THE WALL STREET JOURNAL.
U.S. EDITION

Emerging Markets Hang on Fate of Tech --- Rising importance of sector's stocks and their elevated prices change the equation

By Mike Bird
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6 April 2018
The Wall Street Journal
J
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English

Technology shares now dominate emerging markets like commodities once did, leaving those indexes even more exposed than U.S. benchmarks to selloffs in the sector.

But some analysts ask whether indiscriminate selling is punishing Asian technology companies for what are mainly U.S. problems.

The recent tech selloff has knocked 8.4% off the MSCI Emerging Markets Index since it peaked on Jan. 26, while the **S&P 500** has lost 7.3% over that period. Investors are concerned about high valuations, increased regulation of American tech giants and a potential trade war between the U.S. and China.

Investors note the highest valuations are in the U.S. and ask why the threat of increased regulation at Facebook Inc. and Alphabet Inc.'s Google should hurt their Asian peers.

If they are right, Asian technology companies -- and thus regional indexes -- could recover faster. Either way, the rising importance of tech stocks in emerging markets has changed the equation for investors.

"If the tech call changes, the EM call changes, there's no doubt there," said Bhanu Baweja, deputy head of global macro strategy at UBS.

Technology shares make up more than one-quarter of the MSCI EM index, up from 10% a decade ago, a greater share than in the **S&P 500**. The four largest stocks in the EM index -- Tencent Holdings Ltd., Alibaba Group Holding Ltd., Samsung Electronics Co. and Taiwan Semiconductor Manufacturing Co. -- have a combined market capitalization just shy of $1.5 trillion.

The MSCI Emerging Markets Information Technology Index has risen almost 74% in price over the past two years, versus a gain of about 56% for **S&P 500** technology stocks. Those subindexes are down roughly 10% and 4.9%, respectively, since the January peak.

The selloff will hit some emerging-market countries harder than others. The tech sector makes up more than 40% of the MSCI Korea and China indexes, against 16% in India and just 1.3% in Latin America.

The elevated valuations of Silicon Valley's tech giants are often cited by analysts as a reason for selling them. The **S&P 500** tech sector's forward price/earnings ratio recently rose above 20 times, a postcrisis high. The MSCI EM tech sector's forward P/E ratio is around 13.8.

Still, some analysts believe the gap in valuations doesn't necessarily make emerging-market tech companies a more promising bet. "The kind of tech we have going in developed markets is less cyclical than what we have in emerging markets," said UBS's Mr. Baweja.

Almost half of emerging-market tech stocks are made up of more cyclical electronic equipment, hardware and semiconductor companies, according to UBS. Such companies are more sensitive to the strength of the global economy and typically command lower valuations. "So perhaps they're not as attractive as their P/E ratios suggest," Mr. Baweja added.

There is plenty of variation in the valuations of emerging-market tech firms. Of the largest four, forward P/E ratios range from Tencent's lofty 34 times to Samsung at 6.6 times.

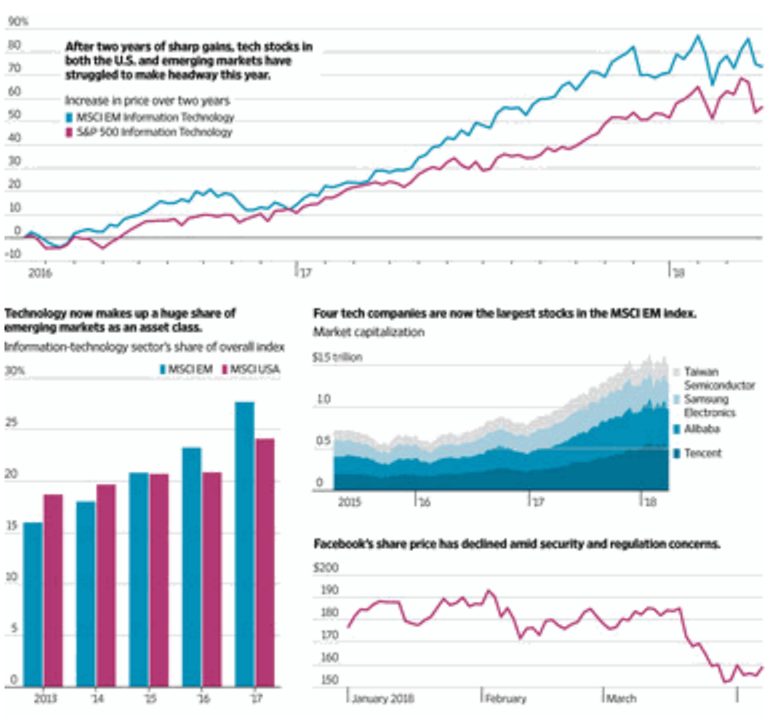
The recent selloff also has been fueled by concern that the U.S. will regulate the technology sector, not least after revelations that a firm with ties to the 2016 Trump campaign improperly kept Facebook user data for years, igniting a debate over user and data privacy.

Asian tech stocks fell further Tuesday as the White House released a list of tariffs targeted at "the acts, policies, and practices of the government of China related to technology transfer, intellectual property, and innovation," which the U.S. government says discriminate against American businesses.

But some analysts say investors shouldn't be selling technology stocks indiscriminately. "I think it's very unlikely that you'll see the Chinese government going after tech companies in the way that you might see in the U.S.," said Stephen Yiu, chief investment officer at Blue Whale Capital. "I would not be surprised if some of these Asian tech stocks, particularly the Chinese stocks, recover more quickly than some of those facing regulatory pressure in the U.S."

Other investors remain broadly **bullish** about technology companies in emerging markets, because those countries are at an earlier stage of economic development.

"In a lot of emerging markets, the penetration and adoption of technology is a lot faster than in the U.S. or Europe. The infrastructure for it is often brand new and works much better," said Wesley Lebeau, fund manager at CPR Asset Management. "On a top-down basis, the emerging markets look more interesting than developed, if you can find the right companies."



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THE WALL STREET JOURNAL.
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Traders See Gains in Market Turmoil --- Fear gauge is up 72% since start of the year; 'the new safe haven is now volatility'

By Asjylyn Loder, Ira Iosebashvili and Gunjan Banerji
1,005 words
6 April 2018
The Wall Street Journal
J
A1
English

Stock-market swings in the past week have many investors scrambling to profit from the return of turbulence after a prolonged period of tranquility.

Rising interest rates, budding fears of inflation, the prospect of a trade war and a rout in technology stocks have dragged U.S. stocks lower and spurred one of the most sustained bouts of market volatility in years. Before Thursday, the S&P 500 index had gained or lost at least 1% during eight of the previous nine trading sessions.

The return of volatility was on display Wednesday when the Dow Jones Industrial Average swung by 741 points, plunging at the start amid fears of trade disruptions between the U.S. and China before reversing course with a gain of almost 1% as those fears subsided.

Major stock indexes continued their rebound Thursday, when the S&P 500 advanced 0.7%, while the Dow gained 1%. The tech-heavy Nasdaq Composite Index rose 0.5%. Traders were bracing for another active day of trading Friday, after President Donald Trump late Thursday said he was considering slapping tariffs on an additional $100 billion in Chinese imports, sending stock-index futures tumbling in after-hours trading.

That turbulence is a sharp reversal from the sustained period of calm that had kept the Cboe Volatility Index, Wall Street's fear gauge, near record lows. The market's steady upward slog made bulls out of even the most bearish bubble spotters. Jeremy Grantham, a Boston money manager famed for predicting past market peaks, declared in January that U.S. stocks would "melt up" another 50% over the next six months to two years. So far, at least, he was wrong.

Now that stocks, bonds and other assets are moving in strange ways, many investors view continued volatility as one of the year's most dependable bets. The Cboe index, known as the VIX, is up 72% since the start of the year.

"The new safe haven is now volatility," said Christopher Stanton, chief investment officer at Sunrise Capital LLC. "It's the one thing that's pretty much guaranteed."

Mr. Stanton is among those who are buying futures contracts pegged to the VIX, a profitable bet if volatility continues to rise. In the past two weeks, both hedge funds and asset managers have been doing the same, according to data from the Commodity Futures Trading Commission.

The VIX uses S&P 500 options to measure traders' short-term expectations for market swings. The gauge typically rises when stocks fall, making VIX derivatives an attractive form of protection against sudden downturns. One exchange-traded product that tracks VIX futures has gained 68% so far this year, according to FactSet.

"A small amount of this stuff can be a very potent hedge," Mr. Stanton said.

Some investors are buying stock options that make more money amid violent market swings, regardless of whether stocks rise or fall, said Pravit Chintawongvanich, head of derivatives strategy for Macro Risk Advisors.

"There's definitely been a change in market psychology," he said. "This is the first time in years when volatility has jumped and remained high."

Big banks including Goldman Sachs and Societe Generale are urging clients to protect their portfolios from looming threats such as trade disruptions and higher interest rates by using strategies that benefit from increased turbulence.

"Hedge what you fear," Goldman Sachs wrote in a report Monday. "A shift towards risk reduction and expectation of higher **volatility** is likely to change the trading dynamics in 2018 and increase the value of time spent on hedging."

Buying this insurance against wild price swings had fallen out of favor in the years since the financial crisis, especially in 2017, when **stock-market volatility** fell to its lowest level since the index was launched in 1993. The VIX's calmest year prompted some investors to ditch costly portfolio insurance.

A single share of the iPath **S&P 500** VIX Short-Term Futures ETN, which profits when VIX futures rise, bought at its 2009 launch was worth $107,090 then, after adjusting for splits, according to FactSet. It closed at $46.96 Thursday.

Instead, many investors juiced returns by selling insurance. Betting against **volatility** was one of the most popular and profitable trades in recent years as central banks flooded the markets with cash and lulled investors with record-low interest rates.

But that strategy imploded on Feb. 5 when stocks plunged and VIX futures rose almost 113%, their biggest one-day gain since the contracts started trading in 2004. Exchange-traded funds that bet against the VIX lost more than 80% of their assets, and two popular products were closed. Since the start of February, asset managers have slashed wagers on falling VIX futures by 83% while hedge funds cut 41%, according to the CFTC.

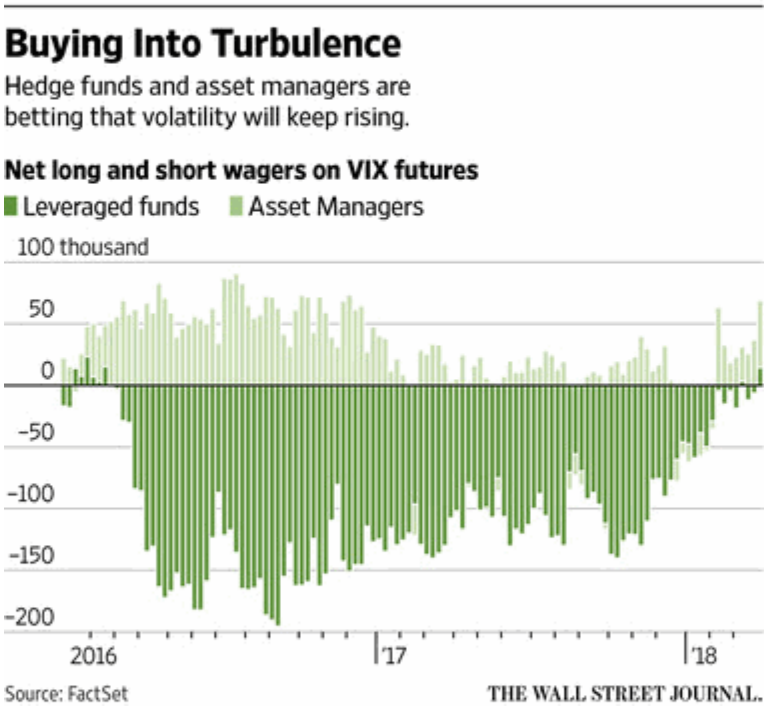
Despite the renewed interest in betting on more **volatility**, profiting from it isn't all that easy. Investors must time the bets with precision, and be equally adept at cashing out at the right moment, analysts say -- a difficult task.

A group of hedge funds -- known as tail-risk funds -- that claim to protect investors from sudden declines have struggled to make gains from the surge in market turbulence. The Cboe Eurekahedge Hedge Fund index of tail-risk funds fell 0.3% in February and eked out a gain of 0.2% in March, even though **volatility** surged.

Stocks may yet rocket higher, as predicted in January by Mr. Grantham, the chief investment strategist at Grantham Mayo Van Otterloo & Co.

Still, history shows that buying **volatility** can prove expensive, even when turbulence is elevated, said Salil Aggarwal, equity derivatives strategist at Deutsche Bank.

"It's very hard to make money being systematically long **volatility**," Mr. Aggarwal said. "Over time you're going to bleed away money."



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Streetwise: Cash Should Be in Your Portfolio Again

By James Mackintosh
874 words
6 April 2018
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B1
English

Holding cash is investment heresy after a decade of the lowest interest rates in history. It is time to consider the sacrilegious and add cash back into portfolios.

The value of cash was demonstrated in the first quarter: Both stocks and bonds lost money -- the first quarter that has happened since the aftermath of Lehman's failure in 2008. Cash turned out to be the safe asset.

The past three months highlighted the lack of risk, at least in nominal terms, of holding cash. But cash and near-cash products have three properties that ought to be appealing at the moment: a yield above inflation, a guaranteed value to cushion a portfolio and the firepower to buy back in after a dip.

The combination of the Federal Reserve's rate rises and the Trump administration's fiscal profligacy has pushed up the yield on cash and cashlike instruments to the highest level since October 2008.

A bank deposit still pays next to nothing, but money-market funds are offering as much as 1.75%. Lend to high-quality companies for 30 days in the commercial-paper market, and the yield of 2.4% is above inflation and more than the 1.95% dividend yield from the **S&P 500**. Locking money up for 10 years in a Treasury bond offers less than 0.5 percentage point more, the smallest premium since just after Lehman collapsed.

Those who want the security of holding government paper have to lock up their money for just a year to beat the dividend yield on stocks, with the one-year Treasury bill yielding 2%. Again, if you can get 2% for a year, is it worth locking up money for 10 years in a Treasury bond for an extra 0.8 percentage point a year?

This is where the security of cash comes in. For 25 years, bonds acted as a form of insurance for investors, with their value usually rising -- so yield falling -- when share prices dropped. Even better, over multiyear periods, both bonds and equities rose in value, meaning the insurance provided by bonds was almost free. Over two decades, the **30**-**year Treasury** has returned an annualized 5.7% and the **S&P 500** 6.4%, with coupons and dividends reinvested.

There are good reasons to worry that both the short-term cushion provided by bonds when equities drop and the longer-run gains from falling yields could be coming to an end. If they do, cash will be a better way to shield a portfolio against **stock-price** falls than bonds.

The inverse bond-equity link has been so strong for so long that investors tend to take it for granted. Yet until the late 1990s, the relationship was the other way around: Higher bond yields typically coincided with falling share prices.

When investors are sensitive to inflation, stocks and bonds tend to rise and fall together, as inflation is bad for both -- at least in the short run. When inflation is thought to be under control, as it has been since the 1990s, the real economy is more likely to drive prices. And in the real economy, what is good for stocks is bad for bonds, and vice versa.

At the same time, falling real interest rates since the early 1980s have helped both stocks and bonds gain over the long run.

Thus, confidence that inflation was a problem of the past meant stocks and bonds could move in opposite directions on a day-to-day basis, while both made money over years.

There is also the standard flight-to-safety effect: In the short run, bad news prompts investors to sell stocks and shelter in government bonds, and there was frequent bad news from 2008 to 2013 or so.

With inflation and interest rates picking up and post-Lehman fears gone, stocks and bonds might sell off in tandem more frequently, making bonds less useful in a portfolio.

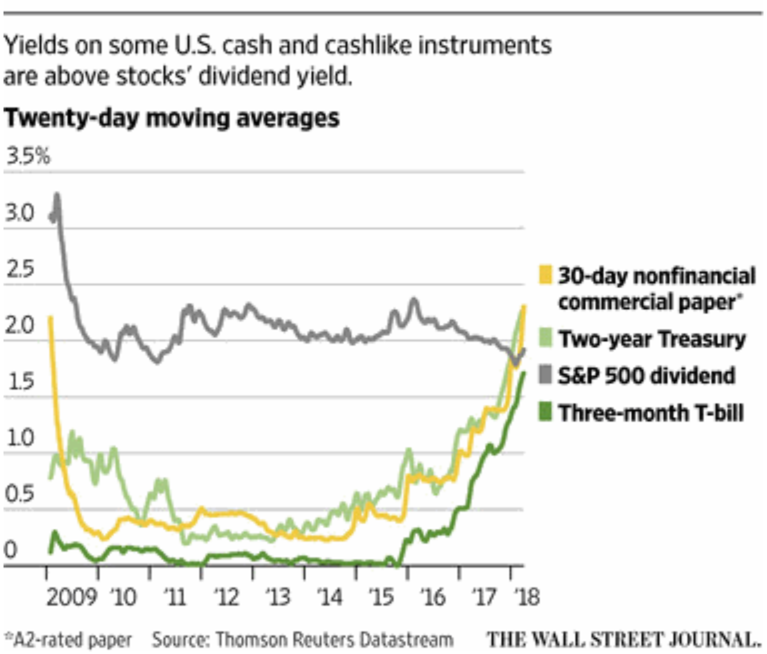
Finally, a cash cushion gives investors the freedom to take advantage of selloffs. Last year this optionality was worthless, as the market went up almost in a straight line.

With the return of **volatility**, the firepower a cash pile gives to enter the market after a selloff is valuable again -- at least for those brave enough to buy when everyone else wants to sell.

History is against the holder of cash. Since 1900, stocks returned 6.5% annualized after inflation, bonds 2% and cash -- using T-bills as a proxy -- just 0.8%, according to London Business School academics Elroy Dimson, Paul Marsh and Mike Staunton in research for Credit Suisse. But cash has beaten both bonds and stocks over a decade several times, most recently in the stagflationary 10 years up to 1982.

It is fatuous to compare today's inflation to the 1970s, as it is picking up from exceptionally low levels. And only the most **bearish** investors think cash will beat stocks over the next decade.

But one need only think there is a bit of inflation coming to think cash is a better ballast in a portfolio than bonds at the moment.



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WSJ PRO FINANCIAL REGULATION

Markets

Hey Alexa, Can You Pay for That? | India Cracks Down on Cryptocurrencies | Rubin's Take: What's the Holdup on CFTC Nominees? The Wall Street Journal's financial regulation newsletter for Friday, April 6, 2018.

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English

Rubin's Take: What's the Holdup on CFTC Nominees?

Hey Alexa, Can You Help Amazon Get Into the Payments Business?

India Cracks Down on Cryptocurrencies

NYSE Reaches Deal for Chicago Stock Exchange

BlackRock Plans to Block Walmart, Dick's From Some Funds Over Guns

What's the Holdup on CFTC Nominees?

The slowness of Washington's bureaucracy is felt deeply at the Commodity Futures Trading Commission, which has two vacant seats and sees no signals they will be filled soon.

The CFTC hasn't been at full strength since 2014. With three commissioners, it has a quorum, barely—but Chairman J. Christopher Giancarlo has said that he doesn't want to move ahead on certain major rulemaking, like position limits, without all five seats occupied.

Dawn Stump, a Republican, has already gone through the nomination process and was approved by the Senate Agriculture Committee, but hasn't received a full Senate vote. The chamber is waiting until her Democratic counterpart is nominated, so they can be voted on as a pair.

The Wall Street Journal reported in December that the White House was considering nominating former CFTC general counsel Dan Berkovitz for the Democratic slot. By all accounts, his pending nomination hasn't hit any snags—it's just taking a long time.

In a speech to a CFTC-hosted conference on Thursday, Senate Agriculture Committee Chairman Pat Roberts (R., Kan.) urged the White House to hurry up.

"As soon as the White House announces another CFTC nominee for the last vacancy, the Ag Committee will move as quickly as possible," he said. "Whether it's market participants who rely on the CFTC to provide regulatory certainty, or consumer financial advocates who highlight the need for robust oversight of the market, everyone can agree we need a full panel of commissioners at the CFTC."

The White House didn't respond to requests for comment.

Mr. Roberts also said he was disappointed the CFTC didn't receive a funding increase in the 2018 budget recently passed by Congress, and vowed to support an increase for 2019 and to be responsive to the agency's funding needs in the interim.

The Securities Exchange Commission returned to full strength recently after the Senate in December confirmed Democrat Robert Jackson and Republican Hester Peirce as commissioners. The CFTC is clearly tired of waiting for its turn.

Key Developments in Washington, on Wall Street, and Beyond

Hey Alexa, Can You Help Amazon Get Into the Payments Business?

Amazon.com Inc. is considering whether to use its Alexa virtual assistant to launch a person-to-person payments feature, a move that would push the retailing giant into new competition with PayPal Holdings Inc.'s Venmo and big banks' payments efforts, according to people familiar with its strategy.

The Seattle-based behemoth, which has expanded from online commerce to cloud computing and entertainment, is exploring a variety of new ventures and capabilities that could give it more power in a payments industry currently dominated by banks and card networks such as Visa Inc. and Mastercard Inc.

Among the options being evaluated are ways in which consumers could tell Alexa to send money to a friend. The idea is still in the early stages, and the voice-activated device would likely need more information about customers' bank accounts than it has now to execute such money transfers, people said.

India Cracks Down on Cryptocurrencies

The Reserve Bank of India said it would ban companies it regulated from engaging in virtual currencies such as bitcoin, becoming the latest regulator in Asia to clamp down on speculation in **volatile** digital assets.

India's central bank said in a statement Thursday that given the risks of dealing with cryptocurrencies, regulated firms "shall not deal with or provide services to any individual or business entities dealing with or settling" virtual currencies and should "exit" any existing relationships within a specified time. A further circular would follow, the statement said.

South Korea Detains Cryptocurrency Executives on Embezzlement Allegations

WSJ Pro: Swiss Central Banker Warns of Cryptocurrency Risks

NYSE Reaches Deal for Chicago Stock Exchange

The owner of the New York Stock Exchange has reached a deal to buy the struggling Chicago Stock Exchange, after a two-year acquisition effort from a Chinese-led investor group failed.

Intercontinental Exchange Inc., known as ICE, didn't disclose the terms of the transaction. Last month, the Chicago exchange ended an effort to sell itself to the investor group for around $20 million after the Securities and Exchange Commission blocked the deal.

BlackRock Plans to Block Walmart, Dick's From Some Funds Over Guns

The world's largest money manager is stripping retailers that sell guns out of some current and planned exchange-traded funds, the latest sign that weapons sellers are facing the same scrutiny from investors as producers.

Walmart Inc., Dick's Sporting Goods Inc. and Kroger Co. are among the retailers that will be ruled out of new environmental social and governance-focused funds BlackRock Inc. is planning, a spokeswoman for the world's largest asset manager said Thursday. The retailers were among those who said they would no longer sell guns to anyone under 21 in the wake of the school shooting in Parkland, Fla.

Government to Review Zions Bid to Shed ‘Systemically Important' Tag

A financial regulatory body appears set to review a bid by Zions Bancorp to escape the "systemically important" label that triggers heightened supervisory standards.

The Financial Stability Oversight Council said Thursday that at a meeting next week, it would discuss the "potential application" of a firm under an exemption from a Dodd-Frank Act provision that keeps large banks from evading the tougher supervision standards by shedding their bank holding companies.

Zions said in November it planned to drop its bank holding company, a move that allowed it to petition the council to release it from the designation.

Wells Fargo Plans to Integrate Corporate, Investment Banks

Wells Fargo & Co. is planning to further integrate its corporate and investment banks in an effort to reduce costs and better serve its clients, people familiar with the matter said.

The bank's plans, which could lead to layoffs in the future, will affect some industry coverage groups, advisory teams, equity and debt capital markets origination and certain corporate-banking relationship managers, some of the people said.

JPMorgan Chief James Dimon Likes the Bank's Growth Prospects, Despite Risks

JPMorgan Chase & Co. chief James Dimon shared an optimistic view of the bank's growth prospects in his annual shareholder letter published Thursday.

Mr. Dimon, chairman and chief executive of the largest U.S. bank by assets, focused on potential boosts in JPMorgan's businesses ranging from fixed-income trading to new-country expansion to opportunities in wealth management.

That represents a more positive tone than letters in recent years that emphasized U.S. regulatory shortcomings, a defense of the bank's size and the threat of Silicon Valley upstarts. Mr. Dimon spent a good chunk of his 47-page letter focused on things that could be better and things that worry him, from "poor public policy" to cybersecurity gaps and the risks that come from interest-rate policy changes and proliferation of exchange-traded funds.

Dimon's Take on Taxes, Regulation, the Fed

Whistleblower Scores Under SEC Safe-Harbor Rule

The Securities and Exchange Commission awarded more than $2.2 million to a whistleblower even though the regulator had already launched a probe when it first heard from the tipster, the agency said.

The person, whom the SEC identified only as a former company insider, was the first to collect under a so-called safe-harbor provision of the agency's whistleblower reward program. The safe-harbor rule provides that if a whistleblower submits information to another federal agency and offers the same tip to the SEC within 120 days, the SEC will treat the information as if it received the lead at the same time it went to the other agency.

ICOs March On

The recent cooling in the once-hot market for initial coin offerings hasn't been as dramatic as feared, new data from industry tracker Token Report shows.

The March tally for the offerings tied to bitcoin and other virtual currencies came in at $1.2 billion, 24% below the total in February, said Galen Moore, founder of Token Report. That decline followed expanded Securities and Exchange Commission scrutiny of whether investors are being taken advantage of in the highly speculative deals. But the fall wasn't as sharp as the data provider expected in mid-March, when it projected a 45% decline in proceeds for the month.

The first-quarter's $4.04 billion raised in the token offerings was more than half of the record of approximately $6.5 billion raised in ICOs for all of 2017. The money has kept flowing in despite analyses that warn the majority of ICO projects could be classified as "scams" or "failures." Mr. Moore cited a late burst of activity in March for salvaging what was expected to be a much slower month, including a $320 million token offering for a currency called Dragon Coin that promises to bring gaming into the 21st Century.

Friday, April 6

1:30 p.m.

Federal Reserve Chairman Jerome Powell discusses the economic outlook at the Economic Club of Chicago luncheon.

Monday, April 9

NA

The Independent Community Bankers of America hosts a three-day summit to meet with members of Congress and regulators on policy issues. Comptroller of the Currency Joseph Otting speaks at 11 a.m. and Consumer Financial Protection Bureau Acting Director Mick Mulvaney speaks at 1:45 p.m.

Tuesday, April 10

12:30 p.m.

Securities and Exchange Commission Chairman Jay Clayton speaks at an **equity market** structure symposium in Chicago, Ill.

Bank of Amazon Could Rival Wells Fargo

If Amazon.com Inc. offers banking services, it could become as big as Wells Fargo & Co., the country's third-largest bank by assets, in roughly five years, according to a report by consulting firm Bain & Co. The firm estimates Amazon banking services would attract more than 70 million U.S. consumers, slightly more than half of the retailer's U.S. customer base and "the same share of people who said in our new global survey that they expect to buy a financial product from a major technology firm over the next five years." Offering bank services also would enable Amazon users to pay directly from their checking accounts, allowing the company to avoid roughly "a quarter of a billion dollars in annual interchange fees" from credit cards, the report says.

SEC Cryptocurrency Rules Would Help Traders and Regulators

A patchwork of state money-transmission laws currently regulate cryptocurrency traders, but the Securities and Exchange Commission could pre-empt those rules with a simpler, clearer approach that offers similar safeguards, Daniel S. Alter of law firm Murphy & McGonigle writes in an American Banker opinion piece. SEC intervention "could ease the regulatory burden conceivably imposed by numerous state supervisors" and "serve as an effective carrot in supplementing SEC's enforcement efforts—the promise of a single regulator in place of a balkanized regime could be a serious boost to the SEC's registration of digital assets and those trading in them," he says.

Federal Reserve Bank of Atlanta President Raphael Bostic said poor math skills and limited financial literacy make people less likely to save for the future, posing risks for the economy.

Startup PeerStreet, which operates a marketplace for "fix-and-flip" real-estate loans, has raised $29.5 million in Series B financing.

WageWorks replaced some of its top leaders—including its chief executive—and said it needed to restate financial results from the past two years after an audit found "material weaknesses" in reporting.

The two largest proxy advisory firms are recommending that General Electric Co. fire KPMG LLP as its auditor after 109 years, in light of accounting issues at the industrial giant.

Delta Air Lines Inc. said hundreds of thousands of customers could have had their credit-card information compromised in a cyberattack on a vendor that ran a chat function on the carrier's website.

Deutsche Bank AG's global markets chief and co-head of investment banking, Garth Ritchie, has had discussions about potentially leaving the bank as soon as this year, according to people familiar with the matter.

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WSJ PRO CENTRAL BANKING

Economy

Bostic: Improved Financial Literacy Can Help Improve Economy| 5 Things to Watch in Jobs Report | ECB to Challenge Latvia Decision | SNB Warns of Cryptocurrency Risks | Torry's Take: How Low Can U-3 Go? The Wall Street Journal's central banking newsletter for Friday, April 6, 2018

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Torry's Take: How Low Can U-3 Go?

Fed's Bostic: Improved Financial Literacy Can Help Americans Save, Improve Economy

5 Things to Watch in the March Jobs Report

ECB to Challenge Latvia Over Decision to Bar Central Bank Governor Rimsevics

Swiss Central Banker Warns of Cryptocurrency Risks

How Low Can U-3 Go?

Economists expect unemployment will hit a fresh postrecession low of 4% in the Labor Department's March employment report, to be released Friday, slightly from 4.1% in February.

Lower joblessness is undoubtedly good news for workers, although a major decline in the unemployment rate, known as U-3, could be a sign that the economy doesn't have much more room to run before the labor market overheats.

The Federal Reserve faces a delicate balancing act as officials seek to draw idle workers into the labor force without letting the economy expand at an unsustainable rate.

The expected boost to demand from last year's tax overhaul has only made their tightrope walk more difficult.

As Fed governor Lael Brainard said earlier this week, "we do not have much experience with pro-cyclical fiscal stimulus."

That means the jobless rate and other measures associated with it will be center stage in today's jobs report.

Through February the economy created jobs for 89 consecutive months, the longest streak of continuous hiring on record. Nonetheless, there are signs that some slack remains in the labor force. A measure that includes Americans in part-time jobs who want full-time employment or people still too discouraged to seek work was 8.2% in February. That rate, known as U-6, is elevated compared with the last time the U-3 unemployment rate was around 4%. In December 2000, U-6 was 6.9%.

What the Fed would really like to see is an increase in labor force participation -- still trending near the lowest level since the late 1970s as the population ages and baby boomers retire. More people joining the labor force could ward off a precipitous drop in the U-3 rate.

The wage picture bears watching in the March report too, particularly with unemployment expected to decline again.

Year-over-year wage gains have been above the 2.5% mark for the past three months, but they remain short of the 3% to 3.5% mark they registered before the 2007-2009 downturn. That said, an uptick in wages would suggest inflationary pressures are mounting, and the time for another rate increase is drawing nearer.

Key Developments Around the World

Fed's Bostic: Improved Financial Literacy Can Help Americans Save, Improve Economy

Atlanta Fed President Raphael Bostic said Thursday that poor math skills and limited financial literacy make people less likely to save for the future, posing risks for the economy. In remarks prepared for a speech in Florida, Mr. Bostic cited research finding that poor financial literacy among borrowers "played a real role in the subprime mortgage crisis" by making people more likely to take on unaffordable loans. Helping households keep their spending under control or develop a financial cushion could protect them from unforeseen changes, he said.

5 Things to Watch in the March Jobs Report

The Labor Department releases its broadest look at the U.S. job market for March on Friday. Economists surveyed by The Wall Street Journal expect employers added 178,000 jobs during the month and see the unemployment rate ticking down to 4.0%. Here are five things to watch in the report.

ECB to Challenge Latvia Over Decision to Bar Central Bank Governor Rimsevics

The European Central Bank said Friday it will challenge Latvia's decision to bar its central-bank governor Ilmars Rimsevics from attending ECB meetings, and seek "interim measures" that allow its decision-making to function as normal. Mr. Rimsevics, who sits on the ECB's 25-member rate-setting committee as head of Latvia's central bank, has been prevented by Latvian authorities from attending recent ECB meetings in Frankfurt amid a domestic investigation into whether he extorted bribes. The governor was detained by anticorruption investigators in February but later released. He denies the allegations.

Swiss Central Banker Warns of Cryptocurrency Risks

A top official of Switzerland's central bank warned Thursday that cryptocurrencies should not be seen as a substitute to traditional currencies, despite some of the potential benefits that the underlying blockchain technology has for the financial system. "Despite their name, however, cryptocurrencies are not comparable with money—far from it," Swiss National Bank governing board member Andréa Maechler said in prepared markets to a conference in Zurich. Her comments are noteworthy because Switzerland has positioned itself as an attractive place for cryptocurrency companies to set up shop, particularly in the canton of Zug, known as the Crypto Valley. Yet her remarks suggest that the country's central bank remains wary of the risks associated with cryptocurrencies.

Friday

8:30 a.m. EDT

U.S. Labor Department releases March jobs report

11:15 a.m. EDT

Bank of England's Carney speaks

1:30 p.m. EDT

Fed's Powell speaks

3 p.m. EDT

San Francisco Fed's Williams speaks

Saturday

10:30 a.m. EDT

Chicago Fed's Evans speaks

Fed Research Explores Differences in Import Price Inflation Between Income Groups

Fed economists Colin Hottman and Ryan Monarch suggest in new research that on average, higher-income consumers have faced lower import price inflation, while lower-income consumers have faced higher import price inflation. "Our results suggest that any nominal income inequality that may have arisen in the United States due to trade over the past two decades has not been mitigated by movements in import prices across income groups," the post states.

BOE Bond Buys Lowered Yields

A program of corporate bond purchases launched by the Bank of England in response to the U.K.'s June 2016 vote to leave the European Unionhelped reduce borrowing costs, according to a posting by Calebe de Roure, Ben Morley and Lena Boneva on Bank Underground. The Corporate Bond Purchase Scheme started on 27 September 2016, and by April 2017 had reached its target of 10 billion pounds. "In summary, our results suggest that the CBPS announcement decreased the spreads of sterling denominated bonds eligible for the scheme by around 13bps compared with changes in a comparable set of euro and dollar denominated corporate bonds, issued by the same corporates," the three authors write.

The Big Risk of a Trade War: Inflation

"There is never a good time to start a trade war. But in 2018, the shots exchanged by the U.S. and China could be particularly troubling for investors, because they stoke a fear that has already rocked markets: inflation," writes Richard Barley in The Wall Street Journal."The year's wobbles started with a sharp rise in U.S. bond yields, sparked by signs that inflation is picking up. Protectionism is just fuel for that fire. The U.S.'s threat to impose tariffs on $50 billion of Chinese imports across 1,300 categories of products and China's swift response has raised the risk of a more serious disruption," Mr. Barley contends.

The Fed Will Look Past This Turmoil in Markets

Friday's jobs report is more important for the path of interest rates than the recent drop in equities, asserts Tim Duy in Bloomberg View. "Central bankers are sufficiently confident in the strength of the financial system that they are focusing their attention on the incoming economic data rather than the **stock market**. And that data, including the recent acceleration in personal consumption expenditures inflation and strength in the manufacturing sector, tends to support the Fed's plans for further rate hikes. Countering this data would require a much deeper equity correction. At this point, expect another rate boost in June," Mr. Duy says.

The jobless rate in the Elkhart region plunged from 20% in March 2009, worst in the U.S., to just over 2% in January, half the national average. The area is now facing labor shortages, rising home prices and wages.

The U.S. trade gap widened in February, largely reflecting an increase in the goods deficit and a decline in the services surplus the U.S. typically holds.

Canada's trade deficit widened in February as imports of energy products reached their highest level in more than three years and exports edged up, retracing some of the sharp declines in both categories during the previous month.

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Document RSTPROCB20180406ee460005l

The New York Times

Foreign Desk; SECTA
In Trade War, Usual Commerce Rules May Not Apply

By NEIL IRWIN
1,482 words
6 April 2018
The New York Times
NYTF
Late Edition - Final
9
English

Until Thursday afternoon, there had been a reassuring sense of restrained, tit-for-tat reciprocity in the trade skirmish between the United States and China.

But if this spirals into a bigger conflict between the world's two biggest economies -- something that seemed to become more likely Thursday evening with President Trump's threat to add $100 billion more in tariffs -- it's worth keeping something in mind: In a trade war, the usual rules of commerce may not apply.

That is doubly true in a potential trade war with China, for several reasons.

Because the country exports far more in goods to the United States than it imports, China simply doesn't have as much room to keep up with escalating American tariffs, especially given the Chinese government's desire to cushion its citizens from higher prices for food staples.

Moreover, China has in the past proved willing to use a wide range of government powers to achieve commercial objectives -- from campaigns against out-of-favor companies in state media to selective, stepped-up regulatory enforcement. And if things really get nasty, the United States and China are financially intertwined in ways that China could seek to exploit -- though not without creating risks for a country holding $1.2 trillion in United States Treasury bonds.

''One of the very important tools that the Chinese have is the ability to make life difficult for a large number of American businesses,'' said Eswar Prasad, an economist at Cornell University who studies Chinese economic relations. ''They have all of these unconventional weapons that are not covered by traditional trading rules that could be potent weapons in actually fighting a trade war.''

The details of what China might do are speculative. Thus far, China's government has reacted to new tariff actions by the Trump administration with relatively restrained words and promises of proportional responses to the American government's actions.

The Americans put tariffs on steel and aluminum; China responds by taxing American pork. The Trump administration's plans to tax $50 billion worth of Chinese imports is met with threats by the Chinese to subject $50 billion worth of American products to the same.

Those tariffs won't even go into effect until after a comment period, setting up a potentially long period of lobbying and negotiation that could rein in their scope or even delay them indefinitely.

But just because matters have been calibrated thus far doesn't mean they will stay that way. American **financial markets** have been swinging wildly in recent weeks as investors revise their predictions for what might come next.

The Tough Math of Tit-for-Tat

As President Trump often notes, the United States does run a large trade deficit with China -- especially if you look only at goods, and don't count the value of services. That means that if China seeks to match tariffs on goods -- a classic tit-for-tat approach -- China runs out of ''tats'' pretty quickly.

In 2017, the United States imported $506 billion in goods from China while exporting only $131 billion in goods to China, according to data from the Bureau of Economic Analysis.

''It mathematically means that China can't match the U.S. dollar for dollar,'' said Brad Setser, a senior fellow at the Council on Foreign Relations.

So, for example, if the Trump administration follows through on the president's suggestion to consider expanding the tariffs to cover $100 billion more of goods, it would strain the Chinese government to respond in a dollar-for-dollar manner.

And that's before you account for the Chinese government's reluctance to put tariffs on goods that might carry some political or strategic cost.

For example, in its planned retaliatory tariffs, the Chinese government included narrow-body aircraft but not wide-body aircraft. This makes sense strategically, Mr. Setser argued, because only two companies in the world make wide-body planes: Boeing and Airbus. If China put a tariff on planes from the American Boeing but not the European Airbus, it would lose leverage with Airbus with which to extract favorable prices and access to cutting-edge technology.

China has already imposed tariffs on the easy stuff: luxury goods like American wine and liquor, and agricultural goods that are considered luxuries within China, like almonds and pistachios. It is unlikely there will be uprisings in the streets of Shanghai if Kentucky bourbon gets more expensive.

But in the latest round, China has said it will raise tariffs on American soybeans. That is likely to cause President Trump political problems in farm states, but it also risks raising food costs within China. It's a fair bet, then, that China views remaining options as even more problematic for the prices of staple goods or the country's industrial strategy.

In other words, for China the low-hanging fruit is gone. If this trade battle continues to escalate, China will have to bear a greater cost.

Commercial Guerrilla Warfare

That reality could push China to seek other buttons to press. And while there is no recent precedent of a trade war to draw from, the Chinese government's actions in other types of disputes offer a potential road map.

For one thing, American companies do significant business in China that doesn't show up in trade data. When Apple assembles an iPhone in Zhengzhou and sells it in Shanghai, that doesn't count as international trade, though the profits accrue to the benefit of a California-based company. The Chinese government has any number of tools to try to weaken that business if it wishes. It could decide that phones made by a foreign company are a national security threat, or shut down plants because of minor regulatory problems.

''That's the kind of thing they could reduce dramatically if they wanted to,'' said Nicholas Lardy, a senior fellow at the Peterson Institute for International Economics. ''To their credit, they have not hinted that this is on their agenda, and they seem to be sticking to this idea that their response will be reciprocal and not escalatory. But they have plenty of other options.''

Making life difficult for American companies in China as retaliation in a trade war need not be formal and widely publicized. American automakers who make cars in China might find their local joint-venture partners squeezing them out. Regional governments might send safety inspectors to plants of American companies so often as to disrupt production.

There are more public options, too. For example, in 2013, Chinese state media accused Jaguar Land Rover and Audi of overcharging buyers for car parts, which analysts viewed as part of a campaign to pressure those automakers to locate more manufacturing in China.

Bruising in the Bond Market?

For years, American politicians have fretted about China's role as the United States' largest creditor; the nation has accumulated a huge stockpile of Treasury bonds over the last 20 years.

Could China use its role as No. 1 lender to exert pressure in a trade war?

It would be a risky maneuver, in which China itself would potentially have much to lose. But it can't be ruled out.

If China were to suddenly unload some of its holdings, or even signal an intention to buy fewer dollar assets in the future, that would probably cause long-term interest rates in the United States to rise, at least temporarily. And this would cause some pain in the United States, as borrowing costs -- whether for the federal government or individual home buyers -- would rise.

But it would also drive down the value of China's existing bond portfolio, meaning China could lose billions. And it would tend to push down the value of the dollar relative to other currencies, which would actually help the United States attain more advantageous trade terms.

Even after all that, **bond prices** would most likely readjust over time as other buyers took advantage of the rise in interest rates. In the medium term, the performance of the United States economy and actions of the Federal Reserve do more to determine **bond prices** than the decisions of a single buyer or seller, even one as large as China.

That doesn't mean there isn't room to cause some near-term pain and disruption. ''The Chinese have some leverage to rattle U.S. bond markets, even if the threat of substantive action is not very credible,'' Mr. Prasad said.

Given that a trade war with such a major trading partner is without precedent in modern times, we don't really know what it would look like. But it's a safe bet that Chinese officials are already thinking through their options in case that is where the latest round of economic saber rattling ultimately leads.

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The New York Times

OP-ED COLUMNIST
Editorial Desk; SECTA
The Art Of the Flail

By PAUL KRUGMAN
954 words
6 April 2018
The New York Times
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23
English

If you've been watching stock markets, you're probably feeling seasick. The Dow is crashing! No, it's bouncing back! Wait, it's crashing again!

In general, trying to explain stock fluctuations is a mug's game. But in this case it's pretty clear what's going on. Whenever investors suspect that Donald Trump will really go through with his threats of big tariff increases, provoking retaliation abroad, stocks plunge. Every time they decide it's just theater, stocks recover. Markets really, really don't like the idea of a trade war.

So is a trade war coming? Nobody knows -- even, or perhaps especially, Trump himself. For while trade is one of Trump's two signature issues -- animus toward dark-skinned people being the other -- when it comes to making actual demands on other countries, the tweeter in chief and his aides either don't know what they want or they want things that our trading partners can't deliver. Not won't -- can't.

As a result, incoherence rules: The administration lashes out, then tries to calm markets by saying that it might not carry through on its threats, then makes a new round of threats.

Let's talk in particular about the will-he-or-won't-he confrontation with China.

In some ways, China really is a bad actor in the global economy. In particular, it has pretty much thumbed its nose at international rules on intellectual property rights, grabbing foreign technology without proper payment. And to be fair, Trump officials do sometimes raise the intellectual property issue as a justification for getting tough.

But if getting China to pay what it owes for technology were the goal, you'd expect the U.S. both to make specific demands on that front and to adopt a strategy aimed at inducing China to meet those demands.

In fact, the U.S. has given little indication of what China should do about intellectual property. Meanwhile, if getting better protection of patent rights and so on were the goal, America should be trying to build a coalition with other advanced countries to pressure the Chinese; instead, we've been alienating everyone in sight.

Anyway, what seems to really bother Trump aren't China's genuine policy sins, but its trade surplus with the United States, which he has repeatedly said is $500 billion a year. (It's actually less than $340 billion, but who's counting?) This trade surplus, he insists, means that China is winning -- in effect stealing $500 billion a year from America.

As many people have pointed out, this is junk economics. Except at times of mass unemployment, trade deficits aren't a subtraction from the economies that run them, nor are trade surpluses an addition to the economies on the other side of the imbalance. Over all, the U.S. trade deficit is just the flip side of the fact that America attracts more inward investment from foreigners than the amount Americans invest abroad. Trade policy has nothing to do with it.

