The New York Times

Business/Financial Desk; SECTB

Fidelity Offers 2 No-Fee Funds As 'Bait,' Accelerating Price War

By TARA SIEGEL BERNARD
1,230 words
11 August 2018
The New York Times
NYTF
Late Edition - Final
1
English

Investing just became even cheaper -- free, actually.

Fidelity introduced two new index mutual funds last week that have no fees whatsoever, taking the democratization of investing to a whole new level. Consumers now have access to domestic and international stock markets without any hurdles, including no required minimum investment amount.

The move continues an industry trend toward lower-cost investing, with several giant firms -- Fidelity, Schwab and Vanguard among them -- all but daring one another to push their already rock-bottom fees even lower.

But when companies start to dangle free offers, one can't help but ask: What's the catch?

It's simple, analysts said. If Fidelity can lure investors in with a promise of no fees, it is in a position to sell other products and services -- a money-market account, say, or financial advice -- that offer fatter profit margins. And given its size, the company can afford to sell no-fee funds below cost.

''They're bait,'' Jeffrey Ptak, an analyst with Morningstar, said of the new funds.

The good news is that the bait -- Fidelity Zero Total Market Index Fund and Fidelity Zero International Index Fund -- is as advertised: There are no hidden fees, and costs are not simply waived temporarily. (The funds track indexes created by Fidelity.)

''It is not a rebate, it is not temporary, it is not a promotional offer,'' Kathy Murphy, president of Fidelity's personal investing business, said. ''It is permanent.''

Beyond the free funds, Fidelity has introduced other changes that make it easier and cheaper to invest. It has eliminated its minimum investment requirements for opening brokerage accounts (previously $2,500), 529 college savings plans and the vast majority of its indexed mutual funds when bought through Fidelity.

The company has also cut prices on nearly two dozen existing stock and bond index funds, so that all investors now have access to its lowest-priced class of fund shares. For people already invested in these funds, according to Fidelity, that translates to a reduction of roughly 35 percent, with some funds costing as little as 0.015 percent of assets, or a penny and a half for every $100 invested.

Fidelity's latest changes come after another consumer-friendly move: The company significantly expanded the number of commission-free exchange-traded funds available on its platform, to 265 from 95. (Generally speaking, E.T.F.s are similar to index funds but trade like stocks on an exchange, meaning investors must pay commissions whenever they buy or sell shares, which also carry underlying investment fees). Vanguard also recently expanded its stable of commission-free E.T.F.s.

Lowering costs and easing access to investing is a universal good for consumers. But analysts and others who work in the industry said they expected Fidelity would try to sell more of its other wares -- at least one of them probably in the form of advice. That is, the company may try to get investors to pay a separate fee to manage their money or perhaps try to entice them aboard its digital-investing platform, Fidelity Go, which charges 0.35 percent of assets total, including investment costs.

None of that is necessarily bad, if the advice is needed, the financial adviser is truly acting in the investor's best interest (not, for example, motivated by a push to meet sales goals) and any fees are reasonable. But as some costs come down, the possibility of a sales pitch in other areas is something to watch for.

Investors have flocked to lower-cost index funds, which generally focus on a selection of investments that track the stock or bond markets (or segments of them). Over time, index funds tend to outperform actively managed mutual funds that hold investments handpicked by humans, in part because the active funds often cost significantly more.

The average index fund costs 0.52 percent of assets, compared with .87 percent of assets for actively managed mutual funds, according to a Morningstar analysis, which excluded funds that carry sales charges in addition to the underlying cost of the investment.

Fidelity introduced its latest price cuts as it grapples with broader challenges to its mutual fund business. Investors have been fleeing its actively managed funds in favor of cheaper index funds.

The company crows on its website that its index funds are now cheaper than Vanguard's -- "There's no match for Fidelity in index investing -- not even Vanguard." Vanguard, the indexing pioneer, has long been heralded as the lowest-cost provider, and Morningstar says that, over all, it still holds the crown when comparing its universe of actively managed and index funds with Fidelity's total collection of funds.

But Fidelity's index funds are now a few pennies cheaper than Vanguard's when looking at only passive investments, according to a Morningstar analysis: Investors are paying 0.04 percent of assets on average at Fidelity versus 0.07 at Vanguard.

Whether others will try to match Fidelity's no-fee funds is unclear. The company's move does not only put pressure on other index-fund providers, analysts said. It also has implications for actively managed funds, which may need to do even more to justify their much higher fees.

BlackRock, which has a huge E.T.F. business under the iShares name that competes in part with retail index funds, offers an E.T.F. that tracks the domestic **stock market** at a cost of 0.03 percent of assets. Martin Small, who leads BlackRock's iShares business in the United States and Canada, said the firm had "zero plans" for a zero-fee E.T.F.

A Schwab spokeswoman declined to say whether the firm would make further changes to its prices. "Any time costs go down, investors win," the spokeswoman said in a statement. She said Schwab was "laser focused" on straightforward, low-cost products that could be sold broadly to many investors "so we can continue to pass the benefits of our scale" to them.

Vanguard, whose mutual fund shareholders effectively own the company, said it was structured to lower the cost and complexity of investing in all of its funds, indexed and actively managed, for all of its customers.

"This is now a game of inches, with firms trying to gain supremacy one basis point at a time," Mr. Ptak of Morningstar said.

The difference can be counted in pennies. Fidelity's free domestic fund, for example, competes with Schwab's Total **Stock Market** Index fund, which charges just 0.03 percent of assets, or 3 cents for every $100 invested; Vanguard's Total **Stock Market** Fund, which, depending on the amount invested, ranges from 0.02 percent of assets, or 2 cents per $100, to 0.14 percent of assets.

"If you examine the recent history, we've had Schwab, Vanguard and Fidelity all make moves to try to gain an edge by removing fees and barriers," Mr. Ptak added. "We're now at a point of diminishing returns, so these firms will have to find other ways to differentiate, but it's shaping up as a slugfest, with these firms trading blows."

For now, consumers appear to be winning that fight.

DRAWING (DRAWING BY MINH UONG/THE NEW YORK TIMES) (B2)

Document NYTF000020180811ee8b0004i

THE WALL STREET JOURNAL.

Economy
Yield Curve Suggests Rising, But Still Low, Risk Of Recession, San Francisco Fed Says; New research paper suggests looking at relationship between 10-year and three-month Treasury rates

By Michael S. Derby
631 words
27 August 2018
01:27 PM
The Wall Street Journal Online
WSJO
English

The bond market is signaling that the risk of recession is rising but a downturn is far from imminent, new research by the Federal Reserve Bank of San Francisco released Monday said.

The bank's paper looked at what has been happening with the Treasury **bond yield** curve, which tracks the return investors get based on the maturity of the security they own. Shorter-dated securities have lower yields because they carry less risk, while longer-dated bonds offer higher yields to cope with the greater uncertainty of holding an extended-term investment.

For much of this year, the normally positive difference between short-date and long-dated Treasury yields has been growing closer. If short-term yields moved above that of the long-end of the curve, it would represent what is called an inversion of the yield curve. And inversions have a long history of preceding economic downturns, which in turn has made the yield curve a closely watched signal of future economic performance.

Over the course of 2018, the difference between the two-year Treasury note and 10-year note has generally grown narrower, moving from a difference of around 50 basis points at the start of the year, to around 20 basis points in recent trading.

Fed officials largely agree that the short-term yields are rising because of the rate rises they have already implemented, and because the market is pricing in future increases the Fed has suggested are likely. Longer-dated yields are being kept down by a variety of factors.

There is widespread concern that if the Fed presses forward with rate increases, that alone could cause the yield curve to invert. For some officials like Atlanta Fed leader Raphael Bostic, the Fed might have to hold off on rate increases to stop an inversion from happening.

"I'm going to be very sensitive" to what the market is doing, Mr. Bostic said in a television interview Friday on the sidelines of the Kansas City Fed's annual Jackson Hole, Wyo., research conference. "I wouldn't knowingly" support a rate rise that would cause an inversion, he added.

Fed officials tend to focus on the relationship between the two- and 10-year note, but the San Francisco Fed paper said there is a more reliable way to link inversions and recessions.

"The difference between 10-year and three-month Treasury rates is the most useful term spread for forecasting recessions," bank economists Michael Bauer and Thomas Mertens wrote.

The authors cautioned, in a refrain common to central bankers, that it is unclear whether inversions cause recessions or correlate to them. But even so, inversions have been a "a reliable predictor" of recessions, they wrote.

The current difference between two- and 10-year notes suggests that one or two more Fed rate increases from the current overnight target rate of 1.75% and 2%, compared with the current two year note yield of 2.63%, could by themselves cause an inversion.

But looking at the three-month Treasury bill to the 10-year finds a lot more space for the Fed.

"Although this particular spread has narrowed recently like most other measures, it is still a comfortable distance from a yield curve inversion," the authors wrote.

"The recent evolution of the yield curve suggests that recession risk might be rising," they wrote. But, "the flattening yield curve provides no sign of an impending recession."

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

Read the San Francisco Fed's Research Paper

* FRBSF Economic Letter: Information in the Yield Curve About Future Recessions

Document WSJO000020180827ee8r003ux

The New York Times

Strategies
Business Day
The Stock Market Is Shrinking. That's a Problem for Everyone.

By Jeff Sommer
903 words
4 August 2018
05:00 AM
NYTimes.com Feed
NYTFEED
English

The American **stock market** has been shrinking. It's been happening in slow motion — so slow you may not even have noticed. But by now the change is unmistakable: The market is half the size of its mid-1990s peak, and 25 percent smaller than it was in 1976.

"This is troubling for the economy, for innovation and for transparence," said René Stulz, an Ohio State finance professor who has written a new report on these issues for the National Bureau of Economic Research.

When I say "shrinking," I'm using a specific definition: the reduction in the number of publicly traded companies on exchanges in the United States. In the mid-1990s, there were more than 8,000 of them. By 2016, there were only 3,627, according to data from the Center for Research in Security Prices at the University of Chicago Booth School of Business.

Because the population of the United States has grown nearly 50 percent since 1976, the drop is even starker on a per-capita basis: There were 23 publicly listed companies for every million people in 1975, but only 11 in 2016, according to Professor Stulz.

This puts the United States "in bad company in terms of the percentage decrease in listings — just ahead of Venezuela," he said. "Given the size of the United States, its economic development, financial development and its respect for shareholder rights," he added, one might expect that tally to be climbing, not falling.

In his new paper, "The Shrinking Universe of Public Firms: Facts, Causes, and Consequences," Professor Stulz surveyed the body of academic research on the topic. In an interview, he said that the casual observer may not entirely grasp the implications of the changes that have taken place.

"The headline is that the number of public firms is shrinking, but it's not just that," he said. Profits in the overall market are now divided among fewer winners. And as capital-intensive companies have been supplanted by those whose value is largely found in their intellectual property, the marketplace is less transparent — with troubling consequences.

Consider these big shifts:

■ The companies on the market today are, on average, much larger than the public corporations of decades ago. Fast-rising upstarts are harder to find.

In 1975, 61.5 percent of publicly traded firms had assets worth less than $100 million, using inflation-adjusted 2015 dollars. But by 2015, that proportion had dropped to only 22.6 percent.

Because of this, Professor Stulz said, "It's not possible for the general public to invest in a diversified portfolio of really small, publicly traded companies in the way they could a few decades ago."

■ Profits are increasingly concentrated in the cluster of giants — with Apple at the forefront — that dominate the market. For a far larger assortment of smaller companies, though, profit is often out of reach. In 2015, for example, the top 200 companies by earnings accounted for all of the profits in the **stock market**, according to calculations by Kathleen Kahle, a professor of finance at the University of Arizona, and Professor Stulz. In aggregate, the remaining 3,281 publicly listed companies lost money.

In theory, as a shareholder, you are entitled to a piece of a company's future earnings. That's one of the main arguments for buying stock in the first place. But the reality is that you often are buying a piece of a money-losing proposition. Aside from the top 200 companies, the rest of the market, as a whole, is burning, not earning, money.

■ A quirk of accounting is at the root of some of that profit deficit, especially for smaller and younger companies. Increasingly, value resides in intellectual property — "intangibles" like software and data and biological design — rather than in the production of physical objects like cars.

But under generally accepted accounting principles, or GAAP, which American companies must follow, research and development must be deducted from corporate income — and those charges can reduce or eliminate profits. (Capital expenditures — in physical things like factories — appear on corporate balance sheets, not income statements, and don't reduce profits.)

Without deep knowledge of a company's critical research — which businesses may be reluctant to share, for competitive reasons — it's difficult for outsiders to evaluate a start-up's worth. That makes it harder to obtain funding, and it may be partly responsible for certain trends: why there are fewer initial public offerings these days, why smaller companies are being swallowed by the giants, and why so many companies remain private for longer.

That creates opportunities for private equity firms, which have insider access to innovative start-ups that may never go directly to the public markets. Meanwhile, Main Street investors are consigned to a less diverse universe than they may realize.

There's a broader problem. Our visibility into the inner workings of public companies isn't great, but we know far more about them than we do private companies, which aren't required to disclose nearly as much information.

And these changing dynamics mean we know far less about many of the creators of American profits and jobs than would otherwise be the case.

In a democracy in which corporations already have enormous clout, that is worth worrying about.

Follow Jeff Sommer on Twitter: @jeffsommer

Document NYTFEED020180804ee84001s2

THE WALL STREET JOURNAL.

Markets

Discrepancy Over Saudi Oil Data Could Rattle Markets; The world's largest oil exporter is pushing back against analysts that estimate it increased production in July

By Summer Said in Cairo and Benoit Faucon in London
677 words
9 August 2018
04:40 AM
The Wall Street Journal Online
WSJO
English

Saudi Arabia has pressed independent energy analysts to alter their estimates of its oil production, people familiar with the matter said, a move that could put it in conflict with other members of the fractious Organization of Petroleum Exporting Countries.

The world's largest oil exporter has told OPEC it cut output in July, according to delegates, but estimates from the U.S. government and independent agencies say it boosted production—amounting to a huge difference of as much as half a million barrels a day.

The data showing differing trends between official and independent estimates of Saudi output is set to be published Monday in the cartel's monthly report, potentially causing confusion in trading markets about how much oil is reaching consumers.

"The Saudis have been giving the impression they know what they are doing...They could lose credibility," said John Hall, chairman of U.K. consultancy Alfa Energy. "It could increase **volatility**" in prices.

The kingdom has called some agencies over the last week, asking that analysts change their estimates, according to people familiar with the discussions. Some agencies rebuffed the request but others bowed to the pressure, they said.

There is no specific requirement that Saudi Arabia accurately report its production but the discrepancy is highly unusual and adds to tensions within OPEC over whether to boost output.

Saudi officials told OPEC delegates last weekend that the kingdom's production had fallen by 200,000 barrels to 10.29 million barrels a day in July, according to energy ministry officials. **Oil prices** rose 1.6% in New York Monday.

But according to New York-based S&P Global Platts, a provider of energy information, Saudi production increased to about 10.6 million barrels a day last month. The Energy Information Administration, a branch of the U.S. Department of Energy, arrived at the same estimate.

The number, which Platts said it was standing by, would represent Saudi's highest level of production since mid-2016 and would exceed an agreement it made that year with other oil-producing nations to cut production in order to stabilize prices.

The agencies use contacts in governments, storage information and ship-tracking data to provide what tends to be reliable data on the kingdom. With their data, "there is no agenda, there is no ulterior motive," Mr. Hall said.

The lack of consensus extends to the kingdom itself. A Saudi oil official and an adviser said they were told privately the country's production is higher than the official figures.

Saudi Arabia's energy ministry didn't return a request for comment.

But Saudi officials say discrepancies over the kingdom's production reflect dueling political pressures from the U.S. and Iran. The U.S., concerned about rising fuel prices, wants Saudi Arabia to replace Iranian oil because it is about to ban Tehran's crude exports under revived sanctions.

Iran has criticized Saudi Arabia for increasing output, alleging it's a way to respond to U.S. pressure rather than market needs.

Russia, Saudi Arabia and others "are increasing production by one million barrels a day to squeeze the [buyers] of oil from Iran," Iran's OPEC envoy Hossein Kazempour said in a recent interview with The Wall Street Journal. "They are extending their hand of support to Trump. It's a very hostile attitude against us."

The Saudi discrepancy comes as other members are also alleging analysts are overestimating their production.

Iraq, OPEC's second largest producer, is also disputing independent assessments showing it only respected 12% of its agreed cuts in June. "We are going to refuse these figures," Iraq's State Oil Marketing Organization said in a letter to at least three independent agencies earlier this month.

Write to Summer Said at summer.said@wsj.com and Benoit Faucon at benoit.faucon@wsj.com

Document WSJO000020180809ee890015p

The New York Times

Business Day
In Elon Musk's World, Brakes Are for Cars, Not C.E.O.s

By David Gelles
2,747 words
28 August 2018
01:48 PM
NYTimes.com Feed
NYTFEED
English

Elon Musk was up early on Saturday. He departed Los Angeles, where he runs SpaceX, his private rocket venture, and flew north in his white Gulfstream jet. Stopping in Silicon Valley, he picked up two engineers from Tesla, his electric-car company. They flew on to Reno, Nev., where they spent the day at Tesla's battery plant, the Gigafactory.

It might have been just another workday for Mr. Musk — a multistate jaunt to personally fix a drive-unit production line. But this was no ordinary morning. He was a brief night's sleep removed from one of his most consequential decisions: scrapping his plan to take Tesla private.

It was an abrupt about-face, and it capped a tumultuous two and a half weeks that began with a single tweet and wound up roiling markets, setting off regulatory alarms and raising questions about his judgment. Even by Mr. Musk's standards — this is a C.E.O. who believes Tesla is under attack by saboteurs, has a personal life playing out in the gossip blogs and is prone to fiery outbursts on Twitter — it has been a time of high intrigue.

"The reason Elon seems to attract drama is that he is so transparent, so open, in a way that can come back to bite him," said Kimbal Musk, Mr. Musk's younger brother and a Tesla board member. "He doesn't know how to do it differently. It's just who he is."

Mr. Musk, a brilliant but erratic billionaire, is the animating force behind Tesla, responsible for everything from its push into renewable energy to the design of the air vents in its newest electric car. His singular role gives him extraordinary influence over the fate of Tesla, its more than 40,000 employees and its investors.

Associates, including several people inside the company interviewed over the past week, portray him as a workaholic who zeroes in on the smallest details. His deep involvement suggests that the company can't do without him. Yet these days, it's not always clear that he knows what's best for Tesla.

Even before taking Tesla investors on a roller-coaster ride, Mr. Musk was increasingly unpredictable, marketing flamethrowers online and dispatching a submarine to assist in a rescue in Thailand, then calling a critic of the gesture a pedophile. In an interview this month with The New York Times, Mr. Musk said he was physically exhausted and emotionally drained, causing some to question his fitness for the job.

Mr. Musk's personal life is no less chaotic. He was dating Grimes, the Canadian pop musician, but the two stopped following each other on social media last week, leading gossip blogs to speculate they had broken up. That followed a bizarre run-in with the rapper Azealia Banks, who intimated that Mr. Musk had written his going-private tweet while on acid. (He denied it.) Amid the fallout, he took to Twitter, posting cryptic messages about love and quoting T. S. Eliot.

And at the office, he is hardly a typical chief executive. Racing to resolve critical production issues, he can often be found on the factory floor, working to fix robots. At night, he sometimes sleeps under his desk. All the while, he has been confronting an exodus of senior employees, preparing to be interviewed by the Securities and Exchange Commission, and was working with Goldman Sachs and Saudi Arabia's sovereign wealth fund to take Tesla private — until he wasn't.

Some board members have been dismayed at Mr. Musk's behavior, according to people familiar with the directors' thinking, but no active search is underway for a replacement — although there have been fitful efforts to find a top lieutenant.

James Anderson, the head of the asset management firm Baillie Gifford, Tesla's biggest shareholder after Mr. Musk, said he still had faith in the 47-year-old chief executive, calling him a "visionary leader" who had unmatched technical expertise and remained "obsessive about the details."

Yet Mr. Anderson said he had grown increasingly worried about Mr. Musk, believing that his **volatile** personal life and intense work ethic were taking a steep toll. "He is so demanding, so driven by the imperative to do something good for the world," Mr. Anderson said. "You could always see something like this happening."

'We Feel Like We Are at War'

At 6:30 a.m. on Aug. 18, three robots in the paint shop at the Tesla factory in Fremont, Calif., started malfunctioning. The incident forced a production halt on the Model 3, the key to the company's future.

Made aware of the stoppage, Mr. Musk went to the factory and worked into the night. The problem was resolved, but Tesla reached a troubling conclusion: The robots had been infected with malware in an act of industrial sabotage. And though they could not prove it and did not level any specific allegations, executives suspected they knew the culprit: a rogue employee, working at the behest of short-sellers.

Tesla is among the most shorted stocks, meaning that hedge funds are betting against it and quick to note a missed production goal or cash shortfall. David Einhorn, the billionaire founder of Greenlight Capital, is in that camp. In a letter to investors last month detailing his argument, Mr. Einhorn wrote, "Elon Musk appears erratic and desperate."

Mr. Musk believes that the short-sellers spread misinformation about the company, and perhaps much worse. In June, Mr. Musk accused an employee of sabotage that had slowed Model 3 production, and suggested short-sellers might be to blame.

Kimbal Musk, reflecting on the battles with short-sellers, said, "We feel like we are at war."

Plenty of other companies face the wrath of short-sellers. The issue at Tesla seems to be that for Mr. Musk — who talks earnestly about weaning the world off fossil fuels with Tesla, and colonizing the solar system with SpaceX — these attacks are not just the cost of doing business. They are malicious and misguided efforts to derail his efforts to help humanity.

"Tesla is his baby," said Deepak Ahuja, Tesla's chief financial officer. "He takes it extremely personally."

But with Tesla now staying public, Mr. Musk will have to continue to contend with those who doubt his vision and are rooting for Tesla to fail.

The Most Difficult Time

When Mr. Musk ceremonially unveiled the Model 3 last summer, he billed it as the first mass-market electric vehicle, and predicted monthly production of 20,000 by year's end. But in the final three months of 2017, just 2,425 were completed.

The delays were a result of what Mr. Musk called "manufacturing hell," an inferno that has preoccupied him for much of the past year. "This has been the most difficult time for Tesla," said JB Straubel, the company's chief technical officer. "We knew this was going to be the case, but it's been even harder than any of us expected."

Some of the wounds were self-inflicted.

In preparing the assembly lines, Mr. Musk became convinced that the process should be close to fully automated, using robots rather than humans whenever possible. Doing so, he believed, could make cars move through the factory at one meter per second, 10 to 20 times the speed of existing lines.

So Tesla built a factory with hundreds of robots, many programmed to perform tasks that humans could easily do. One robot, which Mr. Musk nicknamed the "flufferbot," was designed to simply place a sound-dampening piece of fiberglass atop the battery pack.

But the flufferbot never really worked. It would fail to pick up the fiberglass, or put it in the wrong place, frequently delaying production. It was eventually replaced by factory workers.

Mr. Musk has accepted responsibility for some of these missteps, occasionally with humor. In late June, he wore a T-shirt depicting a robot that passes butter. It was an inside joke, lampooning the notion of technology for technology's sake.

After the debacle, Mr. Musk tweeted: "Excessive automation at Tesla was a mistake. To be precise, my mistake. Humans are underrated."

As the challenges have mounted, Mr. Musk has thrown himself into his work, spending hours each week walking factory floors, trying to diagnose and fix various problems on the assembly line.

"He demands personal accountability from the people that are closest to the machines," Mr. Straubel said. "This freaks people out. They are worried that he will come to their area and start asking questions."

Yet Mr. Musk's micromanaging has taken a toll on Tesla's executive ranks, with more than 30 senior employees having departed since 2016, according to a list compiled by Reuters. Among the departed are the director of battery engineering, the vice president for autopilot and the director of manufacturing engineering, all positions crucial to Tesla's future.

Amid the turnover, Mr. Musk has become even more hands-on. Recently, he and Mr. Straubel were at the Gigafactory, assessing a bottleneck in the manufacturing process. A machine that wound electrodes into formations known as jelly rolls was too slow, and employees could not figure out a remedy.

Then Mr. Musk intervened, suggesting that the machine be reprogrammed to work more rapidly. By the end of the day, the machine was 10 percent faster.

It was a small victory, and a reminder of Mr. Musk's technical acumen. But it was also a stark example of how he operates. Apparently unable or unwilling to delegate, the chief executive has embedded with the line workers.

"A C.E.O.'s most important job is build a great team around you," said Bill George, the former chief executive of the medical device maker Medtronic and a Goldman Sachs board member. "He shouldn't be sleeping on the factory floor. I'd rather have him sleeping at home."

'Physically Exhausted'

Mr. Musk has increasingly complained about his lifestyle's physical toll. He has said he works 120 hours a week, sometimes not going outside for days at a time. At a meeting last week at SpaceX, he was lying on the floor in his cubicle, using a foam roller to relax his back muscles.

"He is absolutely working incredibly hard, but Elon has always worked incredibly hard," said Mr. Ahuja, Tesla's chief financial officer. "He's very tough, too. He can eat glass."

In an attempt to force his body to sleep, Mr. Musk sometimes takes Ambien, something he has discussed publicly on Twitter and that has raised concerns among some Tesla board members. He often spends Sunday nights at the Tesla factory, then flies to Los Angeles for the 10 a.m. executive meeting at SpaceX. (SpaceX, in contrast to Tesla, is a bastion of stability, and earlier this year successfully launched the world's most powerful private rocket, the Falcon Heavy.)

"I know that it has been a difficult year for him," said Gwynne Shotwell, the SpaceX president and chief operating officer. "Not because he's frowning or throwing things, but because I can tell he's physically exhausted."

In the interview with The Times, Mr. Musk said his work had been so consuming that he nearly missed Kimbal's wedding in Spain this summer. "I got there two hours before the ceremony," he said. "I left directly from the factory. And then I went straight back."

But while Mr. Musk is clearly working hard, his recounting paints an incomplete picture of his travels. He was away for five days during his trip to Spain, and on the way back, he stopped with his children in Belfast, Northern Ireland, to tour the "Game of Thrones" set.

Mr. Musk also told The Times that he had not taken a full week off since 2001, while recovering from malaria. But he has made time for memorable holidays over the past year.

A few days before New Year's Eve, he boarded his jet with Kimbal, their families and another close friend, Bryn Mooser. The plan was to go to Antarctica. But on the way there, weather worsened, and they had to land in Santiago, Chile.

Realizing they would not make it to Antarctica, the group laid new plans. They would party in Rio de Janeiro on New Year's Eve. But first, they took a day trip to Easter Island to visit the mysterious statues left by an ancient civilization. While there, Mr. Mooser recalled, they discussed aliens, Mr. Musk's plan to colonize Mars, and how Easter Island, threatened by climate change, could be viewed as a cautionary tale.

"He cares deeply about the world and the people on it," Mr. Mooser said. "His fault is that he cares too much, sometimes."

Not Out of the Woods

On Thursday morning, Mr. Musk addressed his board at a hastily convened meeting in a conference room at the Tesla factory. His sleeping bag was still on the floor. When he announced that Tesla would be staying public, at least one director cheered out loud.

Mr. Musk's stunning reversal came about after he realized that while going private would remove some headaches — such as short-sellers — it could introduce others, including entanglements with conventional auto companies or oil kingdoms that hardly symbolize an all-electric future.

But the move didn't provide a full reset. There is a looming investigation by the S.E.C. over the circumstances of his Aug. 7 tweet announcing that he had "funding secured" to take the company private, an assertion that proved shaky.

Peter Henning, professor of law at Wayne State University, said Mr. Musk's tweet was "clearly incomplete disclosure," adding that if the S.E.C. decided to pursue a fraud case, the consequences could be severe.

"The penalty that scares everyone is a director and officer bar," Mr. Henning said. "If you are found to have misled investors, the S.E.C. can seek to bar you from serving as an officer or director of a public company. That could remove Elon Musk from Tesla."

Mr. Musk also must contend with a shareholder lawsuit that challenges Tesla's acquisition of SolarCity, his solar panel business. And he must try to replenish the executive ranks and stabilize Model 3 production, all while managing his **volatile** social life.

