceed $25 million over a 90-day period, that desk would have to prove it wasn't violating the Volcker rule. But if the desk stayed under that level, regulators would presume it was in compliance.

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WSJ PRO CENTRAL BANKING

Economy

Midwest Business Activity Rises in May; Chicago PMI improves to 62.7 from 57.6 in April on strength in new orders

By Bowdeya Tweh
260 words
31 May 2018
10:22 AM
WSJ Pro Central Banking
RSTPROCB
English

A reading for business activity across the Midwest rose in May as new orders and production strengthened, according to a report Thursday.

The Chicago Business Barometer, also known as the Chicago PMI, or purchasing managers index, rose to 62.7 in May from 57.6 in April. An index reading above 50 separates expansion from contraction.

Economists surveyed by The Wall Street Journal expected the gauge to come in at 58.5.

"It had been a somewhat sluggish start to the year, perhaps unsurprising after the stellar end to 2017, but the MNI Chicago Business Barometer found a higher gear in May," Jamie Satchi, economist at MNI Indicators, said in prepared remarks. "Although broad based, the rise was largely thanks to a rebound in demand and back-to-back growth in output."

The five components that go into the barometer are new orders, production, order backlogs, supplier deliveries indicators and employment.

The Chicago reading is one of several monthly regional surveys that gauges the health of U.S. production and is designed to predict gross-domestic-product changes.

The Chicago report is unique because it includes firms from the bigger and better-faring service sector and isn't conducted by a Federal Reserve bank. The index is known to be **volatile**, in part because it is influenced by swings in orders for Boeing Co.

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WSJ PRO CENTRAL BANKING

Economy

US Jobless Claims Declined in Week Ended May 26; Continuing unemployment benefit claims fell by 16,000 in the week ended May 19

By Paul Kiernan and Harriet Torry
288 words
31 May 2018
08:33 AM
WSJ Pro Central Banking
RSTPROCB
English

WASHINGTON—The number of U.S. workers filing new applications for unemployment benefits fell more than economists expected last week after rising in the two prior weeks, remaining near historic lows.

Initial jobless claims, an indication of layoffs across the U.S., fell by 13,000 to a seasonally adjusted 221,000 in the week ended May 26, the Labor Department said Thursday.

Economists surveyed by The Wall Street Journal had forecast 225,000 new applications for jobless benefits last week.

Claims for the week ended May 19 were unrevised at 234,000, the Labor Department added.

Jobless claims can be **volatile** from week to week, especially around holidays when seasonal adjustments are sometimes difficult; Monday was Memorial Day. The four-week moving average of claims, which smooths out weekly jitters, posted a slight increase of 2,500 to 222,250.

Applications for unemployment benefits remain low by historical standards, reflecting what economists say is the best job market in close to two decades.

Thursday's report also showed the number of continuing unemployment benefit claims—those drawn by workers for more than a week—decreased by 16,000 to 1,726,000 in the week ended May 19. Continuing claims are reported with a one-week lag.

Economists expect the Labor Department to report Friday that the U.S. economy added 190,000 new nonfarm jobs in May and that the unemployment rate remained unchanged at 3.9%.

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Document RSTPROCB20180531ee5v000gp

WSJ PRO CENTRAL BANKING

Economy

Fed Backs Easing Volcker Rule | Beige Book Finds Manufacturing In Higher Gear | Eurozone Inflation Jumps | BOC Signals Rate Rise Could Come Soon | Fairless's Take: Central Banks Face Independence Challenge; The Wall Street Journal's central banking newsletter for Thursday, May 31, 2018

1,742 words
31 May 2018
06:33 AM
WSJ Pro Central Banking
RSTPROCB
English

Fairless's Take: Central Banks Face Challenge to Independence as Rates Rise

Fed Backs Easing Volcker Rule Restrictions on Big Banks' Trading

Fed's Beige Book Finds Manufacturing Shifting Into Higher Gear

Eurozone Inflation Jumps, but Uncertainty Still Clouds ECB Outlook

Bank of Canada Signals Rate Rise Could Come Soon

Central Banks Face Challenge to Independence as Rates Rise

Can major central banks retain their hard-won independence?

Some economists worry that support for independent central banks will fade over the coming years, despite their success at keeping inflation in check, as tensions with governments escalate.

The reason: Central banks have pleased their political masters since the financial crisis by slashing interest rates toward zero or below, and launching massive stimulus programs to support economic growth and inflation.

Now, from Frankfurt to Tokyo, central banks are preparing to phase out those postcrisis stimulus policies and start raising interest rates. That will put pressure on governments that have largely failed to pay down their debts since the financial crisis.

Each time the European Central Bank puts up interest rates by one percentage point, Italy's government—whose debt is around 130% of the nation's gross domestic product—will have to spend roughly 1.3% of GDP more each year to finance its debt, all else being equal, says Franklin Allen, economics professor at University College London. And all else may not be equal: Investors showed this week they can quickly lose their appetite for Italian debt.

The same goes for the U.S. government, which will have to raise a considerable amount more in taxes as the Federal Reserve pushes up interest rates. The vast profits that the Fed and other central banks made from bond-buying programs, and funneled back to governments, are set to fall as those programs are wound down.

Meanwhile some of the global factors that kept inflation low over recent decades--notably the rise of China, which helped to reduce the cost of manufactured goods--are fading.

"The arrival of China had such a deflationary impact on the world economy that central banks were only able to hit their [inflation] targets by cutting interest rates. That pleased politicians," says Charles Goodhart, a former policy maker at the Bank of England and now a professor at the London School of Economics. "But the China effect is over."

If inflation is higher over the coming decades, interest rates will need to rise. That could encourage politicians to challenge the independence of central banks.

"I hope you central bankers have enjoyed the last 20 years because the future will be more difficult," Mr. Goodhart told economists and policy makers at a conference in Stockholm, Sweden, last week.

Key Developments Around the World

Fed Backs Easing Volcker Rule Restrictions on Big Banks' Trading

Traders at big banks would get more freedom to buy and sell without worrying about the Volcker rule under proposed changes unanimously approved Wednesday by the Federal Reserve. The proposal, known as Volcker 2.0, would loosen compliance requirements for all banks, though it would grant more relief to firms with small trading desks. "This proposal represents our best first effort at simplifying and tailoring the Volcker rule," Fed Vice Chairman for Supervision Randal Quarles said. Four other U.S. agencies are expected to follow the Fed in proposing the changes over the next week.

Fed's Beige Book Finds Manufacturing Shifting Into Higher Gear

Economic activity expanded at a moderate pace across most of the U.S. this spring, driven in part by a pickup in manufacturing activity despite trade tensions, according to a Federal Reserve report released Wednesday. Most of the Fed's regional districts reported moderate economic growth in late April and early May, the Fed said in its latest roundup of anecdotal information about regional economic conditions known as the beige book. The Dallas district was an exception, reporting a solid pickup in economic activity. The report was based on information collected through May 21.

Transcript: Bostic, Evans and Kaplan Speak at Dallas Fed Conference

Three regional Federal Reserve bank presidents spoke Friday on a panel at the Dallas Fed's conference on technology-enabled disruption. The officials—Atlanta Fed President Raphael Bostic, Chicago Fed President Charles Evans and Dallas Fed President Robert Kaplan—discussed how disruptive innovations and technology may potentially influence the macroeconomy, and how central banks should conduct monetary policy. They also touched on the neutral rate of interest, bank regulation and unemployment, among other topics. Here is a transcript of the exchange.

Eurozone Inflation Jumps, but Uncertainty Still Clouds ECB Outlook

The eurozone's annual rate of inflation rose more sharply than expected in May as energy prices increased, a development that will likely reinforce the European Central Bank's belief that the metric will return to its target over coming years. However, high levels of uncertainty continue to face policy makers. The pickup could fade if **volatile** energy prices give up their gains, or a first-quarter economic slowdown proves more durable than expected. More worryingly, political turmoil in Italy threatens a fresh outbreak of government debt and banking crises the ECB has worked hard to contain over the past six years.

Bank of England Appoints Jonathan Haskel to Monetary Policy Committee

The U.K. government Thursday named Jonathan Haskel, an economist who has focused on innovation and the wider impact of intangible assets on productivity growth, as a member of the Bank of England's rate-setting Monetary Policy Committee. Mr. Haskel will replace Ian McCafferty, one of two hawks on the MPC who have voted for a rise in the key interest rate in recent meetings. He will serve for a three-year term that starts in September.

Bank of Canada Signals Rate Rise Could Come Soon

The Bank of Canada kept its benchmark interest rate unchanged at 1.25% on Wednesday and signaled the next rate increase could come soon, despite ongoing concerns over trade uncertainty. In a statement that was largely positive about Canada's domestic outlook, the central bank said first-quarter economic data was stronger than expected and inflation was close to its 2% target. The economic outlook for the U.S., Canada's biggest trading partner, also may be improving, the bank said.

Bank of Mexico Keeps Economic Outlook Steady

The Bank of Mexico left its key economic forecasts unchanged for a second consecutive quarter, saying Wednesday that trade talks and elections continue to be among chief risks to its growth and inflation expectations. The central bank expects the economy to expand between 2% and 3% this year, and that inflation will remain on a downward path, approaching the bank's 3% target in 2019. "The higher than expected growth in first-quarter economic activity could put growth for all of 2018 in the higher end of the range," the bank said in its quarterly report.

Thursday

8:30 a.m. EDT

U.S. Commerce Department releases April personal income and outlays

12:30 p.m. EDT

Atlanta Fed's Bostic speaks

12:35 p.m. EDT

Bank of Canada's Leduc speaks

1 p.m. EDT

Fed's Brainard speaks

8:30 p.m. EDT

Dallas Fed's Kaplan speaks

Friday

8:30 a.m. EDT

U.S. Labor Department releases May jobs report

8:55 a.m. EDT

Minneapolis Fed's Kashkari speaks

The Role of Gender in Employment Polarization

Fabio Cerina, Alessio Moro and Michelle Rendall look at employment polarization, or the increase in employment shares at the bottom and top of the skill distribution, when distinguishing by gender in a VoxEU post. Their findings suggest "that women contribute to a large extent to the phenomenon of employment polarization in the U.S., while the role of men is more contained."

Italy Needed a Bond Victory. It Got a Whimper

Wednesday's Italian government bond auction "offered a great opportunity for speculators to show that the Italy sell-off was overdone. It turned out that only those buyers who had to turn up did so," writes Marcus Ashworth for Bloomberg View. "It's great that Italy is still able to get a debt sale away in the first place, and the signs of improvement are welcome. But it isn't a reason to sound the all-clear. This one ain't over yet."

Central Bank Digital Currencies and Monetary Policy

A digital currency issued by central banks that paid a variable rate of interest could reinforce the impact of monetary policy changes, rather than disrupt them, write Ben Dyson and Jack Meaning for Bank Underground. "Our early work suggests that a CBDC that is a close – but not perfect – substitute for bank deposits may strengthen the transmission of monetary policy changes to the real economy," they write. "It could also make quantitative easing slightly more effective, by by-passing the banking sector and avoiding some unwanted side-effects. Although there are many significant questions still to be explored, such as the impact on financial stability, on the central bank's balance sheet, and on the monetary framework more widely, this paper contributes to the growing understanding of CBDC by showing that, with careful design choices, a CBDC need not be disruptive to the conduct of monetary policy."

Corporate profits were bolstered in the first quarter by tax cuts enacted at the end of 2017, but the underlying trend showed some signs of strain.

The private sector in the U.S. added fewer jobs in May than the month prior as businesses struggled to fill open positions.

Brazil's economic expansion continued in the first quarter as the country's vital agricultural sector expanded rapidly from the previous three-month period.

An official gauge of China's factory activity rose to an eight-month high in May, due to robust production and demand.

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

Jon Hilsenrath; Katy Burne; Michael Derby; Nell Henderson; Jason Douglas; Paul Hannon; Harriet Torry; Kate Davidson; David Harrison; Kim Mackrael; Tom Fairless; Michael Maloney.

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Document RSTPROCB20180531ee5v0008d

The New York Times

STOCKS & BONDS
Business/Financial Desk; SECTB
As Fears About Italy Ease, Banks and Energy Firms Lift the Market Back Up

By THE ASSOCIATED PRESS
1,083 words
31 May 2018
The New York Times
NYTF
Late Edition - Final
2
English

Banks and energy companies surged Wednesday and smaller companies made huge gains as stocks got back almost all the ground they lost the day before. Investors reversed course as they hoped Italy would be able to avoid a new round of elections after all.

Financial companies rallied as bond yields turned higher and energy companies rose along with U.S. crude oil, which busted out of a five-day losing streak. The shift came after Carlo Cottarelli, nominated to be Italy's next prime minister, said there were "new possibilities" to form a government.

Stocks had plunged the previous day as investors expected gridlock to be resolved with new elections that could have turned into a yes-or-no referendum deciding whether Italy would continue to use the euro.

JJ Kinahan, chief market strategist for TD Ameritrade, said the market often reacts irregularly to political events like the uncertainty in Italy or tensions between the U.S. and North Korea: stocks often fall fast and then recover in quick fashion. That process can sometimes repeat itself weeks or months later.

"If there's no follow-up news, they tend to come back near where they started," he said. "I wouldn't count on it being done for the summer."

The **S&P 500 index** jumped 34.15 points, or 1.3 percent, to 2,724.01. The **Dow Jonesindustrial average** climbed 306.33 points, or 1.3 percent, to 24,667.78. The **Nasdaq composite** gained 65.86 points, or 0.9 percent, to 7,462.45.

While the **S&P 500** and **Nasdaq** recovered Tuesday's losses and then some, smaller and more U.S.-focused companies did ever better as investors continued to worry about trade. Small companies finished with minor losses Tuesday, and on Wednesday they made even bigger gains than larger multinationals did. The Russell 2000 index surged 24.34 points, or 1.5 percent, and closed at a record high of 1,647.99.

The Chinese government criticized the U.S., which had renewed a threat to raise duties on some imports from China. At the same time, officials from the U.S. and European Union held talks on the tariffs the Trump administration has proposed on European steel and aluminum. European Union negotiations seemed pessimistic and said they expected the U.S. to announce a final decision Thursday.

China and the EU have both said they will react to new tariffs imposed by the U.S. with duties of their own, which has raised the prospect of greater tensions and the possibility of trade wars. Kinahan, of TD Ameritrade, said investors feel smaller companies are less vulnerable.

Multinational companies have had a rough ride lately as investors reacted to trade tensions by shifting money into smaller and more U.S.-focused companies.

"Much of their business is done domestically, so the tariffs shouldn't affect them as badly," he said. "But even if the tariffs don't happen, many of those stocks are performing well."

Italy's FTSE MIB **stock index** climbed 2.1 percent after a 2.7 percent drop a day earlier. Prices for Italian government bonds also rose, sending yields down following a huge surge the day before.

The euro rose to $1.1648 from $1.1531, which was its lowest level in almost a year. The dollar rose to 108.85 yen from 108.24 yen.

Germany's DAX climbed 0.9 percent while the FTSE 100 index in Britain rose 0.7 percent. The CAC 40 in France lost 0.2 percent.

Bond prices fell. The yield on the **10**-**year Treasury** note rose to 2.84 percent from 2.79 percent. Interest rates rose and bank stocks recovered about half of their losses from Tuesday. When rates rise, banks can make more money on mortgages and other types of loans.

Energy companies rose as U.S. crude oil climbed 2.2 percent to $68.21 per barrel in New York. Brent crude, used to price international oils, added 2.8 percent to $77.50 a barrel in London.

Exxon Mobil rose 3.9 percent to $81.50. That was its biggest one-day gain since September 2016.

Oil prices fell 7.6 percent in five days following reports OPEC countries and Russia might start producing more oil soon. Those countries cut production at the start of 2017, which helped take U.S. crude from about $50 a barrel in late 2016 to more than $70 this month. They had agreed to keep production at its current levels until the end of this year, but upheaval in Venezuela and new sanctions on Iran could change their plans.

Wholesale gasoline rose 1.9 percent to $2.18 a gallon. Heating oil gained 2.1 percent to $2.23 a gallon. Natural gas slid 0.6 percent to $2.89 per 1,000 cubic feet.

Investors also reacted to more earnings from retailers. Dick's Sporting Goods soared 25.8 percent to $38.35 after it raised its annual profit forecast. Its first-quarter report was better than expected thanks in part to strong online sales. Its decision to stop selling assault rifles and cease selling guns to people under 21 didn't appear to affect its business.

Clothing company Chico's FAS plunged 18.2 percent to $8.17 after its profit fell short of expectations and luxury retailer Michael Kors dropped 11.4 percent to $60.41 following a disappointing forecast for the year.

Gold rose 0.2 percent to $1,301.50 an ounce. Silver added 1 percent to $16.54 an ounce. Copper gained 0.2 percent to $3.07 a pound.

Japan's Nikkei 225 **stock index** dropped 1.5 percent and the Kospi of South Korea dropped 2. The Hang Seng in Hong Kong slipped 1.4 percent.

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This is a more complete version of the story than the one that appeared in print.

CHARTS: The **S**. **& P**. **500 Index**: Position of the **S**. **& P**. **500 index** at 1-minute intervals on Wednesday. (Source: Reuters); Real Economic Growth: Annual rate of change in the gross domestic product, based on quarterly figures adjusted for inflation and seasonal fluctuations. (Source: Commerce Department)

Document NYTF000020180531ee5v00055

The New York Times

Business/Financial Desk; SECTB
For Investor, 2018 Can't Get Much Worse

By LANDON THOMAS Jr.
898 words
31 May 2018
The New York Times
NYTF
Late Edition - Final
1
English

William H. Gross, one of the world's best-known investors, is having a very bad year.

There was an acrimonious divorce. And now he is getting pummeled in the markets.

On Tuesday, the mutual fund that he runs at Janus dropped 3 percent -- an extraordinary one-day decline for a bond fund. Mr. Gross had been betting that interest rates on German and American government bonds would rise, but fears that Italy could leave the eurozone have prompted investors to seek safety in those bonds, increasing their prices and pushing down their yields.

That left his fund, the Janus Henderson Global Unconstrained Bond Fund, down 6 percent for the year. It now ranks at the bottom of its category of similar funds for this year as compiled by the investment research firm Morningstar.

Bond funds like Mr. Gross's aren't supposed to lose 3 percent in a day or 6 percent in half a year. Compared with their counterparts that invest in the **stock market**, bond funds are generally considered safer and more stable places for investors to park their money.

Years after the eurozone debt crisis, Mr. Gross apparently didn't anticipate the return of political and financial turmoil. But the possibility that a populist government in Italy could try to pull out of the common currency raised questions about the safety of the country's government bonds and sent global bond markets on a roller coaster.

But it isn't just the European uncertainty that is ravaging Mr. Gross's fund, which invests in derivatives and other complex financial instruments as well as traditional corporate and government bonds. He has long been known for his bets that markets would remain mostly calm, and his portfolio has also taken a hit from recent **volatility**, which was ignited in February by the expectation that the Federal Reserve might raise interest rates faster and further than anticipated.

It has been a steep fall for Mr. Gross, who was once the undisputed king of bonds. He popularized the concept of bond funds for the everyday investor, a shift from the days when retail investors dabbled only in stocks. He helped found Pacific Investment Management Company, or Pimco, and his main fund, Pimco Total Return, managed $292 billion. It was the largest fund of its kind in the world.

In 2014, though, he was forced to leave Pimco amid allegations that he was an abusive boss and was mismanaging the huge business. That led to a yearslong legal brawl. The two sides settled in 2017. The terms weren't disclosed, although both sides said any proceeds would be donated to charity.

Approaching his 70s and with a net worth of more than $2 billion, Mr. Gross might well have opted for retirement then. Instead he chose revenge.

Mr. Gross set up shop at Janus, a competing fund company, in an office with a full view of his former employer's building in Newport Beach, Calif.

His new fund was a fraction of the size, with $2 billion in assets. And a substantial portion of that was Mr. Gross's personal money. But it was enough for him to do daily battle with a rival fund at Pimco.

"My whole evening is dependent on whether I beat them," Mr. Gross said in an interview with The New York Times in April 2016. "You see, I have to prove it all over again. Every day."

At the time his returns were superior, by quite a margin.

But not anymore: Over the past three years, a similar Pimco fund is up 10 percent. Mr. Gross's offering is up just 1 percent, according to YCharts, a data provider.

All of this is happening as Mr. Gross's personal life has been unraveling because of a contentious divorce with his ex-wife, Sue.

For years, Mr. Gross would cite the 31-year marriage in his quirky investment letters, a down-home touch that endeared him to his loyal following of investors.

In the 2016 interview with The Times, he talked of kissing his wife each day upon his return from work.

Just a few months later, Ms. Gross moved out of the mansion they shared on top of a bluff in Laguna Beach. She cited her husband's "irrational and frightening behavior," according to court papers.

In November 2016, she filed for divorce. The split was finalized last October.

During that personal turbulence, Mr. Gross sought refuge in trying to divine the ups and downs of the bond market.

Even so, court documents from the divorce proceedings, filed in California Superior Court in Los Angeles, suggest that his legal fights have taken their toll. He complained of being on edge, short on sleep and rattled. "My peace of mind has been severely disturbed," he said.

But there was no sign that the man who brought bond investing to the masses, now 74, would call it quits.

"Although I am 73," he said in a filing last year, "I still work full time."

William H. Gross, once the undisputed king of bonds, in 2016. His fund at Janus is down 6 percent for the year, thanks to unease about rising interest rates and turmoil in the European market. (PHOTOGRAPH BY EMILY BERL FOR THE NEW YORK TIMES) (B3)

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THE WALL STREET JOURNAL.

Markets

OPEC's Alliance With Russia Shows Signs of Fracturing; Kuwait and Iran are leading a faction in the cartel that are upset about an agreement struck between Saudi Arabia and Russia last week

By Summer Said in Dubai and Benoit Faucon in London
939 words
30 May 2018
12:04 PM
The Wall Street Journal Online
WSJO
English

The first cracks are showing in an alliance of petroleum-producing countries whose efforts have propped up **oil prices**, with some OPEC members accusing Saudi Arabia of capitulating to U.S. and Russian pressure for lower prices.

Kuwait and Iran are leading a faction in the Organization of the Petroleum Exporting Countries that are upset about an agreement struck between Saudi Arabia and Russia last week to ease up on oil-production cuts, according to people familiar with the matter. Those cuts—among OPEC's 14 members and a group of 10 outside the cartel led by Russia—drained a global oil glut and have helped **oil prices** rise by 60% to over $80 a barrel since November 2016.

Iran is Saudi Arabia's top political rival in the Middle East, but Kuwait is seen as a mediator in OPEC disputes. Kuwait's unease with the Saudi position signals that there is deep discord in OPEC, which could send **oil prices** lower if it derailed the entente with Russia, the world's largest oil producer.

The price of oil had already fallen $5 a barrel to $75 after Saudi and Russian officials said last week it was time to start releasing more oil into the global market Their move came amid speculation that prices were headed toward $100 a barrel, and the average cost of a gallon of gasoline in the U.S. climbed toward $3 a gallon, the most expensive in more than three years.

The decision came about a month after President Donald Trump tweeted about his concerns over rising **oil prices**, for which he blamed OPEC. Russian oil companies have also called for the easing of output cuts, which have cost them profits.

Kuwait, Iran and other OPEC members say Saudi Arabia has allowed its political alliance with the Trump administration over Iran to affect its judgment on oil policy.

"Saudi Arabia won't let **oil prices** go to $100 because they listen to Trump," a Kuwaiti oil official told The Wall Street Journal.

The Trump administration, with Saudi backing, withdrew from the Iran nuclear deal and is moving to reimpose tough sanctions on Tehran.

In a letter sent Saturday to OPEC, reviewed by The Wall Street Journal, Iranian Oil Minister Bijan Zanganeh demanded that the cartel support Iran in the face of U.S. sanctions, calling them "illegal, unilateral and extraterritorial." He asked that the topic of U.S. sanctions be placed on OPEC's agenda at its next meeting on June 22, setting up a delicate set of talks with the Saudis and other OPEC members who support such penalties.

"Some OPEC members [are] playing into U.S. hands," Mr. Zanganeh said earlier this month.

Saudi energy minister Khalid al-Falih is set to go to Kuwait to mend fences with oil officials on Saturday. He will be accompanied by United Arab Emirates Oil Minister Suhail al-Mazroui, a key Saudi alley and OPEC's current president, according to people familiar with the trip.

The Saudis and Emiratis "are concerned that Kuwait is not aligned with the Russian and Saudi statements," said one of the people.

Spokespeople for the energy ministries of Saudi Arabia and the U.A.E. and for OPEC didn't respond to requests for comment. Spokeswomen for Russia's Energy ministry and Iran's oil ministry couldn't immediately comment.

The Kuwait City meeting marks the first time that OPEC members have openly questioned Saudi Arabia's closeness to the U.S., which remains a major oil importer and OPEC customer despite its burgeoning crude output. The gathering also the most vivid illustration yet of the tensions caused by OPEC's experimental collaboration with Russia and other big producers.

The alliance magnified OPEC's power after U.S. shale-oil companies produced enough crude to swamp the market in 2014, crashing prices. OPEC didn't come up with an effective response until it joined forces with Russia in December 2016.

Some OPEC members say their voice has been sidelined as the Saudis and Russians plot their own oil-market policy. Though Saudi Arabia pumps up about a third of the group's output, OPEC normally makes decisions collegiality and unanimously and prides itself on independence from outside influence.

At the same time, there is disagreement between Saudi Arabia and Moscow about how far prices should come down.

Russian President Vladimir Putin said Friday that "a bit over $60, in our opinion, that was a balanced price." The Saudis don't want to see **oil prices** fall back down to $60 a barrel, OPEC officials said, as the kingdom takes on a series of economic and social reforms, keeps military spending high and prepares for the initial public offering of its state oil company, known as Aramco.

Mr. Mazroui of the U.A.E. is considering flying to Moscow to try to settle differences between the positions of the Kingdom and Moscow, and smooth out Moscow's relationship with the rest of OPEC, according to a person familiar with the matter.

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THE WALL STREET JOURNAL.

U.S. Markets
Markets

Stocks Rebound as Italy Fears Ebb; Investors consider whether Tuesday's selloff might have been overdone; U.S. bank shares bounce back

By Mike Bird and Amrith Ramkumar
811 words
30 May 2018
05:13 PM
The Wall Street Journal Online
WSJO
English

The **Dow Jones Industrial Average** and **S&P 500** snapped a three-session losing streak as markets stabilized after a big selloff tied to Italy's political upheaval.

Italian President Sergio Mattarella blocked the formation of a euroskeptic governing coalition over the weekend, jolting investors who worried that the resulting turmoil in Italian markets could spread. Mr. Mattarella on Wednesday searched for a solution to the political crisis, including the possibility of reviving a coalition government—an option that would stave off fresh elections.

Markets calmed as investors considered the likelihood that those elections could strengthen the hand of anti-euro forces and disrupt **financial markets**, said Thomas Martin, senior portfolio manager at Atlanta-based Globalt Investments.

"There's a lot that has to happen for that scenario to play out," Mr. Martin said. Tuesday "didn't feel like a panic, it felt as though people wanted to make sure they weren't positioned incorrectly," he said.

The Dow industrials added 306.33 points, or 1.3%, to 24667.78, while the **S&P 500** climbed 34.15 points, or 1.3%, to 2724.01, with all of its 11 sectors rising. Both indexes posted their largest one-day percentage gains since May 4, coming off their worst day in more than a month. The **Nasdaq Composite** added 65.86 points, or 0.9%, to 7462.45.

In Europe, the Stoxx Europe 600 edged up 0.3%, while Italy's FTSE MIB Index erased some of its recent declines and climbed 2.1%.

U.S. bank stocks, which were among the hardest hit Tuesday amid worries that debt-heavy governments like Italy's could weigh on the banking sector, bounced back. The **S&P 500** financial sector rose 1.9%.

The yield on the benchmark 10-year U.S. Treasury note also rebounded following its largest one-day decline in nearly two years, rising to 2.842% from 2.772% Tuesday. Yields climb as prices fall, and higher yields tend to boost banks' lending profitability.

Investors were weighing news that planned talks on trade between the U.S. and Chinese governments could be derailed by the U.S. decision to move forward with tariffs on $50 billion in imports.

Despite worries that global tensions could slow the economy and hurt stocks, some analysts think the earnings backdrop remains favorable and could support major indexes in the coming weeks.

HP Inc. raised its profit forecast for the year as the maker of personal computers and printers topped expectations for the most recent quarter. Shares added 86 cents, or 4%, to $22.16.

Cloud software firm Salesforce rose 2.42, or 1.9%, to 129.30 after reporting record quarterly revenue.

Stocks also got a boost from a rebound in **oil prices**, with **S&P 500** energy firms climbing 3.1% as U.S. crude ended a five-session losing streak.

In European trading, Italian bond yields, which surged Tuesday, retraced some of that increase. Italian two-year bond yields fell to 1.661% from about 2.1%. Italy held a regular bond auction Wednesday, recording the highest five-year funding cost in over four years, with a yield of 2.32%. As recently as April 27, five-year bonds were auctioned with a yield of 0.56%.

Despite the turmoil, some investors saw the rapid repricing of European government bonds and the new yields in a favorable light.

"I was neutral on BTPs [Italian government bonds] going into the election, and I'm now tentatively looking at this as an opportunity to buy the dip," said David Slater, manager of the Trium Capital macro rates fund.

Other government bonds in southern Europe also sold off as investors piled out of Italian debt, and now offer a higher return to buyers.

"You look at the Spanish situation, the economy is quite strong despite the political backdrop, so you'd think any significant pickup on the Spanish spread would be a buying opportunity," Mr. Slater added.

In Asia, stocks caught up with Tuesday's sharp declines in the Western world, with Japan's Nikkei 225 dropping 1.5%. China's Shenzhen A-Share Index and Hong Kong's Hang Seng fell 2.8% and 1.4%, respectively.

Write to Mike Bird at Mike.Bird@wsj.com and Amrith Ramkumar at amrith.ramkumar@wsj.com

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THE WALL STREET JOURNAL.

Business

Did We Say $1.5 Million? We Meant $10.9 Million. Firms Fix CEO Pay Flubs; More than a dozen S&P 500 firms retroactively changed pay figures, sometimes due to arithmetic errors; one blamed a consultant

By Theo Francis
1,004 words
30 May 2018
05:30 AM
The Wall Street Journal Online
WSJO
English

When Laboratory Corp. of America disclosed pay for its chief executive in March, the company said he made $1.5 million in 2016. A week later, the diagnostic-lab chain filed a new document listing his pay at $10.9 million.

Chief Executive David King didn't get a retroactive raise. His employer just proofread its work.

Such a big discrepancy is unusual, but LabCorp isn't the only big company to make significant adjustments to past pay disclosures. At least 16 companies in the S&P 500 have changed 2016 pay figures by more than 10% for one or more executives, while 17 did so for 2015 pay, a Wall Street Journal analysis of data from MyLogIQ LLC shows. (See the WSJ's analysis of compensation for all S&P 500 CEOs.)

Many changes, like LabCorp's, are errors caught after companies send proxies to shareholders and the Securities and Exchange Commission. Others can reflect changes in how the company decides to present the perks it has provided. In at least one case, the revised figure was the result of a retroactive pay cut.

A spokeswoman for LabCorp said pay totals for other of the company's executives were mistakenly listed as prior-year figures for Mr. King, but that each component of Mr. King's pay was disclosed correctly and the accurate total had been shown the prior year.

Construction-equipment leasing firm United Rentals Inc. forgot a digit when it initially reported that CEO Michael Kneeland made a total of $1.16 million in 2016. This spring, United Rentals said his 2016 pay was 10 times higher— $11.6 million.

United Rentals' original disclosure offered clues that something didn't add up. Individual components of Mr. Kneeland's pay were displayed accurately; the final column, listing the total, was missing a digit, so that the correct figure of $11,638,627 was given mistakenly as $11,638,27.

United Rentals said the digit was omitted inadvertently and that investors and others hadn't previously brought it to the company's attention.

Chip maker Advanced Micro Devices Inc. blamed a consultant when it had to say in last year's proxy that CEO Lisa Su had received stock awards valued at $4.4 million in 2015, not the $3.6 million originally disclosed.

"Due to an inadvertent error, our outside professional valuation consultant undervalued the accounting values" of the performance-based restricted stock units awarded during fiscal 2015, the company said in the proxy it filed in March 2017.

AMD declined to elaborate beyond its securities disclosures.

On occasion, revised disclosures reflect actual, retroactive alterations in pay. WestRock Co., a paper and packaging company based in Atlanta, originally reported paying CEO Steven Voorhees $5.6 million in stock awards in 2015.

Its December 2017 proxy, however, showed he received just $2.8 million in stock awards that year. The reason: The original stock grant exceeded the amount allowed under WestRock's program. The reduction was first disclosed in a separate filing in September, which said that Mr. Voorhees returned more than 20,000 shares, gave up more than 50,000 unvested shares and repaid nearly $25,000 in dividends.

A spokesman said the company had concluded the overall value of Mr. Voorhees's original pay had been appropriate. In February WestRock's board granted Mr. Voorhees an additional 96,092 shares, today valued at roughly $5.8 million, "to fulfill its original intentions."

UnitedHealth Group Inc., a health insurer, in 2016 converted a special pension for CEO Stephen Hemsley to deferred stock units, and counted as compensation about $1.9 million in **stock-price** appreciation. The calculation helped boost his total 2016 pay to $17.8 million.

But in the proxy filed this April, those pension-related gains had vanished from UnitedHealth's description of Mr. Hemsley's 2016 compensation, which the company listed as $15.8 million in total instead.

A UnitedHealth spokesman said the company determined the $1.9 million in **stock-price** appreciation wasn't supposed to be included under SEC rules in the first place, and so stripped the amount from new disclosures of his 2016 pay figures after consulting with its auditors and outside counsel.

Then there is Berkshire Hathaway Inc. The holding company this year reported that CEO Warren Buffett made $100,000 a year in 2016 and 2015, not the $487,881 and $470,244 it had originally reported.

Why? The company decided to reclassify the cost of "personal and home security services" for Mr. Buffett as a business expense, rather than a benefit that counts as compensation. This year, Berkshire described the $375,000 it spent on protecting Mr. Buffett as a business expense from the outset. The end result: Berkshire this year said Mr. Buffett made $100,000 in each of the past three years.

Other large companies do count CEO-security costs as compensation. Facebook Inc.'s proxy shows that security accounted for most of the $8.9 million it reported paying CEO Mark Zuckerberg last year.

Berkshire Hathaway and Mr. Buffett didn't respond to requests for comment.

In its March 16 proxy, Berkshire Hathaway wrote: "Berkshire's Board of Directors believe that in light of Mr. Buffett's critical role as Berkshire's CEO and given that Mr. Buffett spends a significant amount of his time while at home on Berkshire business matters that such costs represent bona fide business expenses."

Write to Theo Francis at theo.francis@wsj.com

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Markets
Short Seller on Samsonite CEO: 'You Can't Go Around Saying You're a Doctor' (When You're Not); Samsonite's shares remained halted for a third straight day following the Blue Orca report last week

By Steven Russolillo
686 words
30 May 2018
05:20 AM
The Wall Street Journal Online
WSJO
English

HONG KONG—A U.S.-based short seller bolstered his calls for Samsonite International S.A.'s chief executive to be fired for résumé fabrication, saying boardrooms "are littered with carcasses of executives who told far more minor lies on their résumés than this."

Speaking at the sixth annual Hong Kong edition of the Sohn conference on Wednesday, Soren Aandahl, founder of a new activist investment fund called Blue Orca Capital LLC, unleashed against Samsonite's chief executive Ramesh Tainwala, saying he misrepresented himself for years as a doctor.

"It doesn't get simpler than this: If you're not a doctor, you can't go around saying you're a doctor," Mr. Aandahl said on stage in front of more than 300 people at the conference. "You can't do it at a restaurant, you can't do it on an airplane, you can't do it on a dating website. And you definitely can't do it if you're the CEO of a major public company."

Mr. Aandahl's presentation followed a 48-page report he published last week that also critiqued some of Samsonite's accounting practices and corporate governance.

The "Dr." designation appeared alongside Mr. Tainwala's name in at least two regulatory filings with the U.S. Securities and Exchange Commission more than a decade ago, as well as in some regulatory documents in India. It was also included in press reports and Mr. Tainwala was addressed as "Dr." on at least one earnings call. Mr. Aandahl said he found at least 73 biographical references that labeled Mr. Tainwala as a doctor.

The problem is Mr. Tainwala never earned a doctoral degree, a fact he later confirmed in an email to The Wall Street Journal. Mr. Tainwala told the Journal last week after Blue Orca's report was published that he "never claimed" to hold a doctoral degree. He said he had enrolled for a Ph.D. program in 1992, and friends and colleagues jokingly addressed him as "doctor" afterward even though he didn't complete the program.

Samsonite didn't have an immediate comment to Mr. Aandahl's speech. Samsonite's shares remained halted Wednesday for a third straight day. In a Monday filing, the company said it halted its shares "pending the release of a further announcement in relation to certain allegations contained in a report."

The stock fell a combined 21% on Thursday and Friday last week after Blue Orca published its report. It was Samsonite's biggest two-day drop since it went public in Hong Kong in 2011.

Hours after Mr. Tainwala's disclosure to the Journal last week, Samsonite published a statement saying Blue Orca's report was "one-sided and misleading, and the conclusions drawn in the report are incorrect." Samsonite's chairman, Timothy Parker, was quoted as saying he had "full confidence in Ramesh's capabilities as CEO, and in the broader management team."

But Mr. Aandahl said he is even more confident now that Mr. Tainwala should be fired following his disclosure to the Journal. "Restoring Samsonite's credibility in the market simply requires that he goes."

Mr. Aandahl was one of several investment managers who spoke at Wednesday's conference, where each presenter was given a short time slot to explain their latest big investing idea. Seth Fischer of Oasis Management, a Hong Kong-based hedge fund, touted Japan Asset Marketing Co., claiming it has 50% upside from current levels. He recommended Sony Corp. at last year's Sohn conference and the stock has risen about 25% since then.

Carl Huttenlocher of Myriad Asset Management said he was **bullish** on mainland Chinese stocks ahead of MSCI's upcoming inclusion of A-shares in its indexes Friday. That reversed a **bearish** call he made on China at this conference four years ago.

Write to Steven Russolillo at steven.russolillo@wsj.com

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THE WALL STREET JOURNAL.

World
U.S. Tariff Threat Could Scuttle Planned Trade Talks With China; Surprise White House declaration endangers scheduled weekend negotiations, emboldens Chinese hard-liners

By Lingling Wei and Yoko Kubota
1,198 words
30 May 2018
02:10 PM
The Wall Street Journal Online
WSJO
English

BEIJING—The White House's renewed trade offensive against China is putting this weekend's planned settlement talks at risk, as well as fueling nationalistic calls for China to take a tougher stance against U.S. demands.

A U.S. advance team landed in Beijing Wednesday to prepare for Commerce Secretary Wilbur Ross's arrival Saturday, according to people with knowledge of the matter from both governments. But they say the surprise U.S. decision a day earlier to move forward with tariffs against China—less than two weeks after both sides declared a truce—is casting doubt over whether those talks can advance to the next level.

"This risks disrupting the negotiations," one of the people said.

If the two sides' teams fail to agree on the issues to be discussed, Mr. Ross's trip could be canceled, according to the people. If they succeed, however, the high-level talks would proceed as planned, they said.

Mr. Ross on Wednesday suggested he was still planning to attend the weekend meetings. "We've had several sessions" with the Chinese, Mr. Ross said at a forum in Paris, "and I'm currently scheduled to go over again on Friday."

For its part, China is looking to line up other countries, especially in Europe and Asia, against the U.S., Chinese officials say. Their companies could benefit from China's plans to allow foreign companies better access to its markets. The State Council, China's cabinet, said late Wednesday it had decided to lower tariffs on imported washing machines, cosmetics and other consumer goods, starting July 1.

The council also said that by the same date it would complete a "negative list" specifying areas closed to foreign investors, so opening more sectors. The U.S. and other countries have asked China to fundamentally change how it approves foreign investment. Currently it responds to specific applications, but Western nations have urged a negative-list approach that opens the economy to investment apart from certain restricted sectors such as defense.

Beijing has been bracing for lengthy sparring with Washington over trade and other economic issues, but the truce called by both sides—led by U.S. Treasury Secretary Steven Mnuchin and China's economic chief Liu He—had raised hopes for a near-term settlement giving the world's two biggest economies a way forward.

Then on Tuesday, the Trump administration said that by June 15 it would release a final list of $50 billion in imports from China that would be subject to tariffs of 25%, to be applied soon after. It also said it planned by June 30 to announce investment restrictions meant to prevent Chinese acquisition of U.S. technology.

This startled Chinese officials working to ease the trade tensions—and emboldened hard-liners within China who advocate fighting fire with fire.

Mei Xinyu, an analyst at a think-tank affiliated with China's Commerce Ministry, called for hitting back with tariffs on soybeans, sorghum and other products from the Farm Belt states, a stronghold of support for President Donald Trump.

"Since the U.S. side can talk about imposing tariffs again, we can also put forward our previously published retaliation lists," Mr. Mei wrote in an article posted on a popular social-media account run by the official People's Daily.

In response to questions from The Wall Street Journal, Mr. Mei said he believes Mr. Trump announced the tariffs as a negotiating tactic but that the China side can see through the ploy. "Trump overplayed this 'unpredictability' strategy," Mr. Mei said.

China's Foreign Ministry sounded a similar note. "Every flip-flop and U-turn is simply depleting and squandering [U.S.] credibility," Foreign Ministry spokeswoman Hua Chunying said at a briefing Wednesday. "China is committed to properly resolving relevant trade issues through equal dialogue."

China's chief trade negotiator, Mr. Liu—who has had the blessing of President Xi Jinping in fending off a trade battle with the U.S.—has used the U.S. pressure to accelerate plans to liberalize **financial markets**, the auto sector and other industries. A prolonged dispute could embolden interest groups with a stake in the status quo, including China's vast state sector, potentially derailing Mr. Liu's efforts to open the Chinese economy.

"He's under tremendous pressure domestically," a Beijing-based government adviser said.

Mr. Ross is scheduled to lead an interagency team trying to secure a deal by which China would buy more U.S. farm and energy products. In negotiations in Washington this month, a Chinese team led by Mr. Liu agreed to work with their U.S. counterparts on narrowing the trade gap, though it didn't commit to any numerical targets.

The latest twist also leaves hanging in the balance the fate of two companies that have come to symbolize the U.S.-China trade intrigue: Chinese telecommunications equipment giant ZTE Corp., and U.S. chip maker Qualcomm Inc.

President Trump has said he would try to save ZTE from crippling U.S. sanctions despite opposition from some lawmakers, and the two sides have agreed to a broad outline of a deal. Mr. Ross was expected to discuss those terms in Beijing. As for Qualcomm, its planned $44 billion acquisition of Netherlands-based NXP Semiconductors NV still awaits Chinese approval, though authorities signaled this past weekend that it was imminent.

Since the Washington talks, Chinese officials have suggested they're willing to lower tariffs on a variety of U.S. agricultural products, which some U.S. officials said could double U.S. farm exports to China within a year. They totaled about $20 billion last year. Now, with the renewed tariff threats from the U.S., it is far from certain how those talks would proceed.

Lester Ross, a lawyer who heads the policy committee of the American Chamber of Commerce in China, said Tuesday's announcement from Washington, while surprising, is another in a series of moves and countermoves.

"It is fundamentally a negotiating step," Mr. Ross—unrelated to Wilbur Ross—said at a news conference where the Chamber released an annual report on U.S. businesses in China.

Many U.S. companies say they don't view the trade imbalance as their biggest problem in China. In an annual report released Wednesday, the American Chamber of Commerce in China cited a lack of consistency in policy implementation and interpretation and a lack of clarity in laws and enforcement.

The group urged the Chinese government to create a level playing field for U.S. companies by allowing greater market access in China and to make regulations fairer and more transparent.

Liyan Qi, Jeremy Page and William Horobin contributed to this article.

Write to Lingling Wei at lingling.wei@wsj.com and Yoko Kubota at yoko.kubota@wsj.com

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THE WALL STREET JOURNAL.

Markets

Oil Prices Steady After Big Drop on OPEC Talks; Light sweet crude has had five consecutive sessions of losses

By Christopher Alessi
581 words
30 May 2018
05:17 PM
The Wall Street Journal Online
WSJO
English

Oil prices rose Wednesday, lifted by a weaker U.S. dollar and questions over whether OPEC supply will increase this year.

Light, sweet crude for July delivery rose 2.2% to $68.21 a barrel on the New York Mercantile Exchange, snapping a five-session losing streak. Brent, the global benchmark, rose 2.8% to $77.50.

Dollar-denominated commodities like oil often have an inverse relationship with the dollar. The Wall Street Journal Dollar Index, which measures the U.S. currency against a basket of 16 of its peers, fell 0.6% on Wednesday.

Brent has lost more than 6% since the end of last week, as Saudi Arabia and Russia neared a deal to increase oil production after more than a year of holding back output.

"The market is moving into a bit of a holding pattern ahead of the June 22 OPEC meeting," said Ole Hansen, head of commodity strategy at Saxo Bank.

The Organization of the Petroleum Exporting Countries—of which Saudi Arabia is the de facto head—and 10 producers outside the cartel, including Russia, have been holding back crude output by around 1.8 million barrels a day since the start of 2017. Crude prices have risen by more than 40% since the deal was implemented.

OPEC and its allies are expected to make a decision on when and by how much to increase production at the cartel's next official meeting in Vienna.

"The debate about an increase in production is likely to keep oil prices in check until OPEC's meeting…which points to further price falls in the coming days," according to analysts at Commerzbank.

Oil ministers from OPEC nations Saudi Arabia, the United Arab Emirates and Kuwait are set to hold an informal meeting toward the end of this week to discuss potential production increases, according to analysts at consultancy JBC Energy.

"The market has obviously spent the last couple of days absorbing the potential for leading members of the OPEC/non-OPEC supply pact to return some withheld production to the supply pool to dampen the near year-old rally," the analysts said in a note Wednesday.

In addition to the OPEC-led cuts, prices have been bolstered over the past month by geopolitical risks to supply emanating from Iran and Venezuela, two other OPEC members.

Oil market observers are looking ahead to weekly U.S. inventory data Thursday from the Energy Information Administration. Traders and analysts surveyed by The Wall Street Journal expect U.S. oil inventories to have decreased by 300,000 barrels in the week ended May 25.

The American Petroleum Institute, an industry group, said late Wednesday that its own data for the week showed a 1 million-barrel increase in crude supplies, a 1.7-million-barrel fall in gasoline stocks and a 1.5-million-barrel rise in distillate inventories, according to a market participant.

Among refined products Wednesday, gasoline futures rose 1.9% to $2.1842 a gallon and diesel futures rose 2.1% to $2.2317 a gallon.

Stephanie Yang contributed to this article

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WSJ PRO CENTRAL BANKING

Economy
Corporate Profits Boosted in Early 2018 by Tax Cuts; GDP growth rate is revised down to 2.2% in first quarter; growth in business investment is revised higher

By Ben Leubsdorf
867 words
30 May 2018
12:17 PM
WSJ Pro Central Banking
RSTPROCB
English

Corporate profits were bolstered in the first quarter by tax cuts enacted at the end of 2017, but the underlying trend showed some signs of strain.

A key measure of U.S. business earnings, profits after tax without inventory valuation and capital consumption adjustments, jumped a seasonally adjusted 7.8% in the first quarter after dropping 9.6% in the fourth quarter, the Commerce Department said Wednesday.

The swing reflected, at least in part, the impact of cutting the federal corporate tax rate to 21% from 35% starting Jan. 1, and potentially other tax-related changes. Pretax profits with adjustments declined modestly over the past two quarters.

"These always swing around a lot, and particularly when you're changing taxes as much as we've seen," said Paul Ashworth, chief U.S. economist at Capital Economics.

Wednesday's report also included revised figures for U.S. economic growth during the first quarter. Gross domestic product—the dollar value of all goods and services produced in the U.S., adjusted for inflation—expanded at a 2.2% annual pace, down slightly from an earlier estimate.

With the profits data, it could take several quarters for clear trends to emerge from the tax-associated noise. One-time effects of the tax bill passed in December scrambled earnings at some large public companies, and the law may have created an incentive for some companies to shift earnings and expenses between late 2017 and early 2018, among other effects.

Still, the broader picture suggests a strain on corporate earnings nearly nine years after the expansion began in mid-2009. As a share of overall economic output, after-tax profits have eroded since peaking in early 2012. After-tax unadjusted profits across public and private corporations were up 0.1% in the first quarter from a year earlier, a contrast with strong first-quarter earnings growth reported by large public companies in the **S&P 500** that was largely fueled by lower tax bills.

"It's not surprising for this stage of the cycle," Mr. Ashworth said. "You've got a low unemployment rate, you've got evidence of wage pressures starting to build" and "we've gone through an earnings season where a lot of firms are talking about cost pressures starting to squeeze margins."

Business earnings have been supported by healthy conditions in the broader economy, and lower tax rates should boost after-tax profits this year. Some executives, however, have cited increased pressure on margins from rising costs for labor, raw materials and transportation.

Machinery maker Deere & Co, based in Moline, Ill., said this month it planned to raise prices to defend profits.

"Although the economic environment is largely positive for demand, there are some supply-side headwinds to overcome," Chief Financial Officer Rajesh Kalathur told analysts. "Material and freight costs have exceeded our forecast for the year, due largely to inflation in U.S. steel prices and a tight market for logistics providers."

In the other figures released Wednesday, the 2.2% growth rate for GDP was revised down from an initial estimate of 2.3%, and a slowdown from the fourth quarter's 2.9% growth rate. But economists think growth picked up in the spring and will be solid for 2018 as a whole; forecasting firm Macroeconomic Advisers on Wednesday projected a 3.6% growth rate for the second quarter.

"We view this soft patch as transitory, and expect a rebound in growth in [the second and third quarters] as fiscal stimulus kicks in," Barclays economist Pooja Sriram said in a note to clients.