Beyond this conceptual confusion, there's a raw fact few people -- and, as far as I can tell, nobody in the Trump administration -- seem to appreciate: China no longer runs big trade surpluses.

This wasn't always true. A decade ago, China's current account surplus -- a broad measure that includes trade in services and income from investments abroad -- was more than 9 percent of G.D.P., a very big number. In 2017, however, its surplus was only 1.4 percent of G.D.P., which isn't much. Meanwhile, the U.S. ran a current account deficit of 2.4 percent of G.D.P., a bit bigger, but also much smaller than the imbalances of the mid-2000s.

But in that case, why is "bilateral" trade between the U.S. and China so unbalanced? The answer is that it's largely a kind of statistical illusion. China is the Great Assembler: it's where components from other countries, like Japan and South Korea, are put together into consumer products for the U.S. market. So a lot of what we import from China is really produced elsewhere.

It's not clear why we should demand that China stop playing that role. Indeed, it's not clear that China could even do much to reduce its bilateral surplus with the U.S.: To do so, it would basically have to have a completely different economy. And this just isn't going to happen unless we have a full-blown trade war that shuts down much of the global economy as we know it.

Now, Trump himself might be O.K. with large-scale deglobalization. But as we've seen, his beloved **stock market** hates the idea, and with good reason: Businesses have invested heavily on the assumption that a closely integrated global economy is here to stay, and a trade war would leave many of those investments stranded.

Oh, and a trade war would also devastate much of pro-Trump rural America, since a large share of our agricultural production -- including almost two-thirds of food grains -- is exported.

And that's why things seem so incoherent. One day Trump talks tough on trade; then stocks fall, and his advisers scramble to say that the trade war won't really happen; then he worries that he's looking weak, and tweets out more threats; and so on. Call it the art of the flail.

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Document NYTF000020180406ee460005f

The New York Times

Foreign Desk; SECTA
Trump Escalates Fight With China In Tariff Threat

By ANA SWANSON and KEITH BRADSHER; Ana Swanson reported from Washington, and Keith Bradsher from Shanghai.
1,525 words
6 April 2018
The New York Times
NYTF
Late Edition - Final
1
English

WASHINGTON -- President Trump said Thursday that the United States would consider slapping an additional $100 billion in tariffs on the Chinese, escalating a potentially damaging trade dispute with Beijing.

Mr. Trump said in a statement that he was responding to ''unfair retaliation'' by China, which published a list on Wednesday of $50 billion in American products that would be hit by tariffs, including soybeans and pork. That move was a direct reaction to the $50 billion in tariffs on Chinese goods that the White House detailed on Tuesday.

''Rather than remedy its misconduct, China has chosen to harm our farmers and manufacturers,'' Mr. Trump said, adding that he has instructed the United States trade representative to determine if another $100 billion in tariffs were warranted and, ''if so, to identify the products upon which to impose such tariffs.''

The announcement came one day after some of Mr. Trump's advisers tried to calm markets and tamp down fears of a trade war between the world's two largest economies, saying that the tariff threats were the first step in a negotiation process. Mr. Trump said in his statement that the potential for new tariffs would not preclude discussions with the Chinese ''to protect the technology and intellectual property of American companies and American people,'' but any new tariffs are unlikely to make that already tough task easier.

The move is a high-stakes gamble aimed at cowing China into backing down and forcing it to make the kinds of changes that the United States is seeking -- namely reducing the coercive tactics American officials say Beijing uses to try to dominate leading-edge industries like artificial intelligence, robotics and autonomous vehicles. But the move could ultimately bring about the kind of retaliation from Beijing that has spooked stock markets.

It also means that the United States would be somewhat more likely to place levies on Chinese products that American households routinely purchase, like furniture, clothing or shoes -- an outcome the Trump administration said it sought to avoid with its initial round of tariffs.

The president's announcement was immediately criticized by manufacturers, retailers and politicians from states whose economies depend on agriculture.

Senator Ben Sasse, Republican of Nebraska, said Mr. Trump was ''threatening to light American agriculture on fire.''

''Hopefully the president is just blowing off steam again, but if he's even half-serious, this is nuts,'' Mr. Sasse said. ''Let's absolutely take on Chinese bad behavior, but with a plan that punishes them instead of us. This is the dumbest possible way to do this.''

A trade war could derail the current global economic expansion and cripple American businesses that depend on business with China. It could also further complicate geopolitical priorities given the Trump administration has enlisted the help of the Chinese in scheduling historic talks with North Korea next month.

In a statement, Robert Lighthizer, the trade adviser who is carrying out an investigation into Chinese practices, described the president's threat as ''an appropriate response,'' saying China should have responded to the initial tariffs levied by the United States by changing its behavior.

In the first hint of the Chinese government's response to Mr. Trump's latest action, the Weibo miniblog of the official Xinhua news service said that "this move severely violates world trade regulations."

Zhu Guangyao, China's vice minister of finance, made clear at a news conference on Wednesday afternoon that his country would not back down easily. "If anyone wants to fight, we'll be there with them. If he wants to negotiate, the door is open," Mr. Zhu said.

Mr. Trump's effort to raise the stakes on Thursday seemed poised to send **financial markets** spinning, with futures on the **Standard & Poor**'**s 500**-**index** down and the yen climbing against the dollar.

Companies potentially caught in the middle of a trade war called on the Trump administration to back down and try to work with the Chinese.

"The announcement that the administration may issue $100 billion in additional tariffs on Chinese products is irresponsible and destabilizing," said Dean C. Garfield, the chief executive of the Information Technology Industry Council, which represents companies such as Amazon, Apple and IBM. "We call on both sides to halt unproductive and escalatory rhetoric, recognizing that these words and actions have global consequences."

China experts have questioned whether Mr. Trump's aggressive negotiating style will leave Chinese leaders with enough political room to make concessions to the Americans. Bowing to the president's demands could be seen internally as weakness, and the changes that the administration wants -- reducing China's dominance in cutting-edge manufacturing and technology -- is not something Beijing is likely to agree to.

Wang Shouwen, China's vice minister of commerce, has repeatedly refused to discuss curbing the Made in China 2025 industrial plan. The Trump administration contends that the program violates international trade rules that prohibit countries from using subsidies to help exporters and discourage imports. Mr. Wang and other officials deny that the program is in violation, but have provided few details on how it might comply.

Including this most recent action, the United States would be placing tariffs on a total of $153 billion of Chinese products. The threat of $100 billion in tariffs came on top of the tariffs on $3 billion in Chinese steel and aluminum that he imposed last month and the tariffs on a further $50 billion in Chinese goods that he has threatened to impose in recent days.

The total is now so large that China would have trouble finding enough American goods to penalize if it sought to impose a proportional retaliation. China bought only $130.4 billion worth of American goods last year, while the United States bought $505.6 billion worth of Chinese goods.

The National Retail Federation blasted the move as a dangerous game of chicken that would put the United States on the losing end of a trading relationship that has benefited American companies and consumers.

"This is what a trade war looks like, and what we have warned against from the start. We are on a dangerous downward spiral, and American families will be on the losing end," Matthew R. Shay, the president and chief executive of the retail group, said in a statement. "We urge the administration to change course and stop playing a game of chicken with the nation's economy."

The Chinese have tools other than tariffs at their disposal, including limiting the operations of American banks and other service providers in China. The government could also urge the Chinese public not to buy American-brand cars like Chevrolets and Fords, even though those are built almost entirely from Chinese-made parts and assembled in factories in China.

The biggest question would be whether China would start retaliating not commercially but through geopolitical actions. While Trump administration trade officials appear to have been operating with considerable autonomy from those responsible for issues like North Korea and Taiwan, policymaking is much more unified in China.

That means China could try to raise the temperature in the dispute by installing more military equipment on the artificial islands that it has recently built across the South China Sea, almost to the shores of Indonesia, Malaysia and the Philippines.

China could also step up pressure on Taiwan. Beijing leaders are already deeply upset about recent congressional approval of the Taiwan Travel Act, which urged Mr. Trump to send administration officials to the self-governing island. Beijing regards Taiwan as a breakaway province, and has threatened to use force to reunite it.

Chinese experts have made clear that they perceive the ever-larger rounds of American tariffs as part of a broad American challenge that goes beyond dollars and cents. ''It is more than just a trade issue: It involves geopolitical reasons,'' Wu Xinbo, the chief of the Center for American Studies at Fudan University in Shanghai, said in an interview this week. ''Trump has mentioned before, if China doesn't agree on economy and trade, the U.S. will reconsider China issues -- that includes the South China Sea and Taiwan.''

President Xi Jinping of China is scheduled to give a major speech on Tuesday at the Bo'ao Forum on China's Hainan island, which may give more clues to China's response. The speech has been billed by other Chinese officials as a moment when Mr. Xi would lay out a blueprint for China's economic overhaul and liberalization, a potential peace offering to the Trump administration, said Scott Kennedy, a China expert at the Center for Strategic and International Studies.

''President Trump's move may throw a small monkey wrench into Xi's plans,'' Mr. Kennedy said. ''He may now need to couple such a proposal with the warning that China will continue to defend itself against foreign pressure.''

President Xi Jinping, center, last month. He is scheduled to give a major policy speech on Tuesday. (PHOTOGRAPH BY KEVIN FRAYER/GETTY IMAGES) (A8)

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THE WALL STREET JOURNAL.
U.S. EDITION

Banking & Finance: ICE to Buy Chicago Stock Exchange

By Austen Hufford and Alexander Osipovich
507 words
6 April 2018
The Wall Street Journal
J
B10
English

The owner of the New York Stock Exchange reached a deal to buy the struggling Chicago Stock Exchange, after a two-year acquisition effort from a Chinese-led investor group failed.

Intercontinental Exchange Inc., known as ICE, didn't disclose terms of the transaction.

Last month, the Chicago exchange ended an effort to sell itself to the investor group for around $20 million after the Securities and Exchange Commission blocked the deal.

The proposed takeover of the 136-year-old Chicago exchange by investors including Chongqing Casin Enterprise Group Co., a Chinese conglomerate, sparked a political outcry as lawmakers warned that the deal could make the U.S. financial system vulnerable to Chinese hackers. CHX Holdings Inc., the Chicago exchange's parent company, and Casin Group dismissed such concerns as unfounded.

Now, instead of becoming a listings venue for Chinese companies seeking access to U.S. capital markets, the Chicago exchange is poised to become part of ICE's global exchange empire.

The Wall Street Journal last week reported the parties were in talks about a deal and that the NYSE discussed paying about $70 million for the Chicago exchange, according to people familiar with the situation. That would be more than triple the price agreed on with the Chinese-led group. Representatives of ICE and CHX declined to comment.

The acquisition by the NYSE's owner would end the independence of the last U.S. regional stock exchange, which handles less than 1% of U.S. stock-trading volume. Over the past few decades, markets such as the Philadelphia Stock Exchange, the Boston Stock Exchange and the Pacific Exchange have been folded into big conglomerates.

Analysts say the Chicago exchange's most valuable asset is its license to run a national securities exchange. Applying for a new exchange license from the SEC can take years.

For a big market operator like the NYSE, acquiring an extra license can provide the opportunity to experiment with new pricing strategies and other ways of targeting specific types of investors and traders.

The transaction, which requires SEC approval, is expected to close in the second quarter, ICE said. The Atlanta-based exchange operator will keep the exchange open and plans to keep CHX's key electronic systems based in Chicago, ICE said.

All other U.S. stock-exchange operators keep their main systems in New Jersey. Keeping CHX's systems in Chicago could allow it to continue benefiting from the activity of high-speed trading firms that seek to profit from tiny differences between futures markets for **stock-market** indexes -- which are traded on exchanges whose systems are housed in the Chicago area -- and exchange-traded funds linked to the same indexes.

CHX said in a statement that the deal was in the best interest of the company's shareholders.

ICE said the financial impact of the deal won't be material to the company.

Dave Michaels contributed to this article.

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THE WALL STREET JOURNAL.
U.S. EDITION

Crude Prices Rise As Supplies Drop

By Alison Sider
196 words
6 April 2018
The Wall Street Journal
J
B11
English

Oil prices edged higher as fears that trade restrictions will crimp global economic growth took a back seat to declining U.S. inventories.

Crude for May delivery rose 17 cents, or 0.3%, to $63.54 a barrel on the New York Mercantile Exchange. Brent, the global benchmark, gained 31 cents, or 0.5%, to $68.33 a barrel on ICE Futures Europe.

On Thursday, **oil prices** got a boost from "the general brightening of sentiment on the markets as signs emerge that the trade dispute is easing between the U.S. and China," analysts at Commerzbank AG wrote in a note.

Prices had fallen to two-week lows Wednesday, but crude markets began to pare losses following a **bullish** report from the U.S. Energy Information Administration late in the day.

The EIA said Wednesday that U.S. crude stockpiles fell by 4.6 million barrels last week, the biggest weekly decline since January. "This is usually build season; we're not seeing it, which is profound," said Bill O'Grady, chief market strategist at Confluence Investment Management.

Document J000000020180406ee460000p

THE WALL STREET JOURNAL.
U.S. EDITION

Showdown Over Tariffs Shifts To High-Stakes Negotiations

By Josh Zumbrun
1,006 words
5 April 2018
The Wall Street Journal
J
A1
English

Corrections & Amplifications

The value of 2017 Chinese exports in categories affected by tariffs proposed by the U.S. on April 3 was an estimated $46.2 billion. The value of 2017 U.S. exports in categories affected by subsequently announced Chinese tariffs was an estimated $49.8 billion. A graphic with a Page One article on Thursday about the U.S.-China trade showdown incorrectly reversed the figures.

(WSJ April 6, 2018)

The U.S. is considering tariffs on an additional $100 billion of Chinese goods after a proposal earlier this week of tariffs on $50 billion in imports from China. In some editions Friday, a Page One headline with an article about U.S.-China trade incorrectly said $100 billion in added tariffs, and the article incorrectly said the earlier proposal was made last week and was for $50 billion in tariffs. In some editions Thursday, a Page One article about U.S.-China trade also incorrectly said $50 billion in tariffs.

(WSJ April 7, 2018)

(END)

WASHINGTON -- The Trump administration's tit-for-tat with Beijing over potential tariffs has ushered in a high-stakes standoff over the future of trade between the world's two largest economies.

China's response late Tuesday to the earlier U.S. threat to impose $50 billion in tariffs sent **financial markets** on a wild ride, taking the **Dow Jones Industrial Average** on a 700-point round trip Wednesday that left the Dow industrials up 230 points, or 1%.

Industry executives and investors, at first spooked by the tough talk between the world's biggest economies, later came to see the rhetoric as the opening gambits in a protracted negotiation that could fall short of a feared trade war.

The two sides will now follow a timeline stretching over the next half year, during which they will seek to negotiate a new normal. President Donald Trump, who initiated the tensions over Chinese trade practices, now faces growing pressure from lawmakers, an intense campaign from corporate lobbyists and outcry from businesses navigating cumbersome new trade rules -- all of which fed market **volatility**.

As the trade talks grind on, many investors resigned themselves to more significant price swings in the markets, especially in light of uncertainties from rising interest rates to questions over the staying power of an economic expansion now in its ninth year.

At the same time, many investors remain skeptical that the trade-war fears that have absorbed market participants periodically in recent months will ever come to fruition.

Should some of the tariffs on the table -- either U.S. or Chinese -- become policy, "then that could create a shadow on earnings," said Omar Aguilar, chief investment officer of equities and multiasset strategies for Charles Schwab Investment Management. But, he added, "so far it seems like just posturing."

Under the U.S. plan to introduce tariffs, companies have 30 days to submit comments on the Chinese imports that will be subject to the 25% duties, a list of 1,333 goods that includes machinery and materials upon which U.S.

industry has grown to rely on to conduct business. Companies will have the opportunity to raise concerns and to note if goods crucial to their business -- highly specialized machine tools, for example -- have been targeted, or if different goods should be included in the tariff list.

U.S. administration officials did little to gloss over the likelihood that the trade spat had entered a period of protracted negotiations and suggested the president was willing to withstand domestic pressures to improve its trade terms with Beijing.

"It'll be a couple months before tariffs on either side would go into effect," said White House press secretary Sarah Huckabee Sanders. "I would anticipate that if there are no changes to the behavior of China and they don't stop the unfair trade practices, then we would move forward."

The Chinese side, meantime, has put together its own list, which includes levies on U.S. soybeans, autos and airplanes, the export of which has grown crucial to the success of many American businesses. "Both sides have put their lists on the table," Chinese Vice Finance Minister Zhu Guangyao told reporters. "Now it's time for negotiations."

U.S. business interests will be allowed to air concerns publicly at a May 15 hearing at the International Trade Commission, and companies will have until May 22 to object to the proposed tariffs.

"The fact they did it with a 30-day comment period is not that they care about the comments," said William Reinsch, a senior adviser at the Center for Strategic and International Studies, a Washington think tank. "The point is to buy time for a negotiation."

After May 22, the U.S. government still has 180 days to decide whether to go ahead, meaning the standoff could last a long time.

The two sides have been negotiating behind the scenes. Chinese economic envoy Liu He has exchanged letters with U.S. Trade Representative Robert Lighthizer and Treasury Secretary Steven Mnuchin over increased opening of the Chinese market. Mr. Mnuchin has been weighing a trip to Beijing, though its timing is uncertain.

Chinese President Xi Jinping will give a closely scrutinized speech next week at the Boao Forum for Asia, China's version of Davos that takes place with world political and business leaders on the southern Chinese island of Hainan. Both sides' business sectors will be watching closely for signs about China's position in the talks with the U.S.

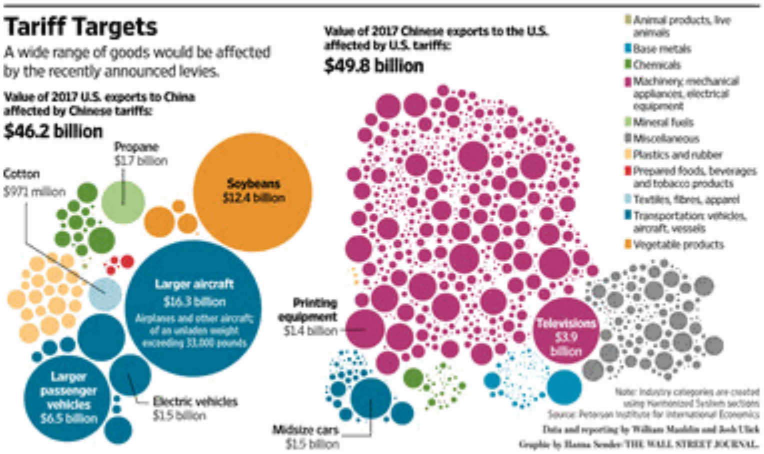
The threat of U.S. tariffs now also hangs over a handful of consumer-goods markets, including household appliances, lithium ion batteries and parts for air conditioners -- industry sectors that China hopes to dominate. Many of the products are goods that Beijing outlined in 2015 as part of its "Made in China 2025" goals for Chinese industry, but doesn't yet produce at a large scale.

Both countries' lists total approximately $50 billion worth of goods, a sum that hits about 38% of U.S. exports to China. As China is the much larger exporter, the sum equals only about 10% of Chinese exports to the U.S. Even if the tariffs went into place, the direct impact would be relatively small for the $19 trillion U.S. economy and $12 trillion Chinese economy.

Trade groups representing industries ranging from agriculture to retailing and manufacturing were quick to raise objections when the lists were announced. Even groups spared from direct tariffs, like the American Apparel & Footwear Association, expressed concerns, with its president, Rick Helfenbein, saying that while he was pleased clothing, shoes and travel goods weren't the subject of tariffs, he was concerned the list would hit machinery used by domestic apparel manufacturers.

"This would directly raise costs on domestic manufacturers and impact our ability to grow 'Made in U.S.A.,' " he said.

Rebecca Ballhaus, Siobhan Hughes, William Mauldin and Akane Otani contributed to this article.



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THE WALL STREET JOURNAL.

US
Trump Weighs Tariffs on $100 Billion More of Chinese Goods; Trump cited China's 'unfair retaliation' as a reason for additional potential levies

By Bob Davis
1,100 words
5 April 2018
The Wall Street Journal Online
WSJO
English

Corrections & Amplifications

The U.S. is considering tariffs on an additional $100 billion of Chinese goods after a proposal earlier this week of tariffs on $50 billion in imports. A headline with an earlier version of this article incorrectly said an additional $100 billion in tariffs, and the article incorrectly said the earlier proposal occurred last week. (April 6, 2018)

WASHINGTON—President Donald Trump threatened a major escalation in trade tensions with Beijing on Thursday, saying he was considering imposing tariffs on an additional $100 billion in imports from China.

The move would triple the amount of Chinese goods facing levies when entering the U.S., up from the tariffs on $50 billion in imports from China that the Trump administration announced earlier this week.

Mr. Trump, who justified the tariffs on Chinese imports by citing alleged violations of U.S. intellectual property laws, said Thursday that an escalation would be due to Beijing's "unfair retaliation," which could "harm our farmers and manufacturers."

Mr. Trump also said he would instruct the Agriculture Secretary to put together a plan "to protect our farmers and agricultural interests," but he provided no details.

After the U.S. threatened tariffs on Tuesday, China quickly came up with its own $50 billion hit list of U.S. exports to China, including aircraft and soybeans. That retaliation has led to outcries from agricultural interests and lawmakers, which has put pressure on Washington to back off its hard-line stance to China.

In response to the possible new U.S. tariffs, China's Commerce Ministry said Beijing would respond with its own countermeasures should it come to that. "The Chinese side will follow suit to the end, not hesitate to pay any price, resolutely counterattack and take new comprehensive measures in response," a ministry statement said citing an unnamed spokesman.

The spokesman suggested that China is waiting to see if the Trump administration will go ahead and act, saying "We will listen to its words and watch its actions."

The threat of new tariffs and further retaliation was almost certain to cause fears of a full-scale trade war among investors, farmers and businesses with ties to the China trade. Thursday's announcement was issued after the close of stock trading, but recent trade tensions with Beijing have already fueled wide price swings in recent trading sessions.

Mr. Trump, in a Friday morning tweet, suggested his tariffs plans were already having a positive impact on the U.S. economy. "Despite the Aluminum Tariffs, Aluminum prices are DOWN 4%," the president wrote. "People are surprised, I'm not! Lots of money coming into U.S. coffers and Jobs, Jobs, Jobs!"

The escalation "increases the likelihood that things will go off the rails and there is a trade war," rather than negotiations, said William Reinsch, a former Clinton administration trade official who is now at the Center for Strategic and International Studies. By tripling the U.S. tariff threat, he said, it could diminish international support and allow China "to say they are the rules keeper and they are playing fair. "

Dean Garfield, president of the Information Technology Industry Council, a high-tech trade group, called the Trump move "irresponsible and destabilizing." He said both sides needed "to halt unproductive and escalatory rhetoric, recognizing that these words and actions have global consequences."

The move Thursday caught much of Washington by surprise. Should Beijing choose to match the U.S. tariffs on imports from China, now potentially totaling $150 billion, with Chinese tariffs on U.S. exports to China of $150 billion, that would more than cover all U.S. exports to China.

In 2017, the U.S. exported $130.4 billion in goods to Beijing. China, on the other hand, exported $505.6 billion of goods to the U.S. Even with Mr. Trump's threatened increase in the goods the U.S. will choose to penalize, that would only include about 30% of Chinese imports to the U.S.

Republicans in Congress had been growing increasingly unsettled with the president's confrontational trade stance with China, but the announcement of possible new tariffs was met with strong criticism. "Hopefully, the president is just blowing off steam again," said Sen. Ben Sasse, (R., Neb.). "But, if he's even half-serious, this is nuts."

Even before Mr. Trump's announcement Thursday, key lawmakers from the president's party were criticizing the confrontation with China. Sen. Pat Roberts (R., Kan.) on Thursday called the standoff with Beijing a "minefield" during remarks criticizing the administration's policies at a commodity futures conference in Kansas.

Sen. Pat Toomey (R., Pa.) said Chinese practices, like allegedly stealing intellectual property, were problematic but that the Trump administration had instead trained its attention on trade deficits. "The administration is focused on the wrong problem and it is using the wrong tools to try to address it," Mr. Toomey said in an interview before the announcement.

The Trump administration has said it acted only after a careful analysis of the facts but that China's retaliation was without a similar analytical basis. China has also started an action in the World Trade Organization against the U.S. threatened retaliation.

U.S. Trade Representative Robert Lighthizer said Mr. Trump's threatened action was an "appropriate response" to China's actions. Mr. Lighthizer said U.S. industry would have time to comment on any additional tariff moves. The U.S. then has at least six months to levy the penalties.

Even as Mr. Trump tripled down on his threats against Beijing, he also offered something of an olive branch—a back-and-forth pattern that he has repeated over the past weeks. "The United States is still prepared to have discussions in further support of our commitment to achieving free, fair, and reciprocal trade," he said in a statement.

Indeed, top Chinese economic envoy Liu He, Treasury Secretary Steven Mnuchin and Mr. Lighthizer have exchanged letters over outstanding trade issues. Mr. Trump is pushing for a $100 billion reduction in the U.S.'s $375 billion merchandise trade deficit with China. The U.S. also wants China to reduce its import tariffs on foreign cars and to open its **financial markets**, among other things.

"Economies around the world—including China's own—would benefit if China would implement policies that truly reward hard work and innovation, rather than continuing its policies that distort the vital high-tech sector," Mr. Lighthizer said.

Siobhan Hughes, William Mauldin and Lin Zhu contributed to this article.

Write to Bob Davis at bob.davis@wsj.com

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THE WALL STREET JOURNAL.

Markets

Oil Rises as Inventories Fall, Trade Fears Ease; Investors look ahead to weekly data on drilling rigs on Friday

By Alison Sider and Christopher Alessi
521 words
5 April 2018
03:27 PM
The Wall Street Journal Online
WSJO
English

Oil prices edged higher Thursday as fears that trade restrictions will crimp global economic growth took a back seat to declining U.S. inventories.

U.S. crude futures rose 17 cents, or 0.27%, to $63.54 a barrel on the New York Mercantile Exchange. Brent, the global benchmark, gained 31 cents, or 0.46% to $68.33 a barrel on ICE Futures Europe.

On Thursday, **oil prices** got a boost from "the general brightening of sentiment on the markets as signs emerge that the trade dispute is easing between the U.S. and China," analysts at Commerzbank wrote in a note. The Trump administration's tit-for-tat with China over potential tariffs on a host of goods appeared to shift to a new phase of intense negotiation over a new trade relationship. Prices had fallen to two-week lows Wednesday amid escalating trade tensions between the U.S. and China, but crude markets began to pare losses following a **bullish** report from the U.S. Energy Information Administration late in the day.

The oil market has been deadlocked lately, with those in the **bullish** camp pointing to tightening supplies and those in the **bearish** camp eyeing rising U.S. output that could replace what the Organization of the Petroleum Exporting Countries and its allies are holding off the market. If a trade spat between the U.S. and China continues to escalate, it could tip the balance, said Gene McGillian, research manager at Tradition Energy.

"The fears of that seem to be playing out in daily trading swings," he said.

Some oil-market observers remain wary that the spat between the world's two biggest economies could ignite a global trade war, which has limited oil's gains.

"If I'm worried about a weaker global economy, or an economy where trade flows start getting impeded, I'm more inclined to get out of oil than to hold it," said Bill O'Grady, chief market strategist at Confluence Investment Management.

But Mr. O'Grady said investors are ignoring several factors that could push **oil prices** higher, including simmering tensions in the Middle East and tightening supplies. The EIA said Wednesday that U.S. crude stockpiles fell by 4.6 million barrels last week, the biggest weekly decline since January, beating analysts' forecasts, as exports surged.

"This is usually build season—we're not seeing it, which is profound, " Mr. O'Grady said. "My hunch is oil is a sleeper—at some point we're going to look at $70, $80 oil here."

Market participants were looking ahead to weekly data from Baker Hughes on Friday on the number of rigs drilling for oil in the U.S., a measure of activity in the sector.

Gasoline futures rose 0.24% to $1.9816 a gallon. Diesel futures fell 0.04% to $1.9765 a gallon.

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THE WALL STREET JOURNAL.

U.S. Markets
Markets
Stocks Extend Recovery as Trade Concerns Ease; Investors optimistic the U.S. and China will ultimately reach a compromise on trade

By Michael Wursthorn and Mike Bird
675 words
5 April 2018
05:07 PM
The Wall Street Journal Online
WSJO
English

The **Dow Jones Industrial Average** rose a third consecutive day Thursday, a first for the blue-chip index in more than a month, as some investors temporarily put aside concerns about trade and bought shares of stocks that have been struggling.

Shares of Boeing and other manufacturing giants led the Dow higher, a sign that investors were less wary of an all-out trade war after the U.S. signaled a willingness to reach a trade compromise with China. Shares of chemical and mining companies, some of which have stumbled since the steel and aluminum tariffs were first unveiled, also rose.

Despite the recent gains, some money managers say the market hasn't stabilized.

Again on Thursday, the Dow traded in a broad range after swinging 741 points a day earlier. The blue-chip index rose as much as 358 points in morning trading and gave up most of those gains before resuming its climb.

"The **stock market** is in a bit of a tug of war," said Allen Bond, portfolio manager of the Jensen Quality Growth Fund, which manages $6 billion in assets. "There are concerns about tariffs, trade wars and the potential for higher inflation—and the [Federal Reserve's] response to that."

On the other end, Mr. Bond added, are expectations that stock prices will move higher—after a punishing first quarter that saw the **S&P 500** and the Dow end lower—once companies begin reporting quarterly earnings this month.

Companies in the **S&P 500** are projected to grow first-quarter earnings by 17% from the year-earlier period, according to FactSet. Also the bottom-up earnings-per-share estimate for **S&P 500** firms, an aggregation of all the average EPS estimates for stocks in the index, jumped by its widest margin since FactSet began tracking such data in 2002.

The **Dow Jones Industrial Average** rose 240.92 points, or 1%, to 24505.22, its first three-session winning stretch since Feb. 26. The **S&P 500** climbed 18.15 points, or 0.7%, to 2662.84, while the **Nasdaq Composite** added 34.44 points, or 0.5%, to 7076.55.

Shares of Boeing, which said Wednesday that it would engage in talks with the U.S. and China, rose $8.96, or 2.7%, to $336.40, adding about 62 points to the Dow. Caterpillar gained 2.95, or 2%, to 148.13.

Meanwhile, hard-hit tech stocks also fared better.

Shares of Amazon.com rose 41.18, or 2.9%, to 1,451.75 to recoup the online retailer's losses for the week. Amazon's stock has been struggling since President Donald Trump suggested it doesn't pay its fair share of taxes.

Shares of Facebook also climbed, adding 4.24, or 2.7%, to 159.34. The company said Wednesday afternoon that it made a "huge mistake" in not focusing more on potential abuse of users' personal information, and it expanded the pool of potential users whose data were improperly shared with a third-party consulting firm tied to the 2016 Trump campaign to 87 million.

Investors will continue to closely follow the trade negotiations between the U.S. and China. Signs that talks are faltering or of additional sanctions could pressure stocks, they added.

"A breakdown in trade negotiations and policy missteps could lead to a full-blown trade war that would damage global business and consumer confidence, investment prospects, and growth," said Terry Chan, credit analyst at S&P Global Ratings.

Elsewhere, the Stoxx Europe 600 index climbed 2.4%, its biggest one-day gain since June 2016. In Asia, Japan's Nikkei rose 1.5%, while South Korea's Kospi added 1.2%. Markets in China and Hong Kong are closed for a public holiday.

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WSJ PRO PRIVATE EQUITY

Markets

Activist Investors Try to Wake Up a Slumbering Energy Sector; Kimmeridge increases stake in Carrizo Oil and wants a sale of assets or a merger

By Ryan Dezember
695 words
5 April 2018
06:15 PM
WSJ Pro Private Equity
RSTPROPE
English

A private-equity firm with a large stake in Houston explorer Carrizo Oil & Gas Inc. is calling on the company to sell assets or combine with a rival, the latest sign that activist investors are focusing more on the energy sector.

Kimmeridge Energy Management Co. has built up an 8.1% stake in Carrizo, according to a securities filing. The firm previously disclosed that it owned 4.9%.

The New York investment firm said in the filing that it wants Carrizo to sell its south Texas drilling fields and use the proceeds to pay down debt, buy back stock or invest more in its prolific fields in the state's western desert.

The firm also said it wants Carrizo to explore the possibility of merging with rivals in west Texas.

Kimmeridge said Carrizo's **stock price** is low relative to the value of its assets. It has concluded that the company is too indebted and too small in each of the areas it operates to boost its share price without a major makeover.

Carrizo's stock has been among the oil-and-gas sector's poorer performers over the past 12 months. It is down 41%, even after its shares rose 11%, to $17.15, on Thursday following the investment firm's disclosure.

"There should be a wave of consolidation," said Ben Dell, founder and managing partner of Kimmeridge. "The biggest obstacle to that happening is management teams focusing on their own job preservation instead of what's best for shareholders."

Carrizo said it "agrees with Kimmeridge's assessment that its assets are currently undervalued relative to peer companies with similar-quality acreage," but that hanging on to its fields and drilling them would lift its shares.

Kimmeridge's interest in Carrizo is indicative of broader attention that activist investors are paying to the energy sector. Though U.S. **oil prices** are trading around their highest level in more than three years, energy stocks have been left behind.

Energy was the only sector in the **S&P 500** to decline in 2017, and this year energy shares are down 4.9%, compared with a 0.4% loss in the broader index.

Smaller energy companies have fared even worse. Shares of those in the S&P 600 index, which includes Carrizo and similarly sized oil-and-gas producers, have declined 22% over the past year, compared with a 15% gain for the broader index of smaller companies.

That underperformance has made the oil patch attractive to activists. Several smaller companies that restructured their balance sheets during the **oil-price** slump now face demands from the hedge funds that emerged as top shareholders in bankruptcy proceedings.

Well-known activists have taken aim at larger companies as well. In recent months, Energen Corp., EQT Corp. and Hess Corp. have each made concessions to activist investors to stave off proxy fights.

Carrizo's stock decline has reduced its market value to about $1.4 billion, which is less than the $1.6 billion of debt it carries and down from more than $3 billion in July 2014, when **oil prices** were above $100 a barrel.

Oil prices have bounced back from their recent nadir to trade at about $63 a barrel, and Carrizo has raised more than $500 million selling drilling fields outside its core operating areas. But its shares have continued to slide.

Like many of its competitors, Carrizo sold new shares to pay down debt, keep rigs drilling and acquire new fields during the oil-price slump. Carrizo raised more than $900 million in four stock offerings at prices ranging from $45.50 a share in March 2015 to $14.60 last June.

The activist stance is an unusual position for Kimmeridge, which typically buys and operates drilling fields with its private-equity funds. Lately, though, the swoon in energy stocks has created opportunities to invest in energy assets cheaply by buying shares of companies, Mr. Dell said.

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THE WALL STREET JOURNAL.

Markets

Stronger Dollar, Waning Trade Worries Hurt Gold; Investors await U.S. jobs report for economic, interest-rate clues; copper bounces back from declines

By Amrith Ramkumar and David Hodari
506 words
5 April 2018
02:25 PM
The Wall Street Journal Online
WSJO
English

Gold prices slid Thursday, as a rising dollar and bets that the U.S. and China will negotiate new trade practices to avoid a trade war crimped demand for the yellow metal.

Front-month gold for April delivery fell 0.9% to $1,324.30 a troy ounce, on the Comex division of the New York Mercantile Exchange. Prices have stayed between about $1,305 and $1,360 this year, moving within that range based on swings in the dollar, interest-rate worries and safe-haven demand from investors.

A stronger dollar makes gold and other dollar-denominated commodities more expensive for overseas buyers. On Thursday, the WSJ Dollar Index, which tracks the U.S. currency against a basket of 16 others, added 0.4%.

Gold climbed as stocks fell early Wednesday after China announced retaliatory tariffs against the U.S., but some analysts have said recent announcements by both countries seem more like negotiating tactics than trade policies that would take effect and slow global growth. Stocks have since recovered, leading to more placid markets and limited demand for safer assets like gold.

Investors were awaiting Friday's jobs report for the latest reading on the U.S. economy and clues about whether the Federal Reserve might raise interest rates two or three more times this year. Analysts will be paying attention to Friday's wage growth number for a signal on inflation, as gold struggles to compete with yield-bearing assets like Treasurys when interest rates rise but is also used as a hedge against a pickup in inflation.

"Our **bearish** view on the dollar and for higher inflation plays well with gold's traditional features," ING analysts said in a note to clients.

Among base metals, front-month copper for April delivery bounced back from Wednesday's declines with a 2.1% rise to $3.0695 a pound. Trade worries and mixed economic data out of China, the world's largest copper consumer, have stoked fears of lower commodity demand and sent prices down 6.4% this year after they hit a nearly four-year high in late December.

However, some investors expected economic data to pick up as the year goes on. Analysts are also keeping an eye on mining labor contract renegotiations across the world, as strikes and other disruptions have led to lower supply projections over the past year. Although renegotiations have gone smoothly so far this year, some think supply shocks could lie ahead.

Ultimately, investors should be upbeat about copper, according to Colin Hamilton, managing director of commodities research at BMO Capital Markets.

"There is a bit of a rally going on today, although generally, [base] metals' price movement has been dominated by mass economic flows," Mr. Hamilton said.

Write to Amrith Ramkumar at amrith.ramkumar@wsj.com and David Hodari at David.Hodari@dowjones.com

Document WSJO000020180405ee4500335

THE WALL STREET JOURNAL.

Politics

Tariff Showdown Shifts to Intense Negotiation Period; After Washington and Beijing crank up pressure on trade, lawmakers, business interests and lobbyists look to navigate new rules

By Josh Zumbrun
1,445 words
5 April 2018
01:07 PM
The Wall Street Journal Online
WSJO
English

Corrections & Amplifications

The value of 2017 Chinese exports in categories affected by tariffs proposed by the U.S. on April 3 was an estimated $46.2 billion. The value of 2017 U.S. exports in categories affected by subsequently announced Chinese tariffs was an estimated $49.8 billion. A graphic with an earlier version of this article incorrectly reversed the figures. (April 5, 2018)

WASHINGTON—The Trump administration's tit-for-tat with Beijing over potential tariffs has ushered in a high-stakes standoff over the future of trade between the world's two largest economies.

The combatants will now follow a timeline stretching over the next half year, during which the two sides will seek to negotiate a new normal. President Donald Trump, who initiated the tensions over Chinese trade practices, has put himself in a position to face mounting pressures from lawmakers, an intense campaign from corporate lobbyists, and outcry from businesses big and small navigating cumbersome new trade rules—all of which was feeding tremendous **volatility** in the stock and commodities markets.

U.S. administration officials did little to gloss over the likelihood that the trade spat had entered a period of protracted negotiations—and more market turmoil—and suggested the president was willing to withstand domestic pressures to achieve an improved trading relationship with Beijing. The clear signal from the White House was the U.S., while open to discussing solutions, wasn't prepared to back down anytime soon.

"It'll be a couple months before tariffs on either side would go into effect," said White House press secretary Sarah Huckabee Sanders. "I would anticipate that if there are no changes to the behavior of China and they don't stop the unfair trade practices, then we would move forward."

The developments drove wild swings in the **financial markets**. Stocks initially tumbled on the news, led by declines of 5% or more in some major U.S. exporters such as Boeing Co. and Deere & Co., before major indexes began recovering. The Dow rose 230.94, or 1%, to close at 24264.30 after earlier falling as much as 510 points.

As the trade negotiations grind on, many investors resigned themselves to more significant price swings in the markets, especially in light of additional uncertainties from rising interest rates to questions over the staying power of an economic expansion now in its ninth year.

At the same time, many investors remain skeptical that the trade-war fears that have absorbed market participants periodically in recent months will ever come to fruition.

Should some of the tariffs on the table—either U.S. or Chinese—become policy, "then that could create a shadow on earnings," said Omar Aguilar, chief investment officer of equities and multiasset strategies for Charles Schwab Investment Management. But, he added, "so far it seems like just posturing."

Under the U.S. plan to introduce tariffs, companies have 30 days to submit comments on the Chinese imports that will be subject to the 25% tariffs, a list of 1,333 goods that includes machinery and materials, upon which U.S. industry has grown to rely on to conduct business. Companies will have the opportunity to raise concerns and to note if goods crucial to business—highly specialized machine tools, for example—have been targeted, or if different goods should be included in the tariff list.

The Chinese side, meantime, has put together its own list, which includes levies on soybeans, autos and airplanes, the export of which has grown crucial to the success of many U.S. businesses. "Both sides have put their lists on the table," China's Vice Finance Minister Zhu Guangyao told reporters. "Now it's time for negotiations."

U.S. business interests will be allowed to air concerns publicly at a May 15 hearing at the International Trade Commission, and companies will have until May 22 to object to the proposed tariffs. "The fact they did it with a 30-day comment period is not that they care about the comments," said William Reinsch, a senior adviser at the Center for Strategic and International Studies, a Washington think tank. "The point is to buy time for a negotiation."

After May 22, the U.S. government still has 180 days to decide whether to go ahead, meaning the standoff could last a long time. If Washington backs off, Beijing is likely to do the same.

The two sides have been negotiating behind the scenes. Chinese economic envoy Liu He has exchanged letters with U.S. Trade Representative Robert Lighthizer and Treasury Secretary Steven Mnuchin over increased opening of the Chinese market. Mr. Mnuchin has been weighing a trip to Beijing, though its timing is uncertain.

China's President Xi Jinping will give a closely scrutinized speech next week at the Boao Forum for Asia, China's version of Davos that takes place with world political and business leaders on the southern Chinese island of Hainan. Both sides' business sectors will be watching closely for signs about China's position in the talks with the U.S.

The threat of U.S. tariffs now also hangs over a handful of consumer-goods markets including household appliances, lithium ion batteries, and parts for air conditioners—sectors that China hopes to dominate. Many of the products are goods that Beijing outlined in 2015 as part of its "Made in China 2025" goals for Chinese industry, but doesn't yet produce at a large scale.

Both countries' lists total approximately $50 billion worth of goods, a sum that hits about 38% of U.S. exports to China. As China is the much larger exporter, the sum hits only about 10% of Chinese exports to the U.S. Even if the tariffs went into place, the direct impact would be relatively small for the $19 trillion U.S. economy and $12 trillion Chinese economy.

Yet, while the actions threatened so far may stop short of what most analysts would consider a full-blown "trade war," they have ignited a lobbying battle engulfing much of American industry, and a market shakeout as investors pull out of companies who trade in the goods targeted by Beijing and Washington for action.

Congress has been reluctant to do anything beyond warn the Trump administration that it risks a full-blown trade war, although behind the scenes some lawmakers, especially Republicans, want the government to find a quick solution to the tension.

"Every town hall I go to, trade or tariffs is one of the big questions. That's what's on their mind," said Sen. Joni Ernst (R., Iowa) on Wednesday. "They are starting to question the president and where we're going with this," she said, adding that she was going to express her concerns directly to Mr. Trump on Wednesday. "I need for him to understand that we're hurting in the Midwest and this is not helping."

Iowa is among the largest soybean-producing states, and the state's other senator, Republican Sen. Chuck Grassley, noted on Wednesday that he had cautioned Mr. Trump his administration would own any harm caused by Chinese retaliation.

"If the federal government takes action on trade that directly results in economic hardship for certain Americans, it has a responsibility to help those Americans and mitigate the damage it caused," Sen. Grassley said in a statement, adding he would work through the Senate Finance Committee, among other venues, to address the matter.

Indeed, soybean futures fell 2.2% Wednesday, as China is the world's largest importer. Meanwhile, some shares of companies that could face retaliatory Chinese tariffs fell Wednesday, with aerospace giant Boeing down 1%.

Trade groups representing industries from agriculture, retailers and manufacturers were quick to raise objections when the lists were announced. Even groups spared from direct tariffs, like the American Apparel & Footwear Association, expressed concerns, with its President Rick Helfenbein saying that while he was pleased apparel, footwear and travel goods weren't the subject of tariffs, he was still concerned the list would hit machinery used by domestic apparel manufacturers.

"This would directly raise costs on domestic manufacturers and impact our ability to grow 'Made in U.S.A.,' " he said.

Rebecca Ballhaus, Siobhan Hughes, William Mauldin and Akane Otani contributed to this article.

Write to Josh Zumbrun at Josh.Zumbrun@wsj.com

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* U.S. Asks China for Plan to Reduce Trade Deficit by $100 Billion

* How China Gets Its Hands on U.S. Tech

* List of Products Exposed to U.S. Tariffs

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WSJ PRO CENTRAL BANKING

Economy

U.S. Jobless Claims Rose Last Week; Claims by workers made for longer than a week dropped by 64,000 in the week ended March 24

By Sarah Chaney and Sharon Nunn
343 words
5 April 2018
08:33 AM
WSJ Pro Central Banking
RSTPROCB
English

WASHINGTON—The number of Americans claiming new unemployment benefits rose last week but remained near multidecade lows, offering fresh evidence of the labor market's strength.