As he juggles these disparate challenges, Tesla's fans and foes will be scrutinizing Mr. Musk's words, his actions and even his moods. Will he spar with short-sellers on Twitter? Will he erupt on the next analyst call?

Whatever he is thinking, Mr. Musk seems likely to make it known. "Elon always speaks very frankly, sometimes to his detriment," Ms. Shotwell said. "That's the only way he knows how to communicate."

David Gelles is the Corner Office columnist and a business reporter. Follow him on LinkedIn and Twitter. @dgelles

* Elon Musk Details 'Excruciating' Personal Toll of Tesla Turmoil

* Interviewing Elon Musk

* Elon Musk and Tesla Resolved One Issue. Now for the Rest.

* Why Elon Musk Reversed Course on Taking Tesla Private

Gluekit | A brilliant but erratic billionaire, Elon Musk has extraordinary influence over the fate of Tesla, its more than 40,000 employees and its investors. | Lucy Nicholson/Reuters | Tesla’s battery plant, the Gigafactory, in Nevada. Mr. Musk, the company’s chief executive, has had to manage costly delays at Tesla factories. | Bob Strong/Reuters | The company logo on a Model S. Mr. Musk talks earnestly about weaning the world off fossil fuels with Tesla. | Richard Vogel/Associated Press | The production line at Tesla's factory in Fremont, Calif. Delays of the Model 3 were a result of what Mr. Musk called "manufacturing hell." | Christie Hemm Klok for The New York Times ORG XMIT: NPX | A large part of the Tesla factory in Fremont is made up of large robot arms behind plexiglass. All welding has been automated for precision as well as employee safety. | Christie Hemm Klok for The New York Times | Mr. Musk has increasingly complained about his lifestyle’s physical toll. He has said he works 120 hours a week, sometimes not going outdoors for days at a time. | Joshua Lott/Getty Images | A monitor at **Nasdaq** displayed Tesla's **stock price** in May. Short sellers have taken aim at the stock, injecting a destabilizing element. | Jeenah Moon for The New York Times

Document NYTFEED020180828ee8s005h9

THE WALL STREET JOURNAL.

Markets

Uncle Sam Wants You: Treasury Depends More on Domestic Bond Buyers; U.S. investors have so far financed all of this year's increase in the federal government's borrowing

By Daniel Kruger
579 words
17 August 2018
08:00 AM
The Wall Street Journal Online
WSJO
English

The U.S. government has been issuing more debt, but it's not getting more foreign buyers in the door. As a result, U.S. investors have so far financed all of this year's increase in the federal government's borrowing.

Foreign holdings of the debt have remained essentially flat, though the government's borrowing has risen by $500 billion, giving foreign investors the smallest share of U.S. government debt since 2003. Even as yields on Treasury securities have risen to multiyear highs, foreign demand for debt at government bond auctions has slowed to the weakest level since 2008. Yields rise when **bond prices** fall.

Some foreign investors are concerned that the $1.5 trillion tax cut passed by Congress in December will overstimulate the U.S. economy, leading to an acceleration in inflation and potentially higher bond yields and interest rates.

While the tax cuts are stimulative, shifts in Federal Reserve policy and foreign purchases have led U.S. investors to purchase roughly $300 billion more Treasurys than would have been the case had Fed policy remained unchanged and foreign investors added to their holdings at their previous pace.

The drop in foreign demand is happening as Treasury yields approach their highest premiums over German and Japanese debt since the 1980s and as the dollar is in the middle of a rally that caught many investors by surprise. The drop-off in foreign interest also coincides with a decision by the Federal Reserve to reduce the size of its government bond holdings as part of an effort to restore monetary policy to precrisis norms.

Investors and analysts cite two impediments that are discouraging foreign investment. One is the strength of the dollar has made it more expensive for investors in Japan and Europe to hedge the currency risk of buying Treasurys. A second is a new concern about the sustainability of U.S. borrowing practices at a time when the Trump administration is forecast to run a series of trillion-dollar budget deficits beginning as soon as 2020.

The hedging costs are "so high and so punitive that it is no longer attractive" to buy Treasurys, said Torsten Slok, chief international economist at Deutsche Bank. The cost is typically close to premium of short-term U.S. government bill yields over short-term yields overseas. Those rates are compared with short-term government debt yields, which are closely tied to each market's central bank's policies. The Fed is holding its target rate in a range between 1.75% and 2%, while rates for the Bank of Japan and the European Central Bank are negative.

A bigger concern perhaps is that by boosting debt to fuel growth at a time when the unemployment rate is about 4%, the U.S. may be "opening the door to much more serious risks," Mr. Slok said.

Those risks for the economy, which grew at a 4.1% pace in the second quarter, include the possibility that it overheats. That could force the Fed to raise interest rates quickly, risking a rise in bond yields, and accelerate the next recession, Mr. Slok said.

To receive our Markets newsletter every morning in your inbox, click here.

Write to Daniel Kruger at Daniel.Kruger@wsj.com

Document WSJO000020180817ee8h002jq

The New York Times

Economic View
Business Day
The Economy Grew Even Faster in Truman’s Presidency. So What?

By Robert J. Shiller
1,255 words
10 August 2018
02:30 PM
NYTimes.com Feed
NYTFEED
English

Based solely on a few headline numbers, the American economy looks good. But it would be a mistake to read too much into the data — or to give too much credit to President Trump.

In fact, the most spectacular economic growth since World War II occurred nearly 70 years ago, when Harry Truman was president. But Truman didn’t cause it, and it wasn’t particularly good news.

First, let’s look at where we find ourselves now. Avid supporters of Mr. Trump attribute good economic tidings to him. His policies — tax cuts, curtailment of immigration, reduction in regulations — and confidence-building talk are seen as driving faster economic growth.

But that is largely a misreading of the way modern economies work. They have a tendency to alternate between booms and recessions for reasons that are imperfectly understood but involve changing popular narratives, the contagion of ideas and emotions, and circumstances that are mostly outside a president’s control.

Certainly, since the November 2016 election, many of the numbers seem impressive. The American **stock market** is up more than 30 percent. Single-family home prices are up more than 10 percent and real growth in the gross domestic product for the second quarter reached 4.1 percent annualized. In May, the unemployment rate fell to 3.8 percent; it hasn’t been lower since 1969, though it edged up to 3.9 percent in July.

These numbers may look like evidence of a fundamental transformation, but that view overstates the significance of such statistics.

The numbers are actually driven by changes in individual day-to-day economic decisions — many of them so small that people can’t say why they made them. In the case of the **stock market**, shareholders are claimants on corporate income and fluctuations in sales can have an amplified effect on share prices.

That 4.1 percent G.D.P. growth is hardly unusual: We have had 101 quarters of growth at least this great since quarterly G.D.P. enumeration started in 1947. These high-growth quarters were interspersed among sporadic quarters of negative growth, usually recessions.

To understand subtle economic changes, it helps to look at the biggest ones. The fastest annual G.D.P. growth since quarterly numbers began occurred over the period ending in the fourth quarter of 1950, when Truman was president. It was 13.4 percent, more than three times bigger than the 4.1 percent of the last quarter.

We ought to be able to understand what caused that colossal Truman boom. After all, there has been plenty of time to consider it.

There are many explanations, but we don’t really know the truth.

Whatever caused it, it doesn’t seem to have been presidential magic. As described in David McCullough’s 1992 book “Truman,” this president was a modest and courteous man, who did not ask to be treated as a genius, and virtually no one treated him as one. The Times, rather politely, called his speeches “down to earth.”

We know for sure that a tax cut didn’t spur growth back then: Personal income tax rates rose slightly in 1950. And government spending didn’t do it: Total government expenditure in 1950 was still near a postwar low. Nor did new protective tariffs cause the surge. The General Agreement on Tariffs and Trade, which went into effect in 1948, was in the process of reducing tariffs, not raising them.

In fact, it's quite possible that the fundamental cause of the 1950 boom was bad news, not good. Recall that on, Aug. 29, 1949, the Soviet Union detonated its first atom bomb, ending the brief nuclear monopoly of the United States.

New York City's first air raid siren wasn't installed until October 1950. On Aug. 27, 1950, the Sunday New York Times published a front-page article, "City Folk's Fear of Bombs Aids Boom in Rural Realty." Many people wanted to move to the suburbs or to buy vacation homes or farms as refuges from the atom bomb. That fear helped to spur home building.

For several reasons, the United States in 1950 was at the peak of its biggest housing construction boom since 1929. It still counts as the peak, ranking even higher, as a fraction of G.D.P., than the boom just before the 2007 financial crisis.

Residential investment had been high since World War II, reflecting a postwar housing shortage and higher home prices, but it suddenly spiked much further after the A-bomb scare in 1949. It was likely driven higher still in 1950 by new fear generated by the Korean War, which began with the invasion of the south by the north, supported by both the Soviet Union and newly communist China, on June 25, 1950. By December, The New York Times reported that many people thought the world was on the brink of World War III.

In this bleak climate, Americans reacted with an epidemic of "scare buying" of automobiles and many other products that might be hard to get during a global war. During World War II, after all, such items were often rationed or just not available.

People feared re-imposition of wartime constraints on home building, too. Many consumers felt it might be now or never if you wanted a new home.

So, yes, 1950 had spectacular growth, but it was not a good year.

Now, in 2018, there are also some fearful narratives spreading through the country, though they seem less likely to motivate people to spend. The nuclear war scare of 2018 has not come close to the levels of 1950. And the mood of fear lingering from the experience of World War II is practically forgotten now.

Yet it seems likely that people in many countries may be accelerating their purchases — of soybeans, steel and many other commodities — fearing future government intervention in the form of a trade war. Surely some consumers, fearing that if they don't buy a house or car now they may be faced with higher interest rates imposed by central banks, are making purchases earlier than they otherwise would have.

On a more positive note, the impulse to buy a home or a new car today could be subtly strengthening because of the demonstration effect of Mr. Trump, who models ostentatious living. Most of us can't keep up with the Trumps, but he may be inducing some of us to be more focused on keeping up with the Joneses.

We have to be careful not to give too much credence to interpretations of the economy's strength offered by the president, who focuses on his policies and ignores many other kinds of factors. Something — probably a variety of circumstances, narratives and emotions — has pushed consumption spending up a smidgen more than usual. That, from the long perspective of history, is really no big deal.

In fact, there could soon be a reversal of this strong-economy story, a sudden recession. But, if so, it won't disprove Mr. Trump's claims any more than the high growth of the second quarter proved him right.

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

President Harry Truman in 1950 bound for the Pacific to meet Gen. Douglas MacArthur. The American economy grew by more than 13 percent in the fourth quarter that year, the highest since quarterly numbers began. | Associated Press

Document NYTFEED020180810ee8a0076d

THE WALL STREET JOURNAL.

Business
Global Car Sales Hit Speed Bump as Demand Slows and Trade Tensions Loom; Auto makers grapple with higher steel and aluminum prices and stiffer emissions regulations in Europe and China

By William Boston
1,275 words
29 August 2018
07:01 PM
The Wall Street Journal Online
WSJO
English

Corrections & Amplifications

Oxford Economics estimates that a "moderate trade war scenario" could result in a decline in global gross domestic product in real terms by about 0.5 percentage points to 2.4% in 2019. An earlier version of this article didn't clearly show that the forecast decline is the rate of growth (30 Aug. 2018)

After nearly a decade of growth, new-vehicle sales in the world's largest auto markets are encountering their first sustained slowdown since the global financial crisis, putting pressure on profits as uncertainty around U.S. trade policies looms.

China's once-booming car market is cooling, in part because of escalating trade tensions with the U.S. American demand for cars and trucks—long a bright spot for the global auto industry—has topped out, following a seven-year growth streak that helped lift earnings for many car makers and auto-parts suppliers world-wide.

In Europe, where new-vehicle sales have benefited from the continent's economic recovery, the car market is also softening as demand returns to prerecession levels. That is making profits harder to come by in a region where many car companies have long struggled to make money.

To be sure, global demand remains robust, driven by continued economic strength, but headwinds are gathering.

President Trump's trade policies are undermining consumer confidence in many markets outside the U.S. and are widely seen as the biggest threat to continued economic growth.

An easing of tensions between the U.S. and its major trading partners could prevent the slowdown in auto sales growth from becoming a more rapid decline, analysts say.

Evidence of that came Monday, when an agreement between the U.S. and Mexico to rewrite portions of the North American Free Trade Agreementbuoyed investors, lifting U.S. stocks, global currencies and commodities. Shares of General Motors Co. and Ford Motor Co. surged. On Tuesday, German auto makers including Volkswagen AG, BMW AG and Daimler AG—which have big factories in the U.S. and Mexico—outperformed the country's broader DAX **stock index**.

But the U.S. is still threatening Europe with new import duties and ratcheting up tariffs on China, the world's biggest auto market by sales, which has responded with a 40% import tax on U.S.-built vehicles. An all-out trade war could push the auto industry off a cliff, analysts say. Oxford Economics, a global forecasting group, estimates that a "moderate trade war scenario" could result in a decline in global gross domestic product in real terms by about 0.5 percentage points to 2.4% in 2019, which could sap demand for new vehicles.

This worry has put several car makers, including Ford and Fiat Chrysler Automobiles NV, into caution mode as they temper their financial expectations. Daimler in June issued an unexpected profit warning, saying China's retaliatory import duties on vehicles built in the U.S. would dent sales and profits for the sport-utility vehicles it makes at an Alabama plant.

Last week, Continental AG, the world's second-largest auto-parts supplier, also warned investors its profits could take a hit this year, blaming softer demand for cars in Europe and China.

"The slowdown comes at a very difficult time as [the industry] transitions to more electrification and the robocar arms race sucks up research and development money," said Dave Sullivan, an analyst with consulting firm AutoPacific Inc.

The weakening outlook comes as firms grapple with higher steel and aluminum prices stemming from new tariffs imposed by the Trump administration this year. Stiffening emissions regulations in Europe and China are also forcing auto manufacturers to spend billions of dollars on new technologies to curb tailpipe pollution.

Global auto sales have increased steadily since 2010, rising on average more than 5% annually. This year, sales are on track to hit 97 million vehicles world-wide, but the growth rate is expected to slow to 1.8% from 2017, according to forecasting firm LMC Automotive.

Mr. Trump has threatened to impose additional tariffs on the auto industry and has said he sees such threats as a way to extract concessions from trading partners. In May, the White House asked the Commerce Department to investigate whether it could use a national security law to impose tariffs of up to 25% on cars and auto parts imported into the U.S.

Such actions could further crimp car sales, auto makers and analysts say.

"This would produce a near standstill in the vehicle markets," said Justin Cox, a senior analyst with LMC Automotive. The firm forecasts that if the trade dispute escalates new-car sales in 2020 are likely to come in three million vehicles lower than current forecasts.

In China, the slowdown in the new-car market comes after years of rapid growth driven in part by the wealth amassed by an expanding middle class. Auto makers have spent billions building factories and diversifying their lineups in China, now the world's largest auto market with 28.6 million new-vehicle sales last year, according to LMC.

But the government recently ended a popular tax incentive on new-car purchases that had helped fuel demand.

China's move to impose a retaliatory import duty of 40% on cars imported from the U.S. also has hurt business, especially for BMW and Mercedes-Benz maker Daimler—both of which sell American-built SUVs in the country that are subject to the tariff. BMW has raised prices on its U.S.-made vehicles sold in China.

July sales of new cars in China fell 5.3% from a year earlier to 1.59 million, surprising investors and causing auto makers to rethink forecasts. For the full year, sales are forecast to grow 1.2%, according to LMC Automotive, down from 13% growth in 2016 and 2.1% in 2017.

Ford in July cut its full-year profit guidance after reporting weaker-than-expected results in China and Europe, two key markets where it lost money in the second quarter. FCA also has reduced its profit forecast for 2018, blaming poor performance in China.

Both Ford and FCA had been counting on the Chinese market to reduce their dependence on North America. U.S. auto sales, which set a record of 17.5 million vehicles in 2016, are on track to decline in 2018 for a second year in a row.

In Europe, new-car demand has nearly returned to its pre-financial crisis peak. Sales of new cars in the European Union were up 2.9% in the first half, but that is down from the 4.7% growth posted in the first half of 2017.

Trade tensions with the U.S., the threat of a diesel-engine ban on the continent and weaker consumer confidence in the U.K.—Europe's second-largest car market—in the wake of the vote to leave the EU have sapped sales growth within the past year.

Auto makers will need to look at Eastern Europe and emerging markets, such as India and Africa, for new pockets of growth, analysts say.

"More auto makers are going to explore how to grow further in inland China and what it will take to grow in Africa," said Mr. Sullivan with AutoPacific.

Write to William Boston at william.boston@wsj.com

Related

* America Has Fallen Out of Love With the Sedan

* Continental Shares Plunge After 2nd Profit Warning in a Year (Aug. 22)

* Trump Auto-Tariff Timetable Likely to Slip (Aug 21)

* Trump Threatens Tariffs on Canadian-Made Cars (Aug. 10)

* Big Auto Makers Trim Forecasts (July 25)

* The Many Ways Trump's Trade Disputes Are Affecting the Auto Industry (July 19)

* Trump Cites Car-Tariff Threat as Biggest Trade Leverage (July 2)

Document WSJO000020180828ee8s000um

THE WALL STREET JOURNAL.
U.S. EDITION

Investing In Funds & ETFs: A Monthly Analysis --- Investing in Deals: How Investors Can Cash In on the M&A Boom --- Mutual funds, ETFs let individuals play the merger-arbitrage game once reserved for pros

By Bailey McCann
1,034 words
6 August 2018
The Wall Street Journal
J
R4
English

As 2018 looks to be a big one for mergers and acquisitions, individual investors have more ways then ever to bet on the boom -- thanks to a handful of mutual funds and two exchange-traded funds focused on merger arbitrage.

A strategy once reserved mainly for hedge funds and professional investors, merger arbitrage typically involves buying the stock of an announced acquisition target, betting the deal will close and the shares will rise, and sometimes shorting the acquirer's stock on the bet it will fall. The main risk is that the deal might fall apart.

Betting on mergers and acquisitions may sound like a high-risk proposition, but the funds and ETFs that engage in the strategy generally make small bets on lots of deals with the aim of delivering steady annualized returns -- generally in the 3% to 5% range -- in exchange for less risk than one might expect with stock investing.

Some fund managers say interest in these investments is growing amid a resurgence in M&A activity. Some $2.6 trillion in deals have been announced globally this year through July, up 43% from the year-earlier period, according to data from Dealogic, with U.S. deal volume alone up 47%. At that pace, M&A activity could come close to or top the record $4.38 trillion in global deals announced in 2007.

"There have been a lot of deals -- small, medium, and large -- that have been announced in the last month or so and we expect the pace to continue," says Jonathan Lamensdorf, portfolio manager of Highland Capital's $38.5 million Merger Arbitrage Fund (HMEAX). "Getting more certainty around tax reform and deals like AT&T/Time Warner has been favorable to the market," he says, referring to a recent court ruling that allowed AT&T Inc. to proceed with its $80 billion-plus purchase of Time Warner Inc. despite an effort by U.S. regulators to block it.

With merger activity booming, fund managers such as Mr. Lamensdorf report renewed interest from investors seeking to diversify away from stocks and bonds. About $1.64 billion has flowed into merger-arbitrage mutual funds and ETFs this year through June, according to Morningstar Inc. The category has returned negative 0.37% through July, versus a negative 1.59% return for the Bloomberg Barclays US Aggregate Bond index.

While merger-arbitrage returns have been uneven in recent months amid uncertainty around global trade disputes and government scrutiny of some high-profile deals, these investments historically have performed well when M&A activity is strong and interest rates are rising. Rising rates can lead to bigger spreads between market prices and deal prices, potentially increasing arbitragers' returns.

Companies also have more cash than they have in recent memory, a trend that Roy Behren, portfolio manager of Westchester Capital Management's $1.19 billion Merger Fund (MERFX), says will be a boon for investors in merger-arbitrage funds.

"Cash on hand can make it easier to get a deal done even if the market slows down or corrects. In fact, if that happens we could see volume go up because companies with cash will be able to potentially make acquisitions at a discount," he says.

Even if companies issue new debt to buy a company, there is likely to be a strong appetite for it, making it easier to do deals, according to K.C. Nelson, portfolio manager for the $62.4 million Driehaus Event Driven Fund (DEVDX), as well as the $1.5 billion Driehaus Active Income Fund (LCMAX.) "Given where the rest of the fixed-income market is at right now, investors are showing strong demand for new issue because of the yield," he says.

In addition to mutual funds, there are two ETFs that promise exposure to merger arbitrage, but at a lower cost. Unlike funds run by active managers, who can take larger positions in deals they think may provide a bigger payoff, these ETFs make similar-size investments across all deals, using algorithms to determine when to buy and sell.

IQ Merger Arbitrage ETF (MNA) automatically takes positions in any announced merger or acquisition where the acquirer plans to take a more than 50% controlling interest in the stock. Unlike classic merger arbitrage, MNA shorts the sector of the acquirer instead of the acquirer itself to lower the potential **volatility** of the fund.

ProShares Merger ETF (MRGR) takes positions in as many as 40 announced deals and holds them until the deal closes. It shorts the acquirers, but also maintains a limited cash position to ensure liquidity and mitigate **volatility**.

Some fund managers who run merger-arbitrage strategies question these ETFs. They argue that because ETFs have set rules around when to buy and sell, they could be slow to remove stalled or broken deals from their indexes. "I think there are too many factors that can make a deal go sideways for an index to accurately reflect what's going on consistently," says Mr. Behren.

Willis Brucker, a senior analyst and portfolio manager with Gabelli Funds, which offers merger arbitrage through a hedge fund, as well as mutual funds, says running such a strategy through an index can mean that investors trade away some upside because position sizes are going to be capped. Mr. Brucker determines the size of his positions based on the likely return of a given deal, which could mean having concentrated exposure to a few deals that are likely to have a bigger payoff.

Salvatore Bruno, chief information officer of IndexIQ, the firm behind MNA, says that while ETF investors may not get a premium from having big positions in fewer deals, broad-based exposure can provide diversification benefits. Mr. Bruno also says the lower **volatility** of the ETF may be a positive for investors with a lower risk tolerance.

Ms. McCann is a writer in New York. She can be reached at reports@wsj.com.

Document J000000020180806ee8600004

THE WALL STREET JOURNAL.
U.S. EDITION

REVIEW & OUTLOOK (Editorial)
China Won't Be a Trade Pushover

562 words
1 August 2018
The Wall Street Journal
J
A16
English

The bad economic numbers keep coming from China. Second-quarter GDP growth slowed to 6.7%, due in part to a record low increase in fixed-asset investment. On Tuesday the manufacturing purchasing managers' index, a leading indicator, hit a five-month low, and on Monday the yuan fell to a 13-month low against the U.S. dollar. Chinese stocks have lost one-fifth of their value since January and are near a two-year low.

All these lows have caused some in Washington to conclude that Beijing is losing the trade war. With the grim statistics, the thinking goes, Chinese leaders will have to make concessions and cut a deal quickly.

Not so fast. China's biggest economic headwinds are due to government policies designed to stabilize the financial system. In the last week policy makers have signaled they will relax those measures and use both fiscal and monetary stimulus to rev up growth. While that may cause more problems in the long run, Beijing won't be forced to its economic knees by American tariffs.

Alarmed by the rapid buildup of corporate debt, China's regulators embarked on a deleveraging campaign two years ago. And it yielded results; corporate debt as a percentage of GDP fell slightly last year.

But as the economy slowed over recent months, Beijing began to reopen the money taps. The central bank promised liquidity to banks to expand credit, and last week it offered $74 billion in medium-term financing. The authorities also encouraged companies to issue bonds and eased restrictions on borrowing by local governments for public works. Tax cuts are in the works for corporations and individuals.

Looser monetary policy has contributed to the yuan's weakness. But Beijing will be wary about allowing the currency to decline much further lest it encourage capital flight. China's leaders are firm believers in exchange-rate stability, which has been a pillar of the country's fast growth.

As for share prices, the **equity market** has never been an accurate barometer of China's real economy. Most shares are issued by state-owned companies. Individual investors dominate trading and treat the **stock market** as a casino.

China's leaders are concerned about a trade war with the U.S., but they are hardly panicked. The Politburo Standing Committee, China's most powerful body, released a communique Tuesday that called for more stimulus. But it also said that deleveraging will continue. Contrast this with the government's blowout stimulus after the 2008 global crisis when fiscal and monetary measures totaled 15% of GDP.

Beijing's official growth target is still a healthy 6.5%, in line with the economy's potential as it climbs the ranks of middle-income countries. Domestic demand is becoming more important than exports as an economic engine. It's possible that the trade war will prod policy makers to undertake more aggressive reforms to hasten this transition.

The Trump Administration shouldn't assume that Beijing will buckle under the strain of tariffs. Despite debt problems and slowing growth, Chinese leaders still have plenty of options to keep the economy expanding. The smart U.S. strategy would be to work with allies to negotiate new trade rules with China rather than engage in mutually damaging tariffs.

Document J000000020180801ee810001a

THE WALL STREET JOURNAL.

Economy
Chinese Banks Rev Up Lending to Buoy Economy in U.S. Trade Fight; New loans totaled $211.8 billion in July, up 75% from a year earlier

By Chao Deng
596 words
11 August 2018
08:32 AM
The Wall Street Journal Online
WSJO
English

China is opening the lending spigots as it seeks to shore up its economy for what could be a long trade fight with the U.S.

New loans by Chinese banks totaled 1.45 trillion yuan ($211.8 billion) in July, up 75% or 623.7 billion yuan from the same period last year, according to preliminary statistics released Saturday by the China Banking and Insurance Regulatory Commission.

That was higher than the 1.275 trillion yuan forecast by economists polled by The Wall Street Journal, suggesting that authorities have accelerated efforts to boost economic growth in the face of rising trade tensions.

The regulator also said new lending for infrastructure projects stood at 172.4 billion yuan in July, up 37% from June.

Boosting investment in rail and other infrastructure projects has been the focus of China's current economic stimulus campaign. However, economists have warned that such a lending binge could lead to old problems such as bad debts and excess outputs.

China nonetheless seems determined to keep its foot on the gas. In its statement Saturday, the regulator urged banks to extend more loans, saying lenders should guarantee financing for projects already under construction while ramping up support for infrastructure projects.

Lenders should "make full use of current liquidity" as well as "stable and declining financing costs," the statement said.

In another sign that the government is allowing credit to flow more freely, short-term interest rates between Chinese banks have sunk to three-year lows.

Encouraging banks to extend funding is part of stepped-up efforts by the Chinese leadership to ensure economic stability as U.S. tariffs make Chinese exports more expensive. Both countries have imposed tit-for-tat 25% tariffs on $34 billion in goods, and a second round of tariffs on another $16 billion in goods is set to take effect Aug. 23.

In the past month, top leaders have encouraged local governments to restart projects that had been halted due to previous tightfisted policies, while China's central bank has been pumping funds into the financial system. Such measures are meant to counter headwinds from a potentially protracted trade conflict, analysts say.

China' economy has already been slowing, after Beijing fought hard for two years to control debt and financial risks. Economists say officials are worried their efforts have overshot, with some types of non bank credit even retracting. The banking regulator noted that off-balance-sheet financing such as trust loans were roughly flat in July.

Beijing faces a tough balancing act in rolling out measures to stimulate growth while trying to prevent asset bubbles and a further buildup of debt.

The banking regulator said financial institutions should balance supporting economic growth while preventing risks.

The same statement also urged banks to write off more bad debt and increase loans for small businesses. It didn't mention the trade dispute.

Later Saturday, however, China's central bank said rising trade tensions would put stress on the economy.

Trade frictions not only pose huge uncertainties to exports, weighing on economic growth, but also hurt investors' confidence, worsening turbulence in the global **financial market**, the People's Bank of China said in its quarterly report.

The central bank pledged to keep liquidity at an abundant level, while maintaining a "neutral" monetary policy.

Liyan Qi contributed to this article.