Solid growth in recent quarters has been supported by a pickup in business investment, paralleling the recovery in **oil prices** and the energy sector. Fixed nonresidential investment, a measure of capital expenditures, rose at a 9.2% annual rate in the first quarter, including a large upward revision for investment in intellectual property products such as software.

Consumer spending accounts for more than two-thirds of total U.S. economic output. Wednesday's report showed personal-consumption expenditures climbed at a 1% annual pace in the first three months of the year, the weakest quarter for consumer spending in nearly five years.

The housing sector representative a modest headwind for overall growth in the first quarter, with residential investment, including home construction, declining at a revised annual rate of 2%. Government spending rose at a 1.1% annual pace last quarter, led by growth in federal-government expenditures on the military and domestic programs.

Net exports contributed 0.08 percentage point to the overall GDP growth rate in the first quarter. Change in private inventories contributed 0.13 percentage point. Both categories tend to be **volatile** from quarter to quarter, and were cut from last month's early estimates.

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WSJ PRO CENTRAL BANKING

Economy
Transcript: Bostic, Evans and Kaplan Speak at Dallas Fed Conference; Fed officials discuss how disruptive innovations and technology may influence the macroeconomy

13,802 words
30 May 2018
12:25 PM
WSJ Pro Central Banking
RSTPROCB
English

Three regional Federal Reserve bank presidents spoke Friday, May 25, 2018, on a panel at the Dallas Fed's conference on technology-enabled disruption. The officials—Atlanta Fed President Raphael Bostic, Chicago Fed President Charles Evans and Dallas Fed President Robert Kaplan—discussed how disruptive innovations and technology may potentially influence the macroeconomy, and how central banks should conduct monetary policy. They also touched on the neutral rate of interest, bank regulation and unemployment, among other topics. David Altig, the Atlanta Fed's research director, moderated the conversation. Here is a transcript of the exchange, edited for length and clarity.

ROBERT S. KAPLAN: Well, I'm going to be very brief, and I'm actually just going to make one or two points that I think come from this conference.

And I'll start first with the basics. (Gross domestic product) growth is made up of growth in the workforce plus growth in productivity. We don't even talk about workforce growth, but we know because of aging demographics in the United States that workforce growth is going to be sluggish in the years ahead, and we can talk more about that in the Q&A. My concern is about productivity growth and the impact of disruption on productivity growth. Or, put another way, as the panel we just heard discussing, why has productivity growth been sluggish?

And I think from this conference there are a couple of thoughts that I think I had before but have crystalized a little bit (during) the panels yesterday and today. And I've said this before: If the workforce of the United States is approximately 160 million workers, plus or minus, and 46 million of those 160 million workers have a high school education or less – I think studies have shown that if you're more highly educated you're more adaptable to technology-enabled disruption; and if you have lower levels of educational attainment, you know, your participation rate and your employment rate is going to be lower.

And I think the thing that strikes me as our system, our – we have a very rapidly-evolving private sector, business sector that is, where there are very few constraints, you can reorganize your company. I taught leadership for a living and we used to talk about design factors of organizations. And in the private sector – and I've learned this from experience – with enough determination and money, you can redesign and change just about any design factor you want.

And when I went to Harvard I learned, you know, there are certain design factors you are not going to change. Tenure is an example – (laughter) – unless you're a university president who would like to get yourself killed. (Laughter.)

And so I think what I'm learning over the last couple of days, we've got a private sector that's innovating and moving at accelerating speed, fueled by all sorts of (artificial intelligence) and other tools. And we've talked about cloud, et cetera. And then we've got an education sector – high school, maybe even secondary education – high school, just there – that have deeply embedded design factors. Local school boards, those in Texas know some of the challenges here. Local school boards, unions, work rules, other impediments. Junior colleges, which we saw a couple of examples yesterday of two that are a little more adaptable. And then colleges. But we're seeing our education system in the United States has deeply embedded design factors, probably needs to restructure to keep up with this accelerating innovation, and we're not really set up to do it. And it's not that there's a lack of leadership; it's it would take an unusual leader to be able to change some of these very deeply embedded design factors.

So what leaders in those sectors do is work around the embedded design factors and do the best they can. And I think we saw three leaders yesterday on the junior college and Paul Quinn College that are three leaders that are saying there's embedded design factors, but we're going to, to the extent possible, work around those. And including (Paul Quinn College President) Michael Sorrell, who basically said we're opting out of some of the national accreditation rules so that we can opt out of these to meet this problem.

And I think I'll just stop there. I think this issue is going to magnify in the years ahead, because everything I'm learning in this conference and I've learned before is innovation is going to accelerate, and the rate of acceleration – the second derivative – that's what's changed. You know, we've had this – you know, people being replaced by technology – for decades. But the rate – the second derivative, the rate, is what's changing. And I will say as a businessperson I've never seen this rate change in my business career. I'll just speak as a businessperson. Certainly, for those who watch the economy, I think that must also be true. And I think the big challenge leaving here is what can nonprofits do, what can business leaders do, and what can the public – what can we do as citizens – is there a way for monetary policy to address some of these embedded design factors in our education system so that we can move faster to keep up with this?

In the meantime, at the Fed, for me the implications are I think – I would think pricing power of businesses are going to continue to be limited. Inflationary pressures may be more muted at different levels of employment than we're used to historically. I think the (inaudible) efforts of each of the Federal Reserve banks have never been more important, you know, to try to highlight the research and address these issues. And I think from a monetary policy point of view I think these structural factors, at least for me, will play more highly in my thinking in the months and years ahead as we go through the path of trying to normalize monetary policy in the United States.

So that's really – that's all the comments I want to make, and I'll stop there.

MR. BOSTIC: So what I thought I'd do is really start just by thinking about this from the larger context. So this notion of disruption and technology-enabled change is not something that the Fed has tools to address. This is something that is happening in education and affordable housing and workforce development and small business development and entrepreneurship. These are all very important sectors, but they're not sectors that our tools are really designed to engage in a very specific way. And yet, this is the second conference that I've been in in a month where we've been talking about this.

And I think it really highlights the importance of this issue from a broader macroeconomic perspective because, as Rob said yesterday, the scope of this is broad and the speed of transformation is quite high. So, you know, I think it's really important that at the Fed we talk about these things because it has real implications for what success will look like in the pursuit of our mandate of maximum sustainable employment. So I'm really, really glad that we're doing this.

In terms of the policy, I think that the biggest outgrowth of this is that it makes our job harder. There is just a lot of uncertainty, and in many ways we're in a period of transition where we don't really know what the relationships are likely to be. And there's some likelihood that tomorrow's relationships will look very different than the relationships from the past few decades, and so – whether you think about productivity, which Rob talked about; whether you think about labor markets and workforce, which you spent a fair amount of time talking about yesterday.

On the labor force point, I would just say that one thing I think is really important that we need to get our heads around is, how do we train people to be elastic thinkers and to be maximally adaptive? Because the world is changing faster, and those who will be most effective are going to be the ones who can adapt the most readily and the most quickly to a new environment. And we'll need to do that. And, you know, this really has to do with the speed of change that's happening.

One of our board members – I guess it was – (inaudible) – conference – and he looked at the chart, and he said the ability of humans to adapt and the ability of technology to change. And his conjecture was that we have crossed the – we're past the cross point where computers can change – technology can change faster than people can adapt. And we have to – I think it's a major question of what that means for how we approach our engagement in the marketplace and how we think about change in a market perspective.

I just wanted to point to two other things that I think are important issues that I haven't heard raised as much today or really the course of the conference. One is around market structure and pricing. So I am really starting to wonder whether our notions of how prices get set are changing fundamentally. When I think about retail – and when I – (inaudible) – everyone has Amazon Prime, right? Everyone has Amazon Prime. (Laughter.) And when you go to buy something in a store, you always check the Amazon price before you will actually be willing to buy it. This means that Amazon is now the price setter, right? But Amazon doesn't make any of these goods, right?

And so now there's a potential for a disconnect between the actual cost of production and margin and what the market price looks like. And to the extent that there is a wedge, now our markets are going to operate in a different way. And I think it's something that we should be thinking about and trying to understand the extent to which this is happening. It has real implications for what inflation looks like and how we measure changes in the economy, and pretty significantly.

A second area that I've been thinking about is around consumer confidence. So when I talk to – before, in my previous life, when I would talk about the economy, I'd say one thing you guys should track is consumer confidence, right? What's in the head of the consumer, of regular households? That's going to determine what they're going to be willing to spend on the big-ticket items, or will they pass it up. And in recent years we've seen a divergence between measures of consumer confidence and then what consumers are actually spending on, and the amount of spending. And that also has implications for how we think about the economy and economic performance. And, you know, I wonder to what extent the rapid pace of change is creating uncertainty for households at a – at sort of a meta level that is causing them to be more cautious and more restrained in their spending even when they're optimistic because they know that there's a lot of change. And that also has a big implication for how our policy – (inaudible).

For me, I think the big question is, you know, how are we going to get answers to these questions? You know, we have the – those sources of data, but no one in here seems to be happy with them. So we're going to have to look to other things.

One is research. So the more people that we get studying this and trying to understand this, the more likely we'll get to see a little sooner as to what's really happening.

But the second is really to try to just talk to people. So one thing I've been very pleased that we have in our system is in our regional executive network we pay people to just go talk to CEOs. And I know what they're seeing, what their challenges are, how the world is changing for them because, you know – you know, it takes time – it takes time for these technologies to really get their traction. We want to find out when that traction's happening as soon as possible. And I'm relatively – I'm pretty confident that there will be people that see it before it shows up in any aggregate data. And so if we can get on that earlier, I think that can really help us make sure our policies are done in a timely fashion.

CHARLES L. EVANS: All right, I'm going to do something different here.

So I want to thank Rob and Raphael for putting together really a tremendous conference here, and also the one a month ago in Florida that – (inaudible) – and Raphael put together. You know, what we know about machine learning and artificial intelligence, technology and development is going to be unbelievably important, and there are a lot of big, big thoughts that have been expressed here that we need to get our heads around.

I'd say that the Fed's job is really hard or it certainly seems very hard when most of our data and statistics are somewhat antiquated. Or at least from Marty Feldstein's comments yesterday, if you want to think about how to measure productivity, gosh, that's really, really hard. And I think he almost used language to suggest it was hopeless – (laughter) – to get there. There are implications for what GDP measurement should be there, and incomes, and whether or not people's incomes are actually higher than they really think. So these are big problems, big issues.

I'm going to think much more small-ly today. These are going to be small thoughts for how monetary policy – and let me just say – before I begin, let me remind you that my comments today are my own, not those of the (Federal Open Market Committee).

This session is about how disruptive innovations and technology may potentially influence the macroeconomy, and then in response how central banks should conduct monetary policy, or at least that's how I'm approaching this. And we've heard at this conference advances in technologies that are big news and have important implications for almost every sector of the economy. And for economists, they provide lots of opportunities and lots of challenges.

First, let's consider the opportunities. Researchers now have access to massive amounts of new data and better computing power. I was really struck by that Cray computer – (inaudible) – back to graduate school I wanted a grant that would give me time on that Cray computer, and – (inaudible) – just incredible. (Laughter.) This is really cool stuff, and my staff and me, you know, we're fact-finders, data users. And so, you know, we really look forward to knowing more about this. These tools are great for basic economic research, especially for the work of microeconomists.

But there's lots of scope for macroeconomists as well. Some of these data may help us more precisely identify key policy making parameters, for example how consumer spending and business spending respond to tax changes. They may also help improve our ability to forecast short-term movements in the economy. In particular, we could see some exciting new indicators of the business cycle derived from new sources of big data. Even though there may be limits to what we can learn from big data, at least for a while, and at the Atlanta Fed conference (Fed Vice Chairman Randal) Quarles made a comment that said even though we've got a lot of big data, we only have so many business cycles over a recent period of time. So at some point there's still a smallness of data. There just haven't been a lot of business cycles, and each has their own idiosyncratic features. Also, big data weren't available during past business cycles, so deep data cross-cycle comparisons would not be easy – might not be impossible, but wouldn't be easy. Basically, we're stuck with this situation.

But this conference is less about the use of big data and more about the consequences of large-scale technological innovation, so let me discuss some of those challenges. Such innovation could create challenges for monetary policy makers if it leads to hard-to-identify changes in the structure of macroeconomic relationships that might influence the business cycle. And in the end, that's what we monetary policy folks are concerned about, the business cycle.

The potential structural changes that come with innovation can affect the evolution of inflation and employment. As such, they may have implications for the achievement of our dual-mandate objectives of maximum employment and price stability. For instance, these changes could generate headwinds for inflation that mean we might need to provide more accommodation to reach our inflation target than we have in the past. But, frankly, we don't know that. Perhaps these forces will lead to higher inflationary pressures that policy might have to counteract. There's a lot that no one really understands yet about this.

Of course, making policy in the presence of uncertainty and a changing economy is nothing new. We've dealt with plenty of structural changes before. History offers numerous examples. Let me just quote (former Fed) Chairman Alan Greenspan back in 1998, as he was grappling with this issue 20 years ago and he considered the possibility of a new economy. Let me quote him: "There is no question that events are continually altering the shape and nature of our economic processes, especially the extent to which technological breakthroughs have advanced and perhaps, most recently, even accelerated the pace of conceptualization of our gross domestic product. We have dramatically reduced the size of our radios, for example, by substituting transistors for vacuum tubes. Thin fiber-optic cable has replaced huge tonnages of copper wire. New architectural, engineering, and materials technologies have enabled the construction of buildings enclosing the same space but with far less physical material than was required, say, 50 or 100 years ago. Most recently, mobile phones have been markedly downsized as they have been improved. As a consequence, the physical weight of our GDP is growing only very gradually." (Laughter.) "The exploitation of new concepts accounts for virtually all of the inflation-adjusted growth in output." I seem to recall a catchier description of this when he said GDP is getting lighter. (Laughter.) I think The Economist may have – (inaudible). At any rate, technological change has been going on for quite some time and central bankers have had to try to understand that as best they can.

We don't know how various innovations will ultimately play out, how they'll affect the economy. The only slide I have here is to sort of describe the Fed's objective the way that I like to. I call this the full-sized slide – full-sized slide, which charts inflation against the unemployment rate. And it's got an estimate – an assessment of the natural rate of employment there and also our 2 percent inflation objective. And that's a bull's eye that you'd like to get right in the crosshairs there. Our job is to provide monetary and financial conditions to support the attainment of maximum employment and price stability.

Figuring out the effects of these developments is complicated. The size, magnitude, and timing of their impact are all uncertain. Technological advances can lead to conflicting effects. For instance, internet commerce may make markets more competitive. This might lead to lower prices and push inflation lower in the short run. But it may also allow companies to price-discriminate better, making markets less competitive and leading to higher average prices.

These new technologies can affect the natural rate of unemployment, too. Online job boards and other technology may be improving matching efficiently – efficiency. If so, the natural rate of unemployment will be lower. But these new technologies can also cause the natural rate to rise. This would happen, for example, if people became more specialized and labor markets become less fluid as a result.

So the really important feature is we need to have some assessment of what the sustainable rate of unemployment is. We recognize that it can change over time and some of these technologies could move it to a lower or a higher rate. That's one of the uncertainties that we currently face in policy making.

But we have to sort of say there's a lot of uncertainty we don't really know where it is. And the nice thing about the dual mandate is it reminds us, like, well, let's look for inflationary pressures, which most central banks around the world emphasize also, and take into account all of those things as we try to decide the best policy.

We've struggled to understand the effects of changing natural rates before. In the 1990s there were indications that the rise of labor market intermediaries, such as temporary-help firms, was lowering the natural rate. And in 2010 an increase in vacancy measures without a drop in unemployment led some to conclude the natural rate had risen.

Dynamic issues related to innovation might also cause difficulties for policy makers because some effects might be different in the short run and in the long run. Technological change also poses important challenges for the standard statistical measure of prices. Monetary policy relies on the economic relationships between the tools we control – for example, the short-term interest rate – and our policy objectives. Technological innovation may be changing these relationships. For instance, it must be much easier for firms to change online prices than it is for them to change prices in a physical store. That might make prices in the overall economy less sticky, which could change the parameters of the Phillips curve relationship that's important to much of monetary policy analysis. But this is pure conjecture at this stage.

What we need is really to focus on output-based monetary policy so that we can hit our objectives as best we can. I think that the changes in the way the data are collected could be helpful for us to understand these things better, more quickly, but at some root level we need to have some confidence that we're achieving our inflation and economic goals.

So I think I'll stop there. But I say these are smaller ideas because the focus is back to a small number of objectives. And even though things are changing very quickly and past (Fed) chairs like Alan Greenspan, Ben Bernanke, and Janet Yellen always had to assess these things, at some point we have to adjust monetary policy in order to achieve these goals. Thank you.

DAVID E. ALTIG: All right. So I think each of you mentioned, essentially, the issue of heightened uncertainty. I counted up roughly 320 maybes/mights. (Laughter.) So, I mean, and you don't have the luxury of actually waiting for these uncertainties to resolve themselves, I mean, in your day jobs. So what is your thinking about what – when you kind of very directly look at the implications for monetary policy? I mean, would you need to be less aggressive, more aggressive? What do you think? Rob will start.

MR. KAPLAN: So I'll start. So, for me, that is one of the nice things I'll say about – this is as a person who's been at the Fed now for, you know, two-and-three-quarters years – we've got 12 banks that are independently doing research and – I'm a little biased because I work at the Fed – pretty terrific bank presidents and board of governors that are each using analysis to get their views. But for me, the way this all washes out is it tells me that, number one, I'm going to want to be – in normalizing rates, I want to be attuned to the fact that the situation can change and my – our analysis can change pretty dramatically. Demographic trends may not change, but financial trends can change very quickly in a world that's much more interconnected.

And the fact that we acknowledge – which I think is a good thing – that we don't understand certain things, all that says to me is let's move gradually. (inaudible) may have a point. I personally – I advocate what I think that we should be moving toward normal. But I think we should do it gradually. And the reason for that is I'm sensitive to the fact we've got this recent stimulus. That's change. And maybe that this year's growth is going to in hindsight turn out to be a little bit not artificially inflated, but our growth is highly stimulated. And we may have out-year growth much weaker due to demographics and some of these other trends, like productivity. That's a reason to grow gradually.

And another reason to grow gradually is while we've got all this rapid change, we have one sector that is now very highly leveraged. And that's the government sector. At the federal level and to some extent at the state level, because – not solely because of the debt at the state level because of loss of population and very heavy pension and forward obligations. So that sector can't be that adaptable at all and that we've got this big weight we're carrying, which I think can transmit into unexpected changes in the financial sector, whether that's the treasury curve or **financial markets**. And I'm very attuned that things can change very, very quickly.

So that – for me, it means do your analysis in every meeting. Make your best judgments. Listen to the others around the FOMC table, which I do. Share information. And then let's move gradually and patiently and realizing that I think there's going to – there is more uncertainty. And I think that's the way to manage it, is to be open-minded, not predetermined, not rigid in our thinking. But the key is, again – open to learning I think is the most important criteria that I could have in my job, for my team to have, and I think that the FOMC to have.

MR. BOSTIC: (Inaudible.) (Laughter.) Yeah. You asked me something about being more aggressive or less aggressive. I just don't think about it like that. I think about we need to be – I think we need to be more willing to change. And be willing to be informed by new information that comes in, because that new information can be – in today's world, looks very different than what we have had before. And it suggests very different things are happening in the economy. And so, for me, I think we need to be nimble in our thinking and sort of have more heightened sensitivity to the quality of our information gathering in real time, so that – so that if we do get that information to make the most important decision possible.

Now, there are a host of reasons why I think we need to improve it gradually, not the least of which that we've told people that's what we're going to do. (Laughter.) And so, you know, we don't want our policy – I don't think – (inaudible) – back and forth and surprising people. And absent some really, really big information, I think we're in a position where we can continue to do that without a lot of costs. So to me, I think is we've got to be willing to have our world view change as information comes in.

MR. ALTIG: Charles?

MR. EVANS: Oh, I agree with all of that. I do think – you know, there have been some very important instances, I think, in the last 20 years where the FOMC has had to stop and ponder this. I think the example that I – that Chairman Greenspan, when he was thinking about new technologies and, you know, that was back in the – you know, '96-'97. And he talked about, oh, the **stock market**'s really high. How do you know if it's irrational exuberance? Maybe we should be concerned about that. Before long he started saying: You know, the analysts' forward expectations of earnings, cycle-adjusted, are higher than I've ever seen before. Does that tell me that productivity might be stronger? Also, that the valuations of the **stock market** would be more fundamental, and it may struggle with that?

The answer that the committee came to was, let's go slow, and didn't raise rates at that point. And I think that that worked out really quite well. I'd say in the mid-2000s, with – after the 2004 rate increase began, and it was a pace that was likely to be measured. And then you go about a year, and then you realize 10-year rates are not really going up as much as I would have thought. What's going on? Greenspan had this conundrum. Governor Bernanke said there's a flow of capital into the U.S. that seems unusual. We need to stop and think about that. The answer was continuing with measured pace.

So one answer seems to be, well, go slow, be careful. But it's not just in the instrument space, if you will, but it's really the outcome space. And so if you sort of just take a contrarian viewpoint, which is not necessarily mine at the moment, but you could go caution ought to be we don't move too far away from the bull's eye. If we think that unemployment is low, close to maximum employment, there could be risks if we go lower because on the swing back usually bad things have happened, that's an argument for maybe adjusting policy so that the outcomes don't change that much. I think we have to think through all of these, as the committee does. And so, you know, trying to read the empirical news is very important.

MR. ALTIG: OK, the program promises that the question of whether or not the current monetary policy framework is adequate to the circumstances will be answered. (Laughter.) So is the current monetary framework adequate to the circumstances?

MR. KAPLAN: (Inaudible.) So, listen, I come from the – A, the business world. And I was professor of leadership. So I don't know what that means exactly – (laughter) – but I have a view on a few things like this. And here's what I – and seriously, from my career before the Fed, it was always my view that successful organizations – whether they're in the for-profit, government sector, nonprofit sector – one of the things they have in common is they are, again, open to learning and they tend to step back on some regular basis, whether that's every year, every three years, every four years, and rethink their targets, their frameworks, their governance, and ask fundamental questions. And I come from a place where I think that's a healthy thing to do.

And I think for a public institution, it's not only a healthy thing to do, but it's a healthy thing to be seen to do that. And so I think there are aspects of our framework – and I know there's been the discussion about either inflation targeting not – slash nominal GDP targeting, which we've done a lot of work on here, and other formats. I think all those questions are healthy. And I think we ought to create the space at the Fed on some regular basis – I don't know what the interval is – where we step back, and we re-debate it, and we get outside views, and we ponder it.

And I think it would be healthy to do that outside our regular meeting schedule. And so I'm more interested not in whether we've – what we've decided the framework is or is not at any time. I'm much more focused on if we have a good process. And for me, that means we ought to have a space outside our own meeting schedule to step back and debate these views and get outside views, outside criticism, and the world see us as open to hearing that and processing it, and adjusting if we decide a new course.

Other central banks in the world – I know Canada does this, the U.K. does this. And I think those – we may not want to adopt exactly the way they do it, but I think it's instructive and I think we would be well-served to do that also.

MR. BOSTIC: So I agree. When I started I was struck by the fact that we hadn't hit our inflation target for, what was it, five years? Six years? Nine years? Whatever it had been. (Laughter.) Some high number. And it – the lack of hitting the target corresponded with our adoption of the current framework. Now, that could be coincidence. But it also might not be. And so I think – just like Rob – I think we should always be evaluating, assessing the performance of the approaches that we're taking in getting us to the outcomes that we'd like to have. So, you know, we just posted, I guess, a couple weeks ago, a four-point – a four-point blog series on price level targeting as a potential framework that should be considered. And talked about some of the pros and the cons associated with that, just to start the debate.

I actually think that – I agree with Rob that we should be as transparent as possible in how we're approaching decision-making, so that – so the Fed is not a mysterious institution, but rather an institution where people have confidence that we're deliberating and we're – in this space we're thoughtful and it's not just a cabal; there's real thought that's happening. And I think it will serve us well moving forward. So I look forward to those conversations as well, hope that we have them. I'm not sure that we've had too many at your meetings – (laughter) – but I'm happy to have that engagement.

MR. ALTIG: Charles.

MR. EVANS: This is a fascinating topic. And it sort of gets at the heart of central banking, because central bankers, kind of by and large, are a very conservative lot. And we go back. I mean, there's a tremendous premium placed on consistency of how you've done it over decades or centuries. So just think about the classical gold standard and whether or not you would have periodically, every five years, thought about, well, maybe we should adjust the – (inaudible). (Laughter.) Unheard of, right? (Laughter.) I mean, or, you know, Winston Churchill was the (Chancellor of the Exchequer) who decided to take, you know, Britain back to the pre-World War I parity in the 1920s. And that was a very challenging decision for Britain during that time. So the stability of objectives and the way of doing it sort of goes with the territory.

And yet, we get brought into changes. The economy is changing. And do we have the tools to address low inflation over a long period of time? I'm extraordinarily sympathetic to Raphael's comment about we had a hard time hitting our inflation objective just at the time we said 2 percent – 2 percent is what we would like. But of course, it was a very difficult economic environment. I interpret the most recent discussion about, you know, listening to alternative monetary frameworks is a healthy discussion for economists, central bankers. But I think we need to engage the public and try to decide what communications are going to be required.

I made some comments in New York several months ago where I tried to sort of say: If you think about all these frameworks, one way or another they're kind of geared towards the moment when we need more accommodation and we might be hitting the zero lower bound, we're going to come up with a good justification for why we're going to be very aggressive in continuing with accommodation in order to get inflation up to where we are. In fact, so much so that with price level targeting or temporary price level targeting or nominal GDP targeting, we can experience it during the time where inflation will likely be, like, 4 percent or more, because of an opening up of a price gap that hasn't been closed. And so to close it, if 2 percent is the unconditional price line, we might have 4 percent or 6 percent. How will the public respond to that? Oh, it's just price level targeting. (Laughter.)

But, you know, following that, I gave speeches in 2010 where I tried to talk about the benefits of temporary price level targeting that Ben Bernanke has recently been talking about. One of the criticisms I got there is that the public does not understand the price line. They understand inflation, but they don't understand the price line. Now, seven years later, eh, we think enough people understand this. I think we will need to assess with the public what they can actually digest, but in the meantime we should probably work very carefully within – (inaudible) – if we continue with our current framework, how do we make sure that we can hit our goals of full employment and the 2 percent inflation rate on average over a long period of time? There's a lot to talk about there.

MR. ALTIG: OK. I'm going to ask one more question and then we'll turn it to the audience. If I heard you correctly, Raphael, and I think I heard Charlie kind of allude to this as well, suggested that maybe the sort of disruptive technologies we're experiencing may be making markets less competitive instead of being more competitive. Did I interpret you correctly?

MR. BOSTIC: I think I can say that that may be the case.

MR. ALTIG: Yes. And so is there general agreement on the panel about that, or? I wouldn't have asked this question if I thought that – (inaudible). (Laughs.)

MR. BOSTIC: So I'll make the case, and then you can tell me why I'm wrong. (Laughter.)

I do think that in today's environment in many of – the way the economy is evolving there is a tendency for the winner to take most of the market. And to the extent that you have large power accruing to a small number of players, they then have the ability to either deny the disruptive alternatives or exercise that market power in ways that could ultimately be detrimental to consumers. Now, sometimes in the acquisition of that power companies may choose not to exercise it fully. So I think that with Amazon they have a tremendous reach. They have been pricing it relatively benignly, but it does increase by 20 percent. And no one's really going to go after Amazon. I don't think anyone is disrupting Amazon. And so to me, that's a sign that there is a significant power that's being accrued. And to the extent this is happening in a series of segments of the marketplace, that could mean we would end up with a much less competitive environment than we have had in historic periods.

MR. ALTIG: Rob.

MR. KAPLAN: So I think all that makes sense. I guess I would say – and I talked about scale when I first kicked off the conference, and that companies were responding by getting more scale. And I agree with Raphael, if you are early and if you are able to scale some of these big platform companies, there's no question that they've got – you know, you mentioned Amazon, we've mentioned Google. And we could probably get four or five other platform examples where they've got so much scale now that I don't know what you would call that, but you'd probably call it – you know, our – you'd call it a monopoly or enormous market cap. So if you're not them, it's not that the world isn't far more competitive for you. It's just you're now trying to figure out how to make your product more distinctive or fill out a niche, and then get more scale yourself to survive.

And so to the extent – with Raphael saying that the enormous scale some of these platform companies have built makes them – and, by the way, the market is rewarding them for selling goods sometimes at zero gross margin, which they have so much scale they can pick loss leaders. If you're competing with them – so for them – and if you look at the whole you'd say the country, the economy is less competitive. If you're one of the competitors who has to compete with them, you'd say the world is now hypercompetitive – I mean, brutally competitive in such a way that, you know, we're struggling as to how to maintain our margins. And I would say there's some pretty healthy companies out there for the first time in my career now are actively worrying – even though you wouldn't think – about survival. You know, survival is much more typical topic.

So I'd say – I agree that maybe that that's creating enormous barriers. But for everybody else, the world is so competitive now. And then the second is if you're in the labor force, you are on the receiving end of this unless you are very skilled or extremely, you know, educated enough to be adaptable to this. So I don't know whether you'd say – it's not that it's more or less competitive. It's just we're just describing the characteristics now of this economy. And it's created a lot of challenges. So I agree with those aspects of what Raphael said.

MR. ALTIG: Do you want to add anything, Charlie?

MR. EVANS: Well, I think Rob and Raphael well described how complicated the current situation is, and what workers are facing, what consumers are facing. There's lots of opportunity. There are lots of goods and services out there. And the state of competition is something I can't really characterize very well. I, you know, ultimately think that there's a tremendous amount of competition. And yet, I kind of worry that – you know, it's going to depend on the legal system. It's going to depend on what types of contracts are allowed. Just take patents, right?

The patents I think of, you know, pharmaceutical companies that make enormous investments in life-saving drugs. And they need to be compensated for the risks that they take, because not all of this works out. Quite the opposite. And so they're given patent protection for a period of time. Then generics come in, and then they offer tremendous benefits. And yet, for the first panel yesterday I was extremely impressed. I'm always reminded that CEOs, businesses, are extremely good at what they do. They're out to maximize profits, shareholder value. That's what they do. That's what we should expect them to do.

When it comes to public policy though, that's not necessarily aligned with what they care about, right? So in pharmaceuticals, you know, sometimes you get your patent extended and generics take longer to come online and, you know, that's more payment for past investments and consumers are going to pay more. I don't know what the right answer to that is. Ex ante you would like that to be decided as opposed to – as opposed to discretionary changes. And so I don't know what right blend is. In an environment where we have good confidence in the proper regulations and rule of law being applied with antitrust, then I would be not too concerned about this – (inaudible) – or more of that.

MR. ALTIG: Go ahead.

MR. KAPLAN: I mentioned – one last comment, then I'll – just take 60 seconds. I used to teach a class at Harvard called leadership and corporate accountability, which was intended to be part of the school – the little bit of ethics, broader topics for leaders for our companies. And one of the topics we talked about – and, again, this is going back – now I've been here three years, so four or five years ago – was the issue of our time is that the role of the CEO is to think – ideally, is to think more broadly than just about his or her company, but to think about the, quote-unquote, "externalities," the impact of what you're doing on the country. And that the country and the citizenry is hoping that business leaders will take this on.

I guess if I said that four years ago, roll forward to today, multiply it by 10. And that disruption is, as we said, it's creating more wealth inequality, and it's having – if you're employed at a place that works for you, great. But the impact on the externalities – educational quality for high schools, colleges, junior colleges, what happens to workers who are no longer working for you, I think – I still think the policy issue for business leaders of our time is how broadly do you need to think about your job. And I thought that panel we had to start this – for me, what I was thinking about while they were talking is, you know, I think that the challenge for society is I think business leaders are going to in the future – and I've said in this publicly – are going to have to think more broadly about the externalities. I mean, outside their company the impact of what they're doing. And I think society may demand that more.

This is not a monetary policy issue, by the way. This is just a –

MR. BOSTIC: No, but I go two ways on this. So, one, yes, so as we get more consolidation, we have fewer company towns, you have fewer – you have corporations that see an obvious link between their survival and community survival. But then you – then we were just talking about how every company is learning to – (inaudible) – at all, right? And to the extent they got to do that, then they need to preserve all of their resources just to be internally looking. And so it's an inseparable question.

MR. KAPLAN: It's a question.

MR. BOSTIC: Exactly.

MR. KAPLAN: That's why I mentioned it's an enormous challenge. And it's made more difficult by the fact that, as I said, government – you heard Marty Feldstein last night. Government debt-to-GDP, I don't need to tell you, is – the path is likely unsustainable. States are having their own struggles. So who actually has the financial resources in this country? Businesses, to some extent nonprofits that are created. I think – I don't have an answer, but this is an enormous tension that – I agree with you – that had the job of the CEO, by the way, with activists and this pressure is getting tougher.

And their time frames, I would argue, are probably getting shorter. I thought we were short-term oriented 10 years ago. Man, and I was a – I was a defense – I was an anti-raid specialist. You know, the number of activists today. So these are big challenges. And I – the reason I mention them all, as we sit here at the FOMC we're trying to make good decisions for an ecosystem where all of these things are going on. And it's getting – it's getting much more complex. And the impact on human beings and on leaders across the system is getting more challenging, I think.

MR. BOSTIC: And I do also want to piggyback on what Charlie was saying about the legal system. I don't think our legal system is – has evolved with the way business has evolved. (Laughter.) Maybe I'm blind, but I think – (laughter) –

MR. ALTIG: So let me ask a different question. Is Facebook a monopoly?

MR. BOSTIC: I don't really think Facebook is a monopoly. So these are – like, these are important questions, right, because it has implications for a scope of activity, for protections for consumers, for allowing other businesses to evolve and grow. And I don't know where we're at today. I thought it was very interesting when Zuckerberg was testifying to the Congress, they asked a question 1,600 different ways, and he wouldn't answer the question. Because he knows that ambiguity and lack of clarity works in his advantage in this space. But it may not work to the consumer's advantage of the broader economy's advantage if we don't figure out how to get to have some resolution where there's a consensus view on this. And I do – I do wonder where that conversation is going to happen, such that we're going to get to an answer that most people can be comfortable with. I just don't know where that's coming from.

MR. EVANS: If I could just – I know Rob says that, you know, there are many – (inaudible) – you know, about how CEOs and businesspeople should think beyond just their own business situation. And I applaud that. I think that's sort of enriching everybody's thought process beyond, you know, what they may or may not do. But I really seriously, you know, think that, you know, CEOs, businesses, pursuing their own best interest or their business interest, that's going to lead to a better allocation of resources and I think better innovation and all that. To the extent that it has challenges with the workforce and whatnot, I mean, businesses have been led to sort of see that, well, I didn't really need to offer that generous benefits program to everybody.

And if I can kind of cut this, then, you know, I can improve my bottom line margin. And that's individually rational. And it works well. But it sort of loses the attachment between the workforce and the business, so 20 years later they're onboard when you're hoping that some people would make investments. It's like, well, we used to be part of that investment process. Now we're not. Who is picking up that – (inaudible)? That's part of what this discussion is. I was in Grand Rapids last fall and met with some businesspeople. It was really very, very interesting. And in Grand Rapids, they have, you know, pretty good small manufacturers there. They have a vibrant philanthropic environment there. Some very wealthy people, but also just generally successful folks.

And what you would hear from some of these ventures are – they wouldn't say it this way – but the person who was in charge of economic development did say it this way. They're scared to death that they're constantly fielding offers from private equity folks to buy them out. And it's very compelling sometimes. And they're not really quite ready to do, but eventually they will. And everybody knows that when they sell out all the generous programs that they're offering to their employees are going to be marked down. Philanthropy is, you know, part of the cost, and so they can save that. And this is people doing the best business decision-making. And that's more efficient. But it has ramifications beyond that.

I just think that that's not something that the business community, per se, is going to do. They got to deal with scale. They got to do particularly well. I think it's other folks as well as government and other people too. So that's an important part of this. It's not monetary policy. But we need to be mindful of how these are affecting productivity in a way – (inaudible).

Q: I actually have two questions. So, given all the uncertainties of this disruptive – these disruptive forces, you all discussed that one strategy is to proceed gradually, so that's fair. And we know that there's a discussion right now, given that you've completed a number of rate hikes, that we're getting close to what we would think of as neutral. What are you looking at to determine that we're getting close to neutral? That was question number one.

Question number two – and this is sort of more out-of-the-box thinking, not what we're learning in this conference – you know, this – is it – thinking about how does – what are the implications for the channels of monetary policy – so monetary policy eases financial conditions, right? And that makes things like credit ease and liquidity is plentiful, and that helps fund and finance disruption, right? So then easing monetary policy facilitates disruption, competition, and maybe it's disinflationary. And that's not the way we usually think about that, but that's a possibility that I think about when I hear about these forces. And then the flipside of that would be that as we tighten policy and we tighten financial conditions and credit tightens, that you reduce competition and you increase inflationary forces. So that's just crazy thought out there. That's question number two.

MR. EVANS: That's certainly the case that to the extent that credit is easier then you're going to make investments that most productive places – yeah, that could certainly lead to that. Now, I'm going to go ahead and take some consolation from what (inaudible) work would suggest, that – (inaudible) – lags here, and how that actually affects inflation now I don't know. But I think what we always have to be mindful of is, you know, how are we doing relative to what we call now – (inaudible) – inflation and price stability. We've said that's 2 percent (as measured by the personal-consumption expenditures price index). I take that to be core PCE – (inaudible) – because it averages out across all – (inaudible) – price **volatility**, and things like that, and that should be symmetric. So I think that, you know, we shouldn't just, when inflation's 1 ½, say, oh, it's going to get up to 2, that's good enough; but at 2.1, oh, geez, that's – you know, that's above 2 percent. I think we have to have a symmetric viewpoint of that. I think that's very difficult to discuss. And so, on your point about how do you assess the natural neutral federal-funds rate, I think it's, you know, we're making adjustments. We're making progress in increasing the (fed-funds) rate path. We're looking at inflation, and we're expecting it to get up to our 2 percent objective. And then we're all – we're going to be looking around to see how everything else is proceeding, and then make adjustments one way or another.

You're right to say we sort of said caution, and that's sort of the interest rate space where caution would be a slow, measured pace. But I also try to point to caution with respect to outcome space. And so, you know, you wouldn't want inflation to pick up too much, you know. So that could be consistent with a faster pace, and that would be cautious in terms of outcomes. But that's kind of semantics.

MR. BOSTIC: So I agree with Charlie on the second point, that outcomes will inform sort of how we move in terms of policy. You know, sometimes I worry that there is an illusion of precision, that we know to the very decimal place exactly where we are at any moment – (laughter) – so we could say this is exactly where we should stop. And I don't think that that's true. So – (inaudible) – can get kind of in the neighborhood, then you have to sort of see what's happening – (inaudible) – to get the signals as to have you gone too far, have you not gone far enough, or are you in the sweet spot. And that's really how I'm going to approach it.

I think, you know, Dave reminds me all the time we let the data and the evidence inform our thinking. And I think that's really the only thing we can do.

MR. KAPLAN: So I agree with that. And, you know, basically, if we're reaching our dual mandate, which I think we are or we're on our – we're certainly, if not there, we're on our way there – we should be moving toward neutral.

The new question is, what's neutral; i.e., R-star? And for that, we do our own model at the Dallas Fed but I look at everyone else's model – the Laubach-Williams (model), you name it. And then – (inaudible) – lots of conversations with contacts, and then we come up with a view of what neutral looks like. I have said publicly, you know, between 2 ½ and 3. Maybe, if I had to pin it down further, 2 ½, 2 ¾, so – for now. This is subject to change. I think that's neutral and we should be gradually moving toward that.

And the third point is there are some people that suggest that maybe R-star can move up. You know, we're growing faster. I'm skeptical – in fact, highly skeptical – about that, which informs my thinking. And why am I highly skeptical? Aging workforce, slowing workforce growth. I fear continued sluggish productivity because our education and skill levels, I'm afraid they're going to continue to lag and we're going to – productivity's going to be surprisingly sluggish – I hope I'm wrong – you know, even with the lag effects. And I have a third concern, which is for all the stimulus – increasing debt-to-GDP is stimulative right now--I'm fearful that in the out years we ultimately start announcing this country in excess of trillion-dollar deficits. There may be more motivation or move to moderate future debt growth in the United States, which may in fact create some headwind for economic growth.

So I'm very skeptical that R-star is going to move up. And that's another reason why, once we get to neutral, I'm not yet there what we should do once we get to neutral. And I think we're going to have quite an agonizing debate for lots of reasons, including the shape of the yield curve, as we move along the path.

Q: I'd like to ask a question or ask you to comment on the other tools – (inaudible) – lender of last resort and as a regulator and supervisor of the banking and financial system. (Inaudible) – conventional FOMC monetary policy – (inaudible) – et cetera, but we've had a long period of very low interest rates, and a lot of decisions were made in that environment. Some of them aren't going to work out later when the economy eventually goes down. We don't know when that will be.

And we've seen a lot of other things going on. We added a lot of rules and regulations. Some were recently amended – (inaudible) – amended. But we've seen – we've seen at the same time a greater concentration of financial assets in the largest banks, concern about community banking. And, Charlie, you mentioned you imagine the public saying, well, we like your – we like your new rule and inflation's heading up, and we're not – and we're getting squeezed. But you're telling us it's a good thing.

But as interest rates start rising even more, even getting up to Rob's 3 percent, you're going to face an issue of how much you raise interest on reserves. And that's going to be a challenge when people start to see that all the money you've been making and turning over to the Treasury may actually turn negative. And for a while you'll be able to say, well, we made a lot of money; this is just a natural other side. But at some point that may become a big issue.

So this whole area of too big to fail, banking supervision and regulation, stress tests, and what happens if the – (inaudible) – matter hits the fan in some institutions.

MR. KAPLAN: I guess I'll – let's take – let's take the regulation part and then we'll take about the – your last one.

My own view is, the country has been very well-served by – for big banks in particular having very tough capital requirements and rigorous stress testing. I would be loath, at this stage in the economic cycle, to see us back off that. I do think we need regularly relief for small and midsize banks, so I'm glad we're seeing that.

I have a concern about the non-bank financial sector, where there may be embedded leverage – some visible, some not so visible – in derivative form that might be building up. But I think, from a regulatory point of view, I'd like to see us remain very tough – tough rules for the big banks and stress testing, and regulatory relief for small and midsize banks.

As it relates to, then, our goal ultimately as lender of last resort, I do think we're well-served by now allowing our balance sheet to run down, because I'm one of the people probably of another view – (inaudible). I'm of the view we may need to use it in the future. Why? Well, at a minimum, as we talked last night at dinner, because of the government fiscal situation, it's far less likely that you're going to have viable fiscal policy in the next downturn. And while it's not without controversy, I think the country may be well-served by at least then having the opportunity to have that debate when the time comes, to have tools at its disposal to act with more than just the fed-funds rate.

MR. EVANS: I think these are very good observations, on the one about potential capital losses from our balance sheet as interest rates go up. (Inaudible) – economist, you would hope that having a nice, dispassionate conversation, the way that Ben Bernanke described in testimony, it looks as if, over 20 years, we are going to return to the Treasury $45 billion per year on average for 20 years, each year, whereas before we returned 25 billion. So that's an increase.

Now, we're not in the business of, you know, increasing – (inaudible) – however you want to describe this. But it just turns out that this policy, even, you know, if we had some losses in a year or two, is likely to end up being a very good policy. Are we going to have that, you know, high-level discussion, or is it going to be optics of one or two years distorts a good policy and we have to take that off the table? I mean, as economists, we should be very unhappy with that public-policy outcome if it came that way.

Now, the balance-sheet increases have garnered a tremendous amount of criticism. And you really have to stop and think about what is central banking supposed to be about, and do you really care about hitting your inflation objective? If we only had a single objective, we would have done at least as much as we've done, if not more, because we were underrunning inflation by that amount. So it really makes you stop and think about central banking.

But you're exactly right. We've had to resort to tools that are unfamiliar, difficult to appreciate. When the world is doing much better, as for many of the Greenspan years, we could accept accolades, whether or not we deserved them or not – (laughter) – (inaudible) – would be happy – (inaudible) – you know, these are – these are controlled issues.

The financial-stability goal is a very important one. And I think that having the right supervisory policies is an important ingredient there because with low interest rates you could easily get some of the investment-type stuff comes that you're talking about. You want those supervisors to be on top of that, and hopefully that the financial industry would see that ahead of time and not engage in too much of that. But, again, private-sector businesses do what's very good for them. We're well-served by that in a capitalist society. We've just got to understand when we might be incenting too much of that.

MR. BOSTIC: So I think that one thing that was clear at the beginning of the last financial crisis was banks didn't have enough capital. And so getting more capital in banking institutions is really important, and I would be very concerned if it's suggested that we were losing lots of capital – a lot of it was being released to be made available. So, for me, that's one dimension, I mean, that we need to remain diligent on.

I also think that the value of the stress test, in my view, is that it's supposed to get banking institutions to think in advance about some worst-case scenarios, so that when bad things happen it's not a complete surprise, that they have thought about it and potentially have a plan or some idea of a plan. And my concern is if we make the stress tests too routine, too rote, too expected, that institutions will not gain that muscle memory. They won't gain that capability. And I think – (inaudible) – which is – which means that it's going to go rough, and rougher than I'd like it to.

Rob, you mentioned the non-bank sector. There's a lot more capital interaction and engagement and energy coming from that sector. And I think we would all do well to be thoughtful about how that's affecting – actually, this is where the locus of power is, really, banks versus non-banks, in terms of – (inaudible) – capital in various sectors, because that has a different set of implications for where risk is likely to accrue and what institutions are going to need to be engaged in a conversation.

Q: Thank you. So, just returning to the core question of the conference about technology-related disruption, it seems that the technology shocks that we're experiencing certainly raise the possibility that it might be possible for the economy to operate at higher levels of resource utilization without excess inflation pressures than our conventional models suggest. And the panelists have talked about how one approach to take to this type of uncertainty is going back and learning, observing the data. The problem, of course, is about timelines, right? It may take time for a certain level of unemployment – (inaudible) – inflation. Monetary policy also works with timelines. So I'm interested to also hear how you're going to try and reconcile these two things, the desire to learn from the data but a willingness to be sufficiently forward-looking in making policy.

And specifically in this context, is there a sort of level of unemployment where at this point you were looking at a couple years and said, well, if I thought unemployment was going to be going below X, I want to adjust policy to steer away, to make sure unemployment stabilizes at a higher level than this, even if I haven't yet seen evidence that this is feeding through its excess inflation pressures.

MR. KAPLAN: So I'll tell you the way I go at this. And everybody has their own approach, but I'll just speak for mine and for what I try to work with my team in the Dallas Fed.

Basically, I come up with a base case. So we debate here all sorts of scenarios. We have endless debates, not only at the Dallas Fed but with my colleagues around the FOMC table, about the various things that have happened – upside cases, downside cases, things we might be missing. And ultimately, I think for me, my thought process is to ultimately come up with a base case.

And what is that base case right now? I think the headline unemployment rate is going to dip certainly further down into the 3s. I think we'll ultimately meet our 2 percent inflation objective. But my base case is, because of to some extent globalization, but also because of technology-enabled disruption, I don't think inflation is going to run away from us – even though, in the short run, I think input costs are rising. My base case is that while GDP growth is strong this year, I think it's going to trail off and we're going to head back down towards 1¾ to 2 percent over the next two or three years. And I told you what my monetary-policy prescription is for the base case.

What I'm doing, though, every – I wouldn't say every waking – every waking hour – you know, I'm a little obsessive – (laughter) – and with my colleagues is challenging that base case, talking to my team. Where might that base case be wrong? And I do a second thing, because I am very worried about the big structural drivers, many of which cannot be affected by monetary policy – aging demographics, slowing workforce growth, sluggish productivity. And, for me, the lack of investment in this country in human capital – sufficiently in human capital.

I think part of my job is, secondly – so I advocate policy based on the base case, be questioning and challenging with my colleagues and my team on that base case, and then talk about other probably nonmonetary aspects, structural drivers, and flag that so to help them do research on them to help inform policy makers broadly, so maybe we can make some progress. And I think this conference is a good example of that. I think that's the second part of my job how we deal with this, this trend and this uncertainty.

MR. BOSTIC: I would add two things to that. One is really to talk about the constraints to the higher levels of growth. So what the sources of those constraints are, the barriers, so that policy makers actually have some idea about what they should be focusing on. And you know, this conference is part of that, so the workforce development stuff that we're doing systemwide is part of that. And so I think that's one thing.

A second thing is really – and I give – (inaudible) – credit for this, I mentioned this before – we actually talk to people. I actually – it's my view that trends are well – (inaudible) – before they show up in any aggregate data. And so, to the extent that you can tap into that in an early way, you can be on time. But in order to tap into that, you have to be systematic in how you engage with your broader constituencies.

And so we try to do that at our bank to make sure that we're covering sectors and we're covering geographies, we're covering small firms, large firms. But we're really trying to span the entire space – community-based organizations – to try to detect trends before they're in the data, so that we're not surprised when they actually show up in the data. And we are then able to change our base case to incorporate that and then have the data hopefully confirm it.

MR. KAPLAN: And, by the way, just one of the nice things about the 12 regional banks, I think most Fed presidents and their teams are close – are actively out in the community, talking to people, calls with contacts. And it's enormously valuable for that reason.

MR. EVANS: Excellent question for discussion. During the financial crisis and the downturn, as I thought about policy then when we were so far away from our goals, I kept always thinking sort of, you know, what kind of mistake am I willing to make? You know, I might not know how the economy is going to proceed. Do we need to add accommodation? The fiscal – are the fiscal authorities, you know, adding help there? Or are they also providing headwinds? And so I think we, you know, constantly have to think about, by doing these aggressive accommodative policies, what mistakes am I willing to make? You know, or is it, look, we overshoot inflation. What if we never get unemployment down as low as 5 percent? What if we don't try hard enough?