Initial jobless claims, a proxy for layoffs across the U.S., increased by 24,000 to a seasonally adjusted 242,000 in the week ended March 31, the Labor Department said Thursday. Economists surveyed by The Wall Street Journal expected 225,000 new claims last week.

Initial claims remain near levels last seen in the 1970s. They have held below 300,000 for 161 consecutive weeks, matching the longest streak in weekly records going back to 1967.

Data can be **volatile** from week to week. The four-week moving average of claims, a more-stable measure, increased by 3,000 to 228,250.

The low level of claims is among multiple signs of health in the U.S. labor market. The unemployment rate has held at 4.1% since October, the lowest level since late 2000. Nonfarm employers added a robust 313,000 jobs in February, and wages are rising modestly.

Thursday's report showed the number of claims workers made for longer than a week dropped by 64,000 to 1,808,000 in the week ended March 24, the lowest level since December 1973 when it was 1,805,000. That figure, known as continuing claims, is reported with a one-week lag.

Even when smoothing out **volatility**, continuing claims posted fresh lows. The four-week moving average for continuing claims fell to the lowest level since 1974, Thursday's report showed.

The Labor Department releases the March jobs report Friday. Economists surveyed by The Wall Street Journal forecast the economy added 178,000 jobs and the unemployment rate nudged down to 4%.

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THE WALL STREET JOURNAL.
U.S. EDITION

Investors Put Brakes on Palladium Rally --- The metal, considered a gauge of growth, is 14% lower this year after surging in 2017

By Amrith Ramkumar
749 words
5 April 2018
The Wall Street Journal
J
B12
English

Escalating trade tensions between the U.S. and China are weighing on palladium, a once-hot asset that has reversed after a historic 2017 run.

The front-month futures of the metal, a close relative of platinum whose price moves are often seen as a barometer of investors' growth outlooks, fell 1.1% on Wednesday, bringing their year-to-date drop to 14%. That is after a nearly 60% climb last year that sent palladium to its highest level since 2001.

Trade tensions, along with the prospect of a higher adoption of electric vehicles, have hurt the metal so far this year, analysts say, as have projections for higher supplies than some investors previously anticipated. Recent tariffs on a wide range of products enacted by the U.S. and China that helped send copper to its worst quarter since 2015 have also cooled the palladium rally, with some investors uneasy that higher manufacturing costs will lead to slower global economic growth and lower demand for commodities.

On Wednesday, China retaliated against the U.S., targeting high-value American exports with 25% duties on major American exports including airplanes and soybeans. The moves came shortly after the Trump administration rolled out plans for its own tariffs of 25% on Chinese goods worth $50 billion, on top of previously announced levies on solar panels, washing machines, steel and aluminum.

Retaliatory Chinese levies on U.S. pork and fruit went into effect earlier this week.

"We expect the tariff war to enter into a more escalating, vicious cycle where one trade tariff prompts another country to erect its own tariff," said Marwan Younes, chief investment officer of New York-based hedge fund Massar Capital Management. "As a result, global growth will be re-evaluated."

Because palladium is used in the catalytic converters that scrub emissions in gasoline engines, it often behaves like an industrial metal and is sensitive to sentiment.

Signs of softening demand for palladium are already emerging. The U.S. auto industry last year recorded its first decline in annual sales since the financial crisis and reported underwhelming sales early in the year.

Last year, the automotive industry accounted for more than 80% of palladium demand, according to Johnson Matthey PLC, a London-based metals trader and one of the world's largest makers of catalytic converters. North American vehicles accounted for roughly a quarter of that vehicle demand, with their palladium use rising 8% to a record.

Johnson Matthey said in its closely watched February market review that it expects global palladium supplies to grow roughly 2% this year. That compares with 2017, when a 2.4% drop widened the gap between supplies and demand.

The prospect of higher supplies have weighed on other metals such as copper. The price of copper is down 8.3% this year after falling 1.7% on Wednesday.

Platinum has dropped 2.4% in 2018, but it has narrowed the gap on palladium. Platinum is used to neutralize emissions in diesel engines, so it is also affected by auto sales and the outlook for the adoption of electric cars.

Hedge funds and other speculative investors have started turning cautious. They have slashed net bets on higher palladium prices in nine of the past 11 weeks through March 27, to their lowest level since November 2016. That is after net bullish bets hit an all-time high in January, according to Commodity Futures Trading Commission data going back to 2006.

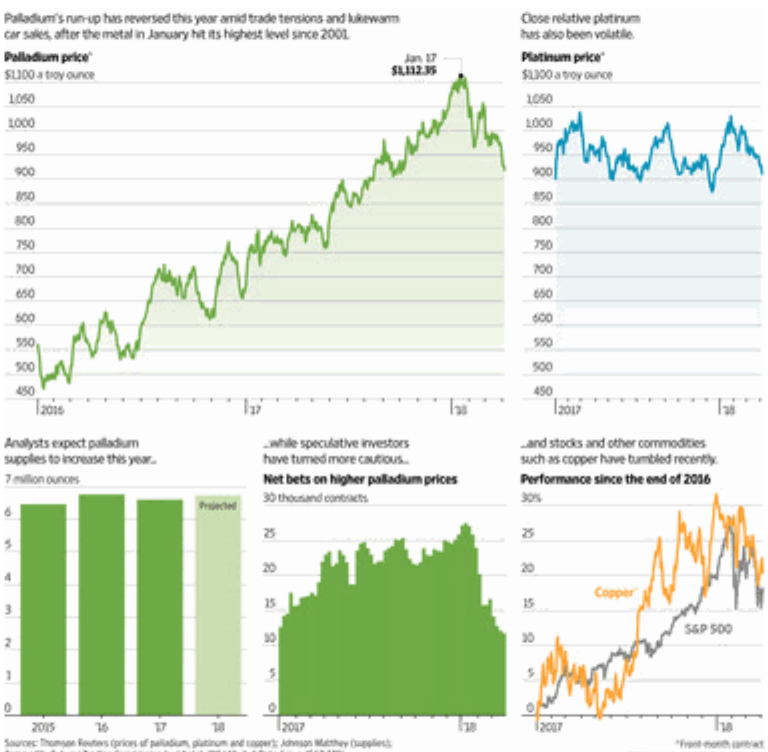
Palladium's drop on Wednesday sent it to $918.90 a troy ounce, while platinum fell 1.4% to $912.10.

Still, some analysts think stronger car-sales data -- like the figures released Tuesday that showed nearly all of the biggest auto makers posted sales gains in March -- and further emissions standards could boost palladium moving forward. Some have said signs that hybrid electric cars could become more popular might also spur a price rebound, as those would still require some palladium.

"Looking at demand moving forward is what's keeping things at bay," said Bob Haberkorn, senior market strategist at RJO Futures.

He said both metals would present attractive buying opportunities below $900 a troy ounce despite the longer-term worries.

"There still is an immediate demand for it in the short term, or even medium term," Mr. Haberkorn said.



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THE WALL STREET JOURNAL.
U.S. EDITION

Banking & Finance: Rate Rise Bites Vulnerable Firms

By Sam Goldfarb
377 words
5 April 2018
The Wall Street Journal
J
B10
English

Shares of companies with high levels of floating-rate debt are lagging behind the **S&P 500**, a sign of investor jitters about the financial impact of rising short-term interest rates.

As rates climbed, shares of 50 companies whose floating-rate bonds account for more than 5% of their total debt fell about 4% this year through March 29, according to a report by Goldman Sachs Group Inc. That is worse than overall index's 1% decline in that time.

Since the end of last year, the three-month London interbank offered rate has increased to 2.32% from 1.69%. Libor measures the cost for banks to lend to one another and is used to set interest rates on roughly $200 trillion in dollar-based financial contracts globally, including floating-rate bonds.

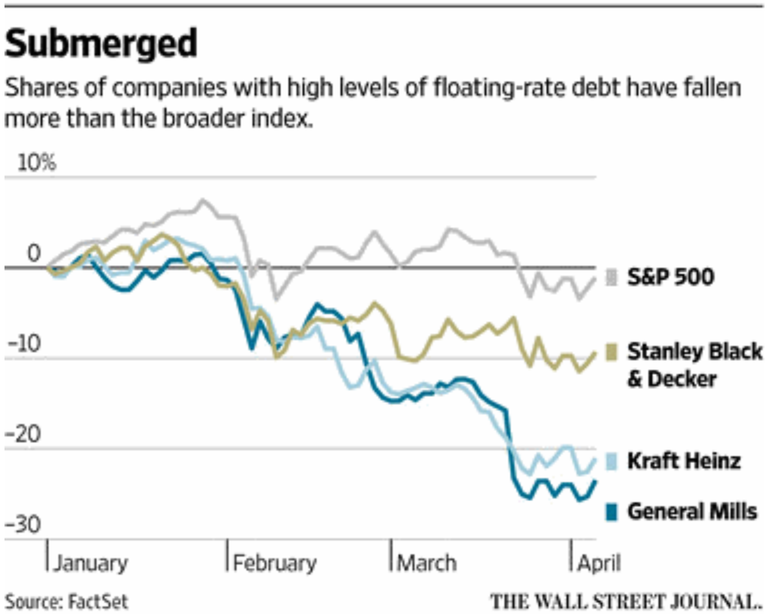
Libor has been rising for the past 2 1/2 years as the Federal Reserve lifts its federal-funds target rate but has climbed more steeply this year due to what analysts say are a variety of factors, including increased short-term debt sales by the U.S. government and new corporate tax policies.

Over time, rising interest rates should lead to increased borrowing costs for all companies, as fixed-rate bonds are replaced with new debt. But the uptick in rates is of more immediate concern to businesses with a lot of debt with rates that rise and fall with underlying rates.

As of March 29, the shares of companies Goldman Sachs identified with significant floating-rate bond debt traded at 16 times their projected earnings for the next 12 months, compared with 17.6 for the broader index.

Among those companies: Kraft Heinz Co., whose share price has dropped about 21% this year; Stanley Black & Decker Inc., which has lost 9.3%; and General Mills Inc., which has tumbled 23%, according to FactSet.

One factor should help companies that use floating-rate debt: When interest rates rise, it typically boosts investor demand for floating-rate bonds and loans. That allows businesses, when they issue such debt, to get a lower rate, or "spread," on the fixed rate they pay in addition to Libor.



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Economy

Global Central Banking: A Second-quarter Update | Mester: Diversity Leads to Better Policy | Bullard Sees No Need for Further Rate Increases | RBI Leaves Rate Unchanged | Hannon's Take: At The Core of the ECB's Inflation Problem; The Wall Street Journal's central banking newsletter for Thursday, April 5, 2018

1,580 words
5 April 2018
06:04 AM
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English

Hannon's Take: At The Core of the ECB's Inflation Problem

Global Central Banking in 2018: A Second-quarter Update for 23 Economies

Fed's Mester: Boosting Diversity in Economics Leads to Better Policy

St. Louis Fed's Bullard Sees No Need for Further Rate Increases

India's Central Bank Leaves Key Lending Rate Unchanged

At The Core of the ECB's Inflation Problem

The European Central Bank is widely expected to announce in June how it plans to end its bond-buying program. But there may be a problem with that timing.

Figures released Wednesday showed annual inflation picked up in March to 1.4% from 1.1%, after declining for three straight months.

That had been expected. What wasn't was unchanged core inflation, which excludes energy, food, alcohol and tobacco prices. At just 1%, the core rate it was just slightly above where it was at the start of 2017, when the eurozone economy embarked on its surprise pickup.

One reason for that subdued performance appears to be the euro's appreciation against other major currencies, reflected in a slowdown in prices of manufactured goods, many of which are imported. That was offset by a pickup in services prices, partly due to the Easter vacation, which was earlier this year than last.

Some analysts expect to see that Easter effect reverse in April, with a resulting drop in core inflation. The ECB will be pondering the May number as it makes its June deliberations. Barring a major surprise, there won't be a lot of evidence of a "a sustained adjustment in the path of inflation," which is what policy makers have been trying to achieve since the mid-2014 launch of the first in a series of stimulus measures.

Barclays economists expect core inflation to average just 1.2% over 2018, still well short of the ECB's target of just under 2%. And they warned that the March figure suggested the core rate might be lower.

ECB President Mario Draghi has acknowledged the problem.

"Even though we have strong growth, we still have subdued inflation and our mandate is in terms of price stability, so victory cannot be declared yet," he said in a March news conference.

Other members of the ECB governing council are eager to start removing stimulus, beginning with an end to bond purchases this year, followed by an interest-rate increase in mid-2019.

The ECB's hawks face a challenge in explaining why the central bank should step on the brakes when it is nowhere near its goal.

Key Developments Around the World

Global Central Banking in 2018: A Second-quarter Update for 23 Economies

The U.S. Federal Reserve is on track to keep raising interest rates in coming months, while most other leading central banks around the world hold their borrowing costs very low amid a solid global economic expansion and generally modest inflation. Of the 23 central banks covered by The Wall Street Journal, five are expected to raise rates in the second quarter—the Fed, the Bank of England, Mexico's, Romania's and Turkey's. Just two—the central banks of Brazil and Russia—are expected to lower their key rates. The rest are on hold. Read the details on the second-quarter outlook for all 23 central banks we cover. Or click on the name of any central bank in the chart and go directly to its summary.

Fed's Mester: Boosting Diversity in Economics Leads to Better Policy

Cleveland Fed President Loretta Mester said Wednesday that boosting diversity in the economics community would make the profession stronger and better able to solve problems. Ms. Mester, whose comments came from the text of speech to be delivered in Wilberforce, Ohio, didn't comment on the economic and monetary policy outlook. Ms. Mester's views on the value of diversity come a day after the New York Fed announced that John Williams, now the San Francisco Fed leader, will become its next president. While Mr. Williams is a respected economist and policy maker, the Fed faced outside pressure to select someone other than a white man for one of its most critical jobs.

St. Louis Fed's Bullard Sees No Need for Further Rate Increases

St. Louis Fed President James Bullard said Wednesday the Federal Reserve doesn't need to raise its benchmark short-term interest-rate any further. "Current monetary policy settings are close to neutral, which is appropriate for the current macroeconomic situation," Mr. Bullard said in materials for a presentation in Little Rock, Ark. "It is not necessary in this circumstance to raise the policy rate further in order to put downward pressure on inflation, since inflation is already below target."

WSJ Transcript: Fed's Harker Answers Reporters' Questions in New York

Philadelphia Fed President Patrick Harker sat down with reporters in New York on Thursday, March 29, 2018, after delivering a speech on the economy and state of business dynamism. He discussed the yield curve, the labor market and how regional Fed presidents get hired, among other topics. Here is a transcript of the exchange, lightly edited for clarity and length.

China Tightens Reins on Asset Management Businesses

China is clamping down on asset-management businesses that operate illegally online, its latest effort to rein in a $15 trillion industry exposing ordinary investors to the nation's debt risks. A task force led by \the central bank has ordered the shutdown of internet businesses that sell investment products without permission by the end of June, according to a notice reviewed by The Wall Street Journal. The notice, dated March 28 and written by the nation's internet finance watchdog, asked regulators in each province to conduct thorough inspections, including on-site visits.

India's Central Bank Leaves Key Lending Rate Unchanged

India's central bankleft its benchmark lending rate unchanged Thursday, as Asia's third-largest economy seems to be sitting in a sweet spot with inflation rates slipping even as growth accelerates. The Reserve Bank of India's monetary-policy committee, headed by Governor Urjit Patel, kept its overnight lending rate steady at 6%. The 11 economists polled by The Wall Street Journal had predicted it would leave the rate unchanged.

Thursday

1 p.m. EDT

Atlanta Fed's Bostic speaks

Friday

2:45 a.m. EDT

ECB's Coeuré speaks

8:30 a.m. EDT

U.S. Labor Department releases March jobs report

11:15 a.m. EDT

Bank of England's Carney speaks

1:30 p.m. EDT

Fed's Powell speaks

3 p.m. EDT

San Francisco Fed's Williams speaks

Tariffs Unlikely to Bring Back Many U.S. Blue-Collar Jobs

The U.S. shed about 5.5 million manufacturing jobs between 2000 and 2017–more than twice as many as lost between 1980 and 2000–and those job losses were more highly concentrated among lower-skilled positions often filled by men with less education, a new study fromUniversity of Chicago researchers found. During the same 17 years, output from U.S. factories increased. That's because manufacturing firms, some facing pressure from China and other lower-cost, overseas competition, have automated low-skill, routine tasks and became more reliant on robots and college-educated workers to boost production. Now that the shift has occurred, it is difficult to undo.

Powell Shows Markets He Won't Be Rattled by **Volatility**

Investors greeted Fed Chairman Jerome Powell "on Feb. 5, his first day as Fed chair, with a quadruple-digit selloff in the **Dow Jones Industrial Average**," writes Danielle DiMartino Booth in Bloomberg View. "As if to validate investors' worst fears, Powell remained mum as **volatility** surged, and made no move to calm markets. In his recent congressional testimony, he plainly stated that it wasn't the Fed's job to put a floor under the **stock market**. The so-called smart money took Powell at his word. The Smart Money Flow Index (SMFI) is a derivative of the Dow calculated by measuring two time periods -- the first half-hour of trading and the last hour," she says.

Activity across most of the U.S. economy decelerated again in March but continued to expand at a solid pace headed into the spring.

Hiring at private U.S. employers grew more than expected in March, according to a report, as the manufacturing industry showed the strongest increase in more than three years.

Activity in the U.K.'s dominant services sector grew at the slowest pace in more than 18 months during March, weakened by a blast of cold weather and snowfall.

Eurozone retail sales were weaker than expected in February, while business activity grew less rapidly than first estimated in March, the latest signs that economic growth may be slowing.

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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WSJ PRO CENTRAL BANKING

Economy
Australia Posts Trade Surplus, but Outlook Uncertain; Exports likely to be hit hard if U.S.-China trade spat leads to a slowdown in China, Australia's biggest trading partner

By James Glynn
445 words
5 April 2018
03:11 AM
WSJ Pro Central Banking
RSTPROCB
English

SYDNEY—Solid growth in exports of coal and natural gas has lifted Australia's trade balance back into surplus so far in 2018, but the outlook is murky with exporters Down Under likely to be hit hard if U.S.-China trade tensions escalate.

Australia posted a seasonally adjusted trade surplus of 825 million Australian dollars ($636 million) in February, which built on a January surplus of just under A$1 billion, the Australian Bureau of Statistics reported Thursday.

The stronger trade balances follow a hefty deficit in December, which resulted from weather-related disruptions to key commodity exports, and sapped GDP growth for the quarter.

The trade recovery comes as the Reserve Bank of Australia signaled this week growing concerns about U.S. trade policy and its potential to disrupt global growth.

"**Equity market volatility** has increased from the very low levels of last year, partly because of concerns about the direction of international trade policy in the United States," Gov. Philip Lowe said Tuesday.

In March, Gov. Lowe warned the situation "could turn very bad" should trade tensions increase.

Over the past week, the U.S. and China have exchanged tit-for-tat tariffs, raising fears the world's two biggest economies have entered a standoff that will remain tense over the coming months.

Australia would be vulnerable should a trade spat lead to a slowdown in China, its biggest trading partner and a huge consumer of iron ore, which is used to make steel.

In a worst-case scenario, Citigroup estimates Australia's GDP could be 0.5 percentage point lower after one year and 1.25 percentage points lower after three years.

That would upset the RBA's forecasts for stronger GDP growth and higher inflation, and keep interest rates on hold for much longer than expected.

Economists this week said the RBA's commentary on U.S. trade policy argued for interest rates to remain on hold well into 2019.

Paul Dales, chief economist at Capital Economics, said the dangers are real for Australia.

"The real risk is that America's steel and aluminum tariffs are not just an isolated piece of policy-making and instead represent a broader shift towards protectionism," he said.

Australia would be stung if tariffs were put on crude materials like iron ore or mineral fuels like coal as they make up 60% of all Australia's goods exports, he said.

Write to James Glynn at james.glynn@wsj.com

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The New York Times

Business/Financial Desk; SECTB
Indexes Rise Even as Trade Fight Between U.S. and China Grows

By MATT PHILLIPS and PRASHANT S. RAO
594 words
5 April 2018
The New York Times
NYTF
Late Edition - Final
2
English

Stocks rose on Wednesday in a roller-coaster trading session during which investors were whipsawed by updates on an escalating trade dispute between the United States and China.

The **Standard & Poor's 500**-**stockindex** finished up 1.2 percent, an upbeat end to a session that started with a steep, nearly 1.5 percent decline driven by jitters of worsening trade tensions between the world's two largest economies.

Stocks reversed course after Larry Kudlow, President Trump's newly installed director of the National Economic Council, sought to play down the risks of an outright trade war in late-morning comments to reporters.

Washington and Beijing have announced a series of tariffs and counter-tariffs in recent days, with China saying on Wednesday that it planned to impose some $50 billion in import duties on soybeans, cars, chemicals and other goods from the United States.

The moves came in response to Mr. Trump's recent decision to place tariffs on steel, aluminum, aircraft parts, flat-screen televisions and other products from China, which he has long accused of engaging in unfair trade practices.

Investors initially seemed willing to discount the possibility of a trade war, perhaps in the belief that the Trump administration's protectionist talk would fade amid negotiations through traditional channels. But the tit-for-tat tariffs rolled out by the United States and China may be stripping away some of that confidence.

''The scale and speed of Mr. Trump's actions would have been difficult to predict at the start of the year,'' analysts at Deutsche Bank said in a note to clients on Wednesday before American markets opened. ''The growth outlook is more uncertain than it was.''

The latest volley between the United States and China has mostly involved advanced manufacturing technologies, a dispute that parallels the countries' fight over steel and aluminum. The overall value of the duties at issue is small given that total trade between the two countries amounts to around $650 billion a year. But economists and investors say the tensions could ratchet up quickly, and that the tariffs could become more punishing.

The growing tensions have helped erode many of the **stock market** gains that Mr. Trump had touted since taking office. The **Dow Jonesindustrial average** has recently slipped to its lowest level of the year, despite generally positive economic growth around the world and tax legislation in the United States that has helped bolster corporate profits.

The trade dispute also reverberated in commodities markets Wednesday. Cotton prices fell 2.9 percent, and soybean prices dropped 2.2 percent. Corn prices declined by 1.9 percent.

Analysts at Goldman Sachs said China's imposition of tariffs on soybeans, an agricultural staple in Midwestern swing states, was a sign of worsening friction between Washington and Beijing.

''We view the inclusion of soybeans in today's announcement as political in nature and reflective of the escalation of the trade dispute with the United States,'' Goldman Sachs commodities analysts said in a note to clients.

Despite the **volatility** in stock trading, there was little sign of a rush to the safety of United States Treasury bonds. Instead of falling sharply -- a signal of a panicky market -- yields on **10**-**year Treasury** notes were largely stable, finishing the day at 2.78 percent.

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

Document NYTF000020180405ee450004z

The New York Times

National Desk; SECTA
White House Edges Back From Brink of Trade War

By ANA SWANSON and KEITH BRADSHER; Jim Tankersley and Alan Rappeport contributed reporting.
1,694 words
5 April 2018
The New York Times
NYTF
Late Edition - Final
1
English

WASHINGTON -- White House officials moved quickly on Wednesday to calm fears of a potential trade war with China, saying the administration's proposed tariffs were a ''threat'' that would ultimately help, not hurt, the United States economy, hours after China said it would punish American products with similar levies.

The administration's insistence that a trade war was not imminent came as the United States and China traded tit-for-tat penalties that caused wild swings in stock markets from Hong Kong to New York. Led by more audacious leaders than either country has had in decades, China and the United States are now locked in a perilous game of chicken, with the possibility to derail the global economic recovery, disrupt international supply chains and destabilize the huge yet debt-laden Chinese economy.

White House officials reiterated on Wednesday that China must stop the ''unfair'' trading practices President Trump believes have disadvantaged American companies and workers, but they held out the possibility that tariffs on $50 billion worth of Chinese goods outlined on Tuesday might never go into effect.

''There's no trade war here,'' Larry Kudlow, Mr. Trump's new top economic adviser, said in an interview on Fox Business Network. He described the threat of tariffs as ''just the first proposal'' in a process that would involve negotiations and back-channel talks. ''I understand the **stock market**'s anxiety,'' he said. ''But on the other hand, don't overreact.''

Behind the scenes, however, top officials remained split over the administration's approach as the United States and China move into a period of high-stakes negotiations. That includes how far to go in punishing China and the types of concessions the White House should accept to avoid a protracted and damaging trade war.

People familiar with the negotiations say Steven Mnuchin, the Treasury secretary, and Wilbur Ross, the commerce secretary, have at times argued for more dialogue with the Chinese and quicker concessions that would help diminish the trade deficit -- the gap between what China ships to the United States and what America ships in the other direction. Other top trade advisers, including longtime China critics like Robert Lighthizer and Peter Navarro, have taken a tougher stance, arguing that these changes would do little to address the mercantilist and protectionist trade policies China has adopted for decades.

Mr. Trump's advisers said the president remains resolute and views the pugilistic approach as the only way to force China to end two decades of industrial policies that have hollowed out American manufacturing and resulted in a ballooning trade deficit.

On Wednesday, Mr. Trump suggested in a tweet that he saw no reason to back down, since the United States was already on the losing end of trade with China.

''We are not in a trade war with China, that war was lost many years ago by the foolish, or incompetent, people who represented the U.S.,'' he wrote. ''Now we have a Trade Deficit of $500 Billion a year, with Intellectual Property Theft of another $300 Billion. We cannot let this continue!''

He added in another tweet, ''When you're already $500 Billion DOWN, you can't lose!''

It remains unclear whether China will bend to the pressure and make significant changes to its economy -- or whether the White House strategy will instead tip the two nations into a trade war that could harm both countries.

Producers of American goods like soybeans, pork, automobiles and semiconductors depend on access to the Chinese market both for exports and production and say they are fearful about a conflict.

''Companies are definitely caught in the middle of this,'' said Kenneth Jarrett, the president of the American Chamber of Commerce in Shanghai.

Economists predict that the direct effects of the tariffs will be relatively small for both China and the United States, since they apply to only a fraction of each country's economic output.

''It's hardly a life-threatening activity,'' Mr. Ross said in an interview on CNBC. He added that the volume of the tariffs was in line with the White House's calculation that the Chinese have cheated the United States out of $50 billion worth of intellectual property through coercion and cyberattacks.

While tariffs would affect a small part of the overall United States economy, they impinge on a relatively large share of American exports to China. If China places tariffs on $50 billion of goods from the United States, as promised, that would be more than one-third of American exports to China. In contrast, American tariffs on $50 billion of Chinese goods would affect only one-tenth of China's vast exports to the United States.

Within that slice of the economy, the pain could be acute. American farmers and manufacturers, in particular, could suffer. On Wednesday, China said it would penalize American soybeans, cars, chemicals and other goods, hours after the United States announced tariffs on flat-screen televisions, medical devices and industrial machinery.

The economic effects could also quickly escalate beyond tariffs. The United States is preparing restrictions that could prevent China from investing in high-tech industries like semiconductors and electric vehicles, and it may consider other restrictions, including visas.

China, in return, could make life more difficult for the many American companies that do business in the country, or pare back its purchases of United States debt. China is the largest foreign holder of American debt, holding about $1.17 trillion in United States bonds, notes and bills in January, according to the Treasury Department.

''China has many ways it can make life exceedingly uncomfortable for a large number of American businesses, both those that are hoping for access to China's fast-expanding market, and those that use China as an important part of their supply chains,'' said Eswar Prasad, a professor of international trade at Cornell University.

The Trump administration contends that if it does not challenge Beijing now, the Chinese government will heavily subsidize its companies to become dominant producers of cutting-edge industries from robotics to electric cars. That could imperil the United States' ability to create good-paying jobs for future generations, relegating the country to producing food, fossil fuels and financial services, while China extends its lead as the world's largest manufacturer.

But the administration's strategy for halting China's rise has been hard to discern, with some advisers insisting that China must remake its economy, while others say the priority is to reduce the trade deficit, prioritize market access for American companies or end China's infringement on American intellectual property. Some top officials have indicated the tariffs may never be implemented.

On Wednesday, Sarah Huckabee Sanders, the White House press secretary, refused to say whether the tariffs would ultimately go into effect, adding, ''I would anticipate that if there are no changes to the behavior of China and they don't stop the unfair trade practices, then we would move forward.''

Companies have until May 22 to submit comments to the administration about the tariffs, with the penalties to be imposed at an undetermined date. Separate tariffs on steel and aluminum imports from China and other nations went into effect late last month.

In the meantime, American officials including Mr. Mnuchin and Mr. Lighthizer have been in talks with the Chinese about ways to resolve their differences. Yet conversations have so far focused on concessions like China reducing tariffs on American cars, opening up its market for financial services and purchasing more semiconductors or natural gas -- minor wins that are unlikely to satisfy Mr. Navarro and Mr. Lighthizer, who are pushing for significant and sweeping changes to China's market, according to people familiar with the negotiations.

The United States has also asked for a $100 billion reduction in the $375.2 billion trade deficit it runs with China. But the goods China has offered to buy to narrow that gap -- including semiconductors -- are not products the

Trump administration wants to export. And some advisers say these kind of sales will not do anything to address the underlying problems with the Chinese economy.

China experts say an inconsistent message and approach could undermine America's ability to successfully negotiate.

''We're all over the map,'' said Scott Kennedy, a China expert at the Center for Strategic and International Studies. ''The Chinese are trying to take advantage of this lack of consensus and get the United States to take a quick deal that leaves China's industrial policy machine intact.''

Beijing is also eager to show other trading partners that it will not be bullied into changing its policies.

''I'm not very positive about large concessions or changes that are going to come from China,'' said Heiwai Tang, an assistant professor of international economics at the Johns Hopkins School of Advanced International Studies. China's current government is more assertive than recent ones, he said, and the country is heavily dependent on technology transfers from advanced economies as it tries to transform its own.

For the Chinese to successfully negotiate, analysts said, they have to be able to present the deal to their own people as a win. But the United States has refused to give concessions and has painted the confrontation as one in which China must ultimately lose.

''Tariffs are seen as a direct slap in the face, and it will be very difficult for the Chinese government to sit back and take those blows without retaliating,'' Mr. Prasad said.

On Wednesday, Cui Tiankai, the Chinese ambassador to the United States, said China preferred to resolve the conflict through talks but would keep its options open.

''Negotiation would still be our preference, but it takes two to tango,'' Mr. Cui said. ''We will see what the U.S. will do.''

American soybeans could be a target of new Chinese tariffs. (A1); Imported soybeans in China. A tariff dispute could escalate beyond agricultural goods to visas or purchases of United States debt. (PHOTOGRAPHS BY AGENCE FRANCE-PRESSE -- GETTY IMAGES) (A17)

Document NYTF000020180405ee4500042

The New York Times

Business/Financial Desk; SECT
China Strikes Back at the U.S. With Plans for Its Own Tariffs

By KEITH BRADSHER and STEVEN LEE MYERS; Keith Bradsher reported from Shanghai, and Steven Lee Myers from Beijing. Ailin Tang contributed research.
1,063 words
5 April 2018
The New York Times
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The New York Times on the Web
English

SHANGHAI -- China hit back at the United States on Wednesday with proposed tariffs on $50 billion worth of American soybeans, cars, chemicals and other goods, in a move likely to stoke fears that the countries' escalating confrontation could become an all-out trade war.

Moving with unusual speed, Chinese officials outlined plans to make it more costly to import 106 types of American goods into China. They are intended to hit the United States square in the farm belt -- a major section of President Trump's political support but also a major supplier of what China stocks in its supermarkets.

Beijing's plan to institute new tariffs was announced just hours after the Trump administration detailed its own protections on a similar value of Chinese-made aircraft parts, cars and car parts, televisions, steel and much more. Following a previous round of tit-for-tat tariffs unveiled over the past few days, the new measures have sparked concerns that the dispute could widen further, hurting jobs and growth in both countries.

Investors drove **financial markets** lower over the prospect that the two sides were not yet done fighting.

''China has never succumbed to external pressure,'' Zhu Guangyao, vice minister of finance, said at a news briefing on Wednesday. He added, ''External pressure will only make the Chinese people more focused on economic development.''

The question now is whether the two sides will intensify their efforts to punish each other before they sit down to negotiate. Neither set of tariffs go into effect right away, though the exact timing of the Chinese measures was not clear.

The dueling tariffs still do not impact the majority of trade between the two countries, which is valued at nearly $650 billion a year. Still, economists say that the clash could escalate quickly if the two sides fail to find a way to quickly resolve their differences, threatening a commercial relationship that is essential to the world economy.

Letting the dispute turn into a test of wills would be a mistake, said Jie Zhao, a senior research fellow at Fudan University in Shanghai.

''We should negotiate in a professional way,'' Ms. Zhao said, ''and make it less ideological and emotional.''

China's proposed new tariffs cover a significant chunk of what it buys from the United States. The protections on the $50 billion of goods announced on Wednesday, together with those on the $3 billion worth of products that Beijing unveiled earlier this week in retaliation for American tariffs on global steel imports, account for about a third of China's American imports.

By contrast, because the United States imports significantly more from China, tariffs on the same amount of products make up roughly one-ninth of its Chinese imports. That gives the United States more room to find other Chinese products to target.

Even as Chinese officials struck a defiant tone on Wednesday, they still said they wanted to avoid escalating the conflict.

''China's attitude is clear,'' Mr. Zhu, the vice minister of finance, said. ''We don't want a trade war because a trade war would hurt the interests of both countries.''

China could still fight back in other ways. Its control over its domestic economy and news media, and its homegrown internet, give it a strong hand in controlling public opinion and minimizing the potential impact on its consumers. In the past, China has mobilized its vast ranks of consumers to turn up their noses at products from Japan, the Philippines and South Korea during political disputes, though getting Chinese consumers to stop buying iPhones and Chevrolets could be trickier.

The two sides are clashing with the future in mind. President Trump instituted his latest round of tariffs against China while citing Beijing's government-driven efforts to retool the country's economy to focus on the technologies of the future. Known as the Made in China 2025 program, the plan specifies efforts to build up cutting-edge industries like robotics, aerospace and electric cars.

Many companies in Europe and the United States say they fear the program will create state-supported competitors, an argument that has won backing in the Trump administration. Some companies say that Beijing finds ways to force them to hand over technology if they want to sell their wares in China, an allegation that Chinese officials dispute.

China appears to show little interest in putting the Made in China 2025 efforts on the negotiating table. A report in state-controlled media on Wednesday described the development of advanced manufacturing as ''an inherent requirement for the transformation and upgrading of China's manufacturing industry, and it is also the only way for China's economy to enter a high-quality development stage.''

For now, China's new tariffs could create a more immediate issue for the Trump administration.

While they include plenty of goods Americans make, they have a heavy focus on products Americans grow: soybeans, corn, cotton, beef, frozen orange juice, even tobacco and whiskey. Many of those products come largely from Republican-dominated states, where lawmakers might be expected to have some influence with President Trump and could therefore persuade him to back down from his latest trade demands.

For manufactured goods, the new Chinese tariffs include cars and car parts, plastics, aerospace products and chemicals. Many of those products are also sold by European companies, giving Chinese buyers alternatives. The new tariffs announced on Wednesday will amount to 25 percent on the American products.

Chinese officials -- who blamed President Trump for provoking the clash -- have appealed to the World Trade Organization, which sets trade rules and moderates disputes, to resolve the feud. But both sides risk censure by the W.T.O. -- the Trump administration for its tariffs, and China for swiftly retaliating without a proper review.

''A key time has come for the United States and China to form a new consensus that includes intellectual property and the opening up of markets,'' said Song Guoyou, the deputy chief of the Center for American Studies at Fudan University. ''Otherwise, trade may fluctuate a lot.''

Follow Keith Bradsher and Steven Lee Myers on Twitter: @KeithBradsher and @stevenleemyers.

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THE WALL STREET JOURNAL.
U.S. EDITION

Wonder Land
Trump's Irrelevant Tariffs

By Daniel Henninger
895 words
5 April 2018
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A15
English

A never-to-be-forgotten line that burst out of Donald Trump during the campaign was: "We're going to win so much, you're going to be so sick and tired of winning." With President Trump currently drafting much of America into his trade war with the world, we may be there.

This week, the Trump trade team and China traded $50 billion tariff salvos. A day or so earlier, Mr. Trump threatened again to end the North American Free Trade Agreement. He is sending the National Guard to the border. He threatened steel and aluminum tariffs from Europe to Asia. Pretty much the whole world is under a Trump threat, and the **stock market** has a new sport: 700-point cliff-diving.

Mr. Trump's justification for brinkmanship on this scale is mostly one thing: protecting U.S. workers from unfair foreign trade and jobs displacement by immigrants.

There's just one problem with this: The U.S. is running out of citizen workers.

Barron's, our sister publication, just published a long article, "The Great Labor Crunch," on the country's acute shortage of workers in trucking, construction, retailing, fast food, oil drilling, technology and manufacturing. And that's just a partial list.

Demographics alone predict a worker shortage of 8.2 million over the next 10 years. An oil services manager calls it "an emergency, a crisis actually."

Earlier this week, the Journal described labor shortages across the Midwest ("Too Many Jobs, Not Enough People"). Skilled, semiskilled or unskilled labor -- we're short of everything. A sign on an Arby's near Mason City, Iowa: "If you're smiling, we're hiring."

Donald Trump wants to spend his days grinding out one-on-one renegotiations of the U.S.'s trade agreements, but he has been overtaken by his own economic success. His policies have produced the worker shortage that now makes his war on trade deficits a third-level concern.

It's an astonishing achievement. On taking office, Mr. Trump and the Republican-controlled Congress put in motion a radical deregulation targeted at nearly every major U.S. industry and workplace. At year's end, he and his Republican allies enacted a 40% cut in the corporate tax rate, while reforming an array of other tax-related impediments to capital investment.

In just over a year, we have full employment. The Democrats, by choice, contributed nothing to this welcome result.

Donald Trump won the real jobs war, which wasn't with Mexico or South Korea but with the Obama presidency's eight years of economic suppression.

Here's another threat: With the U.S. economy now desperate for workers, what Mr. Trump is doing to limit trade and immigration means he could stop winning and start losing, because stalled worker productivity will slow rising GDP. You can't squeeze more growth out of the turnips.

Somewhere, somehow, the U.S. needs to produce more workers.

The default solution is worker retraining. But we already have public and private retraining programs coming out of our ears. One Wisconsin manufacturer even told the Journal: "We'd rather people not have any experience because then they're not bringing bad habits with them."

The debate over DACA and the Dreamers has also reached the point of diminishing returns. They are a drop in the employment bucket. Put them to work and move on. Move on means rationalizing U.S. immigration policies, rather than wheel-spinning over them another 25 years.

A response equal to this peacetime worker crisis would include a modernized version of the bracero program used to cover labor shortages during World War II: Workers come in on date-limited visas, do what needs to be done, go home, and come back when needed.

U.S. agricultural producers, with unharvested crops rotting in the fields, already are moving their businesses to Mexico and elsewhere. Manufacturers that can't find workers will also move offshore.

At no time has politics ever recognized full employment as a problem. With the Trump presidency, the moment to deal with the "problem" of full employment has arrived.

The problem is no longer that "they" are "stealing our jobs." It is that too many rural or inner-city Americans cannot or will not migrate to the jobs employers are offering.

The idea that the American work ethic has eroded is similar to the immigration debate -- interesting but going nowhere. More relevant is that after Donald Trump brought to the surface disaffected people in places such as Pennsylvania and Wisconsin, we learned more about the phenomenon of people who simply won't move to take work. Why not?

It's a long list. Because the home-mortgage deduction is too valuable and the shortage of housing (and construction workers) makes moving too expensive.

Because the vast expansion of state Medicaid and other entitlements has trapped more people into thinking that a low-grade life without work is good enough.

Because public schools leave the young semi-numerate and semi-literate. Because state occupational licensing deters millions from moving to jobs they'd be good at.

The true challenge now is not protecting U.S. workers from the rest of the world but liberating them inside their own country.

Write henninger@wsj.com.

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The New York Times

National Desk; SECTA

White House Unveils Tariffs on Over 1,300 Chinese Products

By ANA SWANSON; Natalie Kitroeff and Ben Casselman contributed reporting from New York, and Keith Bradsher from Shanghai.
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4 April 2018
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English

WASHINGTON -- The Trump administration said Tuesday that it will place a 25 percent tariff on Chinese products like flat-screen televisions, medical devices, aircraft parts and batteries, outlining more than 1,300 imported goods that will soon face levies as part of a sweeping trade measure aimed at penalizing China for its trade practices.

The move, which stems from a White House investigation into China's use of pressure, intimidation and theft to obtain American technologies, is likely to inflame an already-simmering trade war between the countries. On Monday, China said it would slap tariffs on 128 American products in response to a separate White House plan to tax steel and aluminum from China and other countries.

The products targeted by the White House are part of its plan to go after China's dominance in cutting-edge technologies like semiconductors, electric vehicles and advanced medical products -- industries that China is pursuing dominance in as part of an industrial plan known as ''Made in China 2025.''

The Trump administration said that its analysts had identified products that benefit from these policies but refined the list to remove goods that were likely to cause disruptions to the United States economy or consumers.

The list of goods excludes many Chinese-made consumer products available for sale at Target or Walmart , including clothing, shoes and toys. But it will most likely increase costs for American manufacturers that depend on imported parts because it concentrates heavily on machinery and high-tech components. The tariffs will be imposed on a total of $50 billion worth of Chinese products each year.

The designation of targeted products will be followed by a comment period in which American companies can provide feedback to the Trump administration on the product choices. The administration will hold a public hearing on the submissions on May 15 in Washington, and companies will have until May 22 to file final objections.

Business groups, concerned about the effect on companies and workers, swiftly criticized the move.

''Unilaterally imposing $50 billion of new tariffs without a long-term strategy that leads to economic reforms in China will only hurt America's businesses, workers, and families,'' the Business Roundtable, a corporate trade group, said in a statement. ''Instead, the administration should work with U.S. allies on an approach that advances meaningful reform in China without imposing significant harm on America's economy.''

Jay Timmons, the president of the National Association of Manufacturers, said that American manufacturers were concerned about the trade relationship with China, including intellectual property theft, counterfeit goods and unfair subsidies, but also that tariffs were not the best response.

In a strongly worded statement on Tuesday, the Chinese Embassy in the United States condemned the tariffs. ''Such unilateralistic and protectionist action has gravely violated fundamental principles and values of the W.T.O.,'' the statement said. ''It serves neither China's interest, nor U.S. interest, even less the interest of the global economy.''

The Chinese would resort to ''measures of equal scale and strength against U.S. products in accordance with Chinese law,'' the statement said.

While many American companies say they are unfairly treated in China, they have rued the possibility of a trade war between the world's two largest economies, and the economic harm it could cause, and have begun pushing back against the White House's plans. China remains a crucial and growing market for companies like John Deere and Apple, as well as for soybean farmers and growers of other agricultural products.

Financial markets fell sharply on Monday as China imposed its own retaliatory tariffs on American products but regained most of their lost territory on Tuesday.

President Trump, who has repeatedly promised tough action on China's trade practices, said Tuesday that he intended to get along with China but that its unfair trade behavior had gone on too long. ''It's not something we can live with,'' Mr. Trump said at the White House, adding, ''I campaigned on that.''

Trump advisers have criticized past administrations for allowing China to receive the benefits of global trade while continuing to break the international trade rules imposed by organizations like the World Trade Organization -- a charge China denies.

But the administration has struggled to persuade its critics that the kind of tough trade measures Mr. Trump favors can alter China's behavior without tipping the world into a trade war and ultimately harming American workers and consumers. In addition to the tariffs, the White House is preparing to restrict Chinese investment in American technology and innovation, and to start a case against China at the World Trade Organization .

''The administration is rightly focused on restoring equity and fairness in our trade relationship with China,'' said Myron Brilliant, an executive vice president and the head of international affairs at the U.S. Chamber of Commerce . ''However, imposing taxes on products used daily by American consumers and job creators is not the way to achieve those ends.''

The Coalition for a Prosperous America, an organization that has supported the president's trade agenda, called the China action a shift from ''naïve'' to ''strategic'' trade. ''The age of appeasement must end,'' said Paola Masman, the group's media director.

But the administration's trade measures are prompting concern among many American companies, who are wary of Beijing's response.

The United States' largest exports to China last year were aircraft and aircraft parts, which totaled more than $16 billion, according to IHS Markit . These products featured heavily on Tuesday's list, setting off fears that China could retaliate with similar penalties against American plane maker Boeing .

Dan Stohr , a spokesman for the Aerospace Industries Association, said the group was still reviewing the tariff list but would almost certainly file comments with the administration.