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

Document WSJO000020180811ee8b000p1

The New York Times

World; Europe
Tensions Between Turkey and U.S. Soar as Trump Orders New Sanctions

By Carlotta Gall and Jack Ewing
1,753 words
10 August 2018
05:37 AM
NYTimes.com Feed
NYTFEED
English

ISTANBUL — A worsening dispute between the United States and Turkey reverberated through the global economy on Friday, hastening a broad flight of money from emerging markets and sowing instability throughout the Middle East as relations between the NATO allies neared a breaking point.

The immediate crisis — accelerated by a hostile tweet from President Trump — flared over Turkey's continued detention of an American pastor, Andrew Brunson, who was jailed 21 months ago in a widespread crackdown after a failed coup in Turkey.

But the outsize effect reflected deepening concerns over Turkey's economic management by President Recep Tayyip Erdogan, who was re-elected in June with near-authoritarian powers. It also increased the risk that the problems in Turkey, which borders Iran, Iraq and Syria, could destabilize economies well beyond the region.

Turkey's economy is only the 17th largest in the world, but its problems are worsening as Mr. Trump's trade war is rattling global commerce, damaging longtime alliances and threatening economic growth worldwide.

There is also widespread fear among foreign investors that the populist, authoritarian government of Mr. Erdogan is pursuing irresponsible economic policies while undercutting the independence of the central bank. That, analysts fear, is preventing the country from taking the necessary steps to put the economy on a more stable footing.

Turkey's currency, the lira, which traded at 4.7 to the dollar a month ago, weakened to 6.4 to the dollar on Friday — the first time ever that it took more than 6 lira to buy a dollar. The lira has lost more than 30 percent of its value this month — roughly half of it this week.

Seeming to sense vulnerability, Mr. Trump piled on pressure and announced additional economic sanctions — doubling tariffs on imported Turkish steel to 50 percent and on aluminum to 20 percent — after having already penalized two Turkish government ministers last week.

The move effectively priced Turkish steel out of the American market, which accounts for 13 percent of Turkey's steel exports.

"Our relations with Turkey are not good at this time!" Mr. Trump wrote.

The deepening standoff raised questions of whether the two strong-willed leaders were risking even broader chaos as they vied for the upper hand in a widening diplomatic dispute largely focused on individual personalities.

An evangelical preacher, Mr. Brunson, who has lived in Turkey for 23 years, is one of about 20 Americans, including a NASA scientist and chemistry professor from Pennsylvania, who have been swept up in Mr. Erdogan's crackdown since the failed coup two years ago.

Mr. Erdogan says the coup was orchestrated from the United States, and specifically by a Muslim cleric, Fethullah Gulen, from his self-imposed exile in Pennsylvania. Turkish authorities have demanded that he be extradited, something American officials have dismissed, and the detained Americans are widely seen as bargaining chips.

Mr. Erdogan has shown no sign of backing down. He sounded defiant in two speeches to supporters on Friday, railing against foreign powers that he accused of orchestrating Turkey's economic crisis, and vowing not to bow to Western pressure.

“Those who believe they can make us kneel by economic manipulation, have never understood this nation at all,” he told a crowd in Gumushane, a province on Turkey’s northern Black Sea coast. “They can’t use threatening language, blackmailing language against this nation. Especially bullying will not cut it with our nation.”

After watching Mr. Erdogan on live television, Asli Aydintasbas, senior fellow with the European Council on Foreign Relations, said, “They have no deal, their positions have hardened.”

The breakdown was surprising, she said, because Mr. Trump had appeared to reach the outlines of an agreement for the pastor’s release with Mr. Erdogan on the sidelines of the NATO summit last month.

In exchange, the United States agreed to arrange for the Turkish banker, Mehmet Hakan Atilla, who is serving a 32-month prison term in the United States, to be returned to serve the remainder of his sentence in Turkey.

After his meeting with Mr. Erdogan, Mr. Trump even threw in an extra favor, asking Israel to release a Turkish detainee, Ebru Ozkan, who was quickly freed.

Washington wanted Mr. Brunson released immediately, but the formalities of the Turkish banker’s transfer were expected to take two or three weeks, according to Ms. Aydintasbas.

The deal has not happened, she said, as Turkey has held out for further guarantees, including the lowering of a fine by the United States Treasury against the state-owned Turkish bank Halkbank for conspiring to violate United States sanctions against Iran, and a promise to cease any further prosecutions.

According to one American official, Turkey had been given a deadline to release Mr. Brunson, who is now under house arrest at his home in the Turkish coastal city of Izmir, by 6 p.m. Wednesday.

Turkey had seemed to be trying to stave off the crisis by scrambling a delegation to travel to Washington for more talks that day.

The talks did not go well, said a second American official.

“The conversations continue,” said Heather Nauert, the State Department spokeswoman, after the discussions.

By Friday Mr. Erdogan seemed determined to tough it out. He called on Turks to sell their gold and dollars and buy lira to bolster the Turkish currency.

“Those who have dollars, euros, gold under their pillows, should go and change them in our banks for the Turkish Lira,” he said. “This is a national struggle.”

“Erdogan has made a decision,” Ms. Aydintasbas said. “His speech was clearly very defiant.”

Yet Turkey’s economic situation looked increasingly fragile.

The lira’s plunge has sent shudders through **financial markets** because it has raised doubts about investing in Turkish securities. The yield on Turkish 10-year bonds has risen sharply, to more than 20 percent, which means traders are demanding much higher returns for what they see as an increasingly risky investment.

The anxiety extended to doubts about Asian and European banks that have heavily invested in Turkey, and it contributed to declines in stock markets around the world. As with the financial crisis set off by Greece in 2010, Friday’s events were the latest example of how troubles in a nation with a midsize economy but world-class problems could threaten financial stability further afield.

“In **financial markets** everything is interlinked,” said Bart Hordijk, a market analyst in Amsterdam at Monex Europe, a foreign exchange firm. “You don’t know if one bank has huge exposure to the Turkish lira.”

As a result, Mr. Hordijk said, “People scramble to safer assets.”

In power for 15 years already, Mr. Erdogan’s popularity has depended greatly on his ability to bring Turks continued economic growth. It has created a middle class beholden to him, even as he has trimmed civil liberties, jailed opponents, and constrained traditional and social media alike.

He called snap elections this year, a year and a half ahead of schedule, driven in part by signs that the economy was faltering. Yet the lira plunged even in the midst of his re-election campaign.

The economic trouble has only worsened in the weeks since Mr. Erdogan acquired sweeping executive powers after his re-election to a newly enhanced presidential system in June.

The currency's sharp decline has reflected concerns about the fundamentals of Mr. Erdogan's economic model, which has depended on a voracious construction industry that his opponents say has enriched his inner circle while heaping debt on the country.

The even steeper fall in the lira since Mr. Erdogan's re-election is now fueled by worries that he is ever more insulated and is taking no one's economic advice but his own.

In an example of his increased role, he has resisted calls for a rise in interest rates to curb inflation and to ease pressure on the lira.

Berat Albayrak, Mr. Erdogan's son-in-law, who has been appointed to the combined post of Treasury and Finance Minister, attempted to calm markets with a briefing to the news media.

He insisted that Turkey would respect the independence of the Central Bank even as Mr. Erdogan's interference in monetary policy has been one of the causes of the fall of the lira, and that its economy would even show positive growth this year.

"Turkey will go further with its friends and with those who say 'We are for winning with Turkey,'" he said. "Turkey has a very strong banking sector, it is well prepared to these kind of scenarios with its capital structure."

Turkey also announced that Mr. Erdogan had held a telephone call with Russia's president, Vladimir V. Putin, on Friday to discuss economic ties amid the market turmoil, The Associated Press reported. Mr. Erdogan, who has often touted his relationship with Russia as a signal that he has an alternative to relations with the West, said they discussed Russian tourism to Turkey.

The minister of trade, Ruhsar Pekcan, reacted the news of the new sanctions in measures tones, pleading for a return to negotiations.

"Turkey is deeply disappointed by the U.S. Administration's decision to double steel and aluminum tariffs," he said in a statement. "The tariffs were groundless when they were announced in June, and remain so now."

"The effects of this ill-advised action by the U.S. Administration will not only impact Turkey, but will prove detrimental to American companies and workers as well."

"We implore President Trump to return to the negotiating table — this can and should be resolved through dialogue and cooperation."

Follow Carlotta Gall and Jack Ewing on Twitter: @carlottagall @JackEwingNYT Carlotta Gall reported from Istanbul, and Jack Ewing from Frankfurt, Germany. Gardiner Harris and Adam Goldman contributed reporting from Washington.

* Turkey Cheers as Erdogan Takes On U.S. Over Sanctions

* Turkey's Erdogan Orders Retaliatory Sanctions Against American Officials

* Now, Erdogan Faces Turkey's Troubled Economy. And He's Part of the Trouble.

* Turkey Struggles to Protect Its Lira

President Recep Tayyip Erdogan has called on Turks to support the struggling lira by exchanging any foreign currency, saying that Turkey faces an economic war. | Andrew Urwin for The New York Times | President Erdogan of Turkey, center, has clashed with Washington and raised worries among international investors. Those concerns are now filtering into **financial markets**. | Turkish Presidential Press service, via Agence France-Presse — Getty Images

Document NYTFEED020180810ee8a00209

Economy

Fed Holds Steady | Bank of England Raises Rates | BOJ Official: Yield Target Still Around Zero | Brazil Central Bank Stands Pat | Timiraos's Take: Where Is the Terminal Rate? The Wall Street Journal's central banking newsletter for Thursday, August 2, 2018

2,130 words
2 August 2018
07:21 AM
WSJ Pro Central Banking
RSTPROCB
English

Timiraos's Take: Where Is the Terminal Rate?

Federal Reserve Holds Rates Steady, Says Economy Is Strong

Bank of England Raises Rates to Highest Level Since 2009

Amamiya: BOJ's 10-Year Yield Target Remains at 'Around Zero'

Brazil Central Bank Holds Benchmark Interest Rate Steady

Where Is the Terminal Rate?

Wednesday's Federal Reserve statement offered nothing to dissuade markets from their expectations the central bank will raise rates again in September and probably once more in December.

It also presented no clear signal on the big question facing central bank officials: When it comes to actively restricting growth, will they or won't they?

Fed Chairman Jerome Powell's testimony before Congress last month held out such a prospect that the Fed might pause its rate increases sooner than later when he said officials believe gradually raising the benchmark short-term rate was the right course "for now."

And even though Mr. Powell attributed that sentiment to the Fed's rate-setting committee, meaning it wasn't being offered solely as his personal view, Wednesday's statement didn't go there.

It may be too soon for the Fed to update its guidance. It continues to describe its policy-setting as one that will stimulate growth, even though a growing chorus of Fed officials seem to have signaled their desire to approach a more neutral setting.

With one more rate increase in September, the benchmark rate would rise to a range between 2% and 2.25%, and another increase in December would push rates even closer to neutral, at 2.25% to 2.5%.

Either of those meetings could provide a better opportunity to signal greater flexibility—and less autopilot—in their rate-rise strategy, particularly if a majority of officials are inclined to pause rate increases once they reach a neutral setting.

Estimates over where the current rate-rise cycle will end—the so-called terminal rate—are all over the map. Roberto Perli, an analyst at Cornerstone Macro, said Wednesday his base case has the Fed raising rates just three more times—two more times this year and one more time next year.

By contrast, Mr. Perli estimates that futures markets are pricing in another two rate increases beyond that, which would push the terminal rate to a range between 3% and 3.25%.

A majority of Fed officials, meanwhile, think they will need at least one more rate increase after that. In June, 10 out of 15 Fed officials said they expect, given their current economic forecasts, its benchmark rate will rise to a range between at least 3.25% and 3.5% by 2020.

Who's right? Watch inflation. Mr. Perli's relatively dovish forecast stems from his view that price pressures will remain tame. Fed officials, on the other hand, see core inflation rising to 2% this year and 2.1% in 2019 and 2020, requiring tighter policy.

Key Developments Around the World

Federal Reserve Holds Rates Steady, Says Economy Is Strong

The Federal Reserve held short-term interest rates steady Wednesday and offered an upbeat assessment of the economy's performance, suggesting another interest-rate increase is likely at its next meeting. The Fed repeatedly emphasized the economy's strength in a statement released after its two-day policy meeting. It offered nothing to dispel market expectations that it would deliver its third interest-rate increase of the year when it meets in late September. "Economic activity has been rising at a strong rate," the statement said. In all, the Fed's rate-setting committee used the word "strong"—or a derivative of it—six times to describe the economy and labor markets.

Parsing the Fed: How the August Statement Changed From June

Bank of England Raises Rates to Highest Level Since 2009

The Bank of Englandraised its benchmark interest rate for only the second time in a decade, as worries over inflation trumped concerns about Brexit and a brewing global trade war. BOE officials voted unanimously to raise the central bank's policy rate to 0.75% from 0.5% following the rate-setting Monetary Policy Committee's August meeting, the BOE said Thursday. The increase takes the benchmark rate to its highest level since 2009. The move marks the latest small step by a major central bank to dial back the monetary stimulus that has been supporting the global economy since the financial crisis tipped the world into recession in 2009.

Amamiya: BOJ's 10-Year Yield Target Remains at ‘Around Zero'

Bank of Japan Deputy Gov. Masayoshi Amamiya said Thursday the bank is still targeting the 10-year Japanese government **bond yield** around zero, playing down market speculation that the bank's latest policy announcement could be a step toward normalization. The comment came a couple of hours after the 10-year JGB yield hit 0.145%, the highest level since February 2017, following Gov. Haruhiko Kuroda's comment on Tuesday that the bank would let the 10-year yield rise as high as 0.2%. "The target level of the long-term yields remains at around zero percent," Mr. Amamiya said in a speech to business leaders in Kyoto.

Brazil Central Bank Holds Benchmark Interest Rate Steady

Brazil's central bankheld its benchmark interest rate unchanged at a historic low Wednesday as sluggish economic growth keeps a lid on price pressures stemming partly from a weakened currency. The bank's monetary policy committee kept the Selic benchmark rate at 6.5%, a level reached in March after 12 consecutive cuts, and for the second meeting in a row left markets without specific guidance about its next move. Rate policy "will continue to depend on the evolution of economic activity, the balance of risks, and on inflation projections and expectations," the monetary policy committee said.

Inflation Expectations Rise in Bank of Mexico Survey

Economists polled by the Bank of Mexico in July raised their expectations for inflation this year following a recent pickup in consumer prices, while lowering forecasts for economic growth in 2019, survey results showed Wednesday. Inflation is expected to end the year at 4.25%, according to the median estimate of 34 economists, up from 4% in the June survey. After a five-month decline to 4.51% in May, inflation had picked up to 4.85% by mid-July. Growth expectations remained unchanged at 2.3% for this year, but for 2019 the forecast for gross domestic product fell to 2% from 2.3%.

Global Inflation Hits Four-Year High on Rising Energy Prices

Global inflation hit its highest level in four years during June, led by a surge in energy prices, according to figures released Thursday by the Organization for Economic Cooperation and Development. The Paris-based research body said consumer prices in the Group of 20 largest economies—which account for 80% of global economic output—were 3.1% higher than a year earlier, a pickup from the 2.9% rate of inflation recorded in May and the highest level since June 2014. Across the OECD's 35 members, most of which are rich countries and include the U.S., the rate of inflation accelerated to 2.8% from 2.6%, reaching its highest level since February 2012. However, much of the recent pickup is down to a jump in energy prices.

FINANCIAL REGULATION ROUNDUP

Wells Fargo Reaches $2.09 Billion Settlement Over Mortgage-Backed Securities

Wells Fargo & Co. agreed to pay $2.09 billion to settle with the Justice Department over the sale of toxic mortgage-backed securities in the lead-up to the financial crisis. The Justice Department said Wednesday it reached a civil settlement with Wells Fargo to end the long-running probe into the matter. Wells Fargo had already set aside funds to cover the settlement, in which it didn't admit liability. The bank and the Justice Department had negotiated for several months over the amount, which at one point ranged between $2.5 billion and $3 billion, people familiar with the negotiations said.

Regulators Probe Options Market's Major Clearinghouse

The company tasked with curbing risk in the U.S. options market is under investigation by federal regulators for how it handled a recent period of market turbulence, according to people familiar with the matter. The probes from the Securities and Exchange Commission and Commodity Futures Trading Commission include concerns that Options Clearing Corp. failed to accurately forecast how much cash would be needed to cover trading losses triggered by a spike in **volatility** last February, some of the people said.

A Military Credit Union Grows With ‘No Speed Limit'

James Schenck, chief executive of America's third-largest credit union, has a mantra: "No speed limit." Upon his 2014 promotion to CEO at Pentagon Federal Credit Union, the former Black Hawk helicopter pilot announced "Drive to 75"—a goal of more than quadrupling PenFed's assets from about $18 billion to $75 billion by 2025. While the company has a long way to go—it ended 2017 with about $23 billion in assets—PenFed's plans for high-octane growth reflect how some in the not-for-profit industry are eager to consolidate and expand. The trend is irking some bankers and pressing up against regulatory boundaries.

U.S. Charges Ukrainians in Payment-Card Hacking Case

U.S. prosecutors announced the arrests of three Ukrainians accused of being leaders of an international ring that has allegedly hacked millions of payment card records in a campaign of cyberattacks that targeted over 100 American companies. Dmytro Fedorov, 44, Fedir Hladyr, 33, and Andrii Kolpakov, 30, were each charged with 26 felony counts, including wire fraud, computer hacking and identity theft, according to court documents unsealed Wednesday. They could face decades in prison due to the scope of damages caused by their alleged hacking activity, prosecutors said. A lawyer for Mr. Hladyr couldn't be reached for comment. Contact information for representatives of the other two men wasn't immediately available.

Thursday

7:50 p.m. EDT

Bank of Japan releases June 14-15 meeting minutes

Friday

8:30 a.m. EDT

U.S. Commerce Department releases June international trade data

8:30 a.m. EDT

U.S. Labor Department releases July jobs report

Misperceived Social Norms: Female Labor-Force Participation in Saudi Arabia

Leonardo Bursztyn, Alessandra L. González and David Yanagizawa-Drott study the impact of cultural norms, such as gender roles, on labor-force participation in Saudi Arabia. They find in a VoxEU column, "the vast majority of young married men in Saudi Arabia privately support [female labor-force participation] outside of home from a normative perspective, while they substantially underestimate the level of support for [female labor-force participation] by other similar men—even men from their same social setting, such as their neighbors." These results have implications beyond Saudi Arabia's economy: "Together, our evidence indicates a potentially important source of labor market frictions, where job search is underprovided due to misperceived social norms," they write.

Adding Up the Cost of Climate Change in Lost Lives

"Scorching heat waves have gripped the world in recent weeks from the Pacific Northwest to Northern Europe and, most tragically, Japan, where more than 100 mostly elderly people have died. The usual caveat applies: no single event can be specifically tied to climate change. Nonetheless, it offers an unsettling preview of what may be in store for the coming century," writes The Wall Street Journal's Greg Ip.

Looming trillion-dollar federal budget deficits are boosting the U.S. Treasury's borrowing and could restrain a fast-growing economy as the cost of credit also rises.

A fresh wave of selling hit U.S. government bonds Wednesday, briefly sending the yield on the 10-Treasury note above 3% for the first time in nearly two months.

The U.S. private sector added 219,000 jobs in July, according to a report released Wednesday, the bulk of which were in medium-size businesses and in the service sector.

U.S. manufacturing activity lost momentum in July but continued to expand at a healthy rate, suggesting factories are so far brushing off the effects of new tariffs on steel and aluminum.

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

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

Follow us on Twitter:

@WSJCentralBanks, @NHendersonWSJ, @PaulHannon29, @michaelsderby, @wsj_douglasj, @HarrietTorry, @KateDavidson, @d_harrison, @kimmackrael, @TomFairless, @mikemaloneyny

Document RSTPROCB20180802ee82000b5

THE WALL STREET JOURNAL.

Markets

Why China's Yuan Will Struggle to Rally Further; Asia stocks rose Tuesday after the U.S. struck a new trade agreement with Mexico

By Saumya Vaishampayan
580 words
28 August 2018
01:56 AM
The Wall Street Journal Online
WSJO
English

Stocks rose across Asia on Tuesday. That followed gains in New York shares overnight, after the U.S. reached a trade deal with Mexico. Indexes in open, trade-reliant economies such as Singapore and Taiwan notched some of the region's biggest gains, up about 1% and 0.8%, respectively.

Tuesday's Big Theme

By showing its displeasure at a recent slide in the yuan, China has helped the currency strengthen against the dollar. However, the rally is unlikely to go much further.

What's Happening

China guided the yuan 0.7% stronger against the dollar Tuesday, the biggest one-day boost for the Chinese currency since June 1. By early afternoon, a dollar bought 6.8176 yuan in the onshore market.

The central bank determines a rate for the dollar against the yuan, and allows the currency pair to trade in a range around that level each day. The so-called fix is based on the dollar's value against the yuan in the previous session and overnight moves in a basket of currencies. Tuesday's move followed a surge in the yuan Monday.

The fix now also includes a so-called countercyclical factor, which effectively diminishes the role of market forces. The reintroduction of this factor and a requirement making it more expensive for investors to bet against the yuan, both announced this month, suggest China has become concerned about the pace of the yuan's decline.

Yet the drivers for a weaker currency remain, which is why some analysts don't expect the yuan to rally significantly from here. While the U.S. is likely to push ahead with interest-rate increases, many economists expect China to ease policy to cushion its slowing economy, and the countries remain embroiled in a trade spat that has already resulted in tariffs on billions of dollars worth of goods.

The median forecast among analysts polled by Thomson Reuters is for the yuan to be slightly stronger at 6.7 to the dollar by end-July next year, although several expect it to fall below 7, with the most **bearish** forecasting a level of 7.3 per dollar.

The yuan has strengthened 1.8% against the dollar since Aug. 15, according to Wind Info, though it remains down for the year.

Market Reaction

Zhou Hao, an economist at Commerzbank, said in a note that he doesn't expect the yuan to appreciate much more given the slowing economy, the U.S. trade spat and Beijing's deleveraging drive.

Investors should focus on the U.S.-China relationship rather than other developments, such as the deal struck with Mexico, according to UBS Wealth Management, since the Trump administration's concerns about China go beyond trade.

The latest round of trade talks between the world's two largest economies ended last week with no sign of progress.

Elsewhere

The WSJ Dollar Index rose 0.1%, recovering slightly from its biggest two-day drop since February.

Write to Saumya Vaishampayan at saumya.vaishampayan@wsj.com

Related

* China's Tighter Grip on the Yuan Bodes Well for Markets (Aug. 27, 2018)

* China Central Bank Reintroduces Measure to Bolster the Yuan (Aug. 24, 2018)

* U.S.-China Trade Talks End With No Sign of Progress (Aug. 23, 2018)

* China Fights Back After Yuan Slide (Aug. 3, 2018)

Document WSJO000020180828ee8s000jh

The New York Times

Editorial Desk; SECTA
For Wages, a Trump Slump

By DAVID LEONHARDT
676 words
6 August 2018
The New York Times
NYTF
Late Edition - Final
19
English

Paul Ryan tried to brag about the economy last week, and it didn't go so well. ''Not too long ago, progressive economists said strong economic growth couldn't be done anymore -- that a stagnant U.S. economy was the 'new normal,''' Ryan tweeted. ''And yet, our economy is growing at its fastest rate since 2014.''

Ah, yes: the good old days of 2014, also known as the sixth year of Barack Obama's presidency. Ryan's nostalgia for 2014 wasn't even the most-mocked part of his tweet. His attempt to make grand claims about a single quarter of growth was.

If the Trump economy were so wonderful, why would the speaker of the House feel the need to traffic in disingenuousness? Because the Trump economy isn't actually so wonderful. For most Americans, it is downright mediocre, and it has deteriorated somewhat since President Trump took office, despite the healthy G.D.P. and unemployment statistics.

The chart here tells the story. It shows the trends in average inflation-adjusted hourly pay, arguably the best measure of economic well-being for most people. As you can see, hourly wages are suffering through a Trump slump.

That slump isn't entirely Trump's fault, by any means. But he deserves some blame for it. Worst of all, he is doing virtually nothing improve the situation, instead enacting policies that will ultimately hurt workers' ability to earn a decent paycheck.

Let's start with the good news. The unemployment rate keeps falling, and economic growth is solid. These headline numbers are the ones that Republicans emphasize (and that the media sometimes overhypes).

As a result of the growth, nominal wages -- that is, the numbers people see in their paychecks, before taking inflation into account -- are growing. You can see the pickup in the gentle upward slope of the chart's solid gray line. Over the past year, the average hourly nominal wage has risen 2.7 percent.

There are two problems, though. First, 2.7 percent isn't a great growth rate for nominal wages. It was rarely so slow in the entire second half of the 20th century, for example. These days, though, most workers don't receive their fair share of economic output. An outsize share instead flows to corporate profits and the rich.

Second, nominal wages by themselves can't buy a higher standard of living. Prices matter, too. When the prices of good and services are rising faster than nominal wages, people end up with less buying power. And that is exactly what's happening now.

Inflation has surged, as you can see in the dashed line, mostly because of higher **oil prices**. Events in the Middle East, Russia and Venezuela have reduced the supply of oil, even as a growing global economy is increasing demand. Trump has aggravated the situation by pulling out of the Iran nuclear deal, further raising **oil prices**.

Add it all up -- faster inflation plus mediocre nominal-wage growth -- and you get a stagnation in real wages. Welcome to the Trump wage slump.

My best guess is that real wages will do modestly better over the next year, barring another oil spike or an unexpected recession. But there is no reason to think that most Americans are on the cusp of truly healthy pay increases.

They face too many obstacles: Companies that are larger and more powerful than they used to be; unions that are weaker; and, thanks in large part to Trump, a federal government that keeps siding against workers, be it on overtime pay, work rules, health care costs, for-profit-college scams or tax cuts.

Right now, Trump is presiding over precisely the wage growth that he deserves: zero.

Follow The New York Times Opinion section on Facebook and Twitter (@NYTopinion) , and sign up for the Opinion Today newsletter .

CHART: Change over the preceding 12 months in average hourly wages and in the Consumer Price Index (Source: Bureau of Labor Statistics)

Document NYTF000020180806ee860003d

THE WALL STREET JOURNAL.

Markets

Moynihan Grows Into Role as BofA Chief; CEO sees 'room to run' after nearly nine years at the helm

By Rachel Louise Ensign
571 words
18 August 2018
08:00 AM
The Wall Street Journal Online
WSJO
English

A decade after the financial crisis, The Wall Street Journal has checked in on dozens of the bankers, government officials, chief executives, hedge-fund managers and others who left a mark on that period to find out what they are doing now. Today, we spotlight Bank of America CEO Brian Moynihan.

When Brian Moynihan took on the job of chief executive of Bank of America Corp. in 2010, the bank's very existence seemed uncertain. After almost nine years in the role, he has lifted its **stock price** and earned the praise of Warren Buffett.

The process took years. Mr. Moynihan, 58 years old, got the top role after CEO Kenneth Lewis unexpectedly announced his retirement in fall 2009. During that period, Bank of America faced major financial problems following acquisitions of Countrywide Financial Corp. and Merrill Lynch & Co. To stay afloat, the bank had to take $45 billion from the government.

With the bailout funds paid back, Mr. Moynihan oversaw a plan to stabilize the lender and try to shield it from similar damage in a future crisis. That strategy involved shedding riskier businesses and expanding through conservative lending.

For a long time, though, that turnaround plan was overshadowed by multibillion-dollar fines and other missteps, like when the bank in 2014 had to shelve a plan to buy back shares and boost its dividend for the first time in years after finding a $4 billion error in its capital calculations.

Eventually, the bank was able to cut costs and boost profits through strategies like closing around 1,600 branches while strategically expanding in big cities. Around 2015, the bank turned a corner "numerically" and "emotionally," Mr. Moynihan said this year.

An Ohio native, the low-key Mr. Moynihan joined Bank of America through its 2004 acquisition of Boston-based FleetBoston Financial Corp. He previously held a number of roles at the bank, including running consumer and small-business banking.

After Donald Trump's surprise 2016 election, bank stocks broadly jumped. Bank of America shares surged 74% between then and the end of 2017.