OK, now fast-forward. The economy is doing really quite well. It has been for a number of years – slow progression. Fundamentals are good. And I've been looking for a nice return to normalcy, whatever normalcy sort of looks like in this world of changing technology disruption, you know, and all of that. But you would have guessed that monetary policy would become easier as we – I mean, not easier to implement. (Laughter.) I'm not – since I could easily have imagined unemployment getting down to 4 percent against the natural rate, 4 ½, OK, that's undershooting. Let's fill in the powerful – (inaudible) – inflation rising to perhaps, you know, overshooting.

But, having said that, you know, the real rate of interest looks like, R-star, looks like it's lower. The demographics that Rob mentioned are also very important. But the other side is demographics are, you know, labor input growth is just likely to be not very strong at all. And I think most people have trend GDP growth of 1 ¾ percent. I'd love to have 3 percent. Trends – somebody's got to tell us how that happens. It's not going to come from monetary policy, and I'm not sure the tax policy is really going to deliver on that as well. But in a world of lower trend growth, we're facing less capacity in terms of the neutral funds rate and what we can do. But still, it's more towards normalcy.

But then we get fiscal policy. And, you know, we're, you know, looking at upwards of $1 ½ trillion in additional debt over the next 10 years, so – and then the additional government spending that comes with that. And then Marty Feldstein tells us, oh, don't even consider the fact that they're not going to renew the additional defense spending. They know that's going to keep going. And so that's going to cause another set of issues with higher debt to GDP. And then the world environment being what it is, with negotiating trade – and there can be good things that come from that, but there could be risks as well – and so it's really still a very challenging environment.

So I thought we would be moving away from this risk-management focus on monetary policy more towards focusing on the center of the distribution and nudging things up. But we still have to be worried about that. So I think what mistakes are we willing to make over the next few years will continue to be a relevant question. And we'll have to talk that moving forward.

Q: Next time I come to one of these, I've decided that I'm going to bring an interpreter with me, because not being an economist and not being at the level that you guys and ladies in this room are, this is really good and I've been able to keep up. But it kind of brings to mind, you know, when you use the word stimulus, I'm assuming you're talking about, you know, another $500 million worth of defense spending that's going to go out there, a 14 percent decrease in the – and is that what you're talking about?

MR. KAPLAN: The recent – I'm talking about the tax legislation and the recent budget agreement.

Q: Recent budget? OK. I just interpreted it to be that. What that kind of brought to mind was that the decisions that you guys make are so impactful on just everyday Americans, every single day. And I applaud you, because you think about it in a way that is very responsible. But the things you just talked about, about how you're going out and talking to everybody else about what's going on. Now, living in your bubble – and I don't mean that offensively. I just mean, you know, this world that has been in this room. How do you – how do you get people outside this room to understand your decision-making processes without having to do one of these and bring an interpreter to understand? I mean, does that make sense? (Laughter.)

MR. KAPLAN: Yes. So each of us has a – and I'll say this – (inaudible) – a roadmap, meaning we go out there and we talk a lot. I mean, we're – each of us is out there a lot in small Rotary clubs – Wichita Falls for me; McAllen, Houston, Fort – you know, you name it. We're out there a lot in groups big and small, and very diverse. And we work very hard…And we schedule very diverse groups. And you have a chance to road-test how you're explaining things. And if people don't quite get what you're saying, you get feedback immediately and you adapt it.

I used to say the term we're going to "remove accommodation." And they said: You mean, raise the fed-funds rate? Yeah, then raise the fed-funds rate. (Laughter.) I guess I could say that. So you get better at this. And so I think one of the things I would guess all of us – and, you know, we get a lot of practice out there, having to see whether we're understood and connecting with people up close, and we're doing it regularly.

MR. BOSTIC: I would just say, for me, I just – I've been doing this for about a year. I'm living in a place I never lived before. So I just spend a lot of time just going places and just introducing myself and getting to know things on the ground. So, you know, from Miami to Sarasota, Jacksonville, outside Augusta, Georgia and Muscle Shoals, Alabama, New Orleans. We're trying to go to, like, different places, because what you said is right. People need to hear this stuff and hear it in a way that they can understand so that they're not afraid, right? The thing I worry about the most is that – is people hear about those disruptions and they get totally freaked out and they shut down. And we can't have that. So our ability to make a difference is to try to talk to them and give them some framework in how to think about things.

MR. ALTIG: All right, last question.

Q: I was going to go back to the question of the balance sheet. I'm curious to hear from each of you whether you think that the balance-sheet impact is – (inaudible) – to the effect of forward guidance and the credibility of the policy in general. Is that all a bit more the stock effect, i.e., just translating into the amount of – (inaudible) – you hold outstanding, or is it more about the flow in terms of purchases – new purchases actually – (inaudible)? I'm just curious to hear where you stand today on that.

MR. EVANS: The good news is, you know, we've been explaining that we're, you know, allowing the balance sheet to roll off maturing assets. We're working our way up to $50 billion per month. I think that will get the balance sheet back to a size that is appropriate to the size of the economy, which is bigger than it was in 2007. And so I think that's – (inaudible) – markets. We expect term premia to increase. It's going to be difficult to assess the implications because we're also going to be borrowing more on the fiscal side of that. But we'll just see how the economy is evolving. And as interest rates and mortgage rates and everything else goes up, we'll see if the economy is strong enough to continue to thrive as well as it is now. And that's a part of the assessment of what the neutral funds rate will be.

MR. KAPLAN: I mean, I agree with everything that Charlie said. This program has been designed – at least my own input – (inaudible) – has been designed to be a relatively manageable percentage of the Treasury market and the mortgage-backed securities markets, and to minimize the impact on trading levels of both markets. It's been designed with that in mind, and – which has made me optimistic that we can do this in a fairly gradual rate, without a lot of manifestations of it in terms of market prices. And so I think so far, so good.

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THE WALL STREET JOURNAL.

Markets

Global Oil Stocks Fall to Three-Year Low, IEA Says; Report suggests OPEC has succeeded in clearing up excess global supply that has weighed on the oil market since late 2014

By Christopher Alessi
633 words
30 May 2018
08:46 AM
The Wall Street Journal Online
WSJO
English

Corrections & Amplifications

Commercial oil inventories for the OPEC countries declined in March to 2.819 billion barrels. An earlier version of this article incorrectly stated the number of barrels. In addition, the IEA lowered its global oil-demand growth forecast for this year to 1.4 million barrels a day. An earlier version of this article incorrectly stated that the IEA had lowered its global oil-demand forecast for this year to 1.4 million barrels a day.

Commercial oil stocks in industrialized economies have fallen to their lowest level in three years, the International Energy Agency said Wednesday, in the latest sign that the global supply glut has been mopped up and the market rebalanced.

In its monthly oil market report, the IEA said commercial oil inventories for the Organization for Economic Cooperation and Development countries declined in March by 26.8 million barrels month on month to 2.819 billion barrels. That is 1 million barrels below the latest five-year average metric widely used by oil-market participants to assess the rebalancing process.

The IEA suggested the drawdown in stocks was evidence that efforts led by the Organization of the Petroleum Exporting Countries to cut crude output had succeeded in clearing up excess global supply that has weighed on the oil market since late 2014.

OPEC and 10 producers outside the oil cartel, including Russia, have been holding back crude production by roughly 1.8 million barrels a day since the start of last year. The agreement, which was extended in November, is set to expire at the end of this year.

"For the first time since 2014, OECD stocks were below the five-year average metric widely cited to measure the success of the OPEC/non-OPEC" agreement, the reported noted. Since the OPEC accord was implemented, OECD stocks have declined by 233 million barrels, the agency added.

OPEC crude output fell month on month in April by 130,000 barrels a day to 31.65 million barrels a day, mainly a result of production outages in Venezuela, according to the IEA.

However, the Paris-based organization lowered its global oil-demand growth forecast for this year to 1.4 million barrels a day from a previous estimate of 1.5 million barrels a day, meaning world oil demand should average 99.2 million barrels a day in 2018. The IEA attributed the downward revision mainly to higher **oil prices**.

Crude prices climbed by more than 50% in the second half of last year, largely on the back of strong compliance with the OPEC-led plan.

The market also has been bolstered by geopolitical risk to supply. President Donald Trump's decision earlier this month to pull the U.S. out of the Iran nuclear deal sent **oil prices** above 3½-year highs.

Oil priceseased off those highs on Wednesday. Brent crude, the global oil benchmark, was down 0.6% at $77.95 a barrel on London's ICE Futures.

Iran exports around 2.4 million barrels a day of crude, according to the IEA. The U.S. is set to reimpose economic sanctions on OPEC member Iran, which will frustrate the OPEC members' oil output and further reduce global oil supplies.

"As key players continue how to react to the new policy…the market balance continues to tighten, though by slightly less than last month," the agency wrote in the report.

The IEA also raised its growth forecast for U.S. crude output in 2018 by 120,000 barrels a day to 1.3 million barrels a day, largely due to strong shale-oil growth.

But the agency cautioned that "concerns about cost inflation and infrastructure bottlenecks … alongside a focus on investor returns are expected to limit additional growth this year."

Write to Christopher Alessi at christopher.alessi@wsj.com

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THE WALL STREET JOURNAL.
U.S. EDITION

Italian Tumult Spurs Global Selloff --- Dow loses nearly 400 points and Treasury yields fall sharply as investors cut risk

By Jon Sindreu and Mike Bird
915 words
30 May 2018
The Wall Street Journal
J
A1
English

Political upheaval in Italy drove a global retreat from risky assets on Tuesday, sending U.S. stocks tumbling and Treasury yields to their largest daily decline in almost two years.

Six years after the eurozone stepped back from the brink of a breakdown, a violent selloff in Southern European debt bled into broader **financial markets**, pushing investors toward the safety of the dollar and the Japanese yen, which rallied sharply.

Bank stocks led the charge lower, reflecting fears that turmoil in Italian markets could spread throughout the eurozone, infecting the bloc's banks and causing systemic issues in global markets.

The turbulence followed Italian President Sergio Mattarella's decision Sunday to block the formation of a euroskeptic government, which revived longstanding worries about the broader stability of the eurozone. His move suggested a fresh round of elections that could strengthen the hand of anti-euro forces, some of which seek to untangle Europe's increasingly vulnerable union.

"There's an existential threat hanging over the single currency if we head into more elections this summer; I don't know how we get away from that now, given the scale of the financial implications," said Kit Juckes, chief foreign-exchange strategist at Societe Generale.

The Dow Jones industrials dropped 391.64 points, or 1.6%, falling back into the red for the year. The **S&P 500** declined 1.2% and the Stoxx Europe 600 closed 1.4% lower.

Financial companies were the hardest-hit sector in the **S&P 500**, sliding 3.4%, as bank shares tumbled. JPMorgan Chase & Co., the biggest American bank by assets, fell 4.3%, while Morgan Stanley, the smallest of the big banks, lost 5.8%.

The decline in longer-term U.S. bond yields also weighed on banks, reflecting fears that a smaller difference between short- and long-term rates will dent their profits. Yields on 10-year Treasurys fell to 2.772% Tuesday from 2.931% at the end of last week, the largest one-day yield decline since June 2016.

The euro, meanwhile, dropped to its lowest level against the dollar since July 2017, falling 0.7% to $1.1541 at 5 p.m. in New York. The WSJ Dollar Index rose 0.3% to 87.56, its highest closing value since November 2017.

Indicating the worry about Italy's future, the government's borrowing costs skyrocketed Tuesday. An auction of six-month Italian debt, which sold for a negative yield as recently as April, drew a yield of 1.213%, with lackluster demand from investors. The country's two-year bond, which offered a negative yield as recently as two weeks ago, exploded Tuesday to as high as 2.69%.

Italy's woes rippled across the eurozone, driven by investor worries that an exit by the bloc's third-largest economy could force others out -- as gauged by the spread between the 10-year government bond yields of each country and Germany's.

For Spain, these spreads widened to their biggest levels in a year, and for Portugal to the widest since September.

Amundi Asset Management, Europe's top investor, with 1.4 trillion euros ($1.6 trillion) under supervision, had already cut most of its exposure to Southern European debt this year and is now "in a wait-and-see mode," said Isabelle Vic-Philippe, its head of eurozone government debt.

Dickie Hodges, a bond-fund manager at Nomura Asset Management, a firm with 50 trillion yen ($457 billion) under management, said he had removed all his holdings in Italian and Spanish debt and reduced Portuguese ones.

While neither believe the eurozone will break up, they expect the market turmoil to continue -- making eurozone bonds unattractive for now.

The spread between different eurozone government bonds is seen by some as a key gauge of how likely the bloc is to survive, rather than of economic performance. Even after two Italian antiestablishment parties reached an agreement for a new government earlier this month, Italian debt was mostly unruffled.

It was the news that the proposed government might seek to break eurozone rules -- and had even drafted plans to exit from the euro -- that brought back echoes of the 2011-2012 sovereign-debt crisis, which European Central Bank President Mario Draghi is credited with ending with the promise to do "whatever it takes to preserve the euro."

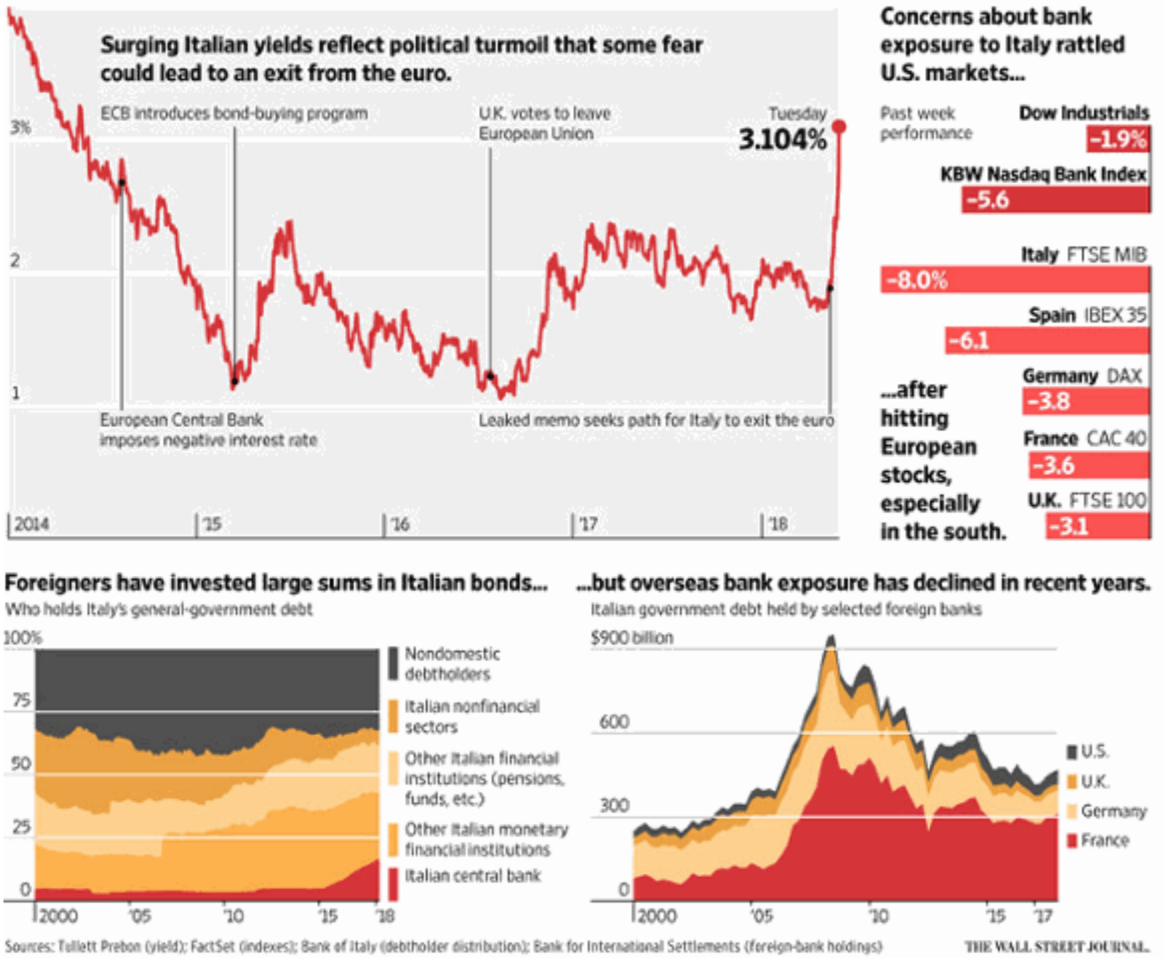
It is unclear how much bonds can sell off and for how long, investors said, because their worth ultimately depends on a political decision to keep the eurozone together.

Aviva had previously benefited from a rally in Italian government debt and was hoping for Spanish bonds to deliver a similar return. It has now slashed exposure to Southern European bonds.

The banking industry is seen as especially vulnerable to write-offs in its large holdings of government debt, as well as to people taking their money out of Europe.

Shares in Italy's UniCredit SpA and BPER Banca SpA ended the day down by over 5%, while Societe Generale and Deutsche Bank dropped 2.9% and 4.6%, respectively.

The selloff continued in Asia early Wednesday. At midday in Tokyo, Japan's Nikkei Stock Average was down 1.8%, Hong Kong's Hang Seng Index was down 1.6% and South Korea's Kospi was down 2%.


Surging Italian yields reflect political turmoil that some fear could lead to an exit from the euro.
ECB introduces bond-buying program
U.K. votes to leave European Union
Tuesday 3.104%
European Central Bank imposes negative interest rate
Leaked memo seeks path for Italy to exit the euro
3%
2
1
2014
'15
'16
'17
'18
Concerns about bank exposure to Italy rattled U.S. markets...
Past week performance
Dow Industrials -1.9%
KBW Nasdaq Bank Index -5.6
Italy FTSE MIB -8.0%
Spain IBEX 35 -6.1
...after hitting European stocks, especially in the south.
Germany DAX -3.8
France CAC 40 -3.6
U.K. FTSE 100 -3.1
Foreigners have invested large sums in Italian bonds...
Who holds Italy's general-government debt
100%
75
50
25
0
2000
'05
'10
'15
'18
Nondomestic debtholders
Italian nonfinancial sectors
Other Italian financial institutions (pensions, funds, etc.)
Other Italian monetary financial institutions
Italian central bank
...but overseas bank exposure has declined in recent years.
Italian government debt held by selected foreign banks
$900 billion
600
300
0
2000
'05
'10
'15
'17
U.S.
U.K.
Germany
France
Sources: Tullett Prebon (yield); FactSet (indexes); Bank of Italy (debtholder distribution); Bank for International Settlements (foreign-bank holdings)
THE WALL STREET JOURNAL.

Document J000000020180530ee5u0002o

The New York Times

ECONOMIC SCENE
Business/Financial Desk; SECTB
American Exceptionalism Comes With a Social Cost

By EDUARDO PORTER
1,218 words
30 May 2018
The New York Times
NYTF
Late Edition - Final
1
English

When I wrote my first Economic Scene column six years ago, the unemployment rate languished at 8.2 percent as the job market painfully recovered from the jolt of the Great Recession. By last month, only 3.9 percent of working-age Americans who sought a job didn't have one.

You are welcome.

I'm kidding, of course. How could anybody claim credit for the performance of something as vast and complex as the American labor market? My columns probably didn't have anything to do with the doubling of the **Standard & Poor's 500**-**stockindex**, either, or even with the sixfold rise in digital-only subscriptions to The New York Times.

To the contrary, as I write what will be the last column of my tenure, I can't help but acknowledge how little purchase my writing has had on the substance of reality. In particular, it has had no discernible effect on what one might call America's fundamental paradox.

The United States is one of the richest, most technologically advanced nations in the history of humanity. And yet it accepts -- proudly defends, even -- a degree of social dysfunction that would be intolerable in any other rich society.

My first column pondered why Americans didn't care more about the nation's income gap, so much starker than that of any other advanced democracy. I suggested that my compatriots might come to a consensus that inequality is harmful when they realized how vast inequities could gum up the cogs of economic and social mobility.

Well, inequality hasn't abated much. In 2015, the richest 1 percent of American taxpayers drew more than 20 percent of the nation's income, including capital gains, according to the tabulations by the French scholar Thomas Piketty and his colleague Emmanuel Saez.

You can bet it has gone higher, given the bull run in the **stock market** since then. And Republicans just passed another round of tax cuts to offer a helping hand to the upper crust.

Most interestingly, Americans still don't care that much. Sure, two-thirds say they are dissatisfied with the way income and wealth are distributed, according to Gallup. Still, more than three out of five -- compared with just over half six years ago -- are satisfied with "the opportunity for a person in this nation to get ahead by working hard."

Republican orthodoxy is that inequality is not necessarily a problem. And if rising tides substantially lifted everybody's boat, it might matter less that the yachts parked at the North Cove Marina a stone's throw from Goldman Sachs rode a bigger swell. Tides in America don't work like that anymore, though.

As my column has aimed to highlight, too many Americans are, well, sinking. Seventeen percent of Americans are poor by international standards -- living on less than half the nationwide median income. That's more than twice the share of poor people in France, Iceland or the Netherlands.

Forget about income, though. It's hard to square Americans' belief in their society's greatness with the life expectancy of its newborn girls and boys. It is shorter than in Australia, Austria, Belgium, Britain, Canada, Chile, Denmark, Finland, France, Germany, Greece, Iceland, Ireland, Israel, Italy, Japan, Luxembourg, the Netherlands, New Zealand, Norway, Portugal, Slovenia, South Korea, Spain, Sweden, Switzerland and probably a few other countries I missed.

Or let's measure our progress in terms of infant deaths. Scientists in the United States invented many of the technologies used around the world to keep vulnerable babies alive. So how come our infant mortality rate is higher than that of every nation in the Organization for Economic Cooperation and Development with the exceptions of Mexico, Chile and Turkey?

Our dismal rank, by the way, is not driven by the babies of white, affluent Americans. The impact of the nation's fundamental paradox mostly fails the nonwhite and the poor. Black males born in the United States today will probably live shorter lives than boys born in Mexico, China or Turkey.

This set of facts seems to me problematic. Your heart doesn't even have to bleed to care. The United States risks its prosperity by leaving so many Americans behind.

The children of poverty who survive will most likely hobble through life with mediocre educations -- lagging their more affluent peers even before their first day in school and then falling farther behind, deprived of the resources that disadvantaged children in other advanced nations routinely enjoy.

Unequipped to cope with the demands of a labor market in furious transformation, they will give ''social mobility'' a new, all-American meaning: the tendency to move in and out of prison. It's hard to believe any country could waste so many resources and prosper.

And yet for all the ink spilled by so many excellent journalists -- from The Times's own Neil Irwin to Vox's Matt Yglesias, Bloomberg's Noah Smith and many others -- America is doubling down on its exceptionalism. The rich got a tax break. Bankers got a break from the pesky rules written in the shadow of the financial crisis to protect the little guy. The poor and near poor were freed from their ability to afford health insurance.

As Catherine Rampell noted in The Washington Post, populism -- understood as a political movement shaped around giving the working class a ''fair shake'' -- is pretty much dead.

And yet writing is, in fact, indispensable. It is because of the writing of journalists and social scientists -- economists and political scientists, historians and sociologists -- that we know what we know about the workings of American society, its economy and its political system.

From Lawrence F. Katz and Alan B. Krueger, I learned that the very meaning of the word ''job'' is changing, as fixed employment gives way to contract, part-time, gig and temp work. David Autor, David Dorn and Gordon Hanson enlightened me about the cost to many American communities of China's rise. Michelle Alexander's writing told me about the impact of America's ruthless criminal justice system on the nation's blacks. Arlie Russell Hochschild's shed light on the politics of its struggling whites.

To my colleagues in journalism, I owe the deepest debt of gratitude. From them I have learned how important it is to shine light on power. In this peculiar political moment, as the powerful promote self-serving realities, hoping to bend perceptions to their will, my colleagues' work to communicate a reality undistorted by political ambition amounts to the last line of defense against autocracy.

I will miss writing the column. But I relish the opportunity this opens to write in another form, free of a column's weekly demands to explore the drama of American life in greater depth.

I will be devoting the next few weeks to figuring out what to focus on next -- chatting with my editors, as well as with the sources I have come to rely on for sober, authoritative thinking. The important question, however, remains: What kind of society does ''America'' mean?

A homeless woman and her grandchild in Atlantic City, where the rate of poverty exceeds 30 percent. (PHOTOGRAPH BY JOHN MOORE/GETTY IMAGES) (B2)

Document NYTF000020180530ee5u0005d

The New York Times

Business/Financial Desk; SECTB
Worries Over Italy Weigh on Markets

By MATT PHILLIPS and PRASHANT S. RAO
735 words
30 May 2018
The New York Times
NYTF
Late Edition - Final
2
English

Stock markets in the United States dropped Tuesday amid concerns that growing political uncertainty in Italy and simmering tensions over Chinese trade could weigh on global economic growth.

The **Standard & Poor's 500-stockindex** fell 1.2 percent, marking the its third straight decline. Financial shares were among the worst performers, as developments in the European markets seemed to reawaken fears of a debt crisis among investors.

Italy -- Europe's fourth-largest economy and a founding member of the eurozone -- has not had a new government since it held elections in March. But in the past week, the country's politics took on a new level of unpredictability. A populist coalition that had been set to form a government nominated a skeptic of the European Union to be the economy minister, but the proposal was vetoed by Italy's president, who subsequently named a technocrat to temporarily take charge instead.

Amid that uncertainty -- which has left open the prospect of early elections and the formation of another populist alliance -- investors have suddenly shifted away from riskier investments like stocks and commodities and taken refuge in the relative safety of German and American government bonds, the United States dollar and the Japanese yen.

Italy's benchmark **stock index** fell nearly 2.7 percent, and worried investors sold off government bonds, sending prices down and yields up. The yield on Italy's main 10-year bond rose to its highest level in more than four years, spiking by more than a half percentage point to roughly 3.20 percent, according to data from Tradeweb, a bond trading platform.

The euro fell to its weakest value against the dollar in nearly a year, and prices for government bonds issued by other heavily indebted European countries like Spain and Portugal also tumbled on Tuesday, pushing their yields up as well.

The so-called spread between yields on debt from such countries and debt from Germany -- Europe's biggest economy, which is seen as having the region's safest government bonds -- widened sharply. That dynamic recalled the worst days of the European debt crisis that began in 2010, when investors first began to consider the risk that Greece may default on its debt, and then cast a worried eye at countries including Ireland, Portugal and Spain. Since then, European policymakers have been able to ease investor concerns, in part through a European Central Bank policy of effectively printing money in order to push interest rates down and speed economic growth.

But the uncertainty in Italy reverberated across the continent on Tuesday. The main stock indexes in London, Frankfurt and Paris dropped. In a sign that investors were looking for safer assets, the yields on 10-year bonds from Britain, France and Germany all fell.

In the United States, the yield on the **10-year Treasury** note also fell to 2.80 percent as investors flocked to the safety of American sovereign debt. Yields on those notes had topped 3 percent in recent weeks on optimism about American economic growth and expectations of ongoing rate increases from the Federal Reserve.

The decline in Treasury bond yields -- which serve as benchmarks for private lending rates -- weighed on shares of financial institutions. The financial sector was the worst performing part of the **S.&P. 500-stock index**, dropping by more than 3 percent, as falling long-term bond yields fanned concerns about crimped bank profitability.

In a note to clients, bond market analysts from BMO Capital Markets thought that the shift toward investor demand for safety would probably last.

"The cracks that we've seen in risk appetite are only likely to widen," they wrote.

Industrial stocks also dragged on markets in the United States, as trade tensions with China continue to create ongoing uncertainties for manufacturers.

The Trump administration said on Tuesday that it would go forward with punitive trade-related measures on China in the next month, including levying a tariff of 25 percent on $50 billion of goods imported from China.

This is a more complete version of the story than the one that appeared in print.

Follow Matt Phillips and Prashant S. Rao on Twitter: @MatthewPhillips and @prashantrao.

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

Document NYTF000020180530ee5u0004z

The New York Times

Foreign Desk; SECTA
U.S. Resumes Trade Dispute Against China

By MARK LANDLER and ANA SWANSON; Keith Bradsher contributed reporting from Shanghai.
1,556 words
30 May 2018
The New York Times
NYTF
Late Edition - Final
1
English

WASHINGTON -- President Trump, stung by criticism that he has gone soft on China and less worried about Beijing's ability to disrupt a potential summit meeting with North Korea, reversed course on Tuesday and declared that the United States would impose tariffs and other punitive measures on China.

Barely a week after Treasury Secretary Steven Mnuchin said that the trade war was ''on hold'' and that tariffs would be suspended as negotiations continued, the White House issued a statement saying the United States would move ahead with its plan to impose 25 percent tariffs on $50 billion worth of imported Chinese goods within the next month.

Mr. Trump's reversal was yet another twist in a long-running ideological battle in the West Wing between economic nationalists, who channel Mr. Trump's protectionist instincts, and more mainstream advisers like Mr. Mnuchin, who worry that tariffs and investment restrictions will hurt the **stock market** and hobble long-term growth.

The nationalists seem to have won this round. While Mr. Trump is sending Wilbur Ross, the commerce secretary, to Beijing this weekend to try again to resolve the dispute, people briefed on the talks said Mr. Trump was frustrated with the first round of trade negotiations and wary of giving Democrats an opening on one of his core issues.

The trade offensive comes at a sensitive moment, days after Mr. Trump pulled out of his planned June 12 meeting with the North's leader, Kim Jong-un, after suggesting that China played a role in derailing the encounter. But the president has since expressed more optimism about the meeting, and negotiators from Washington and Pyongyang have scrambled to reinstate it, giving Mr. Trump a freer hand to resume his tough approach to America's greatest economic adversary.

In addition to the renewed trade threat, the United States has hardened its military posture toward China, canceling an invitation for the Chinese to take part in a large Pacific naval exercise and sailing two Navy warships past a handful of disputed islands in the South China Sea. The administration is pushing back against China's installation of military facilities in the heavily trafficked waterway.

''On every issue, the balance of power in this administration leans toward a more hostile and adversarial relationship with China,'' said Jeffrey A. Bader, a former top China adviser to President Barack Obama.

But Mr. Bader cautioned that Mr. Trump's threat of tariffs could still be a purely tactical move and a cudgel to force concessions from China, similar to the approach he has used with several of America's closest trading partners.

''To me, it is not at all clear that Trump has turned his back on a deal,'' he said.

Last week, the administration announced a sweeping new investigation that could result in tariffs on imported automobiles -- a move trade experts said was designed to ramp up pressure on Mexico and Canada in negotiations over the North American Free Trade Agreement.

On Friday, temporary exemptions to steel and aluminum tariffs that the White House granted to the European Union, Canada and Mexico are set to expire, raising the question of whether the countries will fold to Mr. Trump's trade requests or retaliate.

Hours after the tariffs on China were announced, the Chinese Ministry of Commerce accused the White House of going back on its word, even as it hinted that Beijing expected such a reversal.

''We feel surprised by the tactical statement issued by the White House, and yet it was also unsurprising,'' a statement from the ministry said, adding that China would ''defend the interests of the Chinese people and core national interests.''

''This is clearly contrary to the consensus that China and the U.S. reached not long ago in Washington,'' the statement said.

The last round of trade talks ended on May 19 with the two sides issuing an upbeat but vague joint statement that revealed little progress toward resolving a long list of complaints from the American negotiators. Mr. Trump, who made getting tough on China a centerpiece of his campaign, has often talked about challenging what he believes are its unfair trade practices.

But his advisers are deeply divided over how best to do it. Some, like Mr. Mnuchin and Mr. Ross, are focused on a compromise deal that would require China to buy huge amounts of American products to reduce its trade surplus, while still forestalling the possibility of a trade war.

Others like Peter Navarro, a top White House trade adviser, and Robert Lighthizer, the United States trade representative, have pushed for tougher action. They want China to undertake radical reforms, ending the subsidies it provides to developing industries and allowing American companies equal access in the Chinese market.

Hours after Mr. Mnuchin said a trade war was on hold, Mr. Lighthizer, who has been leading the investigation into China's trade practices, issued a statement that was viewed as a repudiation of his colleague. He said that ''real work'' still needed to be done to make changes in the Chinese system, and that the United States would use ''all of its legal tools to protect our technology through tariffs, investment restrictions and export regulations.''

Mr. Trump's handling of a Chinese telecom company, ZTE, became another flash point. On Friday, he said he had reached a deal that would allow the firm, which was recently banned from buying American components as punishment for violating United States sanctions, to remain in business. That prompted a slew of criticism from lawmakers that he was backing off his tougher promises on trade and letting a Chinese telecom company that did business with Iran and North Korea off the hook.

''Yes they have a deal in mind. It is a great deal... for #ZTE & China,'' Senator Marco Rubio, Republican of Florida, said in a tweet.

Senator Chuck Schumer of New York, the Democratic leader, tweeted, ''If the administration goes through with this reported deal, President Trump would be helping make China great again.''

Those swipes rankled Mr. Trump, according to current and former White House officials. In a midterm election year, they said, the president does not want to leave an opening to Democrats on trade. Mr. Trump expressed his unhappiness to Mr. Mnuchin, who had urged him to settle the ZTE issue and seek a trade truce with Beijing.

''There may be some momentary confusion, but his default position is, you'll never get to the right of him on China,'' said Stephen K. Bannon, who served as Mr. Trump's chief strategist and is a leader of the nationalist movement.

In April, the administration detailed a list of Chinese goods that would be subject to tariffs, including flat-screen TVs and medical devices. It then held a series of hearings on the tariffs, giving the public a chance to influence the targeted products.

On Tuesday, White House officials said that they would issue the final list of goods subject to the tariffs by June 15, and impose the duties shortly after that. Mr. Trump has also threatened additional tariffs on $100 billion of Chinese products that, for now, will not go into effect.

The White House also said it would move forward with restrictions on Chinese investment and with stronger export controls to limit the access that Chinese people and companies have to American technology -- a measure the administration said was for national security purposes.

Those restrictions will be announced by June 30 and adopted soon after that, the administration said, adding that the United States would also continue to pursue a trade case it filed against China at the World Trade Organization involving intellectual property rights.

Mr. Schumer offered the president highly conditional praise. ''This outline represents the kind of actions we have needed to take for a long time, but the president must stick with it and not bargain it away,'' he said in a statement.

Representative Richard E. Neal, Democrat of Massachusetts, said the administration was merely trying to save face ''by rattling its saber with new deadlines,'' after having undermined American national security interests by easing penalties on ZTE.

''Without a coherent strategy,'' he said, ''it's hard to see the renewed commitment to threatening tariffs and investment restrictions as anything but more bluster and chaos.''

Mr. Trump's willingness to cut a deal on ZTE also raised questions about his motives, given that days before he said he would help the company, China granted his daughter, Ivanka Trump, seven new trademarks across a broad collection of businesses, including books, housewares and cushions.

Mr. Trump's latest trade moves have provoked retaliation from China, which has promised its own potential tariffs on $50 billion in American goods. Chinese officials say they do not dismiss anything as an idle threat.

''We have to consider this seriously -- we have to listen to his words and watch his actions,'' Li Gang, the vice president of the Commerce Ministry's research and training institute, said in a recent interview in Beijing.

Wilbur Ross, left, the American commerce secretary, and Premier Li Keqiang of China in Beijing last year. Mr. Ross is going to Beijing this weekend for trade talks. (POOL BY THOMAS PETER) (A6)

Document NYTF000020180530ee5u00031

THE WALL STREET JOURNAL.

Markets

Italy Sparks Global Fear of Fresh Euro Crisis; Six years after the eurozone stepped back from the brink, a violent selloff in southern European debt is bleeding into broader markets

By Jon Sindreu and Mike Bird
1,187 words
29 May 2018
10:28 PM
The Wall Street Journal Online
WSJO
English

The **Dow Jones Industrial Average** dropped nearly 400 points and U.S. Treasury yields posted their largest daily decline in nearly two years as investors around the globe retreated from risk following signs of political upheaval in Italy.

Six years after the eurozone stepped back from the brink of a breakdown, a violent selloff in Southern European debt bled into broader **financial markets**, pushing investors toward the safety of the dollar and the Japanese yen, which rallied sharply.

Bank stocks led the market's charge lower, reflecting fears that turmoil in Italian markets could spread throughout the eurozone, infecting the bloc's banks and causing systemic issues in global markets.

The turbulence follows Italian President Sergio Mattarella's decision Sunday to block the formation of a euroskeptic government, which revived longstanding worries about the broader stability of the eurozone. The move suggested a fresh round of elections that could strengthen the hand of antieuro forces, some of which seek to untangle Europe's increasingly vulnerable union.

"There's an existential threat hanging over the single currency if we head into more elections this summer; I don't know how we get away from that now, given the scale of the financial implications," said Kit Juckes, chief foreign-exchange strategist at Société Générale.

The Dow industrials dropped 1.6%, falling back into the red for the year. The **S&P 500** declined 1.2% and the Stoxx Europe 600 closed 1.4% lower.

Financials were the hardest- hit sector in the **S&P 500**, sliding 3.4%, as bank shares tumbled. JPMorgan Chase & Co., the biggest American bank by assets, fell 4.3%, while Morgan Stanley, the smallest of the big banks, lost 5.8%.

The decline in longer-term U.S. bond yields also weighed on bank stocks, reflecting fears that a smaller difference between short- and long-term rates will dent profits. Yields on 10-year Treasurys fell to 2.772% Tuesday from 2.931% at the end of last week, the largest one-day yield decline since June 2016.

The euro, meanwhile, dropped to its lowest level against the dollar since July 2017, falling 0.7% to $1.1541 at 5 p.m. in New York. The WSJ Dollar Index rose 0.3% to 87.56, its highest closing value since November 2017.

Indicating the worry about Italy's future, the government's borrowing costs skyrocketed Tuesday. An auction of six-month Italian debt, which sold for a negative yield as recently as April, drew a yield of 1.213%, with lackluster demand from investors. The country's two-year bond, which offered a negative yield as recently as two weeks ago, exploded Tuesday to as high as 2.69%.

Italy's woes rippled across the eurozone, driven by investor worries that an exit by the bloc's third-largest economy could force others out—as gauged by the spread between the 10-year government bond yields of each country and Germany's. For Spain, these spreads widened to their biggest levels in a year, and for Portugal to the widest since September.

Amundi Asset Management, Europe's top investor, with €1.4 trillion ($1.6 trillion) under supervision, had already cut most of its exposure to Southern European debt this year and is now "in a wait-and-see mode," said Isabelle Vic-Philippe, its head of eurozone government debt.

Dickie Hodges, a bond-fund manager at Nomura Asset Management, a firm with ¥50 trillion ($457 billion) under management, said he had removed all his holdings in Italian and Spanish debt and reduced Portuguese ones.

While neither believe the eurozone will break up, they expect the market turmoil to continue—making eurozone bonds unattractive for now.

The spread between different eurozone government bonds is seen by some as a key gauge of how likely the bloc is to survive, rather than of economic performance. Even after two Italian antiestablishment parties reached an agreement for a new government earlier this month, Italian debt was mostly unruffled.

It was the news that the proposed government might seek to break eurozone rules—and had even drafted plans to exit from the euro—that brought back echoes of the 2011-2012 sovereign-debt crisis, which European Central Bank President Mario Draghi is credited with ending with the promise to do "whatever it takes to preserve the euro."

It is unclear how much bonds can sell off and for how long, investors said, because their worth ultimately depends on a political decision to keep the eurozone together.

"What is it you are trading? You don't really know, because the implications of that tail-risk are very binary," meaning either the euro holds together or it doesn't, said Charlie Diebel, head of rates at Aviva Investors, which has £350 billion ($466 billion) under supervision.

Aviva had previously benefited from a rally in Italian government debt and was hoping for Spanish bonds to deliver a similar return. It has now slashed exposure to Southern European bonds.

In 2012, Mr. Draghi's support managed to quell concerns that market turmoil could end up forcing a country, such as Greece, Portugal, Spain or Italy, out of the eurozone. But this time around, the risk is about a country choosing to leave, added Société Générale's Mr. Juckes, so "it's not clear what the ECB can do. It's not really a liquidity issue."

The banking sector is seen as especially vulnerable to write-offs in its large holdings of government debt, as well as people taking their money out of Europe.

Italy's UniCredit SpA and BPER Banca SpA ended the day down by over 5%. , while Société Générale and Deutsche Bank dropped 2.9% and 4.6%, respectively.

The politics-driven selloff comes as global-growth expectations have diminished, driven by disappointing economic data in the eurozone.

To be sure, fund managers who bet on the resolution of the eurozone's 2011-12 debt crisis often reaped large rewards, as **bond prices** rebounded and yields dropped in the subsequent years. That has left some investors looking for opportunities to re-enter European government bond markets

"I think lots of active fund managers will be looking to take positions. People have thought that the ECB might stop its purchase program in September, that doesn't seem so likely now," said Darren Ruane, head of fixed interest at Investec Wealth and Investment.

"I would bet that a lot of bond fund managers are coming to that conclusion and looking for attractive entry points," he added.

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Document WSJO000020180529ee5t000pn

THE WALL STREET JOURNAL.
U.S. EDITION

Banking & Finance: Exchanges Blast SEC Rebate Plan

By Alexander Osipovich
723 words
30 May 2018
The Wall Street Journal
J
B14
English

Two of the biggest U.S. stock-exchange operators have accused the Securities and Exchange Commission of exceeding its legal authority with a proposal to limit the rebates they pay traders to attract stock orders.

The attacks show that **Nasdaq** Inc. and Cboe Global Markets Inc. may sue the SEC to block the proposal, called the Transaction Fee Pilot, some observers said. Representatives of **Nasdaq** and Cboe declined to comment when asked if they plan to pursue legal action.

The two-year pilot program, which the SEC proposed in March, has riled big U.S. exchanges because it would undermine a key part of their businesses: a widely used system of fees and rebates called "maker taker," in which exchanges pay rebates for some orders and charge fees for others.

The pilot is effectively an experiment to see how weakening or eliminating maker taker for some stocks, while leaving others untouched, will affect the U.S. **stock market**.

Under maker taker, exchanges pay rebates to traders for posting new orders to their markets, while charging them fees when they execute against orders already posted on the exchange.

Critics say the maker-taker system creates unnecessary complexity and harms investors by encouraging brokers to send their clients' orders to the exchange that pays the biggest rebate rather than the one that gives clients the best result.

The big U.S. stock exchanges say the problem is overblown. They argue that rebates benefit the investing public by encouraging more traders to quote prices for stocks on public exchanges and to compete with other traders to post the best price.

Nasdaq and Cboe both said the Transaction Fee Pilot amounted to unlawful government price controls on the fees they can charge traders. The accusations came in a pair of letters to the SEC posted on the agency's website on Tuesday, although the letters were dated Friday, the deadline for submitting comments on the SEC's proposal.

Nasdaq believes the proposal is "arbitrary and capricious and would not withstand judicial scrutiny," it said in its letter.

Cboe said the SEC didn't have the authority under U.S. law to implement the proposal, which it called "severely flawed" and unnecessary. "A rulemaking that could instantly shift market share on such a large scale and so drastically alter market behavior should only be deployed in order to address a grave market crisis," Cboe said in its letter.

An SEC spokeswoman declined to comment on **Nasdaq**'s and Cboe's accusations.

"The letters lay out a very clear threat to the SEC: If you go forward, we are going to consider suing you," said Tyler Gellasch, executive director of the Healthy Markets Association, a group representing large investors that has supported the SEC's pilot.

Together, **Nasdaq** and Cboe handle nearly 40% of U.S. stock-trading volume. The New York Stock Exchange, the largest U.S. exchange operator, said in a blog post dated Friday that the pilot program would cost investors at least $1 billion a year. Although the fees charged by exchanges would drop under the pilot, quoted stock prices would get worse, eliminating the benefit to most investors, the NYSE said.

It isn't unprecedented for exchanges to hint that they may sue the SEC. **Nasdaq** said in a 2016 letter that the SEC would be breaking its own rules if it allowed upstart rival IEX Group Inc. to become a full-fledged stock exchange. IEX won approval, but **Nasdaq** never sued over the decision.

Under current rules, exchanges' fees are generally capped at 30 cents per 100 shares -- which also effectively sets the maximum rebates they pay for trades.

Under the SEC's pilot program, all exchanges would be required to test trading on three groups of stocks with trading fees set lower than current rates. The idea is that lowering the fees would also compel the exchanges to lower rebates, since exchanges make money on the difference between the fee and the rebate.

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.

Document J000000020180530ee5u0002g

THE WALL STREET JOURNAL.
U.S. EDITION

Fossil-Fuel Divestment Is Futile

By Paul H. Tice
658 words
30 May 2018
The Wall Street Journal
J
A15
English

The fossil-fuel divestment campaign has made its way from the campus quad to Wall Street. Watch for disruptions at Wednesday's annual meeting of Exxon Mobil shareholders. Climate-change and environmental activist groups have become the ideological driving force behind the environmental-social-governance movement, or ESG, sweeping the investment-management industry.

ESG criteria purport to promote "sustainable investing" by imposing "social responsibilities" on corporations -- including the responsibility to prevent global warming -- under the guise of fiduciary responsibility, risk management and financial transparency. Because the environmental question relates to what oil and gas companies do, as opposed to how they operate, there is no obvious way for them to comply, apart from getting out of the business.

That means there's no obvious way for fund managers to comply with ESG activists' demands other than by divesting themselves of fossil-fuel companies. The activists have succeeded in redirecting investment flows away from the coal and oil-sands industries, with crude oil the next hydrocarbon in the crosshairs.

But fund managers need return performance and portfolio flexibility. That's the main reason college endowment boards have generally ignored student climate protesters. Energy is a significant component of the world's **financial markets** -- too large, diverse and **volatile** a sector for major institutional investors not to own. Depending on the benchmark index, the industry comprises between 5% and 15% of the major U.S. debt and equity markets.

By framing the debate in terms of fiduciary responsibility, the ESG movement is actually sowing the seeds of its own destruction. In the long run, the effort to starve energy companies of capital will only make the oil and gas sector more attractive to investors.

Consider the following irony: Many traditional energy investors are making common cause with anti-fossil-fuel groups by also advocating for a curtailment of capital to the industry -- including to some of the best U.S. shale-oil plays, such as the Permian Basin in West Texas. Energy-company shareholders are agitating for a shift away from the historical business model focused on growing reserves and production while perennially outspending cash flow.

Such calls for "capital discipline" are transparently self-serving. In the near term, any cash not put back into the ground through the drill bit would likely be returned to shareholders in the form of dividends and stock buybacks.

The overriding goal is to jack up **oil prices** by slowing down drilling activity and production growth. Despite strong wellhead economics, energy stock prices continue to lag and underperform nearly four years after the 2014 fall, due to their high correlation with world **oil prices**. All else equal, most energy companies and investors would prefer to leave oil in the ground until prices rise. Forcing energy companies to live within cash flow by deferring capital spending helps that happen.

That dedicated energy investors are now echoing the arguments of the ESG movement should motivate the latter to crack open an economics textbook. The basic law of supply and demand suggests that if the ESG movement gained critical mass so that it had a real effect on the cost and availability of capital for fossil-fuel companies, it would likely push **oil prices** well above the $100-a-barrel mark, generating windfall returns for energy companies -- and for those investors who resist peer pressure and maintain exposure to the sector.

ESG-minded funds that divested from the sector for moral reasons would significantly underperform their peers and relevant benchmarks, thereby failing in their fiduciary role. And unlike 100-year climate-projection models, investment managers are gauged by their actual return performance every year.

Something for the ESG environmentalists to think about as they march toward Pyrrhic victory.

Mr. Tice works in investment management and is an adjunct professor of finance at New York University's Stern School of Business.

Document J000000020180530ee5u0000x

THE WALL STREET JOURNAL.
U.S. EDITION

Banking & Finance: Banks Take the Brunt of Troubles Afflicting Italy

By Ben Eisen
393 words
30 May 2018
The Wall Street Journal
J
B14
English

Investors reprised an old trade as they eye trouble in Italy: Sell U.S. bank stocks.

Morgan Stanley fell 5.8%, leading the way lower Tuesday as JPMorgan Chase & Co. sank 4.3% and Citigroup Inc. dropped 4%. The KBW **Nasdaq** Bank Index fell 3.9%, pushing it into the red for the year. The **S&P 500**'s financial sector dropped 3.4%, by far the worst performing of the 11 sectors in the index, which declined 1.2%.

The drop in U.S. bank stocks came alongside a 4.6% fall in German lender Deutsche Bank AG, a 3.7% slide in Swiss bank Credit Suisse Group AG, and a 3.6% decline in U.K. bank Barclays PLC.

It is a familiar market reaction: Nearly every time trouble has emerged in Europe in recent years, the knee-jerk reaction has typically been to sell U.S. bank stocks. It happened during the height of the eurozone crisis in 2011 and 2012, and again in early 2016 amid worries about slowing global growth. This time, the fears revolve around Italy, amid concerns about a new vote that could bolster antieurozone forces, after Italian President Sergio Mattarella blocked the formation of a euroskeptic coalition government on Sunday. Markets in the U.S. were closed Monday for the Memorial Day holiday.

There is little sign that U.S. banks are overexposed to Italy. Instead, the most recent troubles are reigniting fears of a "doom loop," in which debt-heavy governments such as Italy's weigh on the banking sector, which in turn weakens the government in a self-reinforcing cycle.

One sign of that: The difference between some short- and long-term U.S. government-bond yields shrank Tuesday as Treasury yields posted their biggest one-day decline in years. A flattening, or narrowing, yield curve tends to signal a downbeat view on economic growth, and it also shrinks the differential between what banks earn from borrowing short term and lending long term, which can erode banks' profit margins.

Additionally, bank stocks have run up sharply in recent years, with the **S&P 500** financial sector rising 20% in both 2016 and 2017. That makes them vulnerable to this type of pullback.