Farming communities, one of the country's largest exporters and a solid base for Mr. Trump, are among the most vulnerable. Chinese tariffs of 25 percent will particularly hurt American pork farmers, who sent more than $1 billion worth of products to China last year.

Senator Joni Ernst , Republican of Iowa, said American farmers were already struggling to make ends meet. ''Increasing tariffs on exports will harm Iowa producers and undermine the rural economy,'' Ms. Ernst said. ''It's my hope that we can pursue policies that enhance our competitiveness, rather than reduce our access to foreign markets.''

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An auto plant in Tianjin, China. The Trump administration aims to penalize Beijing for what it sees as unfair trade practices. (PHOTOGRAPH BY IMAGINECHINA, VIA ASSOCIATED PRESS)

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THE WALL STREET JOURNAL.

Politics

U.S. Announces Tariffs on $50 Billion of China Imports; Levies target 1,300 separate product categories

By Bob Davis and Josh Zumbrun in Washington and Lingling Wei in Beijing
1,510 words
3 April 2018
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The Wall Street Journal Online
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English

The Trump administration on Tuesday threatened to slap stiff tariffs on some $50 billion in Chinese imports across 1,300 categories of products, unveiling the most aggressive challenge in decades to Beijing's trade practices.

The imports targeted for 25% levies range from high value-added goods such as medicines and medical equipment to intermediate goods like machine tools and chemicals, according to a release by the U.S. Trade Representative.

The list also includes some consumer goods such as dishwashers, televisions and automobile parts, but doesn't include retail mainstays such as shoes, clothing, mobile phones and furniture—products that might cause a U.S. consumer backlash should the tariffs push up prices at American retail outlets.

The move drew swift condemnation from Beijing.

"Such unilateralistic and protectionist action has gravely violated fundamental principles and values" of the World Trade Organization , the Chinese embassy in the U.S. said in a statement, adding that China will use the WTO dispute settlement process and "take corresponding measures of equal scale" against U.S. products.

None of the tariffs goes into effect immediately—and may never be imposed if the two sides eventually agree on a deal to open China further to U.S. imports. Instead, U.S. companies have until May 22 to raise objections; a public hearing on the issue is scheduled for May 15 in Washington.

The latest round of tariff threats is in addition to the imposition recently of 25% tariffs on Chinese steel and 10% tariffs on aluminum . Japan also was hit with the steel and aluminum tariffs; most nations got temporary exemptions. On Sunday, China retaliated with its own levies on about $3 billion of U.S. agricultural goods in that dispute.

The Trump administration's moves represent a significant change in U.S. strategy for dealing with China. Over the past three administrations, the U.S. has ushered China into the WTO , facilitating its ability to attract investment. Afterwards, it negotiated painstaking agreements with Beijing to open up specific parts of the Chinese economy. U.S. officials and Chinese reformers felt such change would be in the interest of both nations.

Now, the administration sees such talks as having produced too little for the U.S. So instead, the U.S. is applying maximum pressure and pushing China to negotiate under the threat of heavy sanctions.

"The China experts don't have a good solution to get us out of this fix, apart from more high-level dialogues," said Warren Maruyama, a former Bush USTR general counsel, defending the administration's move. U.S. Trade Representative Robert Lighthizer "might as well take his shot," Mr. Maruyama said.

Last year, the U.S. ran a $375 billion merchandise goods trade deficit with China; President Donald Trump has said he wants that reduced by $100 billion. While U.S. markets rebounded on Tuesday, they have been **volatile** for weeks in part because of fear the Trump administration policies might lead to a trade war between the world's two largest economies.

News of the tariffs was released after the close of regular trading on the stock exchanges Tuesday.

"We intend to get along with China, but we have to do something very substantial about the trade deficit," said Mr. Trump, speaking at the White House earlier on Tuesday. "I campaigned on that, I talked about that."

The USTR said the size of the punitive tariffs targeting the Chinese economy "is commensurate with an economic analysis of the harm caused by China's unreasonable technology transfer policies to the U.S. economy." Washington worries that Chinese cyberespionage and unfair government subsidization is helping China leapfrog technology and can eventually put the U.S. at a disadvantage both militarily and economically.

China denies it engages in unfair or illegal activities.

U.S. companies have grown increasingly concerned about Beijing using regulations and market pressure to force them into joint ventures with Chinese counterparts, which in turn lead to the transfer of important, competitive technology to their Chinese partners. They also worry, however, that tariffs on Chinese goods will make matters worse, driving up business costs and sparking retaliation from Beijing.

"If history is any indication, these proposed tariffs will not work and will be entirely counterproductive," said Dean Garfield , president of the Information Technology Industry Council, a trade group. Jay Timmons, president of the National Association of Manufacturers, said, "tariffs also run the risk of provoking China to take further destructive actions against American manufacturing workers."

Beijing is widely expected to put together its own list shortly for retaliation. That is likely to include U.S. exports of aircraft and soybeans among other products. Cui Tiankai , Chinese ambassador to the U.S., said in an interview with state-run CGTN English news channel Tuesday, "We will certainly take countermeasures of the same proportion and the same scale, same intensity."

Behind the U.S. action is a growing concern the Chinese are using industrial policy, government subsidies, theft and subterfuge to obtain U.S. technology. The U.S. tariff memorandum specifically mentions Beijing's "Made in China 2025" report, released in 2015, which is a blueprint for making China a world leader in a number of technology areas, including robotics, semiconductors and electric vehicles.

The proposed tariffs are meant to blunt that activity, although some high-tech analysts noted that some big ticket electronics were exempted, including personal computers, laptops and much telecommunications equipment.

Among the products that USTR proposed to be hit with levies are aircraft engines, industrial robots, some semiconductor production equipment, and electric vehicles.

However, some observers said their impact, at least at first, is likely to limited. Tariffs on $50 billion to $60 billion of goods would "not be a massive macroeconomic shock," said Chad Bown , senior fellow at the Peterson Institute for International Economics , but "the bigger worry is we don't have any sense for where this ends," especially if China retaliates in a similar fashion, he said.

A trade war, though, is hardly inevitable. The U.S. has at least 180 days after the comment period to decide whether to impose any tariffs, giving plenty of time for negotiations. Chinese economic envoy Liu He recently exchanged letters with Mr. Lighthizer and U.S. Treasury Secretary Steven Mnuchin over increased opening of the Chinese market, and the two sides are believed to be discussing a cut in Chinese tariffs on imported cars and opening Beijing's **financial market** to U.S. firms.

Chinese regulators are working toward giving foreign firms majority control of Chinese securities firms as soon as June, according to people familiar with the matter, in a follow-through on a financial-opening plan announced in November. China has also discussed buying semiconductors from U.S. companies rather than Japanese or South Korean ones.

Mr. Mnuchin is also weighing a trip to Beijing to talk with Mr. Liu, although there are divisions in the U.S. government as to whether that would be showing weakness at a time when the U.S. wants to amp up pressure on China.

One place the U.S. will be searching for clues about Chinese intent: Chinese leader Xi Jinping will speak next week at Boao Forum , an annual gathering of world political and business leaders on the southern Chinese island of Hainan. Mr. Xi is expected to reaffirm Beijing's commitment to economic liberalization and announce more market-opening measures, Chinese officials say.

Some senior Chinese officials, in talks with some U.S. visitors, have said they feel confident that they could prevail in a trade war with the U.S. and ascribe much of the U.S. action to Mr. Trump's need to show toughness before the mid-term elections.

Tao Wang, chief China economist at UBS, says China's economy could be damaged notably if tariffs are imposed. A 10% U.S. tariff on all Chinese exports to the U.S. will lead to a two-percentage-point drop in China's total export growth, which then would cause a 0.3-to-0.4-percentage-point decline in China's GDP, which grew 6.9% in 2017, she says. In the past year, strong foreign demand has helped China keep growth on track as the country continues to battle with debts and industrial overcapacity.

Adam Slater, lead economist for Oxford Economics, said that tariffs on China goods could easily ripple through U.S. corporate supply chains and have results that are difficult to predict.

"An escalation of U.S. tariffs into major import products like telecoms, electronics, would have large negative spillover effects for other Asian economies," Mr. Slater said.

William Mauldin in Washington contributed to this article.

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THE WALL STREET JOURNAL.

Markets

Trade Tensions Weigh on Crude Prices; U.S.-China concerns outweigh report showing a larger-than-expected drop in U.S. oil inventories

By Alison Sider and Christopher Alessi
626 words
4 April 2018
03:29 PM
The Wall Street Journal Online
WSJO
English

Oil prices climbed back from more than two-week-lows during trading Wednesday, but still ended the day down despite an unexpected drop in U.S. oil inventories as trade fears rattled markets.

U.S. crude futures settled down 14 cents, or 0.22%, at $63.37 a barrel on the New York Mercantile Exchange, bouncing back after trading as low as $62.08 in earlier trading. Brent, the global benchmark, fell 10 cents, or 0.15%, to $68.02 a barrel on ICE Futures Europe.

Oil prices fell sharply in earlier trading, following stock indices as they tumbled in response to China's announcement early Wednesday of 25% tariffs on critical American exports, including soybeans, airplanes and automobiles. The retaliatory measures came a day after the Trump administration threatened stiff new tariffs on some $50 billion Chinese imports across 1,300 categories of products. The U.S. earlier this year imposed tariffs on Chinese steel and aluminum imports.

"Crude prices are down today amid broader economic concerns, with the prospect of an escalating trade war between the U.S. and China threatening an extended stretch of global economic growth," Schneider Electric analysts wrote in a research note Wednesday.

Stock indices rose to gains later in the day as investors bet that the two countries will ultimately reach a compromise.

Oil prices began to pare losses after the U.S. Energy Information Administration reported Wednesday that oil stockpiles fell by 4.6 million barrels last week—the biggest weekly decline since January. The drop was more than the 3.3 million-barrel decline expected by the American Petroleum Institute. Analysts surveyed by The Wall Street Journal expected on average that crude stocks increased by 1 million barrels in the week ended March 30.

"This market would be much higher if it wasn't for the fear factor," said Peter Cardillo, chief market economist at First Standard Financial. "Unless the trade war expands, we're looking at near $70 WTI sometime this quarter."

But other analysts weighed whether the escalating tensions with China could eventually spread to the oil market. U.S. crude exports surged to an all-time high of 2.175 million barrels a day last week, and China has become the second largest buyer of U.S. crude.

The tariffs China announced Wednesday included some energy commodities like propane and certain petrochemicals. Some analysts said that could be a sign that crude oil isn't off limits if the row continues to worsen.

"The inclusion of propane and petchem products escalates fears, in our view, and opens the possibility for other energy commodities to be included as 'trade war' pieces," Cowen & Co. analysts wrote in a research note Wednesday. "As such, energy is likely to be exposed to broader negative sentiment following China's announcement."

There were also **bearish** elements in the data released Wednesday. Oil stockpiles at the Cushing, Okla., delivery hub rose by 3.7 million barrels. And U.S. oil production continued to surge, rising by 27,000 barrels a day to 10.46 million barrels a day.

Gasoline stockpiles fell by 1.1 million barrels—less than the 1.9 million barrel decline that analysts were expecting. Diesel stockpiles rose by 500,000 barrels, compared with expectations of a 1.3 million barrel draw.

Gasoline futures rose 0.27 cent, or 0.14%, to $1.9768 a gallon. Diesel futures 1.77 cents, or 0.89%, to $1.9773 a gallon.

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THE WALL STREET JOURNAL.

U.S. Markets
Markets

Stocks Rebound Sharply After Initial Tumble; Dow industrials gain 1% after falling as much as 510 points in the opening minutes

By Amrith Ramkumar and David Hodari
890 words
4 April 2018
05:10 PM
The Wall Street Journal Online
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English

Major stock indexes recovered early losses and closed sharply higher Wednesday, as investors bet the recent trade disruptions between the U.S. and China are negotiating tactics and the countries will ultimately reach a compromise.

Shares of manufacturers and machinery companies initially came under pressure after China unveiled plans for a series of retaliatory tariffs on American goods. But stocks erased those declines in afternoon trading, as some analysts said knee-jerk selling on worries that protectionist trade policies could slow global economic growth might have been overdone.

Trading was **volatile** again, with the **Dow Jones Industrial Average** swinging in a 741-point range. The **S&P 500** logged a move of at least 1% for the eighth time in the past nine sessions, posting consecutive gains for the first time in nearly a month. Ten of the index's 11 sectors closed higher.

Despite initial unease that trade policies could result in higher costs for manufacturers of everything from computer chips to smartphones, some investors said the tariff announcements seem more like negotiating tactics.

"When people think about it a little bit more, they think it's not done yet, it's not played out and it's only affecting a small part of the economy," said Thomas Martin, senior portfolio manager at Atlanta-based Globalt Investments. "You do have a lot of skittishness in the market, and people wanting to be on top if there is a change."

The Dow industrials added 230.94 points, or 1%, to 24264.30, after dropping as much as 510 points in the opening minutes of trading. The **S&P 500** climbed 30.24 points, or 1.2%, to 2644.69. Both indexes remain more than 7.5% below their January records and in negative territory for 2018. The **Nasdaq Composite** gained 100.83 points, or 1.5%, to 7042.11.

China's tariffs would place 25% duties on major U.S. exports to China including airplanes, autos and soybeans, covering 106 categories of products and affecting $50 billion of goods. The announcement came shortly after the Trump administration unveiled plans to impose tariffs of 25% on Chinese products worth $50 billion in addition to the levies introduced on steel and aluminum last month. Retaliatory Chinese levies on U.S. pork and fruit went into effect earlier this week.

Aerospace giant Boeing was among the biggest decliners Wednesday, falling $3.38, or 1%, to $327.44. Tractor seller Deere dropped 4.47, or 2.9%, to 148.57.

Recent trade worries have come as unease over stricter regulation and data privacy have dragged down highflying technology and internet stocks that led the market higher in recent months.

Facebook shares fell 1.01, or 0.7%, to 155.10 after lawmakers said founder and Chief Executive Mark Zuckerberg will appear at a House Committee hearing to answer questions on the firm's handling of user data on April 11. The social-media firm also said the Facebook information of up to 87 million people, more than initially reported, may have been improperly shared with an analytics firm tied to President Donald Trump's 2016 campaign.

Some investors think the high concentration of market gains in a few stocks could lead to further **volatility**. Microsoft, Nvidia and the so-called FAANG stocks of Facebook, Amazon.com, Apple, Netflix and Google parent

Alphabet are responsible for roughly half the market's gains since the 2013 "taper tantrum," said Barry Bannister, head of institutional equity strategy at Stifel Nicolaus.

"That's a pretty narrow market," he said. "We're seeing several things come together at one time. It's not just trade tensions."

Widespread selling of big technology and internet stocks moderated Wednesday, with the **S&P 500** information technology sector adding 1.4%.

Some investors are looking ahead to the first-quarter earnings season, which begins in earnest next week. Some think robust profit growth can give stocks a boost moving forward.

Home builder Lennar and auto retailer CarMax were among the best performers in the **S&P 500** Wednesday after reporting earnings.

The threat of higher interest rates around the world has also hung over global markets during the recent bout of **volatility**. Investors are awaiting Friday's jobs report for the latest reading on the U.S. economy and clues about whether the Federal Reserve will raise short-term borrowing costs two or three more times this year. The yield on the benchmark 10-year U.S. Treasury note edged up to 2.788% from 2.784% Tuesday. Yields rise as **bond prices** fall.

Elsewhere, the Stoxx Europe 600 fell 0.5%, while Hong Kong's Hang Seng declined 2.2%.

Chinese markets, which closed before the news out of Beijing, appeared unfazed by Washington's announcement late Tuesday. Shanghai's composite index ticked down 0.2%.

Kenan Machado, Liyan Qi and Lingling Wei contributed to this article.

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THE WALL STREET JOURNAL.

Markets

Wall Street's Trading Desks Are Making a Comeback; Analysts project a bump in first-quarter revenue as volatility returns, but results are still short of earlier peaks

By Telis Demos
803 words
4 April 2018
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The Wall Street Journal Online
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English

Following wild price swings for markets in the first quarter, Wall Street's trading desks are poised to report one of their best three-month periods in years.

While no one is expecting a new peak in trading like the ones that occurred in 2009 and shortly before the financial crisis, the trading desks of the biggest U.S. banks are expected report revenue as much as 5% higher than a year ago, say analysts at Credit Suisse. Analysts at Jefferies are a bit more optimistic, saying that trading results, which sometimes make or break a quarter for some the largest U.S. lenders, could rise in the high single digits.

That would be welcome news to Wall Street and bank investors, especially since the first quarter of 2017 was itself a relatively strong trading period in the wake of the U.S. presidential election. Another boost could put the five biggest U.S. banks in line for possibly their biggest trading quarter since the beginning of 2015.

Still, the three-month bump is relatively small in the context of the surging **volatility** earlier this year. The trading business more broadly has shrunk since its heyday, pressured by a decline in active investment, an increase in low-cost electronic trading and a scaling back of proprietary trading. For the five biggest Wall Street banks, trading revenues were only about $70 billion last year, down from nearly $100 billion in 2009.

This quarter, busy, fast-moving markets encouraged some investors to buy or sell to protect their portfolios or take advantage of new opportunities. Easing regulations on banks may also give them more flexibility to make trades.

Stock-trading desks in particular are expected to report strong results, up more than 10% at the biggest firms, analysts at Goldman Sachs estimate.

Revenue at larger fixed-income desks is also expected to grow from last year, though with more muted gains. Upticks in currency and interest-rate trading may be counterbalanced by a decline in trading on corporate credit, the consequence of a decline in underwriting of new loans and bonds.

A solid gain in trading revenue would reverse a slump in that business toward the end of last year, and help banks combat anticipated pressures on their consumer banking and corporate banking businesses.

Banks need the boost. Investors have been cooling on shares of lenders after pushing them sharply higher in 2017. The KBW **Nasdaq** Bank index is down 0.74% so far in 2018, following a 16% gain in the benchmark last year.

Steadily rising interest rates, a result of the Federal Reserve dialing back its quantitative easing program, will challenge banks as depositors demand bigger payouts and corporations raise less new debt. But rising rates may also provide a lift to trading, as changing rates cause stock and **bond prices** to gyrate more frequently.

"We've obviously had a pickup in revenues from a very depressed fourth quarter," Morgan Stanley President Colm Kelleher told analysts in late March. "The withdrawal from [quantitative easing] is long-term good for the market and for investors. The pickup in [**volatility**] is long-term good."

That dynamic justifies banks' faith in their trading units over several difficult years, when placid markets challenged revenue. That led some investors to question whether the big banks would be better off dialing back their risky and complex Wall Street operations and focusing more on traditional lending.

JPMorgan Chase & Co. and Citigroup Inc., which have the two biggest trading units by revenue, have said they expect trading revenue to be up by "single digits" from a year ago. Goldman is also expected to benefit from a comparison to its poor showing a year ago, when first-quarter trading revenue dropped due in part to a stumble on its commodities desk.

Still, banks caution that they won't be immune to some of the same pressures that have caused their revenue to shrink in recent years. A big factor was a shift toward passive index investing. That means investors are looking for broad, low-cost plays on rising markets, not looking to banks' desks to help them put on expensive, complex trades.

John Gerspach, Citigroup's chief financial officer, told analysts in early March that when markets "become particularly erratic…we've had some of our investor clients move to the sidelines."

Write to Telis Demos at telis.demos@wsj.com

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The New York Times

Op-Ed Columnist
Opinion

Trade Wars, Stranded Assets, and the Stock Market (Wonkish)

By Paul Krugman
1,264 words
4 April 2018
09:49 AM
NYTimes.com Feed
NYTFEED
English

As I write this, China's announcement of a new round of tit-for-tat tariffs has stoked fears of trade war and sent stock futures plunging. If this morning's futures hold, the **S&P 500** will be about 10.5 percent off its January peak, around 6 percent off its level when Gary Cohn, the last of the Trump "globalists," was pushed out.

My question is, why such a large fall?

One good answer is, that's a stupid question. The three rules you need to bear in mind when discussing the **stock market** are (1) the **stock market** is not the economy (2) the **stock market** is not the economy (3) the **stock market** is not the economy. And stocks move for all sorts of reasons, or no visible reason at all. As Paul Samuelson famously quipped, the market has forecast nine of the last five recessions.

Another answer is that the trade war is a signal: Trump, Navarro et al are showing that they really are as unhinged and irresponsible as they seem, and markets are taking notice. Imagine how these people would handle a financial crisis.

Still, I think it's worth noting that even if we are headed for a full-scale trade war, conventional estimates of the costs of such a war don't come anywhere near to 10 percent of GDP, or even 6 percent. In fact, it's one of the dirty little secrets of international economics that standard estimates of the cost of protectionism, while not trivial, aren't usually earthshaking either.

Yet there is a reason why stock prices might overshoot the overall economic costs of a trade war. For a trade war that "deglobalized" the U.S. economy would require a big reallocation of resources, including capital. Yet you go to trade war with the capital you have, not the capital you're eventually going to want – and stocks are claims on the capital we have now, not the capital we'll need if America goes all in on Trumponomics.

Or to put it another way, a trade war would produce a lot of stranded assets.

First, about the costs of trade war. This is the wonkish part, so feel free to skim and don't worry if it seems incomprehensible, as long as you're willing to accept the bottom line for the sake of argument.

The costs of protectionism, according to conventional economic theory, are not that tariffs caused the Great Depression, or anything like that. They come, instead, from moving your economy away from things you're relatively good at to things you aren't. American workers could sew clothes together, instead of importing apparel from Bangladesh; in fact, we'd surely produce more pajamas per person-hour than the Bangladeshis do. But our productivity advantage is much bigger in other things, so there's an efficiency gain – for both economies – in having us concentrate on the things we do best.

And a trade war, by imposing artificial costs such as tariffs on international trade, undoes that productive specialization, making everyone less efficient.

We can, with some heroic assumptions, put numbers to the kind of costs involved. Strictly speaking, we should do this using "general equilibrium" – modeling the economy as a whole. But another dirty little secret of international economics – much littler than the previous one – is that you get pretty close with "partial equilibrium" – just treating the market for imports as if it were the market for a single product that's a small part of the economy.

In the figure, the downward-sloping line is the demand for imports as a function of their price, measured relative to the price of domestic goods. Under free trade, we import anything that costs less to produce abroad than at home. If we impose a tariff, we end up not importing stuff unless the price of the import is sufficiently low that it's cheaper even including the tariff. The marginal good we import, then, is actually much cheaper than a domestic product, and the marginal good we don't import costs the economy a lot – specifically, the tariff that we would have paid if we did import it.

If you imagine raising the tariff step by step, then, at each step we are imposing costs on the economy equal to the extra cost of the domestic product that replaces an import. The total costs of the tariff are represented by the area of the triangle: the reduction in imports caused by the tariff, multiplied by (roughly) half the tariff rate.

(Somebody is going to ask, what about exports? They're implicitly included in this estimate. Trust me.)

So, what would a trade war do? Suppose the US were to impose a 30 percent tariff across the board, with other countries retaliating in kind so that there's no improvement in the U.S. terms of trade (more technical stuff I don't want to get into.) How much would this reduce trade? It depends on the elasticity of import demand; a reasonable number seems to be around 4. This would mean a fall in imports from 15 percent of GDP to around 5 percent – a 10-point reduction. And that in turn means a reduction in US real income of around 1.5 percent.

Obviously this is just an illustrative calculation; I've tried to use reasonable-ish numbers, but you don't want to make too much of it. What it does suggest, however, is that even a trade war that drastically rolled back globalization wouldn't impose costs on the economy comparable to the kinds of movement we've seen in stock prices.

But the costs to the economy as a whole might not be a good indicator of the costs to existing corporate assets.

Since about 1990 corporate America has bet heavily on hyperglobalization – on the continuance of an open-market regime that has encouraged complex value chains that sprawl across borders. The notebook on which I'm writing this was designed in California, but probably assembled in China, with many of the components coming from South Korea and Japan. Apple could produce it entirely in North America, and probably would in the face of 30 percent tariffs. But the factories it would take to do that don't (yet) exist.

Meanwhile, the factories that do exist were built to serve globalized production – and many of them would be marginalized, maybe even made worthless, by tariffs that broke up those global value chains. That is, they would become stranded assets. Call it the anti-China shock.

Of course, it wouldn't just be factories left stranded by a trade war. A lot of people would be stranded too. The point of the famous "China shock" paper by Autor et al wasn't that rapid trade growth made America as a whole poorer, it was that rapid changes in the location of production displaced a significant number of workers, creating personal hardship and hurting their communities. The irony is that an anti-China shock would do exactly the same thing. And I, at least, care more about the impact on workers than the impact on capital.

Still, my original question was why stocks are dropping so much more than the likely costs of trade war to the economy. And one answer, I'd suggest, is disruption – which business leaders love to celebrate in their rhetoric, but hate when it happens to them.

Figure 1

Document NYTFEED020180404ee44003bj

THE WALL STREET JOURNAL.
U.S. EDITION

Prices of Technology Bonds Signal Stability

By Sam Goldfarb
725 words
4 April 2018
The Wall Street Journal
J
B15
English

Bonds from big technology companies have held up better than their stocks in recent weeks, a sign that investors are more concerned about the valuations of tech giants than the companies' long-term financial health.

The prices of bonds backed by firms such as Google parent Alphabet Inc. have fallen modestly recently as their stocks have tumbled. Yet bonds from other sectors have fallen more, dragged down in large part by rising interest rates.

Since reaching a nearly 13-year low of 0.71 percentage point on Feb. 2, the extra yield, or spread, that investors demand to hold investment-grade tech bonds over Treasurys has increased 0.18 percentage point, according to Bloomberg Barclays data. Over the same period, the average spread of all investment-grade U.S. corporate bonds has increased a larger amount: 0.25 percentage point to 1.10 percentage points.

By contrast, the **S&P 500** information-technology sector, even after rising 1% Tuesday, has fallen roughly 4.7% over the past month, exceeding the 2.9% decline of the overall **S&P 500**.

A variety of developments have hurt the shares of tech-focused companies recently, from worries about Facebook Inc.'s handling of users' data to President Donald Trump's critical tweets about Amazon.com Inc. Electric-car maker Tesla Inc. has shed value amid scrutiny of its driverless-car technology and worries about its ability to fund its growth with capital raises.

Some investors and analysts said shares of those companies were due for a course correction after months of gains that helped power major indexes to records early in the year. Many remain optimistic that stock prices could bounce back, or at least stabilize, once companies report first-quarter earnings.

Even though their prices have fallen recently, bonds from tech companies, like corporate bonds more broadly, have rarely offered lower yields, reflecting a backdrop of solid economic growth, still-accommodative monetary policies, and a low corporate default rate.

One reason why tech bonds have outperformed the broader bond market in recent weeks is that they tend to have relatively high credit ratings, analysts say.

For all of the negative headlines, tech bonds still are a "pretty good safe haven," said Jordan Chalfin, a senior analyst at research firm CreditSights.

"There's a lot of headline risk, mostly regulatory, that I think could have implications for the upside on equities, but I don't think anyone is questioning the sustainability of these businesses," he said.

The strength of the technology sector is evident in specific bonds. For example, Alphabet's 1.998% notes that mature in 2026 traded Tuesday at 90.793 cents on the dollar, down from roughly 94 cents at the start of the year, according to MarketAxess. The bonds, however, are only trading that far below par because they were issued in the summer of 2016, when Treasury yields were hovering around record lows. Since then, prices have fallen as yields rose along with those of Treasurys.

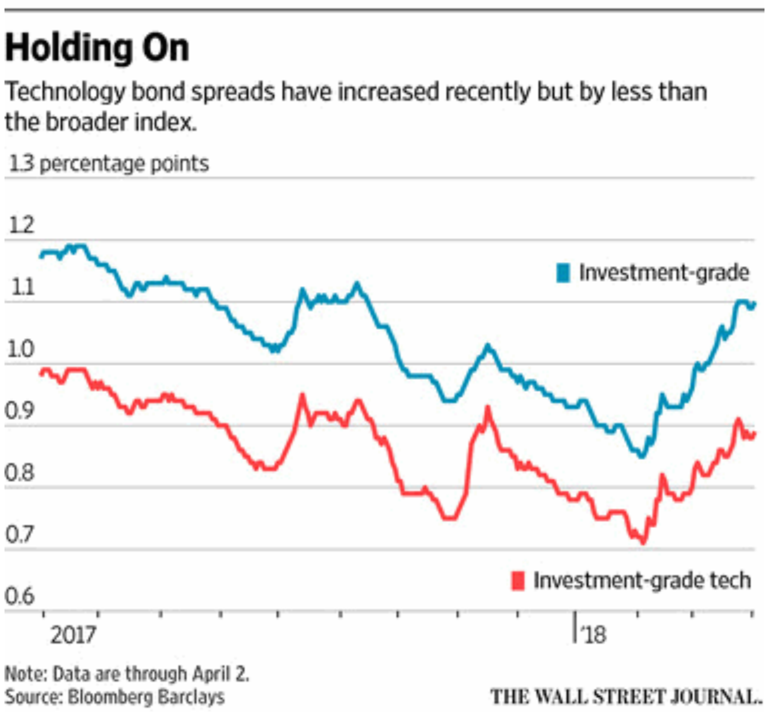
Still, the bonds yield just 0.51 percentage point above the comparable Treasury note, up from 0.36 percentage point at the start of the year but below the 0.68-point spread at which they were issued.

Meanwhile, Tesla's bonds rebounded off lows Tuesday after the electric-car maker said that it had made progress building its first mass-market sedan.

Tesla's 5.3% senior unsecured notes that mature in 2025 traded Tuesday at 88.25 cents on the dollar, up from 87 cents on Monday.

In contrast to tech companies like Alphabet, analysts say Tesla could face near-term financing problems if its stock and debt falls too far because it has depended on the capital markets to fund operations as it burns through billions of dollars of cash. Tesla's shares have fallen roughly 14% this year, compared with the **S&P 500**'s 2.2% decline.

Still, even before they edged up Tuesday, Tesla's bonds weren't trading at levels that suggested investors weren't anticipating a crisis. At current prices, the 5.3% bonds yield about 7.4%, according to MarketAxess. That is just a little above the average 6.2% yield of all junk-rated bonds, according to Bloomberg Barclays data.



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THE WALL STREET JOURNAL.
U.S. EDITION

Stocks in Line to Get an Earnings Lift --- First-quarter surge in companies' profits is forecast, helped by tax cuts, the economy

By Ben Eisen and Akane Otani
789 words
4 April 2018
The Wall Street Journal
J
B16
English

Corporate profitability is expected to have accelerated again during the first three months of the year, offering investors some reason for optimism after a punishing stretch in **financial markets**.

Boosted by a recent corporate-tax overhaul and a strengthening global economy, **S&P 500** firms are forecast to report profit growth of 17% in the first quarter of 2018 from a year earlier, according to reported results and analysts' forecasts compiled by FactSet.

If that holds up when earnings season kicks off in earnest late next week, it would mark another strong period of earnings in a lengthy string of robust quarters.

Those estimates reflect an upward revision of 5.4% throughout the latest quarter, a record move higher as analysts lifted their earnings targets on individual firms due partly to the effects of a drop in the corporate-tax rate. In most instances, quarterly expectations start high and are revised down throughout the quarter by an average of 5.5% over the past decade, according to FactSet.

A strong earnings season could reinforce the underpinnings of the nine-year **bull market** in U.S. stocks. Share prices have tumbled in recent weeks, with the **S&P 500 index** down 9% from its Jan. 26 peak, stoking fears that the rally's best days are behind it. Investors recently have fretted about a wide range of uncertainties, from worries about a trade war to heightened scrutiny of technology giants.

But throughout the turbulence, earnings have held up.

"The earnings season should be very strong," said Karyn Cavanaugh, senior market strategist at Voya Investment Management. "We're in that period in between earnings season where investors are getting a bit skittish, but the backdrop is positive for stocks."

Some sectors where share prices have trailed recently are expected to have some of the most robust profit growth. Energy companies are forecast to have 79% earnings growth. **S&P 500** technology companies are expected to have grown profits by 22%, with Facebook Inc., Apple Inc. and Netflix Inc. showing a bigger rise.

The recent tax-code overhaul is expected to boost profits across the board. But even when removing the benefit of the lower corporate-tax rates, **S&P 500** companies are expected to post double-digit earnings growth, according to Credit Suisse.

A solid economic backdrop has helped. The U.S. is expected to have grown at an annualized pace of 2.8% in the first quarter, according to the Federal Reserve Bank of Atlanta's real-time gross-domestic-product tracker. Reflecting higher demand for goods and services, **S&P 500** sales are expected to have grown 7.3%.

One difference between the coming earnings season and those in the recent past is that stocks now trade at lower valuations. That means they may gain more if earnings turn out better than expected.

That would be a shift from recent quarters. Though the vast majority of companies beat expectations in the previous earnings season, shares of forecast-topping companies fell 0.2% on average from two days before the report to two days after, according to FactSet. During the five years through the end of 2017, those stocks rose 1.2% on average.

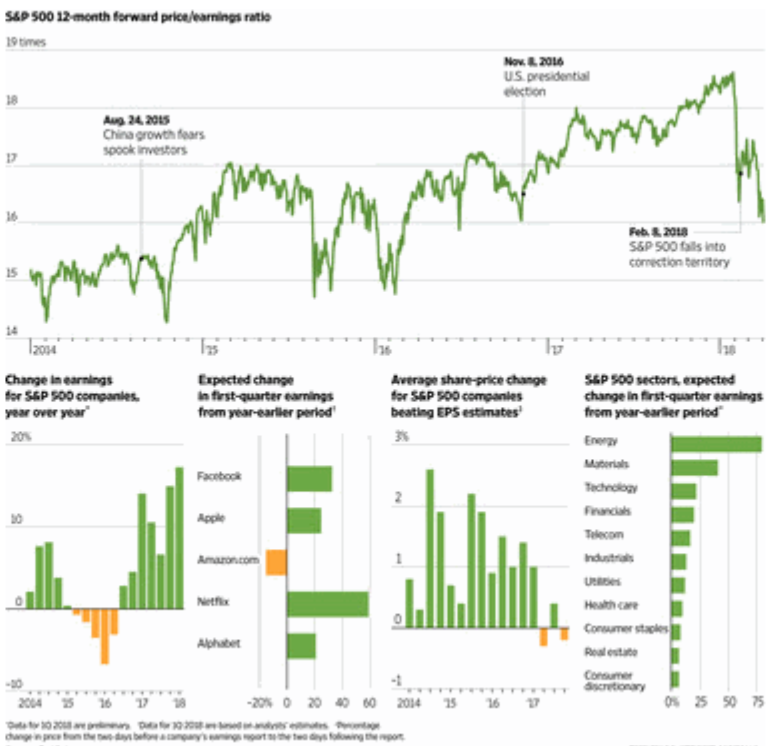
Stock prices didn't react positively to strong earnings partly because they already traded at lofty valuations, analysts say. But with the S&P 500 off its record, the index trades at just about 16 times expected earnings over the next 12 months. That is the lowest since June 2016, down from a peak of 18.6 in late January.

"Given the market's recent pullback and surging profits, the S&P 500 has become substantially less expensive," said Jonathan Golub, chief U.S. equity strategist at Credit Suisse, in a research note.

Even so, some investors worry that good earnings won't be enough. U.S. stocks stumbled in the first three months of 2018, with the S&P 500 ending the quarter in negative territory for the first time since 2015. That was even as companies posted fourth-quarter results growing at the fastest pace since the second half of 2011.

Still, some believe the market's underwhelming response to the fourth-quarter earnings season was partially a function of stocks' roller-coaster start to the year, before they gave up those gains in February.

"We don't have the bravado sentiment that we did back when earnings started kicking in," and that should help stocks stabilize as earnings season begins in earnest, Voya's Ms. Cavanaugh said.



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THE WALL STREET JOURNAL.

World

The 10-Point. A personal, guided tour to the best scoops and stories every day in The Wall Street Journal, from Editor in Chief Gerard Baker.

By Gerard Baker
1,351 words
4 April 2018
06:50 AM
The Wall Street Journal Online
WSJO
English

Good morning,

Stream This

Spotify roared into the public market, ending its first day of trading among the 10 biggest tech IPOs to date and enticing investors to believe in the company—and perhaps its method of coming to market—as the future of the industry. The stock opened at $165.90 but slid to close at $149.01, giving the music-streaming giant a market value of $26.54 billion. Still, the stock closed well above its highest private-market trading levels and its reference price, marking a win for shareholders and a reinvigoration of the IPO market as Spotify pulled off an unusual "direct listing" process. The first day of trading wasn't as **volatile** as some observers had anticipated, although Spotify's **stock price** swung more than those of other big tech companies that took a conventional approach to going public. Its showing may serve as bait for other big-brand tech startups, writes the Journal's Stephen Wilmot. The high share price Spotify has achieved in its debut, even with a bare minimum of contact with potential investors, assures it a place in the history books, he says. The founders of companies such as Airbnb and Pinterest could be tempted to follow the same path, while IPO bankers may need to rethink their own business model.

Strategic Shift

President Trump said Tuesday that he would send troops to guard the U.S.-Mexico border and that he wanted to bring troops home from Syria—two departures from conventional conservative wisdom that align closely with his America-first approach. The former marked an escalation of his campaign against illegal immigration as he continued to vent frustration over what he sees as lax U.S. law and a porous southern border. The previous two administrations deployed National Guard and active-duty troops to the border, but sending active-duty forces may present legal challenges, depending on how their mission is described. Among the questions is whether funding such a plan would require congressional approval. On Syria, Mr. Trump took a position at odds with many top advisers who worry that leaving the country too soon would cede ground to Iran, its proxies and extremist groups. There are currently about 2,000 U.S. troops there, advising and aiding local forces that have been fighting Islamic State. Along with his planned stiff tariffs on Chinese imports—which triggered a commensurate retaliatory response from Beijing overnight—these pronouncements are proof Mr. Trump has gone all-in on his nationalist approach, writes the Journal's Gerald F. Seib. Washington has moved into the era of Trump Unbound, Mr. Seib says, after periods during the president's first year in office when it appeared he actually was governing as a fairly conventional conservative Republican, unorthodox style aside.

Crack and Pack

Lawyers, accountants and businesses are seeking ways around proposals meant to pinch them stemming from the biggest U.S. tax overhaul in decades—as well as ways to extend the reach of new breaks. For owners of closely held businesses, that can mean splitting operations apart, reclassifying them and recategorizing their activities to get as much of their income taxed at the new low rates as possible. One strategy, which some have dubbed "crack and pack," splits one business into two in an attempt to get around a provision denying high-earning lawyers, doctors and other professionals a tax break available to plumbing contractors, restaurateurs and architects. Because of the speed of the tax overhaul's drafting, it contains more uncertainties than usual. Tax experts are searching for the least disruptive moves that business owners can make, while best qualifying for the new breaks. In other words, the private sector's old game of cat-and-mouse with the Internal Revenue Service and Congress is intensifying, and is likely to play out over years in regulations, audits, appeals and litigation.

A Sense of Touch

Virtual reality is getting an upgrade. Developers are harnessing haptic technology that uses force, vibration and motion to simulate the feel of a virtual object. A basic version—responsible for the pulsing feedback found in smartphones, fitness bands and videogame controllers—has been around for years. However, adding the sensation of touch to virtual reality has, until recently, been the stuff of science fiction. Some haptic gear can be currently found on the market—albeit a bit bulkier and less advanced than the versions featured in Steven Spielberg's "Ready Player One." Startups are making haptic gloves, jackets and other gear. Some of the companies hope to add temperature controls to the devices. One startup, HaptX, has raised more than $10 million from investors. Experts say haptic gear is likely to influence a variety of industries, including health care and interior design, while boosting demand for the headsets the devices support.

Today's Video

Five Ways to Shut Your Phone Up…for a While

Your phone is addictive on purpose, and it can be hard to ignore. The Journal's David Pierce has a few tricks and tips to pull yourself back into the real world.

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MARKETS

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Number of the Day

$50 billion

The value of Chinese imports the U.S. plans to hit with 25% tariffs, the most aggressive challenge to Beijing's trade practices in decades. The targeted products include medicines and medical equipment, machine tools and chemicals, and televisions, dishwashers and automobile parts.

Today's Question

Going back to our story above, what do you think of President Trump's plan to send troops to guard the U.S.-Mexico border? Send your comments, which we may edit before publication, to 10point@wsj.com. Please include your name and location.

—Compiled by Phil Nobile

Reader Response

Responding to yesterday's question on evaluating immigration judges by how quickly they close cases, Steven Weiss of Texas said: "In the private sector, we are all evaluated on our performance. The performance is based on minimum and stretch goals. The goals should take into account the complexity of cases seen but 800 cases is less than three per day. I cannot speak to the number, but certainly holding people accountable for production is a good thing." Linda Humphrey of Missouri replied: "The backlog could also be eliminated by hiring more temporary judges. This is what businesspeople do. We don't want to compromise quality or, in the case of immigration, people's quality of life." And Ken Larson of Virginia wrote: "I think many will be surprised having read that the judges have a labor union representing them. Does that go for traffic court judges, small claims judges, petty-theft judges? Swamp is too kind a word for what the bureaucratic state has done to our civil society. It's much more of a cesspool or septic field than swamp."

This daily briefing is named "The 10-Point" after the nickname conferred by the editors of The Wall Street Journal on the lead column of the legendary "What's News" digest of top stories. Technically, "10-point" referred to the size of the typeface. The type is smaller now but the name lives on.

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The New York Times

ECONOMIC SCENE
Business/Financial Desk; SECTB
When Corporate Giving Is More About Getting

By EDUARDO PORTER
1,272 words
4 April 2018
The New York Times
NYTF
Late Edition - Final
1
English

Corporate philanthropy, business leaders would have us believe, is the ringing voice of a company's social conscience. Exxon Mobil may stand accused of misleading investors and shareholders about what it knew about climate change, but the ExxonMobil Foundation's multimillion-dollar contributions to end deaths from malaria and to train women in developing countries should, executives hope, balance the ethical ledger.

The same goes for the Walmart Foundation's contributions to reduce carbon emissions in China and to protect wilderness areas in the United States, or the Dow Chemical Foundation's contribution to Habitat for Humanity. These companies might be ruthless in their lines of work -- fighting against environmental regulations or more stringent labor standards -- but their foundations are in it to do good to the world.

Not entirely, it appears. Just months before the midterm congressional elections, a group of economists have published an analysis of how corporate America is spreading its philanthropic wealth.

Sifting through the donations to charity from 1998 to 2015 by foundations set up by the largest companies in the United States -- those in the Fortune 500 or the **Standard & Poor's 500-stockindex** -- Marianne Bertrand of the University of Chicago's Booth School of Business; Matilde Bombardini and Francesco Trebbi of the University of British Columbia; and Raymond Fisman of Boston University detected a pattern of contributions to 1,087 charities linked to 451 members of Congress.

Turns out that the spending is a little more self-serving than companies would have us believe. Some of the charitable giving looks a lot like corporate lobbying. Because companies get a break for such giving, it amounts to political spending at taxpayers' expense. "Firms deploy their charitable foundations as a form of tax-exempt influence seeking," the researchers write.

Think of it like this: One way a company could please Senator Chuck Grassley, the Iowa Republican who leads the Judiciary Committee and is a member of the committees on finance, agriculture, the budget and taxation, would be to have a corporate political action committee donate directly to his campaign.

But there is another way, one that often slips below the radar of campaign-finance watchdogs. Why not donate to the Partnership for a Drug-Free Iowa, where the senator has been an honorary advisory board member?

A corporation could also give to the University of Northern Iowa Foundation, on whose board Mr. Grassley sat as a trustee. Over the period covered by the study, the foundations of AT&T, ConAgra Foods, General Electric, Goldman Sachs, Medtronic, Merck, Monsanto, Nationwide Insurance, Principal Financial Group and Rockwell Collins all contributed to one or the other.

Mr. Grassley's office, when asked about the corporate contributions to causes linked to the senator, said: "Senator Grassley receives many requests to support various nonprofit organizations. He lends his name to some, but declines most."

That companies might butter up legislators by donating to their pet charities is not new. In 2010, my colleague Eric Lipton documented the contributions to the Joe Baca Foundation and the James E. Clyburn Research and Scholarship Foundation, each affiliated with a Democratic member of Congress.

The researchers who conducted the new study don't claim that any specific charitable contribution was meant to manipulate the political process. But their work lays bare the extent to which corporate donations may respond to political, rather than charitable, motivations.

It is possible that when the Exelon Corporation donated $25,000 to Representative Joe Barton's effort to build a Boys and Girls Club in Texas in 2008, it did so because it believed in boys and girls, not because Mr. Barton was the top Republican member of the House Energy and Commerce Committee. Microsoft's donation to the Seattle Art Museum may have reflected the company's support for the arts, not its desire to please Representative Jim McDermott, who was on the museum's honorary committee. (Mr. McDermott, a Democrat, has since retired.)