For the full year of 2017, the bank posted a $21.1 billion profit, excluding an adjustment from the tax cut, roughly matching the bank's all-time profit record from 2006. The bank issued millions of new shares during the crisis, however, so its per-share earnings remain far below where they were precrisis. Likewise its shares, unlike those of competitors such as JPMorgan Chase & Co. and Wells Fargo & Co., remain below precrisis levels.

The bank has also gotten approval to continue boosting buybacks and its dividend. Mr. Buffett, whose Berkshire Hathaway Inc. threw the bank a lifeline with a 2011 investment and now is its largest shareholder, has publicly praised Mr. Moynihan.

"Bank of America has done a sensational job under Brian Moynihan," Mr. Buffett said in a television interview last year. "Brian had all kinds of problems when he came in, they were not of his own doing...He just set out step-by-step to bring the bank back."

Mr. Moynihan has shown no indication he plans to leave the role anytime soon. "I've got some room to run, I hope," he said earlier this year.

Write to Rachel Louise Ensign at rachel.ensign@wsj.com

Document WSJO000020180818ee8i000ul

THE WALL STREET JOURNAL.
U.S. EDITION

Stronger Inflation Eats Into Paychecks

By Josh Mitchell
754 words
11 August 2018
The Wall Street Journal
J
A1
English

A humming U.S. economy is pushing inflation up to levels that the central bank considers healthy. But there's a downside: Americans' paychecks are barely keeping up.

Consumer prices rose 2.9% over the past year, a rate last exceeded in late 2011, the Labor Department said Friday. Core prices -- those outside of **volatile** food and energy-related expenses -- climbed 2.4%, the biggest annual gain since September 2008.

The rising cost of things like rent, gasoline and health care is another sign the economy is kicking into a higher gear after years of slower growth.

Businesses raise prices when they feel Americans are able and willing to spend more. For much of the expansion, inflation remained stubbornly low, prompting an unprecedented stimulus campaign from the Federal Reserve to counteract its anemia.

But rising prices are now eating up much of Americans' wages gains, restraining their ability to spend in the future. For just the second time in four years, average hourly earnings -- after inflation -- fell over the past 12 months, a separate Labor Department report Friday showed.

Workers still came out ahead -- barely -- but only because they increased the number of hours they worked. Weekly earnings, adjusted for inflation, grew 0.1% in the past year.

"It seems like any time we get any kind of raise, any kind of opportunity, expenses rise," said Simeon Weinraub, a 49-year-old self-employed video producer.

His landlord this month raised by 10% the rent on the house he shares with his pregnant wife and two kids in Pasadena, Calif. Mr. Weinraub and his wife, a charter-school superintendent, make almost $200,000 combined.

But with monthly rent now at $2,750, child care at about $1,000, and other expenses, the family feels squeezed, he said, adding: "It doesn't feel like it's sustainable."

Many economists expect inflation to slowly rise but remain tame, in part because the Fed plans to gradually raise interest rates to prevent the economy from overheating. Friday's report likely bolsters the central bank's plans for two more rate increases this year.

The Fed prefers inflation at 2% annually -- as measured by a separate Commerce Department gauge.

Inflation by that measure appears to be roughly at the Fed's target after years running below it.

Rising consumer costs could upend any political messaging ahead of the November midterm elections. Gross domestic output grew at a 4.1% annual rate in the second quarter, the strongest quarter since 2014, and economists project growth will clock in at 3% for 2018 as a whole.

President Trump, a Republican, has pointed to the GDP numbers as a sign his economic agenda -- including deregulation, a tax cut and efforts to revamp trade deals -- is working.

He also points to a historically low unemployment rate of 3.9%.

But along with such strong growth can come faster inflation, which cuts into purchasing power, and Democrats are pointing to modest wage growth as a sign the economy's gains aren't being spread evenly.

"Workers are not benefiting from the Trump economy," the Democratic National Committee said in a statement after Friday's report.

Many economists believe workers' wages will pick up. For one, the recent rise in inflation is partly due to higher energy costs, which tend to be **volatile** and could recede. Also, home sales have fallen and apartment construction has boosted inventory in some cities. Such developments could bring down rents and slow home-price growth, which have been among the biggest drivers of inflation in recent years.

Meanwhile, companies, which have raised wages in recent years as unemployment fell, may have to raise them further as workers become harder to find.

For now, price increases appear to be modest but not crippling.

In Boston, Tommie Chavis's landlord has raised his rent by $100, or 4%, over the past year for the apartment he shares with three roommates. They are set to pay $2,600 a month soon.

Mr. Chavis, 24, who recently earned a master's degree and is applying to dental school, is about to start a full-time job at Target to help cover costs.

"It's annoying, but if it was not split four ways it would be a hassle," Mr. Chavis said of the rental increase. He says he has kept the lid on his other costs -- for example, his gym membership is only $10 a month.

License this article from Dow Jones Reprint Service

Document J000000020180811ee8b0002t

THE WALL STREET JOURNAL.
U.S. EDITION

Markets & Finance: Oil Prices Settle Slightly Higher

By Amrith Ramkumar and Neanda Salvaterra
314 words
28 August 2018
The Wall Street Journal
J
B10
English

Oil prices swung between small gains and losses before closing slightly higher Monday, with traders waiting for fresh supply signals following last week's rally.

Light, sweet crude for October delivery added 15 cents, or 0.2%, to $68.87 a barrel on the New York Mercantile Exchange. Prices had their best week since June last week, climbing more than 5% on a larger-than-expected drop in U.S. inventories, though they are still about 7.1% below their multiyear peak from earlier in the year. On Monday, Brent crude, the global benchmark, climbed 39 cents, or 0.5%, to $76.21 a barrel.

Uncertainty about global supply and demand have swung prices in both directions this summer. U.S. sanctions against Iran and supply disruptions in Libya and Venezuela have supported oil at various times, while figures showing steady output from major producers including Saudi Arabia and Russia have tended to push prices lower.

Analysts are trying to determine whether steady production from those countries and the U.S. will keep the market well-supplied if oil from Iran is removed, with some saying the high number of unknowns has led traders to take profits when prices rise.

Meanwhile, trade tensions between the U.S. and China have raised the possibility of a global economic slowdown that lowers demand for commodities broadly. That threat has in turn pushed up the dollar, which makes materials priced in the U.S. currency more expensive for overseas buyers.

Investors have been encouraged recently that the two countries have worked to resolve their trade conflict, leading to gains in global stocks, currencies and commodities in the past week. Traders were looking ahead to the latest reading on U.S. crude stockpiles, to be released Wednesday.

Document J000000020180828ee8s0000r

Economy

Banks Eased Lending Standards | RBA Stands Pat | FDIC Leader Re-Evaluates Rulebook | Danske Bank Faces Criminal Probe | Derby's Take: Indifference May Be Reducing Potency; The Wall Street Journal's central banking newsletter for Tuesday, August 7, 2018

2,430 words
7 August 2018
05:59 AM
WSJ Pro Central Banking
RSTPROCB
English

Derby's Take: Public Indifference May Be Reducing Central Bank Policy Potency

U.S. Banks Eased Lending Standards to Businesses in Second Quarter

RBA Stands Pat, Completes 2 Years on the Sidelines

New FDIC Leader Joins Push to Re-Evaluate Banking Rulebook

Denmark Launches Criminal Probe of Danske Bank

Public Indifference May Be Reducing Central Bank Policy Potency

If central bankers speak and nobody listens, do their policies get any traction?

Financial markets, traders and investors pay intense attention to central bank communications. But a recent paper published by the National Bureau for Economic Research finds the general public is indifferent. More important, regular folks judge things like inflation quite differently than the policy makers.

This disconnect upends the new orthodoxy. The world's top central bankers believe their policies work better when the public understands what they are trying to do.

If regular folks aren't getting the message, a central bank's control over real-world inflation is more tenuous than officials thought. And that makes monetary policy a less effective tool for influencing a nation's economy.

The authors' remedy is a more sophisticated communications strategy that hones the message based on who is receiving it. That is understandable, but is it practical?

Take the Fed. Over recent years, the amount of its public communications has skyrocketed. Its officials speak with an almost numbing frequency in all manner of venues: economist gatherings, community town halls, Rotary Club lunches, media interviews and even Twitter ask-me anythings.

Chairman Jerome Powell recently did an interview with radio program Marketplace aimed at a broad audience. He said: "We're shifting our focus a little bit to, you know, address…the American people more generally and try to explain what we do, why we're doing it, and how we carry out the important jobs that Congress has given us."

Mr. Powell faces a steep hill to climb. For example, the NBER paper notes households tend to judge inflation very differently than economists.

Highly visible prices like food and energy are big drivers of inflation expectations. Central bankers usually ignore those very factors to divine underlying price trends. The paper finds households are very influenced by the factors central bankers are discounting, creating a gulf in understanding.

What's more, surveys of inflation expectations routinely find the public overestimates how much inflation there is relative to what government data show.

The paper says public health campaigns could be a model for central bankers. But it is always going to be tough for them to hone their messages for different groups when it is often hard enough to get markets to understand what they're doing.

Key Developments Around the World

U.S. Banks Eased Lending Standards to Businesses in Second Quarter

Banks in the U.S. eased their lending standards to businesses in the second quarter while tightening them on real-estate loans and credit card applications, the Federal Reserve said Monday. Senior loan officers at 94 domestic and foreign banks were surveyed by the Fed in late June and early July. The institutions reported easing their standards on commercial and industrial loans, particularly for larger firms with more than $50 million in annual revenue. Banks accepted narrower spreads over their cost of funds when making loans, loosened standards for the maximum size and cost of credit lines and eased loan covenants. Banks' most-cited reason for easing credit conditions to businesses was more aggressive competition from other lenders, followed by a more favorable or less uncertain economic outlook.

RBA Stands Pat, Completes 2 Years on the Sidelines

The Reserve Bank of Australia on Tuesday completed two years of policy stasis, keeping its benchmark interest rate unchanged at a record low 1.5%.The widely anticipated on-hold verdict of the RBA board extends a record period of inactivity around interest rate stretching from mid-2016, with economists betting the quiet will go on for some time to come.

Quick Hits: BOE's Asset-Purchase Facility Reinvests $12.7 Billion in 2nd Quarter

The Bank of England reinvested $12.7 billion in its asset-purchase facility during the second quarter, and Beijing is seen as possibly ready to do more to stabilize the yuan. Here are quick hits on central banking and related market views from around the world.

Turkish Lira Falls to Fresh Lows Against U.S. Dollar

The Turkish lira weakened to new record lows against the U.S. dollar Monday after the country's central bank attempted to stem the currency's decline by reducing the amount of foreign currency it holds in reserve while also lowering the reserve requirement for banks. The decisions about central bank foreign-exchange reserves and the bank-reserve requirements are the latest in a series of central bank moves that have alarmed investors, who are concerned about President Recep Tayyip Erdogan's increased influence over monetary policy.

FINANCIAL REGULATION ROUNDUP

White House Weighs Former Enforcement Lawyer for Democratic SEC Seat

The White House is considering a former enforcement lawyer for a Democratic slot on the Securities and Exchange Commission, according to people familiar with the matter. The White House is vetting Allison H. Lee for the role after she was recommended by Senate Minority Leader Chuck Schumer (D., N.Y.), these people said. Ms. Lee would replace Kara Stein, who has served on the commission since 2013 and who must step down at the end of the year. Ms. Lee worked at the SEC for more than a decade, including as a lawyer overseeing enforcement cases based in the commission's Denver office. She also worked in Washington as a legal adviser to Ms. Stein from 2013 to 2015, according to her LinkedIn bio. She now lists herself as a corporate governance consultant.

New FDIC Leader Joins Push to Re-Evaluate Banking Rulebook

Washington's newest senior bank regulator is turning her agency's agenda in the direction of policies being proposed by other Trump-appointed officials, adding momentum to a push to revisit rules adopted after the 2008 financial crisis. Federal Deposit Insurance Corp. Chairman Jelena McWilliams, in her first interview since being sworn in June 5, said she is ready to re-evaluate rules on bank capital, small-dollar loans and investments in low-income areas. Like other bank regulators, Ms. McWilliams has broad discretion to rewrite rules for the companies she oversees, using authority from the 2010 Dodd-Frank financial overhaul and other laws.

Facebook to Banks: Give Us Your Data, We'll Give You Our Users

Facebook Inc. wants your financial data. The social-media giant has asked large U.S. banks to share detailed financial information about their customers, including card transactions and checking-account balances, as part of an effort to offer new services to users. Facebook increasingly wants to be a platform where people buy and sell goods and services, besides connecting with friends. The company over the past year asked JPMorgan Chase & Co., Wells Fargo & Co., Citigroup Inc. and U.S. Bancorp to discuss potential offerings it could host for bank customers on Facebook Messenger, said people familiar with the matter.

Denmark Launches Criminal Probe of Danske Bank

Denmark's public prosecutor for special economic crime has begun a criminal investigation against Danske Bank A/S for potential money-laundering offenses. The Danish Public Prosecutor for Serious Economic and International Crime's investigation announced Monday relates to transactions carried out through the bank's Estonian branch. Danske Bank launched an internal investigation of the same transactions last year following reports in Danish media alleging that its Estonian branch was used to launder money from 2007 to 2015. The Danish bank's general counsel, Flemming Pristed, said Danske Bank is assisting prosecutors with the investigation.

GAM Says Suspended Fund Manager Breached Entertainment Policy

Swiss money manager GAM Holding AG said Monday that the star fund manager it suspended last week breached the firm's gifts and entertainment policy, may have failed to carry out due diligence on investments, and used his personal email for work purposes. The company, whose shares have tumbled 44% this year, much of it since the suspension, said in a letter to clients Monday that an internal investigation found bond-fund manager Tim Haywood's conduct to be "of significant concern to GAM" and that the firm was now following an internal disciplinary procedure.

Tuesday

10 a.m. EDT

U.S. Labor Department releases June Job Openings and Labor Turnover Survey

3 p.m. EDT

Federal Reserve releases June U.S. consumer-credit data

7:50 p.m. EDT

Bank of Japan releases summary of opinions for July 30-31 meeting

Wednesday

Time N/A

Bank of Thailand releases policy statement

8:30 a.m. EDT

Richmond Fed's Barkin speaks

5 p.m. EDT

Reserve Bank of New Zealand releases policy statement

International Monetary Policy Spillovers Through the Bank Funding Channel

Analysts examine , in a Deutsche Bundesbank paper, "whether monetary policy changes in major advanced economies (US, UK, and the euro area) are transmitted through the credit extension of banks in Austria and Germany. In particular, the role of banks' funding structure, broken down by country of origin as well as by currency denomination, for the international transmission of monetary policy changes to bank lending is compared." Results from the analysis show "only weak evidence for the international transmission of monetary policy through the bank funding channel. Empirical results for the inward transmission appear to indicate that US monetary policy might affect domestic lending to the non-financial private sector the more a bank funds its operations in US dollars (but not from the US). This effect is more pronounced in Germany than in Austria. However, although statistically significant, the economic impact is negligible. For direct cross-border credit extension of banks in Austria and Germany we do not find a robust impact of funding structures."

Don't Worry About the End of QE, Worry About Rates

"More money is good, less money is bad. That is the basic principle of an increasingly popular case for being **bearish**: The Federal Reserve is putting quantitative easing into reverse, removing trillions of dollars it printed to support the economy," James Mackintosh writes for The Wall Street Journal. "The case does not stand up to close scrutiny, however. There are good reasons to worry about tighter monetary policy, but the focus should be on the price of money—interest rates—not the amount of money."

Are Trump's Policies Hurting Long-Term U.S. Growth?

"When it comes to economic performance, US presidents have considerably more influence over long-term trends than over short-term fluctuations. And it is by this standard that Donald Trump's administration should be judged," Kenneth Rogoffwrites for Project Syndicate. "But while the Trump administration has strengthened the US economy's long-term growth potential in some ways, the other side of the ledger is rather grim. For starters, a wide range of studies—from the work of the late economist David Landes to more recent research by MIT's Daron Acemoglu and the University of Chicago's James A. Robinson—find that institutions and political culture are the single most important determinants of long-term growth. Recovery from the damage Trump is inflicting on institutions and political culture in the US may take years; if so, the economic costs could be considerable."

The Unseen Risk in the Booming Loan Market

"Central bank money inflated the markets for risky loans and the investment vehicles that buy many of them. Now, there are early signs of that driving force going into reverse," Paul J. Davies writes for The Wall Street Journal. "In recent weeks, a growing share of new borrowers have had to lift interest rates on leveraged loans to win over investors. This might just be a touch of indigestion after several large deals to fund private-equity buyouts and takeovers, but some bankers think it is an early signal that liquidity is retreating from low-quality debt. The trouble for borrowers isn't rising debt costs today, but the risk that loans will be harder to refinance in future when investor money washes back to safer assets as yields improve."

A Digital Currency for Japan

The Bank of Japan should abolish cash and introduce a digital currency that would allow it to experiment with a form of helicopter money, writes Andy Mukherjee for Bloomberg View. "The BOJ would create new electronic money and give it to the government against a perpetual bond sold by the finance ministry to the monetary authority.," he writes. "The ministry would then credit the electronic money to people's bank accounts with the proviso that every month that the gift is saved—and not spent—its value will go down by, say, one-twelfth of 1 percent. Thus a part of Japan's money supply would be effectively under negative interest rates. Higher spending would spur inflation."

The High Cost of Central Bank Caution

The fact that output gaps are only closing 10 years after the global financial crisis means central banks have been too timid and kept policy too tight for much of the last decade, writes Martin Sandbu for the Financial Times. "Once this mistake is acknowledged, the devastating cost comes into relief," he writes. "For example, assume that the average output gap over the decade was 2 per cent of economic activity at full capacity. Halving this by boosting demand more and earlier would have saved 10 per cent of annual gross domestic product. That is enormous—and more than the immediate loss of GDP in the 2008-9 recession. Central bankers' caution may have cost more in lost livelihoods than the recklessness of private bankers."

The Conference Board Employment Trends Index increased in July , marking a second consecutive month of increases. The index rose to 109.89 in July, from 108.72 in June. The July reading was 5.4% higher than it was a year earlier.

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

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

Follow us on Twitter:

@WSJCentralBanks , @NHendersonWSJ , @PaulHannon29 , @michaelsderby , @wsj_douglasj , @HarrietTorry , @ToddBuell , @KateDavidson , @d_harrison , @kimmackrael , @TomFairless , @mikemaloneyny ,

Document RSTPROCB20180807ee870002t

THE WALL STREET JOURNAL.

Business

Auto Sales Lost Speed in July; U.S. auto sales slowed in July as rising interest rates, higher gasoline prices and falling demand for passenger cars dented the industry's momentum after a strong first half of the year

By Adrienne Roberts
705 words
1 August 2018
05:32 PM
The Wall Street Journal Online
WSJO
English

U.S. auto sales slowed in July as rising interest rates, higher gasoline prices and falling demand for passenger cars dented the industry's momentum after a strong first half of the year.

Overall U.S. auto sales dropped by 3.7%, according to analysts, due in part to one fewer selling day in July compared with the same month last year. However, sales dropped even as the economy remained strong and consumers continued to benefit from a tax cut adopted earlier in the year.

Buyers continued to flock to higher-priced sport-utility vehicles and pickup trucks despite fuel prices creeping higher, underscoring what some auto-industry executives say is a permanent shift in demand away from traditional passenger cars.

Analysts predict July could be a turning point for U.S. auto-industry sales, which had been tracking at a near-record pace for the first six months but are expected to cool in the second half.

"July will be one of the slowest months of this year," said Mike Jackson, CEO of the U.S.'s largest dealership chain AutoNation Inc., in an interview. But he also expects the remainder of the year to be challenging with auto makers struggling to keep sales growing consistently.

The pullback in demand comes as auto-industry profits already are under pressure from tariff-related rises in metals costs. Ford Motor Co., General Motors Co. and Fiat Chrysler Automobiles NV last week lowered their financial outlooks for 2018, citing the impact of U.S. tariffs on steel and aluminum on earnings.

Industry executives also have warned that President Trump's threats to impose tariffs on vehicle imports could cost auto makers billions of dollars and raise some car prices by nearly $6,000 per vehicle.

Ford, Toyota Motor Corp. and Honda Motor Co. reported percentage sales declines in the single digits. Nissan Motor Co. reported a 15% sales drop in July.

GM no longer reports monthly sales figures and has moved to reporting on a quarterly basis.

Fiat Chrysler was one of the few to report an increase in July, saying U.S. sales rose 6% due to strong demand for its Jeep brand vehicles. Volkswagen AG reported a 13% gain in U.S. sales.

Sales of passenger cars took a major hit in July with Toyota, Honda and Nissan reporting steep declines for their sedan sales. Toyota lowered discounts for its redesigned Camry sedan and sales fell 22% last month.

Ford's car sales were down 27% in July, as the U.S. auto maker moves to phase out several passenger car models, including the Ford Fusion sedan, and shift more investment to higher-profit trucks and SUVs.

"We continue to de-emphasize sedans," said Mark LaNeve, Ford's U.S. sales chief.

Billy Hayes, Nissan's vice president of regional operations, described July as a "challenging month" but said the Japanese car maker remains **bullish** on sedans.

"It's still a huge segment," Mr. Hayes said. "We're not taking our foot off the gas."

Auto makers also backed away from offering zero-percent finance deals in July, even though those incentives tend to be popular in the summer months to spur sales of older model-year vehicles. Those deals made up 6.9% of sales in July, the lowest share since 2005, according to Edmunds.com.

Buyers also saw fewer discounts on dealer lots for new cars, especially on sedans, said Thomas King, an analyst at J.D. Power. The average discount offered per vehicle was $3,665 in July, down from $3,869 in the same month last year.

Mr. King said he expects used cars will continue to become a more attractive option for budget-sensitive customers, especially with prices coming down as supplies of preowned vehicles rise.

"It's a great alternative to a new car and customers are taking advantage of the increased supply," Mr. King said.

Write to Adrienne Roberts at Adrienne.Roberts@wsj.com

Document WSJO000020180801ee81006pp

THE WALL STREET JOURNAL.

Markets
Fresh Stress Grips Weakest Emerging-Market Currencies; Dramatic market moves highlight a heavy international dependence on the dollar

By Mike Bird and Saumya Vaishampayan
1,063 words
30 August 2018
07:28 PM
The Wall Street Journal Online
WSJO
English

The Argentine peso hit a record low—prompting the country's central bank to raise interest rates to 60%—and the Turkish lira slid further, as emerging markets most vulnerable to a rising dollar bent under the stress on Thursday.

While Argentina and Turkey are in particular trouble because of domestic issues, developing economies around the world are being squeezed as the Federal Reserve raises interest rates, boosting the U.S. currency. That has pushed up the cost of some developing nations' large dollar-denominated debts, prompting central bankers to voice concern about the Fed's direction.

Emerging markets were rattled by a 7.5% overnight fall in the Argentine peso against the dollar after President Mauricio Macri said he had asked the International Monetary Fund to speed up delivery of a $50 billion bailout. On Thursday, the Argentine central bank raised interest rates by 15 percentage points to 60% to curb the decline, but the currency fell further and finished the day with a 12.2% loss.

Meanwhile, Turkey's lira fell 2.8% against the dollar Thursday, putting it close to the low it hit earlier this month on worries about political interference in monetary policy and the country's large dollar debt pile.

The South African rand fell 2.5%, while the Indonesian rupiah finished the day at its lowest level against the greenback in nearly three years. The Brazilian real was close to a more than two-year low and India's rupee hit a record low.

The tumult highlights a heavy international dependence on the dollar. Some 48% of the world's $30 trillion in cross-border loans are priced in the U.S. currency, up from 40% a decade ago. Exchange-rate fluctuations affect the ease of servicing that debt. And with U.S. interest rates still low by historical standards and the dollar only halfway back to its 2016 highs, the stress could increase as the Fed keeps tightening.

"After what we saw happen in Turkey, the market started to ask what country was next: South Africa, Brazil, Indonesia," said Eric Wong, a fixed-income portfolio manager at Fidelity International. "The market is still gripped at times by fear, trying to differentiate the good ones from the bad ones."

The market moves come amid a debate about the effects of U.S. monetary policy on the rest of the world—and how they might cycle back to the U.S.

"Given the dominance of U.S. **financial markets** and institutions, and the dollar's prominence in global finance, any actions taken by the Fed inevitably reverberate around the world," said Eswar Prasad, professor of economics at Cornell University.

Fed Chairman Jerome Powell said in May that "the role of U.S. monetary policy is often exaggerated" when it comes to global financial conditions, with fast growth in emerging economies, and commodity prices, playing bigger roles in capital flows. His counterparts in India and Indonesia, however, have voiced concerns about the Fed's policy direction and pleaded for more international coordination.

The strain is felt most palpably by governments and companies that rely heavily on overseas funding. Moody's Investors Service compares external debts due in the next year and bank deposits from overseas against currency reserves to compile an "external vulnerability indicator." The measure points to fragility in South Africa, Argentina and Turkey, as well as Ghana, Sri Lanka, Malaysia among other countries.

In the case of Turkey, external debts stood at 53% of gross domestic product at the end of 2017, according to the International Monetary Fund.

Last week, the lira rebounded amid moves by officials to make betting against the currency difficult for international investors. But investors believe those short-term effects have faded, and markets are again focusing on the country's underlying woes.

Investors are concerned that President Recep Tayyip Erdogan of Turkey has pressured the central bank to hold down interest rates, despite rocketing inflation and the lira's 44% fall against the dollar this year. The central bank didn't return calls seeking comment.

"None of the problems that led to the accelerating depreciation have been solved in Turkey," said Antje Praefcke, an analyst at German lender Commerzbank. "The cautious tinkering with symptoms on the part of the government and central bank and last week's holidays granted the lira a brief breather, but not more."

Currencies pegged to the dollar have also come under pressure. Hong Kong has spent heavily to defend its link to the dollar, while central banks in Bahrain and Lebanon have pledged to maintain their pegs.

Raghuram Rajan, the former governor of the Reserve Bank of India, said neither the Fed nor emerging-market policy makers could ever perfectly attune their economies to one another.

"Unfortunately, this is a reality of the world we live in," Mr. Rajan told The Wall Street Journal last week from the Jackson Hole, Wyo., symposium on monetary policy. "Hopefully we will eventually filter some international responsibility into the mandates of central banks, to avoid such negative spillovers."

The Fed's effects on the rest of the world may eventually flow back to the U.S., as the rising dollar and higher bond yields make debt more expensive and suck money out of other countries, harming their economies and international trade demand. As the Fed has raised rates and unwound its massive bond-buying program—known as quantitative easing—the yields on U.S. Treasurys have increased, making that market more attractive for international investors.

"There's a stark divide between the Fed thinking that the effects of unwinding QE will be minor, local and likely to already be priced in, versus what we find in market terms, which is that it's likely to be major and global," said Matt King, global head of credit-products strategy at Citi.

Jon Sindreu contributed to this article.

Write to Mike Bird at Mike.Bird@wsj.com and Saumya Vaishampayan at saumya.vaishampayan@wsj.com

Related

* Argentina Lifts Policy Rate to 60%

* Argentina's Peso Plummets to Record Low

* What Turkey Can Do if Market Troubles Return

* Turkish Lira Weakens as Central Bank Fails to Assuage Investors

* Swedish Krona: A Painful Trade That Markets Missed

Document WSJO000020180830ee8u000jh

THE WALL STREET JOURNAL.

Markets
Turkish Lira Falls Further; Erdogan Fails to Assuage Investors' Concerns; Lira drops as much as 10%, shaking emerging markets world-wide

By Georgi Kantchev, Yeliz Candemir and Saumya Vaishampayan
1,442 words
13 August 2018
06:01 PM
The Wall Street Journal Online
WSJO
English

Turkey's currency plunged again, rattling other vulnerable emerging markets, as a defiant speech from President Recep Tayyip Erdogan and policy moves from the nation's central bank failed to assuage investors' concerns about the country's perilous financial condition.

The lira ended 6.6% lower at 6.88 against the U.S. dollar on Monday, after falling as much as 10% in Asian morning trading. The country's debt and stock markets were also swept up in the turmoil.