Document J000000020180530ee5u0000w

THE WALL STREET JOURNAL.
U.S. EDITION

REVIEW & OUTLOOK (Editorial)
America First Meets Mr. Market

607 words
30 May 2018
The Wall Street Journal
J
A14
English

Equity markets took a header on Tuesday as global troubles intruded on the story of faster U.S. economic growth. The combination of Italy's political threat to the euro and Donald Trump's decision to impose unilateral tariffs on $50 billion in Chinese imports had investors retreating from riskier assets as the Dow fell some 1.6%. Mr. Trump likes to cite a rising **stock market** as policy affirmation, so perhaps he should heed the reverse signal as a warning.

The U.S. can't do much about the mess of Italian politics -- and neither can anyone else -- but the market rout is a reminder that what happens in European **financial markets** doesn't always stay there. Mr. Trump seems to believe that Europe's economic geniuses have been fleecing Americans for years, but the truth is that U.S. growth routinely outstrips Europe's.

Mr. Trump has imposed tariffs on European metals, and he is threatening a 25% levy on British and German cars, even as Europe's economy is slowing. Europe in turn has teed up retaliatory tariffs on some $3.2 billion in American goods if the U.S. doesn't continue its exemption on European steel and aluminum imports beyond the current June 1 deadline.

With Italy in turmoil and bond yields rising in Italy and Spain (which has its own political troubles), the Trump tariffs will hit Europe at a dangerous economic and political moment. Someone should tell the President that Europe buys American goods, and that weaker growth in Europe means weaker growth in the U.S. too. The world economy is not a one-off real-estate transaction.

The mercurial Mr. Trump also decided Monday to end his short-lived trade truce with China. After lifting a trade death sentence on sanctions-violating ZTE Corp. last week, Mr. Trump has decided to publish a final list of targets for the $50 billion tariffs he promised earlier but had held off pending more talks. He also threw in new limits on Chinese investment in the U.S. This amounts to giving a pass to the guilty, ZTE, while punishing innocent Americans who will pay higher prices for imports.

It isn't clear what Mr. Trump hopes to achieve with his on-again, off-again trade war with China, and markets can't figure it out either. The Chinese thought they had a truce ahead of another round of trade talks later this week. Stocks fall when Mr. Trump turns protectionist and they rise when he announces a reprieve -- which ought to be another warning. Investors don't like arbitrary tax increases.

And neither do business executives. In the Institute for Supply Management's latest semi-annual survey of manufacturing execs, some 74% said they expect that tariffs will raise their prices, and some 58% expect delays and disruptions in their supply chains. The comparable figures for non-manufacturing executives are 50% and 59%. On average they expect prices due to tariffs to rise by 5.4% for manufacturing and 7.2% for non-manufacturing.

All of this adds up to more uncertainty for business supply management, pricing and potential sales, which will inevitably affect business investment. This is the great lesson from the arbitrary regulation of the Barack Obama years, which Mr. Trump has done so much to reduce. Yet now he's replacing Mr. Obama's government-made uncertainty with his own via arbitrary tariffs. America First trade policy is meeting Mr. Market, and Mr. Trump is likely to lose if he insists on a showdown.

Document J000000020180530ee5u0000l

THE WALL STREET JOURNAL.

Markets

Gold Pressured Despite Political Trouble in Europe; Buying interest in dollar offsets bullish impact emerging from Europe

By Benjamin Parkin and David Hodari
666 words
29 May 2018
03:11 PM
The Wall Street Journal Online
WSJO
English

Gold prices fell from an overnight peak as a higher U.S. dollar overrode concerns about European political turmoil.

May contracts fell 0.4% to $1,298.70 a troy ounce at the Comex division of the New York Mercantile Exchange on Tuesday after peaking overnight. London gold prices were slightly higher.

Upheaval in Italian and Spanish politics initially boosted gold prices as the euro fell and traders moved to shield themselves from geopolitical uncertainty. Buying interest waned as the dollar rose.

"The stronger dollar seems to be offsetting the **bullish** impact coming out of Europe," Edward Meir, a consultant at INTL FCStone, said in a note. "The sharp declines we are also seeing in most global equity markets is not helping gold much either."

The WSJ Dollar Index, which measures the greenback against a basket of currencies, rose 0.2% to 87.54. The euro fell to its lowest level against the dollar in nearly a year. A stronger dollar makes U.S.-traded commodities more expensive for global buyers.

Italian President Sergio Mattarella on Sunday blocked the formation of a euroskeptic government. The decision fueled fears of political turmoil in Italy and broader uncertainty around the stability of the eurozone.

Adding to that were new concerns about Spanish political unity, with a confidence vote scheduled for Friday to decide the future of Prime Minister Mariano Rajoy 's center-right government. A court ruled that Mr. Rajoy's party benefited from a bribery scheme, with jail sentences handed to dozens of Popular Party members.

Stocks in Europe and the U.S. were lower on Tuesday.

Long-term political turmoil tends to support demand for gold as a haven investment, but the impact on gold prices has so far been muted both in dollar terms and in Europe.

With gold pressured in recent months by a resurgence in the dollar, the most investors can hope for out of European political tumult is that gold holds its recent gains, said Carsten Menke , a commodities analyst at Julius Baer.

If the Federal Reserve sticks to its stated interest-rate increase cycle, the dollar may continue its rise and weigh on gold.

Data from CME Group gave an 83.8% probability to the scenario of a Federal Reserve interest-rate increase at the central bank's meeting in June.

Even if European politics remain in the headlines, there is no guarantee gold will receive a significant boost, said Erik Norland, senior economist at CME Group.

"The political noise comes against a backdrop of economic calm and increasing prosperity in Europe," said Mr. Norland.

"European unemployment is falling, and Italy and Spain are recovering as well as almost all other areas of the European economy."

Copper prices fell, with May-dated contracts down 0.5% to $3.052 a pound.

Authorities in the Indian state of Tamil Nadu ordered the closure of a Vedanta Resources copper plant that produces roughly 400,000 tons of the base metal. That represented around 2% of global supply, analysts said. The limited price reaction, with copper futures giving back small gains, suggested some traders expected the decision to be overturned in court.

In addition, Commerzbank said in a note, the loss was unlikely to make a dent in an already oversupplied global copper market. But that could change next year.

"Indian copper demand is set to grow noticeably, partly on the back of infrastructural measures," the bank said. "Furthermore, there is no replacement for the smelter that has now been closed."

Ira Iosebashvili contributed to this article.

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THE WALL STREET JOURNAL.

Markets

For Oil Prices, Political Risks Dwarf the Dollar; Traditional inverse relationship between the dollar and oil prices has been set aside; market focuses on geopolitical risks to supply

By Christopher Alessi
693 words
29 May 2018
09:13 AM
The Wall Street Journal Online
WSJO
English

LONDON—**Oil prices** are trading at levels not seen since late 2014, defying what is often a considerable obstacle to crude and other commodities rallying: a stronger dollar.

A firmer greenback can make dollar-denominated commodities like oil more expensive for buyers who hold other currencies, thus reducing demand for crude and putting a cap on its price. This inverse relationship has been axiomatic for oil markets. But lately, bolstered by geopolitical risks to supply and shrinking global stockpiles, crude-**oil prices** have been marching north with little regard for a stronger U.S. currency.

Over the past month, Brent crude, the global benchmark, has climbed close to 10% to hover around $80 a barrel for the first time in more than 3½ years. The U.S. currency has risen close to 3% during the same period, according to The Wall Street Journal Dollar Index, which measures the greenback against a basket of 16 of its peers.

From mid-March 2006 through 2012, **oil prices** tended to move in the opposite direction of the dollar, hitting a 70% inverse correlation in the 52 weeks ended Oct. 10, 2008.

On Friday, reports that Saudi Arabia and Russia were nearing a deal to boost production again sent U.S. **oil prices** tumbling more than 4%, while the dollar rallied.

But since mid-2014, **oil prices** and the dollar have moved in opposite directions only about half of the time, according to data compiled by the Journal. Over the past four years, there have been periods during which **oil prices** and the dollar have shown little to no correlation.

"The correlation is simply not working at the moment," said Tamas Varga, an analyst at brokerage PVM Oil Associates Ltd. "**Oil prices** are being driven by geopolitics—every- and anything else is currently pretty irrelevant."

The so-called geopolitical risk premium to oil markets has skyrocketed on the back of President Donald Trump's decision on May 8 to pull the U.S. out of a 2015 international agreement to curb Iran's nuclear program. The move is set to reimpose U.S. economic sanctions on the Islamic Republic that could hinder its crude output and exports.

The other main risk to supply stems from Venezuela, where fresh U.S. sanctions in response to the country's recent presidential election are expected to further crimp its already-ailing oil industry.

Iran and Venezuela are members of the Organization of the Petroleum Exporting Countries which, alongside other major producers like Russia, has been holding back crude output by around 1.8 million barrels a day since the start of last year—the time of the last major departure from the oil-dollar correlation, analysts say.

The OPEC-led output cuts have helped to boost crude prices and mop up the global supply glut, bringing commercial petroleum inventories to their lowest level since 2014. But at the same time, the world's appetite for petroleum has also helped **oil prices** to be less affected by the dollar's moves, analysts say.

"Demand being rampant" in areas where currencies aren't pegged to the dollar "has helped decouple the dollar from oil," said Christyan Malek, an oil analyst at JP Morgan.

A correlation would likely re-emerge only if higher **oil prices** were to put the brakes on global demand, Mr. Malek said.

That could happen sooner than later, as economic growth in major oil-importing nations like China continues to slow this year, according to Georgi Slavov, head of research at brokerage Marex Spectron. Weaker demand "will bring the **oil price** down, as the strength of the U.S. dollar remains, causing the two to couple again," Mr. Slavov said.

Historically, periods of dollar-oil decoupling last about three months, Mr. Slavov said. "My expectation is that in the next couple of months the correlation will be re-established—and not in favor of oil," he said.

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Document WSJO000020180529ee5t000pl

THE WALL STREET JOURNAL.

Business

U.S. Sanctions Start to Pinch Shipping in Iran; Tanker and container operators prepare to wind down business with Iran ahead of U.S. sanctions

By Costas Paris and Joanne Chiu
722 words
29 May 2018
05:30 AM
The Wall Street Journal Online
WSJO
English

It will be months before new U.S. sanctions against Iran take hold, but global shipping operators are already pulling back from the big oil-exporting nation.

The world's two biggest shipping lines, Denmark's Maersk Line and Swiss-based Mediterranean Shipping Co., said they were winding down general cargo shipments, while tanker owners said they plan to move their vessels to other oil-producing countries in the Middle East or West Africa.

Even though the U.S. is alone in imposing the new sanctions, "I don't think any shipping line that operates globally will be able to do business in Iran if the sanctions arrive in full force, the way they are intended," said Soren Skou, chief executive of Maersk Line and parent company A.P. Moller-Maersk A/S.

Maersk and privately held MSC have been moving everything from electronics and household goods to food and heavy machinery to Iran. Mr. Skou said Maersk's Iran operations are small, but with an Iranian population of 80 million, carriers heralded the lifting of earlier sanctions in 2016 as the opening of an important Middle East trade destination.

The Trump administration has given the shipping industry until early November to end operations in Iran. The sanctions also will affect ship-insurance premiums, lines of credit for moving cargo and fuel suppliers for Iranian ships and shipments.

Pulling Iran off the service map for crude carriers will be a blow to the world's tanker operators. Shipowners in that sector have suffered from a glut of global capacity and now will see the world's fifth-biggest oil producer removed from their market. Iran accounts for 5% of global output and exported a record 2.6 million barrels of crude a day in April. The majority of Iran's oil goes to China, Japan, India and South Korea.

Shipowners in China, which currently buys roughly 650,000 barrels of Iranian crude a day, said they expect Iran's total daily crude shipments to drop by more than half.

"We won't dare to risk any violations as we also have a bulk of our business involving shipping oil between the U.S. to the Far East," said a senior executive of a China state-owned oil-shipping major, who asked not to be named. "What concerns us is that our ships won't be able to sail to the U.S."

The carriers that will hurt the most are Iran's two state-owned firms, National Iranian Tanker Co. and Islamic Republic of Iran Shipping Lines.

A spokesman for NITC, which operates around 5% of the world's tanker fleet, including 38 very large crude carriers, or VLCCs, said it was too early to comment on the sanctions. But people involved in the matter said NITC may use some of its VLCCs as "floating storage" in view of rising **oil prices**.

IRISL, which operates about 120 container ships, dry-bulk carriers and chemical tankers, has been looking to replace its aging fleet and join the world's big shipping alliances. It has placed orders for four container ships and six chemical tankers with South Korea's Hyundai Heavy Industries Co. Ltd., worth about $650 million, according to people involved in the deal.

IRISL is considering whether to ask Hyundai Heavy to speed up deliveries before the sanctions go into effect, delay or cancel the orders, according to people familiar with the matter. Hyundai Heavy didn't respond to requests for comment.

"The U.S. sanctions create a very challenging environment for shipowners," said Basil Karatzas, a New York-based shipping consultant, who works with some of the world's biggest shipping companies. "They could be blacklisted for moving Iranian crude or other cargo, fined and prohibited from doing business with the U.S. It's not worth the risk."

Write to Costas Paris at costas.paris@wsj.com and Joanne Chiu at joanne.chiu@wsj.com

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THE WALL STREET JOURNAL.

Economy

U.S. Consumer Confidence Increased in May; Conference Board index rose after April's dip, suggesting Americans' spirits continue to rise

By Sarah Chaney
413 words
29 May 2018
01:40 PM
The Wall Street Journal Online
WSJO
English

Americans' spirits rose in May as consumers remained confident in the current state of the economy, but expressed less optimism that this economic momentum would continue.

The Conference Board said Tuesday its measure of U.S. consumer confidence increased to 128.0 in May from 125.6 in April. Confidence was downwardly revised in April.

Americans boosted their impressions of current economic conditions to a 17-year high, buoyed by a positive view of the job market, the latest survey shows. Their expectations for future conditions rose less robustly, while plans to purchase major appliances such as refrigerators and televisions fell in May.

"People know things are going pretty well, but they don't have a lot of confidence that it can kind of keep up this pace," said David Deull, economist at IHS Markit.

A healthy job market is helping support the overall rise in confidence. The unemployment rate stands at 3.9%, the lowest since late 2000, and the economy continues to add jobs at a steady clip.

The percentage of Americans saying jobs were "plentiful" increased in May to 42.4% from 38.2% in April.

Other factors have helped underpin a surge in confidence in recent months, such as **stock-market** gains and a tax-cut package that boosted Americans' take-home pay.

"Overall, confidence levels remain at historically strong levels and should continue to support solid consumer spending in the near-term," said Lynn Franco, director of economic indicators at the Conference Board.

This increase in sentiment comes even as the economy faces trade tensions that incited uncertainty and climbing gasoline prices. The average price of a gallon of regular gasoline in the U.S. stood at $2.92 last week, up from $2.52 at the beginning of the year, U.S. Energy Information Administration data show.

Rising gas prices could be one reason behind Americans' small rise in economic expectations, Mr. Deull said.

Consumer confidence and sentiment figures are watched as indicators for whether shoppers will step up spending. However, they aren't always reliable gauges for predicting changes in actual outlays.

Consumer confidence trended near the highest level in two decades for much of 2017, but consumer spending increased last year at a pace similar to that of the previous three years.

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THE WALL STREET JOURNAL.

U.S. Markets
Markets

Stocks Tumble on Italy's Political Instability; Stock indexes hit lowest levels in about three weeks as investors flee to safety of dollar and Treasurys

By Riva Gold, Allison Prang and Michael Wursthorn
841 words
29 May 2018
04:55 PM
The Wall Street Journal Online
WSJO
English

Worries about Italy and Spain gripped markets Tuesday, triggering declines in stocks, a drop in the euro and big moves in bond markets.

Italian President Sergio Mattarella on Sunday blocked the formation of a euroskeptic coalition government, raising the prospect of new elections that could strengthen the hand of anti-eurozone forces.

"We've been so focused on the U.S. and Asia that we almost forgot about the fact that Europe has been one of the most fragile economies," said JJ Kinahan, chief market strategist at TD Ameritrade. "If Europe slows down, it's going to have an effect on everyone else."

The blue-chip index fell 391.64 points, or 1.6%, to 24361.45, as 28 out of 30 components traded lower. The **S&P 500** declined 31.47 points, or 1.2%, to 2689.86, and the **Nasdaq Composite** slipped 37.26 points, or 0.5%, to 7396.59.

The indexes were trading at their lowest levels in about three weeks as investors sought the safety of the U.S. dollar and Treasurys, both of which rallied.

Stocks have been stuck in a rut after a strong earnings season that saw most companies in the **S&P 500** report massive gains in profit and revenue through the first three months of the year. Worries about a potential trade war with China, geopolitical tensions over North Korea's nuclear program and fears that a pickup in inflation might force the Federal Reserve to raise interest rates faster than expected have kept some investors on the sidelines this year.

Michael Farr, chief executive of money-management firm Farr, Miller and Washington, characterized the news surrounding Italy and Spain as "more noise in a noisy market." Interest rates are still "the key thing" to monitor, he said.

"We tell clients you can't begin to start chasing the new shiny object of the day," he said. "You'll lose your mind and your money."

Banks were among the biggest decliners in the U.S., pulling the **S&P 500**'s financials sector down 3.4%. Citigroup fell $2.73, or 4%, to $65.71, while JPMorgan Chase declined 4.73, or 4.3%, to 105.93. Shares of real-estate firms and utilities, often seen as bondlike because of their dividends, were the only sectors in the broad index that finished higher, rising 0.3% and less than 0.1%, respectively.

Recent declines in crude prices also continued to pressure shares of energy companies, which slipped 0.3% in the **S&P 500**. U.S. crude for June delivery fell 1.7% after suffering a 4% decline on Friday, when Saudi Arabia's energy minister, Khalid al-Falih, said the Organization of the Petroleum Exporting Countries and its allies are likely to open the taps to address rising prices.

"I think that world-wide there's probably a bit more fragility for the market," Mr. Kinahan of TD Ameritrade said. In the short term, with a positive earnings season now in the rearview mirror, the market may struggle for reasons to move higher, he said.

The Stoxx Europe 600 fell 1.4%, pulled lower by 2.7% and 2.5% drops for Italy's FTSE MIB and Spain's IBEX 35 indexes. The euro fell 0.6% to $1.1551 from its lowest settlement against the dollar since November.

As investors broadly shed risk, the U.S. dollar and government bonds drew support. The WSJ Dollar Index climbed 0.2%, while yields on 10-year Treasurys settled at 2.772%, down from 2.931% at the end of last week.

Some market participants expect a still-strong European economy and general support for the euro to limit the market fallout.

"Italy is in a much stronger economic position than before, Europe is in a much stronger position than before, and support for the European project is stronger now than it was during the [European] debt crisis," said Vincent Juvyns, global market strategist at J.P. Morgan Asset Management. But a clarification of the political situation in Italy will likely be needed before its assets can find a floor, he noted.

Bank shares also slumped in Spain, where the parliament is set to vote Friday on whether to oust Prime Minister Mariano Rajoy and replace his center-right government with one led by the center-left Socialist Party.

Write to Riva Gold at riva.gold@wsj.com, Allison Prang at allison.prang@wsj.com and Michael Wursthorn at Michael.Wursthorn@wsj.com

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The New York Times

Business Day

Stock Market Decline Provoked by Italy's Political Anxiety Spreads to U.S.

By Matt Phillips and Prashant S. Rao
648 words
29 May 2018
09:15 AM
NYTimes.com Feed
NYTFEED
English

Stock markets in the United States fell in early trading on Tuesday, amid concerns that growing political uncertainty in Italy could weigh on global economic growth and reignite questions about the stability of the European single currency.

The decline in the United States followed an overnight drop in Asia and Europe. Stocks and bonds in Italy — Europe's fourth-largest economy and a founding member of the eurozone — led the global decline.

Italy's benchmark **stock index** fell nearly 3.7 percent at one point, and the country's debt sank in value. The yield on Italy's main 10-year bond rose to its highest level in more than four years, spiking to more than 3.40 percent in morning trading in Europe. Bond yields move in the opposite direction of **bond prices**.

There were indications that investor worries about Italy were beginning to infect thinking beyond the country's borders, as well. The euro fell to its weakest value against the dollar in nearly a year, and prices for government bonds issued by other heavily indebted European countries like Spain and Portugal also tumbled Tuesday, pushing their yields up as well.

The "spread" between debt from these countries and Germany — Europe's biggest economy, and seen as having the region's safest government bonds — widened sharply.

The dynamic brought back memories of the worst of the European debt crisis in 2012, when investors began to first consider the risk that Greece may default on its debt, and then moved on to countries including Ireland, Portugal and Spain. In subsequent years, European policymakers have been able to ease those investor concerns, in part through a European Central Bank policy of effectively printing money in order to push interest rates down and boost economic growth.

Developments in Italy seem to have reawakened fears of a debt crisis among investors.

Italy has not had a new government since elections in March. But in the past week, the country's politics took on a new level of unpredictability. A populist coalition that had been set to form a government nominated a euroskeptic economy minister, but the proposal was vetoed by Italy's president, who subsequently named a technocrat to take temporary charge instead.

The whirlwind developments — which leave open the prospect of early elections and the formation of another populist alliance — have hammered **financial markets**. Investors have suddenly shifted away from riskier investments like stocks and commodities and taken refuge in the relative safety of German and American government bonds, the United States dollar and the Japanese yen.

In Europe, the main stock indexes in London, Frankfurt and Paris dropped. In a sign that investors were looking for safer assets, the yields on 10-year bonds from Britain, France and Germany all fell.

The yield on the 10-year United States Treasury note also fell to below 2.85 percent as investors flocked to the safety of American sovereign debt. Yields on those notes had topped 3 percent in recent weeks on optimism about American economic growth and expectations of ongoing rate increases from the Federal Reserve.

In a note to clients, bond market analysts from BMO Capital Markets thought that the shift toward investor demand for safety was likely to last, pushing Treasury yields down further.

“The cracks that we’ve seen in risk appetite are only likely to widen,” they wrote.

Follow Matt Phillips and Prashant S. Rao on Twitter: @MatthewPhillips and @prashantrao.

* Italian President’s Loyalty to the Euro Creates Chaos

* Italy’s Populist Parties, on Precipice of Power, Fail to Form Government

The Italian president, Sergio Mattarella, left, with Carlo Cottarelli, the former International Monetary Fund official who was named interim prime minister, in Rome Monday. | Italian Presidential Press Office, via Reuters

Document NYTFEED020180529ee5t002s1

THE WALL STREET JOURNAL.
U.S. EDITION

Heard on the Street
Spending Flashes Worrying Sign

By Justin Lahart
448 words
29 May 2018
The Wall Street Journal
J
B10
English

[Financial Analysis and Commentary]

The renaissance in capital spending the tax cut was supposed to bring about isn't showing up in the economic data.

The Commerce Department on Friday reported that orders for durable goods -- long-lasting equipment like tractors and machinery -- dropped 1.7% in April from a month earlier. That decline was driven by a drop in aircraft orders, however. Orders for nondefense capital goods excluding aircraft, which economists follow closely to gauge where capital spending is going, increased by 1% to a seasonally adjusted $67.3 billion after falling 1.2% in March.

These orders have been hovering around the same level for the past half year, though. Given how much money the corporate-tax cut is providing companies and how much money is being repatriated from overseas as a result of the tax law's provisions, this is something of a surprise.

It also seems at odds with what companies are saying. U.S. chief financial officers surveyed in the first quarter by Duke University's Fuqua School of Business said they expected capital spending at their companies would be up by an average of 11% over the next 12 months from the previous year. Capital spending at **S&P 500** companies rose smartly in the first quarter, according to a Credit Suisse analysis.

It is important to remember that orders precede shipments. The gains in capital spending companies registered in the first quarter in many cases reflected plans put in place last year -- before they had any clear sense about whether the tax cut would pass. Multinationals also don't limit their capital spending to the U.S. Finally, there are areas of capital spending, such as software, not included in the durable-goods report.

It also could be that investors prefer the extra money from the tax cut be returned to shareholders through dividends and buybacks. Some expansion-minded chief executives might prefer making acquisitions, which are immediately accretive to earnings, rather than embarking on costly projects that can take years to pay off. So far this year there have been $1.5 trillion in merger and acquisition deals worth $1 billion or more globally, according to a recent CreditSights analysis. That compares with $759 billion over the same period last year.

Even given those conditions, though, it seems like companies ought to be increasing capital spending by more. A tight labor market is giving them a good reason to try to boost their existing workers' productivity and the tax cut has given them even more means to do it.

Their hesitation is unsettling.

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page,5043

Document J000000020180529ee5t00015

THE WALL STREET JOURNAL.
U.S. EDITION

Saudis Reclaim Clout in Oil Market

By Alison Sider and Georgi Kantchev
928 words
29 May 2018
The Wall Street Journal
J
B1
English

The U.S. is producing more oil than ever, but when it comes to pulling the strings of the market, Saudi Arabia is still king.

Oil is flowing from shale fields at a record pace, propelling U.S. output to roughly double in a decade. That remarkable growth had led some observers to pronounce the U.S. the new swing producer in the market -- a mantle long held by Saudi Arabia.

Yet with prices rising to their highest levels since 2014, the kingdom still holds the power to single-handedly respond much more quickly than hundreds of private companies spread from Texas to North Dakota.

In the latest sign of Saudi Arabia's sway, Energy Minister Khalid al-Falih said Friday that the Organization of the Petroleum Exporting Countries and its allies are likely to open the taps to address rising prices after their production-cutting pact and threats to supplies from Venezuela and Iran helped push global **oil prices** to $80 a barrel this month.

That news sent Brent prices falling nearly 3%, while U.S. crude prices promptly shed 4% -- the biggest one-day percentage drop since July. On Monday, Brent continued falling, losing 1.5% to $75.30 a barrel.

Saudi Arabia's clout stems from an abundance of spare capacity. The kingdom is capable of producing as much as 12 million barrels a day, though it has kept its output much lower due to the OPEC deal. Its ability to open or close those taps almost overnight enables Riyadh to influence price movements more than any other producer.

U.S. shale companies are much more nimble than oil giants that rely on more cumbersome and time-consuming methods such as offshore drilling.

But shale still needs several months of lead time between a change in price and a tweak in output -- and that is a decision made by corporate bosses rather than politicians.

Saudi Arabia's status as the world's swing producer and de facto leader of OPEC bestows it with an outsize role in the global economy, which remains highly sensitive to the price of oil. By curbing supply, the Kingdom can boost prices at the pump, stoke inflation world-wide and cause transportation companies' costs to soar. Or it can offer relief by releasing more crude.

Saudi Arabia has adapted to the rise of shale by partnering with Russia.

The world's two biggest exporters have only rarely cooperated, often viewing each other as rivals. But after prices fell to less than $30 a barrel in 2016, OPEC clinched a deal with Russia and other producers to cut around 2% of global output.

Even some U.S. oil executives who had belittled OPEC's role in stabilizing prices have come around. Harold Hamm, chief executive of Continental Resources Inc., said in 2016 "we and other producers have made OPEC policy less relevant to the world's energy markets." But earlier this month, he credited OPEC's production cuts with helping work down the glut that had weighed on the market.

Since the price shocks of the 1970s, the U.S. has leaned on the Saudis, trying to coax them to use their influence to keep prices stable -- with mixed results.

Former U.S. Energy Secretary Bill Richardson said he used to fly all over the world to meet with Saudi Arabia's then-Oil Minister Ali al-Naimi to try to sway him to adjust production up or down to balance the market. In 2000, Mr. Richardson lobbied oil ministers for a production increase after prices more than doubled in a year.

Back then, Mr. Naimi was the "benevolent dictator" of the oil market. "The Saudis controlled OPEC and they controlled **oil prices**," he said in an interview.

Saudi Arabia has rejected the status of a swing producer, but it has often acted like one. Then, in 2014, OPEC surprised the market by declining to cut output and halt sliding prices. Some analysts interpreted the move as the Saudis trying to squeeze U.S. shale out of the market, before OPEC reversed course when it agreed in late 2016 to cut production.

Analysts said the move was a sign that OPEC had "blinked" after failing to fend off shale. Some estimated it was too late for the cartel to regain relevance after retreating from the market for so long and that resilient U.S. producers were ready to pounce on any increase in prices and cut nascent rallies short.

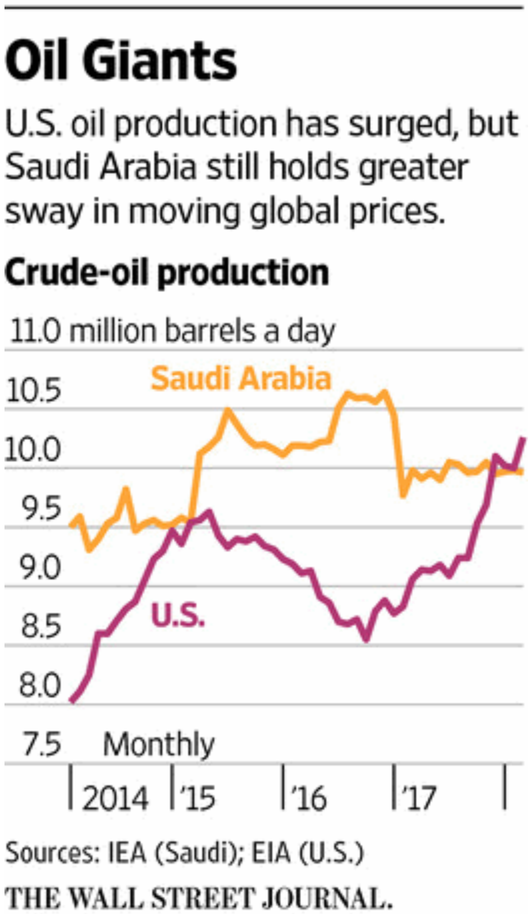
But nearly a year and a half after it took effect, OPEC's production deal has helped fuel a more-than-30% rise in prices, allowing the group, and particularly its de facto leader, to reassert itself.

While U.S. producers have ramped up quickly, growing pains in the shale patch have raised questions about whether they can take the reins of the market.

"The U.S. secretary of energy can't just give the signal and regulate output the way Saudi leaders can," said Daniel Yergin, vice chairman of IHS Markit.

With higher crude prices now threatening to boost inflation and trip up a global economic upswing, pressure had been building on the kingdom to pull back.

Four Democratic senators called on President Donald Trump in a letter last week to "leverage your personal relationship with Saudi Crown Prince Mohammed bin Salman to urge Saudi Arabia to use their swing capacity to increase world oil supplies" ahead of summer driving season.



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THE WALL STREET JOURNAL.
U.S. EDITION

Rate Rises Spur a Shift in Bonds

By Ben Eisen and Matt Wirz
1,042 words
29 May 2018
The Wall Street Journal
J
B1
English

Companies are making a mad dash to save money in the debt markets now that rising short-term interest rates are increasing their borrowing costs.

One place that is increasingly apparent is the market for corporate loans, where companies that can are tying their floating-rate debt payments to benchmarks that are rising at a slower pace.

The rejiggering among companies comes as rates have climbed this year, spurred by increases from the Federal Reserve, expectations for a pickup in inflation and an increase in government debt sales to fund last year's tax-cut package.

The rate at which banks lend to each other for three months has been rising much more quickly than the rate at which they lend for one month, pushing the gap in April between the two to its widest since 2009. The three-month U.S. dollar London interbank offered rate has climbed 0.62 percentage point this year to 2.32%, while the one-month counterpart has climbed a comparably meager 0.41 point to 1.98%.

Accordingly, more than half of junk-rated corporate loans recently had interest payments tied to one-month Libor, up from less than one-quarter at the beginning of 2016, according to data tracked by Wells Fargo on about $500 billion of loans. The share of loans tied to three-month Libor has been dwindling.

Among those to tie their debt to one-month Libor is U.S. Silica Holdings Inc., a specialized minerals firm. The company recently completed a $1.3 billion loan to finance an acquisition and expects to link it to one-month Libor when it picks the benchmark at the end of the month. Doing that rather than linking to three-month Libor would save the company $4.7 million in interest expenses over the 12-month period that begins in June, assuming rates don't change over that stretch.

"The finance group is always looking to save money wherever we can and this is a great opportunity to do that," said Don Merrill, chief financial officer at U.S. Silica.

Rising rates are creating a new dynamic for companies. Libor is linked to trillions of dollars in loans and other types of floating-rate debt, making the rise in short-term rates just as important a challenge for companies as this year's widely watched climb in the **10**-**year Treasury** note yield, which is now hovering near 3%. Short-term rates also are pivotal in the pricing of debt held by consumers, such as auto and student loans.

For companies, rising rates have touched off changes in a variety of debt markets, including commercial paper, a type of short-term IOU, and credit facilities, which typically operate like a credit line. It has also created ripples for investors, such as those buying into collateralized loan obligations, or CLOs, which bundle corporate loans and divvy them among bondholders and equity investors.

Trade-show operator Emerald Expositions Events Inc. shifted its bank loans to one-month Libor from three-month at the beginning of the quarter and expects to save almost $600,000 during the April-to-June period, or roughly 8% of its interest expense, the firm said.

For years after the financial crisis, the Fed's easy-money policies pushed all short-term rates down, leaving little daylight between the costs of borrowing for one month versus three months. But the central bank is set to raise rates in June for the seventh time this economic cycle and analysts say one or two more increases may be in store in 2018.

The shift among benchmarks may hold clues for how companies adjust to another change coming to the short-term rates market: Regulators are encouraging Wall Street to reduce its reliance on Libor altogether, and instead peg loans and derivatives to a new rate that the Federal Reserve Bank of New York began publishing earlier this year.

"The experience we're having with one-month and three-month Libor today is something we're trying to take lessons from to apply in the future," said Meredith Coffey, head of regulatory matters and collateralized loans for the Loan Syndications and Trading Association, a trade group for the corporate-loan market.

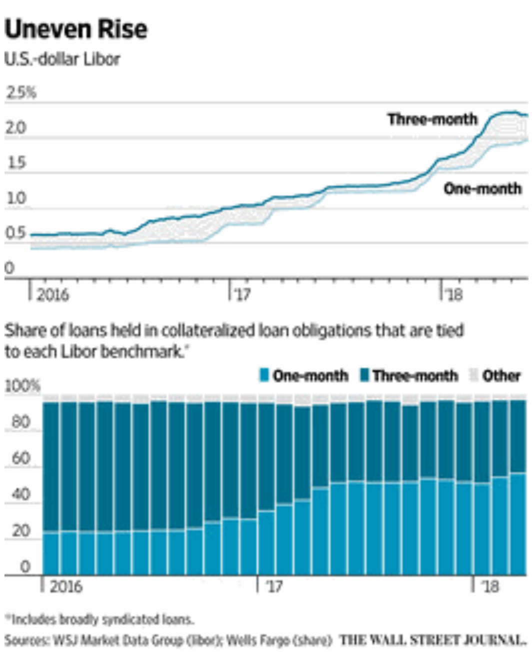
To be sure, some of the divergence in Libor has to do with the recent tax-code overhaul that has encouraged companies to bring home overseas profits. Analysts say much of that cash is being stored in short-term commercial paper as companies look for uses of that money, driving down one-month rates and lifting three-month rates. Once that passes, many expect the spread between one-month and three-month Libor to shrink back to its historical average.

But in the loan market, the shifts are already affecting investors. CLO managers hold portfolios of these types of loans and use the interest to pay the investors in bonds and equity they have issued. The CLO market has grown from a niche industry 15 years ago to $500 billion of securities widely held by institutional investors.

If a loan owned by a CLO switches to paying interest based on one-month Libor, it creates a mismatch between the interest payments the manager collects and the rate it pays on its bonds, which typically remain pegged to the three-month rate. Should the three-month rate rise at a faster pace than the one-month rate, the payments increase more than the money coming in. That means there may be little or nothing left to distribute to CLO equity investors, who receive the leftover cash after bondholders are paid.

"The equity holder gets squeezed," said Steve Anderberg, lead analyst for structured finance at Standard & Poor's Global Ratings.

Buyers of CLO equity responded to the shift early this year by demanding that managers of new CLOs include provisions that would switch the base-rate for bonds to one-month Libor if the underlying loans in the CLO did the same. A few new CLOs included such terms, but buyers of CLO bonds pushed back and the innovation has since disappeared, Mr. Anderberg said.



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Document J000000020180529ee5t0002p

THE WALL STREET JOURNAL.

World
Italy's Political Drama Raises Stakes for Euro; President's decision to block formation of a euroskeptic government revives fears of a eurozone existential crisis

By Giovanni Legorano and Marcus Walker
1,015 words
28 May 2018
08:13 PM
The Wall Street Journal Online
WSJO
English

ROME—Italy hurtled toward a political crisis that is reigniting debate over Europe's future, including whether the eurozone's third-largest economy should remain in the currency union.

The impasse, sparked by President Sergio Mattarella's decision on Sunday to block the formation of a euroskeptic government, revived longstanding European fears that Italy, with €2.3 trillion in debt and a perennially sick economy, could trigger a new existential crisis in the eurozone.

European officials on Monday expressed the hope that Italy will stick to a pro-euro path, mindful of concerns that its exit could cause huge damage to Europe's financial system.

The crisis comes amid a raft of challenges to the vision of a deeper political and economic integration promoted by Europe's centrist establishment.

Eurozone members are divided over proposals to pool their budgets to provide mutual support in the event of a new debt crunch. Brexit, too, is presenting painful choices for both the U.K. and the rest of Europe, while Eastern European countries are repudiating Brussels in key areas such as the rule of law and immigration.

Italy emerged from a weekend clash between Mr. Mattarella and the antiestablishment 5 Star Movement, the country's largest single party, and the hard-right League party, which regard the euro as a failed project. Both have flirted openly with the idea of pulling Italy from the common currency.

On Sunday, President Mattarella rejected the choice of Paolo Savona, an 81-year-old euroskeptic economist whom the 5 Star and League parties had picked as their economy minister, an especially delicate role given Italy's precarious public finances and weak banks. Mr. Savona, a former Bank of Italy official, has sharply criticized the euro and likened Berlin's dominant role in setting eurozone economic policy to wartime aggression by Nazi Germany. The president said he feared a new government with Mr. Savona as economy minister could endanger Italy's membership in the single currency.

On Monday, as the two antiestablishment parties protested his decision, Mr. Mattarella picked Carlo Cottarelli, an International Monetary Fund veteran, as prime minister-designate, and asked him to try to form a new government. The move stirred accusations that the president had usurped the popular will expressed in March parliamentary elections. The 5 Star and League together won about half of all votes cast.

Mr. Cottarelli, who headed the IMF's fiscal affairs department, has vigorously defended Italy's membership in the euro and led an effort to help bring Italy's public finances in line through large cuts in public spending and waste.

Even if Mr. Cottarelli is able to form a new government, the prime minister-designate is unlikely to win a vote of confidence in parliament. Instead, he will likely lead a caretaker government only until fresh elections are called, which could occur in September.

The leaders of both the 5 Star and the League left little doubt that they would conduct an electoral campaign railing against the strictures of the common currency. That could make the vote a de facto referendum on Italy's membership in the euro.

"It won't be an election," said Matteo Salvini, the 45-year-old firebrand head of the League on Sunday. "It will be a referendum between Italy and those on the outside who want us to be a servile, enslaved nation on our knees."

European officials on Monday expressed concern about the developments.

"We hope that Italy will have a stable, pro-European government soon," said Michael Roth, Germany's minister for European affairs.

However, the combative stance of Italy's populists drew cheers from their brethren elsewhere in the region, signaling the pan-European importance the Italian impasse is assuming.

Marine Le Pen, leader of France's hard-right National Front and an ally of the League, said on Twitter that "the European Union and the **financial markets** are again confiscating democracy. What is happening in Italy is a coup d'état, a holdup of the Italian people by illegitimate institutions." In a statement, her party said that Italy is a victim of "financial fascism."

A full-blown return to runs on Italian debt that threatened the survival of the eurozone in 2011 and 2012 isn't visible so far. Yields on Italian 10-year bonds jumped to 2.63% Monday as prices of the bonds fell. That is the highest since late 2013, although far from the peak of more than 7% in late 2011. The euro weakened on the Italian news, while shares on the Milan stock exchange fell 2.1%.

The popularity of the 5 Star and League parties reflects the fact that Italian voters—like many in southern in Europe—still blame European institutions, Germany and **financial markets** for the country's downturn in the past decade.

The European Central Bank, bowing to Germany pressure, demanded tight budgets and painful reforms from Italy as the price for a massive bond-buying program that convinced investors that runs on fragile eurozone countries won't be repeated.

But continued economic pain in Italy, despite a broad recovery in Europe, has sowed doubts about the euro. The Italian economy is 5% smaller per capita than it was in 2001, the only EU country, other than Greece, to have shrunk over that period, according to think tank Promotor. Across the EU, per capita GDP rose 18%. Youth unemployment is slightly more than 30%.

Write to Giovanni Legorano at giovanni.legorano@wsj.com and Marcus Walker at marcus.walker@wsj.com

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Document WSJO000020180528ee5s000jh

THE WALL STREET JOURNAL.
U.S. EDITION

U.S. News: Trump's Hard Line on Trade Often Mellows

By Josh Zumbrun
838 words
29 May 2018
The Wall Street Journal
J
A2
English

WASHINGTON -- As President Donald Trump considers new tariffs on imported vehicles and pursues a deal with China to avoid a trade war, economists and business leaders see a pattern emerging in the White House's efforts to renegotiate many trade relationships: Open aggressively, then settle for incremental concessions.

The Trump administration has accused U.S. trading partners of taking advantage of an open U.S. economy. Mr. Trump has demanded partners -- China, Mexico, Canada, the EU and others -- rewrite trade relationships in ways that are more equitable to the U.S.

His opening gambits are strong, calling existing deals "terrible" or a "rape of our country" and threatening dire consequences should trading partners fail to respond. Then the administration often settles for much less.

It might be a negotiating tactic -- make strong demands to win future concessions -- or else the administration lacks plans to follow through. Either way, the development has become clear to a growing number of observers.

"The pattern has been: A lot of sound and fury, threats to withdraw from agreements and negotiate the best ever deal, and then in reality something a lot less," said Matthew Goodman, senior adviser for Asian economics at the Center for Strategic and International Studies.

With the administration considering imposing 25% tariffs on global car imports from around the world, observers are watching to see if the pattern continues, resulting in less-stringent duties.

The administration has gained real concessions in some cases with its approach. It is well on its way toward sealing an agreement with China to buy more U.S. commodities, from soybeans to natural gas. It has car companies shifting their supply chains to put greater emphasis on producing in North America and the U.S. It has put quotas and restrictions on steel and other imports that will protect U.S. producers from dumping and other unfair trade practices.

"They deserve credit for saying they're going to change the status quo, and taking a step toward it on a real issue," said Derek Scissors, a China scholar and critic at the American Enterprise Institute, who has consulted with the Trump administration on trade. "But they seem to have just abandoned it."

The administration has defended its trade actions as more aggressive than those taken by any of its predecessors. The director of Mr. Trump's National Economic Council, Lawrence Kudlow, has said the administration is "making terrific progress on a topic that everyone knows is very difficult."

Four key trade episodes have seen this cycle play out:

Intellectual Property

The U.S. Trade Representative in March concluded an investigation into China's intellectual-property practices, finding the country perpetrated widespread abuses. A list of $50 billion in Chinese goods was identified for tariffs.

Businesses have long complained that Beijing forces them to transfer their technology and intellectual property to Chinese partners in exchange for market access.

A joint statement earlier this month to suspend threatened tariffs with China included unspecific commitments to buy more energy and agriculture products, but no apparent concessions from the Chinese on intellectual-property abuses.

South Korea Trade

Mr. Trump threatened to pull out of the trade deal with South Korea, known as Korus, calling it a "one-way street." and said that "we're getting destroyed in Korea." In March, the administration and Seoul reached a new deal, with concessions many analysts saw as modest.

For example, a quota allowing the U.S. to import more cars that meet U.S. safety rules, but not necessarily Korean ones, was doubled to 50,000 a year from 25,000 a year. But U.S. car makers weren't reaching the existing quota. The deal also prolonged tariffs on South Korea's imported trucks, but major Korean auto makers haven't entered the U.S. market with imported trucks. An initial goal of reducing South Korea's tariffs on agricultural products was abandoned.

Steel and Aluminum

The global tariffs of 25% on steel and 10% on aluminum came as a shock to **financial markets** and sent commodity prices soaring when announced. But later in March, the U.S. granted most countries exemptions from the tariffs going into effect while negotiations continued. In April, the U.S. extended again for many major trading partners, including the European Union, Canada and Mexico.

The latest extension expires at the end of May, and the tariffs could still go into effect.

Nafta Negotiations

The U.S. has made multiple threats to withdraw from the negotiations over the North American Free Trade Agreement, only to back down.

A new deal may include new chapters on energy trade and digital trade. Mexico may agree to proposals that end up requiring somewhat more auto parts to be made in the U.S. But it is unclear if negotiators are headed toward a Nafta that fundamentally changes anything about trade between U.S., Mexico and Canada.

Document J000000020180529ee5t00020

WSJ PRO CENTRAL BANKING

Economy

Fed's Bullard Urges 'Caution' Over Further Rate Rises; The St. Louis Fed chief says low inflation expectations in financial markets are a good reason not to raise rates

By Michael S. Derby and Megumi Fujikawa
470 words
29 May 2018
04:06 AM
WSJ Pro Central Banking
RSTPROCB
English

Federal Reserve Bank of St. Louis President James Bullard on Tuesday repeated his long-running belief that more central-bank rate rises would be a mistake.

"Caution may be justified in deciding whether to raise the policy rate further in the near term," Mr. Bullard said, according to materials prepared for a presentation in Tokyo.

Mr. Bullard isn't a voting member of the interest-rate setting Federal Open Market Committee. For nearly two years now, he has argued that a low short-term interest rate target for the Fed is the right place to be given changes in the economy. Because of that, he has been in opposition to the Fed's effort to push up its short-term rate target.

The Fed is widely expected to boost in June what is now an interest rate target rate range that stands between 1.50% and 1.75%. In March, officials penciled in about three moves for the year, but some think a strong job market and rising inflation could bolster the case for more increases in 2018.

Mr. Bullard said low inflation expectations in **financial markets** are good reasons not to raise rates until those expectations show greater confidence that the Fed will get inflation back to 2% on a sustainable basis.

"The current level of the policy rate is very reasonable," Mr. Bullard said during a Q&A session. "We should not be penciling in additional rate increase unless data surprise to the upside relative to what we are expecting right now, especially inflation."

Asked whether the Fed should hold off at its next meeting in June, Mr. Bullard said he didn't want to "prejudge" the committee's action.

Mr. Bullard believes monetary policy is at a place where it is neutral in regards to economic activity. Also, he said he is worried more rate rises will push short-term bond yields above those of long-dated ones, which is called a yield-curve inversion. That kind of market pricing has long been associated with a looming economic downturn.

"The U.S. nominal yield curve could invert later this year or in 2019, which would be a **bearish** signal for U.S. macroeconomic prospects," Mr. Bullard said.

Still, in case the U.S. economy reverses course in the future, the Fed now has more ability to respond thanks to its six rate increases over the past 2½ years, he said.

"In some sense, we have more room to handle a recession," he said.

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Document RSTPROCB20180529ee5t0002t

THE WALL STREET JOURNAL.

CT-Markets
押注海外經濟失算，美國投資者回歸美股市場

Asjylyn Loder
1,390 words
29 May 2018
03:40 AM
華爾街日報中文版 (繁體)
WSJCT
Chinese - Traditional

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由於對新興市場經濟狀況、亞洲地緣政治緊張局勢以及歐洲經濟增長步伐的擔憂瀰漫市場，近來海外股票基金的表現遜於美國股票基金。5月初以來SPDR標普500 ETF信託(SPDR S&P 500 ETF Trust)累計上漲2.9%，而iShares MSCI明晟歐洲ETF (iShares MSCI Eurozone ETF)和iShares核心新興市場ETF (iShares Core Emerging Markets ETF)分別下跌2%和1.1%。

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幾位分析人士表示，目前美國經濟增長和市場上漲的前景看起來要好於全球其他地區。受去年年底實施的減稅措施提振，美國國內企業有望實現自2011年以來的最強季度利潤增幅。美國就業市場形勢也進一步改善，4月份失業率降至二戰後的低位。

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美元走強使原材料成本變得更加昂貴。當兌換成美元后，海外資產的回報率顯得更加微薄。此外，正如最近阿根廷和土耳其債務問題所显示的那樣，美元升值對新興市場來說尤其不利，因為這將推高新興市場國家償還美元債務的成本。

法國外貿銀行(Natixis SA)投資組合研究和諮詢部門執行副總裁Marina Gross稱，投資者常常低估匯兌因素對其回報率的影響，所以在經歷了長達十年的全球購買潮后，投資者變得十分脆弱。她說，根據法國外貿銀行的分析，目前在中等風險投資組合中，外國股票佔到股票資產的約三分之一，佔比較三年前的25%有所提升。

她指出，去年，相比投資歐元計價歐洲斯托克600指數的投資者，投資美元計價歐洲斯托克600指數的投資者更有斬獲。美元計價的歐洲斯托克600指數去年上漲了近26%，相比之下，歐元計價的歐洲斯托克600指數僅上漲7.7%。

Document WSJCT00020180529ee5t0015p

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CN-Markets
押注海外經濟失算，美國投資者回歸美股市場

Asjylyn Loder
1,450 words
29 May 2018
03:40 AM
華爾街日報中文版 (繁體)
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賣出ETF的並非只有Bernstein。FactSet的數據顯示，自2月初以來，歐元區ETF流出資金逾28億美元，資產規模降至131億美元。

歐元區與美國增長預期的落差在一定程度上推動美元飆升，而美元昇值削弱了海外資產吸引力。自2月份觸及2018年年內低點以來，華爾街日報美元指數累計上漲了5.6%。

美元走強使原材料成本變得更加昂貴。當兌換成美元後，海外資產的回報率顯得更加微薄。此外，正如最近阿根廷和土耳其債務問題所顯示的那樣，美元昇值對新興市場來說尤其不利，因為這將推高新興市場國家償還美元債務的成本。

法國外貿銀行(Natixis SA)投資組合研究和諮詢部門執行副總裁Marina Gross稱，投資者常常低估匯兌因素對其回報率的影響，所以在經歷了長達十年的全球購買潮後，投資者變得十分脆弱。她說，根據法國外貿銀行的分析，目前在中等風險投資組合中，外國股票佔到股票資產的約三分之一，佔比較三年前的25%有所提昇。

她指出，去年，相比投資歐元計價歐洲斯托克600指數的投資者，投資美元計價歐洲斯托克600指數的投資者更有斬獲。美元計價的歐洲斯托克600指數去年上漲了近26%，相比之下，歐元計價的歐洲斯托克600指數僅上漲7.7%。

Gross表示，由於匯率可能出現迅速、劇烈的波動，對投資回報可產生重大影響，而且發生速度很快；這是一個隱藏在表面下的風險，投資者需要密切注意。

Document WSJCT00020180529ee5t0018h

THE WALL STREET JOURNAL.