The new research uncovers patterns in the aggregate data that suggest corporate donations are often dictated by recipients' political clout. For instance, a company foundation will donate more to charities in districts where the representatives have gained seats on a committee that is important to the company. And when the member of Congress leaves office, corporate donations to charities in his or her district will dip.

Corporations' philanthropy often flows to the same areas as their political action committee contributions: Charities in districts where companies favor a particular candidate tend to get more corporate donations.

A charity need not have been founded by a member of Congress to get corporate money. But it helps. A nonprofit is more than four times more likely to receive grants from a corporate foundation if a politician sits on its board. And corporate foundation grants are even more likely if the politician happens to sit on a committee being lobbied by the firm.

The authors of the study examined only a subset of corporate philanthropy, money flowing through corporate foundations that must disclose the recipients of their largess. But the research suggests that the impact of corporate contributions could be much bigger than even critics of campaign-finance practices realize.

The researchers estimate that over 7 percent of charitable donations by corporate foundations are intended to buy political leverage. Applied to $18 billion worth of corporate philanthropy in 2014, that would amount to $1.3 billion, almost four times as much as total political action committee contributions that year and 40 percent more than the corporations' lobbying expenditures.

There are a couple of lessons here. For those who favor campaign-finance reform, perhaps the most urgent message is that there are many doors that corporate America can use to buy influence. But the research also highlights the way that companies interact with society.

Corporations are likely to tally their foundations' charity as a decided plus on the dashboard of corporate social responsibility. But politically motivated charitable giving meant to undercut regulations, promote a tax cut or otherwise gain a break could actually reduce total welfare.

As the researchers write, ''If corporations' good deeds (in the form of charitable contributions) cater to politicians' interests, who as a result put the interests of business ahead of those of voters, the overall welfare effects are ambiguous -- society benefits via increased charity, at the potentially high cost of distorting laws and regulation.''

None of this would happen, of course, if politicians weren't so hungry for corporate money. ''Companies wouldn't do this if it didn't pay off,'' Professor Bombardini told me. ''Politicians get good publicity by channeling funds that are valuable to the community. Whatever makes you look good, you want to take credit for it.''

But with a new wave of scandals engulfing some of the nation's corporate titans, it would behoove them to honestly assess the ultimate purpose of their charity.

Facebook doesn't have a corporate foundation. But its chief executive, Mark Zuckerberg, has pledged 99 percent of his Facebook shares to advance human potential and promote equality. Perhaps the pledge could include never deploying his company's financial might to steer the nation's political process for corporate gain.

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A Habitat for Humanity project in Texas. An analysis by economists shows how corporate America is spreading its philanthropic wealth. (PHOTOGRAPH BY RICARDO BRAZZIELL/AUSTIN AMERICAN-STATESMAN, VIA ASSOCIATED PRESS) (B1); Causes linked to Senator Chuck Grassley of Iowa have drawn donations from major corporations. (PHOTOGRAPH BY ERIN SCHAFF FOR THE NEW YORK TIMES) (B4)

Document NYTF000020180404ee440005g

The New York Times

Business/Financial Desk; SECTB
Bucking Calls for Diversity, the New York Fed Taps an Insider

By BEN CASSELMAN
1,534 words
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Late Edition - Final
2
English

The Federal Reserve Bank of New York on Tuesday named John C. Williams as its next president, choosing a longtime insider for what is widely regarded as one of the Fed's most influential positions.

Mr. Williams, the 55-year-old president of the San Francisco Fed, is a respected economist who will bring academic expertise that is in short supply among the Fed's senior leaders. But unions, progressive groups and Democratic lawmakers had pushed the Fed to diversify its senior leadership beyond Fed veterans and white men, and the selection drew immediate criticism.

Mr. Williams will succeed William C. Dudley, who announced last fall that he planned to step down this summer after nine years in the post. The appointment, which will take effect in June, was widely expected after news leaked late last month that Mr. Williams was a favorite for the job.

The position is unique among the Fed's top policy roles. While the Fed chairman and other members of the board of governors are appointed by the president and subject to Senate confirmation, regional Fed appointments are made outside the political process.

And unlike the 11 other regional Fed chiefs, New York's president has a permanent vote on the policymaking Open Market Committee and serves as the committee's vice chairman. The New York bank also plays a key role in carrying out monetary decisions and overseeing many of the country's largest financial institutions.

Senator Elizabeth Warren, Democrat of Massachusetts, issued a statement saying that given the importance of the job, the New York Fed should have solicited a wide set of views, but instead ''turned the process over to a handful of private individuals and ignored calls to choose one of many qualified alternatives who might have brought a new perspective.''

''If the Fed wants to regain some of its credibility around this decision,'' she added, ''it should have Mr. Williams and the co-chairs of the New York Fed search committee promptly testify before Congress.''

Those leading the search said they had indeed cast a wide net, and advocates for Mr. Williams argue he is well suited to the complex role. He has led the San Francisco bank for seven years and has spent virtually his entire career inside the Fed system. He is an influential expert on monetary policy who has worked closely with progressives -- including Janet L. Yellen, who before her term as Fed chairwoman was Mr. Williams's predecessor at the San Francisco Fed -- and with conservatives such as John B. Taylor, the Stanford economist.

''His work is rigorous and thoughtful, and he discusses it carefully, considers other views,'' said Mr. Taylor, who was Mr. Williams's thesis adviser in graduate school. Ms. Yellen also released a statement on Tuesday praising Mr. Williams's selection.

Mr. Williams would also bring a seasoned policymaking hand to a Fed that is short on them. Jerome H. Powell, the Fed's newly appointed chairman, has been at the Fed since 2012, but he is a lawyer by training and not -- unlike Ms. Yellen and most of her recent predecessors -- an economist. The Fed's vice chairmanship is vacant, and the candidate President Trump has been reported to favor, Richard Clarida, a Columbia University economist, has little policy experience. Three other positions on the seven-member board of governors are also vacant, and several regional bank presidents are new in their roles.

The relative inexperience at the top of the Fed made finding someone with practical experience a priority, two people close to the search process said. The search committee, these people said, wanted a candidate who understood the Fed's inner workings and who would protect the Fed's independence.

But Andrew Levin, a Dartmouth economist and former Fed staff member, said there are also risks to picking an insider. Fed officials failed to appreciate the risks posed by the housing bubble in the mid-2000s, for example, even as some outside voices tried to raise the alarm.

"The problem with picking a longtime Fed insider is it just amplifies the risk of groupthink," Mr. Levin said, "and I think groupthink has been proven to be a very serious threat at the Fed."

Mr. Williams also has less experience with **financial markets** than many past New York Fed chiefs. The bank's president and its staff are traditionally responsible for communicating Fed decisions to Wall Street, and for interpreting **financial markets**' reactions for Fed policymakers.

Mr. Williams was chosen by a search committee headed by two members of the bank's board: Sara Horowitz, founder of the Freelancers Union, a New York-based labor organization, and Glenn Hutchins, a private-equity investor and philanthropist. Under the Dodd-Frank financial reform law enacted after the financial crisis, board members who represent financial institutions regulated by the Fed are excluded from the appointment process.

Mr. Williams's appointment was also approved by the Fed's board of governors.

In a statement announcing the decision, Mr. Hutchins praised Mr. Williams as someone who has a rare mix of policy expertise and management experience and who "understands the plumbing of the financial system." In a call with reporters, Mr. Hutchins and Ms. Horowitz also cited Mr. Williams's record of community engagement in San Francisco and his progress in diversifying the bank's senior leadership.

Progressive groups seized on Mr. Dudley's retirement as a rare opportunity to influence an economic policy appointment that is outside Mr. Trump's control. Protesters marched on the bank's Lower Manhattan headquarters last month to demand a president who would represent working people.

In a statement Tuesday, the Fed Up campaign, a progressive group, criticized the New York Fed's board for "ignoring the demands of the public and choosing yet another white man whose record on Wall Street regulation and full employment raises serious questions." The group said the search process "calls into question whether the Federal Reserve can be trusted to act in the public interest."

Yet in one sense, the protesters got their wish. Unlike Mr. Dudley, who was chief economist for Goldman Sachs before he joined the Fed, Mr. Williams has never worked on Wall Street. And some of his positions have drawn cheers from progressives. He has, for example, pushed the central bank to consider a new approach to monetary policy that could lead the Fed to be more aggressive in fighting the next recession.

But Mr. Williams has also supported gradually raising interest rates to stave off inflation, an approach that progressive economists worry could prematurely choke off the economic recovery. And his regulatory record is also drawing scrutiny: He was president of the San Francisco Fed while Wells Fargo, which is based in San Francisco, engaged in aggressive sales practices that resulted in the opening of millions of accounts without customers' knowledge. (Regulatory policy is set in Washington, and Fed insiders say regional bank presidents play only a limited role overseeing banks in their districts.)

Perhaps the loudest criticism has focused on the fact that Mr. Williams, like every other person to lead the New York Fed in the bank's century of history, is a white man.

"The New York Fed has never been led by a woman or a person of color, and that needs to change," Senator Kirsten Gillibrand, Democrat of New York, said in a statement last week.

The search committee promised to consider a diverse pool of candidates, and the two leaders of the search said they had succeeded. Neither of the other two finalists for the job -- Raymond McGuire, an executive at Citigroup, and Mary J. Miller, a former Treasury official -- is a white man, and the search committee also interviewed other candidates who would have brought diversity to the Fed. One such candidate, Peter Blair Henry, who recently stepped down as dean of New York University's Stern School of Business, said that the search committee had pushed him to pursue the job, but that he had declined.

"I'm just one data point, but if the effort they put into trying to persuade me to be a candidate is any indication, then they took diversity pretty seriously," said Mr. Henry, who like Mr. McGuire is African-American.

But Sarah Binder, a George Washington University political scientist who has studied the Fed, questioned whether there were really so few qualified candidates who weren't white men. And she said that the closed-door nature of the process made it hard for the public to evaluate how the search committee had carried out its work.

''It's such an opaque and pretty byzantine process,'' Ms. Binder said. ''The fact that it is so cloistered from public view and really has very little if any public accountability for how that choice is made -- given the importance of the position, it's really quite glaring.''

Follow Ben Casselman on Twitter: @bencasselman.

John C. Williams, president of the Federal Reserve Bank of San Francisco, has been chosen to lead the New York Fed. (PHOTOGRAPH BY ANDREW MANGUM FOR THE NEW YORK TIMES)

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The New York Times

Business/Financial Desk; SECT
U.S. Stocks Rebound Slightly After Tech-Driven Slump

By JACK EWING and CARLOS TEJADA; Jack Ewing reported from Frankfurt, and Carlos Tejada from Hong Kong.
596 words
4 April 2018
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The New York Times on the Web
English

FRANKFURT -- Stocks in the United States were up slightly Tuesday morning after a tough day on Wall Street had sent the **Standard & Poor's 500-stockindex** down more than 10 percent from its recent peak.

Major global indexes followed Wall Street's cue, trading mostly down on Tuesday, though they were largely spared Monday's pain. European stocks were down less than 1 percent in midafternoon trading, and stocks in Asia finished the day mixed.

Investors around the world have recently been reacting to the same set of uncertainties, including growing concern over the prospect of a full-blown trade war between the United States and China.

The recent downswing came on the heels of an extended period of calm in the markets. They have risen over the past couple of years as the economies of the United States, Europe and China appeared to be humming along together at a healthy clip for the first time in years.

And the markets are still up more than 20 percent since November 2016, when Donald J. Trump won the presidency -- a roller-coaster ride driven in part by expectations about what his administration could bring to Washington.

But after such a long run-up, many investors have naturally begun to wonder how much longer the good times will last.

''We think the time has come to reassess the one-way bet on a continued and strengthening global economic expansion,'' Carl B. Weinberg, chief international economist at High Frequency Economics in White Plains, N.Y., said in a note to clients on Tuesday.

Monday's slump in the United States, however, had another driver that world markets did not: big-name technology companies.

Amazon, Facebook, Intel, Microsoft and Tesla were among the major contributors to Monday's stock slump on Wall Street. Amazon faces pressure from President Trump, while Facebook continues to grapple with privacy concerns and Tesla has been hit by a succession of negative headlines.

Tech shares were among the worst performers in other markets too, like China, Hong Kong and Japan, though the world's biggest technology companies primarily trade in the United States -- in part to reach global investors.

. Shares of Alibaba, a Chinese online retailer, joined the American tech rout on Monday, falling more than 3 percent, while shares of the Chinese search company Baidu fell more than 1 percent.

The woes of tech companies may even be positive for some European companies. Tesla's battery powered cars and self-driving technology were a threat to European luxury carmakers like BMW, Daimler and Volkswagen's Audi unit, which remain heavily invested in internal combustion engines.

But Tesla has had trouble ramping up production fast enough to meet demand, and its vehicles have suffered quality problems. On Tuesday, the company reported a significant increase in the production of its Model 3 sedans in the first quarter of 2018 compared with the previous quarter, though it failed to meet previously announced production targets. The company's difficulties have added credence to the argument that German carmakers have made all along: Mass producing cars is hard, and it will not be easy for new challengers to match the expertise of traditional carmakers.

Still, shares of German carmakers were mixed in European trading on Tuesday, as the likes of BMW, Daimler and Volkswagen depend heavily on sales in Asia and would suffer from any economic turmoil there.

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The New York Times

Business/Financial Desk; SECTB
Markets Jump Late, Making Up Some Ground Lost on Trade War Fears

By THE ASSOCIATED PRESS
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3
English

Banks, retailers, health care and energy companies climbed Tuesday as stocks in the United States regained much of what they lost in a steep drop a day earlier. Several big technology companies including Apple also recovered.

Banks rose as interest rates turned higher, and Ford and General Motors also jumped after saying their sales rose in March after a rough start to the year. Retailers like Foot Locker and consumer-focused companies including Netflix also climbed.

The market got off to a shaky start, wobbled for much of the day, then surged in the last hour of trading. The **Standard & Poor's 500**-**stockindex** rose 32.57 points, or 1.3 percent, to 2,614.45. It dropped 2.2 percent a day earlier.

The **Dow Jonesindustrial average** rose 389.17 points, or 1.6 percent, to 24,033.36. The **Nasdaq composite** climbed 71.16 points, or 1 percent, to 6,941.28.

Craig Holke, investment strategy analyst for the Wells Fargo Investment Institute, said the market will continue to bounce around as investors worry about changes in trade that could slow down the global economy and company profits. He noted that the United States has not entered a full-blown trade war since 1930, and trade relationships were much different back then.

''There was a lot less interconnectedness,'' he said. ''Every country was actually more insulated, produced more of their own goods at that time. It's really hard to get around that nowadays.''

Among individual stocks, CBS added 4.2 percent to $52.86 on reports it plans to make an offer to buy corporate sibling Viacom. The offer is reported to be for less than Viacom's current market value, and Viacom stock fell 3.7 percent to $29.42.

Music streaming company Spotify made its debut on the New York Stock Exchange on Tuesday. Instead of raising money through an initial public offering underwritten by an investment bank, Spotify Technologies took a more unusual route called a direct listing that lets investors sell the stock directly. It started trading at $165.90 a share, well above the previous high share price of $132.50 it reached in private deals. The stock wound up closing down 10.2 percent at $149.01.

It has been a rocky month for stocks as investors worried about changes to the North American Free Trade Agreement and tensions between the United States and China. Stocks plunged one day ago after China placed tariffs on a small number of exports, and investors fear that its response to a broader package of trade sanctions will be harsher. But Mr. Holke, of Wells Fargo, said it is likely the countries will find ways to resolve their differences on issues including complaints that Beijing steals or pressures foreign companies to hand over technology.

''If they can get China to remove this process of having this technology transfer in place for companies that do business in China, the tariffs might not even go into effect,'' he said.

The **Nasdaq**, which set its most recent record on March 12, is down 7.5 percent in just three weeks. Some of the market's woes stem from the fact that several of the largest technology companies have come under fire at the same time. Facebook is still deep in the fallout of an ever-widening privacy scandal, and if the government decides to regulate online consumer data in new ways, that also might affect Alphabet, Google's parent company, as well as smaller social media companies like Twitter and Snap.

Meanwhile Amazon, which is not officially classified as a technology company, has come under fire from President Trump, who has griped about the company's tax payments, deals with the United States Postal Service, and other issues. His statements have often diverged from the facts and he has also blamed Amazon for critical news coverage of his administration by The Washington Post, which is owned by Amazon founder and chief executive Jeff Bezos but is not part of Amazon.

Amazon spiked 1.5 percent to $1,392.05 after Bloomberg News reported that the White House is not talking about taking any steps against the company. Still, Piper Jaffray analyst Michael Olson said Mr. Trump is likely to continue periodically bashing the company for as long as he is in office, but steps like sales tax collection changes will not affect Amazon much.

Bond prices declined. The yield on the **10**-**year Treasury** note rose to 2.78 percent from 2.73 percent.

Gold slid $9.30 to $1,332.80 an ounce.

The dollar rose to 106.61 yen from 105.85 yen. The euro fell to $1.2262 from $1.2304.

A barrel of United States crude gained 50 cents to $63.51 in New York.

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

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

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THE WALL STREET JOURNAL.
U.S. EDITION

U.S. News: New York Fed Picks Insider for President --- Search committee chooses economist to aid new Fed Chairman Powell, a lawyer

By Nick Timiraos
616 words
4 April 2018
The Wall Street Journal
J
A2
English

The New York Fed's search for a new president began with an emphasis on attracting a diverse candidate pool. It ended focused on building out the leadership team for a new Federal Reserve chairman who isn't an economist.

The decision, announced Tuesday, will elevate a consummate central-bank insider, San Francisco Fed President John Williams, after officials concluded he would best complement Fed Chairman Jerome Powell during a challenging period for monetary policy.

Mr. Williams, an economist, will fill the second leg of the traditional Fed leadership troika that also includes the chairman and the vice chairman of the board, a position now empty.

Mr. Williams's research has shaped the central bank's monetary policy when interest rates and inflation are low, as they have been for most of the past decade.

"There is no one I can think of who has a deeper background and who has made more contributions to monetary policy at a research, academic level. That's combined with long experience and a very strong record of contributions to real decision-making through a complicated period," said former Fed Chairwoman Janet Yellen. Mr. Williams served as her research director when she led the San Francisco Fed.

A subset of the New York Fed's board of directors selects the president, subject to approval by the Fed's Washington-based board of governors, giving them influence in the process.

The New York search officials consulted throughout the process with Mr. Powell, who at the start was a governor and the board's point person on managing its relationships with the 12 reserve banks. He became Fed chairman in February. Mr. Powell, a lawyer whose background is in finance, is keen on having top lieutenants with extensive monetary-policy experience, people familiar with the matter said. The search committee ultimately shared this desire.

The search process began with about 100 candidates who on paper met the qualifications of the job, according to people familiar with the process. Officials invited 13 candidates to interview, of which two declined to proceed.

Some minority candidates contacted by the search committee weren't interested in being considered. Among them, former Fed Vice Chairman Roger Ferguson, an African-American, was widely viewed by insiders as the early favorite. Mr. Ferguson, chief executive of TIAA, declined to comment. Another was Peter Blair Henry, a black economist and former dean of New York University's Stern School of Business.

Along with fluency in economics and finance, officials placed significant attention on finding someone with strong communication skills and experience managing a sprawling organization. They had narrowed the field down by March to Mr. Williams and two candidates with more finance experience: Raymond McGuire, a banker at Citigroup Inc. who is African-American, and Mary Miller, a bond-market veteran and former Treasury Department official.

While Mr. Williams hasn't worked in **financial markets**, this didn't hurt his candidacy. The opposite was true: Some officials were wary of a political backlash if they named a banker to the top job of the New York Fed, which supervises some of the biggest financial firms. While many recent New York Fed leaders have had markets experience, that was often the case when Fed chiefs were economists.

The choice fueled disapproval from critics upset the focus on attracting a diverse candidate pool ultimately didn't yield a woman or member of a minority. Of the Fed's 12 reserve bank presidents, 10 are white and 10 are male.

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THE WALL STREET JOURNAL.
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U.S. Sets Sweeping Tariffs on China

By Bob Davis and Josh Zumbrun in Washington and Lingling Wei in Beijing
976 words
4 April 2018
The Wall Street Journal
J
A1
English

The Trump administration on Tuesday threatened to slap stiff tariffs on some $50 billion in Chinese imports across 1,300 categories of products, unveiling the most aggressive challenge in decades to Beijing's trade practices.

The imports targeted for 25% levies range from high value-added goods such as medicines and medical equipment to intermediate goods like machine tools and chemicals, according to a release by the U.S. Trade Representative.

The list also includes some consumer goods such as dishwashers, televisions and automobile parts, but doesn't include retail mainstays such as shoes, clothing, mobile phones and furniture -- products that might cause a U.S. consumer backlash should the tariffs push up prices at American retail outlets.

The move drew swift condemnation from Beijing.

"Such unilateralistic and protectionist action has gravely violated fundamental principles and values" of the World Trade Organization, the Chinese embassy in the U.S. said in a statement. It added that China will use the WTO dispute settlement process and "take corresponding measures of equal scale" against U.S. products.

None of the tariffs goes into effect immediately -- and may never be imposed if the two sides eventually agree on a deal to open China further to U.S. imports. Instead, U.S. companies have until May 22 to raise objections; a public hearing on the issue is scheduled for May 15 in Washington.

The latest round of tariff threats is in addition to the imposition recently of 25% tariffs on Chinese steel and 10% tariffs on aluminum. Japan also was hit with the steel and aluminum tariffs; most nations got temporary exemptions. On Sunday, China retaliated with its own levies on about $3 billion of U.S. agricultural goods in that dispute.

The Trump administration's moves represent a significant change in U.S. strategy for dealing with China.

Over the past three administrations, the U.S. has ushered China into the WTO, facilitating its ability to attract investment. Afterward, it negotiated painstaking agreements with Beijing to open up specific parts of the Chinese economy. U.S. officials and Chinese reformers felt such change would be in the interest of both nations.

Now, the administration sees such talks as having produced too little for the U.S. So instead, the U.S. is applying maximum pressure and pushing China to negotiate under the threat of heavy sanctions.

"The China experts don't have a good solution to get us out of this fix, apart from more high-level dialogues," said Warren Maruyama, a former Bush USTR general counsel, defending the administration's move. U.S. Trade Representative Robert Lighthizer "might as well take his shot," Mr. Maruyama said.

Last year, the U.S. ran a $375 billion merchandise goods trade deficit with China; President Donald Trump has said he wants that reduced by $100 billion. While U.S. stock markets rebounded Tuesday, they have been **volatile** for weeks in part because of fear the Trump administration policies might lead to a trade war between the world's two largest economies.

"We intend to get along with China, but we have to do something very substantial about the trade deficit," said Mr. Trump, speaking at the White House earlier on Tuesday. "I campaigned on that, I talked about that."

The USTR said the size of the punitive tariffs targeting the Chinese economy "is commensurate with an economic analysis of the harm caused by China's unreasonable technology transfer policies to the U.S. economy." Washington worries that Chinese cyberespionage and unfair government subsidization is helping China leapfrog technology and can eventually put the U.S. at a disadvantage both militarily and economically.

China denies it engages in unfair or illegal activities.

U.S. companies have grown increasingly concerned about Beijing using regulations and market pressure to force them into joint ventures with Chinese counterparts, which in turn lead to the transfer of important, competitive technology to their Chinese partners. They also worry, however, that tariffs on Chinese goods will make matters worse, driving up business costs and sparking retaliation from Beijing.

Behind the U.S. action is a growing concern that the Chinese are using industrial policy, government subsidies, theft and subterfuge to obtain U.S. technology. The U.S. tariff memorandum specifically mentions Beijing's "Made in China 2025" report, released in 2015, which is a blueprint for making China a world leader in a number of technology areas.

The proposed tariffs are meant to blunt that activity, although some high-tech analysts noted that some big ticket electronics were exempted, including personal computers, laptops and much telecommunications gear.

Among the products that USTR proposed to be hit with levies are aircraft engines, industrial robots, some semiconductor production equipment, and electric vehicles.

However, some observers said their impact, at least at first, is likely to limited.

Tariffs on $50 billion to $60 billion of goods would "not be a massive macroeconomic shock," said Chad Bown, senior fellow at the Peterson Institute for International Economics, but "the bigger worry is we don't have any sense for where this ends," especially if China retaliates in a similar fashion, he said.

A trade war, though, is hardly inevitable. The U.S. has at least 180 days after the comment period to decide whether to impose any tariffs, giving plenty of time for negotiations.

Chinese economic envoy Liu He recently exchanged letters with Mr. Lighthizer and U.S. Treasury Secretary Steven Mnuchin over increased opening of the Chinese market, and the two sides are believed to be discussing a cut in Chinese tariffs on imported cars and opening Beijing's **financial market** to the U.S. firms.

William Mauldin in Washington contributed to this article.

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THE WALL STREET JOURNAL.
U.S. EDITION

International Property Report: United Kingdom: Foreign Investors Flock to the U.K. --- Rental sector expands beyond small landlords as many opt to lease amid high home prices

By Shefali Anand
898 words
4 April 2018
The Wall Street Journal
J
B8
English

For decades, as some of the biggest names in U.S. real estate built empires of rental apartment buildings, the business in the U.K. mostly was limited to mom-and-pop landlords with no more than a few dozen units each.

Now, major global institutions are jumping into the game as U.K. living habits change and investors search for higher yields in an aging **bull market** in commercial real estate. Demand for rentals also is increasing as shortages of affordable housing become more acute in the U.K., matching markets in other parts of Europe and the U.S.

The number of professionally managed rental apartments in the U.K. increased to 19,000 at the end of 2017 from 4,000 in 2014, according to research from the British Property Federation, a real-estate industry association. An additional 86,000 such homes are either under construction or in planning, the federation said.

Institutional investors had spent $21 billion on these U.S.-style rentals as of 2016, according to Knight Frank LLP, a real-estate consulting firm. That number is expected to swell to about $100 billion by 2022, the firm said.

"We think there's a lot of pent-up demand," said Simon Harding-Roots, executive director, major projects, at property developer Grosvenor Britain & Ireland. "London desperately needs it."

Grosvenor's plans include a 1,350-home rental complex in Bermondsey, a neighborhood in southeast London, at a site that previously was home to a biscuit factory. With an initial investment of GBP 500 million ($702 million), the project will include a range of apartments, from studios to three-bedroom units.

Some foreign-capital sources have broken into the U.K. market by teaming up with domestic companies. In 2016, PGGM, a Dutch pension-fund service provider that manages $270 billion of assets, tied up with U.K. asset manager Legal & General Capital to initially invest GBP 600 million to build more than 3,000 units of U.K. rental housing.

Other foreign investors include Patrizia Immobilien AG of Germany. Also, a venture of international property company Lendlease Corp., based in Australia, and the Canada Pension Plan Investment Board announced a venture in January to build rental housing with an initial investment target of GBP 1.5 billion.

Not surprisingly, big participants in the U.S. apartment rental market are showing up, hoping to re-create their success. South Carolina-based Greystar Real Estate Partners, a major operator of rental apartments in the U.S., is building a 1,965-home site in west London, among other projects.

The U.K. is behind the U.S. in rental apartment development partly because the country has a high rate of homeownership. Moreover, builders in the U.K. historically have preferred to construct homes for sale, because they can reap returns much faster.

But after years of escalating prices, many are finding houses unaffordable.

The average home price in the U.K. rose 35% in the five-year period ended in January, while the average price rose about 55% in London during the period, according to data from the U.K.'s Land Registry.

More people in the U.K. are opting to rent as a lifestyle choice because they don't want to be tied down to one place. This gives investors the confidence that there will be long-term renters who won't be rushing to buy a home when they have more money.

"Now, everybody understands that this is actually a structural demand for purpose-built rental property," said James Muir, U.K. country head for Patrizia, which has invested GBP 625 million to build 2,200 rental homes in Ireland and the U.K., including in London, Manchester and Birmingham.

Some companies that previously built homes only for sale are now turning to rental construction. "We've switched because the for-sale market is increasingly out of reach for the majority of London's population," said Angus Dodd, chief executive officer of Quintain Ltd., a U.K. developer.

Quintain is building one of the largest rental-apartment complexes in the country, in Wembley Park, a district in the London region, with nearly 3,000 units under construction. The developer's change in strategy was partly driven by its largest shareholder, U.S. private-equity firm Lone Star Funds.

Quintain's rentals range from studios to three-bedroom apartments, and the buildings have shared living spaces including resident lounges and landscaped gardens. A typical two-bedroom apartment from Quintain rents for GBP 2,000 a month, according to the developer.

Still, the rental-apartment business isn't without its risks. Several developers have focused on building upscale apartments that need to charge high rents, and they run the possibility of missing the market.

"The real depth of the market is in the middle market," said Peter Wyatt, residential development partner at Knight Frank.

Government regulation, however, can be tricky. London, for example, has proposed that 35% of all new housing development be "affordable," meaning below-market prices, to qualify for a fast-track route through the planning process. Developers say this number is too high.

Document J000000020180404ee440000f

WSJ PRO VENTURE CAPITAL

Markets

Spotify's Splashy Debut Pressures Banks; Shares of the music-streaming service start with a flourish then steadily wear down, but they still finished above their trading price in the private markets

By Maureen Farrell and Alexander Osipovich in New York and Anne Steele in Los Angeles
1,304 words
3 April 2018
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WSJ Pro Venture Capital
RSTPROVC
English

Spotify Technology SA roared onto the public market Tuesday, cutting a new path to public ownership that could alter the way companies think about the listing process and pose a new threat to a core business on Wall Street.

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To go public, Spotify executed an unusual move called a direct listing, forgoing investment-banking underwriters and opting not to raise any money for itself. In the process, Spotify saved tens of millions of dollars in fees while still giving its employees and early investors the chance to cash out.

That a company so large was able to mark a win for its investors through such a listing could lead more firms to opt for that route. Dozens of venture-backed companies, flush with cash, remain on the sidelines as they haven't had to tap public markets, but may want to do so to allow employees or investors to cash out.

The New York Stock Exchange, which worked closely with Spotify over the past year to enable the unorthodox listing, received a number of inquiries from companies about the direct-listing process in the run-up to Spotify's debut, NYSE Group President Tom Farley said Tuesday.

"Now that the dust is settled, I'm looking forward to going back to those companies and finding out where their heads are at," he said in an interview on the NYSE's floor, soon after Spotify shares began trading. He described Spotify's debut as "very smooth."

"Spotify's public debut wasn't without its hiccups, however from the early indications we would count the company's direct listing experiment as a success," said Cameron Stanfill, a venture analyst at PitchBook.

Wall Street's banks still made money on Spotify's offering—just not nearly as much as they would have if the company had done a traditional IPO. For its listing, Spotify hired Goldman Sachs Group Inc., Morgan Stanley and Allen & Co. as advisers and paid them about $36 million in total fees. Snap, which was similar in size during its March 2017 offering, paid nearly $100 million to its large team of underwriters.

After an extensive price-discovery process—Spotify had the latest NYSE opening in recent memory at 12:43 p.m.—its shares burst onto the markets with a first trade at $165.90.

The stock wore lower as the day went on, closing $16.89 below where it started. Still, even with the afternoon slump, the stock closed well above its highest private-market trading levels, which were recently at $137.50, according to people familiar with the trades.

It also landed 13% above its so-called reference price of $132, which the NYSE set as a placeholder for trading systems to use in lieu of a formal IPO price.

Around $940 million worth of Spotify shares changed hands in the first trade Tuesday. According to NYSE data, that was the fourth-largest opening trade in a company going public since 2010.

Chief among concerns around Spotify's listing were that trading could be turbulent or potentially locked up because of a lack of buyers and sellers at the right price points, and that there was no investment bank in place to provide buying support if shares declined, as is typical in a normal IPO.

Spotify's debut wasn't as **volatile** as some market observers had feared—although its stock did trade in a wider range on its first day than other big tech companies that held conventional IPOs, such as Snap Inc.

"The direct listing was untested at this scale and profile, but it worked and worked well," said Colin Stewart, vice chairman of global capital markets and head of technology equity capital markets at Morgan Stanley, which executed trading for the majority of the shares in Spotify.

Still, the next few days will be a test of whether trading will remain orderly.

Spotify's executives didn't come to the NYSE to ring the opening bell, with Chief Executive Daniel Ek writing in a web post this week: "Normally, companies ring bells…Spotify has never been a normal kind of company."

But the trading floor was still buzzing, as at least 20 floor brokers swarmed around Citadel Securities' senior-designated market maker Peter Giacchi, who periodically shouted out the latest pricing information on the stock.

At the same time, a team of bankers and traders at Morgan Stanley was determining interest from buyers and sellers and relaying it to Mr. Giacchi to assist him in finding the opening price. The price range moved higher for most of the morning, climbing as high as $167 to $170 after starting out at a range between $145 and $155.

For nearly an hour around noon, Mr. Giacchi told brokers he was close to opening the stock but then hesitated as investors adjusted their electronic orders to buy and sell Spotify, leading to changes to its anticipated opening price. On one occasion, brokers on the NYSE floor erupted in shouts, in anticipation that the stock was about to trade, but it proved to be a false start.

Leading up to the listing, Spotify had disclosed price history of trading of its private shares in regulatory filings. Those transactions proved to be a reliable proxy for public investors.

"To have a company use private markets explicitly for pricing guidance for a public listing is a sign of the maturation of the private markets," said Nico Sand, founder and CEO of Zanbato Inc., which operates a trading platform for institutional investors to buy and sell shares in private companies.

Spotify is largely responsible for reversing a tide of declining revenue in the record industry amid rampant piracy and plummeting CD sales. Last year, revenue rose to its highest level in a decade, with paid subscriptions being the largest contributor to growth.

Now that the company has successfully gone public, it will face the usual business challenges of a technology company—including turning its first profit—while under Wall Street's scrutiny. It is battling in an increasingly competitive music-streaming arena where nearly all of its main competitors are owned by tech giants who aren't worried about making their music-streaming services profitable because they are additive to their user ecosystems. With the exception of Pandora Media Inc., Spotify is essentially alone in needing to make its model commercially viable.

Spotify has made it clear it is prioritizing growth over profit and is betting that strategy will make its business more valuable in the long run.

Write to Maureen Farrell at maureen.farrell@wsj.com, Alexander Osipovich at alexander.osipovich@dowjones.com and Anne Steele at Anne.Steele@wsj.com

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Markets

Spotify's Splashy Debut Pressures Banks; Shares of the music-streaming service start with a flourish then steadily wear down, but they still finished above their trading price in the private markets

By Maureen Farrell and Alexander Osipovich in New York and Anne Steele in Los Angeles
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English

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Markets

Longfin Collapse Puts Focus on Lax IPO Rules; Shares of fintech startup soared then fell even before news of SEC probe

By Jean Eaglesham and Aaron Back
865 words
3 April 2018
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WSJ Pro Bankruptcy
RSTPROBK
English

The most successful company to use post-financial crisis rules to list in the **stock market** has lost 85% of its value in six trading days, highlighting the risks for individual investors from a program designed to help small companies go public.

Longfin Corp., a financial technology company that does nearly all of its business in Singapore, listed its shares on **Nasdaq** in December. On Monday, the company said it was under investigation by the Securities and Exchange Commission. The company's rapid rise and epic collapse highlights flaws in how gatekeepers such as the SEC, stock exchanges and index providers are policing the fast-track method used by Longfin to sell shares to the public, regulators and lawyers said.

Making it easier for small companies to do IPOs is a "good thing if you think that public markets are important to capital formation," said Adam Pritchard, a law professor at the University of Michigan. But he added that there is an inescapable trade-off: "if you make the screens not as fine, then you're going to have more bad apples."

Longfin raised $5.7 million in an initial public offering in December using a provision of the Jumpstart Our Business Startups Act of 2012, known as Reg A+, which was designed to allow young companies easier access to public markets by setting lower accounting and disclosure standards than for conventional IPOs.

In the years after the financial crisis, cautious investors were unwilling to fund small companies, but well before the law took effect in 2015, a gusher of private capital poured into startups. Now, public markets have been overtaken by private capital, which totaled at least $2.4 trillion last year.

By contrast, these Reg A+ offerings were used to raise a total of $400 million from 2015 through December, according to a review by consulting firm Audit Analytics. Only 40 of more than 290 companies—most with no revenue—that sought to use the rules completed their offerings, the review found, and fewer still have gone on to a public listing. Longfin is one of 10 mini-IPOs to list on U.S. exchanges or over-the-counter using Reg A+ and the only one to be trading over its offer price, according to Dealogic.

Longfin's short but turbulent history since its February 2017 formation—including a 13-fold rise in its stock after it bought a cryptocurrency company, the resignation of its chief financial and chief operating officers just before the IPO, and the SEC investigation—is a warning about the due diligence done by the SEC on these companies, a state regulator said.

If the SEC is "going to rubber stamp even the minimum requirements…it opens the door to scams and fraud," said William Galvin, Massachusetts Secretary of the Commonwealth. He said these offerings are more dangerous than private deals that are usually restricted to wealthy or professional investors because small investors can buy the shares. "What you're opening the door for here is a lot of unaccredited investors getting caught up in the buzz of the moment and victimized," he said.

An SEC spokesman declined to comment. The SEC said in 2015 the Reg A+ rules it had just agreed to offered "an effective, workable path to raising capital that also provides strong investor protections."

Longfin's CEO Venkat Meenavalli, who owns 90% of the company's shares, said Longfin "went through a stringent process of [approval by] SEC and **Nasdaq**" and that its filings are being unfairly judged against the tougher standards set for bigger companies.

Reg A+ rules are meant to be available to U.S. and Canadian companies only. Longfin, which runs its U.S. operations out of a three-desk office in New York, said in a filing Monday that 100% of its net sales are "outside of the U.S." The SEC accepted Longfin's assurances that it intends to expand its presence in the U.S. The regulator also approved the mini-IPO despite multiple misstatements in Longfin's disclosures, The Wall Street Journal reported Monday.

The **stock market**'s other gatekeepers signed off on the listing for Longfin. **Nasdaq** listed its shares, saying they met its requirements. An auditor in India signed off on one month of Longfin's financial statements.

Even one of the biggest operators of stock indexes blessed Longfin's shares by including them in the Russell 2000, the most popular index of small companies. Russell then reversed itself when it realized that too few of Longfin's shares trade in the market for inclusion.

Longfin shares fell nearly 30% on Tuesday, the day after it disclosed the SEC investigation and reported material weaknesses in financial controls. The company, which said it is cooperating with the probe, said it may not be able to continue as a going concern unless it attracts more capital.

Write to Jean Eaglesham at jean.eaglesham@wsj.com and Aaron Back at aaron.back@wsj.com

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THE WALL STREET JOURNAL.

U.S. Markets
Markets
U.S. Stocks Rebound After Tech Selloff; FAANG stocks rise, while energy, consumer staples and materials sectors outperform broader market

By Allison Prang and Riva Gold
799 words
3 April 2018
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The Wall Street Journal Online
WSJO
English

U.S. stocks staged a broad rebound Tuesday as all 11 sectors of the **S&P 500** climbed after a rocky start to the quarter.

Trading was **volatile**, with the **S&P 500** hovering between small gains and losses before buying accelerated in the final hour of the session.

Technology shares helped lead the rebound, with all of the so-called FAANG stocks—Facebook, Amazon.com, Apple, Netflix and Google parent Alphabet—rising following a heavy bout of selling Monday.

"Tech has provided strong leadership for equities for some time, and with concerns about regulatory risk and business models, that potentially raises the risk that the current correction extends," said John Stopford, head of multiasset income at Investec Asset Management.

Yet with a positive global growth outlook and upcoming earnings reports expected to be strong, many investors say recent stock pullbacks have presented an opportunity to buy highflying shares at cheaper prices.

The **Dow Jones Industrial Average** rose 389.17 points, or 1.6%, to 24033.36, recouping some losses after falling nearly 2% Monday. All components of the blue-chip index rose, with the exception of International Business Machines.

The **S&P 500** added 32.57 points, or 1.3%, to 2614.45 and the tech-heavy **Nasdaq Composite** climbed 71.16 points, or 1%, to 6941.28.

Tuesday's gains were helped by the energy, health-care and materials sectors, all of which rose more than the broader index. The **S&P 500** energy sector jumped 2.1% as U.S. crude oil rose 0.8% to $63.51 a barrel.

Among the FAANG stocks, Facebook rose 72 cents, or 0.5%, to $156.11, while Netflix added 3.38, or 1.2%, to 283.67 and Amazon gained 20.06, or 1.5%, to 1392.05.

Shares of music-streaming company Spotify began trading Tuesday on the New York Stock Exchange and surged to close at 149.01. The shares sit well above early price indications and private-market trading, marking a win for its shareholders. After going public through a nontraditional route known as a direct listing, the company has a valuation of $26.5 billion.

Monday's selling may have been exacerbated by relatively low trading volumes, as well as an overreaction to data showing U.S. factory activity slowing from the prior month, said Phil Orlando, chief equity strategist at Federated Investors.

"I think we got sold off too aggressively," Mr. Orlando said.

Since the **stock market** began struggling for traction earlier this year, investors have seized on different issues, including tariffs, Facebook's user-data controversy and the threat of a trade war, to explain what happened, said Tony Dwyer, chief market strategist for Canaccord Genuity.

"We're shifting the reasons for the correction, which means it's not fundamental," he said. "It's relieving a ridiculous level of enthusiasm that was present in January."

The prospect of a trade war between the U.S. and China has also added to the cautious tone in recent sessions, investors and analysts said. China announced tariffs Sunday of as much as 25% on American pork and eight other kinds of goods, as well as 15% tariffs on fruit and 120 types of commodities.

The retaliatory tariffs announced by China, though small as a proportion of U.S. exports, may yet have a bigger impact on economic growth by hitting market confidence and delaying investment decisions, Moody's Investors Service said in a report.

"It's almost like a Whac-A-Mole game of risk…this revolving door of issues popping up regularly that in aggregate are dampening risk sentiment," said Katie Nixon, chief investment officer at Northern Trust Wealth Management.

The longer this choppy trading continues, the less "buy-the-dip mentality" the market will see, she added, although she expects strong earnings growth will continue to power stocks higher this year.

Outside the U.S., the Stoxx Europe 600 closed down 0.5%, echoing a mostly downbeat session in Japan and China. Japan's Nikkei Stock Average fell 0.5% with tech exporters leading the declines. The Shanghai Composite dropped 0.8%.

Gregor Stuart Hunter contributed to this article.

Write to Allison Prang at allison.prang@wsj.com and Riva Gold at riva.gold@wsj.com

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WSJ PRO CENTRAL BANKING

Economy
New York Fed Picks John Williams as President; The San Francisco Fed president will succeed William Dudley in June

By Michael S. Derby
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The Federal Reserve Bank of New York said Tuesday that John Williams, who has helmed the San Francisco Fed since 2011, will become its next leader, assuming one of the top leadership positions at the U.S. central bank.

Mr. Williams, a 55-year-old economist whose research has helped shape top Federal Reserve officials' thinking on monetary policy, is set to succeed William Dudley, who will retire June 17. Mr. Williams will start the next day.

Mr. Williams "cares deeply" about the Fed's job and inflation mandates and "has meaningfully engaged" with diverse communities in his work at the San Francisco Fed, Sara Horowitz, who leads the Freelancers Union and serves as chairwoman of the New York Fed's board of directors, said in a statement. The incoming bank leader "best fulfilled the criteria we'd identified as well as the feedback we'd received through our public outreach efforts."

Ms. Horowitz also said Mr. Williams "has always been willing to speak his mind and encourage the Fed to be forward looking and reflective."

Federal Reserve Chairman Jerome Powell welcomed Mr. Williams's selection, saying the veteran central banker is a "distinguished thought-leader in monetary policy-making, and a proven executive and public communicator."

Mr. Williams's move to New York comes amid significant turnover in the Fed's leadership ranks. Mr. Powell became its chairman in February. Randal Quarles became vice chairman for supervision in October. The Fed's seven-member, Washington-based board of governors has four vacancies, including the vice chairman position.

As New York Fed chief, Mr. Williams will hold a permanent vote on the interest-rate-setting Federal Open Market Committee. The presidents of the Fed's other 11 regional reserve banks hold voting seats on a rotating basis.

Mr. Williams voted with other officials to lift the Fed's benchmark interest rate in March, and has said he expects a total of three or four such moves this year.

Mr. Williams will lead the Fed bank that implements monetary policy, supervises some of the nation's biggest banks and serves as the central bank's main contact with **financial markets**.

Mr. Williams, who holds a Ph.D. in economics from Stanford University, could complement Mr. Powell, a lawyer whose background is in finance and is the first noneconomist in more than 30 years to lead the Fed.

Mr. Williams has spent almost his entire career working for the Fed. He started as an economist at the Fed board in Washington in 1994. A California native, he joined the San Francisco Fed in 2002 and rose to become its research director, making him a top adviser to its president at the time, Janet Yellen. He succeeded her as president after she became vice chairwoman of the Fed board. She later became Fed chairwoman and retired in February.