The lira is down more than 40% this year, battered by concerns about the North Atlantic Treaty Organization member's political and economic stability and a continuing trade spat with the U.S.

"We will not retreat from our position," Mr. Erdogan told a conference in Ankara, adding Turkey wouldn't allow the U.S. "to lay its hands on achievements we gained at the cost of blood."

As part of a plan announced earlier Monday, Turkish authorities made efforts to boost liquidity in the market, lowering the amount of liras and dollars lenders must park with the central bank against their liabilities. The move should help inject around 10 billion liras and $9 billion into the financial system, the central bank said.

But analysts said the measures won't have any direct impact on the lira because it doesn't ease a core concern—the hefty debt exposure of Turkish banks and corporations—and warned the central bank has limited reserves of its own to weather the storm.

"The lira is in a free fall and the measures announced so far simply aren't enough," said Kevin Daly, portfolio manager for emerging-market debt at Aberdeen Standard Investments. "It's fueling the negative sentiment and the disappointment among investors."

Other emerging markets, such as Indonesia and South Africa that are heavily reliant on foreign investors, also were rattled. Shares fell across Asia and Europe, though the declines abated in later trading. U.S. stock markets fell slightly. The turmoil hit southern European government bonds, with the 10-year Italian yield rising above 3%, its highest in two months.

"This is a very Turkey-specific issue, however general risk aversion will cause...nervous investors to hedge positions or outright sell in other emerging markets, for fear that there could be contagion," said Sacha Tihanyi, deputy head of emerging-markets strategy at TD Securities in New York.

The South African rand fell to a nearly two-year low against the dollar, sliding as much as 9.2%, though the falls moderated later in the day. The Chinese yuan neared its weakest level in more than a year, hitting 6.8911 to a dollar in Hong Kong. Investors flocked to haven currencies, with the Swiss franc and the Japanese yen gaining against the euro.

Turkey has become a primary cause for concerns on global **financial markets** in recent weeks, as tumultuous domestic politics have paired with a cocktail of economic vulnerabilities including high levels of foreign-currency debt, a current-account deficit and rising borrowing costs. As one of the world's largest oil importers, Turkey is also vulnerable to rising energy prices.

In addition, the country is in the midst of an escalating dispute with its core military ally, the U.S., over the fate of an American pastor. The White House has vowed to pile pressure on Ankara until the pastor, Andrew Brunson, who faces terrorism charges and up to 35 years in prison in Turkey, is on a plane to the U.S.

Mr. Erdogan has blamed the drop in the lira on what he calls "an economic war waged against Turkey."

On Monday, Turkey's Interior Ministry said it has taken legal actions against owners of 346 social media accounts it accused of having expressed views that harmed the lira, according to state-run Anadolu Agency.

Some people "are conducting economic terrorism on social media," Mr. Erdogan said at the Ankara conference. "This is treason."

Meanwhile, investors say more needs to be done to stem the crisis, and fast.

The actions by Turkish authorities so far "leave us with more questions than answers," said Claudia Calich, fund manager at M&G Investments. "As long as Erdogan continues to be defiant, that's the wrong message to send to markets."

Aberdeen's Mr. Daly said the currency would continue to weaken without a significant interest-rate increase by the central bank and a detente with the U.S. For now, he is short the lira, or betting against it.

"You have to be a very brave man to step in front of this train," Mr. Daly said.

Investors on Monday also sold Turkey's debt, pushing the yield on two-year government bonds to 25.12% while the stock benchmark BIST 100 shed around 2.5%.

The Turkey crisis comes as emerging markets are already under strain from rising U.S. interest rates, which increases the cost of borrowing in dollars and often cause a rally in the greenback at the same time. The WSJ Dollar Index, which measures the currency against a basket of 16 others, rose 0.3% Monday after its largest one-week point and percentage gain since late 2016.

"It's not an easy environment for emerging markets with shakier fundamentals. Those countries that didn't fix their roofs while the sun was shining will now see water pouring down their house," Ms. Calich said.

The International Monetary Fund attributes about $260 billion in portfolio investment in emerging markets since 2010 to the Federal Reserve's monetary policy. In its latest global financial stability report, the IMF suggested continuing U.S. tightening would reduce inflows to emerging markets by about $35 billion a year.

However, Turkey is especially vulnerable because of its hoard of hard-currency debts, which becomes harder to repay as the lira depreciates. Investors are also concerned about the central bank's ability to react, for example by raising interest rates, given President Erdogan has put in place measures that could curb its independence.

Executives from multinationals have watched the turmoil in Turkey. While a relatively small economy, Turkey has long been an attractive emerging market for everything from factory machinery to consumer goods. The economic headwinds have already taken their toll in some sectors.

Exports of German machinery to Turkey dropped 4.7% in the period from January to May this year, the German Mechanical Engineering Sector Association, the lobby organization for one of Germany's largest export sectors, said Monday.

"The negative development should continue over the coming months," the association said, citing the recent sharp fall in the lira's exchange rate against the euro. Turkey is the world's 12th largest market for mechanical engineering and plant automation, worth some €29 billion ($33 billion), the organization said.

Automotive sales in Turkey fell 11% in the first half of 2018, compared with a year earlier, plunging 39% in June alone, according to OSD, the country's automotive manufacturers association. That has had an impact on French auto maker Renault SA, which runs a factory there with a Turkish partner. Renault's first-half sales fell 8.9% from a year earlier and 33% in June, the company said in its earnings report last month.

Unlike Turkey, other developing nations such as China and India—the biggest emerging economies—are relatively less dependent on foreign debt. And some central banks have raised borrowing costs aggressively: Bank Indonesia, for example, has boosted benchmark rates by 1 percentage point in recent months to restrain the rupiah's slide.

Trinh Nguyen, senior economist for emerging Asia at Natixis, said that Turkey's reluctance to raise interest rates stood out. "It's not that emerging markets elsewhere aren't impacted, but authorities are willing to react to currency slides, to signal that they will continue to react in the future."

Mike Bird, Manju Dalal and Bertrand Benoit contributed to this article.

Write to Georgi Kantchev at georgi.kantchev@wsj.com, Yeliz Candemir at yeliz.candemir@wsj.com and Saumya Vaishampayan at saumya.vaishampayan@wsj.com

Related Coverage

* Erdogan Shifts Blame for Turkey's Woes to Social Media

* Streetwise: Investor Lessons From Turkey's Crash

* Turkey's Central Bank to Support Embattled Lira

* Turkey's Economic Crisis Explained in 12 Charts

* Turkish Lira's Fall Raises Concerns for Emerging-Market Investors

* Erdogan Faces Crossroads in Dispute With U.S.

* Analysis: Optimism on European Growth Reverses as Headwinds Mount

* Emerging Markets Can Withstand Turkey Shock

Document WSJO000020180813ee8d0018h

THE WALL STREET JOURNAL.

Economy

Australia's Central Bank Uneasy About 'Problematic' U.S. Stimulus; Markets are not prepared for a repricing of Fed intentions, Mr. Lowe says

By James Glynn
323 words
16 August 2018
11:20 PM
The Wall Street Journal Online
WSJO
English

SYDNEY—Reserve Bank of Australia Governor Philip Lowe on Friday said the central bank was becoming increasingly uneasy about the potential for inflation to jump in the U.S., fanned by the country's "problematic" fiscal expansion.

"I am less relaxed. It is highly unusual to have such stimulatory fiscal policy when the economy is already operating at a very high level of capacity," Mr. Lowe said in testimony before parliament.

"One can't rule out the possibility that the Federal Reserve will have to withdraw monetary accommodation more quickly than currently projected, with possible disruptive consequences in **financial markets**," he warned.

Markets are not prepared for a repricing of Fed intentions, but the "probability of it happening is rising," Mr. Lowe said.

"With the U.S. economy doing well, and very low unemployment, it is the time of the cycle that should be back to budget balance…building insurance," Mr. Lowe said while pointing out that the U.S. was doing exactly the opposite.

The U.S. is planning to run budget deficits between 4-5% of GDP into the foreseeable future and added that U.S. public debt was already high.

Mr. Lowe also expressed concern that a trend toward fiscal expansion was spreading among major economies.

"We are also seeing a similar trend emerge in other countries, where governments, responding to the disillusionment in the electorate, and the international tax competition coming from the U.S., are feeling they have to respond," Mr. Lowe said.

Among OECD economies, more than half are having a fiscal expansion this year at a time when the world economy is doing well and unemployment rates are low and levels of public debt are very high, he added.

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

Document WSJO000020180817ee8h0018h

THE WALL STREET JOURNAL.
U.S. EDITION

REVIEW & OUTLOOK (Editorial)
A Lifeline for Turkey

720 words
13 August 2018
The Wall Street Journal
J
A16
English

Like King Lear raging on the heath, Turkey's Recep Tayyan Erdogan is lashing out at Donald Trump, **financial markets**, the almighty U.S. dollar and anyone else he can find to assign blame for his country's currency and debt crisis. Someone should introduce him to economist Steve Hanke, who is offering the Turkish strongman the best lifeline available to stop the panic.

Turkey is confronting a run on the lira of the kind the world has seen many times in emerging markets. A country borrows too much to spur growth in an era of low interest rates and easily available credit. Much of that debt is in U.S. dollars, but the cash flow to finance it is earned by local companies in local currency. By some estimates about half of all Turkish debt is owed in hard currencies.

That debt becomes much harder to finance when the local currency falls against the dollar. Investors flee the local currency, inflation accelerates, and still more investors flee. Unless the country can stop the run on its currency, a full-blown debt crisis and economic contraction become likely.

Mr. Erdogan is blaming Donald Trump's sanctions and tariffs for the lira crisis, but the U.S. President was lighting a match on already dry tinder. The core problem is years of monetary mismanagement and overborrowing. The Turkish strongman wanted to win an election to change the constitution and consolidate his power, and he leaned on the central bank to keep interest rates low. He won his election but like most authoritarians he thinks he can bully markets the way he does the military.

Mr. Erdogan is floundering for a solution. He wants Turks to buy lira with their gold and hard currency, but that would make more Turks poorer as the lira keeps falling. He claims he won't let interest rates rise, but the central bank will have little choice other than to raise rates to stop the panic. He also says he won't accept an international bailout, though unless he stops the panic he will have to come begging to the International Monetary Fund (IMF).

Enter Mr. Hanke, who nearby offers the monetary rescue known as a currency board. The idea is to restore confidence in the lira by fixing the currency to a foreign-currency anchor. A country that adopts a currency board essentially abandons control of discretionary monetary policy. It adopts an exchange-rate policy by linking to a hard currency with more credibility. For Turkey at the current moment, that would mean linking to either the euro or the dollar.

This would be humbling for a proud man like Mr. Erdogan to accept, but the irony is that linking to the dollar would be his best protection against the unpredictable policies of Mr. Trump. As long as Turkey has a fiat currency, Mr. Trump can use tariffs and sanctions to fuel the panic. But the U.S. President doesn't control U.S. monetary policy.

Once confidence in Turkey's monetary policy is restored with a dollar or euro link, the lira won't move. Mr. Erdogan and his advisers can focus on fixing their other economic problems, such as overborrowing and spending. This solution certainly beats going to the IMF, which will offer its patent medicine of fiscal contraction, and perhaps capital controls.

Mr. Trump might not realize it, but a Turkish currency board would also work best for the U.S. The President seems to be enjoying Mr. Erdogan's pain so he can win the return of American pastor Andrew Brunson, who has been unjustly held in Turkey.

But Mr. Trump has a larger interest in avoiding financial contagion to other countries from the Turkish crisis. The U.S. isn't an economic island and needs the world to prosper if he wants to maintain the 4% U.S. growth of the second quarter. The world is awash in dollar debt after a decade of quantitative easing that has kept interest rates artificially low, and a currency crisis could quickly become America's problem. The U.S. Treasury should also get Mr. Hanke on the phone.

(See related editorial: "Erdogan Can Save the Turkish Lira" -- WSJ Aug. 13, 2018)

Document J000000020180813ee8d0000z

THE WALL STREET JOURNAL.
U.S. EDITION

World News: Turkey's Moves Fail to Stem Lira's Fall --- President maintains defiant stance, while new efforts to boost liquidity fall short

By Georgi Kantchev, Yeliz Candemir and Saumya Vaishampayan
985 words
14 August 2018
The Wall Street Journal
J
A7
English

Turkey's currency fell again, rattling other vulnerable emerging markets, as a defiant speech from President Recep Tayyip Erdogan and policy moves from the nation's central bank failed to assuage investors' concerns about the country's perilous financial condition.

The lira ended 6.6% lower at 6.88 against the U.S. dollar on Monday, after dropping as much as 10% in Asian morning trading. The country's debt and stock markets also were caught up in the tumult.

The lira is down more than 40% this year, battered by concerns about the North Atlantic Treaty Organization member's political and economic stability and a continuing trade spat with the U.S.

"We will not retreat from our position," Mr. Erdogan told a conference in Ankara, adding that Turkey wouldn't allow the U.S. "to lay its hands on achievements we gained at the cost of blood."

As part of a plan announced earlier Monday, Turkish authorities made efforts to boost liquidity in the market, lowering the amount of lira and dollars lenders must park with the central bank against their liabilities. The move should help inject around 10 billion liras ($1.5 billion) and $9 billion into the financial system, the central bank said.

Some analysts said the measures won't have any direct impact on the lira because it doesn't ease a core concern -- the hefty debt exposure of Turkish banks and corporations -- and warned the central bank has limited reserves of its own to weather the storm.

"The lira is in a free fall and the measures announced so far simply aren't enough," said Kevin Daly, portfolio manager for emerging-market debt at Aberdeen Standard Investments. "It's fueling the negative sentiment and the disappointment among investors."

Other emerging markets that are heavily reliant on foreign investors, such as Indonesia and South Africa, also were rattled. Shares fell across Asia and Europe, though the declines abated in later trading. U.S. stock markets fell slightly. The turmoil hit Southern European government bonds, with the 10-year Italian yield rising above 3%, its highest in two months.

"This is a very Turkey-specific issue. However, general risk aversion will cause. . .nervous investors to hedge positions or outright sell in other emerging markets, for fear that there could be contagion," said Sacha Tihanyi, deputy head of emerging-markets strategy at TD Securities in New York.

The South African rand fell to a nearly two-year low against the dollar, sliding as much as 9.2%, though the falls moderated later in the day. The Chinese yuan neared its weakest level in more than a year, hitting 6.8911 to a dollar in Hong Kong. Investors flocked to haven currencies, with the Swiss franc and the Japanese yen gaining against the euro.

Turkey has become a primary cause for concerns on global **financial markets** in recent weeks, as tumultuous domestic politics have paired with a cocktail of economic vulnerabilities including high levels of foreign-currency debt, a current-account deficit and rising borrowing costs. As one of the world's largest oil importers, Turkey is also vulnerable to rising energy prices.

In addition, the country is in the midst of an escalating dispute with its core military ally, the U.S., over the fate of an American pastor. The White House has vowed to pile pressure on Ankara until the pastor, Andrew Brunson, who faces terrorism charges in Turkey, is on a plane to the U.S.

On Monday, at Turkey's request, national security adviser John Bolton met at the White House with Turkey's ambassador to talk about relations between the two countries and Mr. Brunson's fate, press secretary Sarah Sanders said. It wasn't immediately clear if the meeting produced any breakthroughs.

Meanwhile, investors say more needs to be done to stem the crisis, and fast.

The actions by Turkish authorities so far "leave us with more questions than answers," said Claudia Calich, fund manager at M&G Investments. "As long as Erdogan continues to be defiant, that's the wrong message to send to markets."

Aberdeen's Mr. Daly said the currency would continue to weaken without a significant interest-rate increase by the central bank and a detente with the U.S. For now, he is short the lira, or betting against it.

"You have to be a very brave man to step in front of this train," Mr. Daly said.

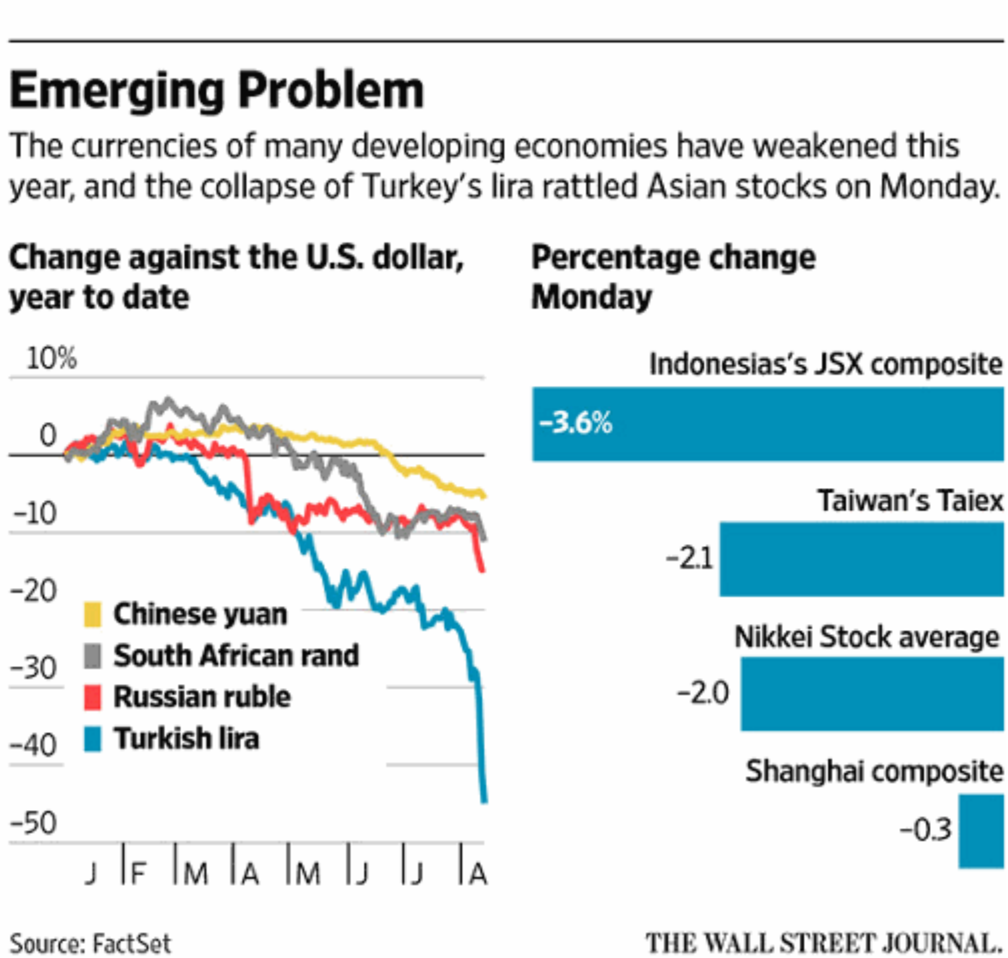
Investors on Monday also sold Turkey's debt, pushing the yield on two-year government bonds to 25.12% while the stock benchmark BIST 100 shed around 2.5%.

The Turkey crisis comes as emerging markets are already under strain from rising U.S. interest rates. The WSJ Dollar Index, which measures the currency against a basket of 16 others, rose 0.3% Monday after its largest one-week point and percentage gain since late 2016.

"It's not an easy environment for emerging markets with shakier fundamentals. Those countries that didn't fix their roofs while the sun was shining will now see water pouring down their house," Ms. Calich said.

The International Monetary Fund attributes about $260 billion in portfolio investment in emerging markets since 2010 to the Federal Reserve's monetary policy. In its latest global financial-stability report, the IMF suggested continuing U.S. tightening would reduce inflows to emerging markets by about $35 billion a year.

However, Turkey is especially vulnerable because of its hoard of hard-currency debts. Investors are also concerned about the central bank's ability to react, for example by raising interest rates, given Mr. Erdogan has put in place measures that could curb its independence.



[License this article from Dow Jones Reprint Service](#)

Document J000000020180814ee8e0000p

THE WALL STREET JOURNAL.
U.S. EDITION

Luxury Apartment Sales Are Plummeting

By Josh Barbanel
511 words
21 August 2018
The Wall Street Journal
J
A8A
English

Sales of the most expensive New York City apartments fell sharply in the first half of the year, but many sellers have adjusted by cutting asking prices to make deals, brokers said.

"This is simply a market that is adjusting itself to chronic overpricing relative to buyers' perception of value," said Kirk Henckels, a broker and vice chairman of Stribling & Associates, a New York-based brokerage.

Overall sales of apartments priced at $5 million or more fell by 31% during the first half of the year, compared with the same period in 2017, according to a luxury market report by Stribling.

But the slide in sales was concentrated entirely in condominiums, including newer buildings, where the supply of expensive apartments has surged, the report found.

Sales of older luxury cooperatives going for $5 million or more rose about 10% in the first half of 2018, compared with a particularly sluggish first half in 2017, the slowest first half since 2013.

In co-ops, including many of the most expensive buildings near Central Park, buyers purchase shares in a corporation rather than buying a deed to an apartment.

Brokers said the modest rebound in sales reflected sellers' willingness to abandon their dreams of outsize profits in the face of buyer resistance.

"The contracts that are getting done in the luxury end of the market are the result of sellers capitulating to reality," said Donna Olshan, a broker who monitors contract activity for high-end apartments.

Luxury apartment prices rose sharply in 2014 and 2015, but have since stagnated at lower levels.

Examples of steep discounts abound in the rarefied luxury market.

A five-bedroom penthouse with a terrace and soaring ceiling sold this month in a new building at 11 North Moore St. in Tribeca. It was first listed in January 2014 for $40 million, but the price was cut three times since, for a final listing price of $22.5 million.

A deed filed on Thursday listed a $20 million sale price.

Median prices for both co-ops and condominiums were up in the first half of the year, compared with the same period in 2017. But many apartment prices were down 10% to 20% during the last two years, particularly among co-ops, Mr. Henckels said.

When the luxury market slowdown began in 2016, brokers blamed it on political uncertainty. More recently they said buyers are hesitating because of federal tax changes that may increase the cost of home ownership and reduce the deductibility of New York's relatively high tax burdens.

With many wealthy New Yorkers working in finance, the fortunes of the luxury housing market often have followed the ups and downs of the **stock market** -- but not recently.

It is generally rare to see falling home prices without a "relatively catastrophic triggering event" such as a **stock market** collapse, Mr. Henckels said. "It is very clear that this market is enduring what is the kindest, gentlest major price-correction in memory."

Document J000000020180821ee8l00016

THE WALL STREET JOURNAL.

Markets

SEC Rejects Nine Proposed Bitcoin Exchange-Traded Funds; Rejections follow earlier rejection of Winklevoss-proposed ETF

By Paul Vigna and Asjylyn Loder
512 words
22 August 2018
09:43 PM
The Wall Street Journal Online
WSJO
English

Corrections & Amplifications

An earlier version of this article incorrectly stated NYSE Arca is the operator of the New York Stock Exchange.

The Securities and Exchange Commission rejected applications for nine separate bitcoin-based exchange-traded funds on Wednesday, once again thwarting an attempt to build an ETF product based upon the **volatile** cryptocurrency.

The commission issued three orders late on Wednesday, one for each of the applications from the firms ProShares, Direxion and GraniteShares.

The bitcoin and the ETF industries have been trying to get an ETF approved by the commission, beginning four years ago with one proposed by Cameron and Tyler Winklevoss. That ETF has been rejected twice. Another proposal from a firm called SolidX has also been rejected.

Representatives for ProShares and GraniteShares declined to comment, and a representative for Direxion didn't immediately respond to a request for comment.

Cboe Global Markets Inc. and NYSE Arca Inc. would have listed the ETFs. Cboe declined to comment. NYSE Arca declined to comment.

The price of bitcoin was down 1.6% at $6,375.

The commission leaned on the same reasoning as for the earlier rejections, mainly that there aren't enough protections against fraud and market manipulations of the underlying products. In the case of the Direxion ETFs, for example, the commission said the market for the underlying assets wasn't of "sufficient" size to ensure that prices weren't being manipulated on other exchanges.

The denial is a blow for exchange companies Cboe Global Markets Inc. and CME Group Inc., both of which launched bitcoin futures late last year. Some of the ETFs that have been rejected would have invested in those contracts. Both firms have benefited in the past from exchange-traded products that allowed retail investors to gain access to markets that were long dominated by professional traders.

The orders emphasized that the rejections don't "rest on an evaluation of whether bitcoin, or blockchain technology more generally, has utility or value as an innovation or an investment."

Bitcoin, first unveiled nearly 10 years ago, has grown dramatically, but the markets for trading it remain immature and largely unregulated. Some exchanges have sought regulatory oversight, but most haven't, resulting in a marketplace that is notorious for hacks, frauds and market manipulations. That said, there has been growing institutional interest in cryptocurrencies as an asset class, and some of the infrastructure for trading them has emerged, like the futures market.

The industry views a bitcoin ETF as a way to attract mainstream, retail investors. While any investor can buy the cryptocurrency, it can be daunting for people not familiar with the industry. An ETF was seen as a way to make it simpler for investors to get exposure to the sector.

Write to Paul Vigna at paul.vigna@wsj.com and Asjylyn Loder at asjylyn.loder@wsj.com

Related

* Winklevoss Effort to Self-Regulate Cryptocurrency Gets Members (Aug. 20)

* The Mystery Behind Tether, the Crypto World's Digital Dollar (Aug. 12)

* JPMorgan's ETF Business Is Finally Catching Up to Goldman (Aug. 9)

Document WSJO000020180822ee8m007vd

THE WALL STREET JOURNAL.
U.S. EDITION

Sanctions Hit Ruble, Russian Stocks --- Trump administration offers few details on new U.S. action, sparking uncertainty

By Anatoly Kurmanaev in Moscow and Courtney McBride in Washington
965 words
10 August 2018
The Wall Street Journal
J
A1
English

Newly announced U.S. sanctions -- and the potential for a second round of actions in 90 days -- roiled Russia's currency and blue-chip stocks as the country braced for further economic pain amid uncertainties over the Trump administration's commitment to enforcement.

In Moscow, the ruble shed as much as 5% against the dollar on Thursday and stocks plunged as much as 9%, led by state banks and national carrier PJSC Aeroflot-Russian Airlines, which risk losing access to U.S. markets if the sanctions escalate. In Washington, the administration remained notably silent on the action and offered few details on the severity of the prospective punishments.

The sanctions stem from a March nerve-agent attack against a former Russian spy in the U.K. The U.S. and Britain have held Russia responsible for the attack. Moscow has repeatedly denied involvement.

The sanctions are mandated by a U.S. law that requires action over the use of chemical and biological weapons -- but President Trump maintains significant discretionary power over the degree of that punishment.

A spokesman for President Vladimir Putin of Russia struck a cautious tone and said Moscow remained committed to building "constructive relations with the U.S." and wouldn't draft countermeasures before learning the full details.

Others in the country expressed alarm and dismay over the U.S. move, which threatened to diminish hopes of improved bilateral ties.

Lawmakers from Russia's ruling party accused U.S. politicians of treating the country like a punching bag in their partisan infighting and in midterm campaigning. On state television, analysts and commentators lamented Mr. Trump's inability to push through a hostile Congress a reset in relations with Russia following a summit with Mr. Putin in Helsinki in July.

The head of the foreign-relations committee of Russia's Senate, Konstantin Kosachev, compared the new sanctions to a "lynching."

"The U.S. is once again behaving like a police state, beating out evidence from suspects by threats and torture," he told Interfax.

The Kremlin, meanwhile, repeated its previous denial of any involvement in the attack on Sergei Skripal and his daughter Yulia in southern England this year, while playing down the importance of the sanctions.

As a **volatile** day unfolded in Moscow, response from Washington was muted. Mr. Trump made no public comments on the matter, and communications aides referred all questions to the State Department, which said the U.S. still sought improved ties with Moscow.

Department spokeswoman Heather Nauert said the administration had "complied with the law" and would continue to do so, but added: "We'd like to have a better relationship with the Russian government, recognizing that we have a lot of areas of mutual concern."

The measures announced Wednesday constitute the first tranche of sanctions dictated by U.S. law. A second tranche of sanctions would take effect within three months unless the president certifies to Congress that Russia has met three conditions: ceasing the use of chemical and biological weapons; credibly assuring the U.S. that it won't use such weapons in the future; and submitting to inspections by international observers to ensure compliance.