Politics

As Trump Talks Tough on Trade, Worries Mount Over Lack of Action; Deals come up short of initial rhetoric; administration says it is making 'terrific progress'

By Josh Zumbrun
1,309 words
28 May 2018
09:11 PM
The Wall Street Journal Online
WSJO
English

WASHINGTON—As President Donald Trump considers new tariffs on imported vehicles and pursues a deal with China to avoid a trade war, economists and business leaders see a pattern emerging in the White House's efforts to renegotiate many trade relationships: Open aggressively, then settle for incremental concessions.

The Trump administration has accused U.S. trading partners of taking advantage of an open U.S. economy. Mr. Trump has demanded partners—China, Mexico, Canada, the EU and others—rewrite trade relationships in ways that are more equitable to the U.S.

His opening gambits are strong, calling existing deals "terrible" or a "rape of our country" and threatening dire consequences should trading partners fail to respond. Then the administration often settles for much less.

It might be a negotiating tactic—make strong demands to win future concessions—or else the administration lacks plans to follow through. Either way, the development has become clear to a growing number of observers.

"The pattern has been: A lot of sound and fury, threats to withdraw from agreements and negotiate the best ever deal, and then in reality something a lot less," said Matthew Goodman, senior adviser for Asian economics at the Center for Strategic and International Studies.

With the administration considering imposing 25% tariffs on global car imports from around the world, observers are watching to see if the pattern continues, resulting in less-stringent duties.

The administration has gained real concessions in some cases with its approach. It is well on its way toward sealing an agreement with China to buy more U.S. commodities, from soybeans to natural gas. It has car companies shifting their supply chains to put greater emphasis on producing in North America and the U.S. It has put quotas and restrictions on steel and other imports that will protect U.S. producers from dumping and other unfair trade practices. If victories like this are the administration's only true goal, the strategy may be a success. But even among supporters who expected the president to fundamentally reshape global trade, many say they are coming away unimpressed.

"They deserve credit for saying they're going to change the status quo, and taking a step toward it on a real issue," said Derek Scissors, a China scholar and critic at the American Enterprise Institute, who has consulted with the Trump administration on trade. "But they seem to have just abandoned it."

The administration has defended its trade actions as more aggressive than those taken by any of its predecessors. Mr. Trump tweeted on Monday that Democrats criticizing the China negotiations had done nothing during the Obama administration. The director of Mr. Trump's National Economic Council, Lawrence Kudlow, has said the administration is "making terrific progress on a topic that everyone knows is very difficult."

Four key trade episodes have seen this cycle play out:

China's Intellectual Property Practices

The U.S. Trade Representative in March concluded an investigation into China's intellectual-property practices, finding the country perpetrated widespread abuses. A list of $50 billion in Chinese goods was identified for tariffs.

Businesses have long complained that Beijing forces them to transfer their technology and intellectual property to Chinese partners in exchange for market access.

A joint statement earlier this month to suspend threatened tariffs with China included unspecific commitments to buy more energy and agriculture products, but no apparent concessions from the Chinese on intellectual-property abuses.

"We suspend the investigation he launched less than a year ago in exchange for something that has nothing to do with the investigation?" Mr. Scissors said.

Trade Deal With South Korea

Mr. Trump threatened to pull out of the trade deal with South Korea, known as Korus, calling it a "one-way street." and said that "we're getting destroyed in Korea." In March, the administration and Seoul reached a new deal, with concessions many analysts saw as modest.

For example, a quota allowing the U.S. to import more cars that meet U.S. safety rules, but not necessarily Korean ones, was doubled to 50,000 a year from 25,000 a year. But U.S. car makers weren't reaching the existing quota. The deal also prolonged tariffs on South Korea's imported trucks, but major Korean auto makers haven't entered the U.S. market with imported trucks. An initial goal of reducing South Korea's tariffs on agricultural products was abandoned.

Steel and Aluminum Tariffs

The global tariffs of 25% on steel and 10% on aluminum came as a shock to **financial markets** and sent commodity prices soaring when announced. But later in March, the U.S. granted most countries exemptions from the tariffs going into effect while negotiations continued. In April, the U.S. extended again for many major trading partners, including the European Union, Canada and Mexico.

The latest extension expires at the end of May, and the tariffs could still go into effect. But when the latest steel extensions were announced, Mr. Trump's allies in the steel industry expressed their dismay.

"Frankly we're disappointed," John Ferriola, chief executive of Nucor Corp., told reporters in Washington the day after the extension. He said the exemptions apply to countries that account for about two-thirds of steel imports and this extension gives them "another month to get their steel into the country."

Nafta Negotiations

The U.S. has made multiple threats to withdraw from the negotiations over the North American Free Trade Agreement, only to back down.

A new deal may include new chapters on energy trade and digital trade. Mexico may agree to proposals that end up requiring somewhat more auto parts to be made in the U.S. But it is unclear if negotiators are headed toward a Nafta that fundamentally changes anything about trade between U.S., Mexico and Canada.

On some issues, the administration hasn't followed through at all on Mr. Trump's threats. The president repeatedly pledged to label China a currency manipulator but the Treasury Department has so far declined to do so.

And in a few cases, the U.S. has gone all the way, such as withdrawing from negotiations over the Trans-Pacific Partnership trade deal or pulling out of the Iran nuclear deal. In these cases, the administration didn't agree to follow through on deals it didn't like, but it has yet to get new deals in their place.

As analysts and observers have often noted, Mr. Trump's negotiating style appears to reflect his background in real estate, where staking out a tough position can tilt the final deal in one's favor. It is unclear how well the strategy will ultimately work with trade.

"Trade is a long-term relationship, it's not a one-time transaction—that's why trade is fundamentally different from real estate," said Chad Bown, a senior fellow at the Peterson Institute for International Economics. "In trade, it has to be something that both sides are willing to stick to in the long term."

There are plenty of signs that Mr. Trump will succeed if all he really wants is to reduce U.S. trade deficits with some major trading partners. South Korean auto purchases, Chinese agriculture purchases, Mexican energy purchases, along with blocking steel and aluminum imports, all point toward narrowing some bilateral deficits, at least for a time.

But more fundamental restructurings may be out of grasp.

"If they get a lot of purchases that's only going to last a few years and then we're going to be right back to where we were," Mr. Scissors said.

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Document WSJO000020180528ee5s000p2

THE WALL STREET JOURNAL.
U.S. EDITION

Heard on the Street
Emerging Markets Still Have Chance

By Richard Barley
263 words
29 May 2018
The Wall Street Journal
J
B10
English

[Financial Analysis and Commentary]

The lesson that central-bank credibility is hugely valuable has just had another reading in Turkey and Argentina. With other emerging-market countries looking more credible, that is something that should reassure jittery investors.

Turkey's emergency rate increase Wednesday only briefly stemmed pressure on the lira. Argentina has had to call in the International Monetary Fund.

The problem for emerging markets now is mostly about the rising dollar and higher Treasury yields, but recent experience has led to efforts to reduce vulnerabilities.

The next-most-vulnerable economies are on alert. Bank Indonesia cited escalating risks and a "global liquidity downturn" when it raised rates recently. Central bankers from Mexico and Brazil noted the risks of higher **volatility** in global **financial markets** at their May meetings. Thursday's statement by the South African Reserve Bank notes the fall in capital flows to emerging markets.

Central-bank anchors are helping to produce very different outcomes in these markets. Over the past month, the Argentine peso and Turkish lira have both fallen more than 10% against the dollar. But the Brazilian real and Mexican peso have fallen only by about as much as the euro; Russia's ruble is up 1%. Bond markets are proving discriminating, too.

None of this rules out a central-bank misstep in the future or a crisis from another source, but it does suggest that investors rattled by Argentina and Turkey shouldn't simply write off emerging markets.

page,5043

Document J000000020180529ee5t00013

THE WALL STREET JOURNAL.
U.S. EDITION

Bookshelf
A New Deal For Gold

By James Grant
1,018 words
29 May 2018
The Wall Street Journal
J
A17
English

American Default

By Sebastian Edwards

(Princeton, 252 pages, $29.95)

A question interrupted a government lawyer as he made his radical argument before the Supreme Court. "In other words," posed a voice from the bench, "can Congress act to make the dime a dollar?" Although the government, even then, was more adept at turning a dollar into a dime, the lawyer replied in the affirmative.

That exchange took place in 1935, in the midst of the famous cases concerning the government's power to repudiate contracts known as "gold clauses." Sebastian Edwards's "American Default: The Untold Story of FDR, the Supreme Court, and the Battle Over Gold" is the history of that mighty legal, moral, political and monetary controversy, the effects of which are with us still.

At the turn of the 20th century, middle-aged creditors could still recall Lincoln's Civil War greenbacks -- paper dollars that the government printed without reference to gold. Everyone remembered William Jennings Bryan's plea to substitute cheap and plentiful silver dollars for relatively scarce and dear gold ones. ("You shall not crucify mankind upon a cross of gold," the Commoner roared.)

Rejecting Bryan in the 1896 presidential election (William McKinley was the winner), the voters likewise rejected silver and inflation. By 1900, the gold standard was written into the statute books. By 1907, the gorgeous new Saint-Gaudens $20 gold piece was passing from hand to hand.

Still, the capitalists wanted contractual assurances that the gold standard was fixed and settled for all time. Gold clauses -- which stipulated the borrower's obligation to make payment in gold coin of "present weight and fineness" or its equivalent dollar value -- answered the need.

The Great Depression reinserted the gold dollar into American politics. Running for president in 1932, Franklin D. Roosevelt vowed never to devalue it. Installed in office in 1933, he proceeded to do just that. He abrogated the gold standard, nationalized (with compensation) the people's gold and, later, revalued the dollar to advance a purely domestic policy agenda. Like Bryan, Roosevelt demanded inflation.

Once a fixed measure -- a certain weight of metal -- the dollar would now become an adjustable one, the president said. The government could rejigger its purchasing power to advance the public interest. In 1933, Roosevelt judged that what the public most needed was rising prices. The desperate American farmer cried out for them. The quack economist George F. Warren, who had the president's ear, contended that a higher gold price would unfailingly deliver higher commodity prices.

Or not quite unfailingly: The existence of billions of dollars of gold bonds -- bonds payable in dollars of the old gold value -- threatened the Warren system. If you cheapened the dollar with respect to gold, you forced the people on the wrong end of the gold-clause contracts to pay many more dollars to settle their debts. As the dollar depreciated to $35 an ounce (i.e., the gold price rose to $35 an ounce), debtors did the scary arithmetic. Any who had borrowed $10,000 at the customary gold value ($20.67 an ounce) owed close to $17,000 at the new one ($35). In those days, not many had an extra $7,000.

Then as now, the federal government possessed the power to "coin money" and "regulate the value thereof," but nothing in Article 1, Section 8, of the Constitution blessed the retroactive governmental rewrite of private contracts. Nor was the Roosevelt administration exactly a disinterested party in this affair, as the government itself owed $20 billion in gold-clause debt.

Not for the last time, America chose up sides over a mercurial, technically ill-informed president with a flair for improvisational decision making. On the right, bondholders invoked the sanctity of contract. On the left, debtors raised the specter of mass bankruptcy: If the gold-clause contracts were allowed to stand, who could afford to pay? So aggrieved parties challenged the government's decision to raise one class, the debtors, over another, the creditors. Plaintiffs and defendants repaired to Washington, D.C., to have their day before the Supreme Court.

The nine old men upheld the U.S. government -- with a catch. The government itself, they ruled, though it could abrogate gold clauses in private contracts, had no right to repudiate its own promise to pay in gold. Justice James Clark McReynolds, in his dissenting view of the private-contract portion of the decision, issued a jeremiad: "Shame and humiliation are upon us now. Moral and financial chaos may be confidently expected."

Financial chaos did not immediately descend. **Bond prices** would have fallen if creditors had feared for the integrity of the dollar. They rose instead.

"American Default" has its strengths -- the author knowledgeably compares the 20th-century American default to Argentina's 2002 abrogation of its dollar-denominated debt -- but proofreading isn't one of them. In these pocked pages, a treatise is a "treaty," a fallacy is "spacious," the sum $250,000 is redundantly rendered "$250,000 dollars," the words "what this circumstances exactly were" somehow pass muster, and there is this: "Milton Friedman and Anna Schwartz and Allan Meltzer, among other." Maybe it was the bots' day off at the publishing house.

Herbert Hoover comes across here, as he usually does, as a kind of monetary primitive, but his rueful words may yet prove prophetic. "So long as 'managed currency' lasts," he said after the gold-clause cases were decided, "the purchasing power of the dollar lies at the whim of political government. Politics are bound to be in every government-managed currency. You can never make the American dollar ring true on the counters of the world nor on the counters of our savings banks so long as there is the alloy of politics in it."

Gold is objective value. Paper is politically mutable. Hoover, the old mining engineer, knew something.

Mr. Grant, the editor of Grant's Interest Rate Observer, is the author of a biography of Walter Bagehot, to be published next year.

Document J000000020180529ee5t0000c

WSJ PRO CENTRAL BANKING

Economy

Bank Indonesia Appears Set to Raise Rates Wednesday; On May 17, Bank Indonesia raised interest rates by a quarter point for the first time since November 2014

By I Made Sentana
421 words
28 May 2018
10:13 PM
WSJ Pro Central Banking
RSTPROCB
English

JAKARTA—Bank Indonesia has set the stage for another rate increase when it meets on Wednesday, the second in less than two weeks in order to stabilize the rupiah, which is struggling to recover from 31-month lows.

Ten of the 11 economists polled by The Wall Street Journal expect another quarter point increase on the central bank's policy rate, the 7-day reverse repo rate, to 4.75% after Governor Perry Warjiyo on Monday said an interest-rate increase will be discussed at the Wednesday meeting, in anticipation of the expected further tightening by the U.S. Federal Reserve in June.

However, one economist predicted Bank Indonesia will stay pat as the rupiah is clawing back some of its lost ground.

The central bank on Friday said it would hold an additional board meeting on Wednesday. Its next pre-scheduled meeting is due on June 27-28.

On May 17, Bank Indonesia raised interest rates by a quarter point for the first time since November 2014, after interventions in the domestic forex market failed to help the rupiah.

"With rupiah stability as the mandate, the new BI Governor, Perry Warjiyo, is eager to instill further policy credibility," Radhika Rao, an economist with DBS said. "BI's move to front-load policy tightening is also likely to front-run the U.S. Federal Reserve's rate hike in June."

The rupiah has been under selling pressure since February on expectation of more aggressive Fed's tightening, trade disputes between the U.S. and China, and geopolitical risks.

The Indonesian currency has slid more than 5% versus the U.S. dollar since the start of the year, despite Bank Indonesia spending billions of dollars to stem its slide.

Even though the pressures on the rupiah and other emerging market currencies seems to be abating in recent days, risks of another bout of **volatility** abound, which may prompt Bank Indonesia to resort to another rate increase, economists said.

Bank Indonesia doesn't seem to be reluctant to increase interest rates as it has support from the government, they said. Finance Minister Sri Mulyani on Monday said the government will continue economic reforms to accelerate the flatlining economic growth.

Mr. Warjiyo added the central bank will relax mortgage lending regulations to help growth.

Write to I Made Sentana at i-made.sentana@wsj.com

Document RSTPROCB20180529ee5t00001

THE WALL STREET JOURNAL.

Markets

ZTE's Suspended Stock: 'A Headache for All Market Participants'; Trading suspension means current and prospective investors are 'trapped'

By Steven Russolillo and Stella Yifan Xie
950 words
27 May 2018
09:11 PM
The Wall Street Journal Online
WSJO
English

HONG KONG—ZTE Corp. may be in the crossfire of U.S.-China trade negotiations, with its future hanging in the balance. Its shareholders, though, can't do anything about it.

The Chinese telecom giant halted its shares on April 17 after the U.S. said it was banning American companies from selling components to ZTE for seven years. In its latest update on Wednesday, ZTE said in a filing that its shares "will remain suspended" without giving a time frame.

Share suspensions have long been a quirk of Chinese markets, allowing companies to apply to exchanges to stop trading in their stock for weeks or even months at a time.

In the U.S., the Securities and Exchange Commission can suspend exchange-listed companies for as long as 10 days before trading resumes automatically. Companies have the option to request trading halts, usually on an intraday basis, when they have a major pending announcement.

President Donald Trump's administration is now trying to lift the ban on ZTE, a plan that is meeting resistance from the U.S. Congress.

ZTE's suspended stock has left its current shareholders in limbo and prospective investors unable to trade the shares. Holders of the company's Hong Kong-listed shares—which are also suspended—include prominent western institutional investors such as BlackRock and Baillie Gifford, according to regulatory filings.

Baillie Gifford declined to comment. BlackRock said its holdings are predominantly driven through index funds, but it declined to comment beyond that.

"It's enormously frustrating," James Angel, a finance professor at Georgetown University, said of long-term share suspensions. "If you're an investor, you're trapped and you don't know what your positions are really worth."

The halt in ZTE's share trading comes as index provider MSCI is set to include more than 200 Chinese stocks in its widely-followed equity benchmarks from June 1. That will increase U.S. and global investors' exposure to China, particularly via passive investment strategies.

Stock suspensions cause problems for investors because they can't trade into or out of a company's shares. Trying to assign values to suspended stocks is also tricky for mutual funds and brokerages, as the price at which those stocks last traded is often no longer appropriate. Investors can also miss out on potential upside: Shares of several ZTE vendors rebounded in recent weeks after signs emerged ZTE might be saved.

"It's definitely a headache for all market participants," said Thomas Fang, head of China equities at UBS in Hong Kong.

The prevalence of stock suspensions in China had been a key reason why MSCI was reluctant to include domestically-listed Chinese shares in its indexes in previous years.

When the index provider decided to allow Chinese shares' inclusion last summer, it said that if a Chinese company suspended its shares for 50 days or more, it would remove it from its indexes and not bring it back for at least 12 months. Its practice in most other countries is to allow companies that suspend their shares and then restart trading to reapply for inclusion immediately.

MSCI has also said that Chinese stocks suspended at the time of their regular index reviews won't be allowed into their indexes.

China's securities regulator has been discouraging share suspensions in recent years, with some success. When Chinese markets crashed in the summer of 2015, nearly half of all listed companies suspended their shares at some point. As of Friday, shares of 211 Chinese companies—less than 10% of the total—were suspended. Some 130 stocks, with a market value of 1.55 trillion yuan ($242 billion), have been halted for more than a month, according to data provider Wind Info.

Still, even high-profile companies like ZTE, with a $19.4 billion market value, remain able to halt trading in their shares voluntarily for long periods. Shares of six listed units of China's once highflying HNA Group Co. have been suspended since January.

Smaller Chinese companies have in the past used suspensions as a tactic to mislead investors into thinking that they are planning to restructure, often prompting a boost to their share prices when trading resumed. During China's 2015 midyear stock rout a majority of companies cited "major asset restructuring" as the reason for halting trade.

In May 2016, exchanges in Shanghai and Shenzhen moved to curb share suspensions by capping trading halts to five months and six months, respectively.

Analysts say the new rules have been effective in curbing so-called unruly share suspensions, and preventing any systemic risks similar to what happened in 2015. ZTE's recent share suspension was meant to prevent contagion spreading to the rest of the market, said Deng Wenyuan, an analyst at Soochow Securities.

"In extreme cases like this, the regulator probably had to pick the lesser of two evils," Mr. Deng said, referring to either allowing the stock's suspension or watching the overall market tumble.

While the Shanghai **stock index** initially fell after ZTE's shares were suspended, it recovered and has risen about 1% since the halt.

In China, the government is a "hands-on intervener in their **financial markets**," said Mr. Angel of Georgetown. "You don't have these thoughts that the market solution is the best solution. There is a basic suspicion of unbridled market forces."

Write to Steven Russolillo at steven.russolillo@wsj.com and Stella Yifan Xie at stella.xie@wsj.com

Related

* Trump Team Seeks Truce With Congress Over ZTE

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THE WALL STREET JOURNAL.

Markets

As Global Growth Loses Steam, U.S. Investors Find There's No Place Like Home; Rising dollar and strong corporate earnings make U.S. a better bet

By Asjylyn Loder
857 words
28 May 2018
09:00 AM
The Wall Street Journal Online
WSJO
English

Investors are coming home to U.S. stocks as economic worries overseas upend bets on a wave of synchronized global growth.

Global stock funds have underperformed U.S. shares recently as concerns spread about the health of emerging markets, geopolitical tensions in Asia and the pace of European growth. While the SPDR **S&P 500** ETF Trust has risen 2.9% since the start of May, the iShares MSCI Eurozone ETF slid 2% and the iShares Core Emerging Markets ETF fell 1.1%.

Some analysts said investors were reckoning with signals that the much-anticipated world-wide economic liftoff hasn't yet occurred, highlighting the vulnerabilities built into the long post-financial crisis expansion. That comes as a rising dollar and strong domestic corporate earnings have wrong-footed wagers that growth in Europe and Asia would outpace the slow U.S. expansion.

"You're seeing the growth of European returns begin to weaken and roll over," said Jonathan Golub, chief U.S. equity strategist for Credit Suisse AG. "Investors are going to re-evaluate how they compare the U.S. to the rest of the globe because the U.S. is going to look more attractive."

The preference for U.S. stock funds so far this month bucks a long-running trend. During the past decade, investors stashed more money in foreign markets. They bought about $2 worth of international stock funds for every dollar in domestic equity mutual and exchange-traded funds, according to Morningstar data. Last year, even as major U.S. indexes soared to all-time highs, international funds outpaced U.S. funds at a rate of $4 to $1.

Inflows into world equity funds slowed to an estimated $8 billion in April, the lowest since December 2016, according to the Investment Company Institute. Investors bought $3.6 billion in international stock funds in the first three weeks of May while they spent $4.4 billion on U.S. stock funds, putting this month on track to be the first with domestic equity inflows since January.

The prospects for economic growth and market gains now look better in the U.S. than elsewhere, several analysts said. Domestic companies are on track for the strongest quarter of earnings growth since 2011, boosted by tax cuts enacted late last year. The U.S. labor market also continues to strengthen; the jobless rate in April fell to one of the lowest levels in the post-World War II era.

At the same time, growth abroad appears to be slowing. Data from European factory orders to European inflation readings have missed forecasts. Meanwhile, the strengthening dollar and rising U.S. interest rates is putting pressure on countries such as Argentina, Turkey and Indonesia.

The Citigroup Economic Surprise Index, a broadly tracked measure of how expectations are being met, shows U.S. data are still broadly matching forecasts. In the eurozone, the index dropped this month to its lowest level since September 2011.

The improving U.S. outlook prompted Richard Bernstein Advisors, a New York firm managing almost $8 billion, to liquidate all of its holdings in the iShares MSCI Eurozone ETF in March, and reinvest most of the money in U.S. stocks, said Lisa Kirschner, head of research at the firm.

Bernstein isn't the only one selling the ETF. More than $2.8 billion has been withdrawn from the eurozone ETF since the start of February, bringing assets down to $13.1 billion, according to FactSet.

The difference between expectations for growth in the eurozone and the U.S. has contributed to a surge in the dollar, which has eroded the allure of overseas assets. The WSJ Dollar Index, which measures the currency against 16 others, has risen 5.6% since hitting a 2018 low in February.

A strengthening dollar makes raw materials more expensive. Returns overseas look thinner when converted back into U.S. dollars. And, as recent debt woes in Argentina and Turkey illustrate, a stronger greenback can be especially detrimental for emerging markets, where countries must repay debt in the increasingly expensive U.S. currency.

Investors often underestimate the impact of currency shifts on their returns, leaving them vulnerable after a decadelong international buying spree, said Marina Gross, executive vice president of portfolio research and consulting at French investment bank Natixis SA. Foreign equities now account for about a third of the stocks in moderate-risk portfolios analyzed by Natixis, up from 25% three years ago, she said.

She pointed out that investors who bought the Stoxx Europe 600 index in dollars did far better last year than those who bought in euros. The dollar-denominated index gained nearly 26% last year, compared with 7.7% in the euro index.

"Because exchange rates can move very quickly and very dramatically, the impact on your return can be substantial and can happen really fast," Ms. Gross said. "It's an under-the-surface risk that investors need to be paying close attention to."

Document WSJO000020180528ee5s00109

THE WALL STREET JOURNAL.

U.S. Markets
Markets

Italian Political Crisis Roils Markets; Euro falls against dollar, Italian 10-year bond yields rise indicating high level of stress

By Donato Paolo Mancini and Emese Bartha
724 words
28 May 2018
12:14 PM
The Wall Street Journal Online
WSJO
English

- Political developments in Italy rattle markets

- Italian 10-year bond yields rise

- Euro hits six-month low

- Asian stocks underpinned by U.S.-North Korea diplomacy

- U.S. and U.K. markets closed

A political crisis in Italy put markets on edge Monday, with Italian bonds and stocks selling off sharply, renewing fears among investors in one of Europe's largest economies.

The euro also fell to the lowest level since November 2017 against the dollar after Italy's president scuttled an attempt by a coalition of Italian antiestablishment parties to form a government. One euro traded for $1.16, down from $1.17 earlier Monday.

The possibility of fresh elections sent the Italian 10-year government **bond yield** higher, 2.68% from 2.36% earlier Monday, while the interest-rate spread over similar German bunds widened above 2.30 percentage points, the highest since late 2013, indicating a high level of market stress.

"We doubt that new elections are a panacea for Italy's future stability," said Ann-Katrin Petersen, investment strategist at Allianz Global Investors. She expects bonds of nations such Portugal and Spain to remain vulnerable over the uncertainty at the heart of the eurozone. Both countries' bonds sold off Monday, though less than Italy's.

Italy's benchmark **stock index**, the FTSE MIB, on Monday closed down 2.1% after losing as much as 2.3% in midafternoon trading, helping to drag down European stocks broadly. The Stoxx Europe 600 closed down 0.3% after losing as much as 0.7% during the day.

Italian banks were especially hard hit. Banco BPM SpA was among the biggest losers on the Stoxx 600 Europe on Monday, having lost at least 6.3%. Plunging prices set off circuit breakers that halted trading briefly for banks BPM, BPER SpA, Unione di Banche Italiane SpA, FinecoBank Intesa Sanpaolo SpA, Banche Generali SpA, along with Italy's largest bank, UniCredit SpA. The suspensions were automatic and based on price fluctuations, the Italian Stock Exchange said.

Italy was embroiled Monday in what some are calling a constitutional crisis after President Sergio Mattarella vetoed the appointment of a euroskeptic economy minister, recommended by a coalition of the populist 5 Star Movement and the League. Party leaders from 5 Star called for Mr. Mattarella's impeachment in response.

Mr. Mattarella has instead turned to International Monetary Fund veteran Carlo Cottarelli to form a government. Mr. Cottarelli said Monday he'd attempt to form a government, but he is likely to face resistance from the populist bloc, which enjoys a majority in parliament. The situation could lead to fresh elections focused squarely on the issue of Italy's participation in the euro.

"It's difficult to see Mr. Cottarelli as the head of the transition government. Many parties won't give him a confidence vote," said Vincenzo Longo, a market analyst at IG Italia. Without a vote of confidence, Italy might head back to the polls as early as this summer, he said.

While the setting up of antiestablishment government has been blocked for now, investors fret that fresh elections could see anti-euro forces in the parliament gain more traction.

If Italian bond yields continue to rise, it could create concern over the government's substantial borrowing needs. The expected end to European Central Bank asset purchases by year-end adds to the worry that yields will rise.

Elsewhere Monday, pressure on Asian stocks eased on the heels of political developments as potential for a summit between U.S. President Donald Trump and North Korean leader Kim Jong Un revived.

Japan's Nikkei 225 closed 0.1% higher, the Korea KOSPI index closed 0.8% higher and Hong Kong's Hang Seng closed 0.7% higher.

The WSJ Dollar Index, which measures the greenback against a basket of currencies, was down 0.1% earlier Monday. U.S. **10**-**year Treasury** yields closed at 2.93%. U.S. and U.K. markets are closed Monday.

Brent crude, the global oil benchmark, fell 1.7% to $75.18 a barrel on Monday afternoon.

Write to Emese Bartha at emese.bartha@wsj.com

Related

* Italy's Political Drama Raises Stakes for Euro

Document WSJO000020180528ee5s000b5

THE WALL STREET JOURNAL.

Markets

Money Is About to Flow Into China, Just as It Pours Out of Tencent; Mainland investors are pulling funds from the Chinese giant, but Asian stocks start the week up

By Steven Russolillo
579 words
28 May 2018
01:13 AM
The Wall Street Journal Online
WSJO
English

Asian stocks rose Monday as weekend diplomacy between Washington and Pyongyang revived the potential for a summit between President Donald Trump and North Korean leader Kim Jong Un. Japan's Nikkei 225 index rose 0.1%, the Korea KOSPI index gained 0.8% and Hong Kong's Hang Seng index rose 0.6%.

Monday's Big Theme

Mainland Chinese investors are yanking money out of Tencent Holdings Ltd. —one of the country's biggest and most high-profile companies—just as billions of dollars from around the world are expected to flow into China's markets this week.

What's Happening

An odd phenomenon is taking place this month: Investors on the mainland have pulled funds from Tencent, the tech titan behind the popular Chinese messaging app WeChat.

Mainland money has poured into Tencent for years through the trading vehicles that link China and Hong Kong—known as Stock Connect—and been a key pillar of support for the stock. Mainland investors were net buyers of Tencent stock every month from November 2016 through March, before turning slightly net sellers in April.

May has been different.

Those Mainland investors are on track this month to be heavy net sellers of Tencent, a rare occurrence since the Shanghai and Shenzhen Stock Connect programs were both open in late 2016, according to data from Wind Info. On Friday, Tencent experienced its second biggest daily outflow ever through these trading links.

Market Reaction

There are multiple theories at play here. One is fundamental: Concerns have mounted for months about the company's slowing growth and shrinking margins. Tencent's strong earnings report earlier this month was supposed to put those fears to bed. But the stock is still 15% below its record high in January, trading closer to this year's low than its high.

Another theory is related to a major upcoming event from MSCI Inc. The global index provider is on Friday set to include more than 200 mainland-listed Chinese stocks in its key indexes, giving global investors exposure to those stocks.

Mainland investors could be trying to front run the event, loading up on mainland-listed companies now and selling their Hong Kong stocks—think Tencent—in order to do so.

So far, that approach appears to be working. The Shanghai Composite, a benchmark index of mainland-listed stocks, is up 2.1% this month, whereas the MSCI China index—a separate gauge that includes Chinese stocks listed in Hong Kong and New York such as Tencent, Alibaba Group Holding Ltd. and Baidu Inc.—is up 1.6%.

Tencent holds the biggest weighting in MSCI China at 17%. Together with Alibaba and Baidu, those three stocks make up roughly a third of the index. None of them are in the Shanghai Composite.

If the trend holds, May would be only the third time in the past 18 months that the Shanghai would have outperformed MSCI China.

Elsewhere

The euro gained against the U.S. dollar after Italy's president rejected the formation of a new government supported by two anti-establishment parties. Crude-**oil prices** sank over 2%. Stock markets in the U.S. and the U.K. are closed Monday for public holidays.

Write to Steven Russolillo at steven.russolillo@wsj.com

Document WSJO000020180528ee5s0005l

The New York Times

MARKETS
Business Day
U.S. Markets Close for Holiday, and May Jobs Numbers Come Out

By The New York Times
996 words
27 May 2018
04:11 PM
NYTimes.com Feed
NYTFEED
English

Here's what to expect in the week ahead:

Break out the grill.

American markets will be closed on Monday for Memorial Day, the unofficial start of summer. Although there will be no stock trading, stores expect brisk sales of barbecue supplies and white shoes through the holiday weekend. In Britain, markets will also be closed on Monday for the spring bank holiday.

Starbucks to close stores on Tuesday for anti-bias training.

Starbuckswill close over 8,000 company-owned locations in the United States on Tuesday afternoon for anti-bias training. The 175,000 employees of the coffee chain, which is based in Seattle, will discuss bias and problem-solving, as well as watch videos addressing those issues. The seminars come after the widely criticized arrests in April of two black men who were waiting for a friend at a Starbucks in Philadelphia but did not buy anything there. Researchers are divided over the potential efficacy of Tuesday's anti-bias training, although Starbucks said the seminars were the first steps in a long-term program. This month, the company announced new policies, including allowing anyone to use the bathroom or linger in stores without making a purchase.

Want lunch with Warren Buffett? Expect a large bill.

How much would you spend to have lunch with the Oracle of Omaha? For the winner of the annual "Power Lunch With Warren Buffett," the answer is probably millions of dollars. Bidding for the lunch in a charity auction on eBay began on Sunday and will conclude on Friday. Now in its 19th year, the event has raised more than $26 million for Glide, a San Francisco charity. The winning bids for the lunches have surged in recent years. Two years ago, an anonymous bidder paid a record $3,456,789 to dine with Mr. Buffett. Winning bids have led to a job offer. A former hedge fund manager, Ted Weschler, won the auction in 2010 and 2011, spending a combined $5,252,722. At the second meeting, Mr. Buffett sounded out Mr. Weschler about a job. Today, he is an investment manager at Mr. Buffett's company, Berkshire Hathaway.

Will wages catch up with job growth?

The job market has been on a remarkable run in recent years. American employers have added jobs every month since October 2010. And the unemployment rate fell to fell to 3.9 percent in April, the best mark since 2000. The latest employment data, due from the Labor Department on Friday, will almost certainly show that the hiring streak continued in May: Economists surveyed by Bloomberg estimate that the United States gained 190,000 jobs, after adding 164,000 in April. Less certain — and arguably more important — is what the report will show about worker pay. Economists generally expect tightening labor markets to lead to faster wage growth, but that hasn't happened yet.

Temporary tariff exemptions set to expire on Friday.

Temporary exemptions from a 10 percent tariff on aluminum and a 25 percent tariff on steel that President Trump put into place in March are scheduled to expire on Friday for the European Union, Canada and Mexico. The Trump administration said on April 30 that it would offer a "final" 30-day exemption to the allies as it continued to carry out trade talks. But the United States still appears to be far from a compromise with the trading partners.

Talks with Canada and Mexico over the North American Free Trade Agreementare still stalled, with significant divisions on issues including regulations for the automobile industry and investment rules.

Chinese companies to gain wider access to investors.

Chinese companies will get a bit more access to global investors beginning on Friday. That's the day MSCI, the keeper of some widely tracked **stock-market** indexes, will add shares of companies that trade in mainland China to its China, regional and emerging markets indexes. Investors are widely expected to adjust their portfolios accordingly. The inclusion is widely seen as a reward to China for steps it has taken to open its **financial markets**, which have largely been closed to foreign investors for years. Still, mainland Chinese shares will represent only a small portion of the indexes initially, reflecting the significant barriers that Beijing still retains between its markets and the rest of the world.

Auto sales expected to rise in May.

On Friday, automakers are expected to report an increase in sales in May, helped by an extra day of selling and Memorial Day promotions. But sales for the year are on track to decline more than 1 percent for the year, according to analysts. Rising gas prices could continue to hurt demand for new cars, although a recent decline in **oil prices** may provide some relief for drivers.

Wilbur Ross heading to China for new trade talks.

Commerce Secretary Wilbur Ross is due in Beijing at the end of the week for further trade talks with Chinese officials. China's official Xinhua news agency said on Friday that he would be in Beijing from June 2 to 4, while the Commerce Department has confirmed only that he will be in Beijing at the start of June. Many issues remained unresolved after the last round of negotiations, when the Chinese vice premier, Liu He, visited Washington from May 15 to 19 to speak with President Trump and his senior aides. The administration is divided on how far to push Beijing in seeking reductions in the bilateral trade imbalance and curbs on China's subsidies to develop advanced manufacturing industries like robotics and semiconductors. Mr. Ross is most likely to focus on developing further the roughly $250 billion in deals that were announced during President Trump's trip to Beijing in November — many of the deals were in very preliminary stages then, like plans for a natural gas pipeline in Alaska.

Document NYTFEED020180527ee5r002s1

The New York Times

Foreign Desk; SECTA
Russian Hosts Listen Intently as Global Business Leaders Grouse About Trump

By IVAN NECHEPURENKO and ANDREW E. KRAMER
1,053 words
26 May 2018
The New York Times
NYTF
Late Edition - Final
5
English

ST. PETERSBURG, Russia -- The president of France spoke of an ''erroneous decision.'' Japan's Prime Minister lamented disruptions to trade. The head of the International Monetary Fund said recent foreign policy positions were ''not the right way to go.''

They were not criticizing President Vladimir V. Putin of Russia, whom the United States has tried to isolate on the world stage.

Instead, Mr. Putin sat, nodding approvingly, on a stage beside these heads of state and other senior officials at a business forum that veered into what sounded at times like a group-therapy session for world leaders slighted by President Trump.

Speaking to an auditorium of business executives, President Emmanuel Macron of France said he had tried to persuade President Trump to remain in the international climate accord, observe a nuclear deal with Iran and refrain from moving the United States embassy in Israel to Jerusalem, only to be rebuffed on all three points. Mr. Macron called the embassy move ''erroneous.''

Prime Minister Shinzo Abe of Japan said he was moving ahead with a trade pact with Pacific nations despite Mr. Trump's withdrawal from the deal. ''This is the kind of fairness we need,'' he said of the trade deal. ''Unfortunately, the U.S. withdrew.''

Christine Lagarde , the director of the International Monetary Fund, said the Trump administration's threat to impose tariffs on Chinese goods was rocking the boat of the global economy. A trade deficit is not reason enough to impose tariffs, she said. ''It's a strange complaint,'' she said, and ''not the right way to go'' on trade.

It was a peculiar forum for airing grievances against the United States. At the St. Petersburg International Economic Forum, an annual gathering for foreign investors and executives who do business in Russia, Mr. Putin was playing host to the leaders of France and Japan, countries that have imposed sanctions on Russia.

The United States, which imposed some of the harshest restrictions, sent its ambassador to the conference with the message that ''dialogue and communication is the only way to improve ties.''

Mr. Putin, for his part, spoke of the United States shifting the rules of the international order even as it attempted to police those rules.

''The current situation in the world is such that everybody is playing soccer with the rules of judo,'' Mr. Putin said. ''So what we have is neither soccer nor judo. It's chaos.''

The complaints by the French and Japanese leaders play into Russia's long-term effort to drive wedges between the United States and its traditional allies.

To be sure, Mr. Macron also spoke of France's long, warm historical alliance with the United States and said disagreements were part of that lengthy friendship. And Mr. Abe, in a speech, drew attention to the lack of a formal peace treaty to end World War II between Russia and Japan, because of a territorial dispute over islands.

The vice president of the People's Republic of China, Wang Qishan, appeared to be the most diplomatic of all, saying China could learn from America. ''America is the only global superpower, in soft power and in hard power,'' Mr. Wang said.

The United States and European allies have sought to isolate Russia economically, and have expelled Russian diplomats, over its military intervention in Ukraine, meddling in foreign elections and the poisoning of a former Russian spy in Britain.

The sign of some fracturing of the Western alliance against Russia came as the Russian economy has been pulling out of a recession that had been brought on by swooning global prices for oil, a key export commodity, and Western sanctions.

Earlier this month, Mr. Putin laid out ambitious economic targets for his fourth term as president of Russia, saying he would increase life expectancy, cut poverty and, improbably, displace Germany as the world's fifth largest economy.

''Nobody is saying today how are we going to achieve every percentage point of this growth, even though such ambitious targets have been set,'' said Aleksei L. Kudrin, an economic adviser to Mr. Putin, and an occasional critic of his economic policies.

Mr. Kudrin, who also attended the business gathering, said Western sanctions had cost Russia about 0.5 percent of growth annually. However, several top officials in Russia expressed hope that disagreements emerging between European nations and the United States over sanctions politics, such as those stemming from disagreement over the Iran nuclear deal, could help Russia break up what had been a united front against Moscow.

Igor I. Sechin, the head of Russia's national oil company, Rosneft, said the turmoil over Iran policy was responsible for helping to drive up **oil prices** to levels not seen since 2014.

The Trump administration has recently sent mixed signals on doing business in Russia.

In April, the Treasury Department issued sanctions against seven wealthy Russians. Then this month, the American ambassador, Jon M. Huntsman Jr., encouraged Americans to attend the business forum.

Mr. Huntsman had agreed to provide opening remarks at a panel discussion in which one of the Russians the Treasury Department had just sanctioned, Viktor F. Vekselberg, was scheduled to participate. Mr. Huntsman later backed out of his role with the panel, though he did attend the forum.

An investment firm Mr. Vekselberg once described as his American affiliate, Columbus Nova, paid $580,000 to a shell company set up by President Trump's personal lawyer, Michael D. Cohen .

''I'm disappointed, I would have loved to have him give welcoming remarks,'' Alexis Rodzianko, president of the American Chamber of Commerce in Russia, said in an interview. But, he said, ''a mixed message is better than the message we were getting before.''

Under President Obama, the American policy was to dissuade company executives from attending the economic forum, a gala event backed by the Russian government and modeled on the World Economic Forum held in Davos, Switzerland.

This year, Mr. Huntsman, Mr. Trump's ambassador, turned up only to have his boss castigated on stage by the world leaders.

Word leaders like Christine Lagarde, Shinzo Abe of Japan and Emmanuel Macron of France have criticized recent U.S. policies. (PHOTOGRAPH BY DMITRI LOVETSKY/ASSOCIATED PRESS)

Document NYTF000020180526ee5q0005f

THE WALL STREET JOURNAL.

Opinion

Democrats Cash In on Tax Reform; How progressive states are quietly exploiting the new federal tax law.

By The Editorial Board
707 words
25 May 2018
08:12 PM
The Wall Street Journal Online
WSJO
English

Democratic governors have lambasted the GOP tax reform as "evil in the extreme," to quote the moral stylings of California Governor Jerry Brown. But that isn't stopping them from cashing in on the tax law.

Many liberal states have reported unexpected revenue surges. Tax revenues in California this year are $3.8 billion higher than the governor's forecasts. New York's Comptroller reported last month that tax collections have surpassed the state's February forecast by $315 million. Even Connecticut raked in $1.3 billion more than its pie-in-the-sky projections.

Corporate tax revenues are booming thanks to growing profits and, though it's still early, businesses repatriating billions in foreign income. The GOP tax bill imposes a one-time tax on overseas cash and allows future profits to be repatriated tax free. According to California's Legislative Analyst Office, eliminating the incentive to stash cash abroad will increase revenues "on a one-time basis by a few hundred million dollars over the next two to three years" and permanently boost state coffers by tens of millions of dollars annually. Note also that the dividends corporations are paying to shareholders will be taxed by states, as will capital gains that result from stock buybacks.

Some high-earners appear to have shifted income forward to dodge the $10,000 state-and-local tax deduction limit that takes effect this year. California's Legislative Analyst notes that "tax payments appear to have been shifted from January 2018 to December 2017," but adds that this year's "ongoing growth in tax payments appears to be healthy." So the revenue boom isn't merely a product of tax timing.

The Trump Administration's deregulation and tax reform have unleashed animal spirits, which has increased stock values and capital gains. These revenues are **volatile**, but the serendipitous surge was a godsend for Connecticut. Without the revenue spike, the state would have hit its debt limit and may have had to cancel school construction projects.

Some states are also double-dipping on tax reform's base-broadening measures. Nearly all states incorporate provisions of federal tax law to varying degrees. Six use federal taxable income—which excludes personal exemptions and itemized deductions—as their baseline when calculating an individual's liability. Most link some of their deductions and credits to the federal code.

Because the GOP tax reform reduced many deductions, more income may be taxed at the state level. According to the California Franchise Tax Board, the state-and-local tax deduction limit will produce an additional $550 million in state revenue this year. New York estimated a $400 million revenue increase from the state-and-local tax deduction limit. After high-earners howled, New York decoupled its deductions from the federal code to prevent a tax hike.

But Colorado is expecting a $197 million windfall from changes in federal tax law, which it plans to pump into schools. Minnesota has projected a $416 million dividend. Democratic Gov. Mark Dayton this week vetoed a bill passed by the GOP legislature to prevent a tax hike on state residents.

Remember how Democratic governors wailed that the limit on the state-and-local tax deduction would slam their taxpayers? Yet many are now happy to pocket an incidental increase in state tax revenues. They can soak their rich without actually raising taxes.

Democratic governors are worried that the deduction cap could drive out high-earners by raising their federal tax burden. But then why not cut their tax rates? Idaho's Tax Commission estimated that conforming with the new tax law would increase state revenue by $97 million. Idaho lawmakers responded by reducing the corporate and individual income tax rates by 0.475 percentage points across the board. Republicans in Georgia cut their top individual and corporate tax rates to 5.5% from 6% by 2020.

Rather than invent convoluted schemes to reduce their taxpayers' federal tax burden, Democrats ought to cut their own.

Potomac Watch Podcast

* Potomac Watch podcast: Trump's off-again, on-again North Korea summit, and punishing China's ZTE Corp. for violating sanctions.

Document WSJO000020180525ee5p0058y

THE WALL STREET JOURNAL.
U.S. EDITION

Heard on the Street
Japan's Woes Aren't Just Endemic

By Nathaniel Taplin
459 words
26 May 2018
The Wall Street Journal
J
B11
English

[Financial Analysis and Commentary]

Investors accustomed to focusing on the domestic causes of Japan's decadeslong funk should look more widely to understand the current slowdown. It's a symptom of global issues, not just the country's struggles with an aging population and stagnant wages.

The world's third-largest economy was enjoying its longest growth streak in 28 years until last quarter, when it came to an abrupt end with a 0.6% decline in annualized gross domestic product.

The drop adds to evidence that weakening global growth is a bigger problem than most investors would have believed just a few weeks ago and raises questions over still bubbly Asian and U.S. stock valuations.

Japanese companies might look healthy enough. Last quarter's aggregate operating margin for the manufacturing-heavy Nikkei Stock Average was the highest this century, according to FactSet. Private, nonresidential investment, though, has come to a shuddering halt, ending a positive streak that dated to mid-2016. It fell an annualized 0.3% last quarter, after 2.6% growth in the fourth quarter of 2017.

The likely reason is that Japanese factories suddenly aren't running quite as hot: Capacity utilization fell nearly 2%, the biggest drop since early 2016. It coincides with sudden weakness in factory activity in China, where industrial-capacity utilization fell 1.5 percentage points last quarter, the first drop in two years, and in the eurozone. Factory run rates there have fallen in the second quarter, according to the European Commission.

Japan's export engine is also slumping. Exports in both February and March were up less than 3% from a year earlier in real terms, according to the Bank of Japan, slowing from an average 7% pace over the previous half-year, although April data improved a bit. And, once again, Japan isn't alone: Chinese and Korean exports have also been weak in recent months.

Japan is also getting squeezed by rising **oil prices**, again, in step with many Asian trade titans. Its fuel-import bill hit 4.7 trillion yen ($43 billion) in the first quarter, the highest since early 2015.

The good news is that if the dollar keeps strengthening -- as slowing global growth and rising U.S. interest rates suggest it might -- that will eventually help Asian exporters. The bad news is that for now, Japan and its peers are being hit with a double whammy of rising **oil prices** and slowing global-demand growth, especially from Europe.

Long thought to be a victim of its own special problems, Japan is now suffering the same spring cold affecting the rest of the world.

page,5043

Document J000000020180526ee5q00016

THE WALL STREET JOURNAL.
U.S. EDITION

Cravings for Tech Propel Convertible Bonds

By Maureen Farrell
897 words
26 May 2018
The Wall Street Journal
J
B1
English

Publicly traded technology companies have been issuing bonds that convert into equity at a pace unseen since the height of the dot-com bubble as demand for tech stocks surges.

This year, 24 U.S. technology companies have issued $11 billion of convertible bonds, the highest volume in a comparable period since 2000 and 29% above the already elevated level of 2017, according to data provider Dealogic.

It isn't hard to see why: The cost of the debt is at a low even as interest rates more broadly rise.

The average interest rate for convertible debt issued this year is 2.5%, the lowest on record, according to Dealogic. Tech companies are paying just 1.0% on average.

Three -- Nutanix Inc., RingCentral Inc. and Etsy Inc. -- have issued convertible bonds this year that pay no interest. Since the dot-com crash, such deals have been relatively rare. Only 13 other companies had issued convertible bonds without paying interest since then.

And just this week, FireEye Inc., Square Inc., and Envestnet Inc. issued a total of roughly $1.7 billion in convertible notes. The pace of issuance has accelerated in the past month and is expected to remain robust, bankers and lawyers say.

Convertible bonds give investors the right to trade the securities for equity once a company's shares hit a certain price.In a sign of investors' ravenous appetite for tech-company debt, conversion prices are only slightly below average even with the depressed interest rates. Convertible bonds for tech companies this year have had conversion premiums -- typically calculated as a percentage above the **stock price** at the time of issuance -- of 31.3%, according to Dealogic. That compares with the historical average of 32%.

The demand shows more broadly how hungry investors are for tech-company shares after years of depressed new issuance, which has recently begun to perk up. Tech companies raised $11.2 billion from 22 initial public offerings, nearly double the proceeds at this time last year. Those that have gone public in the U.S. this year are trading about 38% above their IPO prices on average compared with a 20% gain for all U.S.-listed new issues.

Meanwhile, the **S&P 500** tech index is up 11% this year, while the broader **S&P 500** has risen 1.8%.