"John has long experience in the Fed and a deep understanding of how the Federal Reserve and its governance works," Ms. Yellen said in an interview. "John's experience as president in San Francisco means he's really up to speed on all that's involved in managing a team at the New York Fed."

Mr. Williams was a strong advocate for the Fed's easy-money policies during and after the financial crisis, including holding short-term interest rates near zero until late 2015 and then lifting them cautiously and gradually. He supported other unorthodox stimulus policies launched to aid the economy when the benchmark rate rested near zero and could be cut no further. He supported the decision last year to start slowly shrinking the Fed's holdings of bonds purchased to hold down long-term rates.

More recently, Mr. Williams has supported raising the Fed's benchmark rate to ensure the now healthy economy doesn't fuel excessive inflation or dangerous asset bubbles.

"Given that the pace of growth is somewhat above trend, my view is that we need to continue on the path of raising interest rates," he said in February. "This will keep the economy on an even footing and reduce the risk of us getting to a point where things could overheat."

Mr. Williams has conducted leading research on policy issues important to the Fed's future. This includes his pioneering work on the natural interest rate—the inflation-adjusted rate that neither spurs nor slows economic growth. The findings helped persuade key officials this rate has fallen very low in recent years, and because of that, they shouldn't lift their benchmark rate as much as they did in past expansions.

In part because of the low natural rate, Mr. Williams has called for Fed officials to rethink their 2% inflation target and consider alternatives, including an approach that would allow inflation to run higher than that level for a period to make up for times when it runs lower.

News of Mr. Williams's selection sparked criticism from Fed critics who say the central bank needs to work harder to diversify its predominantly white, male leadership and who believe the search process needs more public scrutiny and input.

Activists from the left-leaning Fed Up Campaign, which has criticized the process to find a successor to Mr. Dudley, lambasted the New York Fed pick. The group expressed respect for Mr. Williams's academic credentials, but its leader, Shawn Sebastian, said the Fed selected "another white man whose record on Wall Street regulation and full employment raises serious questions."

New York Fed board members involved in the search for a new leader said Mr. Williams had a strong record of promoting diversity and showing interest in the needs of the disadvantaged and minorities during his San Francisco Fed tenure.

They stressed that the search process cast as broad a net as possible. A timeline made available by the New York Fed showed the bank reached out to the community for views and considered a number of candidates defined as "diverse."

The New York Fed said in January it had 13 first-round candidates, six of whom were diverse. By March 20, Mr. Williams was the finalist and interviewed with the board of governors. He was approved Tuesday.

University of Oregon professor Tim Duy said the New York Fed's challenge was that it needed to find a "unicorn." He said that was someone with deep monetary policy and markets experience, but not of the finance world, who would fit the definition of a diverse candidate.

While Mr. Williams is a "terrific" selection, "you were not going to be able to make everybody happy," Mr. Duy said.

The Fed chairman and other governors are nominated by the U.S. president and are subject to Senate confirmation. In contrast, regional Fed bank presidents are picked by subsets of those banks' boards of directors, subject to approval by the Fed governors. There is very little the public can do to weigh in on the candidates or learn who is in the running for the job.

Philadelphia Fed President Patrick Harker last week acknowledged the desire for more public information. But he said that releasing the names under consideration would "preclude a set of very accomplished, qualified candidates from even entering the pool."

Nick Timiraos contributed to this article.

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

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Economy

Fed's Brainard Says Fiscal Stimulus Could Raise Risks of Financial Imbalances; Central bank governor says she sees risks to the broad financial system remained as 'moderate'

By David Harrison
508 words
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English

NEW YORK--Federal Reserve governor Lael Brainard said Tuesday the central bank is on the lookout for new asset bubbles in light of recently enacted tax and spending legislation.

Ms. Brainard said pushing through such big stimulus measures in a strong economy could cause financial stability concerns, in remarks delivered at an event held at New York University.

"It is important to be attentive to the emergence of any imbalances, because we do not have much experience with pro-cyclical fiscal stimulus," she said.

Overall, Ms. Brainard said asset valuations had grown "elevated" but risks to the broad financial system remained "moderate," in part because investors and households haven't borrowed excessively.

New rules on financial institutions imposed since the last financial crisis through the Dodd-Frank Act also have held down risks to the financial system, she said. Financial institutions are now required to maintain capital and liquidity buffers to allow them to navigate a sudden downturn.

Republicans have called for loosening some of the postcrisis rules governing financial institutions. Fed Chairman Jerome Powell has said he would be open to making some changes. Ms. Brainard defended the new rules.

"At a time when valuations seem stretched and cyclical pressures are building, I would be reluctant to see our large banking institutions releasing the capital and liquidity buffers that they have built so effectively over the past few years," she said.

Responding to an audience question, Ms. Brainard said there has been a shift in the economy from forces holding back growth to those that are powering it forward. The rise of these so-called tailwinds "does warrant continual gradual increase in the federal-funds rate." She offered no specifics about what she would like to see central bank interest rate policy do, however.

Ms. Brainard also said that some of the lift to growth could mean that over the medium term there might be an increase in what is now a historically low neutral rate of interest, otherwise known as the level of rates that neither pushes forward the economy nor restrains it.

In her speech, Ms. Brainard also warned that some new cryptocurrency markets could be vulnerable to money laundering.

"Individual investors should be careful to understand the possible pitfalls of these investments and the potential for losses," she said, adding the Fed is monitoring the **volatility** in those markets.

"But it is less clear how the valuations of cryptocurrencies currently could pose a threat to financial stability," she said.

Michael S. Derby in New York contributed to this article

Write to David Harrison at david.harrison@wsj.com

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U.S.; Politics
White House Outlines Hundreds of Chinese Imports Subject to Tariffs

By Ana Swanson
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WASHINGTON — The Trump administration said Tuesday that it will place a 25 percent tariff on electronic touch screens, iron and steel plates, medical devices, aircraft parts, batteries and other Chinese products, outlining more than 1,000 imported goods that will soon face tariffs as part of a sweeping trade measure aimed at penalizing China for its trade practices.

The move, which stems from a White House investigation into China's use of pressure, intimidation and theft to obtain American technologies, is likely to inflame an already-simmering trade war between the countries. On Monday, China said it would slap tariffs on 128 American products in response to a separate White House plan to tax steel and aluminum imports from China and other countries.

The products targeted by the White House are part of its plan to go after China's dominance in cutting-edge technologies like semiconductors, electric vehicles and advanced medical products — industries that China is pursuing dominance in as part of an industrial plan known as "Made in China 2025."

The Trump administration said that trade analysts from multiple government agencies had identified products that benefit from these policies but had refined the list to remove goods that were likely to cause disruptions to the United States economy or consumers, or be subject to legal constraints. The list of products concentrated heavily on machinery and high-tech components, and largely excluded the kind of Chinese-made finished consumer products available for sale at Target or Walmart. The United States is levying tariffs on a total of $50 billion worth of Chinese products each year.

The list's publication will be followed by a notice and comment period in which American companies can advise the Trump administration on the product choices. Companies will need to submit written comments by May 11, and a public hearing on the submissions on will be held May 15 in Washington.

While many American companies say they are unfairly treated in China, they have rued the possibility of a trade war between the world's two largest economies, and the economic harm it could cause, and have begun pushing back against the White House's plans. China remains a key and growing market for companies like John Deere and Apple, as well as for soybean farmers and growers of other agricultural products.

Financial markets fell sharply on Monday as China imposed its own retaliatory tariffs on American products but regained most of their lost territory on Tuesday.

President Trump, who has repeatedly promised tough action on China's trade practices, said Tuesday that he intended to get along with China but that its unfair trade behavior had gone on too long. "It's not something we can live with," Mr. Trump said at the White House, adding, "I campaigned on that."

Trump advisers have criticized past administrations for allowing China to receive the benefits of global trade while continuing to break the international trade rules imposed by organizations like the World Trade Organization — a charge China denies.

But the administration has struggled to persuade its critics that the kind of tough trade measures Mr. Trump favors can alter China's behavior without tipping the world into a trade war and ultimately harming American workers and consumers. In addition to the tariffs, the White House is preparing to restrict Chinese investment in American technology and innovation.

“The administration is rightly focused on restoring equity and fairness in our trade relationship with China,” said Myron Brilliant, an executive vice president and the head of international affairs at the U.S. Chamber of Commerce. “However, imposing taxes on products used daily by American consumers and job creators is not the way to achieve those ends.”

Scott Kennedy, a China expert at the Center for Strategic and International Studies, said the Trump administration’s approach is drastically different from those of past administrations, which tried to reach agreement on trade practices with the Chinese through coordinated dialogues.

The Trump White House, in contrast, is trying to totally reset the relationship through aggression, Mr. Kennedy said. “They see this as a game of chicken.”

The Coalition for a Prosperous America, an organization that has supported the president’s trade agenda, called the China action a shift from “naïve” to “strategic” trade. “The age of appeasement must end,” said Paola Masman, the group’s media director.

But the administration’s trade measures are prompting concern among many American companies, who are wary of Beijing’s response. Chinese officials have already promised to erect trade barriers in response to the United States’ moves.

“We will certainly take countermeasures of the same proportion and of the same scale, same intensity,” Cui Tiankai, the Chinese ambassador to the United States, said in an interview posted Monday on the Chinese news site CGTN America. He added that China had been strengthening its protection of intellectual property and was prepared to review any cases in accordance with its laws.

It remains to be seen what additional levies China might add in response to new American tariffs.

Analysts said the Chinese government had designed its tariffs to hurt regions of the United States that supported Mr. Trump — a bid to encourage the president’s supporters to put pressure on him to change his policies. In an analysis, Mark Muro, a senior fellow at the Brookings Institution, found that tariffs on products like fruit, nuts, pork and steel pipes would fall disproportionately on counties that supported Mr. Trump.

Farming communities, one of the country’s largest exporters and a solid base for Mr. Trump, are among the most vulnerable. Chinese tariffs of 25 percent will particularly hurt American pork farmers, who sent more than $1 billion worth of products to China last year.

Senator Joni Ernst, Republican of Iowa, said American farmers were already struggling to make ends meet. “Increasing tariffs on exports will harm Iowa producers and undermine the rural economy,” Ms. Ernst said. “It’s my hope that we can pursue policies that enhance our competitiveness, rather than reduce our access to foreign markets.”

The announcement came as the president ramped up threats about withdrawing from the North American Free Trade Agreement and sending troops to the southwestern border to combat illegal immigrants traveling through Mexico.

While White House advisers have been pushing for a timely conclusion to the ongoing talks over Nafta, Mr. Trump continues to threaten to withdraw from the pact. On Tuesday, he called it a “horrible, horrible, embarrassing deal for the United States.”

* Looming China Trade Action Divides Industry and Roils Markets

* Trade Deals Take Years. Trump Wants to Remake Them in Months.

* Trump Readies Sweeping Tariffs and Investment Restrictions on China

A steel factory in Dalian, China. The Trump administration has placed tariffs on a number of items, including electronic touch screens, iron and steel plates, medical devices, aircraft parts, batteries and other Chinese products. | China Network/Reuters | The products targeted by the White House are part of an effort to go after China’s dominance in cutting-edge technologies like semiconductors, electric vehicles and advanced medical products — industries that China is pursuing dominance in as part of an industrial plan known as “Made in China 2025.” | Gilles Sabrié/Bloomberg

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THE WALL STREET JOURNAL.

Markets
Oil Prices Regain Footing After Selloff; Crude remains under pressure amid heightening trade tensions between the U.S. and China

By Christopher Alessi
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Oil prices rose Tuesday but remained under pressure amid heightening trade tensions between the U.S. and China.

Light, sweet crude for May delivery rose 50 cents, or 0.8%, to $63.51 a barrel on the New York Mercantile Exchange. Brent, the global benchmark, gained 48 cents, or 0.7%, to $68.12 a barrel.

Prices had slid to a two-week low Monday, with Brent closing down 2.5%, after China imposed import tariffs on U.S. goods. That was a response to tariffs on Chinese steel and aluminum imports introduced by the Trump administration earlier this year. Analysts and traders have warned that these actions could trigger a global trade war that would weigh on economic growth and subsequently damp demand for petroleum products.

"The trade disputes continue to create market noise, putting downward pressure in particular on the cyclical commodities" such as oil, said Norbert Ruecker, head of macro and commodity research at Julius Baer. "Despite the global economy humming, we see more downside for the asset class as market mood cools and profit-taking pressures prices," Mr. Ruecker said in a note Tuesday.

Brent had closed above $70 a barrel ahead of the Easter weekend—close to a three-year high—with growing geopolitical risk lifting prices.

But prices started the second quarter under pressure. In addition to concerns about trade, prices were hurt by burgeoning Russian oil production in March and a "confirmation that U.S. supply outperformed expectations in January," according to analysts at consultancy JBC Energy.

Russia's crude output in March climbed by 20,000 barrels a day to 10.97 million barrels a day, according to government data. "It is the first increase since December and the highest production level for 11 months, which takes Russian output above the agreed ceiling" of its deal with OPEC, according to Tamas Varga, an analyst at brokerage PVM Oil Associates Ltd.

The Organization of the Petroleum Exporting Countries and 10 countries outside the oil cartel, including Russia, have been holding back crude output by roughly 1.8 million barrels a day since the start of last year. The deal, which is set to expire at the end of 2018, has helped drain a global supply glut that has weighed on prices since late 2014. Traders await government data on U.S. crude stockpiles Wednesday. Analysts surveyed by The Wall Street Journal expect on average that crude inventories increased 1 million barrels in the week ended March 30.

The American Petroleum Institute, an industry group, said late Tuesday its data for the week showed a 3.3 million-barrel decrease in crude supplies, a 1.1 million-barrel rise in gasoline stocks and a 2.2 million-barrel increase in distillate inventories, according to a market participant.

Gasoline futures increased 0.4% to $1.9741 a gallon, and diesel futures rose 0.8% to $1.9950 a gallon.

Stephanie Yang contributed to this article.

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WSJ PRO FINANCIAL REGULATION

Economy

How the New York Fed, Prizing Diversity, Elevated an Insider as Its Next President; John Williams, an economist and central-bank insider, was picked to complement Fed chief Jerome Powell, whose background is in finance

By Nick Timiraos
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WSJ Pro Financial Regulation
RSTPROFR
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The New York Fed's search for a new president began with an emphasis on attracting a diverse candidate pool. It ended focused on building out the leadership team for a new Federal Reserve chairman who isn't an economist.

The decision, announced Tuesday, will elevate a consummate central-bank insider, San Francisco Fed President John Williams, after officials concluded he would best complement Fed Chairman Jerome Powell during a challenging period for monetary policy.

Mr. Williams, an economist, will fill the second leg of the traditional Fed leadership troika that also includes the chairman and the vice chairman of the board, a position now empty.

Mr. Williams's research has shaped the central bank's monetary policy when interest rates and inflation are low, as they have been for most of the past decade.

"There is no one I can think of who has a deeper background and who has made more contributions to monetary policy at a research, academic level. That's combined with long experience and a very strong record of contributions to real decision-making through a complicated period," said former Fed Chairwoman Janet Yellen. Mr. Williams served as her research director when she led the San Francisco Fed.

A subset of the New York Fed's board of directors selects the president, subject to approval by the Fed's Washington-based board of governors, giving them influence in the process.

The New York search officials consulted throughout the process with Mr. Powell, who at the start was a governor and the board's point person on managing its relationships with the 12 reserve banks. He became Fed chairman in February.

Mr. Powell, a lawyer whose background is in finance, is especially keen on having top lieutenants with extensive monetary-policy experience, people familiar with the matter said. The search committee ultimately shared this desire.

The search process began with around 100 candidates who on paper met the qualifications of the job, according to people familiar with the process. Officials invited 13 candidates to interview, of which two declined to proceed.

Some minority candidates contacted by the search committee weren't interested in being considered. Among them, former Fed Vice Chairman Roger Ferguson, an African-American, was widely viewed by insiders as the early favorite. Mr. Ferguson, chief executive of TIAA, declined to comment. Another was Peter Blair Henry, a black economist who recently completed eight years as dean of New York University's Stern School of Business.

The search committee interviewed several economists with Fed experience. They included Karen Dynan, a former U.S. Treasury official and now a Harvard University professor, and Brian Sack, who once ran the New York Fed's markets desk.

Ms. Dynan said Mr. Williams "will be great in the job. He's a skilled macroeconomist and has a lot of experience in Fed communication." Mr. Sack declined to comment.

Search committee officials also had been watching to see whom the White House would pick as Mr. Powell's vice chairman. Mr. Williams interviewed for that job. By February, he had fallen out of the running for it, drawing new attention from the New York Fed search committee.

President Donald Trump is likely to nominate Columbia University economist Richard Clarida to become Fed vice chairman.

Along with fluency in economics and finance, officials placed significant attention on finding someone with strong communication skills and experience managing a sprawling organization.

They had narrowed the field down by March to Mr. Williams and two candidates with more finance experience: Raymond McGuire, a longtime banker at Citigroup Inc. who is African-American, and Mary Miller, a bond-market veteran and former Treasury Department official.

While Mr. Williams hasn't worked in **financial markets**, this didn't hurt his candidacy. The opposite was true: Some officials were wary of a political backlash if they named a banker to the top job of the New York Fed, which supervises some of the country's biggest financial firms.

While many recent New York Fed leaders have had extensive markets experience, that was often the case when Fed chairs were economists.

John Taylor, a Stanford University economist who has been critical of Fed policy in recent years, said Mr. Williams, his former student, "is an excellent pick."

Mary Daly, the San Francisco Fed's research director, called Mr. Williams "a great leader" and said he "has a willingness to ask everyone around him who may not agree with him, ‘Hey, what do you think about my perspective on this?'"

Search officials took note of Mr. Williams's commitment to diversity at the San Francisco Fed and the bank's community development efforts. During his tenure as the bank's president, the share of senior executives who are minorities increased to 46% in 2016 from 15% in 2012. The share of female senior executives has held steady at 31% over that period.

The choice fueled disapproval from Fed critics upset the search committee's initial focus on attracting a diverse candidate pool ultimately didn't yield a woman or member of a minority. Of the Fed's 12 reserve bank presidents, 10 are white and 10 are male.

Those frustrations amplified objections over a search process that happens out of public view. The Fed chairman and other governors are nominated by the U.S. president and subject to Senate confirmation. In contrast, the reserve bank presidents are selected by the members of each reserve bank's board of directors who don't represent private banks regulated by the Fed, subject to the Fed governors' approval.

"Such an opaque process harms the Fed's legitimacy and undermines its credibility and effectiveness in serving the public," Andrew Levin, a former Fed economist, said in a letter to Mr. Williams last week detailing his objections with the selection process.

Five New York Fed board members voted unanimously Monday to formally recommend Mr. Williams for the job, and the Washington-based board approved the selection Tuesday. He will succeed retiring New York Fed President William Dudley on June 18.

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

Related

* New York Fed Picks John Williams as President

* What to Know About John Williams's Views

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WSJ PRO VENTURE CAPITAL

Markets

The Fuel Powering Corporate America: $2.4 Trillion in Private Fundraising; The boom is transforming how companies grow, concentrating investing in fewer hands and raising concerns about oversight

By Jean Eaglesham and Coulter Jones
2,039 words
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WSJ Pro Venture Capital
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English

When the messaging app Telegram set out to raise billions of dollars this year for a project to launch a cryptocurrency, it shunned the **stock market** and instead invited a select group of firms to invest in its virtual coins.

These investors would be backing a project yet to be built. Little was known about the private company's ownership or finances. Even so, 81 investors stepped forward to pour in $850 million, with other financing rounds still to come.

It was a mark of the dramatic rise of private capital markets, which have leapfrogged public markets to become the most popular way for companies to raise money in the U.S., a phenomenon that in some ways is changing the very way companies run and operate.

Private markets have "reshaped the financial landscape," said Jason Thomas, director of research at private-equity firm Carlyle Group LP. "The growth of private capital is across the economy."

With little information disclosed about money raised privately, including the identity of investors, it is difficult to get a clear picture of what's happening in these markets. An analysis by The Wall Street Journal found they have more than doubled in size over the past decade, surpassing the growth of public stocks and bonds available to all investors.

At least $2.4 trillion was raised privately in the U.S. last year. That widened a gap that emerged in 2011 with the public markets, which raised $2.1 trillion, according to the Journal's analysis of tens of thousands of securities filings and data provider Dealogic. Deals known as private placements, the largest chunk of the private markets, raised at least $1.6 trillion for businesses last year, according to the Journal's analysis of more than 40,000 filings.

The private markets are fueled both by companies eager to raise money without the regulatory burdens of going public and by investors looking for new ways to score large payouts outside of the stock and bond markets.

The boom in such private dealings unquestionably helps some businesses grow. Private capital can encourage innovation by enabling companies to take risks without reporting the immediate impact on profits. That is one reason the expansion of private markets has been important to Silicon Valley.

"It's fueling entrepreneurship," because "companies have lots of options to access capital," said Jacqueline Kelley, head of the Americas IPO Markets practice at accounting firm Ernst & Young LLC.

As private capital increases, public markets are shrinking: The number of public companies has fallen by more than half since 1996. This "de-equitization" of the U.S. concerns some regulators and challenges some of the fundamentals of corporate governance. "There are fewer investment opportunities for Main Street investors," Securities and Exchange Commission Chairman Jay Clayton told a congressional panel last year.

Companies issuing stock and debt publicly must register with the SEC and provide intimate financial details. Regulators require little—in some cases no—disclosure in private fundraising. The process lets companies and the broader capital market operate and expand under the radar.

Investment in private fundraisings is often restricted to institutions such as pension, sovereign-wealth and hedge funds, Wall Street firms and insurance companies. In some cases, relatively affluent individuals can get in. The exclusion of smaller investors means, among other things, are unable to get a piece of the stupendous early growth of some startups, especially in Silicon Valley.

The typical number of investors in private placements last year was eight, according to the Journal's analysis.

The world of private capital markets includes companies of all sizes, from small oil-well operators to agribusiness giant Cargill Inc. that raise equity and float debt with a few investors. Besides those private placements, companies sell debt privately to big investors such as banks in what are called 144A deals.

New corners of the markets continue to emerge, from share sales via crowdfunding to initial coin offerings, or ICOs.

Last year saw many multibillion-dollar initial offerings in the private space that far outstripped initial public stock offerings. At least 20 private placements, mostly by funds, raised more $4 billion each, the Journal's analysis found.

That included $93 billion raised by the Japanese conglomerate SoftBank Group Corp. for a technology investment fund, the world's biggest. By contrast, the largest initial public offering of stock last year, by tech company Snap Inc., raised $3.9 billion, according to Dealogic.

A huge chunk of money is waiting for the right moment to pour in: Private-equity assets totaled $2.8 trillion as of June 2017, of which nearly $1 trillion had yet to be invested, according to the most recent figures available from data provider Preqin.

All the money looking for the next shiny investment helps explain the rise of the Silicon Valley phenomenon of unicorns—private companies that are valued at $1 billion or more by venture-capital firms. The number of U.S. unicorns tripled over four years, to 105 in February from 31 in 2014, according to a Journal tracker. Among them, the home-rental site Airbnb Inc. was valued at $31 billion in its ninth funding round a year ago.

Securities laws keep ordinary investors out of these high-growth markets, forcing the "little guy" to stick with a **stock market** that Elizabeth de Fontenay, a law professor at Duke University, describes as becoming a "holding pen for massive, sleepy corporations."

Contrast this with two decades ago, when public markets ruled. Amazon.com Inc. went public as a three-year-old startup valued at $660 million. Stock investors who bought shares in the public offering in 1997 and held on have made returns of 96,389%, dwarfing the 364% total return of the **S&P 500** over the period, according to FactSet.

In more recent times, Facebook waited till it was eight years old before going public, and its 2012 IPO share price valued it at $104 billion. Ordinary investors, without the ability to invest in Facebook while it was still private, were left out of its colossal early growth.

Today, ride-sharing giant Uber remains private nine years after its launch. By the most recent available valuation figure, in June 2016, Uber had grown to be worth $68 billion, also without the participation of Main Street investors.

Uber's most prominent investors, according to Dow Jones VentureSource. are a typical private-markets mix: venture-capital firms, Wall Street backers such as BlackRock Inc. and Goldman Sachs Group Inc., and governments such as Saudi Arabia and Qatar via sovereign-wealth funds.

SEC rules dictate that some private offerings be sold only to banks and institutional investors. Others can be sold to those firms plus "accredited" individuals, meaning those with more than either a $200,000 net income or a net worth of $1 million, excluding homes. This test leaves out about nine-tenths of U.S. households, according to a 2015 SEC report.

Regulators say the rules are there to protect people from the private capital markets' risks, including swindlers who might exploit the sparse information and lax policing to target retirees or other small investors.

The SEC has brought some fraud cases involving private companies, such as February's's civil charges against blood-testing company Theranos Inc. and its founder Elizabeth Holmes. Both settled without admitting or denying liability.

At an SEC conference last year, Michael Piwowar, a commissioner, questioned "the notion that nonaccredited investors are truly protected by regulations that prevent them from investing in high-risk, high-return securities available only to the Davos jet set."

One of the private markets' fastest-growing sectors is private credit. Information on how much is being lent, to whom and by whom is sparse. One indicator of this market's growth is the increase in assets of funds set up for such confidential lending. These more than quadrupled over a decade to $722.8 billion by the end of 2017, according to data from private-market advisory and investment firm Hamilton Lane Inc.

The fast-growing market has made it easier for smaller and medium-size companies to get loans. But the risk of bad loans has moved beyond tightly watched banks into a largely unpoliced market, raising questions about whether defaults in a downturn could affect the wider economy.

The Journal looked at the single biggest private market, a type of private placement known as Regulation D, which can be gauged because those doing these deals file forms with the SEC. Regulation D offerings totaled at least $1.6 trillion last year, the Journal found, more than triple the amount in 2009.

Other private placements require no disclosure at all, said Anna Pinedo, a partner at law firm Mayer Brown. "It's impossible to know who's raising money this way or from whom."

Private placements aren't seen as inherently dangerous to the wider economy. Still, said Ms. de Fontenay, the Duke law professor, the fact that some areas of the private markets are "effectively black holes" makes it impossible to assess overall risks accurately. "It's a concern if regulators don't know the size of the market or what's going on in it," she said.

Even when companies disclose private placements, the very limited information leaves most in the dark.

Telegram is a good example. It has said nothing about the fundraising for its planned new digital network and banking system. It isn't even clear who owns the company. The website says Telegram is "supported" by Russian brothers Pavel Durov and Nikolai Durov, who were named as Telegram executives in the SEC filing for the $850 million funding.

In its filing, the company, which has a widely used messaging app, reported revenue as "decline to disclose." It provided only one contact, a law firm on the offshore financial center of Tortola in the British Virgin Islands.

Telegram's app offers encrypted chats out of reach of law enforcement and it has been banned in some places amid controversy over use by terrorists or others trying to evade government surveillance.

The Telegram sale illustrates a risk in private markets. The prices of company shares listed on stock exchanges are displayed. Owners can generally count on finding a buyer at some price if they want out, whereas investors who become part owners of a business via a private deal have no such guarantee.

Shares issued in private placements also are generally "restricted," meaning they usually can't be resold for at least six months to a year.

Telegram has said it would refund investors' money if its new digital network doesn't launch by October 2019, according to documents reviewed by the Journal.

The same documents warn there "can be no assurance" of enough money left over to pay any such refunds.

Telegram has delivered early paper profits to investors. Though its planned digital coins have yet to be issued, the price to get in on them has shot up from 38 cents for each digital coin based on the first round of private funding completed in February to an expected average $1.33 in the second round that began in late February, according to documents reviewed by the Journal.

Charles Noyes, an analyst at Pantera Capital, a crypto hedge fund, called the technical plans published for the new network "completely unproven." In a post on Medium, the analyst said he "would not put a single cent I care more than nil about losing into this."

Steve Strongin, head of global investment research at Goldman Sachs, wrote in a February note that while few of the many cryptocurrencies issued so far are likely to last in the long term, "just because we are in a speculative bubble does not mean current prices can't increase for a handful of survivors."

Telegram didn't respond to requests for comment.

Miriam Gottfried and Maureen Farrell contributed to this article.

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WSJ PRO CENTRAL BANKING

Economy

Treasury Weighs Releasing More Data | Trump to Nominate Justin Muzinich | Kuroda: Not The Right Time To Talk Exit Strategy | The Euro Surged Last Year But Central Banks Didn't Bite | Blackstone's Take: Taking Stock of the Swiss National Bank; The Wall Street Journal's central banking newsletter for Tuesday, April 3, 2018

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Blackstone's Take: Taking Stock of the Swiss National Bank

Treasury Meets With Banks, Trading Firms As It Weighs Releasing More Market Data

Trump to Nominate Justin Muzinich to Deputy Treasury Secretary Post

Kuroda Says BOJ Will Weigh Talking to Markets About Exit Strategy at Right Time

The Euro Surged Last Year But Central Banks Didn't Bite

Taking Stock of the Swiss National Bank

Investors have fallen in love with the Swiss National Bank.

This isn't because of some innovative policy the Swiss have taken or some soothing words to ease concerns amid recent routs in global stock markets. Swiss policy makers have been typically silent, as have other central banks.

Rather it is the SNB's stock that has captured investors' fancy. It is one of the few central banks, along with Japan and Belgium, with listed shares. And they've been on a tear, rising nearly 30% last week and up nearly fivefold in the past year from around 1,700 francs per share last April to 7,680 francs. Shares of the Belgian and Japanese central banks have mostly stagnated during the past year.

There are obvious pluses to owning SNB shares. For one, it is ultrasafe as the printer and guardian of the Swiss franc. In recent years it has created francs and used them to buy foreign stocks and bonds in an effort to weaken the currency, amassing a roughly $800 billion stockpile of foreign assets.

Those assets helped generate a 54 billion franc ($56.6 billion) profit in 2017, aided by soaring global stock prices last year, low bond yields and a weaker franc that made those stocks and bonds worth more in the Swiss currency.

In short, the SNB is a major money manager that creates its own money.

But before rushing out to buy SNB shares, consider the many negatives. Although the nearly 2,200 private holders of SNB stock own almost half of its 100,000 shares, they only have about 20% of the voting shares. Swiss states, known as Cantons, and cantonal banks own the majority of voting shares.

And shareholders have no say in the SNB's monetary policy or how it manages its currency reserves. The dividend, capped at 15 francs per share by law, it tiny as a percentage of the **stock price**. There is no breakup value, and the SNB's job is to keep inflation under 2%, not to maximize shareholder value.

The bank's three governing board members don't even own shares.

Yet the stock's stunning rise is instructive at a time when traditional safe-haven assets such as U.S. Treasurys are performing unevenly.

That leaves the Swiss franc, which has risen so far this year against the dollar and halted last year's weakening trend versus the euro.

And these days investors seem enamored with both the underlying commodity—the franc--and the folks that produce it over at the SNB.

Key Developments Around the World

Treasury Meets With Banks, Trading Firms As It Weighs Releasing More Market Data

U.S. policy makers are meeting with banks and trading firms about whether to release to the public data on the $14 trillion U.S. Treasury market that the government has been collecting since last summer. "We are having thoughtful discussions with a wide range of market participants," a Treasury spokeswoman said Monday. The debate over making the data public divides the financial-services industry. In general, big banks favor keeping the data for regulators' use only, while high-speed traders and hedge funds support making it public.

Under Trump, a Strong Economy but Murky Policy Outlook

During Barack Obama's presidency, uncertainty about U.S. economic policy was much higher than it had been during the previous 25 years, according to calculations by a trio of academic economists. You would think uncertainty would be low now, with economic expansion advanced and secure, the global economy on a stable footing, and a president in the White House focused on helping business by cutting regulation. But it isn't. The researchers find economic policy uncertainty is slightly higher under President Donald Trump than it was during an Obama era marked by deep recession, auto bailouts, unconventional Federal Reserve interventions into the financial system and routine brinkmanship between Democrats and Republicans on fiscal policy.

Trump to Nominate Justin Muzinich to Deputy Treasury Secretary Post

President Donald Trump will nominate Justin Muzinich as deputy treasury secretary, the White House said Monday. Mr. Muzinich is currently a counselor to Treasury Secretary Steven Mnuchin and worked on the tax-overhaul package that went into law late last year. If confirmed by the Senate, Mr. Muzinich would become the agency's second-highest-ranking official, helping Mr. Mnuchin manage the department.

Kuroda Says BOJ Will Weigh Talking to Markets About Exit Strategy at Right Time

Bank of Japan Gov. Haruhiko Kuroda on Tuesday said the central bank will consider communicating with markets about its exit strategy from its current easing policy when the time comes, but not now. "We will consider explaining about an exit at an appropriate timing, taking into account potential impact on markets," Mr. Kuroda said at a parliamentary committee.

The Euro Surged Last Year But Central Banks Didn't Bite

The euro's big rally over the past year hasn't convinced central banks to park their cash in the currency. Central banks held roughly 20% of their currency reserves in the euro at the end of last year, edging up from 19% a year earlier, according to a report from the International Monetary Fund released on Friday. The IMF's data lags behind by one quarter.

Australia's Central Bank Leaves Interest Rates Unchanged

The Reserve Bank of Australia left interest rates unchanged Tuesday for an 18th straight meeting, without indicating when it might start raising rates as central banks around the world tighten monetary policy. Australia's central bank held its official cash rate at a record low 1.5%, citing expectations of continued benign wage growth and inflation this year.

TUESDAY

8:30 a.m. EDT

Minneapolis Fed's Kashkari speaks

10:30 a.m. EDT

ECB's Mersch speaks

4:30 p.m. EDT

Fed's Brainard speaks

11:30 p.m. EDT

Reserve Bank of Australia releases policy statement

WEDNESDAY

9:45 a.m. EDT

St. Louis Fed's Bullard speaks

11 a.m. EDT

Cleveland Fed's Mester speaks

Quantities and Prices During the Housing Bust

Using housing inventory data, economist Paul Goldsmith-Pinkham shows in a Liberty Street Economics post that places where housing prices fell more experienced a collapse in the number of sales during the 2006 to 2009 housing bust. Meanwhile, places with the smallest price declines saw a gradual fall in sales with a much slower recovery. This likely means that the drop in prices during the housing bust was driven by collapsed demand rather than increased supply, the post states.

Why Tumbling Stocks Didn't Tank Treasury Yields

"With the **stock market** starting off the new quarter with a tumble and further into the red for 2018, it makes sense that yields on long-term Treasurys have fallen. What is notable is that they have fallen so little," writes Justin Lahart for The Wall Street Journal. "The setback in Treasury yields has less to do with the economy than with investors' desire to park their money someplace safer while the **stock market** is unsettled," Mr. Lahart says. "The supply of Treasurys is set to increase as the U.S. government funds its deficit and the Fed winds down its balance sheet."

The Uncertain Future of Central Bank Independence

Otmar Issing asks in a VoxEU column how the critical opinion toward central bank independence can be explained and whether central bank independence will survive. "As a general observation, one might argue that irrespective of de jure independence, a central bank would run into deep difficulties maintaining de facto independence and defending monetary stability against a society of excessive demands," writes Mr. Issing. "However, it would be wrong to conclude that the legal status is irrelevant. Not giving independence to the central bank or, even worse, taking it away would open the door to higher future inflation – which in turn would restart a similar discussion as in the 1980s."

U.S. factories reported robust demand for their products in March but say rising prices for materials, tied to new tariffs, threaten to slow the industry's expansion.

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The New York Times

Business Day
Looming China Trade Action Divides Industry and Roils Markets

By Ana Swanson
1,508 words
2 April 2018
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NYTimes.com Feed
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WASHINGTON — President Trump's promise to take tough action against China's unfair economic practices was one of his most popular campaign ideas. But as the United States prepares stiff trade measures and China retaliates, stock markets have plummeted and some of America's biggest companies are pushing back.

Industry giants like General Electric and Goldman Sachs, as well as agricultural companies, have lodged objections with the White House, saying that tariffs on both sides of the Pacific and limitations on investments will cut off American companies from the world's most lucrative and rapidly growing market.

China imposed tariffs on Monday on more than 100 American products, including pork, fruit, recycled aluminum and steel pipes. Fears of an incipient trade war between the world's two largest economies sent the **Standard & Poor's 500-stockindex** tumbling 2.23 percent and pushed markets into correction territory. Technology stocks bore the brunt of the slump, as a recent spate of bad news about tech companies like Facebook, Tesla and Amazon spooked investors. Asian and European markets fell more modestly in early Tuesday trading.

China's action could be an escalation in a much broader trade dispute. The announcement was a direct response to the Trump administration's tariffs on imports of steel and aluminum, which were directed at a range of countries, including China.

Since then, the White House has announced another trade measure targeted at China that would place tariffs on at least $50 billion worth of products imported to the United States and would restrict investment flows between the two economic giants. This week, the Trump administration is expected to announce a list of Chinese imports subject to tariffs, which could include high-tech products like semiconductors as well as cheap electronics and other goods that many Americans buy.

Josh Kallmer, the senior vice president for global policy at the Information Technology Industry Council, an advocate for companies like Google, Facebook, Apple, Microsoft and IBM, said his group had been largely supportive of the administration's targeting of China's unfair trade practices. But the group had made it clear to the White House that it would not be pleased with any measure that had tariffs "as the primary or even a significant remedy."

"The reason is that it would be a tax on consumers," Mr. Kallmer said, "precisely the people we are trying to support."

Many of the trade measures that Mr. Trump has proposed, including the steel and aluminum tariffs, have divided his advisers, the business community and the Republican Party. But the White House has boasted that its targeting of China's trade practices has broad support from industries on the losing end of the Chinese approach.

That theory could make it more difficult for American companies to operate in a country that already puts up steep barriers.

American companies and business groups have frequently complained that China blocks off valuable markets from American competition, including technology, media and finance, and that it does so in violation of commitments it made when it joined the World Trade Organization in 2001. China has imposed regulations that require American companies to share their technology with Chinese partners, for example, mandating that foreign companies operate through joint ventures if they want access to Chinese consumers. At times, the Chinese have resorted to stealing vital technologies through cyberwarfare, according to United States authorities.

Late last month, the White House said it would crack down on that behavior, outlining a series of actions aimed at punishing China for its trade barriers.

As Mr. Trump advances a series of tough trade measures to confront these behaviors, however, cracks have appeared in American industry's seemingly united front.

Companies in technology, investment and other industries now say that the measures the administration is taking to help them may actually end up doing irreparable harm to supply chains they have built up over decades. Any American company that wants to be a global player cannot afford to lose access to China's growing market, executives say.

Technology companies argue that the restrictive measures the administration is taking to help protect them could end up penalizing American manufacturing, raising costs and making their companies less competitive globally. And industries most vulnerable to retaliation, like agriculture, are protesting about losing valuable export opportunities. While the Chinese did not target soybeans in their initial tariffs list, many in the soybean industry worry they will be penalized in a trade dispute given China's importance as a market for exports.

The 25 percent tariff on pork that China imposed on Monday is expected to be particularly harmful, including in regions that supported the president, like Iowa, North Carolina and Indiana. Last year, American farmers sent more than a billion dollars' worth of pork to China, their largest export market by value after Japan and Mexico.

"Because we're so blessed to have America feed the world, we're also the first industry to get slammed whenever there are trade difficulties between the U.S. and other countries," Denise Bode, the coordinator for the American Fruit and Vegetable Processors and Growers Coalition.

"American farmers appear to be the first casualties of an escalating trade war," said Max Baucus, a former Democratic senator from Montana and a chairman of a group called Farmers for Free Trade. "With farm incomes already declining, farmers rely on export markets to stay above water. These new tariffs are a drag on their ability to make ends meet."

Since Mr. Trump announced the China measures on March 22, American officials, including Treasury Secretary Steven Mnuchin and the United States trade representative, Robert Lighthizer, have been in talks with the Chinese about ways to resolve their differences. The sides have discussed concessions like reducing China's tariffs on American cars, opening up its market for financial services and purchasing more semiconductors or natural gas, people familiar with the talks said.

However, analysts and companies involved in China said that these measures appeared unlikely to adequately resolve American concerns about China's longstanding encroachment on American intellectual property.

Companies are waiting anxiously for the administration to release a list of Chinese products this week that will be subject to tariffs — most likely the kind of high-tech products that the administration has accused China of targeting. The retail industry, which lobbied the administration and Congress against an early plan to impose tariffs on Chinese-made apparel and footwear, is now cautiously optimistic that its products will be exempt.

Restrictions on Chinese investment are expected to follow in the coming weeks. Administration officials have said those rules will aim to restore reciprocity with the Chinese, though it is not clear if the United States will go so far as to bar Chinese companies from investing in the same industries that China restricts. The White House is also considering the use of an emergency economy powers act that could allow it to restrict Chinese investments.

The measures come on top of proposed legislation in Congress to expand the authority of the Committee on Foreign Investment in the United States, which reviews foreign deals for national security concerns. Last month, the committee stalled a hostile takeover of Qualcomm, a California-based chip maker, by a Singapore company, largely over concerns about ceding semiconductor prowess to China.

G.E. and IBM, which operate through joint ventures and other partnerships in China and around the world, have both lobbied against the expansion of Cfius over concerns that restrictions on joint ventures with foreign companies that include the transfer of valuable skills or technology could weaken the position of American companies abroad.

Financial firms, including Goldman Sachs and the Carlyle Group, have also expressed concern about investment restrictions, saying they could provide a drag on the United States economy.

White House advisers, in turn, have complained that previous approaches to dealing with China have not worked, and that companies are overreacting to legitimate trade measures.

Speaking Monday on CNBC, the White House trade adviser, Peter Navarro, defended the administration's tough actions on China and said investors should not fear a trade war.

"Everybody needs to relax," Mr. Navarro said. "The economy is as strong as an ox."

* Trump Hits China With Stiff Trade Measures

* China Slaps Tariffs on 128 U.S. Products, Including Wine, Pork and Pipes

* Trump's Killing of Chip Deal Pushes Protectionism as It Invokes Security

A Chinese state-owned steel plant last year in Hebei. Many of the trade measures that President Trump has proposed, including tariffs on foreign steel and aluminum, have divided his own advisers, the business community and the Republican Party. | Kevin Frayer/Getty Images | On Monday, China imposed tariffs on more than 100 American products, including pork. The 25 percent tariff is expected to be particularly harmful among the Midwestern regions that supported Mr. Trump in 2016. Last year, American farmers sent more than a billion dollars’ worth of pork to China. | Gerry Broome/Associated Press

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THE WALL STREET JOURNAL.
U.S. EDITION

REVIEW & OUTLOOK (Editorial)
Two Can Play at Trade War

684 words
3 April 2018
The Wall Street Journal
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English

Donald Trump hasn't been talking about the rising **stock market** lately, and no wonder. Stocks have given up their earlier gains since the President unveiled his protectionist trade agenda, and the **Dow Jones Industrial Average** fell another 1.9% on Monday. Tech stocks took a particular beating as **Nasdaq** fell 2.74%, but the main policy concern is the new uncertainty from rising trade tension.

China slapped punitive tariffs on 128 categories of American goods on Monday in retaliation for the Trump Administration's national-security levies on steel (25%) and aluminum (10%) imports last month. The Chinese response so far is measured, affecting $3 billion in annual trade or about 2% of U.S. goods exports to China, but it sends a pointed message that a larger trade war would hurt American businesses, farmers in particular.

American pork producers are the biggest targets in this retaliation, since they sold more than $1 billion in meat to China last year and will now face a 25% tariff. Demand for pork from countries such as Japan, South Korea and Mexico is growing, while exports to China fell by 11% in the past five years. That reflects a glut and falling prices in China. Hog farmers in states such as Iowa and Illinois should still reap an expected 5% growth in overall exports this year, but any growth in China will be filled by farmers in other countries.

Greater damage may come from China's 15% tariff on American fruits, nuts and sparkling wine. Apple growers in Washington state only gained full access to the Chinese market in 2015 and have seen rapid growth in exports from zero three years ago. Sales of American wine to China, almost all from California, grew 10% last year to $197 million, still a small percentage of total production. Such industries now face headwinds to building market share.

California nut farmers are especially vulnerable since China is their largest export market. According to the Golden State's agriculture department, they sold $530 million in pistachios and $518 million in almonds to China in 2016. For pistachio farmers, China accounts for 55% of total exports. Almond exports are down from five years ago because drought limited production, but sales to China rebounded 6% last year.

A Chinese medicinal root is one of the more obscure items on the 15% tariff list, and the impact will fall almost entirely on one county in central Wisconsin around the city of Wausau. Ginseng from Marathon County is highly prized in Asia, and about $30 million of it is exported annually to China.

Chinese ginseng farmers have been trying to supplant Wisconsin's lucrative market niche for years, and now they have a chance. Republican Congressman Sean Duffy can thank the Trump Administration for this boost to his opponent's November campaign.