Should Russia fail to meet these criteria, the president has discretion over the severity of the next measures, requiring Mr. Trump to impose at least three of six types of additional sanctions. These include opposing any loans or other assistance to Russia by international-development banks; barring U.S. banks from issuing loans or extending credit to the Russian government; prohibiting exports of goods and technology to Russia; restricting imports of Russian goods; downgrading or suspending diplomatic relations with Russia; and suspending the authorization of Russian-owned or controlled air carriers to fly into and out of the U.S.

A spate of Western sanctions against Russia since Mr. Putin's decision to annex Crimea in 2014 have wiped out half of the ruble's value, reduced investment in the energy sector and crippled aluminum giant United Co. Rusal PLC.

The State Department declined on Thursday to provide further details on how the administration planned to tailor the potential second round of sanctions.

The sanctions drew praise from House Foreign Affairs Committee Chairman Ed Royce (R., Calif.), who has urged the administration to respond to the poisoning.

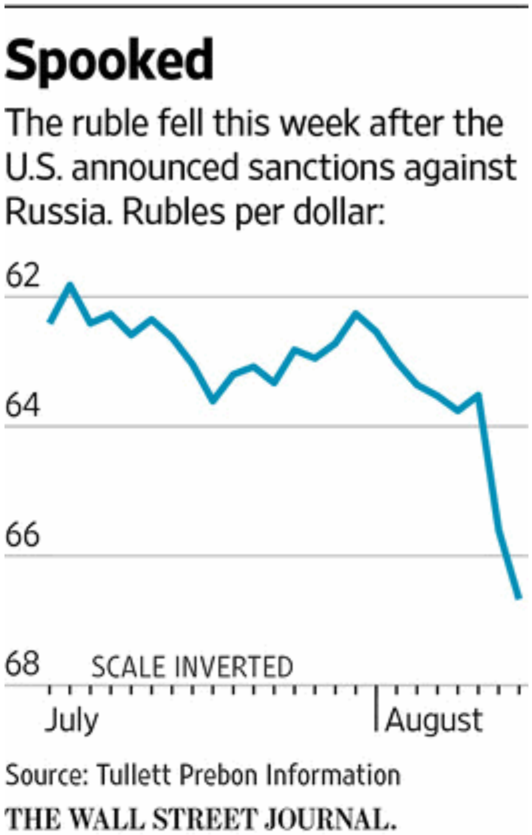
"The administration is rightly acting to uphold international bans on the use of chemical weapons," Mr. Royce said on Wednesday. "The mandatory sanctions that follow this determination are key to increasing pressure on Russia."

But some still questioned the administration's overall policy toward Russia after months of sometimes conflicting statements and actions.

Heather Conley, a former deputy assistant secretary of state in the Bureau for European and Eurasian Affairs in Republican George W. Bush's administration, characterized the latest move as emblematic of a "broader incoherence" in the U.S. approach to Russia.

Ms. Conley, who serves as senior vice president for Europe, Eurasia, and the Arctic at the Center for Strategic and International Studies, noted the two countries "don't have that much bilateral trade, and what we do have is protected trade." In light of those limitations, she said, the objective of the sanctions is uncertain.

"The interagency process is always tortured, on a good day," she said. "But it's starting to break down to a point where I'm actually very concerned we don't have a coherent process anymore. And if we're confusing ourselves, the signals that we're sending to the Kremlin are very confused, may be misinterpreted, and can also lead to an escalation that we didn't anticipate, either."



License this article from Dow Jones Reprint Service

Document J000000020180810ee8a0002c

THE WALL STREET JOURNAL.

Heard on the Street
Markets
Dragons and Eagles Will Maul Emerging Markets

By Nathaniel Taplin
469 words
17 August 2018
05:21 AM
The Wall Street Journal Online
WSJO
English

Back when the American eagle ruled the global roost without challenge, only three factors really mattered for most emerging-market assets—the dollar, U.S. interest rates, and **oil prices**. These days it's necessary to add in two more: Chinese credit growth, which is slowing, and the yuan, which is under pressure.

If these trends continue alongside a Fed in rate-hiking mode, it adds up to a highly troublesome picture for emerging markets, whose companies increasingly will be squeezed by a combination of higher dollar funding costs and a Chinese slowdown. Countries that compete with China will face additional pressure from a cheaper yuan. Countries that sell to it, particularly commodity producers, will contend with lower demand.

Some analysts are beginning to call a bottom to the current emerging-market selloff. Be careful: investors should watch how quickly Chinese credit turns around, and what happens with the yuan, before going bottom fishing.

Consider the following: Chinese housing and infrastructure drive the global commodity cycle, and Chinese consumers increasingly drive demand for Asia-wide goods and services. Chinese gross domestic product, which was less than 20% of global emerging-market GDP in 2000, is now close to 40%. The country also sucks up about half of copper and iron-ore supply every year, is the world's largest market for foodstuffs, and a huge source of tourism in Asia and globally.

It should be no surprise that emerging-market growth—especially in Asia and Latin America but also globally—tracks Chinese credit growth better than nearly any other indicator. The Chinese central bank's preferred aggregate credit measure, adjusted for local government bond issuance, usually leads both emerging market GDP and global trade growth by around two to three quarters. Right now, that trend is still pointing firmly downward. And despite some recent initial Chinese stimulus efforts, the normal lag time between such action and better growth suggests it will be mid-2019 at the earliest before Chinese growth really bottoms out.

Mid-2019 also looks like a decent bet for when the Fed rate-raising cycle might peak, given the incipient return of wage rises and inflation in the U.S. and unemployment already near multidecade lows. With U.S. rates still heading toward their peak and Chinese growth grinding lower, the next year looks like it could get grimmer for EM.

Some believe that EM countries are in better shape than previous in periods of stress, with lower leverage and higher foreign-exchange reserves. That may be true. Nonetheless, buying in now before it's clear how low Chinese growth goes—and how far U.S. rates rise—might not make your portfolio great again.

Write to Nathaniel Taplin at nathaniel.taplin@wsj.com

Document WSJO000020180817ee8h001rx

THE WALL STREET JOURNAL.

Markets

Oil Bounces Back From Six-Week Low; Crude climbs to nearly $69 after prices tumbled on surprise rise in U.S. inventories

By Benjamin Parkin and Christopher Alessi
571 words
2 August 2018
03:07 PM
The Wall Street Journal Online
WSJO
English

Oil prices rose on Thursday, reversing course after falling to the lowest point in six weeks overnight.

West Texas Intermediate futures rose 1.9% to $68.96 a barrel at the New York Mercantile Exchange, while Brent crude, the global benchmark, rose 1.5% to $73.45 a barrel.

Prices had tumbled after the U.S. Energy Information Administration said late Wednesday that U.S. crude-oil inventories rose unexpectedly. Stocks increased by 3.8 million barrels last week, to 409 million barrels. Traders and analysts surveyed by The Wall Street Journal had predicted an average weekly decline of 2.2 million barrels.

Part of the recovery was driven by traders reacting to chart patterns, said Kyle Cooper, a consultant for ION Energy. U.S. futures fell to their 100-day moving average of around $67.90 a barrel, before rebounding.

"After you broke through the 100-day moving average, there was every opportunity for a lot of the longs to liquidate," he said. "That didn't happen," helping to spark renewed buying interest. Investors who buy a long position expect an asset to rise in value.

Some analysts suggested any recovery could be short-lived, given the EIA data and other indications that global supplies were growing.

Tamas Varga, an analyst at brokerage PVM Oil Associates, said that total U.S. commercial oil inventories, including refined products, increased by more than 10 million barrels last week. "They are still well below the historical norm but the jump of this magnitude does not bode well for oil bulls," he said.

Prices have also come under pressure in recent weeks following a decision in late June by the Organization of the Petroleum Exporting Countries and partner producers like Russia to begin ramping up crude production after more than a year of holding back output. The move came in response to surging prices this spring—buoyed by geopolitical risk to supply in Iran—that saw Brent temporarily breach $80 a barrel.

Analysts at consultancy JBC Energy estimate that OPEC production rose 300,000 barrels a day month-on-month in July, with Saudi Arabia, the de-facto head of the oil cartel, the "primary driver behind this growth."

Russian energy officials have also reported production for last month rose, averaging 11.21 million barrels a day, compared with 11.07 million barrels a day in June.

Andy Lipow, president of consulting firm Lipow Oil Associates, said one wild card for global supply was the pending reimposition of U.S. sanctions on Iran in the coming weeks. The sanctions are widely expected to curb Iranian oil exports. But buyers in China—which is engaged in a trade dispute with the U.S.—could source Iranian crude despite the sanctions, Mr. Lipow said.

"We could end up in a situation where the OPEC and non-OPEC producers have increased their production substantially to offset Iran production," he said, even as Iranian exports don't fall as much as expected. That would further pressure the oil market.

Gasoline futures rose 1.1% to $2.0681 a gallon, while diesel contracts gained 1.6% to $2.1318 a gallon.

Write to Benjamin Parkin at Benjamin.Parkin@wsj.com and Christopher Alessi at christopher.alessi@wsj.com

Document WSJO000020180802ee82001b9

THE WALL STREET JOURNAL.

Business
Tyson Foods Reports Higher Profit as Sales Tick Up; Earnings rose 21% to $541 million, up from $447 million

By Allison Prang
375 words
6 August 2018
06:18 PM
The Wall Street Journal Online
WSJO
English

Tyson Foods Inc. reported that its third-quarter profit rose from a year ago, a week after the company announced it was trimming its outlook for the year because of factors like commodity market **volatility** and tariffs.

Earnings rose 21% to $541 million, or $1.47 a share, up from $447 million or $1.21 a share. On an adjusted basis, earnings were $1.50 a share, beating estimates from analysts, up from $1.28 a share a year ago.

Chief Executive Tom Hayes said the company faced headwinds from oversupply and pricing.

Net sales were $10.05 billion, up 2% from $9.85 billion, which came in under estimates from analysts. Sales volumes rose for the company's beef and prepared food segments, but fell in its pork and chicken segments.

Tyson said the decline in sales volume in chicken was because of "sluggish demand for certain chicken products." The drop in pork sales volume was "a result of balancing our supply with customer demand during a period of margin compression," Tyson said.

Average prices rose 1.8%, helped by an increase in prices for prepared foods and chicken, but hurt by declines in the prices of beef and pork. During the third quarter, pork prices fell 7.4% on average, the most of all of the segments. Tyson tied that decline to "increased availability of live cattle supply and lower livestock costs."

Shares in Tyson rose 3.3% to $59.64. The stock is off 26% year to date.

Tyson reported its third-quarter results a week after it lowered its guidance for the year. The company expects to make between $5.70 a share and $6 a share on an adjusted basis, down from its previous guidance of between $6.55 a share and $6.70 a share.

Mr. Hayes said in prepared remarks with that announcement that "the combination of changing global trade policies here and abroad, and the uncertainty of any resolution, have created a challenging market environment of increased **volatility**, lower prices and oversupply of protein."

Write to Allison Prang at allison.prang@wsj.com

Document WSJO000020180806ee86002jp

THE WALL STREET JOURNAL.

World

China Threatens to Impose Tariffs on $60 Billion of U.S. Products; Beijing also moves to rein in the yuan's rapid depreciation

By Lingling Wei in Beijing and Bob Davis in Washington
1,402 words
3 August 2018
09:36 AM
The Wall Street Journal Online
WSJO
English

BEIJING—China is planning to impose tariffs on a majority of its U.S. imports, a move designed to match the Trump administration's tariff threats blow-for-blow that is bound to further intensify trade tensions between the world's two largest economies.

After President Donald Trump raised the ante earlier this week on China by threatening to more than double proposed duties on Chinese imports, the State Council, China's cabinet, on Friday released a list of $60 billion worth of U.S. goods to hit with tariffs. The planned levies, on imports ranging from farm products and machinery to chemicals, range from 5% to 25%.

The planned Chinese penalties come on top of the tariffs on $50 billion in American goods on which Beijing already has imposed or said it would impose, bringing the total amount of U.S. products potentially subject to Chinese tariffs to $110 billion—or 85% of U.S. goods entering China last year, according to U.S. statistics. Mr. Trump has threatened to apply tariffs to all $505 billion worth of Chinese imports to the U.S.

With the move, Beijing is following up on its pledge to hit back at the Trump administration's trade policies. As President Xi Jinping seeks to elevate China's role in global affairs by challenging American dominance, he has made it clear to both Chinese officials and global business leaders that he has settled on an unyielding approach in dealing with Washington.

"Any unilateral threat or blackmail will only cause conflicts to intensify and damage the interests of all parties," the State Council said in a statement.

Among the additional $60 billion U.S. goods that could be subject to tariffs: some 662 kinds of products including small and medium-size airplanes and computers that could be hit with a 5% duty; nearly 1,000 products including coffee beans and textiles that could be slapped with a 10% duty; another more than 1,000 products such as chemicals and deodorant that could be levied at 20%; some 2,493 products such as meat, wine and liquefied natural gas that could be levied at 25%.

China's State Council said the date for implementing the additional $60 billion tariffs will be subject to the actions of the U.S. "China reserves the right to continue to introduce other countermeasures," it said in the Friday statement.

Beijing's tariff options are limited by the level of its U.S. imports—totaling $153.9 billion by Chinese measurements—so Chinese authorities are resorting to other means to hit back at the U.S.

Such measures so far have included increasing checks of American products at borders, delaying licenses for U.S. businesses and essentially blocking Qualcomm Inc.'s $44 billion planned acquisition of NXP Semiconductors.

The latest Chinese action comes even as some of Mr. Trump's advisers hold out hope that the two sides can renew negotiations and help settle the market-rattling trade dispute before either government carries out its latest threats.

"Talks have stalled but in recent days I can report that there has been some communication for the first time in a good while…at the highest levels," National Economic Council Director Laurence Kudlow told reporters Friday.

U.S. Treasury Secretary Steven Mnuchin and President Xi's economic envoy, Liu He, and their teams, have been in conversations about a possible meeting, but the talks remain at a preliminary stage. Mr. Kudlow didn't say if he was referring to those talks, or if other administration officials had also been in touch with their Chinese counterparts in recent days.

Some Trump advisers, such as Messrs. Kudlow and Mnuchin, are advocating more negotiations. Others are more skeptical, including U.S. Trade Representative Robert Lighthizer and White House trade adviser Peter Navarro. They argue that the U.S. needs to continue adding tariffs on Chinese goods to pressure Beijing to make the trade concessions sought by the U.S., according to people familiar with the White House debate.

The two camps are deeply suspicious of one another.

The White House believes it has a strong hand in the trade fight with Beijing, given the strength of the U.S. economy and a recent deal with the European Union to ease trade tensions. "China is not going to dominate our economy," Mr. Kudlow said. "They are the ones with the lousy economy…Look at their **stock market**. Look at their currency. They're the ones in trouble, not us. We're doing great."

In a brief statement, White House spokeswoman Lindsay Walters said that "instead of retaliating, China should address the longstanding concerns about its trading practices."

The Chinese leadership, on the other hand, is counting on the Communist Party's tight grip on the government, media and society, which allows Mr. Xi to impose his policies without public debate or second-guessing from rivals. As part of an effort to prepare for a long-running trade conflict with Washington, Beijing recently shifted its economic focus toward stabilizing growth from controlling debt.

The Chinese government has been easing both monetary and fiscal policies to boost domestic demand as the Chinese economy faces strengthening headwinds, from weakening consumption to slowed production and investment. An expected sharp drop in exports, as a result of the trade fight with the U.S., could put growth further at risk.

In a sign of growing worries of the Chinese economy, investors on Friday bid down the yuan to its weakest level in more than a year. That prompted China's central bank to move to rein in the yuan's depreciation and issued a new rule aimed at making it more expensive to bet against the currency. The tightly-controlled currency has weakened about 6% against the dollar over the past two months.

"China's capitulation to U.S. demands, which the Trump administration seems to view as the only viable endgame, is an unlikely outcome given China's domestic political imperative of not being seen as weak and caving in to the U.S.," said Eswar Prasad, a Cornell University economist and a former senior International Monetary Fund China specialist.

Relations between the two nations have been tense over the Trump administration's efforts to address the U.S.'s $376 billion trade imbalance with China and to punish China for alleged pilfering and pressure tactics to acquire U.S. technology. Last month, both the U.S. and China applied tariffs to $34 billion of each other's goods. Another set of duties on $16 billion in goods is scheduled for the days ahead.

On Wednesday, Mr. Trump turned up the pressure on China by threatening to sharply increase the 10% tariff to 25% on $200 billion in Chinese imports. A final decision on the rate isn't expected until September at the earliest.

Beijing officials indicate that China won't be willing to commit to another round of negotiations with Washington unless the White House can decide on a point person to deal with China.

Advisers to Mr. Trump stress that only he calls the shots on trade policy. On Monday, for instance, when his trade team discussed the latest round of U.S. tariff plans on $200 billion in Chinese imports, there was discussion of Chinese yuan depreciation and other recent factors, say people familiar with the discussions. President Trump wasn't interested in the nuances of the conversation, they say. Rather, he thought 10% tariff was too weak. Instead, 25% would have an impact, he figured. The White House later announced the U.S. was now looking at 25% tariffs.

Rep. Kevin Brady (R., Texas), chairman of the House Ways and Means Committee, has urged that President Trump and Chinese President Xi to meet and work out a trade deal. But that is unlikely, say U.S. trade advisers, who figure that the two leaders will probably meet only to complete a deal.

Vivian Salama contributed to this article

Write to Lingling Wei at lingling.wei@wsj.com and Bob Davis at bob.davis@wsj.com

Related

* China Fights Back Against Yuan Slide

* Market Asks if Beijing Still Has Red Line for the Yuan

Document WSJO000020180803ee83002bd

THE WALL STREET JOURNAL.

Markets

The Woman Who Has a Plan for Wall Street to Help Cure Blindness; Karen Petrou spent years trying to hide her blindness. Now she has come up with a plan to get private investors to bankroll a cure.

By Christina Rexrode
1,005 words
18 August 2018
10:00 AM
The Wall Street Journal Online
WSJO
English

Karen Petrou, an influential adviser to bankers and regulators, has made a career of deciphering complicated financial regulations. Now she's trying to decode another type of puzzle.

The conundrum: Matching medical researchers who need money with investors who have it. A bill outlining her strategy, which would include a government guarantee, was introduced in the House of Representatives last month.

Her goal, to cure blindness, is lofty, and her crusade is personal. Though Ms. Petrou, who runs policy-analysis firm Federal Financial Analytics Inc., consumes dense regulatory tomes faster than perhaps anyone in Washington, it has been years since she could see.

Ms. Petrou, 65, is unsentimental about finance, where the sharp contours of profit trump the squishy metrics of doing good. But she also believes that pension funds, insurers and others will invest in her so-called Eye Bonds if they can make money doing it. The plan, which she designed with her husband and business partner, Basil, envisions a five-year pilot that would finance up to $1 billion in loans for organizations doing early-stage research on blindness.

"In the scheme of Wall Street, it's lunch money anyway," Ms. Petrou said. "And maybe it appeals to what's left of their heartstrings."

Under their proposal, labs and others would get a stamp of approval for projects deemed promising by the National Eye Institute, a designation that could help them line up loans.

The lenders would sell the loans to an Eye Bond Trust administered by financial institutions that would package and sell the loans to investors—she envisions 10-year bonds. Investors would be repaid both the principal and interest when the bonds mature, and if a lab's project turned into a commercial success, the investors could get equity. A government guarantee would partially protect investors if the labs couldn't repay.

Ms. Petrou grew up in a liberal-leaning home in Westchester County, to an artist mother and book-publisher father. As a child, she once challenged the rabbi teaching her Sunday school class to "an intellectual disputation," said her mother, Blanche Dolmatch. As a teenager, she donned a Colonial dress and mobcap to give tours of Philipsburg Manor in Sleepy Hollow, N.Y.

"She was always good at making speeches and instructing on things, and blowing off intellectual steam," Mrs. Dolmatch said.

In high school, Ms. Petrou was diagnosed with retinitis pigmentosa, a disorder that causes gradual vision loss. "We just kind of staggered out of the place," Mrs. Dolmatch recalled.

Within a few years, acquaintances complained that Ms. Petrou didn't say hi when she passed them. Her peripheral vision was failing.

At the same time, she was working on a doctorate in political science at the University of California, Berkeley. But she took a job in banking, figuring it would offer more opportunities for women than academia.

For a while, it did, and Ms. Petrou rose through the ranks in political analysis and public affairs at San Francisco-based BankAmerica Corp. When she was 32, the CEO told her he wasn't comfortable promoting a young woman to senior vice president, according to Ms. Petrou. She left soon after.

Since then, she has built out her firm and gained a reputation for knowing the minutiae of esoteric regulations and their big-picture repercussions. Both banks and regulators hire her to provide a nonpartisan analysis of the potential effects of new policies. "I'm not coming up with loopholes," Ms. Petrou said.

Rodgin Cohen, senior chairman of Sullivan & Cromwell LLP, met Ms. Petrou in the early 1990s when they worked on the merger of Mellon Bank Corp. and Dreyfus Corp., a controversial proposal at the time because it combined a bank and a mutual-fund business.

"She gave a very broad-based view of everything that was going on—how the regulators would work, how Congress would react, and how the media would react," Mr. Cohen said. "It was typical of her approach and forthrightness."

Along the way, Ms. Petrou's sight continued to deteriorate. She lost her reading vision six months after starting her firm. Wary of being pitied or stereotyped, she would tell people she couldn't see a menu because she had lost a contact lens.

Today, she is almost completely blind, though many of her clients don't know until her German shepherd guide dog, Zuni, trundles into their boardroom. She ingests volumes of ponderous regulatory documents by listening to screen-reading software at 400 words a minute, pausing to type her analysis for clients.

"If you are going to challenge Karen on a fact, you better be right," said Pete Mills, who worked for Ms. Petrou and is now head of residential public policy for the Mortgage Bankers Association. "You can't get anything by her."

In recent years, Ms. Petrou has grown more outspoken about the widening gap between rich and poor, including her belief that postcrisis government policy has exacerbated the problem. In a lecture to the Federal Reserve Bank of New York this year, she scolded central bankers for years of ultralow interest rates. Her take: The policy has boosted the **stock market**, which benefits investors, but harmed families trying to set aside savings.

With Eye Bonds, the Petrous aren't looking to reinvent themselves but to be heard on a different issue. They believe the obstacle to curing blindness isn't a lack of science but a lack of funding. Though it is early days for Eye Bonds, they hope their structure or something similar could be applied to other diseases.

"People always say, 'Why is this for blindness?'" Ms. Petrou said. "And I say, 'Well, I'm blind, so let's start with that.'"

Write to Christina Rexrode at christina.rexrode@wsj.com

Document WSJO000020180818ee8i0015q

THE WALL STREET JOURNAL.
U.S. EDITION

The Property Report
Bearish Investor Raises Stakes as Malls Pick Up

By Esther Fung
737 words
8 August 2018
The Wall Street Journal
J
B6
English

A hedge-fund manager known for wagering on the demise of the weakest American malls is raising the stakes, betting some of the hardest-hit shopping centers are in a death spiral.

This aggressive stance is an example of how some bearish investors are becoming bolder in these risky bets against shopping malls, defying a recent pickup among certain brick-and-mortar retailers and shares of mall owners.

Eric Yip, chief investment officer of Alder Hill Management, has been buying a credit default swap index known as the CMBX. It tracks the values of mortgages backed by commercial property. Mr. Yip's investment goes up in value when shopping centers, whose debt is reflected in the index, struggle to make payments or default on their loans.

Alder Hill is betting against the riskiest loans to weaker malls with high debt and tepid prospects. The New York hedge fund disclosed this in a report in January 2017, though it didn't disclose the amount of its bet.

The gambit looked promising at the start, when the value of these loans tumbled last year. He is now wagering that a less-risky slice of the index with higher-quality loans is also vulnerable, the firm indicated in a July report to investors.

But this year, mall performance has improved and even the weaker segments of the market have rebounded.

Moreover, recent retail trends have been moving against shopping-center bears. Better malls in wealthier ZIP Codes that face less competition have continued to report strong sales and rent income. Retailers like Macy's Inc. and Target Corp. have reported better earnings after closing some stores and boosting their digital investments.

Some retailers are even expanding, easing concerns about shopping-center occupancy and helping landlords refinance. Closely held arts-and-crafts retailer Hobby Lobby, for instance, has opened 39 stores in the first seven months this year, including in spaces formerly occupied by Sears Holdings Corp. and Macy's.

Even with continued store closings, it has been tricky to predict when mall owners would default.

The slices of the CMBX 6 index with the lowest credit ratings, BBB- and BB, tumbled 9.5% and 12.1%, respectively, in 2017, according to Markit, before bouncing back this year.

The price for the weaker segment of the market, known as the BB tranche, is up $3.91 to $80.13 as of Tuesday. The price of the higher rated CMBX 6 A fell 2.4% in 2017 but rebounded by $3.38 as of Tuesday.

"Some of the short sellers thought the fallout would happen quickly. But it's a slow death for challenged malls," said Steve Kuritz, managing director at Kroll Bond Rating Agency.

Alder Hill hasn't disclosed what price it paid for its investments so it is unclear whether it has made or lost money in the past two years. But the firm views any retail comeback as a lull in the weaker malls' inevitable decline.

Headwinds in the retail industry "will fall disproportionately on the weakest and most redundant centers in the country," the firm added.

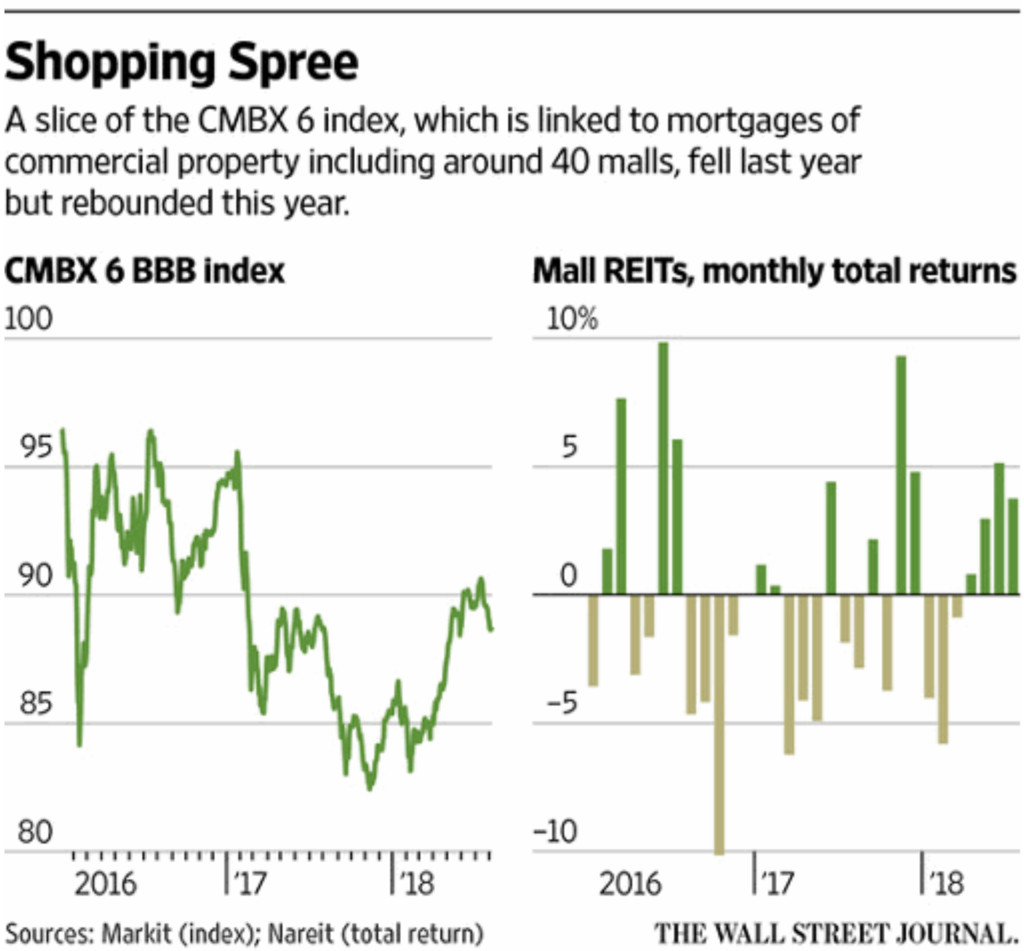
"The U.S. is simply over-stored, and the least-productive properties must ultimately disappear in order to restore balance," the firm wrote in the July report. "That burden will be borne by owners and creditors alike."