The surge in convertible debt worries some investors who see a bubble developing when there are signs the multiyear **bull market** in stocks has run its course. But that hasn't damped demand.

And tech companies are even more **bullish** on their own stocks.

They are betting they will eclipse the level at which the companies have agreed to convert shares during the bonds' life, which is usually five years.

Most of the tech companies that have issued convertible debt this year have paid for a "call-spread overlay," a derivative that typically increases the price at which shares convert to double the starting price.

The cost of these derivatives is steep -- between 5% and 10% of proceeds, bankers and issuers estimate -- but they reduce the risk of dilution that conversion triggers.

Companies are aware that rates are likely to keep going up, so they are looking to "raise cash now and get some optionality at some of the most historically attractive levels for issuers," said Serkan Savasoglu, head of equity solutions for the Americas at Morgan Stanley.

Zendesk Inc. went public in May 2014, and its stock has risen more than sixfold since then.

The software company raised $575 million with a convertible bond in March, with a premium of 32.5% above its closing price before the deal was struck and an interest rate of 0.25%.

John Geschke, Zendesk's chief legal officer, said he was wary of potentially diluting the company's shareholders, so he opted to pay nearly 10%, or about $56 million, for a call-spread overlay. Still, he said, the low cost of the bonds made the deal appealing even after the fee.

While Zendesk didn't have a specific use of proceeds, it made sense to take the cash now for possible acquisitions or other investment opportunities, Mr. Geschke said. Part of the appeal for companies is the expedited time frame for getting access to this capital. Mr. Geschke said the issuance process took about 10 days compared with roughly seven months for Zendesk's IPO, which raised about $115 million.

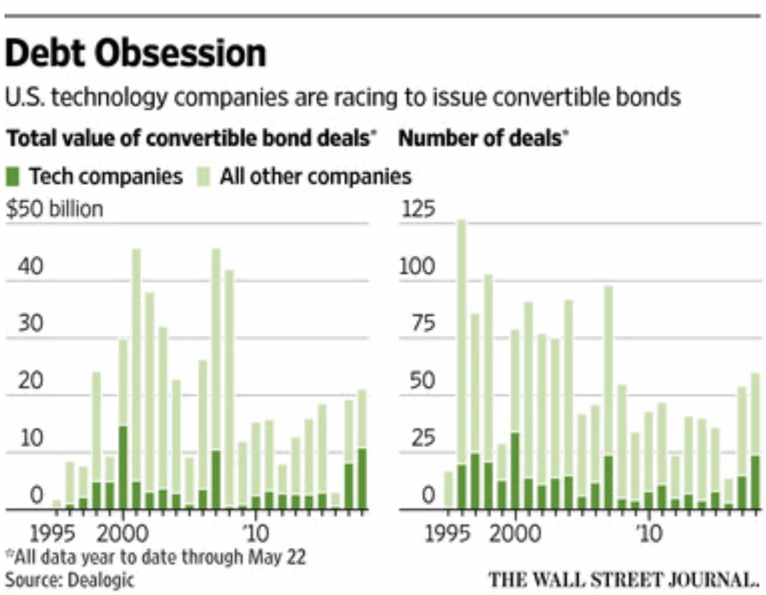
Technology companies are essentially being paid to wait until they can use the capital, said Michael Voris, global head of convertible-bond financing at Goldman Sachs Group Inc.

With companies earning higher rates on their cash, "the burden of paying a low convertible coupon is de minimis," he said.

Rick Kline, a partner at law firm Goodwin Procter LLP and co-chairman of its capital-markets practice, said many of these companies want access to capital so they can compete for acquisitions against the likes of Microsoft Corp., Amazon.com Inc., Alphabet Inc. and other cash-rich technology companies.

"Now this class of companies will be in a better competitive position to go after smaller companies," he said.

Investors, bankers and lawyers have all become so familiar with how these deals work, he said, "It's been a bit of wash, rinse, repeat."



Document J000000020180526ee5q00036

The New York Times

Business/Financial Desk; SECTB
Drivers May See Relief As Oil Prices Reverse Rise

By CLIFFORD KRAUSS and STANLEY REED; Clifford Krauss reported from Houston, and Stanley Reed from London.
916 words
26 May 2018
The New York Times
NYTF
Late Edition - Final
3
English

HOUSTON -- Oil prices are suddenly slumping again, just as American motorists were increasingly feeling the bite.

The price of crude has dropped by 7 percent since a recent high on Tuesday, a result of seemingly coordinated signals from Russian and Saudi officials that they are ready to increase production.

The abrupt reversal interrupted a surge in the American benchmark from less than $50 a barrel last fall to over $70, largely because of the collapse of Venezuelan oil production, the withdrawal of the United States from the Iran nuclear deal and stronger global demand for energy.

But now Russian and OPEC officials appear concerned that the potential for a price spike similar to one a decade ago could spur another drilling frenzy in the United States as well as robust sales of electric cars and other fuel-efficient vehicles.

The Russian energy minister, Alexander Novak, fanned speculation about a pivot on supplies when he suggested on Thursday that Russia and producers in the Organization of the Petroleum Exporting Countries would talk next month about easing their two-year-old agreement to reduce production.

On Friday, speaking at a conference in Russia, the Saudi oil minister, Khalid al-Falih, said producers had already begun consultations. ''The anxiety level that has escalated over the last few weeks is a concern to us,'' he said. ''I think in the near future there will be a time to release supply.''

Russia and Saudi Arabia have more than three million barrels of spare daily production capacity, so they are capable of more than compensating for production losses from Iran and Venezuela.

Energy experts had predicted for weeks that American motorists might head into the summer driving season facing an average gasoline price of $3 a gallon for the first time since 2014. Now, with oil falling below $70 a barrel in the United States, a lower gas price is possible.

''The chatter will arrest what was a long, painful ascent toward higher prices for motorists,'' said Tom Kloza, global head of energy analysis at the Oil Price Information Service. He added that it was ''pretty much guaranteed'' that regular gasoline would fall just short of a $3 per gallon national average over the Memorial Day weekend.

Nevertheless, gasoline prices have been rising, as they usually do during the busy summer driving season. The national average for a gallon of regular gasoline on Friday was $2.97, nearly 6 cents above a week ago and roughly 60 cents above a year ago, according to the AAA motor club.

Democrats lately have been blaming the Trump administration for the rise in gasoline prices. ''President Trump's reckless decision to pull out of the Iran deal has led to higher oil prices,'' the Senate minority leader, Chuck Schumer of New York, told reporters at a gasoline station near the Capitol this week. He added that the result was ''soaring gas prices, something we know hurts middle- and lower-income people.''

Mr. Trump voiced concern about higher gasoline prices, and how they might counteract the impact of recent tax cuts, when he railed against OPEC last month, saying it had unreasonably manipulated supplies.

"Looks like OPEC is at it again," Mr. Trump wrote on Twitter. "**Oil prices** are artificially Very High! No good and will not be accepted!"

The unusual swipe appeared to put pressure on OPEC to respond. Mohammad Barkindo, OPEC's secretary general, said on Friday, "In OPEC we always pride ourselves on being friends of the United States."

Moderate global **oil prices** help the administration put pressure on Iran and Venezuela with sanctions, since a jump in energy prices after such actions would be disruptive to the world economy and could hurt Republicans in the fall elections. After the disputed election on Sunday in Venezuela, the administration is considering tougher sanctions against the South American country's oil industry.

Americans consume roughly 400 million gallons of gasoline a day, so the 60-cent increase over the last year means roughly $240 million less every day in consumer pockets. It is particularly burdensome for working-class Americans or those in rural areas who drive older, less fuel-efficient cars and spend a higher percentage of their income on fuel.

Gasoline prices vary greatly by state, in part because of differences in taxes and fuel regulations. Californians paid an average of $3.73 a gallon on Friday, for instance, while Texans paid an average of $2.76.

Prices are still well below what they were a decade ago, when the national average topped $4 a gallon and **oil prices** topped $100 a barrel. The American benchmark price is now about $68 a barrel.

There is a lag of at least a few days between the direction of **oil prices** and gasoline prices, with the acceleration in gas prices letting up in recent days.

Oil prices are inherently **volatile**, and they could go back up any time. But for the moment, it appears that Russia and Saudi Arabia, which leads OPEC, want to work out a strategy to increase supplies later this year while averting a scramble for market share that could send prices down again.

With oil falling below $70 a barrel in the United States, a lower gas price may be possible heading into the summer driving season. (PHOTOGRAPH BY JOE RAEDLE/GETTY IMAGES)

Document NYTF000020180526ee5q00054

The New York Times

Business/Financial Desk; SECTB
Oil Companies Reel as OPEC Plans to Pump More

By THE ASSOCIATED PRESS
606 words
26 May 2018
The New York Times
NYTF
Late Edition - Final
4
English

Energy companies and **oil prices** recorded their worst losses in months Friday on reports that OPEC countries plan to produce more oil soon. Stock indexes finished an indecisive week with small losses.

United States crude oil sank 4 percent after multiple reports indicated that Russia and OPEC could start producing more oil soon. They cut production at the start of 2017 after a big buildup in supplies that had pushed prices lower.

In November they extended that cut through the end of 2018, but according to reports this week, they might agree to start raising production in June. U.S. crude finished at a three-year high Monday and has fallen 6 percent since then.

The drop in the price of oil has meant sharp losses for energy companies, but it gave airlines a boost as investors anticipated lower fuel costs. Bond yields declined again, which hurt banks but helped dividend-payers like household goods makers.

Wall Street also focused on quarterly results from retailers. Gap stock plunged after the company said its namesake brand was still struggling, but Foot Locker shares soared after the company said sales of premium shoes improved.

Terry Sandven, chief equity strategist at U.S. Bank Wealth Management, said energy companies and **oil prices** had made big gains lately and were due to slow down. He said the growing global economy would help the industry in the longer term.

The **S**.**&P**. **500 index** slid 6.43 points, or 0.2 percent, to 2,721.33. The **Dow Jonesindustrial average** fell 58.67 points, or 0.2 percent, to 24,753.09. The **Nasdaq composite** climbed 9.42 points, or 0.1 percent, to 7,433.85 as consumer-focused companies moved higher. The Russell 2000 index of smaller-company stocks lost 1.29 points, or 0.1 percent, to 1,626.93.

United States crude dropped to $67.88 a barrel in New York. Brent crude, used to price international oils, fell 3 percent to $76.44 a barrel in London. Increased oil production and lower prices could reduce profits for energy companies. Exxon Mobil shares fell 1.9 percent to $78.71 and Chevron stock gave up 3.5 percent to $122.19.

Among airlines, Delta shares gained 2.7 percent to $55.87 and American stock rose 3.1 percent to $44.91. The stocks have skidded over the last few months as the rising price of oil increased their fuel costs and cut into their profits. Delta stock is flat in 2018 and American Airlines has fallen 14 percent.

Bond prices kept rising. The yield on the **10**-**year Treasury** note fell to 2.93 percent from 2.98 percent.

The falling yields helped household goods makers break out of their recent struggles. Shares of the toothpaste maker Colgate-Palmolive added 2 percent to $63.75 and shares of the cereal maker Kellogg rose 2.7 percent to $65.23. The stocks, and others that pay large dividends, have lagged behind the rest of the market as investors found technology firms and consumer-focused companies more attractive.

Gold slipped 0.1 percent to $1,303.70 an ounce. Silver lost 0.8 percent to $16.55 an ounce. Copper fell 0.6 percent to $3.08 a pound.

The dollar rose to 109.37 yen from 109.28 yen. The euro fell to $1.1669 from $1.1727.

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

Document NYTF000020180526ee5q0004s

THE WALL STREET JOURNAL.

Politics
Trump Team Seeks Truce With Congress Over ZTE; Administration seeks a deal to help Chinese telecom firm survive

By Kate O'Keeffe, Bob Davis and Lingling Wei
1,330 words
25 May 2018
08:01 PM
The Wall Street Journal Online
WSJO
English

The Trump administration scrambled this week to keep lawmakers from undermining coming trade talks with China, pressing them not to block a deal to roll back penalties on Chinese telecommunications giant ZTE Corp.

President Donald Trump said he has put together a deal to help ZTE survive, despite a U.S. Commerce Department ruling that the company had failed to live up to the terms of an agreement over ZTE's evasion of sanctions on sales to Iran and North Korea. On Friday evening, he lashed out at Democratic lawmakers who opposed his plan. "Dems do nothing…but complain and obstruct," he tweeted.

Many lawmakers have resisted any move to help ZTE, which was forced to suspend operations after the Commerce Department banned U.S. suppliers in April from providing it with key components to its business as a punitive measure. Beijing has made the resolution of the issue a top agenda item in negotiations.

Amid the controversy, Commerce Secretary Wilbur Ross is preparing to lead an interagency delegation to Beijing, starting June 2. There, he will confer with China's chief economic envoy, Liu He. The two men talked this week and set up the session. The high-profile assignment for Mr. Ross marks his re-emergence as a major player in U.S.-China economic relations, after being sidelined for about a year.

The ZTE issue is bound to be on the agenda for the coming talks, unless it is settled before Mr. Ross and the delegation arrive in Beijing.

Along with the ZTE talks, the U.S. and its allies are pressing Beijing to approve U.S. chip maker Qualcomm Inc.'s bid for NXP Semiconductors NV. U.S. negotiators raised the issue with Mr. Liu recently in Washington, people briefed on the talks said. Chancellor Angela Merkel of Germany also lobbied for the deal in her meeting with President Xi Jinping of China this week, according to a person with knowledge of the matter.

Mr. Trump said he was planning to reverse the penalties on ZTE. He tweeted earlier in May that he and Mr. Xi were "working together to give massive Chinese phone company, ZTE, a way to get back into business, fast."

The tweet prompted a strong response from lawmakers, including Mr. Trump's fellow Republicans, who accused him of irresponsibly conflating trade and national-security issues.

Late on Wednesday, Mr. Ross and Treasury Secretary Steven Mnuchin met with top Republican senators in an attempt to assure them that ZTE was being treated as a national-security issue and as such was being discussed on a separate track from trade negotiations, according to people briefed on the meeting.

They also said there would be no quid pro quo for Chinese purchases of agricultural or energy goods; they asked members to ease off their criticism to give the administration more time to work out a deal, the people said.

Sens. John Cornyn (R., Texas), Marco Rubio (R., Fla.) and Tom Cotton (R., Ark.) were among those who attended the meeting, which began in Mr. Cornyn's office and later moved to a secure facility, the people familiar with the matter said. Senators' reactions were mixed, with some appearing open to the administration's position and others staying firm in their opposition, the people said.

"When the Commerce Department denied ZTE access to semiconductors for seven years they knew full well it would put them out of business," Mr. Rubio said Friday. "To now argue that the penalty needs to be adjusted because that wasn't the intent isn't credible. The world will see this weakening of penalties as yet another example of the U.S. backing down under Chinese pressure."

But aides to Messrs. Cornyn and Cotton said the lawmakers were now confident that the administration is keeping national-security concerns separate from trade talks.

While Mr. Cotton supported the original penalty that the Commerce Department imposed on ZTE, "between the administration's response and likely congressional action he anticipates equally far-reaching penalties against ZTE," said Caroline Tabler, Mr. Cotton's spokeswoman, in a statement Friday.

But the controversy gave an opening for Mr. Trump's Democratic opponents to portray him as weak on China.

Rep. Nancy Pelosi of California, the House Democratic leader, tweeted that Mr. Trump was "using U.S. government resources to enrich ZTE (a foreign company designated as a national cybersecurity risk)." Sen. Chuck Schumer of New York, the chamber's Democratic leader, tweeted: "If the administration goes through with this reported deal, President Trump would be helping make China great again."

Administration officials teased out the outlines of a new plan to resolve the ZTE issue throughout the week, with Mr. Trump saying in remarks at the White House on Tuesday that he envisioned a fine of more than $1 billion for ZTE, potentially reaching $1.3 billion. He said ZTE should install new leadership and buy more U.S. products.

On Thursday morning, Mr. Ross said in an interview on CNBC that any deal with ZTE would also involve "implanting people of our choosing into the company to constitute a compliance unit, and that unit would report back to the Department of Commerce." That followed a tweet of Mr. Trump's that a "different structure," would be needed to "verify results" of any U.S.-China trade negotiations.

In Mr. Trump's tweet on Friday, he confirmed parts of the deal, writing in reference to ZTE: "I closed it down then let it reopen with high level security guarantees, change of management and board, must purchase U.S. parts and pay a $1.3 Billion fine."

Mr. Ross finalized his plans for his trade mission to Beijing on Thursday. Treasury Undersecretary David Malpass is scheduled to be part of the delegation, as are representatives from other agencies. They will focus on boosting U.S. exports to China—part of the U.S. demand that Beijing reduce the vast U.S. trade deficit with the country by $200 billion by 2020.

The group also plans to press China to make structural changes in its economic model, especially reducing subsidies to state-owned companies, which give them a leg up in international competition, people familiar with the talks said.

Mr. Trump's focus on the trade deficit is bound to take center stage, as it has in past negotiating rounds. The Commerce Department has been reaching out to U.S. energy companies, especially those that produce liquefied natural gas, to see what deals they could make with China, a person briefed on those talks said. The U.S. is asking those companies to try to book the deals in 2018, rather than later years, and probed the firms about how they will value the deals, the person said.

In Beijing, China Petroleum & Chemical Corp., or Sinopec, said it plans to double its crude oil imports from the U.S.

Based on Friday's **oil prices**, that would translate into about $6 billion of U.S. imports, a Sinopec executive said. "Our demand for crude oils is increasing, while the U.S. has become a net exporter of crude oils," said Lu Dapeng, a Sinopec spokesman.

But it is unclear whether those purchases would involve fresh U.S. production, or rather a diversion of oil now sold to other markets. In negotiations with China last year, Mr. Ross announced deals worth $250 billion, which was widely criticized as an inflated number.

Siobhan Hughes contributed to this article.

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Document WSJO000020180525ee5p002s1

THE WALL STREET JOURNAL.
U.S. EDITION

Dollar Flexes Its Muscles Over Rivals

By Ira Iosebashvili
160 words
26 May 2018
The Wall Street Journal
J
B10
English

The dollar rose against a broad range of currencies, boosted by political uncertainty in Europe and a drop in **oil prices**.

The WSJ Dollar Index, which measures the U.S. currency against a basket of 16 others, rose 0.4% to 87.33, its highest close since December.

Fears that Italy's likely new antiestablishment coalition government would add to the country's large debt pile and potentially loosen ties with the European Union have weighed on the euro. Late Friday in New York, the euro was at $1.1645, its lowest level since November, compared with $1.1722 late Thursday. The common currency fell 1.1% for the week.

Meanwhile, a 4% drop in U.S.-traded crude hurt the currencies of oil exporters. The dollar rose 0.7% against its Canadian and Brazilian counterparts and gained 1.1% against the ruble.

Document J000000020180526ee5q0002t

THE WALL STREET JOURNAL.

Markets
Investors Are Taking Stock of Trade; Markets close out the week on edge amid geopolitical tension

By WSJ Graphics
230 words
25 May 2018
09:02 PM
The Wall Street Journal Online
WSJO
English

U.S. stocks booked slight gains for the week, though continuing trade negotiations with China, along with geopolitical tensions with North Korea and worries about rising interest rates, have kept investors on edge.

Stocks such as Boeing, Deere and Caterpillar have become unofficial proxies for fears about an escalating U.S.-China trade dispute.

Qualcomm is also in the eye of the storm—its planned $44 billion acquisition of NXP Semiconductors may have become collateral damage in the trade spat.

Meanwhile, Nucor and U.S. Steel are expected to benefit from tariffs on imports of steel.

The **Dow Jones Industrial Average** has faced resistance crossing 25000. The blue-chip index closed above the milestone on Monday for the first time since March 16 as trade tensions eased, but slid below the mark again the next session.

One of Washington's central demands in the trade dispute is that China reduce its $375 billion merchandise trade surplus with the U.S. by at least $200 billion by the end of 2020.

The WSJ Dollar Index and gold prices climbed over the past week as geopolitical rifts drove investors into relatively safe assets.

Defense stocks jumped after President Donald Trump called off his planned summit with North Korean leader Kim Jong Un.

Document WSJO000020180526ee5q00001

The New York Times

World; Europe

Hosted by Putin, Leaders of France, Japan Castigate Trump

By Ivan Nechepurenko and Andrew E. Kramer
1,178 words
25 May 2018
03:34 PM
NYTimes.com Feed
NYTFEED
English

ST. PETERSBURG, Russia — The president of France spoke of an “erroneous decision.” Japan’s Prime Minister lamented disruptions to trade. The head of the International Monetary Fund said recent foreign policy positions were “not the right way to go.”

They were not criticizing President Vladimir V. Putin of Russia, whom the United States has tried to isolate on the world stage.

Instead, Mr. Putin sat, nodding approvingly, on a stage beside these heads of state and other senior officials at a business forum that veered into what sounded at times like a group-therapy session for world leaders slighted by President Trump.

Speaking to an auditorium of business executives, President Emmanuel Macron of France said he had tried to persuade President Trump to remain in the international climate accord, observe a nuclear deal with Iran and refrain from moving the United States embassy in Israel to Jerusalem, only to be rebuffed on all three points. Mr. Macron called the embassy move “erroneous.”

Prime Minister Shinzo Abe of Japan said he was moving ahead with a trade pact with Pacific nations despite Mr. Trump’s withdrawal from the deal. “This is the kind of fairness we need,” he said of the trade deal. “Unfortunately, the U.S. withdrew.”

Christine Lagarde , the director of the International Monetary Fund, said the Trump administration’s threat to impose tariffs on Chinese goods was rocking the boat of the global economy. A trade deficit is not reason enough to impose tariffs, she said. “It’s a strange complaint,” she said, and “not the right way to go” on trade.

It was a peculiar forum for airing grievances against the United States. At the St. Petersburg International Economic Forum, an annual gathering for foreign investors and executives who do business in Russia, Mr. Putin was playing host to the leaders of France and Japan, countries that have imposed sanctions on Russia.

The United States, which imposed some of the harshest restrictions, sent its ambassador to the conference with the message that “dialogue and communication is the only way to improve ties.”

Mr. Putin, for his part, spoke of the United States shifting the rules of the international order even as it attempted to police those rules.

“The current situation in the world is such that everybody is playing soccer with the rules of judo,” Mr. Putin said. “So what we have is neither soccer nor judo. It’s chaos.”

The complaints by the French and Japanese leaders play into Russia’s long-term effort to drive wedges between the United States and its traditional allies.

To be sure, Mr. Macron also spoke of France’s long, warm historical alliance with the United States and said disagreements were part of that lengthy friendship. And Mr. Abe, in a speech, drew attention to the lack of a formal peace treaty to end World War II between Russia and Japan, because of a territorial dispute over islands.

The vice president of the People’s Republic of China, Wang Qishan, appeared to be the most diplomatic of all, saying China could learn from America. “America is the only global superpower, in soft power and in hard power,” Mr. Wang said.

The United States and European allies have sought to isolate Russia economically, and have expelled Russian diplomats, over its military intervention in Ukraine, meddling in foreign elections and the poisoning of a former Russian spy in Britain.

The sign of some fracturing of the Western alliance against Russia came as the Russian economy has been pulling out of a recession that had been brought on by swooning global prices for oil, a key export commodity, and Western sanctions.

Earlier this month, Mr. Putin laid out ambitious economic targets for his fourth term as president of Russia, saying he would increase life expectancy, cut poverty and, improbably, displace Germany as the world's fifth largest economy.

“Nobody is saying today how are we going to achieve every percentage point of this growth, even though such ambitious targets have been set,” said Aleksei L. Kudrin, an economic adviser to Mr. Putin, and an occasional critic of his economic policies.

Mr. Kudrin, who also attended the business gathering, said Western sanctions had cost Russia about 0.5 percent of growth annually. However, several top officials in Russia expressed hope that disagreements emerging between European nations and the United States over sanctions politics, such as those stemming from disagreement over the Iran nuclear deal, could help Russia break up what had been a united front against Moscow.

Igor I. Sechin, the head of Russia's national oil company, Rosneft, said the turmoil over Iran policy was responsible for helping to drive up **oil prices** to levels not seen since 2014.

The Trump administration has recently sent mixed signals on doing business in Russia.

In April, the Treasury Department issued sanctions against seven wealthy Russians. Then this month, the American ambassador, Jon M. Huntsman Jr., encouraged Americans to attend the business forum.

Mr. Huntsman had agreed to provide opening remarks at a panel discussion in which one of the Russians the Treasury Department had just sanctioned, Viktor F. Vekselberg, was scheduled to participate. Mr. Huntsman later backed out of his role with the panel, though he did attend the forum.

An investment firm Mr. Vekselberg once described as his American affiliate, Columbus Nova, paid $580,000 to a shell company set up by President Trump's personal lawyer, Michael D. Cohen .

“I'm disappointed, I would have loved to have him give welcoming remarks,” Alexis Rodzianko, president of the American Chamber of Commerce in Russia, said in an interview. But, he said, “a mixed message is better than the message we were getting before.”

Under President Obama, the American policy was to dissuade company executives from attending the economic forum, a gala event backed by the Russian government and modeled on the World Economic Forum held in Davos, Switzerland.

This year, Mr. Huntsman, Mr. Trump's ambassador, turned up only to have his boss castigated on stage by the world leaders.

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* Trump Abandons Iran Nuclear Deal He Long Scorned

“The current situation in the world is such that everybody is playing soccer with the rules of judo,” said President Vladimir V. Putin of Russia. “So what we have is neither soccer nor judo. It's chaos.” | Sergei Karpukhin/Reuters | Japan's prime minister, Shinzo Abe, said he would move ahead with an effort to form a trade pact with Pacific nations despite Mr. Trump's withdrawal from the deal. | Sergei Bobylev/EPA, via Shutterstock | President Emmanuel Macron of France said he tried to persuade President Trump to remain in a climate accord, observe a nuclear treaty with Iran and refrain from moving the American Embassy in Israel to Jerusalem, only to be rebuffed on all three points. | Dmitri Lovetsky/Associated Press

Document NYTFEED020180525ee5p006y2

THE WALL STREET JOURNAL.

U.S. Markets
Markets

U.S. Stocks Stall as Oil Falls and Global Worries Mount; Investors are grappling with a growing array of global political risks

By Jon Sindreu and Akane Otani
737 words
25 May 2018
04:59 PM
The Wall Street Journal Online
WSJO
English

U.S. stocks stalled Friday but hung on to weekly gains, as tumbling **oil prices** and worries over political risks from North Korea to Italy kept investors on guard ahead of the holiday-lengthened weekend.

Stock indexes around the world struggled to gain ground this week as geopolitical rifts drove investors into relatively safe assets such as government bonds and gold.

President Donald Trump called off a much-awaited summit with North Korean leader Kim Jong Un, while investors contended with the rise of antiestablishment parties in Italy and a corruption scandal in Spain.

The moves drummed up fresh uncertainty among investors, who find themselves grappling with an increasing array of global political risks. Still, many investors remain convinced that the rekindled tensions are driven by a new aggressive negotiating style favored by upstart politicians—including Mr. Trump—and that they are unlikely to cause disruption in the longer term.

"What I have been seeing for the past six months is that there are a lot more opportunities than there was last year. There's just more stuff happening," said Christian Ryther, manager of Curreen Capital Management, who has been adding risk to his portfolio.

The **Dow Jones Industrial Average** fell 58.67 points, or 0.2%, to 24753.09. The **S&P 500** lost 6.43 points, or 0.2%, to 2721.23, and the **Nasdaq Composite** edged up 9.42 points, or 0.1%, to 7433.85.

For the week, the Dow industrials rose 0.2%, while the **S&P 500** added 0.3% and the **Nasdaq** climbed 1.1%.

Trading was quiet Friday, with some traders attributing the lull to a dearth of activity ahead of the long weekend. U.S. **financial markets** are closed Monday in observance of the Memorial Day holiday.

Shares of utilities rallied throughout the week as investors flocked to bondlike stocks that tend to do well in times of market **volatility**.

The gains helped offset steep losses in the **S&P 500** energy sector, which fell Friday and posted a 4.5% weekly loss as U.S. crude **oil prices** tumbled.

U.S. crude for July delivery fell 4.9% to $67.88 a barrel after major oil producers including Saudi Arabia and Russia signaled they might be willing to relax global production caps. The selling weighed on the energy sector, with shares of Hess falling $3.24, or 5.2%, to $59.16.

Elsewhere, the Stoxx Europe 600 posted a 0.9% weekly decline, snapping an eight-week winning streak, as investors weighed signs of political risk being reawakened in the eurozone.

Antiestablishment parties are heading a new Italian government, while Spain is submerged in a corruption scandal that could lead to new elections.

The developments led investors to dump Italian government bonds, sending the yield on the 10-year bond to its highest level since 2017.

"We are avoiding Italian risk because there's a contagion fee there," said Angus Sippe, a fund manager at Schroders, an asset manager with about $600 billion under management. "In the [eurozone] periphery, you clearly see political risk."

Spanish stocks came under pressure, too, with the benchmark IBEX 35 index losing 1.7% after the country's main-opposition Socialist Party filed a no-confidence motion against Prime Minister Mariano Rajoy.

A court ruled Thursday that Mr. Rajoy's party had benefited financially from an illegal kickback scheme. The group has said it would appeal the ruling.

Meanwhile, U.S. government bonds rallied as bubbling geopolitical tensions and signs that the Federal Reserve would be willing to remain on a gradual pace of interest-rate increases helped drive up demand for Treasurys.

The yield on the benchmark **10**-**year Treasury** note settled at 2.931%, compared with 3.067% the prior Friday—notching its biggest one-week decline since April 2017. Yields fall as **bond prices** rise.

Write to Jon Sindreu at jon.sindreu@wsj.com and Akane Otani at akane.otani@wsj.com

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THE WALL STREET JOURNAL.

Markets

With Curbs on Interest Deduction, Companies Strategize on Debt; New interest-deductibility limits are expected to hit companies that are highly leveraged or capital-intensive

By Michael Rapoport
1,038 words
25 May 2018
10:41 AM
The Wall Street Journal Online
WSJO
English

Corrections & Amplifications

Craig Horowitz said multinational companies are "definitely looking at pushing their debt" to other countries where they might get the best tax deal. An earlier version of this article incorrectly quoted Mr. Horowitz.

Last year's tax-code overhaul slashed the rates companies pay, but limited an important break-—the deductibility of interest payments. Now, companies are exploring ways to sidestep that change and billions of dollars in tax each year.

Before the new law, corporate interest payments were generally deductible. Starting this year, companies can only deduct interest payments up to 30% of their adjusted income.

In response, some companies are taking or considering steps that would keep interest payments within the cap. These include shifting some borrowing overseas; moving to alternative forms of financing that carry lower interest payments like convertible notes; or avoiding interest payments entirely through the use of tools such as supply-chain financing or sale-leaseback arrangements.

Some companies are simply retiring debt, lowering interest payments altogether.

"For sure they will try to avoid it," said Steven Rosenthal, a senior fellow at the nonpartisan Tax Policy Center in Washington. "People are trying to find out how to react to the new rule."

The new interest-deductibility limits are expected to affect companies that are highly leveraged or capital-intensive—firms in industries such as energy and telecommunications, whose businesses require constant financing and spending.

The new restriction could wipe out some of the gains companies will realize from the reduction in the corporate tax rate to 21% from the previous 35%. Indeed, Congress's Joint Committee on Taxation estimates the interest-deduction limit will bring in $90.2 billion in additional revenue in the next five years and $253.4 billion over the next decade.

While eager to act, companies are being cautious. The Internal Revenue Service has yet to issue full guidance on how the interest-deduction cap will be implemented, and it could close off some of the steps companies are considering.

In a March report, the New York State Bar Association's tax section said there is "a reasonable policy argument that deductions for expenses that are the functional equivalent of interest ought to be limited in the same manner as interest deductions." The Treasury Department and the IRS should consider whether to issue guidance along those lines, the group said.

"There's a little bit of wait-and-see," said Craig Horowitz, head of the tax group at law firm Cahill Gordon & Reindel LLP.

While the new law limits the deductibility of interest to 30% of a company's earnings before interest, taxes, depreciation and amortization, or Ebitda, that is just the start.

Beginning in 2022, depreciation and amortization costs will be incorporated into the calculation. Doing so reduces profit and the amount of interest expense that is deductible.

In part, capping the interest deduction was intended to prod companies toward issuing more stock to finance operations, instead of relying on debt that requires interest payments. As a result, law firm Cleary Gottlieb Steen & Hamilton LLP said in a January memo it expects "new patterns" to emerge over how and where U.S. companies issue debt, and the firm thinks companies will engage in more "liability management" transactions to restructure debt.

That is already happening. U.S. corporate debt issuance is down almost 14% this year through April compared with the same period last year, according to data from the Securities Industry and **Financial Markets** Association. Meanwhile, U.S. equity underwriting is up 3.2%, according to data from Thomson Reuters.

And some companies already are borrowing through non-U.S. subsidiaries where the effect of the 30% cap may be limited. Multinational companies are "definitely looking at pushing their debt" to other countries where they might get the best tax deal, Mr. Horowitz said.

Aerospace company TransDigm Group Inc., for one, raised $500 million earlier this month by selling notes through a U.K. subsidiary. The company had $322 million in net interest expense in the six months ended in March, about 39% of Ebitda. The company didn't mention the interest-deduction cap as a reason for the offering and declined to comment.

Energy company AES Corp. raised about $380 million in February through a Brazil subsidiary. AES also recently completed tender offers for $1.7 billion of existing debt, in part to refinance higher-rate debt. The company had 2017 net interest expense of $926 million, around the 30% threshold. AES said its tender offers were primarily aimed at improving its capital structure, but the benefit of reducing debt when interest deductibility is limited was "a secondary driver."

Other companies are looking to monetize invoices, receivables and other assets more quickly as a source of financing, rather than paying interest on debt. Companies have used such arrangements for years, but staying away from interest payments is "absolutely" a factor in their use of it now, said Roland Hartley-Urquhart, head of the U.S. division of Greensill Capital, which specializes in working-capital finance.

Here's how that works: acting on a company's behalf, Greensill pays a supplier for an invoice or receivable. Greensill pays an amount slightly lower than the face value of what is owed, but the supplier gets its money more quickly than it would otherwise. The original company pays Greensill the full amount later.

The arrangement allows a company to plan for longer payment terms from the start, giving it access to its cash for a longer period. That means it has less need to borrow and pays less interest, so there is less chance it will exceed the 30% cap.

There may be another way to avoid the cap. The tax law allows companies to carry forward to future years the portion of interest that can't be deducted because it is over the 30% threshold. That may allow companies to deduct the payments down the road.

Cable-TV company Altice USA Inc. paid $1.6 billion in interest in 2017 and is close to the 30% cap. But the company, which didn't respond to requests for comment, said in its annual report that it expects any disallowed deductions to "fully reverse."

Write to Michael Rapoport at Michael.Rapoport@wsj.com

Document WSJO000020180525ee5p000em

THE WALL STREET JOURNAL.

Markets

Gold Little Changed With Markets Calm; Prices hurt by stronger dollar but benefiting from a continued drop in Treasury yields

By Amrith Ramkumar and David Hodari
423 words
25 May 2018
02:41 PM
The Wall Street Journal Online
WSJO
English

Gold prices swung between small gains and losses before closing slightly lower Friday, hurt by a stronger dollar but benefiting from a continued drop in Treasury yields.

Front-month gold for May delivery closed down less than 0.1%, at $1,303.30 a troy ounce, on the Comex division of the New York Mercantile Exchange. Prices surged back above $1,300 on Thursday after President Donald Trumpcanceled a summit with North Korean leader Kim Jong Un, with the news prompting some safe-haven buying.

But North Korea's response to the move was softer than many analysts were expecting, with officials saying in a statement they remained willing "to sit down face-to-face with the U.S. and resolve issues anytime and in any format."

Mr. Trump told reporters Friday that dialogue with North Korea continued and hinted the summit could still happen.

More placid markets and a rise in the dollar and Treasury yields sent gold to its lowest close of the year last week, as a stronger dollar makes gold more expensive for overseas buyers and higher yields make the metal less attractive to some investors.

On Friday, the WSJ Dollar Index, which tracks the U.S. currency against a basket of 16 others, rose 0.3%, around a fresh year-to-date high. A drop in Treasury yields was benefiting gold, though, with the yield on the benchmark 10-year U.S. Treasury note falling to 2.931% from 2.981%. Yields fall as **bond prices** rise.

Some analysts viewed Wednesday's minutes from the Federal Reserve's latest meeting as more conservative and a sign that the central bank will remain on its gradual path of rate increases even if inflation reaches its target. That could boost gold, which is used by some money managers to hedge against a rise in consumer prices.

Among base metals, front-month copper for May delivery edged down 0.6%, to $3.0670 a pound, tracking a decline in **oil prices**. Some investors trade the two commodities in a single basket. Copper is down 6.5% in 2018 after hitting a nearly four-year high late last year, hurt by worries about oversupply and an economic slowdown in China, the world's largest consumer.

Write to Amrith Ramkumar at amrith.ramkumar@wsj.com and David Hodari at David.Hodari@dowjones.com

Document WSJO000020180525ee5p001gt

WSJ PRO PRIVATE EQUITY

Pro Private Markets
PE-Backed Focus Financial Files for IPO

282 words
25 May 2018
01:25 PM
WSJ Pro Private Equity
RSTPROPE
English

Focus Financial Partners Inc., a private equity-backed investment firm that backs wealth-management advisers who are leaving big Wall Street banks to strike out on their own, is looking to go public again.

The Registered Investment Advisor aggregator, which is backed by Stone Point Capital, KKR & Co. and Centerbridge Partners, on Thursday filed a prospectus with the Securities and Exchange Commission outlining its plans for an initial public offering

The SEC filing doesn't provide pricing details, but values the IPO at $100 million. The company's stock will trade on the **Nasdaq Stock Market** under the ticker FOCS.

New York-based Focus Financial was founded in by Reudiger Adolf, the firm's chief executive. Focus has more than 50 partner firms in more than 30 states, as well as Canada, the U.K. and Australia.

Focus Financial posted a net loss of $48.4 million in 2017 on revenue of $662.9 million. During the first three months of this year, the company logged a net loss of $12.1 million on revenue of $196.2 million. The company states more than 90% of its revenue is fee-based and recurring in nature.

Focus in 2016 confidentially filed for an IPO that stood to value it at $1 billion, The Wall Street Journal previously reported, citing people familiar with the matter.

KKR and Stone Point last year acquired a majority stake in Focus in a $2 billion deal. Venture-capital firms Polaris Venture Partners and Summit Partners, early Focus backers, as well as private-equity firm Centerbridge and certain Focus affiliates and employees sold stakes to Stone Point and KKR.

Document RSTPROPE20180525ee5p000b5

WSJ PRO CENTRAL BANKING

Economy

Business Investment Rebounds in April, But Overall Durable Goods Orders Fall; Last month's 1.7% decline was exacerbated by a 29% drop in orders for civilian aircraft

By Eric Morath
544 words
25 May 2018
10:11 AM
WSJ Pro Central Banking
RSTPROCB
English

WASHINGTON—A proxy for business investment rose a solid rate last month, but overall durable goods orders fell in April due to a decline in aircraft demand.

Orders for durable goods—products designed to last at least three years, such as computers and machinery—declined 1.7% from the prior month to a seasonally adjusted $248.5 billion in April, the Commerce Department said Friday.

The decline was led by a 29% decrease in the **volatile** civilian-aircraft segment.

An important proxy for business investment fared much better. New orders for nondefense capital goods excluding aircraft, rose 1% in April, offsetting a March decline.

"Capital goods orders and shipments appear to be continuing to trend higher over time," said J.P. Morgan economist Daniel Silver. But "the trends have moderated following what had been a strong run."

Capital spending fell in two of the first three months of this year after increasing at a strong rate last summer and fall.

If April's improvement can be sustained, it could be a sign that businesses are responding to tax-law changes. The new tax rules that went into effect this year were designed to incentivize businesses to increase capital investment. Much of last year's growth in investment can be tied to rising **oil prices** bolstering spending in the energy industry.

Outside of the up-and-down energy sector, business investment has been relatively lackluster since the recession ended in mid-2009, a factor that's held back stronger overall growth in economic output.

Adjusted for inflation, the capital-spending measure is substantially lower from its peak in mid-2000 and remains below a postrecession high touched in 2012.

Still, overall durable-goods orders through the first four months of the year were up 9.6% from the same period in 2017, well outpacing the recent pace of consumer-price inflation. Durable-goods shipments fell a slight 0.1% in April and were up 7.3% through the first four months of the year compared with the start of 2017.

Other measures of U.S. manufacturing are sending signals of moderating growth. U.S. factory activity grew more slowly in April, compared with earlier in the year, the Institute for Supply Managementsaid this month. The trade group attributed the deceleration in part to uncertainty surrounding U.S. trade policy. The Federal Reserve's measure of manufacturing output advanced solidly in April, but after soft readings in three of the prior four months.

Friday's report showed orders for motor vehicles and parts rose 1.8% in April from the prior month, the best monthly increase since August 2017. Excluding transportation, orders were up 0.9%.

Orders for defense capital goods, another choppy category, increased 3.1%. Excluding military demand, durable orders were down 1.9%.

Demand for U.S.-made primary metals, including steel and aluminum, increased 1.3% on the month and was up 15.2% through the first four months of the year, compared with the same period last year.

Write to Eric Morath at eric.morath@wsj.com

Document RSTPROCB20180525ee5p000dx

THE WALL STREET JOURNAL.
U.S. EDITION

Banking & Finance: S&P Plans to Launch China Ratings Business

By Gunjan Banerji
451 words
25 May 2018
The Wall Street Journal
J
B10
English

S&P Global Inc. plans to build a stand-alone ratings business in China, bringing it a step closer to expanding its presence in one of the world's biggest bond markets.

The financial-information company has notified the Chinese government of a plan to launch an independent credit-ratings firm in the country, an S&P spokesman said. A trade deal last year opened up China to U.S. ratings firms. S&P is speaking with regulators on the entrance.

Moody's Corp., S&P and Fitch Ratings, the world's top three credit-rating firms, have long coveted entry into China's bond market, but they have had a **volatile** relationship with Beijing.

Rating firms' relationship with China soured last year after both Moody's and S&P lowered their views on China's sovereign debt, citing concerns about an increasing pile of debt. The downgrades drew a hostile response from China's government and at one point even cast doubts on the rating firms' prospects for expanding in the country.

S&P's grades of Chinese companies could open up the domestic yuan-denominated bond market to international investors and provide Chinese companies with access to lower-cost capital.

One of the biggest challenges for S&P will be adjusting to a market where most bond issuers -- the parties that pay for credit ratings -- are used to lofty grades from domestic assessors.

Out of the roughly 4,570 corporate-bond issuers in China, 88% have a domestic credit rating of AA or higher, grades that Moody's, S&P and Fitch reserve for only the safest and most financially sound companies.

For example, CEFC Shanghai International Group, a unit of CEFC China Energy Co., an oil conglomerate whose chairman has been under investigation, defaulted on 2 billion yuan ($313 million) of short-term bonds this week. Despite the incident, the bond issuer carries a B rating from Lianhe Credit Rating Co., a domestic ratings firm that has downgraded the company three times since March.

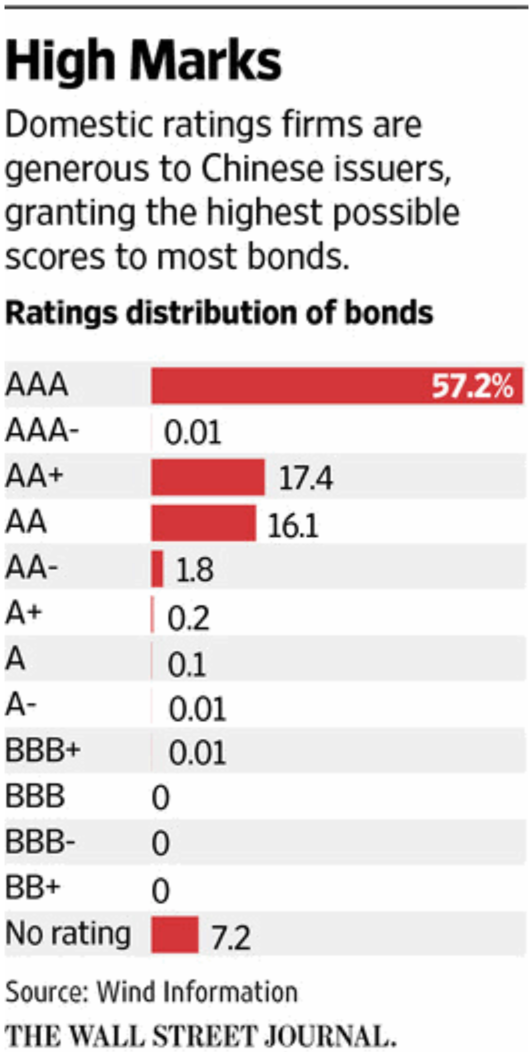
Until now, S&P has had a partnership with a Chinese firm, Shanghai Brilliance Credit Rating & Investors Service Co. S&P said it would discontinue this partnership.

Fitch plans to apply for a license from Chinese regulators to operate in the country, a spokesman for the firm said. It exited its joint venture in China this year.

Moody's owns a stake in Beijing-based China Chengxin International Credit Rating Co.

Moody's is "currently analyzing the options available to us," a spokesman said in an email.

Shen Hong contributed to this article.



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Document J000000020180525ee5p00020

The New York Times

Business/Financial Desk; SECTB
Trump's Cancellation of North Korea Meeting Sends Markets on Bumpy Ride

By THE ASSOCIATED PRESS
780 words
25 May 2018
The New York Times
NYTF
Late Edition - Final
5
English

Stocks finished mostly lower in the United States on Thursday as energy companies skidded along with **oil prices**. The market dropped after President Donald Trump said he canceled a meeting with North Korean leader Kim Jong Un, but recovered most of those losses.

Crude oil futures and energy companies fell as investors reacted to reports that OPEC nations may start producing more oil. Banks fell as interest rates edged lower, and car companies including Fiat Chrysler and Toyota dropped as the Trump administration considered tariffs on imported cars and car parts, a move that was criticized by the governments of China, Japan and the European Union.

The **Dow Jonesindustrial average** fell as much as 280 points in the morning, more than 1 percent, after Trump said the June meeting with Kim was off. In a letter, Trump said he was canceling the summit because of ''tremendous anger and open hostility'' in a recent statement by a North Korean official. Technology companies, which have led the market in recent years, took some of the biggest losses and defense contractors climbed.

The market gradually recovered those losses, and Trump later told reporters that the meeting could still happen in June or later on. Stocks finished only slightly lower than where they were before Trump's initial announcement.

Chris Zaccarelli, chief investment officer for the Independent Advisor Alliance, said investors were troubled at first by Trump and Kim's statements about a possible nuclear war, but they have gotten used to it.

''The first time the market hears these threats there's a large reaction, and after that there's less reaction,'' he said. ''It's just rhetoric right now and there's no actual military conflict; these moves are kind of short-lived.''

The **Standard & Poor's 500-stockindex** dropped 5.53 points, or 0.2 percent, to 2,727.76. The **Dow Jonesindustrial average** lost 75.05 points, or 0.3 percent, to 24,811.76. The **Nasdaq composite** dipped 1.53 points, less than 0.1 percent, to 7,424.43.

Benchmark United States crude lost 1.6 percent to $70.71 per barrel in New York.

Various news outlets reported that the nations of the OPEC cartel might start producing more oil in response to reduced exports from Venezuela and Iran. Greater supplies would send prices lower. Energy companies have slipped in recent days as investors anticipated that possibility. On Thursday Exxon Mobil lost 2.3 percent to $80.27 and Chevron dipped 1.6 percent to $126.61.

OPEC and a group of other major oil producers cut production last year in response to a steep drop in **oil prices**. United States crude had fallen from more than $100 a barrel in mid-2014 to as little as $26 a barrel in early 2016. On Monday it peaked at $72.24 a barrel, its highest price since late 2014.

Defense companies fared better than the rest of the market. Raytheon rose 1.3 percent to $213.94 and Northrop Grumman gained 1.4 percent to $332.81.

Bond prices rose. The yield on the **10-year Treasury** note fell to 2.98 percent from 2.99 percent, and banks traded lower. Gold gained $14.40 to $1,303.70 an ounce.

The Trump administration plans to conduct an investigation into imported vehicles and automotive parts on national security grounds. A European Union official said the proposal would violate World Trade Organization rules, and Japan and China also criticized the proposal. Those same grounds are the justification for proposed tariffs on imported aluminum and steel, and the United States will decide by June 1 whether to impose tariffs on steel and aluminum from Europe.

Fiat Chrysler lost 0.9 percent to $22.26 and Tata Motors fell 5.8 percent to $21.09. Toyota shares fell 1.8 percent to $132.44. In the United States Ford rose 1.6 percent to $11.62 and General Motors added 1.4 percent to $38.39.

''I'm hoping that what they're doing is trying to put a little pressure on the Nafta negotiations, and this will be a way to get Mexico and Canada to agree,'' said Mr. Zaccarelli, of the Independent Advisor Alliance.

The dollar fell to 109.28 yen from 110.07 yen. The euro rose to $1.1723 from $1.1704.

CHARTS: The **S**. **& P**. **500 Index**: Position of the **S**. **& P**. **500 index** at 1-minute intervals on Thursday. (Source: Reuters); 7-Year Treasury Notes: High yield at auction. (Source: Treasury Department)

Document NYTF000020180525ee5p0008c

THE WALL STREET JOURNAL.
U.S. EDITION

U.S. News: Rising Prices Pinch Existing-Home Sales

By Laura Kusisto and Sarah Chaney
344 words
25 May 2018
The Wall Street Journal
J
A3
English

WASHINGTON -- Sales of previously owned U.S. homes declined in April, as inventory shortages and rising prices weigh on the market and higher mortgage rates begin to pose a threat to demand for the first time in years.