China's retaliation is best understood as an economic and political demonstration, hitting a small number of products to signal where future blows could fall if the Trump Administration imposes punitive tariffs on $60 billion in Chinese goods to punish the theft of intellectual property. It's notable that both Republican-leaning and Democratic states were hit. Tariffs on America's biggest exports to China, such as soybeans and Boeing aircraft, were held in reserve. But don't be surprised if they're on the list if the President imposes Section 301 tariffs as he has vowed to do.

The Trump Administration says it is using tariffs against China as bargaining chips to get a better deal for American exporters. And at least U.S. and Chinese officials are now talking about a new trade understanding. But in the meantime there will be significant collateral damage to innocent business bystanders, American consumers, and the overall U.S. economy.

Mr. Trump risks undermining the policy gains from tax reform and deregulation that have teed up the economy for faster growth. That's the anxiety investors are showing as they sell stocks. Is anyone in the White House paying attention?

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THE WALL STREET JOURNAL.
U.S. EDITION

U.S. News --- THE OUTLOOK: Economic Uncertainty Is on the Rise

By Jon Hilsenrath
802 words
2 April 2018
The Wall Street Journal
J
A2
English

Corrections & Amplifications

An index of economic-policy uncertainty, which averaged 100 from 1985 through 2009, averaged 140.2 during President Donald Trump's first 14 months in office. The Outlook column in the April 2 edition incorrectly said the index averaged 140.2 during President Trump's first 13 months in office and said it averaged 100 between 1985 and 2010.

(WSJ April 10, 2018)

(END)

During Barack Obama's presidency, uncertainty about U.S. economic policy was much higher than it had been during the previous 25 years, according to calculations by a trio of academic economists.

You would think uncertainty would be low now, with economic expansion advanced and secure, the global economy on a stable footing, and a president in the White House focused on helping business by cutting regulation.

But it isn't. The researchers find economic policy uncertainty is slightly higher under President Donald Trump than it was during an Obama era marked by deep recession, auto bailouts, unconventional Federal Reserve interventions into the financial system and routine brinkmanship between Democrats and Republicans on fiscal policy.

The academics devised an "economic policy uncertainty index" that tracks mentions of the words "uncertain" and "uncertainty" in major newspapers' articles about economic policy. The dependence on newspapers could make the index prone to shifts in media coverage of issues or people over time. Still it is instructive. The index averaged 140.2 during Mr. Trump's first 13 months in office, compared with126.0 during the comparable period of Mr. Obama's tenureand 134.7 during his two termsin office.

In January and February of 2018, the index averaged 127, still well above its average of 100 between 1985 and 2010. The measure was developed by Scott Baker, Nicholas Bloom and Steven Davis, of Northwestern University, Stanford University and the University of Chicago Booth School of Business, respectively.

"Obama was president in a time when you needed extreme policy action," said Mr. Bloom. "Trump has incredibly benign economic conditions. He should have very low levels of policy uncertainty."

It is hard to say exactly why uncertainty is high now. Mr. Bloom said it is likely partly because of big policy changes happening in Washington -- such as an aggressive new stance on trade -- and partly because of the decision-making process, which he described as chaotic.

Investors got a taste of Trump era economic policy uncertainty in recent weeks: New U.S. tariffs on steel and aluminum imports and a range of goods imported from China; exemptions from those tariffs dribbled out piecemeal; federal intervention to stop the proposed acquisition of Qualcomm Inc. by a foreign competitor on national security grounds; and the acquisition of Time Warner Inc. by AT&T Inc. landing in federal court.

Last week, Amazon Inc.'s share price dropped 4% in a day after a news report by Axios that Mr. Trump wanted the company to pay more taxes and had concerns that its business model is hurting brick-and-mortar retailers.

Facebook Inc.'s shares were off 10% in March amid a Federal Trade Commission investigation and fears of a regulatory crackdown.

"It has been a gut punch to tech investors," Daniel Ives, chief strategy officer at GBH Insights, an investment research firm, said of the Amazon and Facebook matters.

In theory, uncertainty about the economy and economic policy damps investment, hiring and economic growth, though it would be hard to argue that is a problem now. Business investment rose 6% in 2017, up from an annual average of 3% during Mr. Obama's presidency. Overall economic growth picked up last year and the jobless rate, at 4.1%, is at its lowest level since 2000.

Mr. Trump's supporters can argue policy uncertainty is the outcome of delivering on the changes he had promised, said Stanford's Mr. Bloom. That includes a more muscular trade policy that demands other countries open up as much to U.S. trade as the U.S. does to them, and support of blue-collar industries such as manufacturing. Still, he said, the concern surrounding Mr. Trump's policies represents "an unnecessary cost" to the economy.

It is also hard to see a comprehensive policy framework behind Mr. Trump's interventions, making it hard to predict what might come next.

Some analysts have described the trade approach as mercantilism, a government effort to prop up exports and restrain imports in pursuit of trade and financial surpluses. But Qualcomm, AT&T and Amazon aren't about that.

"He's picking winners and losers," said Matthew Slaughter, dean of Dartmouth's Tuck School of Business, who also served as an economist at the Council of Economic Advisers under President George W. Bush.

Andy Laperriere, an analyst at Cornerstone Macro, an economic research firm in Washington, said there is no question the president's recent trade moves are creating uncertainty in **financial markets**.

But other actions, like the shots he took at Amazon, are more benign because they won't amount to much change in regulation.

His advice to Wall Street: "Don't fear the Tweeter."

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THE WALL STREET JOURNAL.

Politics

U.S. Pork Producers, Fruit Growers Brace for China Tariffs; Beijing is targeting about $3 billion in American exports

By Joshua Zumbrun in Washington, D.C., Jacob Bunge and Jesse Newman in Chicago
1,133 words
2 April 2018
03:17 PM
The Wall Street Journal Online
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English

The escalating trade tensions between Beijing and Washington have pulled America's farmers and agricultural exporters into the melee.

To the dismay of pork producers and fruit growers across the U.S., China on Sunday announced tariffs of as much as 25% on American pork and eight other kinds of goods, as well as 15% tariffs on fruit and 120 types of commodities, which China has said would apply to about $3 billion in products. China's tariffs were retaliation for the 25% steel and 10% aluminum tariffs imposed by the Trump administration last month.

The skirmish is poised to escalate further this week, as President Donald Trump has ordered a series of actions, including a new round of tariffs on as much as $60 billion in Chinese imports, to penalize Beijing over allegations that China is violating U.S. intellectual property rights.

But it is far from clear whether the trade actions will get out of hand. The U.S. and China have also started preliminary talks at reaching a resolution. On the new round of tariffs, the U.S. will first take comment from industry for 30 days and then have 180 days to decide whether to actually levy tariffs.

That gives plenty of time for talks—although the negotiations will they will be conducted under the threat of U.S. retaliation. U.S. officials expect the Chinese to match their threats tit-for-tat, further ramping up the pressure.

The escalation with China is creating a growing list of winners and losers across the U.S. economy. One of America's most successful export industries—agriculture—is taking the hit from the first rounds of the spat, as are industries that consume steel and aluminum, which will now face higher prices.

Near Welcome, Minn., hog farmer Wanda Patsche said she is monitoring the news daily for updates on trade policy, and the potential effect on prices as she prepares to sell half of her farm's pigs by early summer.

"I'm very, very nervous," Ms. Patsche said, adding that declining exports to China could lead to a buildup in U.S. pork supplies, and push down prices for farmers. "Farming itself, without all the political things mixed in there, is already a very **volatile** market."

China's penalties on U.S. meat, fruit and other types of commodities raise uncertainty for U.S. pork sales abroad—particularly in the $1.17 billion world-wide market for byproducts like pigs' feet and tails, where China is the biggest buyer, according to data from the U.S. Meat Export Federation.

"These retaliatory tariffs will disproportionately affect hardworking American pork packers and producers," said Barry Carpenter, chief executive of the North American Meat Institute, a Washington, D.C.-based trade group representing meat companies including Tyson Foods Inc. and Smithfield Foods Inc.

The actions so far are relatively small. The U.S. exported $140.5 billion of agricultural goods last fiscal year, according to data from the U.S. Department of Agriculture. China was the largest single export destination that year, receiving about $22 billion in exports.

The size of Beijing's retaliation—tariffs on about $3 billion of goods—indicates the direct impact of Washington's steel tariff is also not enormous. Only about 2% of U.S. steel imports come directly from China. China's finance ministry suggested Beijing's response is meant to be proportional to U.S. actions thus far.

Investors have cited trade tensions as one reason for the **stock market**'s weak performance this year, with the **S&P 500** down more than 10% since its peak in late January, but the effects on the overall economy appear modest so far.

"The measures taken by the U.S. so far, while ill-advised, are too small to have major macroeconomic repercussions, and even if they spark some inevitable retaliation, the situation is apt to fall far short of a full-blown trade war," said Josh Feinman, chief global economist for DWS, formerly known as Deutsche Asset Management.

Washington's trade leaders have said they are playing a longer-term game to stop Beijing's unfair trade practices, and aren't focused on short-term impacts.

During a Senate Finance Committee hearing on March 22, U.S. Trade Representative Robert Lighthizer said: "it's not possible to take the position that because of soybean farmers we're not going to stick up for our rights in a whole variety of ways, and have hundreds of billions of dollars with the other exporters and domestic producers be punished because of unfair trade."

Soybeans weren't targeted for tariffs by China, the world's biggest buyer of the oilseeds, but the U.S. agriculture sector worries soybeans could draw future retaliation if the trade dispute escalates.

Lawmakers, especially from the Midwest, are worried about the effect of tariffs on their agriculture producers, but many share the administration's concerns about Beijing's trade practices.

"The Midwest will likely be the most vulnerable in this," said Rep. Don Bacon (R., Neb.). But he doesn't think the U.S. should back off from targeted tariffs against China.

"China is being unfair and to have free trade, there has got to be fairness in it," Mr. Bacon said.

The U.S. fruit industry also is bracing for turmoil. China last year represented a $460 million market for U.S. fruit and tree nuts, and growers of products from cherries to pistachios fear a possible reduction in export volumes or prices as a result of retaliatory tariffs.

John S. Gless, who grows citrus fruit on 7,500 acres in California, said the tariffs come just as he is purchasing supplies for next year's navel orange crop, a growing percentage of which is sprayed, pruned and weeded with export to China in mind.

California cherry growers are about 30 days out from the start of harvest and particularly worried about access to Chinese markets, said Matt McInerney, senior executive vice president at Western Growers, which represents produce farmers, handlers and shippers from states including California and Arizona.

Regardless of political tensions, "the trees keep producing and you keep harvesting," Mr. McInerney said. "We're collateral damage in a broader trade problem."

Charles Hutzler in Beijing and Natalie Andrews in Washington contributed to this article.

Write to Jacob Bunge at jacob.bunge@wsj.com and Jesse Newman at jesse.newman@wsj.com

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* Trump to Impose Steep Aluminum, Steel Tariffs

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THE WALL STREET JOURNAL.

Markets

Foreign Investors Are Bulking Up on U.S. Treasury Bonds Once Again; In February, overseas investors bought their largest share of Treasury notes and bonds since May 2016

By Daniel Kruger
817 words
2 April 2018
06:30 PM
The Wall Street Journal Online
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English

A surge in demand for U.S. government debt from foreign investors is providing a bulwark against a further rise in Treasury yields.

Foreign investors in February bought their largest share of Treasury notes and bonds in U.S. government debt auctions since May 2016, according to Treasury Department data. Those purchases continued even while Treasury yields, which rise as **bond prices** fall, were climbing to multiyear highs. Yields have climbed as the U.S. ramped up bond sales to fund tax cuts and increased government spending, boosting the supply of debt, even as some investors bet such policies would lift growth and inflation, hurting the value of bonds.

The yield on the benchmark 10-year U.S. Treasury note closed at 2.732% Monday, compared with 2.741% Thursday. The market was closed on Good Friday.

Support from overseas investors is one element that could help prevent yields from climbing much further. Their demand is important because the rise in bond yields has been among the factors spurring **volatility** in the **stock market**. Rising bond yields can hurt stocks by increasing the borrowing costs for consumers and companies, crimping earnings growth. They also can make stocks, whose valuations are often calculated relative to bond yields, look less attractive to investors.

While foreign investors have played a key part in funding the U.S. government in recent decades, their holdings of Treasury debt fell in 2015 and 2016 as the Federal Reserve began to tighten monetary policy while other central banks bought bonds.

A number of factors could be driving the increase in foreign demand at bond auctions this year, analysts said. One is the weak dollar, which has led to a comparative strengthening of many emerging-market currencies. The central banks of those countries have bought Treasurys to help slow appreciation in their currencies, which could hurt their exports.

To the extent demand for U.S. debt comes from government entities such as central banks, it will be concentrated in Treasurys rather than the higher-yielding corporate bonds preferred by private investors, said Krishna Memani, chief investment officer at OppenheimerFunds Inc.

Central banks have indeed been a resurgent source of demand for U.S. government debt. The amount of Treasurys held for foreign central banks by the Federal Reserve has climbed to a record $3.1 trillion in March, and is up 7% from a year ago, according to central-bank data. The surge has coincided with a 7.3% decline in the WSJ Dollar Index in the past 12 months.

Foreign purchases of U.S. financial assets are also, in part, a byproduct of trade deficits stemming from strong consumer activity, analysts said. Foreign exporters often use the dollars they accumulate through trade to buy Treasurys.

Some overseas investors have shied away from buying Treasurys because the cost to hedge the currency risk against the euro and the yen has risen with the weakness in the dollar. But some others are willing to hold dollar assets without hedging, according to analysts.

"When the dollar floats down, some central banks try to keep their currency from floating up," said Brad Setser, an economist at the Council for Foreign Relations. "Hence, there has tended to be more foreign demand for Treasurys when the dollar is weak, paradoxically."

Among the factors that could disrupt the increase in demand for Treasury debt: rising tensions over trade, particularly with China, the largest U.S. trading partner.

"If their trade balance goes down, they're going to have less dollar reserves to invest in Treasurys," said Brian Brennan, a portfolio manager at T. Rowe Price Inc. "We definitely need foreign buyers."

The U.S. government plans to borrow more money this year than ever before, raising concerns among some investors about where demand for the debt will come from.

The Treasury is increasing the amount of notes and bonds it is selling by $42 billion in the three-month period ending April 30, and some analysts say similar increases will be needed in coming quarters to fund the U.S. budget deficit that has risen in the wake of the $1.5 trillion federal tax package.

The last time the U.S. ramped up its borrowing, during the 2008 financial crisis, overseas investors stepped up. In a four-year period starting in June 2008, they more than doubled their holdings, snapping up $2.5 trillion of Treasury securities.

Foreign investors don't even need to add significantly to their holdings of Treasury debt to bolster the bond market. With more than $6 trillion of U.S. government debt held overseas, reinvesting proceeds from maturing securities into new Treasurys helps keep yields down.

Write to Daniel Kruger at Daniel.Kruger@wsj.com

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THE WALL STREET JOURNAL.

Markets
Treasury Meets With Banks, Trading Firms As It Weighs Releasing More Market Data; The debate over making the data public divides the financial-services industry

By Andrew Ackerman and Daniel Kruger
663 words
2 April 2018
11:34 AM
The Wall Street Journal Online
WSJO
English

U.S. policy makers are meeting with banks and trading firms about whether to release to the public data on the $14 trillion U.S. Treasury market that the government has been collecting since last summer.

"We are having thoughtful discussions with a wide range of market participants," a Treasury spokeswoman said Monday.

The debate over making the data public divides the financial-services industry. In general, big banks favor keeping the data for regulators' use only, while high-speed traders and hedge funds support making it public.

Treasury is expected to meet this week with New York-based trading firms followed by another set of meetings next week in Chicago, two people familiar with the meetings said. They have already met with each of the 23 primary dealers that participate in U.S. government bond auctions overseen by the Federal Reserve, a third person said.

Traders have been required to report secondary Treasury trades—those in which existing bonds change hands—to regulators since July.

Treasury officials say they want to ensure that public dissemination of the data does no harm to the market and enhances its liquidity, or the ability to easily buy and sell the securities.

The meetings aren't intended to solicit support or ensure any kind of consensus about the benefits of this kind of disclosure, said a head Treasury trader at a primary dealer firm. "They're going to do this—they just wanted to know what we think," the trader said, adding he believes Treasury officials have decided the move would make markets more efficient.

The government hasn't determined whether to make it available at the end of each day or each week, the trader added. In meeting with the primary dealers, Treasury officials have asked, "would it hurt liquidity, would it move people away from trading in secondary markets," the trader said.

At a November conference hosted by the Federal Reserve Bank of New York, Craig Phillips, counselor to Treasury Secretary Steven Mnuchin, said he had received a mixed response from market participants on the benefits of releasing the data.

Still, he said he understood "the importance of transparency and the potential value" of making some data public.

Regulators made it a goal to track Treasury trades after the bond market showed signs of instability in an Oct. 15, 2014, episode that became known as the Treasury "flash rally" because it sent prices surging and yields plummeting before they quickly rebounded. The event drew comparisons with the 2010 **stock market**"flash crash" in which the Dow plunged several hundred points within minutes. Reporting on government bond trades has lagged behind the **stock market**'s requirements and even reporting for other types of debt.

After the 2014 episode, the Fed, Treasury and the Securities and Exchange Commission launched a series of measures to provide regulators with new tools to monitor changes in the market. Their cooperation required new agreements between regulators, who had varying access to data.

The 23 primary dealers have purchased 31% of the debt sold by the Treasury this year, with the rest bought by various classes of investors. The dealer take is down from 46% in 2013, according to Treasury. Trading volumes among the dealers have been largely stagnant even as the amount of outstanding debt has grown, according to Federal Reserve data.

Some dealers attribute the lack of growth in trading to the active role played by the Fed in purchasing Treasury debt as it tried to use innovative monetary policy tools to stimulate economic growth during a period where fiscal authorities were gridlocked, blocking additional government spending.

The Financial Times reported earlier on the meetings with trading firms.

Write to Andrew Ackerman at andrew.ackerman@wsj.com and Daniel Kruger at Daniel.Kruger@wsj.com

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THE WALL STREET JOURNAL.

U.S. Markets
Markets
Stocks Tumble on Tech Selloff; Tech-heavy Nasdaq falls 2.7%, giving up its gains for the year

By Akane Otani and Kosaku Narioka
645 words
2 April 2018
04:42 PM
The Wall Street Journal Online
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English

Corrections & Amplifications

Official Chinese manufacturing data over the weekend indicated a three-month high. An earlier version of this article incorrectly stated that it was a three-year high.

U.S. stocks tumbled on the first day of the second quarter, as sliding technology shares and rising global trade tensions dragged major indexes lower.

Stocks began the day on a downbeat note, with technology shares in Asia coming under pressure after a fresh string of negative news hit many of the industry's leading companies.

The losses then carried through to the U.S., where every stock in the **S&P 500** technology sector ended lower for the day.

Amazon.com shed $75.35, or 5.2%, to $1371.99, Tesla slipped 13.65, or 5.1%, to 252.48 and Facebook fell 4.40, or 2.8%, to 155.39, deepening its decline after its biggest one-quarter percentage loss since 2016.

The selling spread beyond companies whose businesses have come under scrutiny in recent weeks, with online retailer eBay losing 88 cents, or 2.2%, to 39.36 and Mastercard falling 3.56, or 2%, to 171.60.

Monday's moves added to what has been a rough patch for the **stock market**, which has struggled for traction this year as investors have grappled with rising interest rates, weakness in technology shares and rising global tensions.

The **Dow Jones Industrial Average** fell 458.92 points, or 1.9%, to 23644.19, after falling as much as 758 points earlier in the session and logging its biggest quarterly loss in more than two years.

The **S&P 500** lost 58.99 points, or 2.2%, to 2581.88 and the **Nasdaq Composite** declined 193.33 points, or 2.7%, to 6870.12, re-entering negative territory for the year.

Shares of manufacturers slid after China imposed tariffs on a range of U.S. agricultural goods, following through on a promise to retaliate against the Trump administration's penalties on imports of Chinese steel and aluminum.

Caterpillar lost 3.49, or 2.4%, to 143.89, Boeing lost 5.44, or 1.7%, to 322.44 and farm-machinery maker Deere lost 3.50, or 2.3%, to 151.82.

Many investors fear a significant tightening of trade policies could crimp global growth, raising costs for firms and chipping away at their earnings.

"Global free trade has helped fuel a lot of the gains we've seen in this recovery. I worry about the increasingly negative sentiment toward global growth and trade, not just in the U.S. but across borders," said Burns McKinney, portfolio manager at Allianz Global Investors.

Still, for now, estimates suggest that the strengthening global economy and gains from a $1.5 trillion tax cuts package will help corporate earnings keep growing—something that investors say should help fuel further stock gains.

S&P 500 earnings are expected to grow 17% in the first quarter from the year-earlier period, according to FactSet, building on gains that helped propel the index to its fastest pace of earnings growth since 2011.

Elsewhere, European markets remained closed for the Easter holiday, while lingering concerns about the technology sector broadly weighed on indexes across Asia.

Japan's Nikkei Stock Average lost 0.3% and South Korea's Kospi fell 0.1%, with index heavyweight Samsung Electronics losing 1.3%.

"It's more a political concern regarding Trump now. And investors are unclear about how the situation will pan out," said Takashi Hiroki, chief strategist at online brokerage Monex Securities, flagging investor concerns over the U.S. tech sector and regulation.

Analysts and fund managers say political concerns are difficult to factor in, and they don't rule out a renewed flare-up of tensions or movements in the coming weeks.

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THE WALL STREET JOURNAL.

Markets

Up-and-Down IPO Longfin Is Facing an SEC Probe; The financial-technology company, which went public under 'Reg A+,' has fallen sharply in recent days

By Jean Eaglesham and Aaron Back
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Longfin Corp. took advantage of post-financial-crisis rules designed to create jobs and help young companies go public. But the financial-technology company, which was valued at $5.4 billion as recently as 10 days ago, is now under investigation by the Securities and Exchange Commission after it failed to disclose important information and left a trail of misstatements behind.

Since Longfin's December initial public offering, which raised $5.7 million, the company's price first rose 13-fold, then fell by 80%, all in less than four months. In the run-up to the IPO, the company, which says it operates computer platforms for trading on the Singapore and other stock exchanges, failed to disclose important information and misstated facts as basic as the age of its controlling shareholder, according to a review of securities filings.

On Monday, the company disclosed the SEC probe while also reporting material weaknesses in financial controls. The company, which said it is cooperating with the probe, said it may not be able to continue as a going concern.

The shares closed Monday down 17% at $14.31, above its IPO price of $5.

Longfin went public using a provision of the Jumpstart Our Business Startups Act of 2012, known as Reg A+. The rules allow companies with less than $1 billion in annual sales to bypass some accounting and disclosure requirements imposed on bigger companies, but they do require accurate reporting.

The other nine Reg A+ IPOs that have listed on U.S. exchanges or been issued over the counter have lost more than half their value on average, Dealogic data show.

Concerns about Longfin shine a light on the apparent ease with which IPOs are being approved under the Reg A+ regime, lawyers said. "Everyone understood we were rationalizing the disclosures [required] but nothing as flimsy as what appears to have happened here," said James Cox, a law professor at Duke University. "We're going to look back on Reg A+ and think this was an experiment that didn't get managed very well."

The SEC gave Longfin the green light to sell shares based on one month's audited financial statements, which showed that 96% of the company's expenses were paid to a company controlled by Longfin's owner, Venkat Meenavalli, an Indian entrepreneur. The company also provided two years of audited statements for a Singaporean subsidiary, which generates most of its revenue.

An SEC spokeswoman declined to comment.

Mr. Meenavalli, who says he controls 90% of Longfin shares, told The Wall Street Journal he is "based out of Dubai" but intends to spend 15 days a month in the U.S. He said its sole U.S. office space—a small room with three desks and no computers in a shared-office building in downtown Manhattan that was deserted at 9:30 on a recent weekday morning—is temporary. Longfin plans to open a bigger office in New York and is hiring more U.S. employees, he added.

Mr. Meenavalli rejects any suggestion of financial misconduct, saying short sellers, who have borrowed and sold short almost 15% of the shares available to trade, according to FactSet, are motivated by greed. "They enter into their own fire," he said.

A tiny portion of Longfin shares were sold in the Dec. 13 IPO. Two days later, Longfin disclosed that its chief financial officer and chief operating officer had resigned just before the offering. But on the same day, the company said it had acquired a crypto company, Ziddu.com, from a company controlled by Mr. Meenavalli.

Longfin shares rose more than 1,200% over the next two sessions to a peak value of $72.38.

Mr. Meenavalli is 48 years old, according to records he confirmed in an interview, although in a May 2017 SEC filing he is listed as 45. Described in that filing as "a financial wizard," his biographies for some earlier companies show him having a computer-science degree from Australia's Suffield University. His Longfin biography lists a diploma in international trade finance from Middlesex University in the U.K.

In SEC filings, Longfin reported it had 20 employees in March 2017. The number dropped to two the following month, rose to 15 in July, fell to three in November and was reported as 18 on Monday. A filing in July 2017 listed Sarah Altahawi, 23, as a New York-based executive. Ms. Altahawi said Monday she is not a company officer, "so that was a mistake."

Her father, Andy Altahawi, said she was a secretary. He was issued 2 million Longfin shares for advising on its IPO, according to filings. He said he "managed the SEC process as a consultant" and didn't act as a banker or underwriter. Mr. Altahawi was listed on Longfin's website as a director until September, when the SEC questioned why he wasn't included in the company's filings.

"I'm not a director…never was—what was online was untrue," he said. Mr. Meenavalli said Mr. Altahawi was an officer for two months but then resigned and declined an invitation to join the board.

At its peak value, Longfin was included for eight trading days in the Russell 2000 small-company **stock index**, which would draw in some of the $122 billion in funds that follow the index. Short-sellers said Russell made a mistake because just 1.5% of Longfin's shares traded, below the 5% minimum. Russell said it made the decision based on Longfin's IPO disclosures, which said more shares would trade. Its reversal, announced March 26, sent the shares down 41% the next day.

Mr. Meenavalli told the Journal Friday that the company now has a 7% free float thanks to the unlocking of some IPO shares. Mr. Meenavalli said Russell told him "they are going to include us back."

A spokesman for Russell said Longfin would be assessed like any other company during the next quarterly index update. The spokesman also confirmed that the Journal's calculation, based on available information, that only 4% of the shares are available for trading "is accurate."

Mr. Meenavalli said Longfin "went through a stringent process of [approval by] SEC and **Nasdaq**" and that its filings are being unfairly judged against the tougher standards set for bigger companies.

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THE WALL STREET JOURNAL.

Markets

Tech Bonds Outperform While Stocks Fall; Investors are demanding higher yields to hold bonds of technology firms, but not as high as other sectors

By Sam Goldfarb
471 words
2 April 2018
06:28 PM
The Wall Street Journal Online
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English

Technology stocks fell again Monday, but the sector has fared relatively well recently in the bond market—a signal that there has been more concern about the growth prospects of tech companies than their fundamental credit quality.

The extra yield, or spread, that investors demand to hold investment-grade tech bonds has increased 0.17 percentage point to 0.88 percentage point from its recent low on Feb. 2, according to Bloomberg Barclays data. During that time, the spread on investment-grade corporate bonds over U.S. Treasurys has climbed 0.24 percentage point to 1.09 percentage point.

By contrast, the **S&P 500** information technology sector has fallen roughly 6% over the past month—a larger drop than the 4.5% decline of the overall **S&P 500**. After powering stock indexes to records earlier this year, tech stocks have come under pressure in recent weeks due partly to data-privacy concerns and increased scrutiny from regulators and lawmakers.

Prices on tech bonds, for their part, have also fallen but only modestly and, analysts say, largely for the simple reason that benchmark interest-rates are rising.

FAANG companies—Facebook Inc., Amazon.com Inc., Apple Inc., Netflix Inc. and Google parent Alphabet Inc.—tell the same story.

While Facebook doesn't have bonds, the spread on Amazon's 3.15% notes due 2027 has increased by 0.19 percentage point since Feb. 2 to 0.84 percentage point, according to MarketAxess. Apple's 3% bonds due 2027 have widened by 0.17 percentage point to 0.76 percentage point. And Alphabet's 1.998% bond due 2026 has climbed 0.15 percentage point to 0.50 percentage point.

As a junk-rated firm, Netflix is in a different category. But it has also performed better than its peers. While the average high-yield bond spread has increased 0.43 percentage point since its recent low on Jan 26, the spread on Netflix's 5.875% notes due 2025 has climbed just 0.35 percentage point to 2.3 percentage points.

The relative strength of technology bonds can be tied to two major factors, said Jordan Chalfin, a senior analyst at the research firm CreditSights.

"There's a lot of headline risk, mostly regulatory, that I think could have implications for the upside on equities, but I don't think anyone is questioning the sustainability of these businesses," he said.

In addition, the recently passed tax overhaul has made it easier for technology companies to repatriate foreign earnings, meaning they no longer need to issue debt to fund shareholder-return programs. A reduced supply of technology bonds should bolster prices, Mr. Chalfin said.

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WSJ PRO BANKRUPTCY

Pro Bankruptcy
Judge Approves Fieldwood Energy Chapter 11 Plan; Fieldwood wins OK for plan to both pare $1.6 billion from its balance sheet and acquire Noble Energy Inc. oil and gas assets located in the Gulf of Mexico

By Jonathan Randles
493 words
2 April 2018
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WSJ Pro Bankruptcy
RSTPROBK
English

A judge has approved oil producer Fieldwood Energy LLC's plan to both pare $1.6 billion from its balance sheet and acquire Noble Energy Inc. oil and gas assets located in the Gulf of Mexico.

Judge David R. Jones of the U.S. Bankruptcy Court in Houston said Monday that he will sign off on a prepackaged reorganization plan that will propel Fieldwood out of chapter 11 after seeking protection on Feb. 15. The bankruptcy filing followed months of negotiations with lenders and equity sponsor and junior debt holder, Riverstone Holdings LLC over a balance-sheet restructuring.

The chapter 11 plan raises $525 million through a rights offering for junior lenders and consummates the acquisition of Noble Energy's deepwater assets in the Gulf for a purchase price of $480 million. Fieldwood's business will be funded by a $1.143 billion senior exit loan and $518 million junior exit loan. Unsecured creditors of Fieldwood will be paid in full, court papers say.

Matt Barr, a bankruptcy lawyer from Weil, Gotshal & Manges LLP, called the chapter 11 plan "unique and extraordinary" because it includes the Noble Energy transaction, which will expand Fieldwood's footprint in the Gulf. The plan will also reduce Fieldwood's annual debt service plans by $128 million, court papers say.

"I think it's incredibly efficient use of the process," Judge Jones said, describing how the chapter 11 plan contemplates both a recapitalization of Fieldwood's balance sheet and a sale transaction.

The only challenge to confirmation was an objection from the U.S. trustee, who challenged a provision in the deal to award stock in the reorganized business to company executives. The proposal calls for management to receive 10% of the equity in the new company after Fieldwood leaves bankruptcy. The government watchdog argued that the incentive payments violated the the bankruptcy bode because they were retentive in nature.

Judge Jones overruled the objection. He noted during the hearing that terms of the plan, which included the equity awards, were overwhelmingly supported by Fieldwood's stakeholders.

Like many Gulf drillers, Fieldwood was jolted when **oil prices** began to slide back in 2014. However, a few years later, the company was able to sell new debt to a group of institutional investors and use the proceeds to repay its bank lenders.

While U.S. **oil prices** have rebounded to more than $60 a barrel from their depths of the recent price crash, they remain well below the more than $100 that crude traded for when Fieldwood spent more than $4.4 billion on offshore fields in 2013 and 2014. Natural gas prices, meanwhile, have remained in a prolonged slump.

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WSJ PRO FINANCIAL REGULATION

Markets
Change in Lenders Reduced Banks' Sensitivity to Global Risk

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March 20, 2018

International bank lending, particularly cross-border loans, became less sensitive to global risk and more sensitive to advanced economies' monetary policies after the 2008 financial crisis, according to a VoxEU post by researchers from the Bank for International Settlements, the Federal Reserve Bank of New York and Bocconi University. The shift was mainly the result of increased lending by "better-capitalized national banking systems, which tend to be less responsive to fluctuations in global risk conditions," they write. Postcrisis changes to improve bank capitalization and stability also might have helped reduce **volatility** in relation to global risk, they said.

Sarah Chacko

Document RSTPROFR20180402ee42000b5

THE WALL STREET JOURNAL.

World

The 10-Point. A personal, guided tour to the best scoops and stories every day in The Wall Street Journal, from Editor in Chief Gerard Baker.

By Gerard Baker
1,211 words
2 April 2018
07:02 AM
The Wall Street Journal Online
WSJO
English

Good morning,

Power Struggle

The Trump administration's commitment to coal is facing its stiffest test yet after an Ohio energy company made a plea to favor that power source over its many rivals. FirstEnergy's fleet of coal-fired and nuclear power plants filed for bankruptcy over the weekend, just days after the company asked the federal government for an emergency order that would keep many of the facilities open. The Energy Department now has to decide whether to compel the nation's biggest grid operator to cut deals that shift more of such plants' costs to consumers. President Trump has been one of coal's biggest boosters as the industry battles rising competition from such alternatives as natural gas and solar power. While a successful plea by the Ohio company could protect thousands of jobs at coal plants, it could also hurt rival energy businesses and raise electricity prices for customers in states across the Midwest and Mid-Atlantic regions. That would pose a significant risk to Mr. Trump by antagonizing his supporters among electricity users and companies in the oil-and-gas industry that have become primary suppliers to power plants.

Quarter for Your Thoughts

Investors are entering the second quarter with an apprehensive mind-set in the wake of a selloff in technology shares and increasing concern about the impact of rising interest rates. Shares wobbled in the first quarter: The **S&P 500** posted its first quarterly loss since 2015, while the **Dow Jones Industrial Average** slipped 2.5%. U.S. bond investors are similarly wary—the yield on the benchmark **10**-**year Treasury** rose for a third consecutive quarter. Other credit assets also suffered: Investors yanked money from junk-rated debt funds, and municipal bonds posted an unusual first-quarter decline. Uncertainty about inflation, rising rates and global trade fueled a surge in **volatility** in the **stock market**. The Cboe **Volatility** Index, or VIX, notched one of its biggest quarterly gains to date, rising about 80%. For bitcoin, a market familiar with wild price swings, the first three months of the year marked its second-worst quarter on record. Cocoa delivered the best performance on our list of the quarter's winners and losers, while lean hogs came in last.

Help Wanted

A labor problem is playing out in many parts of the Midwest: too many jobs and not enough people. The 12-state region is the only area of the U.S. where openings outnumber out-of-work job seekers. Employers, especially in more-rural areas, are facing a labor shortage that upends a long-running view among policy makers that the unemployed simply lack the skills to get hired. While President Trump has touted worker-training programs, and states are spending tens of millions of dollars to address the supposed "skills gap," many job openings in places such as Iowa are in small towns and rural communities that are losing population as people move to bigger cities. More generally, uncertainty about U.S. economic policy is slightly higher under President Trump than it was during former President Obama's tenure, according to calculations by a trio of academic economists, despite the tight labor market and overall steady economy. During Mr. Obama's presidency, such policy uncertainty was much higher than it had been in the previous 25 years, the researchers found.

Blockbuster Dependency

"Black Panther" has become one of the most successful movies to date in a near-record amount of time, completely dominating the winter box office. However, its success highlights a potentially troubling trend for Hollywood: Ticket sales are increasingly concentrated among just a few ultrasuccessful pictures. With $650.7 million and counting, the superhero film is on track to become the third-highest-grossing movie in the U.S. and Canada, adding to a string of hits by Disney-owned Marvel Studios. "Black Panther" has accounted for 23% of all ticket sales in the first three months of the year, according to comScore. In 2015, 2016 and 2017, the top 10 movies raked in between 32% and 35% of the total box office. So far this year, that figure is 58%.

Today's Video

Dr. King's Letter

On the night before the Rev. Martin Luther King Jr. was assassinated—50 years ago this week—he delivered an unprepared speech in Memphis that became known as the "mountaintop" speech. Dr. King built a theme of that speech around a fan's letter, which hadn't surfaced until now.

TOP STORIES

U.S.

Why Teachers' Strikes Are Becoming a Nationwide Movement

Trump Suggests Any DACA Deal With Democrats Is Dead

WORLD

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South Korea's Diplomatic Overture to the North Features K-Pop

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Inside Nike, a Boys' Club Culture and Flawed Human Resources

MARKETS

How Spotify's Unusual First Day of Trading Will Play Out

No Rent, Cheap Flights: How One Hedge Fund Keeps Costs Low

Number of the Day

$2.5 trillion

The amount of outstanding triple-B-rated U.S. corporate debt, the most to date for companies that have received that rating, the lowest rung of the ladder for companies that are rated above speculative grade, or "junk."

Today's Question

Going back to our story above, what do you think is an appropriate response to FirstEnergy's plea for government intervention? Send your comments, which we may edit before publication, to 10point@wsj.com. Please include your name and location.

—Compiled by Cynthia Lin

Reader Response

Responding to Friday's question about President Trump's rhetoric on Amazon, Victoria Kester of Florida shared: "As a frequent customer of Amazon, I believe it is a well-run company. No one is forced to use Amazon. Others that cannot compete are not offering an equal product or equal services at a competitive price, reflecting our free market system at work. Why does our president, who considers himself a master of the deal, not appreciate that?" Robert Hugins of South Carolina wrote: "President Trump's criticism of Amazon has some validity, especially if it spurs closer public scrutiny of the online retail behemoth." And Aaron Biller of New York weighed in:

"Mr. Trump's point about Amazon destroying jobs is obvious to anyone observing its impact on Main Street retail and chain retailers. But why stop with Amazon? The market has spoken. Rather than scapegoat the trend leader, we should encourage more retailers to join the 21st century."

This daily briefing is named "The 10-Point" after the nickname conferred by the editors of The Wall Street Journal on the lead column of the legendary "What's News" digest of top stories. Technically, "10-point" referred to the size of the typeface. The type is smaller now but the name lives on.

Sign up here to receive "Brexit & Beyond: Europe in Flux," a daily email update on the unfolding Brexit process and its global implications for business and finance.

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Markets Review & Outlook: First Quarter --- Volatility Stages a Return

By Gunjan Banerji
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2 April 2018
The Wall Street Journal
J
R2
English

A measure of **volatility** in U.S. stocks had one of its biggest quarterly rises ever, reflecting growing investor concerns about inflation, rising interest rates and global trade tension.

The Cboe **Volatility** Index, or VIX, surged about 80% during the first quarter after the measure of **equity-market** turbulence slid for three years. Loose central-bank policies and steady economic expansion world-wide suppressed price swings in markets during that streak.

But hints of a pickup in inflation and higher bond yields shattered that prolonged stretch of serenity in the first quarter. The U.S. **stock market** entered correction territory during February, while fears of a trade war continued to spark market tumult throughout March.

"We had a regime change with respect to both **volatility** and interest rates," said Joanne Hill, chief adviser for research and strategy at asset manager Cboe Vest Financial, a majority-owned subsidiary of Cboe Global Markets, which oversees the VIX.

Some investors have taken the recent turmoil as an end to the once lucrative strategies of betting against **volatility** through selling options or making **bearish** wagers via exchange-traded products.

Ms. Hill said retail investors are now putting money into portfolios that include options hedging -- a strategy that can give investors protection when markets turn **bearish**.

When market **volatility** briefly subsided in February, some investors opportunistically loaded up on hedges as options prices slipped.

"We try to take advantage of periods when **volatility** is low to put hedges on," said Baltimore-based Rick de los Reyes, co-portfolio manager at T. Rowe Price.

"The spike in **volatility** that we saw in early February -- that definitely constitutes a change in the market," he added.

Mr. de los Reyes recently scooped up **bearish** put options on individual stocks that he thinks have a weak outlook, including contracts on shares of industrial companies.

One beneficiary of higher **volatility**: options traders, who have been starved of the market gyrations that help them capture profits. Equity options volume is off to a record start in 2018, according to a spokeswoman for Options Clearing Corp., after years of torpor.

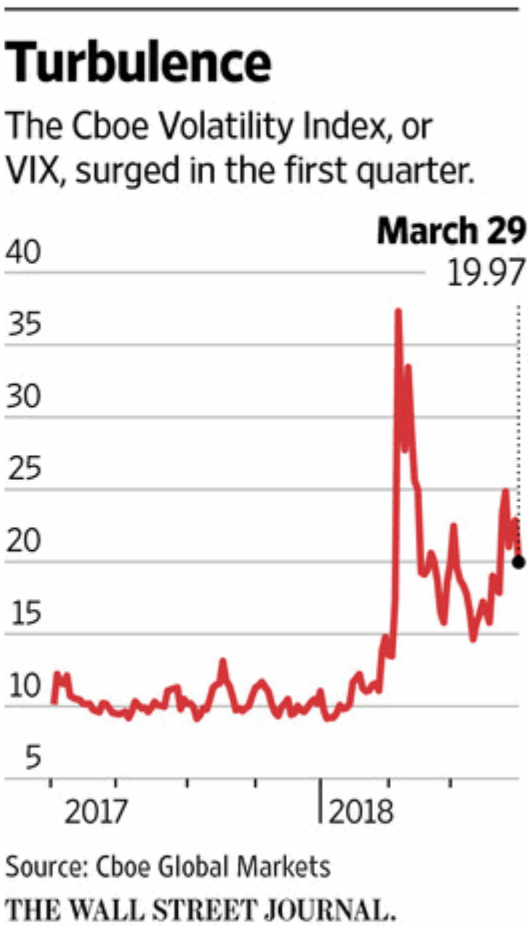
February's turbulence was so severe that it triggered the demise of two ETPs that track the VIX -- a blow to the short **volatility** trade that has become wildly popular in recent years. It also prompted other ETPs to revise their designs, reducing the degree to which investors can wager on **volatility** with a single bet.

At the start of 2018, coming off a year when the **S&P 500 index** surged 19%, few investors had allocated money for stock hedges, tired of burning cash on options contracts that tended to expire worthless since markets were calm.

And some say habits haven't changed much. Jim Strugger, a derivatives strategist at Stamford, Conn.-based MKM Partners, said that the recent tumults haven't triggered big changes in hedging.

Some investors have already reverted to shorting volatility, rather than springing for protection, according to him.

"A little volatility event was not going to dislodge people from the anchoring of the past 10 years," Mr. Strugger said.



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THE WALL STREET JOURNAL.
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Some Fear Shakeout In Triple-B Debt Arena

By Ben Eisen and Sam Goldfarb
852 words
2 April 2018
The Wall Street Journal
J
B1
English

U.S. companies have been bulking up on debt, introducing another wild card into **financial markets** already rattled by the recent tech selloff and the prospect of rising interest rates.

One slice of the high-grade corporate bond universe is fast becoming the epicenter of these concerns. There is $2.5 trillion in outstanding U.S. debt rated triple-B, according to Morgan Stanley, up from $1.3 trillion five years ago and $686 billion a decade ago. That is the most ever for companies rated triple-B, which is the lowest rung of the ratings ladder for companies that are above more speculative, or junk, bonds.

The fear: If the long economic expansion takes a turn for the worse, investors could jettison the debt of more leveraged borrowers such as triple-B issuers. That would further weigh on companies and potentially exacerbate any contraction.

The International Monetary Fund recently highlighted the triple-B risk in a report on financial stability that warned about "a buildup of financial balance sheet" debt.

"When markets start restricting access to capital in a downturn or a **bear market**, we tend to find that leverage levels matter a lot," said Adam Richmond, a credit strategist at Morgan Stanley.

Triple-B-rated bonds, which now account for 50% of the investment-grade market, have weighed on overall returns for high-quality debt this year. They returned negative 2.2%.

And that wasn't just due to rising short-term interest rates. Notably, bonds above and below triple-B on the ratings ladder did better. Double-A bonds fell 1.8%, while junk-rated single-B bonds were down just 0.6%.

Growing apprehension over debt levels is another sign that investors are retreating from risk and are increasingly questioning whether long bull markets in stocks and bonds are nearing an end. Highflying technology stocks have been crushed in recent days, despite rebounding a bit on the final day of trading last week. More broadly, stocks have swung wildly as worries over inflation have emerged.

As the new quarter begins, some money managers are fearing a shakeout. "There's enough manic news in the marketplace right now to keep investor nerves on edge," said Tom Stringfellow, president and chief investment officer of Frost Investment Advisors, a $3.7 billion advisory firm.

In contrast to junk bonds, those most often associated with leverage, high-grade corporate bonds are considered to be some of the safest debt.

Some investors are concerned that the rating scale doesn't fully reflect the risks in a less hospitable market environment. An economic slowdown that hits companies' sales and profits, for example, would spur a rethink of the current ratings breakdown, investors say, potentially leading to many market-roiling downgrades.