Some on Wall Street are taking the other side of the trade. The majority of malls with loans in the index have enough cash flow to cover their debts, wrote Brian Phillips, director of Commercial Real Estate Credit Research at AllianceBernstein, last month.

"The demise of the American mall makes for good headlines, but not necessarily a good investment strategy," he said.

In his youth, Mr. Yip worked at his parents' small shop in a suburban New Jersey mall. As a hedge-fund manager, he began visiting shopping centers across the country in 2015. After he concluded that many of them would succumb to online shopping, he looked for a way to profit from their demise. He settled on betting against CMBX 6.

Now, Alder Hill is betting another undisclosed amount against the A-rated securities of the CMBX 6. In other words, he is wagering that even the less risky slices of the index are vulnerable to defaults of the underlying properties.



License this article from Dow Jones Reprint Service

Document J000000020180808ee880000d

WSJ PRO CENTRAL BANKING

Economy

Tariffs Could Slow Exports | PBOC: Won't Weaken Yuan | Erdogan Shifts Blame | Fintech's Subprime Lending | Wessel's Take: For the Fed, Is It 1998 All Over Again? The Wall Street Journal's central banking newsletter for Tuesday, August 14, 2018

2,328 words
14 August 2018
05:52 AM
WSJ Pro Central Banking
RSTPROCB
English

Wessel's Take: For the Fed, Is It 1998 All Over Again?

Tariffs Could Slow Exports, Not Just Imports, New York Fed Research Warns

China Says It Won't Use Yuan to Deal With Trade Fights, Vows to Counter Heard Mentality

Erdogan Shifts Blame for Turkey's Woes to Social Media

Fintech Crowd Dives Into Subprime Credit-Card Lending

For the Fed, Is It 1998 All Over Again?

The other day on CNBC I got a predictable question: With ripple effects from Turkey's economic woes infecting other emerging markets, will the Federal Reserve reconsider plans to raise interest rates a couple more times this year? When central bank Chairman Jerome Powell asks the Fed staff to respond to that question, someone is certain to recall how the Fed reacted to the Asian financial crisis.

For 18 months, the Fed hadn't reacted to the widening turmoil, but as the virus spread from Thailand to Brazil to Russia, then-Chairman Alan Greenspan declared in September 1998: "It is just not credible that the United States can remain an oasis of prosperity unaffected by a world that is experiencing greatly increased stress."

At the end of that month, Fed staff told the Federal Open Market Committee that the "financial tumult" was of "such a magnitude" that they were forecasting a sharp deceleration in U.S. economic growth.

The Fed cut interest rates then even though unemployment was a low 4.5% and there were worries about inflation. It cut rates twice more that year.

But six months later, citing the economy's "remarkable dynamism," the staff marked up its forecast. As the U.S. shrugged off the emerging-market crisis (and the collapse of hedge fund Long-Term Capital Management), the Fed reversed course and raised rates three times in 1999.

With the benefit of hindsight, it is now clear the Fed had overreacted by cutting rates. As David Stockton, then the Fed's chief forecaster, later recalled, "Part of our mistake in 1998 was a failure to appreciate just how strong the U.S. economy was as we entered that period."

Yet Mr. Greenspan had no regrets. The Fed, he wrote later in his memoir, reasoned that an "unlikely but potentially destabilizing event" was a greater threat than the inflation that might follow easier monetary policy.

Mr. Powell and his colleagues may soon have to make a similar judgment. The U.S. economy is at or near full employment and seems to have substantial momentum, fueled, in part, by some untimely fiscal stimulus. Inflation appears to be closing in on the Fed's 2% target. So there is a case for continuing to raise rates from today's still-low levels.

But the Fed will be watching to see how global developments affect the outlook for the U.S. economy. If the emerging-market turmoil intensifies and depresses U.S. **financial markets**, if China's big economy slows, and if

President Trump's trade war damages U.S. business confidence and the near-term outlook for the U.S. economy, Mr. Powell may consider deferring a rate increase or two to see how events unfold.

(David Wessel is a contributing correspondent to The Wall Street Journal and director of the Hutchins Center on Fiscal & Monetary Policy at the Brookings Institution, www.brookings.edu/hutchinscenter)

Key Developments Around the World

Tariffs Could Slow Exports, Not Just Imports, New York Fed Research Warns

Higher tariffs on imported goods aren't likely to narrow the U.S. trade deficit because domestic producers are likely to face higher costs for exports, according to analysis from the New York Federal Reserve Bank. "The end result is likely to be lower imports and lower exports, with little or no improvement in the trade deficit," wrote co-author Mary Amiti, an economist at the New York Fed, in a blog post published Monday. The Trump administration has finalized plans to impose tariffs on $16 billion in Chinese imports, following duties imposed earlier this year on $34 billion in products. Washington also is considering imposing 25% tariffs on a longer list of $200 billion in Chinese imports, and Beijing has unveiled its own list of $60 billion in U.S. products it would tax if the Trump administration continues down its current path.

China Says It Won't Use Yuan to Deal With Trade Fights, Vows to Counter Heard Mentality

China's central bank said it wouldn't engage in competitive depreciation to alleviate pain from trade fights, but it is ready to take actions to counter yuan bears. China "won't use the renminbi exchange rate as a tool to deal with trade disputes and other external disturbance," the People's Bank of China said in a quarterly policy report posted late Friday. While increasing the flexibility of the yuan rate, authorities must stick to bottom-line thinking, adopting countercyclical measures to stabilize the rate when necessary as herd mentality could worsen **volatility**, the central bank said.

Erdogan Shifts Blame for Turkey's Woes to Social Media

Turkish authorities are blaming fake news for the recent plunge in the national currency's value, with President Recep Tayyip Erdogan condemning "terrorists" haunting social networks and disseminating alleged disinformation. The lira shed as much as 10% on Monday and is down more than 40% this year on heightening concerns that the country won't be able to cope with rising borrowing costs and has yet to resolve a protracted dispute with its longtime military ally, the U.S. Mr. Erdogan, who gained vastly expanded executive powers when he won re-election in June, has largely pinned the blame on the U.S., accusing Washington of engineering an economic war on Turkey. But on Monday, though, he redirected his ire. "There are economic terrorists on social media," Mr. Erdogan told an audience of Turkish ambassadors gathered in Ankara's presidential palace. "They are a genuine network of treason."

Investor Lessons From Turkey's Crash to Earth

Argentina's Central Bank Raises Policy Rate to 45% Amid Emerging-Market Turmoil

Argentina's central bank raised interest rates Monday at an unscheduled meeting as the rout in emerging-market currencies extended to the Argentine peso. The central bank lifted its Leliq policy rate to 45% from 40%, and said it wouldn't cut the rate at least until October. The central bank said the decision was taken unanimously by its monetary policy board, "in response to the current external situation and the risk it implies for a new impact on domestic inflation."

Bank Indonesia to Use Interest Rate Policy, Interventions to Stabilize Rupiah

Bank Indonesia will continue using interest rates and interventions to stabilize the rupiah, Gov. Perry Warjiyo said Tuesday. "Our priority is still the macroeconomic stability, especially exchange rate stability," Mr. Warjiyo said after a cabinet meeting. His comments came ahead of BI's monthly rate-setting meeting Wednesday.

RBA Gov to Cite Policy Success Before Parliament

Reserve Bank of Australia Governor Philip Lowe will appear before parliament's committee on economics Friday armed with a steady-as-she-goes message on interest rates. After two years at the helm of the central bank, Mr. Lowe has yet to change policy settings. The widely held expectation among economists is that the quiet will continue, potentially through to 2020.

Uganda's Central Bank Holds Key Lending Rate at 9%

Uganda's central bank Monday said it maintained its key lending rate at 9% to spur growth, amid rising inflationary pressure. Bank of Uganda Gov. Emmanuel Tumusiime-Mutebile said the rate would remain unchanged at its lowest level since the country introduced inflation-targeting monetary policy in 2011 to sustain growth. "Given the objective of keeping inflation close to the target and the need to contribute to attaining sustainable economic growth, a neutral monetary policy stance is warranted," Mr. Tumusiime-Mutebile said.

FINANCIAL REGULATION ROUNDUP

Fintech Crowd Dives Into Subprime Credit-Card Lending

Financial-technology startups are stepping into a void increasingly left by credit-card-issuing banks: lending to customers with poor credit histories. LendUp Global Inc. and Fair Square Financial LLC, which focus more heavily on riskier borrowers, mailed out roughly 35 million credit-card offers during the first half of the year, according to market-research firm Competiscan, up from 7 million during the same period last year. CreditShop LLC, a specialist in personal loans to risky borrowers that was acquired last year by investment firm Värde Partners, rolled out a credit card earlier this year. Elevate Credit Inc., which specializes in high-cost installment loans, launched one in July.

Citigroup Shuffles Consumer Leadership

Citigroup Inc. is making changes to its consumer-banking leadership, in a bid to deliver a more seamless approach to customers. As part of the shuffle, Jud Linville, head of global cards and consumer services, is leaving the bank, Stephen Bird, Citigroup's chief executive of global consumer banking, announced in an internal memo reviewed by The Wall Street Journal on Monday. The New York-based bank has created a new position called head of U.S. consumer banking and appointed Anand Selva, a 26-year Citigroup veteran who currently is in a similar role in Asia, to fill that position, Mr. Bird said in the memo.

Wednesday

8:30 a.m. EDT

U.S. Commerce Department releases July retail sales

9:15 a.m. EDT

Federal Reserve releases July U.S. industrial production

Thursday

Time N/A

Bank Indonesia releases policy statement

Time N/A

Central Bank of Egypt releases policy statement

4 a.m. EDT

Norway's Norges Bank releases policy statement

8:30 a.m. EDT

U.S. Commerce Department releases July housing starts

Relative Age Effects in Political Selection

Janne Tukiainen, Tuomas Takalo and Topi Hulkkonen explore the evidence of a relative age effect, or RAE, on political selection in a Bank of Finland paper. They "find that male candidates born early in the calendar year have a significantly higher probability of getting elected to the parliament but no similar RAE applies to female candidates nor to municipal elections. Moreover, this effect only takes place in the most competitive parliamentary districts and is present only for some parties."

ECB Stimulus Reduced Inequality

The stimulative policies pursued by the European Central Bank over recent years have lowered incomes from saving, and income inequality in the eurozone, according to an analysis by a number of the economists who work for the institution. The analysis incorporates a measurement of the indirect effects of the policies on employment and wages, as well as the direct effects on returns to savings. "Overall, our work finds that low short rates do hurt ‘savers'—households owning significant liquid assets, via a direct effect—that is, via the reduction in their income from those assets," they write. "Low short rates, however, also benefit savers, like all other households, via an indirect effect—that is, the reduction in their unemployment rate and the increase in their labor income. The indirect effect is more important from a quantitative perspective. Since it is especially beneficial for hand-to-mouth households, it implies that expansionary monetary policy in the euro area led to a reduction in consumption inequality."

Turkey Is Fighting an ‘Economic War'—Against Reality

"Maybe the best way to tell a government's policies are failing is when it blames the rest of the world for waging an ‘economic war' against it," writes Matt O'Brien for the Washington Post's Wonkblog. "That, after all, is what Venezuela's Nicolás Maduro has been telling his people for years, and it is what Turkey's Recep Tayyip Erdogan has now started to say. The real culprit, of course, is that both governments have forced their central banks to follow counterproductive, if not outright ruinous, policies. But no matter: The truth can have a hard time competing with foreign scapegoats."

Banks Finally Start to Pay Their Depositors

"The grim decade in which savers earned near nothing on their bank deposits is ending. That is good news for consumers and bad news for some banks," Aaron Back writes for The Wall Street Journal. "Since the Federal Reserve began gradually raising interest rates in December 2015, banks have been slow to pay depositors higher rates. With the latest rate increases, that is starting to change. Online banks are leading the way, paying nearly 2%, while big banks are only just getting meaningfully above zero. What is important, though, is that every time the Fed raises rates, a bigger portion of that increase goes to consumers. In the second quarter, the so-called deposit beta, or the portion of a rate increase that is translated into deposit costs, jumped to 44% from 28% in the first quarter, according to Keefe, Bruyette & Woods."

The Trump administration set out to replace old trade arrangements and build new ones, but only one deal has been made so far. Here's how things stand.

Business activities in China cooled further in July, with investment slowing to a near two-decade low, official data showed, suggesting the Chinese economy is facing increased headwinds amid rising trade tensions with the U.S.

Germany's economic growth accelerated in the second quarter, ensuring the eurozone as a whole avoided a slowdown, but economists said global trade tensions and a spiraling currency crisis in Turkey are clouding the outlook for businesses.

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

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

Follow us on Twitter:

@WSJCentralBanks, @NHendersonWSJ, @PaulHannon29, @michaelsderby, @wsj_douglasj, @HarrietTorry, @KateDavidson, @d_harrison, @kimmackrael, @TomFairless, @mikemaloneyny

Document RSTPROCB20180814ee8e000gp

THE WALL STREET JOURNAL.

Markets

Turkish Lira's Fall Raises Concerns for Emerging-Market Investors; Currency's drop after U.S. boosts tariffs on steel, aluminum adds to market uncertainty

By Jacob M. Schlesinger and Michael Wursthorn
1,246 words
12 August 2018
09:16 PM
The Wall Street Journal Online
WSJO
English

Emerging-market investors are preparing for an unsteady start to the week after a weekend marked by heightened rhetoric, renewed trade tensions and a deeper slide in the Turkish lira.

The lira sank to a record low on Sunday evening after collapsing last week. The currency is now down more than 40% this year, while bond yields have skyrocketed, pushing Turkey onto the edge of a financial crisis. Turkey's vulnerabilities include high levels of foreign-currency debt, a current-account deficit and rising borrowing costs.

President Trump on Friday doubled steel tariffs on Turkey as its government battled the currency collapse. The decision marked a departure for the U.S., which has generally tried to calm global markets during times of financial turmoil in emerging markets, especially when investors are gripped by fear of contagion.

Mr. Trump raised tariffs on Turkish steel imports to 50% and aluminum to 20%. The decision deepened the lira's drop and worsened market fears that the weaker currency could exacerbate fragilities in the economy, making it harder for the heavily indebted corporate sector to pay back domestic and foreign loans, putting strains on the country's banks.

Countries like Turkey that are experiencing economic turmoil usually get sympathy from the rest of the world, said Torsten Sløk, chief international economist for Deutsche Bank.

"It is rather unique with an emerging market which not only faces a domestic macroeconomic crisis but also an external political conflict with the main shareholder of the [International Monetary Fund]," he said.

Trump administration officials said the tariffs were intended to boost the domestic steel and aluminum industry. The moves followed a series of actions the administration has taken in recent weeks to step up economic pressure on President Recep Tayyip Erdogan of Turkey to release U.S. evangelical pastor Andrew Brunson, who has been detained in Turkey on espionage charges since October 2016.

White House and Treasury officials declined to comment about the administration's broader strategy toward global currency-market instability, or about the economic considerations behind the increased tariffs.

As a new trading week begins, investors are watching how emerging-market currencies react, as well as foreign government debt for signs of contagion. Turkey represents about 1.5% of global gross domestic product, so ripples from the country aren't expected to be severe, Mr. Sløk said.

The dollar climbed to as high as 7.131 to the lira in Asia Pacific trading hours, rising by as much as 10%.

In the event of contagion, Turkey's economic misfortune would likely hit its closest neighbors who are most fragile first, some market analysts said. The impact has been felt in Argentina and Brazil, as well as Russia, added Brad McMillan, chief investment officer for Commonwealth Financial Network, in a recent note to investors.

Finance Minister Berat Albayrak—Mr. Erdogan's son-in-law—said on Sunday the government had a plan to restore calm. "All measures and action plans are ready," he told Turkish newspaper Hurriyet. "Our institutions will take the necessary actions as of Monday morning."

Mr. Erdogan lashed out at the U.S. over the weekend, blaming the Trump administration for stoking confrontational relations.

Delivering several speeches in Turkey, Mr. Erdogan said Mr. Trump's decision to impose sanctions risked jeopardizing decades of partnership between the two military allies in the North Atlantic Treaty Organization. He dismissed the lira's plunge as not reflecting Turkey's economic reality.

"What is the reason for all this storm in a tea cup? There is no economic reason for this.…This is called carrying out an operation against Turkey," Reuters quoted him as saying.

In a formal proclamation of the tariffs issued Friday night—nearly 12 hours after the president first announced it on Twitter—the White House said the action was taken because the original global tariffs hadn't done as much as the administration had desired to boost domestic production of steel and aluminum. The statement didn't explain why Turkey alone was hit with the higher tariffs.

Administration officials said the higher tariffs were unrelated to Mr. Brunson's situation. However, in his tweet announcing the move, Mr. Trump seemed to link the tariffs to soured ties between the two nations, suggesting a willingness to impose trade sanctions as a lever in pursuit of unrelated U.S. diplomatic goals.

"President Trump's refusal to accommodate Turkey is a remarkable departure from previous policy practices," said Jack Ablin, chief investment officer at Cresset Wealth Advisors, who added that he would be gauging the extent of a spillover into other emerging markets and European banks.

Over three decades of periodic currency storms, such as the early 1990s Mexican peso plunge, and the Asian crisis a few years later, "the market's underlying assumption was that the U.S. would try to be helpful" during periods of extreme foreign-exchange **volatility**, said Shahab Jalinoos, head of global currency strategy at Credit Suisse Group. "Now the market can no longer assume that."

Foreign-exchange collapses can be perilous for emerging markets, particularly when they have borrowed heavily in dollars and thus find it harder to repay those debts as their own currencies fall.

Under his America First platform, Mr. Trump has broken with a longstanding bipartisan consensus that Washington's mission was to take the lead in expanding, strengthening and stabilizing commercial and financial ties across countries—and that such globalization was broadly in the U.S.'s self-interest.

Mr. Trump has argued that such policies have undermined American economic strength. He has revived long-dormant policies to block imports he considers threatening to the U.S., and brushed aside warnings that such moves could harm the global trading system. He has argued that the U.S. should do more to use its economic and financial clout to force other countries to change policies he considers unfair to the U.S.

The tariffs Mr. Trump said he was increasing were imposed this year, not just on Turkey but also on virtually every metals exporter around the world. The administration imposed tariffs of 25% on steel and 10% on aluminum by invoking a little-used Cold War-era law that allows presidents to block imports he deems a threat to U.S. national security.

Many countries retaliated with their own tariffs on U.S. exports. Among them was Turkey, which in June put import taxes on $1.8 billion of U.S. coal, paper, walnuts, tobacco and other products.

Mr. Trump's mention of the Turkish lira's plunge suggested a willingness to tolerate the currency's collapse. For now, investors seem to believe that strategy is unlikely to have a big impact beyond a few countries.

"When people worry about contagion, they worry about systemic risk that leads to financial crisis. There's contagion within emerging markets, but I'm downplaying that. [Emerging-market] countries with weak credit will suffer," said Win Thin, global head of emerging market strategy at Brown Brothers Harriman & Co. "This is a currency crisis morphing into possible solvency and a banking crisis. It's all homegrown."

Orla McCaffrey and Akane Otani contributed to this article.

Write to Jacob M. Schlesinger at jacob.schlesinger@wsj.com and Michael Wursthorn at Michael.Wursthorn@wsj.com

Document WSJO000020180812ee8c003xp

THE WALL STREET JOURNAL.

Markets
Copper Drops on New Tariff Threats; Gold edged down as the dollar strengthened

By Benjamin Parkin and David Hodari
675 words
1 August 2018
03:15 PM
The Wall Street Journal Online
WSJO
English

Copper prices fell Wednesday as the trade dispute between the U.S. and China intensified.

Front-month contracts for August delivery fell 3% to $2.735 a pound at the Comex division of the New York Mercantile Exchange.

The selling came as White House advisers debated raising proposed tariffs on $200 billion worth of Chinese goods to 25% from 10%.

As Wednesday's session ended, The Wall Street Journal reported the U.S. would indeed unveil the higher proposed duties.

The tariffs would add to those on $50 billion of products already in the works, part of President Trump's threat to increase pressure on Beijing by extending punitive measures to all Chinese imports.

"As long as tariffs are allowed to metastasize, they do have the potential to do real damage to the global growth story," said Edward Meir, a consultant for INTL FCStone. "What that means for commodities and for base metals in particular, is that price rallies do not have a real chance of taking root."

Copper prices had risen on Tuesday on reports that U.S. and Chinese officials were in talks about reopening negotiations. But that early-week rally was more than neutralized as traders dumped tentative bets on rising prices, Alastair Munro, a broker at Marex Spectron, wrote in a note.

With Chinese consumption accounting for roughly half of all global copper demand, the futures market this week experienced a new wave of the **volatility** that has become commonplace in recent months.

"Just the idea that the U.S. is pushing a more aggressive tactic in terms of trade policy means that the fallout could be more dire," said Harry Tchilinguirian, global head of commodity markets strategy at BNP Paribas.

The toughening trade policy came after Washington last week softened its stance toward the European Union. The two parties agreed to various concessions in a deal to avoid new tariffs. Some analysts said a similar agreement was still possible with China.

"Rhetoric by Trump is varied and there's still parallel talks expected," said Xiao Fu, head of commodities at BOCI Global Commodities Research, referring to the possibility of a meeting between Treasury Secretary Steven Mnuchin, Chinese envoy Liu He, and their staffs.

The trade fears may in the coming days be balanced by copper-specific supply concerns, some analysts said, with the prospect of labor disputes at a number of major mines increasing.

Workers at BHP Billiton's Chilean Escondida operation, the world's largest copper mine, are due to finish voting Wednesday on whether to reject BHP's most recent contract offer.

If no agreement is reached between the mining company and unions, a 30-day strike would begin in mid-August, according to Bloomberg. A 44-day strike at the mine last year provided some support to copper prices, and market participants were once again expecting moderate support from a similar action this year, according to BOCI Global Commodities Research's Ms. Fu.

Observers also were watching similar strike threats at Chilean state-run company Codelco's mine at Chuquicamata.

Gold prices also fell. August contracts slid 0.5% to $1,217.90 per troy ounce, the lowest close in over 12 months.

The gold market was pressured in part by a higher U.S. dollar. The WSJ Dollar Index rose 0.1% on Wednesday. Commodities priced in the currency become more expensive for global buyers when the dollar rises, making them a less attractive investment.

The Federal Reserve left short-term interest rates unchanged at a two-day meeting this week, while the central bank's statement suggested it would likely raise rates for the third time this year at its September meeting.

Rising rates have added to the pressure on gold prices, with investors typically seeking out yield-bearing assets like bonds over the precious metal.

Write to Benjamin Parkin at Benjamin.Parkin@wsj.com and David Hodari at David.Hodari@dowjones.com

Document WSJO000020180801ee81002mh

Economy

Weakest Emerging-Market Currencies Slide | U.S. GDP Growth Revised Up | Bank of Mexico Cuts Growth View | Timiraos's Take: Clarida's Rate Divergence Warning; The Wall Street Journal's central banking newsletter for Thursday, August 30, 2018

1,906 words
30 August 2018
06:30 AM
WSJ Pro Central Banking
RSTPROCB
English

Timiraos's Take: Clarida's Warning on the Limits of Global Rate Divergence Could Prove Prescient

Fresh Stress Grips Weakest Emerging-Market Currencies

U.S. GDP Growth Revised Up in Second Quarter

Bank of Mexico Cuts Economic Growth Outlook for 2018, 2019

Financial Regulation: NFL Linebacker, Ex-Goldman Analyst Charged in $1.2 Million Insider Trading Case

Clarida's Warning on the Limits of Global Rate Divergence Could Prove Prescient

When President Trump tapped Jerome Powell to lead the Federal Reserve, one market commentator outlined two of the biggest decisions Mr. Powell would face, likely in 2019 or later: when to stop raising interest rates and when to stop shrinking the Fed's balance sheet.

Mr. Powell appeared to have embraced the idea that the neutral level of interest—that is, the short-term benchmark rate that neither spurs nor slows growth—would be much lower than before the financial crisis, the commentator added.

But "Fed officials don't seem to agree on what this New Neutral level is, and Powell will need to forge a consensus," the commentator concluded.

The commentator was Richard Clarida, who is set to become Mr. Powell's second-in-command now that the Senate has confirmed his selection by Mr. Trump. He will play a key role shaping Mr. Powell's strategy to resolve both decisions he laid out last fall in a blog post for Pimco, where he served as a strategic adviser.

Fortunately for Fed geeks, Mr. Clarida has a lengthy paper trail in both academia and the popular press explaining how he has approached monetary policy questions.

Mr. Clarida published one such article shortly after Mr. Trump's election that could prove prescient for the coming deliberations on the Fed's 2019 strategy. Writing in the Financial Times, he said the Fed would be more constrained than in past periods in raising rates if other central banks weren't also lifting their benchmark rates.

"In a world of global capital flows, there will be a limit to how far U.S. rates can diverge from global interest rates without triggering **volatility** in markets and a much stronger dollar that reduces exports," he wrote.

Recent emerging-market **volatility**, largely confined so far to Argentina and Turkey, offers one example of international risks to the Fed's plans, though the situations in those two countries seem unlikely to slow the Fed's rate-rise campaign at this point.

While the 2016 U.S. election and the market rally that followed, based on expectations of new fiscal stimulus, changed the growth and inflation outlook for the U.S., "it has not materially changed the outlook for global expansion, saving and risk appetite," Mr. Clarida wrote.

Mr. Clarida's view about the U.S. rate position vis-à-vis other global central banks will be worth further attention if slow growth further delays efforts by the European Central Bank and Bank of Japan to reverse the emergency actions deployed earlier this decade.

Key Developments Around the World

Fresh Stress Grips Weakest Emerging-Market Currencies

The Argentine peso hit a record low and the Turkish lira resumed its slide, dramatizing the strains faced by emerging markets most vulnerable to a rising dollar. While Argentina and Turkey are in particular trouble, many developing countries are being squeezed as the Federal Reserve raises interest rates, boosting the U.S. currency. The central bank's actions are felt globally but it has no particular responsibility for international financial conditions, unless they feed back into problems at home.

Argentina's Peso Plunges to Record Low

Turkish Lira Weakens as Central Bank Fails to Assuage Investors

Turkey's central bank took steps to undo some of the emergency support it provided to its banks in recent weeks, reviving investor concerns over the nation's financial stability as the Turkish lira continued its slide against the dollar. Ratings firm Moody's also rattled investors by downgrading 18 Turkish banks on fears they will face growing difficulties in difficulties in refinancing foreign-currency loans. "There is a heightened risk of a downside funding scenario," the ratings agency said in a research note.

U.S. GDP Growth Revised Up in Second Quarter

Economic growth in the U.S. was stronger during the second quarter than earlier estimated. Gross domestic product—the value of all goods and services produced across the economy—rose at a 4.2% annual rate in the second quarter, adjusted for seasonality and inflation, the Commerce Department said Wednesday. The agency had earlier estimated second-quarter growth at a 4.1% annual rate. Economists surveyed by The Wall Street Journal expected an unchanged reading of 4.1% on Wednesday.

U.S. Corporate Profits Soared in Second Quarter, Boosted by Tax Cuts and Economic Growth

Bank of Mexico Cuts Economic Growth Outlook for 2018, 2019

The Bank of Mexicolowered its expectations for the country's economic growth this year and next, citing a recent contraction in the domestic economy and risks that global trade tensions pose for economic growth. In its quarterly inflation report Wednesday, the central bank said it expects gross domestic product will expand between 2% and 2.6% this year, and between 1.8% and 2.8% in 2019. Previously the bank had forecast 2% to 3% growth this year and 2.2% to 3.2% growth in 2019. While this week's announcement of an accord with the U.S. to redraw the North American Free Trade Agreement could help reactivate investment, an escalation of protectionist measures could have an adverse effect on global growth and trade, the bank said in weighing risks for its forecast.