Existing-home sales fell 2.5% in April from the prior month to a seasonally adjusted annual rate of 5.46 million, the National Association of Realtors said on Thursday. Compared with a year earlier, sales in April were down 1.4% -- the second consecutive month that existing-home sales declined on an annual basis.

Thus far, the critical spring selling season -- when some 40% of U.S. home sales occur each year -- is off to a slow start despite a robust economy. That reflects increasing pressure on buyers, as home prices rise at about twice the rate of incomes and borrowing costs climb.

"The economy has continued to show improvement, but the home sales are stuck and not breaking out," said Lawrence Yun, the trade group's chief economist.

The median sale price for an existing home in April was $257,900, up 5.3% from one year ago.

The rate for a 30-year mortgage rose to 4.66% this week from 3.99% at the end of last year, mortgage company Freddie Mac said Thursday.

The latest sales numbers reflect purchases that were closed in April, based on contracts signed in February and March. Rate increases were still modest when the contracts were signed and economists said the impact of higher rates will be felt more strongly in the coming months.

Economists said rising **oil prices** are also a challenge, as buyers will often trade longer commutes for more affordable home prices.

"The next two to three months will be really, really key. Can the market sustain its momentum given the trifecta of high rates, higher home prices and higher **oil prices**?" said Sam Khater, chief economist at Freddie Mac.

Document J000000020180525ee5p0001o

THE WALL STREET JOURNAL.

U.S. Markets
Markets

U.S. Stocks Fall After Trump Nixes North Korea Summit; Expectations for a market recovery are low heading into a holiday weekend

By Michael Wursthorn and Riva Gold
718 words
24 May 2018
05:09 PM
The Wall Street Journal Online
WSJO
English

The **Dow Jones Industrial Average** declined Thursday after President Donald Trump called off a summit with North Korea, hitting investors with another wave of uncertainty.

News of the canceled summit came within 30 minutes of the **stock market**'s open, pulling the blue-chip index down as much as 291 points before it recouped some of its losses later in the afternoon. Investors had hoped the summit, which was scheduled for June 12, would ease tensions between the two countries and bring some stability to the Korean Peninsula.

Instead, talks ahead of the summit stumbled after Pyongyang refused demands to denuclearize.

"They're both **volatile** personalities," Larry Peruzzi, managing director of international equity trading at Mischler, said of Mr. Trump and North Korean leader Kim Jong Un. "Maybe [the markets] should've expected something like this to happen. We were overly optimistic."

As major indexes regained a bit of their footing, some money managers said the latest exchange between Washington and Pyongyang could be more of a negotiating tactic than a wholesale abandonment of the peacemaking process.

"The [Trump] administration may come out with a hard stance on a certain issue and it turns out to be just the start of a conversation," said Timothy Chubb, chief investment officer at Univest Wealth Management Division. "It's something we've been dealing with all year."

The Dow industrials closed down 75.05 points, or 0.3%, at 24811.76. The **S&P 500** fell 5.53 points, or 0.2%, to 2727.76, and the **Nasdaq Composite** gave up 1.53 points, or less than 0.1%, to 7424.43.

Thursday's losses pared the Dow's gain for the week to 0.4% and underscore the continuing **volatility** that has kept stocks from moving meaningfully higher over the past three months.

Worries of runaway inflation, rising interest rates, a trade war and continuing geopolitical tensions have all sapped investors of their confidence this year, so much so that even a strong first-quarter earnings season did little to reinvigorate the **stock market**.

"The market has a problem trying to punch through 25,000," Mr. Peruzzi said of the Dow industrials. "It's going to take something else to get us through that. We haven't found it yet."

Expectations that stocks would recover Friday were low because trading volumes tend to be light ahead of a holiday weekend, money managers added. The U.S. **stock market** is closed Monday for the Memorial Day holiday.

Energy stocks extended their decline in the **S&P 500**, falling 1.7%, the most of any sector in the broad index. A drop in **oil prices** had already pushed stocks lower, but the decline worsened after the U.S. canceled the summit with North Korea. U.S. crude for July delivery lost $1.13 a barrel, or 1.6%, to $70.71.

Shares of Exxon Mobil fell $1.88, or 2.3%, to $80.27, while Chevron declined 2.09, or 1.6%, to 126.61.

While most other sectors of the **S&P 500** also fell Thursday, some of the less-risky corners of the market, such as those that tend to be more stable and generate higher dividends, rose, including utilities and telecommunications firms.

The **stock market** was also grappling with ongoing trade tensions after the Commerce Department said late Wednesday the Trump administration was considering new tariffs on vehicles and auto-parts imports.

Auto companies in Germany and Japan were under pressure following reports that Mr. Trump is seeking new tariffs of as much as 25% on automobile imports, according to those familiar with his request.

Japan's Nikkei Stock Average fell 1.1%, while the Stoxx Europe 600 declined 0.5%.

Write to Michael Wursthorn at Michael.Wursthorn@wsj.com and Riva Gold at riva.gold@wsj.com

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THE WALL STREET JOURNAL.

Markets

From Housing to Stocks, Rising U.S. Bond Yields Are Being Felt; Investors ask at what point growth will be damped as a benchmark Treasury yield hovers near a seven-year high

By Daniel Kruger and Akane Otani
912 words
24 May 2018
07:10 PM
The Wall Street Journal Online
WSJO
English

This year's rise in government-bond yields is rippling through the economy, affecting everything from mortgage rates to stock performance.

Signs of steady economic growth and expectations for rising inflation have helped push the yield on the benchmark **10-year Treasury** note this year to its highest level since 2011, leaving U.S. government bonds paying more than the debt from other developed countries.

Many investors believe those conditions will persist, with minutes from the Federal Reserve's May 1-2 meeting showing that central-bank officials could allow inflation to overshoot their 2% target for some time. The yield on the 10-year note retreated below 3% Thursday, notching its biggest two-day decline since March 1, although it remained near the year's high.

Yields, which rise when **bond prices** fall, are up this year, lifted by expectations of an acceleration in growth and inflation following $1.5 trillion in tax cuts and a surge in government spending. Coming more than eight years into an economic expansion, analysts say such stimulative policies will boost the deficit and government borrowing.

Now investors are asking at what point the rise in yields will begin to damp economic growth.

"There's an element of risk that's pervaded the markets that we didn't have at the start of 2018," said Jody Lurie, a bond strategist at Janney Montgomery Scott. Investors are wondering if there is any part of the market that won't be subject to losses, she added.

Rising bond yields have already pushed up borrowing costs for home buyers, raising questions about whether higher rates will curb the appetites of consumers looking at big-ticket purchases.

New-home sales fell in April, the Commerce Department reported Wednesday, a reversal after momentum picked up in the first quarter. The average rate for a 30-year fixed-rate mortgage rose to 4.61% last week, the highest level since 2011, according to data from Freddie Mac.

"Maybe higher mortgage rates are starting to have an impact as much as home builders don't want to admit it," Chris Rupkey, chief financial economist at MUFG, said in a note to clients. "We are watching new-home sales like a hawk to tell us the Fed has raised interest rates too high."

The impact of rising bond yields is also being felt in the **stock market**, with many investors selling shares of utilities and real-estate companies—often regarded as bond proxies because of their relatively hefty dividend payouts.

The **S&P 500** utility and real-estate sectors have fallen 5.2% and 6.3%, respectively, this year, ranking among the worst-performing in the **S&P 500**. The broader index is up 2% for the year.

Meanwhile, shares of the beneficiaries of higher interest rates have started to tick higher, with the KBW **Nasdaq** Bank Index of large U.S. lenders up 2.6% for the year. Higher interest rates tend to boost banks' net interest margins, a key measure of lending profitability.

Higher bond yields also have helped fuel a resurgence in the U.S. dollar, pushing investors to unwind long-held bets on emerging-market stocks, bonds and currencies.

For years, anemic bond yields in developed markets had pushed investors toward relatively risky emerging-market stocks and bonds, which offered higher returns. But the dollar's strengthening has made it more difficult for countries to service debt denominated in the U.S. currency, making emerging-market assets less attractive to investors.

The Turkish lira has slumped almost 20% against the dollar so far this year, pressured by concerns over the central bank's failure to raise interest rates as much as economists deem necessary to bolster the currency. Indonesia's central bank last week raised interest rates for the first time in four years to arrest a drop in its currency, while the Hong Kong Monetary Authority stepped in to prop up the territory's weakening dollar.

Concerns about these aftershocks on Wednesday drove investors into assets they see as safer stores of value, such as the Japanese yen and U.S. Treasurys, while stoking selling pressure in emerging-market assets.

The MSCI Emerging Markets Index, which measures stock performance across more than 20 countries, is down 10.8% from its Jan. 26 high, while the JPMorgan Emerging Market Bond Index is off 4.3% from its Jan. 5 peak.

Not all investors are worried about the climb in bond yields. Some say higher yields could draw investors back into U.S. Treasurys, helping slow some of the selling in the bond market. And others note that bond yields, while up for the year, remain relatively low compared with historical levels.

But many are betting a combination of higher debt issuance and divergent growth outlooks between the U.S. and the rest of the world will keep driving interest rates higher, a factor that could gradually start to take a bigger toll on the economy.

With investors wading through so many crosscurrents, the outlook for "2019 becomes very uncertain," said Christopher Sullivan, chief investment officer at the United Nations Federal Credit Union.

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Document WSJO000020180524ee5o000s8

THE WALL STREET JOURNAL.

Markets

S&P Global Moves to Start Ratings Business in China; S&P looks to capitalize on last year's trade deal that opened up China to U.S. ratings firms

By Gunjan Banerji
594 words
24 May 2018
03:05 PM
The Wall Street Journal Online
WSJO
English

S&P Global Inc., the financial-information giant, plans to build a stand-alone ratings business in China, bringing it a step closer to expanding its presence in one of the world's biggest bond markets.

The company has notified the Chinese government of a plan to launch an independent credit-ratings firm in the country, an S&P spokesman said Wednesday. A trade deal last year opened up China to U.S. ratings firms. S&P is speaking with regulators on the entrance.

Moody's Corp., S&P and Fitch Ratings, the world's top three credit-rating firms, have long coveted entry into China's bond market, but they have had a **volatile** relationship with Beijing.

Rating firms' relationship with China soured last year after both Moody's and S&P lowered their views on China's sovereign debt, citing concerns about a growing pile of debt. The downgrades drew a hostile response from China's government and at one point even cast doubts on the rating firms' future prospects for expanding their business in the country.

The move by S&P—the largest ratings firm based on the number of grades in existence—comes at a time when the U.S. and China have been embroiled in trade disputes. Tensions de-escalated this week after Treasury Secretary Steven Mnuchin said both countries would suspend tariff threats, although trade talks between the two countries remain uncertain.

Until now, S&P has had a partnership with a Chinese firm, Shanghai Brilliance Credit Rating & Investors Service Co., mostly providing help with technology and training. S&P said it would be discontinuing this partnership.

S&P's grades of Chinese companies could open up the local yuan-denominated bond market to international investors and provide Chinese companies with access to lower-cost capital.

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S&P is holding an investor day on Thursday. Though major credit-rating companies have diversified since 2008, ratings remain a key moneymaker. Share prices of S&P Global hit an all-time high in May.

Shen Hong contributed to this article.

Write to Gunjan Banerji at Gunjan.Banerji@wsj.com

Document WSJO000020180524ee5o000s3

THE WALL STREET JOURNAL.

Markets

Merrill Lynch Brokers Face Pay Clawbacks; New plan's emphasis on cross-selling retail products for Bank of America spurs unease among some brokers

By Lisa Beilfuss
942 words
24 May 2018
07:42 AM
The Wall Street Journal Online
WSJO
English

Some Merrill Lynch brokers are bracing for a pay cut this summer as the firm's parent, Bank of America Corp., rolls out a new compensation program that punishes advisers who don't meet certain sales targets.

The new plan is stirring some discord inside Merrill, in part because it emphasizes cross-selling outside brokers' traditional role. Some brokers are also complaining the plan is being applied retroactively in what amounts to a pay clawback.

"It's going to be ugly," said one longtime Merrill broker who has spent recent weeks grousing with colleagues about the changes.

Bank of America unveiled the changes late last year in how its 17,000 Merrill financial advisers would be paid as part of an effort to increase the unit's profit, regardless of **stock-market** conditions. The plan, which is also a response to a tougher competitive environment, is meant to juice brokers' assets, swell bank deposits and funnel more clients into retail-bank products such as mortgages and credit cards.

The program "is having the desired impact," said Andy Sieg, head of Merrill Lynch Wealth Management. "Advisers are prioritizing client acquisition" and "making referrals to the broader Bank of America at higher levels than ever before."

That is potentially good news for the bank's shareholders, who are already enjoying a bounce in the stock from a stronger economy and higher interest rates. Clients with more of their assets and liabilities spread across a big bank are potentially more lucrative and may be less likely to leave if a broker retires or jumps to a rival.

Merrill and its competitors have traditionally rewarded growth instead of punishing the lack of it, analysts say. Introducing a stick—the first in recent years by one of the big firms—reflects how traditional Wall Street brokerages are fighting off an increasing number of cheaper, tech-enhanced options.

Investors have been flocking to automated platforms, discount brokerages and independent advisers who aren't beholden to products affiliated with a big bank.

At the same time, market-driven gains that have helped brokers for nearly a decade have become less reliable this year amid worries of rising bond yields and inflation.

Typically, brokers at Merrill and its rivals are paid a percentage of the fees and commissions they generate. Advisers generating $1 million annually in revenue, the average at Merrill, pocket 42% of that for themselves, or $420,000, for example. The traditional model of paying brokers can give them some latitude over how they serve clients and boost business.

Under Merrill Lynch's new plan, however, pay could move up or down based not just on revenue, but also based on asset and liability growth, the number of new clients the broker brings in and referrals to various parts of the bank.

If minimum sales targets aren't met, the broker generating $1 million in revenue could lose up to $10,000 from their June paycheck because they would be collecting 2 percentage points less of the revenue generated. The penalty then applies to monthly pay going forward.

If brokers hit certain higher targets, they can get up to a 2 percentage point bump in pay, as long as they make two referrals to the parent bank. Monthly pay for those brokers would increase through December, when advisers' progress hitting targets is re-evaluated.

Merrill Lynch didn't comment on the number of brokers it expects to be affected by the pay change in July. Some employees estimated it would at least be in the hundreds.

Merrill told brokers in a memo Wednesday that it would expand the definition of new clients to include some who already have an account with the firm's online discount brokerage platform. "Our goal is to have every single one of you hit your growth grid hurdle," the memo said.

Mr. Sieg said in an interview Tuesday that he expects that the dollar impact of pay cuts will roughly be offset by the bonuses the firm gives to higher-performing advisers. He added that executives across the country will meet with brokers by June to make sure they understand the new program.

Some financial advisers say the changes put too much pressure on them to push products that customers may not want. "When they put referrals in the comp plan, that codified it for us," said Emerson Ham, an adviser who left Merrill Lynch in March after 26 years with the firm. "There's a fine line between encouraging referrals and forcing them."

Firms say clients appreciate the convenience of having everything from retirement-savings accounts to a checking account and a mortgage in one place.

Many longtime Merrill brokers, though, have bristled at the strategy to more closely tie the business to the retail bank. They say they have lucrative and hard-fought client relationships they don't want to jeopardize by pushing incremental banking products that they feel are beneath them or unnecessary.

"I understand why they and other banks do it," said Mr. Ham, the recently departed Merrill broker, of Bank of America's efforts to get Merrill's herd of brokers to drive business to other lines. "But in the end we felt we need to be the judge of what's best for a client."

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THE WALL STREET JOURNAL.

Business
Russia, OPEC Members to Discuss Easing Oil Output Cap; Russian oil minister says country sees eye-to-eye with Saudi Arabia on oil policy

By Anatoly Kurmanaev in St. Petersburg, Russia and Summer Said in Dubai
1,134 words
24 May 2018
11:43 AM
The Wall Street Journal Online
WSJO
English

Russia and other large oil producers will next month discuss relaxing an agreement that has cut output and helped support crude prices—a move that could relieve some of that price pressure in coming weeks.

Russian Oil Minister Alexander Novak said he would discuss with counterparts from Saudi Arabia and other members of the Organization of the Petroleum Exporting Countries the possibility of a "gradual output recovery," according to RIA, a Russian state news agency. The talks will take place during a scheduled OPEC meeting in Vienna.

Persian Gulf producers, meanwhile, have been discussing ways to allow more barrels onto global markets. The softening comes just a few weeks after

OPEC and Russian officials met in Jeddah, Saudi Arabia, and presented what appeared to be a unified front about their commitment to keeping output limited.

Any loosening would represent the first move to pare back or realign what has been a risky, unprecedented gamble by Saudi Arabia and Russia. It was a bet made two years ago in part out of desperation, after prices cratered from around $100 a barrel to about $25, and didn't seem likely to move back up anytime soon.

OPEC has long been able to nudge prices up -- and sometimes down—by tightening up its taps or loosening them. After the emergence of a cadre of nimble U.S. shale producers, that no longer seemed to work. By broadening its coordination outside OPEC, officials hoped to increase their market leverage. The deal largely worked—slowly holding back enough oil to reduce the world's oversupply.

Since then, **oil prices** have continued what has been a blistering climb. The rise has alarmed officials in some producing countries, who worry that superhigh prices might eventually sap demand—sinking prices again. Higher prices can scare off demand by making oil-based products, like gasoline, so expensive that drivers cut back. More recently, extreme prices helped trigger an onslaught of new, shale oil production in the U.S., swamping markets.

Mr. Novak said Moscow and Riyadh continued to see eye-to-eye in terms of oil policy, and are acting with a "common approach" to any further agreement to limit supplies.

The public wavering over the future of the deal has already hit **oil prices** in recent sessions. Brent crude, the global oil benchmark, softened Thursday, extending weakness after a U.S. oil inventory report the day before showed an unusually large build up.

Brent fell 1%, to $78.98 a barrel on London's ICE futures exchange, having hit $80.50 last week, its highest level since November 2014. On the New York Mercantile Exchange, West Texas Intermediate futures were trading down 0.7% at $71.33 a barrel.

Saudi Arabia and Russia orchestrated a deal in 2016 to rein in production from the world's biggest pumpers of crude, including members of OPEC, a cartel of some of the world's biggest producers. That deal effectively cut production by about 2% compared with levels at the time, and has helped reduce a large surplus of stored crude around the world and lift prices from their deep, long trough of recent years.

More recently, as international crude prices have risen to around $80 a barrel, pressure has mounted for the group to open up the spigot again.

U.S. President Donald Trumphas said prices are too high, while analysts have warned that supply outages in Venezuela, as well an expected reduction in exports from Iran because of new U.S. sanctions, could tighten markets dramatically, leading to an acceleration in rising crude prices.

Russia, Saudi Arabia, other OPEC members and a handful of other big producers are currently cutting their collective output by about 700,000 barrels a day more than necessary to comply with the 2% cap. That has market participants expecting at least some loosening by the pact's partners. Saudi Arabia has said it is monitoring markets closely and was ready to step in and boost output quickly if necessary to stabilize markets.

In Russia, too, there has been internal pressure to ease the output cap. Russian producers have poured billions of dollars of new investment into their oil fields. In recent months, they have pressured Moscow to allow them to produce more oil, to capture returns on that investment during a time of higher prices.

Vagit Alekperov, the head of Lukoil, Russia's second-largest oil producer behind Rosneft, said he hoped the production cap could be eased, though he said the partnership itself should be preserved.

"The agreement was beneficial, it balanced the market, made it more predictable, breaching this deal it is not necessary," he told Russia's Tass news agency Thursday, speaking at the same business conference in St. Petersburg as Mr. Novak. He said, however, it "should become more flexible."

Meanwhile, Gulf OPEC members, mainly Saudi Arabia and the United Arab Emirates, have been talking with other producers including Russia about the possibility of easing the cut at the OPEC meeting in June, according to people familiar with the matter.

"We are currently in talks with other producers to see if this is something that we should discuss and decide on in Vienna. We don't like **volatility** and we don't want to hurt demand," said a senior Saudi official.

Both OPEC and Russian officials have expressed satisfaction that their deal worked in whittling away a large overhang of stored oil that dampened prices over recent years. Only in the past month have global inventories returned to historical levels. Officials have said they want to keep the framework of the deal in place, but could consider allowing signatories to the pact to increase output under the auspices of the deal, according to people familiar with the matter. Another option: turn a temporary blind eye to countries who are producing above their quota.

Despite continuing talks about the pact, "that doesn't necessarily mean we will come up with certain (new) targets for participating countries," the Saudi official said.

"There is definitely a fear among Gulf countries that the situation could get out of control. We need to think realistically about how to cope with new changes if needed to," said one Gulf OPEC official.

Benoit Faucon in London contributed to this article.

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WSJ PRO CENTRAL BANKING

Economy

U.S. Existing Home Sales Fell in April; Runup in prices, limited inventory may be damping momentum in home purchases

By Laura Kusisto and Sarah Chaney
773 words
24 May 2018
02:12 PM
WSJ Pro Central Banking
RSTPROCB
English

WASHINGTON—Sales of previously owned U.S. homes declined in April, as inventory shortages and rising prices weigh on the market and higher mortgage rates begin to pose a threat to demand for the first time in years.

Existing-home sales fell 2.5% in April from the prior month to a seasonally adjusted annual rate of 5.46 million, the National Association of Realtors said Thursday. Compared with a year earlier, sales in April were down 1.4%—the second consecutive month sales declined on an annual basis.

Thus far the critical spring selling season—when some 40% of U.S. home sales occur each year—is off to a slow start despite a robust economy. That reflects increasing pressure on buyers, as home prices rise at about twice the rate of incomes and borrowing costs climb.

"The economy has continued to show improvement, but the home sales are stuck and not breaking out," Lawrence Yun, the trade group's chief economist, said Thursday.

The median sale price for an existing home in April was $257,900, up 5.3% from one year ago.

The rate for a 30-year mortgage rose to 4.66% this week from 3.99% at the end of last year, mortgage company Freddie Mac said Thursday. Mortgage rates rose in 15 of the 21 weeks of the year so far—the highest share since Freddie began tracking the data in 1972.

The latest sales numbers reflect purchases that were closed in April, based on contracts signed in February and March. Rate increases were still modest when the contracts were signed and economists said the impact of higher rates will be felt more strongly in the coming months.

Economists said rising **oil prices** are also a challenge, as buyers will often trade longer commutes for the suburbs for more affordable home prices.

"The next two to three months will be really, really key. Can the market sustain its momentum given the trifecta of high rates, higher home prices and higher **oil prices**?" said Sam Khater, chief economist at Freddie Mac.

The sales declines were broad-based. Sales dropped compared to a month earlier in Northeast, as well as the South and West—which had been regions of strength for the housing market.

The inventory of homes for sale has fallen on a year-over-year basis for almost three years, leading to bidding wars and rapidly rising prices in many parts of the country that are making it challenging for first-time buyers to enter the market. There was a 4-month supply of homes on the market at the end of April, based on the current sales pace, down slightly from a 4.2-month supply a year earlier.

"What is available for sale is going under contract at a rapid pace," Mr. Yun said.

Several factors are helping undergird solid home buyer demand. The national unemployment rate in April was 3.9%, the lowest level since December 2000. Gauges of consumer confidence remain elevated. The economy has continued to grow and add jobs at a solid pace.

Still, the limited inventory on the market is driving up home prices at a rapid pace, potentially blocking some would-be buyers.

The tax bill that passed in December also reduced some incentives for homeownership, especially in costly coastal markets and high-tax areas, by reducing the cap for the deductibility of mortgage interest and limiting the amount of state and local taxes that can be deducted.

Purchases of previously owned homes account for the bulk of U.S. homebuying activity.

Purchases of newly built single-family homes—a relatively narrow slice of all U.S. home sales—fell 1.5% to a seasonally adjusted annual rate of 662,000 in April, the Commerce Department said Wednesday.

New home sales reflect contract signings, as opposed to closings, and therefore are more likely to have been impacted by rising mortgage rates in April.

Economists still expect existing home sales to edge up slightly this year, buoyed by economic growth. The Federal Reserve has signaled it will raise short-term rates three to four times this year and potentially three times next year, which could make a bigger impact going into next year.

"This is going to be the peak year for sales in this cycle," said David Berson, chief economist at Nationwide Insurance.

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Document RSTPROCB20180524ee5o000rt

The New York Times

Op-Ed Columnist
Opinion
Turmoil for Turkey's Trump

By Paul Krugman
877 words
24 May 2018
07:00 PM
NYTimes.com Feed
NYTFEED
English

An anti-establishment leader takes power after a contentious election. His administration quickly proves itself remarkably corrupt; but he subverts the legal system and is able not only to suppress investigations into his corruption — his supporters denounce it all as a "witch hunt" — but also to consolidate his rule and undermine institutions (the "deep state") that might have limited his power.

Am I talking about Donald Trump? I could be. But the figure I actually have in mind is Recep Tayyip Erdogan, president of Turkey, whose success in getting away with obvious corruption by politicizing law offers a disturbing preview of how Trump may become the authoritarian ruler he clearly wants to be. Not surprisingly, Trump, who basically seems to like dictators in general, has expressed admiration for Erdogan and his regime.

Authoritarian instincts and contempt for rule of law aren't the only things Erdogan and Trump have in common. Both also have contempt for expertise. In particular, both have surrounded themselves with people notable both for their ignorance and for their bizarre views. Erdogan has advisers who believe that he is under psychic assault; Trump has advisers who yell profanities at each other while on trade missions.

But does it matter? In America, stocks are up and the economy keeps chugging along. Erdogan has presided over an actual economic boom. Investors and markets don't seem to mind the craziness at the top. The fact that economic policymakers have no idea what they're talking about doesn't seem to make any difference.

Until it does.

The truth is that most of the time the quality of economic leadership matters much less than most people — economic leaders included — believe. Really destructive policies, like those driving Venezuela into the ditch, are one thing. But run-of-the-mill policies like changes in tax law, even if they're pretty big and clearly irresponsible, rarely have dramatic effects.

Last year, for example, Trump and his allies in Congress rammed through a nearly $2 trillion tax cut. That's a pretty big number, even for an economy as large as ours. But aside from fueling an unprecedented wave of stock buybacks, the tax cut is having little discernible effect, good or bad. There's no sign of the investment boom advocates promised, but there's also no sign that investors are losing faith in U.S. solvency.

Basically, as long as the economy isn't being hit by major shocks, political posturing hardly matters. Someone looking at U.S. growth in G.D.P. or employment over the past few years who didn't know we'd had an election in 2016 would have no reason to suspect that anything important had changed.

But when big shocks do hit, the quality of leadership suddenly matters a lot. Which is what we're seeing in Turkey now.

An aside: Even if the quality of economic leadership matters a lot only during crises, you might expect markets to think ahead and incorporate the risk of badly handled future crises into stock and **bond prices**. Somehow, though, that almost never happens.

What we get instead are long stretches of complacency followed by sudden panic. Students of international macroeconomics are fond of quoting "Dornbusch's law" (named after my late teacher Rudiger Dornbusch): "Crises take longer to arrive than you can possibly imagine, but when they do come, they happen faster than you can possibly imagine."

What’s happening in Turkey is a classic currency-and-debt crisis, of a kind we’ve seen many times in Asia and Latin America. First, a nation becomes popular with international investors and runs up substantial foreign debt — in Turkey’s case, largely debt owed by domestic corporations.

Then it starts, for whatever reason, to lose its luster: Right now, emerging markets in general are being weighed down by a rising dollar and rising U.S. interest rates. And at that point a self-reinforcing crisis becomes possible: External factors cause a loss in confidence, which causes a country’s currency to drop, but the falling currency causes the domestic value of those foreign debts to explode, worsening the economy, leading to further declines in confidence, and so on.

At such a time, the quality of leadership suddenly matters a great deal. You need officials who understand what’s happening, can devise a response and have enough credibility that markets give them the benefit of the doubt. Some emerging markets have those things, and they are riding out the turmoil fairly well. The Erdogan regime has none of that.

So is the turmoil in Turkey a preview of what will happen under Trump? Not in detail: Although America borrows a lot abroad, it borrows in its own currency, which means that it isn’t vulnerable to a classic emerging-markets crisis.

But there are lots of ways things can go wrong, ranging from foreign policy crises — that Nobel Peace Prize doesn’t look too plausible now, does it? — to trade wars, and it seems safe to say that the Trump team isn’t ready for any of these possibilities. Maybe it won’t have to deal with any really serious challenges. But what if it does?

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THE WALL STREET JOURNAL.

Markets

Gold Lifted By Canceled North Korea Summit, Weaker Dollar; Copper edges up slightly but is down nearly 6% this year

By Amrith Ramkumar and David Hodari
430 words
24 May 2018
02:36 PM
The Wall Street Journal Online
WSJO
English

Gold prices rose back above $1,300 Thursday, lifted by a declining dollar and drop in Treasury yields and news that President Donald Trump has canceled a June summit with North Korean leader Kim Jong Un.

Front-month gold for June delivery added 1.1% to $1,303.70 a troy ounce on the Comex division of the New York Mercantile Exchange—its best day since April 2. Prices last week fell below $1,300 for the first time this year with the dollar and Treasury yields rising, as a stronger dollar makes gold more expensive for overseas buyers and higher yields make the metal less attractive to some investors.

But on Thursday, that trend reversed, with the WSJ Dollar Index, which tracks the dollar against a basket of 16 other currencies, edging down 0.2% and the yield on the benchmark 10-year U.S. Treasury note falling back below 3%. Yields fall as **bond prices** rise.

Some analysts interpreted Wednesday's Federal Reserve meeting minutes as more conservative and signaling that the Fed plans to remain on a gradual path of rate increases even if inflation meets its target. That could be a positive for gold, which is used by some investors to hedge against a rise in consumer prices and downturn in stocks.

"[The second quarter] is likely to mark the weakest quarter for gold, but we expect prices to average $1,375 in [the fourth quarter], as we believe the [dollar] will renew its weakening trend and the potential for inflation expectations will rise," said Suki Cooper, precious metals analyst at Standard Chartered Bank in New York, in a note to clients.

A rate increase is widely expected in June, but investors are divided on whether the Fed will lift rates one or two more times after that this year.

Geopolitical tensions also tend to boost gold, and Mr. Trump scrapping the meeting could be a sign to some analysts that tensions with North Korea might persist.

Among base metals, front-month copper for May delivery added 0.8% to $3.0855 a pound. Prices are down 5.9% this year after hitting a nearly four-year high in December, hurt by worries of an economic slowdown in China, the world's largest copper consumer, and data showing steady supplies.

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WSJ PRO CENTRAL BANKING

Economy

U.S. Jobless Claims Rose to 234,000 Last Week; Second consecutive weekly increase, but claims remained near historically low levels

By Ben Leubsdorf
392 words
24 May 2018
10:11 AM
WSJ Pro Central Banking
RSTPROCB
English

WASHINGTON—The number of Americans filing new applications for unemployment benefits rose again last week, but remained near historically low levels.

Initial jobless claims, a proxy for layoffs across the U.S., increased by 11,000 to a seasonally adjusted 234,000 in the week ended May 19, the Labor Department said Thursday.

It was the second straight weekly rise, taking initial claims to their highest level since late March.

Claims came in "higher than expected, but it will take more than one or two higher readings to signal an uptrend," said Jim O'Sullivan, chief U.S. economist at High Frequency Economics, in a note to clients.

The data can be **volatile** from week to week, and one-off factors could be at work. Ford Motor Co. expected to temporarily lay off several thousand workers due to a parts shortage following an early May fire at a supplier's factory in Michigan.

Stephen Stanley, chief economist at Amherst Pierpont Securities, said rising claims in Kentucky probably reflect flooding in the state.

Also, the Labor Department said claims-taking procedures in Puerto Rico and the U.S. Virgin Islands, which were devastated by hurricanes late last summer, "have still not returned to normal."

Despite the recent uptick, unemployment-benefit applications have remained low for years, a sign that relatively few Americans are being laid off and seeking assistance in a strong U.S. job market.

Nonfarm employers added an average of 200,000 jobs a month in the first four months of 2018, up from a monthly average of 182,000 new jobs during 2017 as a whole, according to the Labor Department. The jobless rate was 3.9% in April, its lowest level since 2000.

Thursday's report also showed the number of jobless claims made by workers longer than a week increased by 29,000 to 1.741 million in the week ended May 12. Still, the four-week moving average for continuing claims was at its lowest level since December 1973—when the U.S. workforce and population were far smaller than they are today.

Continuing claims are reported with a one-week lag.

Write to Ben Leubsdorf at ben.leubsdorf@wsj.com

Document RSTPROCB20180524ee5o0000jh

THE WALL STREET JOURNAL.
U.S. EDITION

Banking & Finance: Hedge Fund Marble Arch Shuts Down After 11 Years

By Gregory Zuckerman
290 words
24 May 2018
The Wall Street Journal
J
B10
English

Marble Arch Investments LP, a $2.4 billion New York hedge fund, said it is closing down, the latest sign of pain felt by investors who bet against expensive stocks.

On Monday, the 11-year-old firm announced the decision in a letter to its investors. "The past two years have been disappointing. . .as performance has been challenged by our value orientation and a difficult short-selling environment," the letter said, according to an investor who received it.

"It's time for us to close the fund and take a break," the firm's founders, R. Scott McLellan and Tim Jenkins, said in the letter.

The firm managed $2.4 billion as of end of March, including borrowed money, according to securities filings.

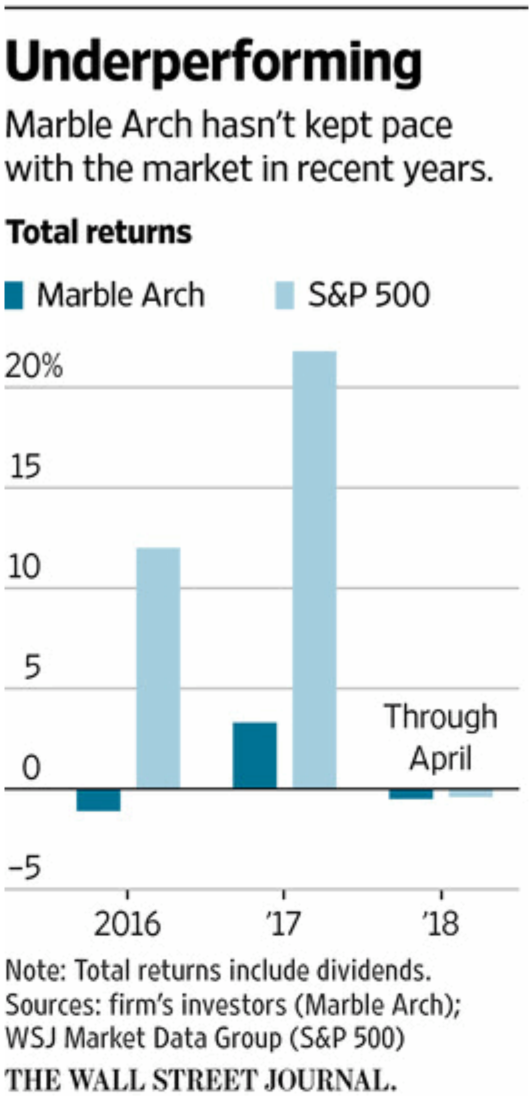
A representative of the firm declined to comment.

In recent years, Marble Arch hasn't kept up with the market. The fund was down 0.5% through the end of April, but was up just 3.3% last year and fell 1.1% in 2016. By comparison, the **S&P 500** fell 0.4% this year through April, including dividends, and rose 21.8% last year and nearly 12% in 2016.

Home builder D.R. Horton, Inc., which is down 19% so far this year, was Marble Arch's second-largest holding at the end of March, representing about 8% of the fund's holdings, according to FactSet.

News of the closing was first reported by industry website ValueWalk.

Messrs. McLellan and Jenkins launched Marble Arch in 2007 with $100 million. They had worked with hedge-fund legend Julian Robertson at Tiger Global Management LLC.



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THE WALL STREET JOURNAL.
U.S. EDITION

Fed Signals June Rate Rise --- Officials also debate long-term strategy as the need for economic stimulus recedes

By Nick Timiraos
905 words
24 May 2018
The Wall Street Journal
J
A1
English

WASHINGTON -- Federal Reserve officials signaled they were likely to raise interest rates next month and grappled with how much further rates will need to increase in the coming years.

The debate is taking on urgency because rates could soon rise to a level that isn't designed to stimulate growth, a stance the Fed hasn't deliberately taken for nearly a decade. Officials debated this month how to describe that strategy in the months ahead, according to minutes of their May 1-2 meeting, released Wednesday.

If the economy performs as expected, "it would likely soon be appropriate for the committee to take another step" in raising rates, according to the minutes.

Fed officials held their benchmark federal-funds rate steady at the May meeting in a range between 1.5% and 1.75%, a level low enough to continue spurring the economy. But a few of them noted that if they continue gradually tightening policy, "before too long" the rate would be at or above a neutral level that neither stimulates nor slows growth.

As a result, some officials said "it might soon be appropriate" to change their postmeeting policy statement to drop language that for years has signaled the Fed expected to keep stimulating the economy.

They suggested that in future statements they stop saying the fed-funds rate "is likely to remain, for some time, below levels that are expected to prevail in the longer run."

The minutes didn't suggest much worry about the economy overheating, and they instead suggested officials were likely to welcome a modest rise in inflation above the Fed's 2% target.

Consumer prices rose 2% in the year ended in March, according to the Fed's preferred inflation gauge, while so-called core prices, which exclude the **volatile** food and energy sectors, rose 1.9%. Inflation has run below the target for most months since officials formally adopted it in 2012.

Officials at the May meeting said that because inflation has persistently run below target, it was too soon to conclude it would stay at that level. Many of them project inflation will soon run above 2%.

Several officials said they saw little change in the underlying inflation trend, and some said a temporary overshoot of the target "could be helpful" in pushing longer-run inflation expectations back up after they drifted lower in recent years.

"This is a continuation of their communication to try to say, 'Look, we undershot 2% for a while. If we overshoot for a while, we don't have to act like our hair is on fire,'" said Seth Carpenter, chief U.S. economist at UBS and a former Fed official.

U.S. stocks erased early losses and closed higher Wednesday after the release of the minutes. The **Dow Jones Industrial Average** ended up 52 points, or 0.2%, at 24887, after earlier falling as much as 0.7%.

The yield on the benchmark 10-year U.S. Treasury note fell to 3.003%, from 3.065% Tuesday -- the largest one-day drop in two months. Yields fall as prices rise.

Fed officials in March penciled in three rate rises this year, including their increase that month, but were about evenly divided between those who favored three and those seeing four.

The minutes provided little new insight about how those projections have changed and instead framed two key questions. First, officials must determine the neutral setting for the fed-funds rate now that they expect the economy to grow faster than is sustainable over the long run.

After that, they must determine how much to push rates above neutral to slow growth and prevent the economy from overheating.

San Francisco Fed President John Williams said last week he still estimates the current neutral fed-funds rate to be 2.5%. Officials' March projections show a median expectation that the fed-funds rate would settle over the long-run at around 2.9% -- an approximation of neutral.

Estimates of the neutral rate matter because a consensus appears to be forming among Fed officials that they should stay on their current "gradual" path of raising rates by a quarter percentage point at roughly every other meeting until they reach neutral. The bigger debate is likely to be over what to do after they get there.

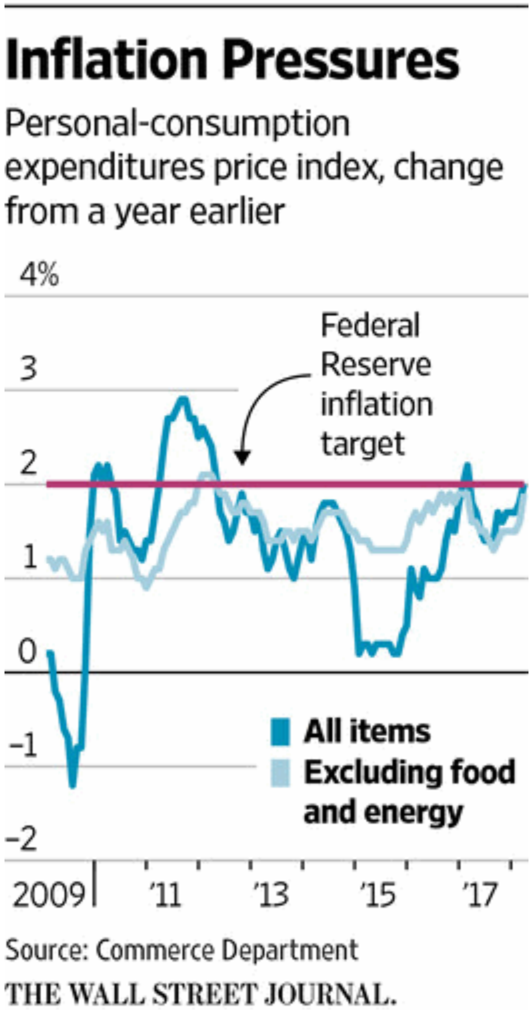
Some officials have said the Fed will need to push rates into restrictive territory, but others have suggested unease with deliberately pressing short-term rates higher than long-term rates, a so-called inversion of the yield curve that typically precedes a recession by a year or so.

Fiscal policy and trade policy remain considerable sources of uncertainty, the minutes showed.

Recently enacted tax cuts and a government spending increase are set to provide more stimulus to the economy. The minutes show little consensus so far on how much these changes could boost growth and price pressures.

At the same time, President Donald Trump has threatened to impose tariffs and other penalties against major trading partners, which could fuel uncertainty among U.S. businesses that rely on global suppliers.

Officials view "the range of possible outcomes for economic activity and inflation to be particularly wide," the minutes said. "The uncertainty surrounding trade issues could damp business sentiment and spending."



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WSJ PRO FINANCIAL REGULATION

Markets
Effort to Revive Small Bank Loans | JPMorgan, Citi Lobby GOP to Relax Swap Rules | Tracy's Take: Bill Adds to Fed's Growing To-Do List; The Wall Street Journal's financial regulation newsletter for Thursday, May 24, 2018.

2,619 words
24 May 2018
06:47 AM
WSJ Pro Financial Regulation
RSTPROFR
English

Tracy's Take: Bill Adds to Fed's Growing To-Do List

Regulator Presses for Revival of Small, Short-Term Loans

JPMorgan, Citi Lobby GOP Lawmakers to Relax Swap Rules

Fed Sets May 30 Vote on Proposed Volcker Rule Changes

Market Players Envision Stock Exchange Powered by Blockchain

Bill Adds to Fed's Growing To-Do List

Supporters of bank regulatory relief popped champagne this week when a significant deregulatory bill cleared Congress.

The bill is one piece of a broad agenda. Its downside is that it adds to the to-do list of regulators who already have a full plate to achieve the Trump administration's objectives.

Consider the agenda of just one regulator, the Federal Reserve. Fed Vice Chairman for Supervision Randal Quarles has prioritized changes to the Volcker rule, now set for a May 30 vote. The Fed is taking comments on major changes to its stress tests and the supplementary-leverage-ratio rule. Mr. Quarles has also said he wants to address the following: two separate rules on bank liquidity, the total-loss-absorbing-capacity rule, stress-test transparency, living-will requirements, a big bank capital "surcharge," so-called advanced approaches capital rules, the application of the Bank Holding Company Act, cybersecurity best practices and rules flowing from the Community Reinvestment Act.

Got that? Now add a sampling of items from the bill Congress just passed:

1. Eighteen months after the bill becomes law, the asset threshold at which strict rules apply to big banks will rise to $250 billion. It's currently $50 billion. The Fed will be able to maintain tight rules on banks with under $250 billion in assets, and it will surely want to do that in some cases. Fed Chairman Jerome Powell has told Congress the Fed will decide this by seeking public comment on a framework for deciding which banks get regulatory relief, and which don't.

2. The bill creates a new "community bank leverage ratio." Banks that meet it will be exempt from complex, risk-weighted capital rules, but bank regulators have to define it first.

3. The bill says the leverage ratio for custody banks Bank of New York Mellon Corp. and State Street Corp. can no longer include deposits those firms hold at central banks. The Fed will have to incorporate this into its leverage-ratio proposal, which would already lower capital requirements for those two firms. Mr. Quarles has said the Fed doesn't intend to allow "double counting," and his staff will have some math to do to accomplish that.

4. The legislation changes how commercial-real-estate lending must be treated under capital rules.

In total, that's more than a dozen important pieces of the regulatory agenda. Some of them will inevitably slip, given practical limits on staff time and Mr. Quarles's attention.

This week's expected confirmation of Jelena McWilliams as Federal Deposit Insurance Corp. head gives the Fed a potential ally at that agency. On the other hand, the midterm elections could empower enemies of deregulation in Congress, who could open investigations, write letters and hold hearings that create even more work for Mr. Quarles, Ms. McWilliams and other Trump nominees. The clock is ticking.

Key Developments in Washington, on Wall Street, and Beyond

Regulator Presses for Revival of Small, Short-Term Loans

Regulators under the Trump administration are encouraging banks to offer small, short-term loans to consumers in a bid to revive a riskier lending sector that dried up in the years after the financial crisis.

The Office of the Comptroller of the Currency, a national bank regulator, on Wednesday said it "encourages" financial firms to begin offering loans to be repaid over two to 12 months for amounts typically ranging from $300-to-$5,000. The loans carry higher interest rates than longer term loans.

The move, outlined in an OCC bulletin, marks a reversal from the Obama era, when regulators discouraged banks from making such loans, which are riskier than other types of lending.

JPMorgan, Citi Lobby GOP Lawmakers to Relax Swap Rules

On the heels of a legislative victory this week for small and midsize banks, bigger banks including JPMorgan Chase & Co. and Citigroup Inc. are lobbying congressional Republicans in an effort to ensure a victory of their own.

Large banks are pushing Congress to redefine swap transactions made between different affiliates of the same company so that they aren't subject to certain rules stemming from the 2010 Dodd-Frank Act. The move would prevent regulators from forcing banks to post collateral for those transactions, potentially saving banks hundreds of millions of dollars in compliance costs.

Legislation that would legally change the definitions of those transactions—exempting them from Dodd-Frank collateral rules—has passed the House, but has died in the Senate due to Democratic opposition.

Now, House Republicans have taken a harder-line approach to push the legislation through. In recent budget negotiations, they linked the exemption to increased funding for the Commodity Futures Trading Commission, the primary swaps regulator that hasn't seen a funding increase since 2014. When some Senate Democrats objected to the exemption, it was stripped from the budget. The CFTC ended up having its funding cut by $1 million.

Fed Sets May 30 Vote on Proposed Volcker Rule Changes

The Federal Reserve set a May 30 vote on proposed changes to the Volcker rule, the first public step in an expected rewrite of the restrictions that have held back bank trading desks for years.

The rule, part of the 2010 Dodd-Frank financial law, bans traders at taxpayer-insured banks from speculating but allows them to buy and sell securities in concert with customers' demand.

The Fed is the first regulator to set a date for discussing the proposal known as "Volcker 2.0." Four other agencies are also expected to adopt modifications to the rule. The changes will give large Wall Street banks more trading freedom, as regulators tweak restrictions on market making, hedging and other activities, according to people familiar with the discussions.

Market Players Envision Stock Exchange Powered by Blockchain

As regulators crack down on the multibillion-dollar, fraud-tainted business of initial coin offerings, some market operators are exploring ways to bring them in line with U.S. securities law.

This week, a U.S. options exchange backed by Canada's TMX Group said it would team up with online retailer Overstock.com to create the first regulated exchange for "security tokens," which are essentially digital versions of stocks.

Security tokens use blockchain, the technology behind bitcoin, to manage the transfer of the shares from one owner to another. Unlike the tokens sold in many ICOs, they are designed to be compliant with Securities and Exchange Commission rules. Only a few security tokens have been issued to date.

Malaysia Tapped Its Central Bank to Pay 1MDB Debt

In its final months in office, the government of former Malaysian Prime Minister Najib Razak turned to the nation's central bank to pay off $500 million in debt owed by the troubled state investment fund 1Malaysia Development Bhd., people familiar with the transaction said.

The fund, known as 1MDB, has been struggling to stay afloat, and the money helped cover an obligation due to an Abu Dhabi state fund at the end of 2017. The Malaysian fund said in December it came up with the money via an "ongoing rationalization program" that involved selling off holdings like power plants and land.

Instead, the people familiar with the transaction said, the money came from a land deal involving the central bank—raising new questions about the use of state assets to support a fund the U.S. Justice Department says is mired in fraud.

Deutsche Bank Zeroes In on Plans for 10,000 Job Cuts

Deutsche Bank AG executives have zeroed in on plans in recent weeks to eliminate close to 10,000 jobs, or about one in 10 employees, as part of moves to accelerate cost-cutting, according to people familiar with internal bank discussions.

The latest plan, with cuts that likely would extend into 2019, follows months of thorny debate over how fast and deep job losses should be at the beleaguered German lender. The process has divided senior executives and left investors unconvinced.

Europe's Latest Fix for Its Banks: Opaque Trades

A European government-controlled fund is delving deeper into opaque trades that could potentially expose taxpayers to bank losses—something post-financial crisis rules were meant to protect against.

The European Investment Fund, controlled by European governments and a handful of big banks, is pushing into a fast-growing niche market in which banks pay a fee to investors to cover potential losses on loans.

The maneuvers are a form of synthetic securitization because no actual assets change hands. But they allow banks to free up their balance sheets to make more loans without selling assets or issuing equity.

Analysis: Barclays-Standard Chartered?

When an activist investor comes knocking, boards like to look busy—particularly if the activist is directly funded by a handful of your existing shareholders.

Barclays of the U.K. is in just such a position, but the idea that one potential answer is a merger of this trans-Atlantic consumer and investment bank with Standard Chartered, a trade-finance-driven emerging-markets bank, as reported in British media, seems unlikely to say the least. The report cited sources close to the bank's board.

Analysis: Britain Takes Stab at Wrangling Dirty Money

The publication this week of a U.K. parliamentary report calling for tougher action to stop the flow of dirty Russian money into Britain is a landmark moment for the City of London.

Until now, almost all the pressure from within the U.K. political system to change the rules that have earned London its reputation as one of the money-laundering capitals of the world has come from those on the political left concerned about human rights, tax evasion and social justice.