"It does appear there may be some overrating, at least compared to history," said Gene Tannuzzo, a bond manager at Columbia Threadneedle Investments, referring to companies having higher ratings than they should.

For now, default rates remain low, making elevated debt levels more of a medium-term worry for investors than an immediate crisis. Companies have also had an easy time refinancing their debt with interest rates at rock-bottom levels, though that could become more difficult and costly in a rising-rate environment. And as long as the economy and corporate earnings continue to grow, debt burdens may be less of a concern.

But there are signs the benign lending environment is eroding. Since Feb. 2, the extra yield that investors demand to own triple-B-rated bonds relative to Treasurys has climbed to 1.34 percentage points from 1.08 percentage points, according to Bloomberg Barclays data.

McDonald's Corp. recently sold $500 million of 30-year bonds at a yield of 1.4 percentage points above the comparable Treasury yield. Just before the deal was marketed, the company's existing bonds with the same maturity traded at a 1.29 point spread, according to MarketAxess. That means the company had to make a meaningful concession to investors to get the deal done.

One reason why the amount of triple-B debt is at record levels: Once highly rated companies have bulked up on debt over the years. McDonald's, for example, was rated AA by S&P and Aa2 by Moody's in 2001. Today, the fast-food retailer is rated BBB+ by S&P and Baa 1 by Moody's -- a five-notch drop down the ratings ladder as its total debt more than tripled.

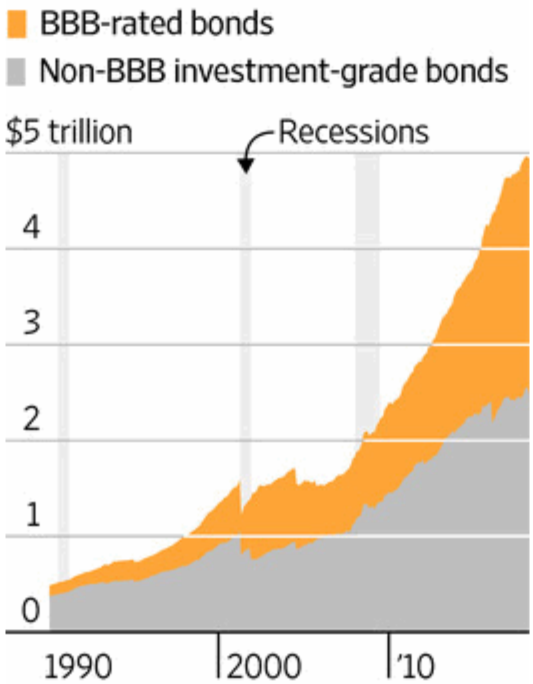
The use of cheap debt to finance megamergers is another factor driving up the amount of lower-rated bonds.

Pharmacy chain CVS Health Corp. issued $40 billion of bonds in March to help pay for its acquisition of health insurer Aetna Inc., boosting its debt load. Moody's Investors Service has put CVS's Baa 1 rating on review for a downgrade, while S&P Global Ratings has already dropped it to BBB from BBB+.

Michael Wursthorn contributed to this article.

Widening Gap

Amount of U.S. investment-grade debt outstanding, by rating category



Sources: Morgan Stanley; Citigroup

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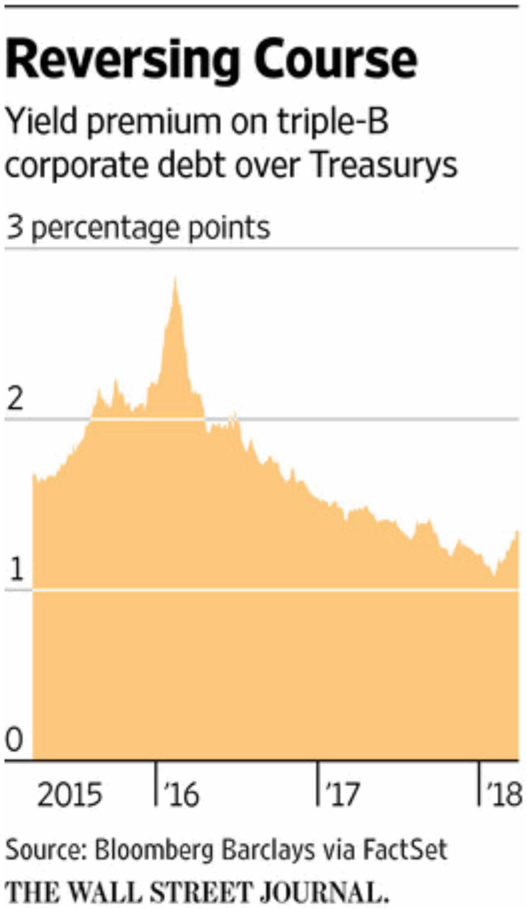

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THE WALL STREET JOURNAL.
U.S. EDITION

Markets Review & Outlook: First Quarter --- Munis Record a Surprise Decline --- Tax overhaul and interest-rate worries damp what is usually a season of strength

By Heather Gillers
521 words
2 April 2018
The Wall Street Journal
J
R6
English

The first quarter is normally one of the best times of year to be a municipal bondholder. Not in 2018.

A widely followed municipal-bond index fell more in the first three months -- 1.11% -- than any first quarter of the past 15 years. That is because new tax rules and concerns about rising interest rates are pushing down demand for new debt from state and local governments.

"We haven't seen prices drop this much in a long time," said Howard Cure, director of municipal bond research at Evercore Wealth Management.

The last time the Bloomberg Barclays Municipal Bond Total Return Index dropped for the entire first quarter was in 2008.

Bond values usually jump in the first few months of the year as investors look to reinvest cash from stock gains and maturing bonds. Prices were expected to again follow that pattern this year due to limited supply.

But this time, demand turned scarce early in the year, partly because Congress late last year passed new legislation lowering tax rates, making tax-exempt bonds less appealing for banks and insurance companies that traditionally hold a large chunk of the nation's municipal debt. The tax rates paid by these institutions fell to 21% from 35%.

"With the lower corporate tax rate, there is less incentive for banks and property and casualty companies to buy munis," said Vikram Rai, Head of Municipal Strategy at Citigroup.

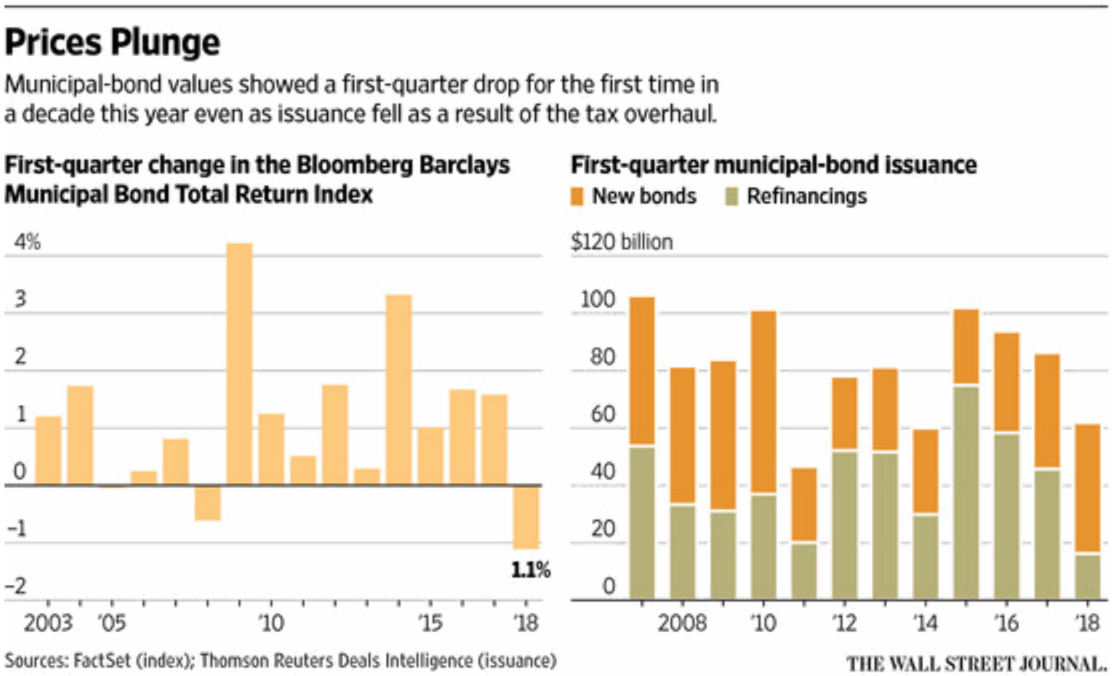
At the same time, individual investors became wary about the prospects for inflation and higher interest rates. Inflation undermines the value of outstanding bonds in part by reducing the purchasing power of their fixed payments, and rising rates make newly issued bonds more appealing than outstanding bonds with lower coupons, driving down their prices. Federal officials in March raised interest rates and are forecasting two more rate increases in 2018.

The low **bond prices** have driven up borrowing costs for state and local governments that have issued debt in recent months. The state of Maryland, for example, is paying yields of 2.54% on 10-year general-obligation debt issued in March. That is up from 2.49% on 10-year general-obligation debt sold in March 2017.

To be sure, mutual-fund investors did buy bonds in January as nearly $6 billion flowed into municipal-bond funds, an uptick analysts attributed to efforts to rebalance portfolios following stock gains. That is 58% above the average for the past five first quarters.

But in February and March, investors put $268 million into municipal-bond mutual funds, according to Lipper data. It was the lowest inflow for the period in five years and a 92% drop from the five-year average for the first quarter.

Some bonds bucked the pricing trend: Municipal debt tied to Puerto Rico increased in value during the first quarter because of investor hopes that the island would recover more quickly from Hurricane Maria than earlier expected.



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THE WALL STREET JOURNAL.
U.S. EDITION

Markets Review & Outlook: First Quarter --- Bond Bears Get Wary of Treasurys

By Daniel Kruger
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2 April 2018
The Wall Street Journal
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R1
English

Investors ended the quarter asking whether the Treasury market selloff has abated.

The yield on the benchmark 10-year U.S. Treasury note posted its third consecutive quarterly gain, boosted by surging expectations for growth and inflation in the wake of a $1.5 trillion tax cut passed at the end of last year.

Proponents of the tax cut said lower levies on corporations would lead to increases in business investment and worker wages, spurring demand and juicing inflation. Inflation undermines the value of bonds by eroding the purchasing power of their fixed interest payments and their principal.

Data showed wages and consumer prices rose in January, encouraging more investors to sell government bonds and driving the yield on the benchmark **10**-**year Treasury** more than half a percentage point higher in less than two months. Yields rise as **bond prices** fall.

But the rise in yields stalled in March. The strong January wage data was revised lower in the following month's labor report. Subsequent weaker-than-forecast inflation data suggested the tax cuts were unlikely to spur growth that matched the move in market expectations. Bonds also attracted buyers as rising yields have spooked some **stock-market** investors, leading to a surge of **volatility** in **financial markets** after a placid 2017.

"The move is in some ways very similar to what we saw after the election" as expectations for acceleration of growth and consumer prices sent investors pouring into stocks and out of bonds, said Wan-Chong Kung, a bond-fund manager for Nuveen. "There's been some tempering of this inflation optimism," she said. "There's some healthy skepticism about growth."

The most recent inflation data showed a loss in momentum. The Labor Department said on March 13 that the consumer-price index, which measures what Americans pay for everything from laundry detergent to motorcycle helmets, rose 2.2% year over year in February, below the 2.3% estimated by economists surveyed by The Wall Street Journal. Core prices rose 1.8% for a third consecutive month, also below economists' expectations.

The 10-year yield reached a four-year peak at 2.943% on Feb. 21, and has since fallen to 2.741%. The increase of 0.332 percentage point was the largest for a quarter since December 2016.

Investors will head into the second quarter looking for signs of whether Federal Reserve officials are edging closer to signaling a fourth interest-rate increase this year. After policy makers raised interest rates at their March meeting, the officials' forecasts showed they are moving closer to the view that they should accelerate the pace of rate increases this year.

Most Fed officials still expect to raise rates no more than three times this year. While policy makers forecasting four rate increases in 2018 remained short of a majority, that cohort of central bankers grew to seven in March from four in December. Policy makers also boosted their projections for the pace of rate increases in both 2019 and 2020.

Those forecasts notwithstanding, many investors said they thought Fed Chairman Jerome Powell showed a bias toward a slower approach to raising interest rates in his first news conference speaking for the central bank. Fed-funds futures, which investors use to bet on central-bank policy, late Thursday showed the chances that the Fed will boost rates for four times this year at 32%, compared with 31% a week before, according to the CME Group.

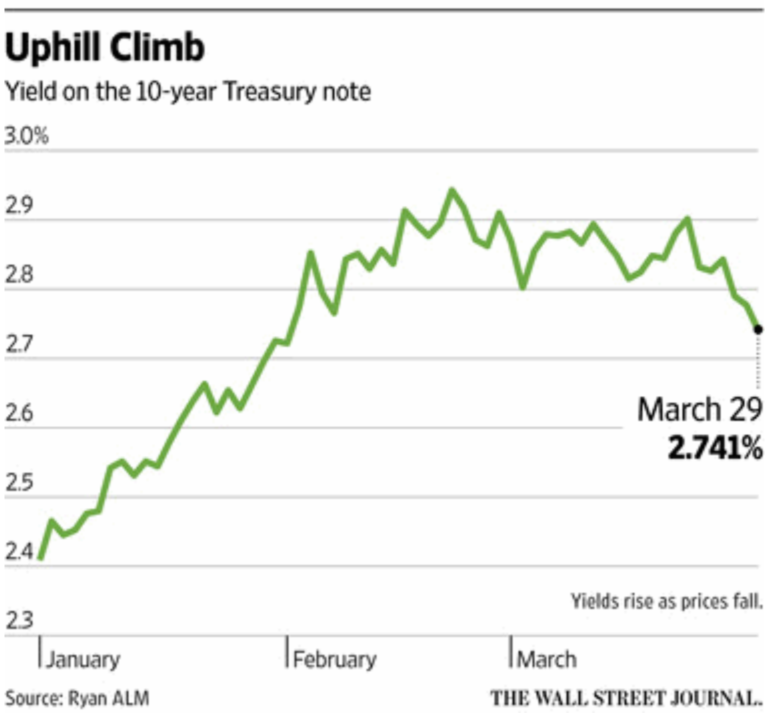
"The Fed's going to have to be convinced to go to four, and right now I'm not seeing this," said Andrew Brenner, head of global fixed income at NatAlliance Securities. "I'd be leaning more towards two than four."

The rising supply of short-term debt being sold at the same time the Fed is raising interest rates is pushing up two-year yields in relation to the 10-year yield, leading to a smaller gap between two- and **10**-**year Treasury** yields. That gap, known as the yield curve, is sometimes seen by investors as a measure of economic health, with steeper, more positively sloped curves signaling a better growth outlook.

Investors also are grappling with the relationship between stock prices and bond yields, as an array of crosscurrents are adding to the uncertainty about the direction of **financial markets**. Rising bond yields in February helped instigate a tumble for stocks as investors became increasingly concerned that the climb might curtail economic growth and reduce the appeal of stocks in analysts' valuation formulas, which often consider bond yields.

At the same time, investors are trying to assess how the economy will respond to a weakening dollar, rising **oil prices** and bond-market credit spreads. With the yield gap between corporate bonds and Treasurys narrowing during the economic expansion, a reversal in that trend could signal problems for the economy.

"There are enough reasons to think that **volatility** is here to stay for the rest of 2018," said Daniela Mardarovici, who helps manage the BMO TCH Core Plus Bond Fund.



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THE WALL STREET JOURNAL.
U.S. EDITION

Energy Stocks Poised to Power Higher --- Analysts think there are bargains following first-quarter decline; some concerns remain

By Michael Wursthorn
759 words
2 April 2018
The Wall Street Journal
J
B12
English

The first quarter wasn't kind to energy companies: The stocks suffered their worst three-month period in three years.

Now some investors think there are bargains to be had.

Energy shares in the **S&P 500** fell 6.6% in the first quarter, extending 2017's 3.8% slide. After surging in December and January as **oil prices** neared $70 a barrel, the sector plunged in early February as the broader market fell on fears about the potential for rising interest rates. Only telecommunications and consumer staples in the **S&P 500** fared worse in the first quarter.

Thanks to solid corporate earnings and higher **oil prices**, however, analysts say the sector is poised for a comeback.

Energy companies, which posted the strongest earnings growth of all 11 major sectors in the **S&P 500** in the latest period, are expected to outperform again when the first-quarter reporting season kicks off. Meanwhile, **oil prices** rose 7.5% to $64.94 a barrel in the first quarter and are continuing to build momentum, having risen six of the past seven months.

A recovery in share prices is also taking hold: Energy stocks climbed 1.6% in March, outperforming the broader **S&P 500**, which fell 2.7% on tumult in the technology sector.

Michael Scanlon, a portfolio manager with Manulife Asset management, says the disconnect between the weak share prices of energy companies and their improved earnings and cash flows has created an "incredible" situation in which the stocks are at their most appealing valuations in years.

"Those cash flow streams going out into the future are far more valuable, yet the stock prices haven't kept in sync with that," Mr. Scanlon said. "That's an environment where oil can be held higher from here. Those stocks are very attractive."

After the recent declines, energy companies' valuations are more in sync with the broader market, analysts say. The shares are trading at 20 times their forward-looking earnings over the next 12 months, compared with 16 times for the broader index, according to FactSet.

"The selloff brought valuations back in line to where they are much more balanced than they were 18 or 24 months ago," said Patrick Palfrey, an energy equity analyst with Credit Suisse, which recently upgraded allocations to energy stocks to "market neutral" from underweight. "We're quite confident that the growth potential for the group remains strong."

Analysts are broadly encouraging investors to increase their energy exposure. About 59% of their projections for energy stocks include "buy" ratings, according to FactSet's data, putting energy among the sectors with the highest number of buy ratings -- the others being technology and health care.

That is partly because energy companies are projected to boost earnings by 79% in the first quarter, the most of any other sector, in part because of higher **oil prices**. The **S&P 500**, altogether, is expected to grow earnings 17% in the first quarter.

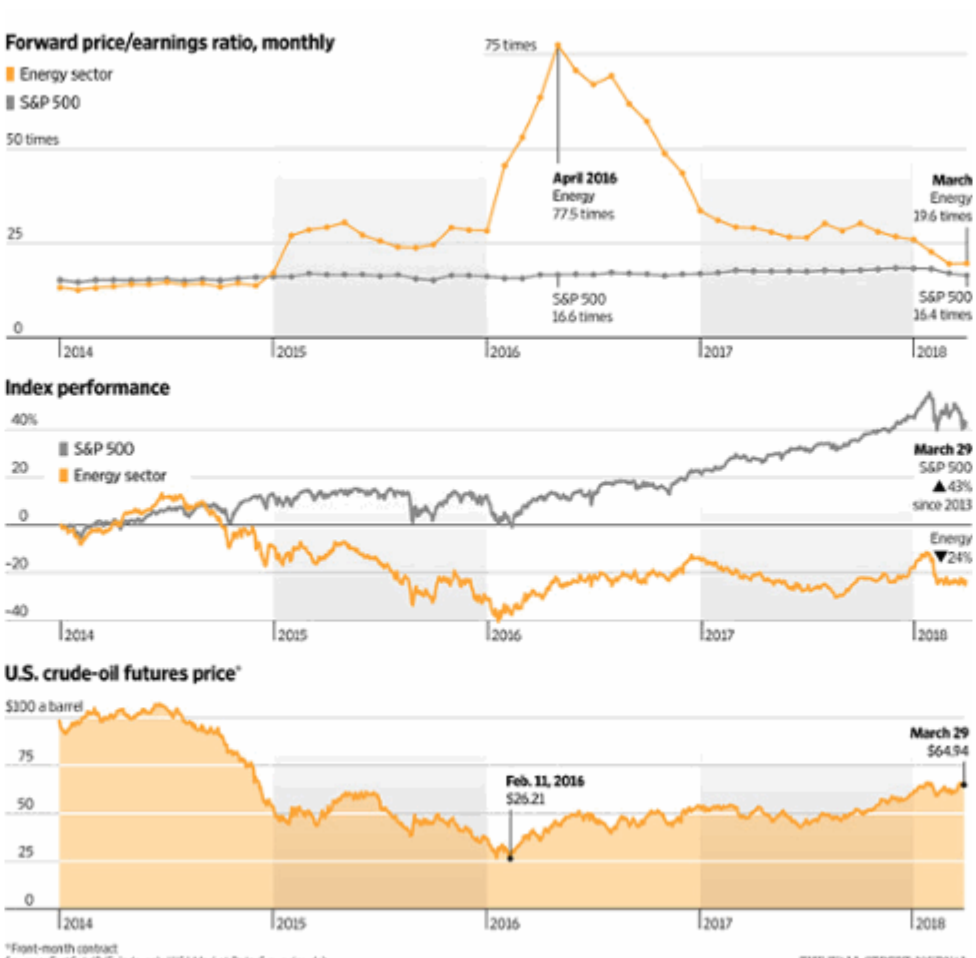
At the same time, many of the energy companies that suffered through the oil rout that began in 2014 are operating more efficiently, with U.S. shale companies building more cost-effective wells. That is helping many companies again generate free cash flow.

Some of that cash is expected to end up in the hands of investors. Energy firms are expected to return some $53 billion in cash to investors this year, a 5% increase from 2017, according to a Morgan Stanley research note. About 75% of the cash returned to shareholders this year will be through dividends, with the rest via share buybacks.

Despite the better prospects for energy stocks, some investors worry the sector's outlook could change suddenly. Some reports show oil and gasoline are accumulating in storage, while U.S. production is also expanding, two primary factors in **oil-price volatility**.

A surge in oil-and-gas reserves would drive down prices, potentially starving companies of their free cash flow. Energy companies need **oil prices** to be somewhere between $40 and $50 a barrel to sustain break-even cash flow, Morgan Stanley said, and if prices were to tumble below that, companies could be forced to cut back their spending drastically.

"This creates concern if **oil prices** retrench toward that threshold," Morgan Stanley said in its research note, "producers may have to consider suspending buybacks, cutting dividends or even look to raise equity."



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THE WALL STREET JOURNAL.
U.S. EDITION

Markets Review & Outlook: First Quarter --- U.S. Stocks' Rally Falters --- Shares wobble in first quarter despite rosy indicators as investors' confidence wavers

By Akane Otani
901 words
2 April 2018
The Wall Street Journal
J
R1
English

Investors enter the second quarter with an apprehensive mind-set, reflecting both the sharp late-March retreat of once-favored technology shares and increasing concern about the impact of rising interest rates on market valuations and **volatility**.

Some of last year's most enduring trades wobbled toward the end of the quarter, with investors dumping technology darlings like Facebook Inc. and Google parent Alphabet Inc. over fears that tighter regulation could hit the industry.

The **S&P 500** fell 1.2% for its first quarterly loss since 2015, while the **Dow Jones Industrial Average** slipped 2.5% over the same period and the **Nasdaq Composite** rose 2.3%.

Yet even after a rocky quarter, major indexes remain up in the double digits on a percentage basis over the past 12 months, and economists' outlooks remain largely positive. Both the U.S. and global economies are expected to continue expanding throughout the year, supported in part by a $1.5 trillion tax-cut package that is expected to boost corporate earnings and help prolong an eight-year U.S. economic expansion.

Now, investors say, the question is whether that will be enough, as they brace for further increases in interest rates at the same time that many economists are questioning whether the pace of the global economic expansion will slow. Many have credited the global **stock market**'s remarkable run since the financial crisis in large part to anemic bond yields, which have drawn investors seeking heftier returns into relatively risky stocks.

"The market is still trying to work out whether an increase in rates will choke off economic activity," said Joe Amato, president and chief investment officer for equities at Neuberger Berman Group LLC. "It continues to be our biggest concern and the thing we're watching most closely."

The market couldn't have ended the quarter more differently than it began. Stocks roared in January, with the **S&P 500** jumping more than 5% to set repeated records and surpass the level that analysts at Goldman Sachs had thought it would end the year. Optimism about the global economy drove investors to pour a record amount of money into mutual funds and exchange-traded funds tracking equities.

Yet stocks tumbled into correction territory in February, hurt by interest-rate jitters and collapsing bets on **volatility** remaining low -- and have struggled to regain their momentum since then. The last time the **S&P 500** rose more than 5% in January but closed the quarter in the red was in 1980, according to broker-dealer LPL Financial LLC. Stocks elsewhere also slid, with Japan's Nikkei Stock Average losing 5.8% and the Stoxx Europe 600 declining 4.7%.

The stunning reversal has put many investors on edge. But many say that beneath the uncertainty over the White House's trade policies and the path of interest rates, the economic outlook continues to look positive -- something that should help boost stocks, even as **volatility** has rattled the markets anew this year.

Corporate earnings among **S&P 500** firms are projected to log growth of 17% in the first quarter from the year-earlier period, according to FactSet, building on a strong fourth quarter and putting firms on track for their best results since the first quarter of 2011.

In another reassuring sign, some of the companies that had taken the biggest hit in March are expected to post the fastest pace of earnings growth.

Shares of materials companies in the **S&P 500**, which slumped on fears that increasingly protectionist trade measures could crimp profits at companies depending on steel and aluminum imports, are expected to post earnings growth of 44% from the year-earlier period, according to FactSet.

Technology firms, which rebounded Thursday but have struggled for traction in the past month, also are expected to impress: Analysts estimate first-quarter earnings growth of 23% for the **S&P 500** technology sector.

"The underlying economy continues to be strong, and consumer spending throughout the rest of this year should benefit companies," said Tracie McMillion, head of global asset allocation strategy at Wells Fargo Investment Institute. She added that she believes the U.S. **stock market** remains attractive.

Bond yields also haven't risen to the level that many fear could portend a turning point for the **stock market**.

A steep rise in bond yields could slow stock gains by raising borrowing costs, potentially eating into companies' profits and slowing spending among consumers. It also could make stocks, whose valuations are often calculated relative to bond yields, look less attractive to investors.

Yet the key threat that investors say could push bond yields higher -- a sharp rise in inflation -- hasn't materialized yet.

Various measures of inflation, including the Commerce Department's personal-consumption expenditures price index, have largely come in below the Federal Reserve's 2% target -- easing investors' fears that the Fed could be forced to pencil in more rate increases than initially anticipated for the year.

Wage growth also has remained muted, even as the unemployment rate has held near a 17-year low.

Investors will be closely watching the March jobs report, expected to be released April 6, for signs of a pickup in inflation.

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THE WALL STREET JOURNAL.
U.S. EDITION

Heard on the Street
Overheard

164 words
2 April 2018
The Wall Street Journal
J
B12
English

[Financial Analysis and Commentary]

Saudi Arabia has something to celebrate -- sort of.

Attracting international investors is a big priority for the petro-state as it mulls a privatization and **stock-market** listing for Saudi Aramco, the world's largest oil producer and potentially the world's most valuable public company. A decision this past week by index provider FTSE Russell to include the kingdom's **stock market** in an emerging-markets index in a year will help a lot as investment funds rush to add exposure.

The country has positives -- vast oil wealth -- and negatives -- it recently made use of a swanky Ritz-Carlton hotel in the capital Riyadh as a prison.

That explains why Saudi Arabia is being classified as an emerging market, and just a "secondary emerging market" at that.

The only "advanced emerging market" in the region is Turkey. More irksome still is the region's lone "developed market," Israel.

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THE WALL STREET JOURNAL.

Economy

Under Trump, a Strong Economy but Murky Policy Outlook; Researchers find uncertainty about economic policy is slightly higher now than during Obama's entire tenure

By Jon Hilsenrath
955 words
1 April 2018
The Wall Street Journal Online
WSJO
English

Corrections & Amplifications

The academics devised an "economic policy uncertainty index" that tracks mentions of the words "uncertain" and "uncertainty" in major newspapers' articles about economic policy. The dependence on newspapers could make the index prone to shifts in media coverage of issues or people over time. Still it's instructive. The index averaged 140.2 during Mr. Trump's first 14 months in office, compared with 126.0 during the comparable period of Mr. Obama's tenure and 134.7 during his full two terms in office. An earlier version of this article the index reached that average during his first 13 months. Also, in January and February of this year, the index averaged 127, still well above its average of 100 from 1985 through 2009. The measure was developed by Scott Baker, Nicholas Bloom and Steven Davis, of Northwestern University, Stanford University and the University of Chicago Booth School of Business, respectively. An earlier version said it reached that average between 1985 and 2010.

During Barack Obama's presidency, uncertainty about U.S. economic policy was much higher than it had been during the previous 25 years, according to calculations by a trio of academic economists.

You would think uncertainty would be low now, with economic expansion advanced and secure, the global economy on a stable footing, and a president in the White House focused on helping business by cutting regulation.

But it isn't. The researchers find economic policy uncertainty is slightly higher under President Donald Trump than it was during an Obama era marked by deep recession, auto bailouts, unconventional Federal Reserve interventions into the financial system and routine brinkmanship between Democrats and Republicans on fiscal policy.

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"Obama was president in a time when you needed extreme policy action," said Mr. Bloom. "Trump has incredibly benign economic conditions. He should have very low levels of policy uncertainty."

It is hard to say exactly why uncertainty is high now. Mr. Bloom said it is likely partly because of big policy changes happening in Washington—such as an aggressive new stance on trade—and partly because of the decision-making process, which he described as chaotic.

Investors got a taste of Trump era economic policy uncertainty in recent weeks: New U.S. tariffs on steel and aluminum imports and a range of goods imported from China; exemptions from those tariffs dribbled out piecemeal; federal government intervention to stop the proposed acquisition of Qualcomm Inc. by a foreign competitor on national security grounds; and the acquisition of Time Warner Inc. by AT&T Inc. landing in federal court.

Last week, Amazon Inc.'s share price dropped 4% in a day after a news report by Axios that Mr. Trump wanted the company to pay more taxes and had concerns that its business model is hurting brick-and-mortar retailers. Facebook Inc.'s shares were off 10% in March amid a Federal Trade Commission investigation and fears of a regulatory crackdown.

"It has been a gut punch to tech investors," Daniel Ives, chief strategy officer at GBH Insights, an investment research firm, said of the Amazon and Facebook developments. "These stocks and their multiples were not factoring in increased regulation."

Boeing Co.'s shares, seen by many investors as a proxy for companies that could be most affected by an all-out trade war between the U.S. and China, were down 9% in March.

In theory, uncertainty about the economy and economic policy leads to less investment, less hiring and slower economic growth, though it would be hard to argue that is a problem now. Business investment rose 6% in 2017, up from an annual average of 3% during Mr. Obama's presidency. Overall economic growth picked up last year and the jobless rate, at 4.1%, is at its lowest level since 2000.

Mr. Trump's supporters can argue policy uncertainty is the outcome of delivering on the changes he had promised, said Stanford's Mr. Bloom. That includes a more muscular trade policy that demands other countries open up as much to U.S. trade as the U.S. does to them, and support of blue-collar industries such as manufacturing.

Still, he said, the concern surrounding Mr. Trump's policies represents "an unnecessary cost" to the economy.

Complicating matters, it is hard to see a comprehensive policy framework behind Mr. Trump's interventions into the economy, making it hard to predict what might come next.

Some analysts have described the nation's evolving trade approach as mercantilism, a government effort to prop up exports and restrain imports in pursuit of trade and financial surpluses. But Qualcomm, AT&T and Amazon aren't about that. Nor is it quite industrial policy, which is government selection of certain industries over others, as Japan practiced in the 1980s and 1990s.

"He's picking winners and losers," said Matthew Slaughter, dean of Dartmouth's Tuck School of Business, who also served as an economist at the Council of Economic Advisers under President George W. Bush. "But it is not obvious what the unifying strategy would be and it is not obvious what the definition of winners and losers are in these cases."

Andy Laperriere, an analyst at Cornerstone Macro, an economic research firm in Washington, said there is no question the president's recent trade moves are creating uncertainty and angst in **financial markets**. But other actions, like the shots he took at Amazon, are more benign because they won't amount to much change in regulation.

"The regulatory machinery is not likely to be put into motion because the president has a grudge against Amazon," he said.

His advice to Wall Street: "Don't fear the Tweeter."

Write to Jon Hilsenrath at jon.hilsenrath@wsj.com

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WSJ PRO VENTURE CAPITAL

Markets

How Spotify's Unusual First Day of Trading Will Play Out; Going public Tuesday without the protections of a standard IPO may result in greater volatility than usual

By Alexander Osipovich and Maureen Farrell
1,101 words
1 April 2018
09:00 AM
WSJ Pro Venture Capital
RSTPROVC
English

Investors in Spotify Technology SA could be in for a turbulent Tuesday as the company uses an unorthodox maneuver to go public on the New York Stock Exchange, without many of the protections built into a standard initial public offering.

The music-streaming company has warned the process, called a direct listing, could result in greater **volatility** on the first day of trading than in a typical IPO. In part, that is because there isn't any bank to act as a "stabilizing agent" and prop up the stock if it plunges. On the other hand, Spotify's **stock price** could surge if its well-known brand name triggers a deluge of buying interest.

In a direct listing, a company floats its existing shares and lets the market find a price, without banks serving as underwriters to set pricing or allocate shares to big investors. While the process lets existing shareholders cash out, it doesn't raise any new money for the company itself.

It is unprecedented for a company as big as Spotify—which by mid-March was valued as high as $23.6 billion—to go public on the NYSE via a direct listing, though the process is often used for lower-profile transactions, such as a spinoff or emerging from bankruptcy.

Spotify has said it chose a direct listing because it doesn't need to raise more money. It also says the process is fairer because it puts large and small investors on a level playing field. In a normal IPO, the underwriting banks can allocate shares to favored clients ahead of the first trade, letting them benefit from any potential "pop" in the **stock price**.

Spotify is also saving tens of millions of dollars in fees by bypassing the IPO process, though it has hired Goldman Sachs Group Inc., Morgan Stanley and Allen & Co. as advisers. The banks will play a limited role compared with underwriters in a standard IPO, and Spotify will pay them only about €29 million ($36 million) in fees.

Another unusual aspect of Spotify's listing: Its executives declined to come to the NYSE Tuesday to participate in the usual rituals of an IPO, such as ringing the opening bell. At Spotify's investor day in March, Spotify Chief Executive Daniel Ek said, "For us, going public has never been about the pomp or the circumstance of it all."

Members of the NYSE's listings team voiced disappointment at Spotify's decision not to attend, a person familiar with the situation said.

An NYSE spokesman disputed that characterization, saying Spotify's debut will put the direct-listing process "on vivid display for entrepreneurs and investors considering a future public offering." The opening bell on Tuesday will be rung by EPIC Players, a theater troupe that includes performers with developmental disabilities, according to the exchange.

Two firms have the job of keeping Spotify's listing from going off the rails: adviser Morgan Stanley and Citadel Securities, which the company selected as its designated market maker. DMMs help ensure the orderly trading of NYSE-listed stocks and make money by quoting prices throughout the trading day and collecting the difference between the buying and selling price.

One of Citadel's traders on the exchange floor will determine the price of the first trade in Spotify, in consultation with Morgan Stanley. Ahead of the open, the bank will gather information about the price ranges at which investors want to buy or sell shares. The DMM will find the optimal price to balance out buying and selling interest.

That is similar to how a typical IPO works. A key difference is that Spotify's banks haven't been running a formal process to gauge demand for the company's shares, though Morgan Stanley has been working to assess interest. There also won't be a "deal price" set the night before the listing, when underwriters usually sell shares to IPO investors. Without those steps, there will be less guidance for Morgan Stanley and Citadel to figure out the opening price.

There has been a flurry of trading over the past week in Spotify's private shares, with prices as high as $137.50, up from a previous high of $132.50, according to people familiar with these trades.

It is unclear how many shares could trade on the first day. As much as 91% of Spotify's 178 million shares will be eligible for trading, but people close to the deal said they expect the actual float to be closer to two-thirds of the shares, and for co-founders Mr. Ek and Martin Lorentzon to hold on to their stakes in the company, at least initially.

Still, Spotify's anticipated float is dramatically higher than the average IPO. Since 1995, U.S.-listed companies have sold roughly 35% of their shares on average in IPOs and U.S.-listed technology companies have sold 27%, according to Dealogic.

The people close to the deal didn't expect excessive selling because there is no one huge owner seeking to cash out. They expected it would be more controlled than the market has anticipated.

In the absence of an IPO price, the NYSE will publish a so-called reference price for Spotify by early Tuesday. This placeholder figure may be used by trading systems to compute percentage moves once trading kicks off.

More important is the price range in which Spotify is expected to start trading. Spotify's range is likely to be quite wide when first announced. In a typical IPO, that happens within the first hour after the opening bell at 9:30 a.m. Eastern time.

From then on, working with Morgan Stanley, Citadel will tighten the range and eventually open the stock at a specific price. An IPO at the NYSE can take anywhere from minutes to more than two hours to reach that point, with bigger deals typically taking longer to open. With Spotify, the NYSE and others close to the deal have warned it could take an unusually long time to open, given the uncertainties of the direct-listing process.

Related

* How Apple, Amazon, Pandora and More Are Trying to Gain on Spotify (March 31)

* Heard on the Street: Spotify's Unspoken Promise (March 31)

* Spotify's Numbers Show Growth, and Maybe a Path to Profits (March 26)

* Spotify Sets April 3 as First Trading Day (March 15)

Document RSTPROVC20180402ee41000b5

THE WALL STREET JOURNAL.

Markets

Dollar Extends Last Year's Slide Into 2018; Trade tensions, accelerating growth abroad to continue weighing on the U.S. currency

By Ira Iosebashvili
768 words
1 April 2018
08:00 AM
The Wall Street Journal Online
WSJO
English

The dollar can't seem to catch a break.

The U.S. currency posted its fifth straight quarterly loss in the first three months of the year, puzzling investors who bet it would benefit from corporations repatriating cash in the wake of tax cuts signed into law late last year.

Many investors now believe uncertainty over U.S. policy, the risks of a global trade war and an acceleration in growth abroad mean more declines are in store for the dollar. The WSJ Dollar Index, which measures the U.S. currency against a basket of 16 others, is down 2.6% in the first quarter, extending a 12-month loss which now stands at 7.3%. The euro, yen and some emerging-market currencies, meanwhile, are up in 2018.

A drop in the dollar's value over the past year has had broad implications, which would likely intensify if the U.S. currency's decline continues. A weaker dollar helps make U.S. goods more competitive abroad, boosting profits for multinational companies and potentially buoying their stock prices. It also lifts prices for commodities such as oil, copper and gold, which are denominated in the U.S. currency and become more affordable to foreign investors when the dollar falls.

If the dollar falls too rapidly, however, that could shake faith in the U.S. economy and complicate the Fed's plans to tighten monetary policy. An extended fall also could juice inflation and spark concerns that consumer prices will rise too quickly.

Most recently, investors have been spooked by a trade spat with China, after President Donald Trumpthreatened to levy tariffs on as much as $60 billion of imports from China, while Beijing announced retaliatory measures. The dollar edged lower on that news, although its losses were counterbalanced by steeper drops in other currencies.

The threat of a trade war "has certainly not had a constructive impact on the dollar," said Christian Lawrence, a senior market strategist at Rabobank. "The market interprets trade wars as potentially bad for the U.S."

The U.S. currency has proven vulnerable to trade conflicts in the past. The ICE Dollar Index, which measures the dollar against six major currencies, fell nearly 20% between 2001 and 2003, as the U.S. imposed tariffs on steel imports, data from TD Securities showed. It declined around 12% between 1993 and 1995 in response to contentious trade relations between the U.S. and Japan.

Also weighing on the dollar has been a global economic upswing that has encouraged central bankers in Europe and Asia to take the first steps toward normalizing monetary policy after years of expansive support. Indications that the European Central Bank and Bank of Japan are on course to phase out of their stimulus programs and eventually raise interest rates have boosted the yen and euro by 5.9% and 2.7% against the dollar in the first quarter, respectively. Meanwhile, many investors believe that three or even four U.S. rate increases this year are already reflected in the dollar's price. Rising interest rates tend to make a currency more attractive to yield-seeking investors.

"If I was a dollar bull, I would be concerned that the euro didn't weaken in the face of Italian elections and trade concerns," said Paresh Upadhyaya, a portfolio manager at Amundi Pioneer Asset Management. He is betting that the euro and yen will continue rising against the dollar.

Hemant Baijal, co-head of the global debt team at OppenheimerFunds, believes the U.S. currency will depreciate further over the next two or three years as markets continue factoring in normalizing monetary policy around the world.

Investors increased their positions in dollar-denominated assets between 2014 and 2016, as growth in the U.S. accelerated, and many will likely pare those holdings in coming years, Mr. Baijal wrote in a note to investors.

"As the global economy recovers, these flows reverse and the dollar depreciates," his report said.

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Markets

Merger Funds Missing Out on M&A Boom; Arbitrage becomes riskier amid possibility of trade wars, U.S. protectionism and combative regulators

By Riva Gold and Laurence Fletcher
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Global deal-making is off to a record start this year, but with the looming threats of trade wars, U.S. protectionism and unfriendly regulators, many funds have been struggling to profit from it.

While merger arbitrage once had been considered a relatively straightforward strategy for hedge funds, it has morphed into a riskier and more complex trade but one that is potentially more lucrative, say bankers and fund managers engaging in the strategies.

The opportunity is as big as it has ever been: Over $1 trillion of global deals already have been announced in 2018 in the aftermath of the U.S. tax overhaul, according to Dealogic. The arbitrage strategies typically involve buying shares of announced acquisition targets while shorting their acquirers to profit from the uncertainty of deals not going through. But mounting fears of a trade war, unpredictable politics and a landmark U.S. antitrust case are making such moves much more challenging.

"You have some deals with a lot of hair on them, and regulators are pursuing some novel theories," said Wayne Yu, chief executive at BCK Capital Management in Stamford, Conn. "You've never had this huge number of very complex deals at very, very wide spreads."

Those spreads, which capture the gap between a current share price and a company's price valued by acquisition terms, have been growing. The median spread rose to 7.4% at the end of February, matching the highest level hit since January 2016, according to monthly data from AQR Capital Management, which trades such deals electronically. The spread was as narrow as 3.8% as of late 2017.

Much of that pickup in spreads has come in sectors affected by a more protectionist stance from the White House and the growing threat of global trade quarrels that could block or delay deals, market participants say.

President Donald Trump in March blocked Broadcom Ltd.'s $117 billion hostile bid for Qualcomm because of concerns it could hurt the U.S. in its technology race with China.

"We don't like big deals. With U.S. protectionism, it's become more and more difficult to assess if we'll get approval," said Catherine Berjal, CEO of hedge-fund firm CIAM.

U.S. tariffs on steel and aluminum and Chinese imports also have increased investor jitters that Chinese regulators could retaliate with their own protectionist measures.

"Anything that's going to touch on international firms in Asia or the Middle East looking to acquire or merge with U.S. firms is going to get a bit of pushback," said Sam LaNasa, director of business advisory services at Citigroup. "There's more uncertainty, which means managers are treading a bit more carefully."

"The cross-border stuff, in the U.S. particularly, is facing more scrutiny," said Stewart Cook, head of London sales trading at Berenberg.

The U.S. regulatory landscape also has become more uncertain this year, market participants say. The Justice Department is trying to block AT&T Inc.'s planned $85 billion purchase of Time Warner Inc. in an antitrust case seen as a key test of vertical mergers, which involve two complementary companies operating at different levels of the same industry.

"A vertical deal is no longer a synonym of an easy one in terms of antitrust approval," said Roberto Bottoli, who runs a merger arbitrage strategy at GAM Holding. Mr. Bottoli is avoiding many U.S.-centered deals until there is further clarity on the AT&T deal's outcome and the policy on tariffs.

"On the one hand, you're facing wider arbitrage spreads, which means nicer opportunities in terms of potential returns," he said. "But it has to be seen whether these wider spreads are actually pricing in all the additional risks."

AQR said it limits its merger arb strategy's exposure to such factors as protectionism.

A handful of big deals already have taken unexpected twists this year. U.S. generic drugmaker Akorn, the target of a purchase by German health-care company Fresenius &. Co, lost about one-third of its share value in a day in late February after reports that a possible data breach at Akorn could derail the merger.

Shares of Monsanto, one of the most popular merger-arbitrage bets this year, also fell sharply on reports Bayer might struggle to win U.S. antitrust approval for its takeover, briefly trading down around $117 on March 15, even though Bayer's per-share bid was $128.

In this landscape, merger-arb funds are down 1.25% this year through March 28, compared with a 1.16% decline for hedge funds overall, according to an index from data group HFR.

Some have lost big: U.S. hedge-fund manager John Paulson's merger-arbitrage fund, for instance, which fell 23% in 2016 and 18% in 2017, was down another 8% this year through March 20, according to numbers sent to investors for the Schroders GAIA Paulson Merger Arbitrage fund.

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