The House of Commons Foreign Affairs Committee report marks the emergence of a new cross-party consensus that Russian corruption has now become an issue of national security. The report alleges that Russian oligarchs aren't only laundering their ill-gotten wealth through London, but also using it to subvert Western democracies at the Kremlin's behest.

5 Questions About What to Expect When GDPR Takes Effect

On Friday, European Union privacy cops will start enforcing the new privacy law called GDPR, or the General Data Protection Regulation. Here are answers to some common questions about the deadline.

Raising the Bar

A central piece of a major bank deregulation bill that cleared Congress Tuesday could relieve about two dozen regional banks from stricter rules. It will raise the threshold at which banks face tighter oversight to $250 billion in assets from the current $50 billion—a victory for midsize banks, which have long said they shouldn't be lumped in with the largest firms.

Unlike some of the bill's provisions that will have immediate effect, this provision won't take effect until regulators translate them into rules. Federal Reserve Chairman Jerome Powell has said the Fed would respond to the bill by seeking public input on a framework for deciding which firms with less than $250 billion in assets should get regulatory relief.

Nothing in the bill changes regulators' broad authority to apply strict rules to firms they view as risky, even if they have less than $250 billion in assets. Nevertheless, the bill sends a strong signal to regulators that Congress wants a more tailored rulebook, with looser reins for small and midsize lenders.

Thursday, May 24

7:30 a.m.

Securities and Exchange Commission member Michael Piwowar speaks to the Investment Company Institute's general membership meeting.

9:30 a.m.

The Senate Banking Committee holds a hearing on cybersecurity risks to the financial services industry and its preparedness.

Smaller Businesses Prefer Smaller Banks

Most small-to-midsize businesses in the U.S. and U.K. are considering switching banks—particularly those that use larger financial institutions—to take advantage of new services or more competitive fees, according to a study by fintech firm FIS. Based on a survey of 321 businesses in the U.S. and 253 in the U.K., FIS found that most of the U.S. respondents reported higher satisfaction with community banks over larger banks. "In the U.K., nearly one in four [small-to-midsize businesses]—most of which use larger banking providers—are planning to switch banking providers in the next 12 months," the FIS report says. "Common reasons cited…in both countries for switching banks are uncompetitive fees, dissatisfaction with services/products provided, outdated bank processes, or being declined for a business loan/line of credit," the report says.

Sarbanes-Oxley Is Ripe for a Rewrite

The Sarbanes-Oxley law "has made it much more costly for startups to go public in the U.S., and even more difficult for individual investors to participate in startups," Ike Brannon of Capital Policy Analytics writes in a Forbes opinion piece. "This law is a major reason that companies like Uber, which is valued in the tens of billions of dollars, continue to eschew any public offering," he says. "It will help the cause of improving our financial regulatory regime to have an entity to remind people that our **financial markets** should be run with people like us in mind first and foremost," he writes.

Deregulatory Bill Will Help Community Banks

The bank bill cleared by Congress this week "is an important step away from excessive government controls," writes The Wall Street Journal's editorial board. Big banks that have been able to handle heavy regulation have grown bigger, while smaller banks have closed, the board says. The bill "should help smaller banks focus on serving customers rather than regulators," the board writes, though it notes that it would have preferred House Financial Services Chairman Jeb Hensarling's Choice Act, which called for exempting banks from the strictest rules if they maintain a 10% leverage ratio.

Abraaj Group, the Dubai-based private-equity firm under scrutiny for allegedly mismanaging money in a health-care fund, also used more than $200 million of investor money from a $1.6 billion buyout fund to help finance its own business, according to people familiar with the situation.

If it seems like several female CEOs have lost their jobs lately, it is because they have. But so, too, have many male chief executives. So why do the women's departures seem so conspicuous?

Passive investors are about to get more involved in Chinese stocks thanks to MSCI's decision to include several of them in its key indexes. They will find themselves exposed to a market swimming in leverage.

Shareholders in Wynn Resorts Ltd. voted overwhelmingly against the company's executive compensation plan, according to results released Tuesday, a rare public rebuke of the corporation's leadership in the months since founder Steve Wynn resigned amid sexual-misconduct allegations.

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

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Document RSTPROFR20180524ee5o00001

THE WALL STREET JOURNAL.

Markets
Malaysia's Markets Are Feeling the Aftermath of Its Shock Election; Asian stocks were lower Thursday on concerns about trade tensions between the U.S. and China

By Steven Russolillo and Manju Dalal
574 words
24 May 2018
01:05 AM
The Wall Street Journal Online
WSJO
English

Asian stock markets were broadly lower on Thursday over concerns about the latest U.S.-China trade negotiations. Japanese auto stocks slumped. Toyota and Honda each fell 3.2%, weighed down by news that the Trump administration is considering imposing new tariffs on vehicle and auto-parts imports. Japan's Nikkei 225 index slumped more than 1%, with the yen continuing its latest ascent, and Korea's Kospi index fell 0.3%. Hong Kong was a rare outlier, gaining 0.1%.

Thursday's Big Theme

Malaysia's new reality is starting to hit its markets hard.

What's Happening

The Southeast Asian country's **stock market** was relatively quiet immediately after Prime Minister Mahathir Mohamad's stunning election upset over embattled Najib Razak on May 9. That changed this week.

The opposition's ousting of the ruling coalition marked the first transfer of power in the tropical, resource-rich nation since independence in 1957.

But with that change has come increased uncertainty in Malaysia's **financial markets**.

Its troubled state investment fund, 1Malaysia Development Bhd, is sitting on more than $8 billion in debt and has almost no cash flow, the Journal has reported. How to repay 1MDB's debt is a major issue for the new government.

Malaysia's **stock market** was closed for two days immediately after the vote. After that, it didn't move more than 0.5% in either direction for the next seven trading days. But on Wednesday, the FTSE Bursa Malaysia KLCI index fell 2.2%, its worst drop in two-and-a-half years.

It fell another 2% on Thursday before bouncing back a bit. At its low during the day, the market was on pace for its worst two-day decline since the index's inception in 2009.

Outstanding dollar bonds of some key Malaysian issuers, which are considered a proxy for the country's credit, are flip-flopping. The yield on 10-year bonds of 1MDB are up to 6.80% from Wednesday's 6.32%, according to IHS Markit. Bond yields rise when prices fall.

One indication of less uncertainty is in Malaysia's credit default swaps. Its 5-year CDS—the cost of insuring government debt against default—has fallen by 0.8% since Wednesday and down 11.5% since the election.

The Malaysian ringgit has fallen 1.1% against the dollar since May 7, ahead of the election, including a 0.2% drop on Thursday, according to Thomson Reuters data.

Market Reaction

"Valuations in Malaysia have been elevated against history over the last year which does make the markets more vulnerable to a shock," Paul Danes, chief executive of Edinburgh-based Martin Currie, a subsidiary of Legg Mason Asset Management, wrote in a report this month.

Malaysian stocks had risen over 5% on a year-to-date basis through April, but have since given back those gains and on Thursday fell into negative territory for the year.

Elsewhere

Crude **oil prices** fell slightly. In the U.S., the benchmark **10**-**year Treasury** yield dipped back below 3%. Minutes from the most recent Federal Reserve meeting, unveiled Wednesday, showed the central bank is in no rush to accelerate its pace of rate increases.

Suryatapa Bhattacharya contributed to this article.

Document WSJO000020180524ee5o000gp

The New York Times

STOCKS & BONDS
Business/Financial Desk; SECTB

Market Swings Back Up as Fed Meeting Eases Investors' Interest Rate Fears

By THE ASSOCIATED PRESS
1,070 words
24 May 2018
The New York Times
NYTF
Late Edition - Final
4
English

NEW YORK -- U.S. stocks turned higher Wednesday after the Federal Reserve indicated it's not in a hurry to raise interest rates too quickly. Retailers and technology companies led the way as the market erased some early losses.

Stocks opened lower after a business survey suggested that the eurozone economy might remain weak for longer than experts had expected. Investors bought U.S. and European government bonds, which sent yields and interest rates lower and hurt banks. The **S&P 500 index** fell as much as 14 points early on.

The market turned higher after the Fed released minutes from its meeting in early May. Officials concluded that the Fed should be on track to keep raising interest rates gradually, and some said it wouldn't be a problem if inflation briefly went past the Fed's target rate of 2 percent. That suggests the Fed won't raise interest rates too quickly, a development that worries investors because it would slow down economic growth.

"Investors are sort of nervous around an overly aggressive Fed at this point in the cycle maybe throwing us into a recession," said Katie Nixon, chief investment officer for Northern Trust Wealth Management.

The **S&P 500 index** rose 8.85 points, or 0.3 percent, to 2,733.29. The **Dow Jonesindustrial average** gained 52.40 points, or 0.2 percent, to 24,886.81. The **Nasdaq composite** climbed 47.50 points, or 0.6 percent, to 7,425.96. The Russell 2000 index of smaller-company stocks added 2.37 points, or 0.1 percent, to 1,627.61.

Federal Reserve officials left interest rates unchanged in early May and investors expect they will raise them in mid-June. The central bank's members discussed concerns such as rising wage pressures and possible negative reactions to the Trump administration's trade policies, but didn't change their overall views.

The central bank has said it expects to raise rates a total of three times this year and some experts believe it will raise rates as many as four times. Nixon, of Northern Trust, said she expects only two rate increases: she said the Fed might leave rates alone after June if it sees signs the economy is slowing down a bit as the effects of last year's tax cuts fade.

Tiffany sparkled in the first quarter as the jewelry company's earnings and sales blew past Wall Street projections. The company also said it's planning to buy back $1 billion in its own stock. The stock jumped 23.3 percent to $126.05. Also rising after its quarterly report was Ralph Lauren, which jumped 14.3 percent to $133.33.

Target slumped after its first-quarter profit fell short of expectations. The big box retailer said more customers came to its stores and sales improved, but it's spending a lot of money to try to reinvent itself to better compete with Amazon. Target plans to spend $7 billion through 2020 to update stores and open smaller locations in urban markets. The stock sank 5.7 percent to $71.17.

Home improvement retailer Lowe's had a mostly disappointing first quarter as harsh winter weather cut into the traditional spring sales season, but the company forecast stronger sales growth for the rest of the year. The stock surged 10.4 percent to $94.69. Lowe's stock and its sales have lagged behind Home Depot, but it made up ground on Wednesday.

The IHS Market purchasing managers' index, a broad gauge of business activity in Europe, fell to its lowest level in 18 months in May. While the European economy is still growing, investors had hoped for signs the doldrums were clearing.

Germany's DAX gave up 1.5 percent and France's CAC 40 fell 1.3 percent while the British FTSE 100 lost 1.1 percent. Investors bought European government bonds, pushing prices higher and yields lower in Germany, Spain, France and the U.K.

Bond prices climbed in the U.S. as well. The yield on the **10**-**year Treasury** note fell to 2.99 percent from 3.06 percent. With interest rates in decline, banks lost ground.

Banks climbed Tuesday before Congress passed a bill that eases some of the regulations passed after the 2008 financial crisis. President Donald Trump is expected to sign it into law. Real estate investment trusts, utilities, and other stocks that pay large dividends rose. Those stocks are often considered alternatives to bonds, and investors who want income often buy them when bond yields decrease.

Comcast said it is preparing an all-cash offer for Twenty-First Century Fox's entertainment divisions, and said it plans to bid more than the $52.4 billion Disney offered. Comcast didn't disclose other details about its plans. Fox rose 1.6 percent to $38.77 while Comcast fell 1.9 percent to $31.88, and Disney slid 1.1 percent to $102.89

Benchmark U.S. crude lost 0.5 percent to $71.84 per barrel in New York. Brent crude, used to price international oils, rose 0.3 percent to $79.80 a barrel in London.

Wholesale gasoline lost 0.4 percent to $2.26 a gallon. Heating oil rose 0.4 percent to $2.29 a gallon. Natural gas added 0.2 percent to $2.91 per 1,000 cubic feet.

The dollar dropped to 110.07 yen from 111.02 yen. The euro fell to $1.698 from $1.1779.

Gold lost 0.2 percent to $1,289.60 an ounce. Silver fell 1 percent to $16.41 an ounce. Copper plunged 2 percent to $3.07 a pound.

Japan's benchmark Nikkei 225 fell 1.2 percent and South Korea's Kospi gained 0.3 percent. Hong Kong's Hang Seng lost 1.8 percent.

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AP Markets Writer Marley Jay can be reached at http://twitter.com/MarleyJayAP . His work can be found at https://apnews.com/search/marley%20jay

This is a more complete version of the story than the one that appeared in print.

CHARTS: 5-Year Treasury Notes: High yields at auction. (Source: Treasury Department); The **S**. **& P**. **500 Index**: Position of the **S**. **& P**. **500 index** at 1-minute intervals on Wednesday. (Source: Reuters)

Document NYTF000020180524ee5o00052

THE WALL STREET JOURNAL.

Markets

Market Players Envision Stock Exchange Powered by Blockchain; U.S. options exchange, online retailer Overstock.com move to create first regulated exchange for digital versions of stocks

By Alexander Osipovich
878 words
23 May 2018
01:43 PM
The Wall Street Journal Online
WSJO
English

As regulators crack down on the multibillion-dollar, fraud-tainted business of initial coin offerings, some market operators are exploring ways to bring them in line with U.S. securities law.

This week, a U.S. options exchange backed by Canada's TMX Group said it would team up with online retailer Overstock.com to create the first regulated exchange for "security tokens," which are essentially digital versions of stocks.

Security tokens use blockchain, the technology behind bitcoin, to manage the transfer of the shares from one owner to another. Unlike the tokens sold in many ICOs, they are designed to be compliant with Securities and Exchange Commission rules. Only a few security tokens have been issued to date.

While the idea of the tokens is largely untested and the exchange plan is far from gaining SEC approval, supporters say such tokens could transform the way startups raise money by allowing them to bypass venture-capital firms and effectively sell shares over the internet. Others say replacing stocks with security tokens will make markets more efficient and cut investors' costs.

The SEC could still quash the concept, however, and traditional Wall Street players like banks, exchanges and central securities depositories have incentives to maintain the status quo.

Research firm Greenwich Associates, in a report Tuesday, called security tokens an "invasive species" that would lead to the extinction of traditional stocks. "Issuing [securities] on the blockchain is the future and a lot more efficient than the way we do it now," Greenwich analyst Richard Johnson, the report's author, said in an interview.

BOX Digital Markets LLC, a sister company of BOX Options Exchange LLC, said on Tuesday it would seek to launch the exchange for security tokens as a joint venture with digital-assets trading platform tZero.

Chicago-based BOX, the smallest of the five U.S. options-exchange operators, is about 40% owned by Canada's TMX Group. TZero is majority-owned by online retailer Overstock.com. Overstock Chief Executive Patrick Byrne is an outspoken proponent of virtual currencies who has invested in blockchain companies, although his track record has been mixed.

A number of startups are working on security tokens. They include Harbor, which is focusing on tokens backed by real estate, and Polymath, which is developing tools for ensuring that trading in security tokens is compliant with relevant laws.

Harbor is backed by Silicon Valley venture-capital firms including Peter Thiel's Founders Fund and Andreessen Horowitz, while Polymath raised $58.7 million in an private token sale that it registered with the SEC, according to a Jan. 25 regulatory filing.

Security tokens are different from the "utility tokens" typically sold in many ICOs available to the public. Utility tokens occupy a legal gray area. Many of the companies issuing them say they don't fall within the SEC's jurisdiction. But SEC officials differ, saying many utility tokens probably are securities under U.S. law, which would mean the ICOs in which they were sold were illegal.

In contrast, security tokens are securities—as the name suggests. They potentially could have built-in computer programs that force their owners to comply with SEC rules.

A security token could only let itself be sold to an "accredited investor" under SEC Rule 506. This rule lays out the procedure by which many startups in the U.S. raise money. It limits the sale of shares to accredited investors, who need to have a certain minimum income and meet other requirements.

The BOX-tZero announcement comes as the ICO market shows few signs of slowing down. About $7.15 billion has been raised in such offerings so far this year, according to Token Report, despite the mounting regulatory scrutiny.

Overstock itself has drawn regulators' attention. The retailer disclosed in March that the SEC had requested documents about a digital-token offering conducted by tZero, as part of an investigation. The probe does not mean tZero or Overstock are suspected of wrongdoing.

The BOX-tZero joint venture will be completed in the coming weeks, after which it will commence discussions with regulators, according to Lisa Fall, CEO of BOX Digital.

Instead of creating a new exchange, the plan is to use BOX's existing exchange license to list security tokens, Ms. Fall said in an interview. She declined to discuss the timing of the process.

Teaming up with BOX could accelerate tZero's long-running plan to digitize the U.S. **stock market**. Overstock unveiled tZero in 2015 with the goal of building a trading platform for digitized assets. To date, it hasn't generated any revenue from commercially available blockchain-based services, Overstock reported in its most recent annual filing.

On the SEC probe, Mr. Byrne said in an interview that tZero has been in continuous contact with various divisions of the agency. He added that he welcomed regulatory scrutiny of ICOs, estimating that at least 90% of them were illegal.

"The ICO craze is the world of the past," Mr. Byrne said. "In the past three to six months, everybody understands it's going towards security tokens."

Document WSJO000020180523ee5n00195

Economy

Fed Officials to Make Slight Change to Rate-Setting Mechanism; Adjustment would keep the effective federal-funds rate from moving too high

By David Harrison
394 words
23 May 2018
WSJ Pro Central Banking
RSTPROCB
English

Corrections & Amplifications

The Federal Reserve's minutes said the increased issuance of Treasury securities has boosted interest in repurchase agreements, known as repos. An earlier version of this story mistakenly said the increased issuance has boosted demand for the Fed's reverse repo program. (May 24, 2018)

A surge in U.S. government borrowing is causing the Federal Reserve to tweak the way it sets its benchmark short-term interest rate.

The Fed at its policy meeting earlier this month left its benchmark federal-funds rate unchanged in a target range between 1.50% and 1.75%. But officials have noticed the effective fed-funds rate drifting toward the top of that band recently because of increased federal borrowing, according to minutes of the meeting released Wednesday.

The Fed sets two other short-term rates at the upper and lower bounds of the fed-funds rate range. At the top sits the rate it pays on excess reserves parked at the central bank by private banks, called IOER. At the bottom lies the rate it pays on reverse repurchase agreements.

Since the Fed started raising rates in 2015, it has lifted all three of these rates together by the same amount. But the minutes indicate that is about to change.

When the Fed next raises the fed-funds rate target range by a quarter-percentage-point, it plans to lift IOER rate by less—by 0.2 percentage point rather than by 0.25 percentage point. Officials believe that should keep the effective federal-funds rate from moving up toward the top of the range.

The Fed signaled in the minutes it is likely to raise rates at its next policy meeting, June 12-13.

According to the central bank, the effective fed-funds rate has been rising recently because the Treasury Department has been issuing more government debt to pay for the recently enacted tax overhaul and boost to government spending. The increased supply of government bonds has pushed down their prices, pushing up their yields. **Bond prices** and yields move inversely.

This has raised rates on repurchase agreements, known as repos, through which institutions make short-term loans to each other using Treasury securities as collateral.

Greater use of repos has drained funding from the federal-funds market, pushing up the effective federal-funds rate toward the top of its range, according to the minutes.

Write to David Harrison at david.harrison@wsj.com

Related

* Fed Minutes Signal Rate Increase in June

Document RSTPROCB20180523ee5n0018h

THE WALL STREET JOURNAL.

Heard on the Street
Markets
What Is Happening to Global Growth?Investors are being wrong-footed by weaker than expected data

By Richard Barley
410 words
23 May 2018
07:53 AM
The Wall Street Journal Online
WSJO
English

The soft patch in the global economy is looking more soft and less like a patch.

Wednesday's flash purchasing managers indexes for the eurozone and Japan showed fresh declines. The eurozone composite index fell to 54.1, compiler IHS Markit said, an 18-month low and weaker than forecast; in Germany business confidence about the outlook slipped to its lowest since November 2016.

The numbers are the latest test of the consensus view that slower growth outside the U.S. in the first quarter was just a soft patch. Instead of playing catch-up to positive economic surprises as they did throughout 2017, investors are being wrong-footed by weaker than expected data.

The level of the PMIs is not the concern: they still point to growth. But coupled with concerns about trade wars and renewed political risk, the downward trend is turning winning trades into losers. One by one, starting with the big drop in stocks at the end of January, trades betting on a continuation of the trends from 2017 have fallen by the wayside.

The most significant surprise move is in the dollar, which has reversed after falling throughout 2017, and is now up nearly 2% this year on ICE's index. Emerging-market bonds and stocks that were flying high have been hit; a Bloomberg Barclays index of local-currency emerging-market government bonds has fallen 5.7% this quarter in dollar terms. Italy's political ructions have turned a gain of 2.8% for the country's bonds at the start of May into a near-1% decline, ICE BofAML indexes show. Traditional haven bonds haven't eased the pain, with U.S. Treasurys selling off and ultralow yields in Japan and Europe providing little cushion.

All of this likely makes the market more sensitive to bad news. For instance, higher **oil prices** are starting to be seen as a problem for growth and inflation, rather than a sign of underlying demand. A further rise in the dollar could create even greater pressure on emerging markets by tightening global financial conditions.

The consolation for investors is that economies are still healthy and growth in the U.S. has remained strong. That may yet create opportunities in now cheaper stocks and bonds. But if slowing growth tips more toward contraction, markets have further to fall.

Document WSJO000020180523ee5n0013f

THE WALL STREET JOURNAL.

Heard on the Street
Markets

Why the Property Industry Isn't Buying WeWork; As trendy coworking spaces proliferate, sector pioneer IWG looks set to go private

By Stephen Wilmot
539 words
23 May 2018
04:18 AM
The Wall Street Journal Online
WSJO
English

WeWork has convinced tech investors that short-term office rentals are the next big thing, and well worth a high price. Savvy real-estate investors also like that business, but not at WeWork's valuation.

Instead, they are focused on a one-time dot-com darling now called IWG. Shares in the London-based company jumped 21% last week after it disclosed takeover interest from three separate bidders. Barry Sternlicht's private-equity group Starwood Capital has made a tentative offer, as has U.K. buyout boutique TDR Capital. Talks with Lone Star, another U.S. private-equity firm, are less advanced. A consortium including Canadian property giant Brookfield ended takeover talks with IWG in January.

Formerly known as Regus, IWG has a global network of more than 3,000 offices, more than any other provider. Like WeWork, it leases space from landlords, readies it for companies and then sublets it on temporary leases. Demand for such accommodation has been blossoming as startups have proliferated and even larger companies have sought a more flexible, customer-oriented approach from landlords.

For all its talk of "workspace as a service," however, IWG isn't priced like a tech star. Even after the latest bids, the company is valued at $4.1 billion including debt, just seven times earnings before interest, taxes, depreciation and amortization. A private capital injection by SoftBank last year valued WeWork at $20 billion. Founded in 2010, WeWork had just 30% of IWG's revenues in 2017 and deeply negative Ebitda, according to a recent bond prospectus.

IWG was the office disrupter of the dot-com era. An initial public offering in 2000 valued it at almost four times projected revenues. When the downturn came and tenants dried up, the company had no way to pay for its long, debtlike leases. It filed for Chapter 11 bankruptcy protection in the U.S. while retaining its U.K. **stock-market** listing. Expansion since has been more cautious.

Investors, too, have been cautious, particularly since the new tech boom brought WeWork and many others onto the scene. IWG's old disruption story, focused on functional serviced offices, is itself being disrupted by trendier co-working "communities." IWG issued a profit warning in October, sending its shares down 32%.

WeWork has shown up IWG's biggest problem: Its market leadership is defended by a shallow moat. The company wants to widen it by securing more business with multinational groups that might value its hard-to-replicate global office network. But this trend, which WeWork is also chasing, is still young.

IWG's history, in turn, hints at what could turn out to be WeWork's biggest problem: Whirlwind expansion is very risky when it involves a commodity as cyclical and replicable as the office. Like IWG in 2000, WeWork more than doubled revenues last year.

A checkered history suggests short-term office space may have more potential for disruptive growth than sustainable profit. Mr. Sternlicht and his peers are wise to seek a cheap way in.

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Document WSJO000020180523ee5n000xd

THE WALL STREET JOURNAL.

Markets

America's Profit Boom Leaves Europe Inc. Playing Catch-Up; Euro, U.S. tax cuts and growth of American tech firms are among reasons for earnings gap

By Riva Gold
921 words
23 May 2018
05:47 PM
The Wall Street Journal Online
WSJO
English

The eurozone's economy has outpaced the U.S. for the past two years, yet its corporate profits are trailing those in America like never before.

The bloc posted its strongest economic growth in a decade last year, inspiring investors to pour billions into European exchange-traded funds following the 2017 French election.

European earnings have increased since then, but the U.S. has grown much faster—with the gap in earnings per share between MSCI's USA and Europe indexes ballooning to a 30-year high, according to Mislav Matejka, equity strategist at JPMorgan.

A stronger euro, large U.S. tax cuts and surging growth from America's tech giants have caused most of that gap.

"Europe had a very good year of profit growth, but the U.S. was on steroids," said Karen Olney, head of European thematic equity research at UBS.

Now investors are debating whether Europe is set for a catch-up as the tax effects wash out and the U.S. dollar regains its footing, or whether a recent slowdown in the region's economic data portends a bumpier road ahead.

Companies in the **S&P 500** are on track to grow their earnings by 25% in the most recent quarter, compared with just 6.5% for the Stoxx Europe 600, according to FactSet.

Throughout the reporting season, U.S. companies have been surpassing expectations, with 78% of **S&P 500** companies beating earnings-per-share forecasts, on pace for the most positive surprises in the nearly 10 years that this data has been tracked.

That compares with just 43.5% of Stoxx Europe 600 companies beating earnings forecasts, the lowest percentage since 2015, according to FactSet.

European profitability has taken a hit from a roughly 15% gain in the euro between the start of 2017 and 2018. Companies in the Stoxx Europe 600 generate about half of their revenues outside Europe and a stronger local currency cuts into the earnings of multinational companies.

Paul Markham, global equities portfolio manager at Newton Investment Management, said he watched the euro strengthen against the dollar at the end of last year and sold down part of his European equity position.

"The resurgence of the euro has been quite negative for the competitiveness of the global companies listed there," he said.

The size and explosive growth of American technology companies have also been an important factor leading to U.S. outperformance. Roughly a quarter of the **S&P 500** by market value is part of the technology sector, compared with just 4.7% of the Stoxx Europe 600. Roughly 90% of companies in the U.S. tech sector have exceeded analysts' earnings forecasts this quarter.

Europe's profit gap to the U.S. since the last cycle peak has hit a new high, Ms. Olney's team found. But removing the technology and financial sectors shrinks the gap significantly, it added.

European banks have lagged behind the U.S. over that period as the region struggled to recover from a debt crisis and ultralow interest rates cut into their profitability.

Despite the gap in earnings, European equity indexes have performed in-between those in the U.S. this year. The Stoxx Europe 600 is up 0.9%, while the **S&P 500** is up 2.2% for 2018 and the **Dow Jones Industrial Average** is up 0.7%.

Some investors expect European earnings to catch up in coming quarters. The euro has tumbled 3.1% against the dollar so far this month, reassuring some investors that the peak hit to earnings has passed.

"There are signs Europe is in the best position it's been in in recent years to turn that tide," said David Holohan, equity investment strategist at Mediolanum Asset Management, pointing to rising input costs in the U.S. that could pressure margins.

On the flip side, U.S. earnings growth is forecast by many analysts to slow down in 2019 and in 2020 as the impact of tax cuts fades out of the comparisons.

For U.S. earnings, "there is this fear of is this as good as it gets," said Katie Nixon, chief investment officer at Northern Trust Wealth Management. While she likes U.S. equities, she prefers those in Europe and emerging markets.

But others remain skeptical. Only a net 6% of fund managers expect improving profits in the eurozone, compared with 38% for the U.S., according to a May survey by Bank of America Merrill Lynch.

Eric Freedman, chief investment officer at U.S. Bank Wealth Management, said he started the year with a large portfolio weighting to European stocks but has since cut back. "A lot of the high-frequency [economic] data we look at in Europe has been weakening," he said.

The Citi Economic Surprise Index for the eurozone, a widely tracked measure of how data expectations are being met, fell to negative-101 earlier this month, its lowest since 2011, around the time of the European debt crisis.

Write to Riva Gold at riva.gold@wsj.com

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THE WALL STREET JOURNAL.

U.S. Markets
Markets

U.S. Stocks Rise After Fed Minutes; Fed officials signal they plan to remain on gradual path in raising interest rates

By Amrith Ramkumar and Riva Gold
753 words
23 May 2018
04:44 PM
The Wall Street Journal Online
WSJO
English

U.S. stocks erased early losses and closed higher Wednesday after minutes from the Federal Reserve's latest meeting showed the central bank plans to stay on a gradual path of rate increases even if inflation meets its target.

Worries about the Fed raising rates faster than expected have buoyed Treasury yields and the dollar lately, and contributed to swings in stocks. Some analysts worry that higher borrowing costs will crimp future profit growth and a continued rise in bond yields will make stocks less attractive.

Wednesday's minutes showed the Fed remains on track to raise rates in June as expected, but that the central bank plans to stay on its moderate path as it boosts rates to historically normal levels and unwinds its balance sheet.

"Getting off [that path] would be a sign that something may be going the wrong way," said Stephen Lee, founding partner at Logan Capital Management. "It's really consistent with trying to get back to normal but taking their time."

The **Dow Jones Industrial Average** rose 52.40 points, or 0.2%, to 24886.81, after earlier falling as much as 0.7%. The **S&P 500** climbed 8.85 points, or 0.3%, to 2733.29, and the **Nasdaq Composite** added 47.50 points, or 0.6%, to 7425.96.

Stocks opened lower Wednesday as investors continued to assess a range of trade tensions and a drop in commodity prices. Uncertainty over a U.S. agreement with China over telecom giant ZTE and reports that talks to renegotiate the North American Free Trade Agreement have reached a stalemate have hurt stocks in recent sessions.

Investors were also parsing reports that President Donald Trump is weighing measures to cut European Union steel and aluminum exports to the U.S. by about 10%.

Some analysts worry that protectionist trade measures will lead to slower activity and ultimately a weaker global economy, hurting a wide range of assets including stocks and commodities.

Commodities and the companies that produce them fell, as investors initially sold a wide range of risky assets. U.S. crude oil fell 0.5% amid worries that the Organization of the Petroleum Exporting Countries could decide to ramp up production at its next official meeting in June, while copper futures declined 1.9%.

"I think the market is trying to interpret" the latest trade developments, said Steven Chiavarone, assistant vice president and portfolio manager at Federated Investors. "The market got excited when they thought the tensions were easing, now they've gotten a bit nervous."

He added that he thinks the earnings and economic backdrop will lift stocks as worries about trade fade.

Haven assets such as bonds and the yen climbed. The yield on the benchmark 10-year U.S. Treasury note fell to 3.003%, from 3.065% Tuesday—its largest one-day drop in two months. Yields fall as prices rise. The WSJ Dollar Index, which tracks the U.S. currency against a basket of 16 others, added 0.1%, erasing most of its gains after the Fed minutes.

Among individual stocks, Tiffany, Ralph Lauren and Lowe's were the best performers in the **S&P 500** following their latest earnings reports, while Target was among the biggest laggards after the retailer said higher spending pinched profit margins.

Elsewhere, the Stoxx Europe 600 fell 1.1%. Europe's auto sector, often seen as a potential target in trade spats, was among the biggest decliners, while the euro fell 0.7% against the dollar.

Italian stocks also remained under pressure amid concerns the prospective antiestablishment government there will stake out anti-euro positions and start a spending binge. Italy's FTSE MIB Index fell 1.3%, while Italian 10-year government bond yields extended their recent climb.

Stocks across Asia mostly fell. Japan's Nikkei Stock Average shed 1.2% in its biggest daily decline since March. Hong Kong's Hang Seng fell 1.8% and Shanghai stocks fell 1.4%.

Joanne Chiu contributed to this article.

Write to Amrith Ramkumar at amrith.ramkumar@wsj.com and Riva Gold at riva.gold@wsj.com

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THE WALL STREET JOURNAL.

Markets

Turkish Lira Recovers After Rise in Key Interest Rate; The central bank will still need to do more to reassure markets, some investors say

By Mike Bird and Olga Cotaga
809 words
23 May 2018
03:20 PM
The Wall Street Journal Online
WSJO
English

The Turkish lira, among the most vulnerable emerging-market currencies in the face of a rising U.S. dollar, plunged before recovering on Wednesday after the central bank answered concerns over spiraling inflation and its own independence from government with a rate increase.

The lira fell by as much as 5% against the dollar before recovering and trading around 2% higher on the day, after the Central Bank of the Republic of Turkey raised its late liquidity window lending rate, an overnight lending facility that banks can access, from 13.5% to 16.5%.

Late in European trading, the dollar was trading at 4.57 lira.

The Turkish currency has lost around 20% against the dollar so far this year, with investors questioning the central bank's ability to raise interest rates when faced with opposition from President Recep Tayyip Erdogan, who recently referred to high interest rates as "the mother and father of all evils."

Mr. Erdogan is currently campaigning for re-election with a central pledge: that the central bank will continue to lend on the cheap.

Investors often worry about the independence of central banks in the developing world, but that concern could push Turkey, one of Europe's largest countries, into an economic crisis.

Some investors said that the central bank will still need to do more to reassure markets. Even after Wednesday's increase, the Turkish currency is weaker against the dollar than it was at the beginning of the week.

"It's a very small step in the right direction, but this doesn't make a dramatic change to a very **bearish** take on Turkey," said Paul McNamara, emerging-market portfolio manager at GAM.

"Just rate hikes aren't enough. They need a plan to slow the economy more generally, including the volume of credit," added Mr. McNamara, noting that the government had recently expanded a credit scheme to encourage more lending.

The lira is around its weakest level against the dollar since the lira was re-denominated in 2005, a fall that is exacerbating already-high inflation, which stood at close to 11% in April, while saddling the country with an increasingly wide current-account deficit, a key indicator of the country's economic vulnerability.

Piotr Matys, an emerging-markets foreign-exchange strategist at Rabobank, said that the rise should provide the lira with short-term relief.

But "what the market would welcome would be reassurance from Turkish officials that they further support steps to stabilize the currency," he said.

Turkish Deputy Prime Minister Mehmet Simsektweeted after the central bank rate rise that the central bank had his full backing "in doing what's necessary to stem the slide in lira & achieve price stability."

The Turkish currency has been caught in a wider storm sweeping through emerging markets, from Argentina to South Africa, partly because of a sharp rise in the dollar.

But investors are often particularly hard when they question a central bank's ability to influence their own interest-rate policy.

In recent years, investors have debated the independence of Brazil's central bank after it continued to cut rates despite a surge in inflation and a credit boom. The Brazilian real is down around 10% against the dollar this year.

By contrast, the Russian ruble has been supported by confidence that the country's central bank has a degree of independence from government.

In 2014, the ruble sold off after the West imposed sanctions on Russia following its annexation of Crimea, and the Central Bank of Russia raised interest rates by 6.5 percentage points to 17%.

In doing that it "regained inflation-target credibility," said Petr Krpata, chief EMEA foreign-exchange and interest-rates strategist at ING.

The Turkish central bank says it is independent and committed to taming Turkey's double-digit inflation, but it has used rate increases—widely regarded by economists as the main tool to support a weakening national currency and combat inflation—sparingly.

Other factors are hammering the Turkish currency. The rise in **oil prices** is seen as a problem for Turkey, which is a big importer of dollar-denominated crude.

Turkey's energy imports as a proportion of its total use of energy has steadily climbed, according to World Bank data, rising from around 12% in 1960 to 75% in recent years.

Yeliz Candemir contributed to this article.

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THE WALL STREET JOURNAL.

Markets

Ackman Takes Roughly $1 Billion Stake in Lowe's; Activist investor supports retailer's incoming CEO Ellison

By Cara Lombardo
613 words
23 May 2018
04:54 PM
The Wall Street Journal Online
WSJO
English

Corrections & Amplifications

William Ackman revealed his stake in Lowe's at a conference in New York on Wednesday. An earlier version of this article incorrectly said the conference took place on Tuesday. (May 23, 2018)

William Ackman's Pershing Square Capital Management LP is joining another activist investor in Lowe's Cos., hoping to profit as the retailer tries to make improvements under a new chief executive.

Pershing Square has built a stake in the home-improvement chain valued at roughly $1 billion as of Tuesday's close in what is expected to be a friendly investment, according to people familiar with the matter. Lowe's had a market value of roughly $78.3 billion at Wednesday's close.

Mr. Ackman revealed the position at a conference in New York on Wednesday, said the people, who were in attendance. He built it over the past 45 days, they said.

The people said Mr. Ackman supports Lowe's incoming Chief Executive Marvin Ellison, who during 12 years at Home Depot Inc. was credited with improving customer service and e-commerce and expanding its professional business. On Tuesday, it was announced that Mr. Ellison would leave his position as CEO at struggling retailer J.C. Penney Co. to take the top job at Lowe's, where he is expected to draw from the same playbook he used at Home Depot.

Lowe's CEO Robert Niblock said in March he would retire, a week after three new directors joined the board as part of an agreement with activist investor D.E. Shaw & Co., which owns about a 1% stake.

Home Depot's same-store sales growth has outpaced that of Lowe's over the past several years. Lowe's stock had also sharply lagged behind that of Home Depot over the past year, before closing up 10.4% Wednesday following upbeat guidance and news of Pershing Square's involvement.

A Lowe's spokesman said the company is aware of reports of Pershing Square's stake and it is committed to creating value for all shareholders.

Mr. Ackman agrees with D.E. Shaw's view that Lowe's is lagging Home Depot and could do more to capitalize on an improving real-estate market, the people said. The stake would put two activists in the top 16 holders in the company, according to the people.

Mr. Ackman has pledged to remain out of the headlines after a rough stretch of performance shrunk his fund. He has recently taken several new positions where he has said he supported management and avoided detailed complaints, including a quick trade in Nike Inc. and an investment in United Technologies Corp., though he has called for a breakup of the industrial conglomerate.

Pershing Square's publicly traded fund is up 2% this year, according to disclosures, as some of his investments have started gaining again.

Pershing Square previously held Lowe's shares in 2011, when filings showed about a 1.7% stake soon after Mr. Ackman outlined a **bullish** investment thesis on the retailer. He sold the shares by the end of the year after the **stock price** rose.

Mr. Ackman's new stake in Lowe's makes for an unusual union with Mr. Ellison, who helped stanch the bleeding at J.C. Penney in 2014 after Ron Johnson, a CEO Mr. Ackman had recruited, upended Penney's pricing strategy and offerings to disastrous results.

Around the time Pershing Square exited J.C. Penney at a steep loss, Mr. Ackman expressed contrition to his investors following a few mistakes in the retail world, which also included a loss in Target Corp.

"Clearly, retail has not been our strong suit, and this is duly noted," he wrote in 2013.

Write to Cara Lombardo at cara.lombardo@wsj.com

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THE WALL STREET JOURNAL.

World

Nafta Talks Stalled on U.S. Auto Demands; Calls for higher local content and America First provisions have proven unacceptable to Mexico, Canada

By Robbie Whelan
1,258 words
23 May 2018
06:35 PM
The Wall Street Journal Online
WSJO
English

Talks to renegotiate the North American Free Trade Agreement have reached a stalemate, with Mexico and the U.S. hardening their positions and both sides accusing one another of intransigence and inconsistency.

Mexico and the U.S. have clashed in recent weeks over U.S. demands for tighter automobile manufacturing rules and over the so-called America First provisions that President Donald Trump wants to put in any new deal in a bid to bring manufacturing jobs back to the U.S.

These include removing the international arbitration panels that currently resolve commercial disputes and creating a sunset clause that would end the deal every five years unless explicitly renewed. Both Mexico and Canada have described those measures as unacceptable.

Trade negotiators from the U.S., Mexico and Canada missed an informal deadline to reach a deal last week that would have given the U.S. Congress enough time to review and vote on it before new lawmakers take office next year.

People familiar with Mexico's negotiating position say the U.S. is trying to bully Mexico into accepting a deal centered on autos that would not require the U.S. Congress's approval—referred to as a "Skinny Nafta" deal—without making any concessions on the other issues.

"We can easily look at the 'skinny deal' as an alternative and that's something that the president can consider," U.S. Treasury Secretary Steven Mnuchin said in a television interview Monday.

But Mexican negotiators have now signaled they aren't interested in a partial deal.

"Skinny Nafta may not imply the involvement of the U.S. Congress, but it definitely implies the involvement of the Mexican Senate, and it doesn't accomplish the essential task of solving our issues, the Nafta issues," a person close to the Mexican side of the talks said Wednesday.

Last month, the U.S. proposed new rules that increased requirements for how much auto content must originate in North America in order for vehicles to qualify for tariff-free importation.

Nafta now requires 62.5% of a vehicle's content to originate in the region. The U.S. proposed raising that to 75%, along with several other content rules related to aluminum and steel used to make vehicles, core parts like engines and transmissions and primary and secondary components.

The U.S. also demanded that 40% of light vehicle content and 45% of pickup truck content be produced in high-wage zones with an average minimum wage of at least $16 per hour.

Two weeks ago, Mexico made a counteroffer using the same framework as the U.S. deal, only with less stringent requirements. Overall North American content would be 70%, while only 20% of a vehicle's content would have to come from the high-wage zones, under the Mexican proposal.

U.S. negotiators have alleged that Mexico agreed to new auto rules, but later backed away from that commitment and sought to change the terms of the proposal, said a person familiar with the U.S. side of the talks.

"Mexican officials had broadly agreed to a U.S. proposal on auto rules of origin, including on specific numbers, and then changed their minds," the person said. "What they call a counterproposal the U.S. calls backing away."

This person also said Mexico's position in the talks has been inconsistent between Foreign Minister Luis Videgaray—who talks regularly to Mr. Trump's son-in-law and top adviser, Jared Kushner—and the negotiating team led by Economy Minister Ildefonso Guajardo.

Frustrations over the talks have spilled over into the public eye in recent days. On Wednesday, U.S. President Donald Trump said Mexico and Canada have been "very difficult to deal with" in the Nafta negotiations.

"They have been taking advantage of the U.S. for a long time. I am not happy with their requests, but I can tell you in the end, we win," he said.

Chief trade negotiators from Mexico and Canada returned home last week after a round of discussions with U.S. counterparts in Washington. U.S. Trade Representative Robert Lighthizer said the Nafta countries "are nowhere close to a deal." With no further ministerial meetings currently scheduled, U.S. officials say trade talks continue at staff level.

Mexican officials say the stalemate took hold not because of them, but because of the U.S. demands. Mexico is "not backtracking," the person familiar with the Mexican side said.

The Americans are seeking to make an auto deal contingent on Mexico accepting the sunset clause and removal of dispute resolution mechanisms, this person added.

In recent weeks, Mexican officials have presented auto makers with Mexican operations the details of Washington's proposal for how much of a vehicle must originate in North America.

"None of them, absolutely none of them could comply with the proposed U.S. rule, not even the Big Three," said another person familiar with the Mexican side of the talks, referring to General Motors Co., Ford Motor Co. and Fiat Chrysler Automobiles NV, all of which have assembly plants in Mexico. "Some of them could possibly comply with an adequate transition period; others might not want to invest that much money."

The Alliance of Automobile Manufacturers, a group representing global auto makers in the U.S., said it supports the Trump administration's goal of increasing U.S. manufacturing jobs, but stressed that a "delicate balance" must be struck in rules of origin to avoid driving manufacturing out of North America to other low-cost regions.

"The alliance is concerned that the draft currently being discussed may not achieve the administration's goal," the group said.

Another industry group representing Detroit auto makers has said it is optimistic about the deal on the table. GM, Ford and Fiat-Chrysler declined to comment.

Continuing negotiations into next year will lead to prolonged uncertainty and currency **volatility** for Mexico, UBS strategist Esteban Polidura wrote in a note to clients on Wednesday.

Although the three Nafta countries have completed six chapters and almost complete another eight to 10 more out of a total of 25, Mr. Lighthizer has said wide gaps remain on issues including agriculture, oil-and-gas exports, labor-union practices in Mexico and some intellectual-property issues.

Mr. Guajardo has said it would be impossible for Mexico to agree to an auto deal amid the uncertainty over the sunset-clause and dispute-resolution issues.

Mr. Lighthizer sees the five-year sunset-clause and dispute-resolution issues as unrelated to the auto rules, and maintains that U.S. firms seeking to invest in Mexico should "calculate that in their decision-making and investment risk assessment," the person familiar with the U.S. position said.

"The reason this administration does not want to have arbitrations that move quickly is that it would give assurances to Americans who invest abroad, and of course, they're trying to keep investment here at home," said Carla Hills, who led the U.S. negotiating team for the original Nafta deal under President George H.W. Bush. "If you want to tap into global markets, you're going to have to give assurances."

Chester Dawson, William Mauldin and Paul Vieira contributed to this article.

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Economy
Turkey's Central Bank Lifts Key Rate in Unscheduled Meeting Amid Lira's Fall; The central bank lifts the late-liquidity lending rate to 16.5% from 13.5%, after the lira reached a new low against the dollar

By Yeliz Candemir and Mike Bird
607 words
23 May 2018
02:30 PM
WSJ Pro Central Banking
RSTPROCB
English

ISTANBUL—Turkey's central bank took emergency action late Wednesday, raising one of its interest rates by 3 percentage points, in a bid to stop the Turkish lira's fall one month from presidential and parliamentary elections.

The central bank, which uses a corridor of rates as part of its monetary policy, said it had increased the upper rate to 16.5% from 13.5%. The lower rate, which stands at 7.25%, as well as intermediary rates were kept unchanged, it said.

We have "decided to implement a strong monetary tightening to support price stability," the central bank said in a statement.

"We would say at least this shows policy makers are prepared to act decisively and that there is a limit" to the central bank's tolerance of lira weakness, said Chris Turner, head of global strategy at ING Bank.

The decision came during a rocky day for the lira, which dropped as much as 5% Wednesday, extending the currency's steep slide this year amid a lack of central bank action on interest rates that analysts think is desperately needed to combat high inflation.

In morning trade in Europe, the dollar rose to as high as 4.92 lira, before settling back toward 4.85. The currency is at its weakest level against the dollar since the lira was re-denominated in 2005.

The Turkish currency has weakened by about 20% against the dollar so far this year, and has lost around 70% of its value over the last five years.

Although the central bank is independent and says it is committed to taming Turkey's double-digit inflation, it has only sparingly made rate increases—widely regarded by economists as the main tool to support a weakening national currency and combat inflation.

Turkish President Recep Tayyip Erdogan has referred to high interest rates as "the mother and father of all evils" and is campaigning for re-election on a promise that interest rates will remain low.

The "lira is losing much more than any other currencies, except the Argentine peso, because of the lack of confidence in the central bank," said Per Hammarlund, chief emerging-markets strategist at SEB.

Selling by Japanese holders with long lira positions was the likely cause of the most recent sharp drop, said Piotr Matys, a Rabobank emerging-market foreign-exchange strategist who suggested that the weakness of the lira against the yen had forced investors to close their positions quickly.

Other factors are hammering the currency. The rise in **oil prices** is seen as a problem for Turkey, which is a big importer of dollar-denominated crude.

Analysts at HSBC said in a recent note that a rate rise of less than 2 percentage points wouldn't be enough to stabilize the lira. The central bank raised the same key interest rate by 0.75 percentage point a month ago.

Still, not all international investors are negative about the prospects for Turkish assets. Emerging-market credit analysts at Citigroup see the selloff in corporate debt as a buying opportunity, recommending an overweight position toward the economy.

Write to Yeliz Candemir at yeliz.candemir@wsj.com and Mike Bird at Mike.Bird@wsj.com

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WSJ PRO CENTRAL BANKING

Economy

New Home Sales Post Weak Spring Start; Purchases of newly built single-family homes fell 1.5% in April

By Sharon Nunn
492 words
23 May 2018
WSJ Pro Central Banking
RSTPROCB
English

WASHINGTON—Sales of new homes in the U.S. fell at the beginning of spring, reversing the stronger momentum seen in the first quarter.

Purchases of newly built single-family homes—a relatively narrow slice of all U.S. home sales—fell 1.5% to a seasonally adjusted annual rate of 662,000 in April, the Commerce Department said Wednesday. Economists surveyed by The Wall Street Journal had expected a larger 2.2% drop.

Purchases have risen in three of the past six months, while sales rose 11.6% in April from a year earlier. Still, the pace of new-home sales remains well below the elevated levels seen before the 2007-09 financial crisis and recession.

New-home sales data can be **volatile**. Ahead of the report's release, analysts forecast an April decline to make up for March's monthly new-home sales growth. April's 1.5% decline came with a margin of error of 11.8 percentage points.

The April drop was "a little lower than consensus, but the data are highly **volatile** and the net result is still a rise so far this year," Jim O'Sullivan, chief U.S. economist at consultants High Frequency Economics, said in a note to clients.

More widely, housing market inventory has been tight, driving up home prices and pricing some potential buyers out of the market. The average sales price for new homes grew to $407,300 in April, the highest price on records dating back to 1963. Meanwhile, at the current sales pace, there was a 5.4-month supply of new homes on the market at the end of March, down from the 6.0 levels seen in the middle of 2017.

Rising mortgage rates are also a headwind for the housing market. The average rate for a 30-year, fixed-rate mortgage was 4.47% in April, up from 4.03% in January. Mortgage rates still remain well below prerecession levels.

In March, sales of previously owned homes, which represent the bulk of the U.S. market, ticked up from the prior month but were below year-earlier levels.

Still, home builders' future expectations of single-family home sales improved in May for the first time this year, according to the National Association of Home Builders' recently released housing-market index.

The NAHB "index is still down a bit since year-end, but there is no sign of ongoing weakening," Mr. O'Sullivan said in a note to clients last week. "The pattern suggests some loss of momentum, but probably in the form of slower growth rather than contraction."

Write to Sharon Nunn at sharon.nunn@wsj.com

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