Nigerian Central Bank Demands $2.6 Billion Refund from Standard Bank

Standard Bank Group Ltd. said Thursday that the central bank of Nigeria has issued it a fine and demanded a refund of $2.63 billion over foreign-exchange transactions. The central bank has advised Standard Bank's Nigerian subsidiary, Stanbic IBTC Bank, that it requires a refund of funds repatriated on clients' behalf, due to certain "irregular" certificates of capital importation issued to telecoms company MTN Group Ltd. Earlier Thursday, MTN said the central bank of Nigeria said it needs to refund dividends worth $8.1 billion relating to the conversion of shareholder loans to preference shares. --Dow Jones Newswires

FINANCIAL REGULATION ROUNDUP

NFL Linebacker, Ex-Goldman Analyst Charged in $1.2 Million Insider Trading Case

Cleveland Browns linebacker Mychal Kendricks and former Goldman Sachs Group Inc. banking analyst Damilare Sonoiki were charged Wednesday with insider trading in an alleged scheme that prosecutors say yielded about $1.2 million in profits for Mr. Kendricks. The two men, both 27 years old, were charged with one count of securities fraud and one count of conspiracy to commit securities fraud. Their attorneys said both men are expected to plead guilty. Prosecutors said each defendant, if convicted, could face a maximum prison sentence of

25 years and large fines. They may also be ordered to forfeit all proceeds from the alleged crimes. The Securities and Exchange Commission on Wednesday sued them both for securities fraud.

BNP Paribas to Pay $90 Million Fine for Dollar Benchmark Manipulation

BNP Paribas SA agreed to pay a $90 million fine to settle charges that its traders tried to manipulate a global interest-rate benchmark, making it the seventh bank punished by regulators for the financial crisis-era scheme. The Commodity Futures Trading Commission said that between May 2007 and August 2012, multiple traders and supervisors of the bank's securities unit attempted to manipulate the U.S. Dollar International Swaps and Derivatives Association Fix, a benchmark referenced in a range of interest-rate products. It did so, the CFTC said, to benefit the bank's derivatives positions in instruments such as cash-settled options on interest-rate swaps and certain exotic structured products.

Senate Confirms CFTC Nominees, Filling All Agency Seats

The Senate on Tuesday confirmed two nominees to join the Commodity Futures Trading Commission, bringing the main U.S. derivatives regulator to full strength for the first time since 2014. The Senate voted to add Dawn Stump as a Republican member and Dan M. Berkovitz to take a Democratic seat on the commission. Ms. Stump is a former Senate aide who has recently worked as a lobbyist for the Futures Industry Association. Mr. Berkovitz, a partner at law firm Wilmer Cutler Pickering Hale and Dorr LLP, was the CFTC's general counsel during the Obama administration.

Thursday

8:30 a.m. EDT

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

Friday

Time N/A

Bank of Korea releases policy statement

10 a.m. EDT

University of Michigan releases final August U.S. consumer sentiment

Seasonal and Business Cycles of U.S. Employment

The extent of seasonal variations in employment in the U.S. declined between the 1960s and the mid-'80s and has been relatively stable since, according to an Economic Perspectives article from the Federal Reserve Bank of Chicago. Authors Menelik Geremew and François Gourio study the weather and institutional factors that drive the seasonal cycle, and find that being more seasonal typically doesn't make a state or industry more sensitive to the business cycle.

Antidollar Awakening Could Be Ruder and Sooner Than Most Economists Predict

"The United States is currently waging economic warfare against one tenth of the world's countries with cumulative population of nearly 2 billion people and combined gross domestic product" of more than $15 trillion, Gal Luft writes for CNBC. "From a U.S. perspective, each one of the economic entities is targeted for a good reason be it human rights violations, terrorism, crime, nuclear trade, corruption or in the case of China, unfair trade practices and intellectual property theft. But in recent months it seems that America's unwavering commitment to fight all of the world's scourges has brought all those governments and the wealthy individuals who support them to a critical mass, joining forces to create a parallel financial system which would be out of reach of America's long arm. Should they succeed, the impact on America's global posture would be transformational…It is worth remembering that one of every four people on the planet lives today in a country whose government is committed to end the dollar hegemony. Thwarting their effort should be Washington's top national priority."

The number of homes across the U.S. that went under contract fell in July and has now declined on an annual basis for seven consecutive months, adding to the evidence that the housing market is cooling.

Indian Prime Minister Narendra Modi, with little more than six months left in his first term, is in danger of losing bragging rights that the nation's economy has performed better under his administration than under the previous government led by its main political rival Congress party.

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

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

Follow us on Twitter:

@WSJCentralBanks, @NHendersonWSJ, @PaulHannon29, @michaelsderby, @wsj_douglasj, @HarrietTorry, @KateDavidson, @d_harrison, @kimmackrael, @TomFairless, @mikemaloneyny

Document RSTPROCB20180830ee8u00001

THE WALL STREET JOURNAL.
U.S. EDITION

Heard on the Street
Reassuring Signal From Germany

By Richard Barley
271 words
15 August 2018
The Wall Street Journal
J
B14
English

[Financial Analysis and Commentary]

Last year's optimism about synchronized global growth has been replaced by trade fears and emerging-market troubles. But the reassuring message from Germany is that growth is still solid.

Germany on Tuesday reported second-quarter growth of 0.5% from a quarter earlier, or 1.8% annualized. The reading was better than forecast, and first-quarter growth was revised up, too. The European Union's statistics agency, Eurostat, also revised up its estimate of second-quarter growth.

The eurozone reading isn't as heady as last year, when growth was running well above potential, but it is far from worrying. Particularly good news is that Germany's domestic economy is humming. Amid 2018's troubling headlines about trade disputes, tighter financial conditions and Turkey's economic trials, the bigger picture hasn't changed drastically, at least not for Germany.

The problem for Europe is that it isn't just about Germany. The gaping disconnect between German nominal growth of 4.2% year-over-year and the country's 10-year **bond yield** of 0.33% shows that. The risks to the eurozone remain uncomfortably high, for instance from an escalation of trade disputes, or from a clash with Italy's new government over tax and spending.

For now, though, these are risks, not reality. That may be cold comfort to investors facing markets that are struggling. But as long as eurozone growth keeps chugging along, anchored by Germany's strength, the picture might not be as dark as feared.

page,5043

Document J000000020180815ee8f0001d

THE WALL STREET JOURNAL.
U.S. EDITION

The Stealth Pension Mortgage on Your House

By Rob Arnott and Lisa Meulbroek
620 words
6 August 2018
The Wall Street Journal
J
A17
English

Most cities, counties and states have committed taxpayers to significant future unfunded spending. This mostly takes the form of pension and postretirement health-care obligations for public employees, a burden that averages $75,000 per household but exceeds $100,000 per household in some states. Many states protect public pensions in their constitutions, meaning they cannot be renegotiated. Future pension obligations simply must be paid, either through higher taxes or cuts to public services.

Is there a way out for taxpayers in states that are deep in the red? Milton Friedman famously observed that the only thing more mobile than the wealthy is their capital. Some residents may hope that they can avoid the pension crash by decamping to a more fiscally sound state.

But this escape may be illusory. State taxes are collected on four economic activities: consumption (sales tax), labor and investment (income tax) and real-estate ownership (property tax). The affluent can escape sales and income taxes by moving to a new state -- but real estate stays behind. Property values must ultimately support the obligations that politicians have promised, even if those obligations aren't properly funded, because real estate is the only source of state and local revenue that can't pick up and move elsewhere. Whether or not unfunded obligations are paid with property taxes, it's the property that backs the obligations in the end.

When property owners choose to sell and become tax refugees, they pass along the burden to the next owner. And buyers of properties in troubled states will demand lower prices if they expect property taxes to increase.

It doesn't matter if we own or rent; landlords pass higher taxes on to tenants. Nor does it matter if properties are mortgaged to the hilt or owned outright. In time, unfunded pension obligations will be reflected in real-estate prices, if they aren't already. A state's unfunded liabilities are effectively a stealth mortgage on private property. Think you can pass your property on to your heirs? Only net of the unfunded pension obligations.

We calculated the ratio of unfunded pension obligations relative to property values in each state. We used 3% bond-market yields as our discount rate to measure unfunded obligations, because while other assets ostensibly earn a risk premium above the **bond yield**, these assets can also underperform.

Unfunded pension obligations range from a low of $30,000 per household of four in Tennessee to a high of $180,000 per household in Alaska. They amount to less than 11% of the average home values in Florida, Tennessee and Utah and more than 50% in Alaska, Mississippi and Ohio.

There are a few surprises. California, Hawaii and New York have large unfunded obligations, but because property in these states is so expensive, the average household burden is less than 15% of the average home price. Meanwhile, West Virginia and Iowa have relatively low pension debts -- but the average household obligation is more than 30% of the average home price because property is far less expensive in these states.

On average nationwide, unfunded state and local pension burdens represent 20% of real-estate values. This ratio can rival or exceed an owner's home equity, depending on the size of his mortgage. If real-estate prices adjust to reflect unfunded pension obligations, many homeowners' equity could be at risk. As we've seen in Detroit, the public pension stealth mortgage can ultimately devastate the housing market.

Mr. Arnott is founding chairman of Research Affiliates LLC. Ms. Meulbroek is a professor of finance at Claremont McKenna College.

Document J000000020180806ee860000g

The New York Times

Opinion; Sunday Review

It’s Not Technology That’s Disrupting Our Jobs

By Louis Hyman
1,136 words
18 August 2018
02:30 PM
NYTimes.com Feed
NYTFEED
English

When we learn about the Industrial Revolution in school, we hear a lot about factories, steam engines, maybe the power loom. We are taught that technological innovation drove social change and radically reshaped the world of work.

Likewise, when we talk about today’s economy, we focus on smartphones, artificial intelligence, apps. Here, too, the inexorable march of technology is thought to be responsible for disrupting traditional work, phasing out the employee with a regular wage or salary and phasing in independent contractors, consultants, temps and freelancers — the so-called gig economy.

But this narrative is wrong. The history of labor shows that technology does not usually drive social change. On the contrary, social change is typically driven by decisions we make about how to organize our world. Only later does technology swoop in, accelerating and consolidating those changes.

This insight is crucial for anyone concerned about the insecurity and other shortcomings of the gig economy. For it reminds us that far from being an unavoidable consequence of technological progress, the nature of work always remains a matter of social choice. It is not a result of an algorithm; it is a collection of decisions by corporations and policymakers.

Consider the Industrial Revolution. Well before it took place, in the 19th century, another revolution in work occurred in the 18th century, which historians call the “industrious revolution.” Before this revolution, people worked where they lived, perhaps at a farm or a shop. The manufacturing of textiles, for example, relied on networks of independent farmers who spun fibers and wove cloth. They worked on their own; they were not employees.

In the industrious revolution, however, manufacturers gathered workers under one roof, where the labor could be divided and supervised. For the first time on a large scale, home life and work life were separated. People no longer controlled how they worked, and they received a wage instead of sharing directly in the profits of their efforts.

This was a necessary precondition for the Industrial Revolution. While factory technology would consolidate this development, the creation of factory technology was possible only because people’s relationship to work had already changed. A power loom would have served no purpose for networks of farmers making cloth at home.

The same goes for today’s digital revolution. While often described as a second machine age, our current historical moment is better understood as a second industrious revolution. It has been underway for at least 40 years, encompassing the collapse, since the 1970s, of the relatively secure wage-work economy of the postwar era — and the rise of post-industrialism and the service economy.

Over these four decades we have seen an increase in the use of day laborers, office temps, management consultants, contract assemblers, adjunct professors, Blackwater mercenaries and every other kind of worker filing an I.R.S. form 1099. These jobs span the income ranks, but they share what all work seems to have in common in the post-1970s economy: They are temporary and insecure.

In the last 10 years, 94 percent of net new jobs have appeared outside of traditional employment. Already approximately one-third of workers, and half of young workers, participate in this alternative world of work, either as a primary or a supplementary source of income.

Internet technologies have certainly intensified this development (even though most freelancers remain offline). But services like Uber and online freelance markets like TaskRabbit were created to take advantage of an already independent work force; they are not creating it. Their technology is solving the business and consumer problems of an already insecure work world. Uber is a symptom, not a cause.

It's worth stressing that the "technology" of temp work — and the possibility of replacing entire work forces with it — existed for years before corporations made the decision to start adopting it. Today's smartphone app is an easy way to hire a temp, but is it really that much easier than picking up a phone was in 1950?

Indeed, shortly after World War II, a Milwaukee man named Elmer Winter founded Manpower, the first major temp agency, to supply emergency secretaries. But by the end of the '50s, Winter had concluded that the future growth of Manpower was in replacing entire work forces. He was uniquely positioned to teach corporate America how to reduce its work forces, since nearly all of the Fortune 500 companies used his services, and he tried to do so.

But persuading companies to abandon how they operated was easier said than done, even though Winter could readily demonstrate that it would be cheaper. Few companies took him up on his offer. Higher profits were possible, but not as important, in the lingering wake of the Great Depression, as the moral compact between employer and employee.

What changed this? The emergence in the 1970s of a new, strictly financial view of corporations, a philosophy that favored stock and **bond prices** over production, of short-term gains over long-term investment. Theories of "lean" corporate organization became popular, especially those sold by management consultants and business gurus.

Big corporations had always had their critics, but no one before the '70s would have thought that smaller companies would be better run than large ones. Large companies had resources, economies of scale, professional managers, lots of options. Yet terms like "small" and "efficient" and "flexible" would come to seem like synonyms. And with the rise of the lean corporation, work forces became expendable and jobs more precarious.

I am neither for nor against temping (or consulting, or freelancing). If this emergent flexible economy were all bad or all good, there would be no need to make a choice about it. For some, the rise of the gig economy represents liberation from the stifled world of corporate America.

But for the vast majority of workers, the "freedom" of the gig economy is just the freedom to be afraid. It is the severing of obligations between businesses and employees. It is the collapse of the protections that the people of the United States, in our laws and our customs, once fought hard to enshrine.

We can't turn back the clock, but neither is job insecurity inevitable. Just as the postwar period managed to make industrialization benefit industrial workers, we need to create new norms, institutions and policies that make digitization benefit today's workers. Pundits have offered many paths forward — "portable" benefits, universal basic income, worker reclassification — but regardless of the option, the important thing to remember is that we do have a choice.

Insecurity is not the inevitable cost of technological progress. Only by understanding that fact can we act to make capitalism work for us, not work us over.

Document NYTFEED020180818ee8i0035x

The New York Times

Climate
How Big a Deal Is Trump's Fuel Economy Rollback? For the Climate, Maybe the Biggest Yet

By Brad Plumer
1,212 words
3 August 2018
05:14 PM
NYTimes.com Feed
NYTFEED
English

WASHINGTON — President Trump's proposal this week to weaken fuel-efficiency standards for cars and light trucks could be his most consequential climate-policy rollback yet, increasing greenhouse gas emissions in the United States by an amount greater than many midsize countries put out in a year.

Assuming the plan is finalized and survives legal challenges, America's cars and trucks would emit an extra 321 million to 931 million metric tons of carbon dioxide into the atmosphere between now and 2035 as a result of the weaker rules, according to an analysis by the research firm Rhodium Group. A separate estimate by the think tank Energy Innovation pegged the number even higher, at 1.25 billion metric tons.

To put that in context, the extra pollution in 2035 alone would be more than the current annual emissions from countries like Austria, Bangladesh or Greece, the Rhodium Group analysis found.

How big a deal is that for global warming? The Trump administration claims it is negligible. By 2100, officials argued in their proposal, concentrations of carbon dioxide in the atmosphere would only be 0.65 parts per million higher under the rollback than they would be if the stricter Obama-era rules had stayed in place. (Current levels in the atmosphere are around 410 parts per million.)

But that's the wrong way to look at it, according to Trevor Houser, lead author of the Rhodium Group report. Any single climate policy from a single country will look relatively modest in isolation. Stopping global warming will require a wide variety of efforts to cut emissions from every sector of nearly every country. "In that context, this single policy really does have a big impact," he said.

His analysis estimated that the fuel-economy rollback could have a bigger effect on emissions than either Mr. Trump's attempts to repeal the Clean Power Plan — a federal rule to curb pollution from coal-fired power plants — or his efforts to scale back regulations on oil and gas operations that release methane, a potent greenhouse gas, into the atmosphere.

There's a simple reason for that. Many states have already been making impressive headway on cleaning up their power plants, thanks to a glut of cheap natural gas (which is pushing coal plants into retirement) and the falling cost of wind and solar power. Carbon dioxide emissions from the United States electricity sector are now on pace to fall below the targets envisioned in the original Clean Power Plan.

But pollution from cars and trucks has proved much trickier for states to take on. Transportation now accounts for one-third of America's carbon-dioxide emissions, surpassing power plants as the largest source, and vehicle emissions have been steadily rising over the past few years. Federal fuel-economy standards were widely seen as a vital tool for curbing gasoline use.

"We've seen nowhere near the same progress in transportation as we've seen in electricity," said Jordan Stutt, a policy analyst at the Acadia Center, a group in New England that is pushing for cleaner energy.

The original Obama-era standards would have required automakers to roughly double the fuel economy of their new cars, pickup trucks and S.U.V.s by 2025, putting out vehicles that would average roughly 36 miles per gallon on the road. The Trump proposal would halt the rise of those standards after 2021, when new cars were expected to average around 30 miles per gallon.

The Obama-era rules also granted California permission to set up a separate, more ambitious program to mandate more zero-emission cars on the road. Nine other states in the Northeast have adopted that program, which would require roughly 8 percent of new vehicles sold in-state to be plug-in hybrid, electric or hydrogen fuel cell models.

The Trump proposal plans to challenge California's authority to mandate zero-emissions cars and to halt the clean vehicle program, which could dramatically slow the adoption of electric vehicles around the country in the near term.

"The zero-emissions vehicle waiver has been the biggest catalyst to date in bringing electric vehicles to market," said Don Anair, research and deputy director of the Clean Vehicles Program at the Union of Concerned Scientists.

There are, however, a few important factors that could potentially counteract the climate impact of the Trump administration's rollback, assuming that it survives any court challenge by California and other states and becomes final.

First, fuel prices will matter enormously. If **oil prices** increase significantly over the next decade, then many drivers might opt to buy more efficient vehicles regardless of what federal standards require. (The lower emissions numbers in the Rhodium Group analysis are based on a scenario where **oil prices** are high.)

But if gasoline prices stay at current levels — around $2.80 per gallon — or drop further, then Americans are expected to continue to buy S.U.V.s and other gas guzzlers, as they have been doing in increasing numbers the past few years.

Second, states could try to enact other fresh policies to try to cut emissions from the transportation sector and blunt the impact from Trump's rollback. California and New York, for instance, have been offering tax breaks for people to buy electric vehicles, and they have been investing hundreds of millions of dollars in new charging infrastructure.

Other Northeastern states have been participating in discussions on how to reduce vehicle emissions, through steps like expanding mass transit, buying electric buses or reconfiguring cities to make them denser and more walkable.

But some of these state policies can be politically difficult and take time to enact. In the absence of stricter federal fuel economy standards, states like Connecticut and Maryland that have set legislative targets for reducing economywide emissions might struggle to meet their goals.

"Transportation is extremely complicated and it really takes all levels of government working together," said Vicki Arroyo, the executive director of the Georgetown Climate Center, who has been working with states on plans to cut emissions from transportation. If the federal government pulls back, she said, "it's a tremendous setback."

The automakers themselves are another wild card. While many manufacturers have been developing new electric car models in response to the ever-rising fuel economy standards, it's not clear how many would completely pull back if the standards were frozen. China and Europe are continuing to push hard on fuel efficiency and battery-powered vehicles, and automakers have those international markets to consider.

And the biggest wild card of all? What the next president might do. "If a new administration came in, they'd have a blank slate for rethinking the standards entirely, and there are a lot of ideas out there for standards that would be even more effective" than the Obama-era rules, said Mr. Houser.

If a future president ultimately managed to put even stricter vehicle rules in place, he said, "that would certainly reduce the magnitude of the emissions impact that we're projecting."

Trucks headed for delivery in California. Americans have favored larger vehicles for years now. | Mike Blake/Reuters

Document NYTFEED020180803ee83008et

THE WALL STREET JOURNAL.

Markets

Winklevoss Effort to Self-Regulate Cryptocurrency Gets Members; Exchanges will use new association to push for standards, transparency

By Paul Vigna
550 words
20 August 2018
06:31 PM
The Wall Street Journal Online
WSJO
English

Several cryptocurrency exchanges have signed on to what appears to be the industry's first self-regulatory organization, a step toward transparency in the notoriously opaque and **volatile** market.

The Virtual Commodity Association, a group founded by Cameron and Tyler Winklevoss of Gemini Trust Co., announced its first members Monday: Bittrex Inc.; bitFlyer USA, Inc., a unit of Japan's bitFlyer Inc.; Bitstamp, Inc. and Gemini. Representatives from the firms will meet in September to begin setting goals for the association, including rules for the marketplaces and guidelines for members, the association said.

Bitcoin's viral growth has fueled a $200 billion industry that now counts more than a thousand digital currencies, and a nascent infrastructure has emerged for trading those assets. While firms and traders are ostensibly subject to the laws of their home countries, regulators have yet to comprehensively regulate them. As a result, the market is subject to a steady stream of hacks, cons and market manipulations.

While regulators have been playing catch-up in a market that trades across borders, the exchanges themselves have an ability to monitor and curb fraud on their own sites. Through the Virtual Commodity Association, known as VCA, members can share practices and methods with an eye toward cleaning up the industry and protecting customers.

The Winklevosses staked their bitcoin fortune with proceeds from a legal settlement with Facebook Inc. over who came up with the idea for the social network. The brothers launched VCA earlier this year as part of a broader effort to make cryptocurrencies attractive to institutional investors.

There are myriad ways for investors to lose their money in the market. Malicious traders band together to push up the price of assets in order to profit off naive investors. Other actors create fraudulent bitcoin-like tokens and sell them in the fevered market for so-called initial coin offerings. Exchanges can disappear overnight, along with customers' funds, after hacks.

Some exchanges, including the ones in VCA, operate voluntarily under regulatory frameworks, but many others operate without any oversight whatsoever. That lack of transparency has been a main reason the Securities and Exchange Commission has several times rejected applications for a bitcoin-based exchange-traded fund.

"I am pleased that progress has been made on such a concept," Brian Quintenz, a commissioner at the Commodity Futures Trading Commission, said in a statement following the announcement. It should "have a meaningful impact on the integrity and credibility of this young marketplace."

"…[A]ny measure of self-regulation at this stage…is a potentially stabilizing measure in an otherwise **volatile** market," Ryan Clements, a lawyer and incoming doctoral student at Duke University, wrote in a June blog post.

But to be effective, Mr. Clements added, it would need to have very clear incentives for members and penalties for breaking the rules. Another problem is that "bad actors" may simply choose not to join and remain outside the regulatory shell.

Write to Paul Vigna at paul.vigna@wsj.com

Related

* New York Stock Exchange Executive to Join Winklevoss Bitcoin Firm (July 6)

* Winklevoss Twins Among Largest Cuomo Campaign Donors (July 17)

* SEC Rejects Winklevoss Bitcoin ETF Proposal (July 26)

Document WSJO000020180820ee8k005xx

THE WALL STREET JOURNAL.
U.S. EDITION

U.S. News --- CAPITAL JOURNAL: The President Steps on His Own Good News

By Gerald F. Seib
807 words
21 August 2018
The Wall Street Journal
J
A4
English

Let's imagine for a moment a parallel universe in which President Trump last week didn't call a onetime top female aide a "dog," revoke the security clearance of a former director of the Central Intelligence Agency, author 10 tweets attacking Federal Bureau of Investigation officials, or unleash 11 others criticizing aspects of the investigation of special counsel Robert Mueller.

In that parallel universe, which of these other stories might have gotten more attention?

-- A Commerce Department report on booming sales in grocery stores, restaurants and department stores.

-- The largest one-day rise in the **stock market** in four months.

-- The approval by Mr. Trump's own Food and Drug Administration of a lifesaving generic version of the EpiPen injector device for allergic reactions.

-- The resumption of trade talks with Chinese officials who increasingly appear shaken by the Trump administration's tough actions.

Probably, all of them would have gotten more attention. Which simply points to one of the most baffling aspects of the Trump presidency: the way the president's addiction to controversy and his attraction to fights get in the way of his own best interests.

In a conventional presidency, the president would be far more inclined to ignore critics and stay away from feuds, particularly when there are good things to talk about instead. The White House is the ultimate bully pulpit, after all, with the ability to help set the national conversation.

And there actually are good things to talk about in Trump world. The economic picture is one any president would envy. Economic growth is steady, employment is growing, retail sales are soaring and the **stock market** is way up. A new report last week found that worker productivity, oddly stagnant in recent years, is rising, another development that got virtually no attention.

Of course, this economic surge may be a temporary sugar high, driven by a tax cut that is driving up the deficit -- and by extension interest rates -- to unsustainable levels. What now appear to be Chinese efforts to calm fears of a crippling trade war could turn around any day.

For now, though, that's not the picture. And the point is that the president often deflects attention to the negative. He seems incapable of moving away from his longstanding practice in the private sector of punching back at all who challenge him.

That may make sense in a real-estate battle, but in a presidency the practice of constantly counterpunching actually turns the initiative over to the punchers. One of the powers a president has is to ignore critics and deprive them of oxygen.

When Presidents Reagan and Clinton faced their own independent counsel investigations, they set up systems to keep the investigations, and the stories about them, out of the Oval Office. Mr. Reagan, in particular, agreed under urging by aides to refuse to even answer questions about the Iran-Contra inquiry until it was completed. Mr. Trump, by contrast, brings the Mueller investigation into the White House on an almost daily basis.

The president and his aides doubtless blame the media -- otherwise known as the fake-news, enemy-of-the-people media -- for focusing only on the bad and controversial. That would make Mr. Trump the 45th president (out of 45) who has made that complaint. It goes with the territory.

In fact, Mr. Trump almost compels the press to cover stories that infuriate him by refusing to ignore them himself. His almost daily attacks on Mr. Mueller are actually keeping a spotlight on his inquiry. When the president is publicly attacking a special counsel, or FBI agents, or a former CIA chief, by name, that is not a story that can or should be ignored.

A reasonable gauge of this president's public messaging is his Twitter feed, and there the count over the past week is as follows: Tweets on the disputes regarding the Mueller investigation, the security clearance of former CIA head John Brennan and the feud with former aide Omarosa Manigault Newman: 43. Tweets on the economy: seven.

One price of that practice is its distraction from positive developments elsewhere. A prime example lies in the work being done by Dr. Scott Gottlieb, the Trump-appointed commissioner of the FDA. One of his top priorities is to find ways to go beyond talking about lowering drug prices and to actually do it -- in particular, by speeding approvals of generic alternatives to expensive brand-name drugs.

That initiative helped produce last week's EpiPen decision, a move that figures to lower the cost of a lifesaving drug for Americans across the land. For them, that's a lot more important than the president's tweets about Omarosa.

Document J000000020180821ee8l0000r

THE WALL STREET JOURNAL.
U.S. EDITION

Global Auto Sales Slow, Pressuring Profits

By William Boston
870 words
29 August 2018
The Wall Street Journal
J
A1
English

Corrections & Amplifications

Oxford Economics, a global forecasting group, estimates that a "moderate trade war scenario" could result in a decline in global gross domestic product in real terms by about 0.5 percentage point to 2.4% in 2019. A Page One article Wednesday about a global slowdown in auto sales incorrectly said 0.5%.

(WSJ August 31, 2018)

(END)

After nearly a decade of growth, new-vehicle sales in the world's largest auto markets are encountering their first sustained slowdown since the global financial crisis, putting pressure on profits as uncertainty around U.S. trade policies looms.

China's once-booming car market is cooling, in part because of escalating trade tensions with the U.S. American demand for cars and trucks -- long a bright spot for the global auto industry -- has topped out, following a seven-year growth streak that helped lift earnings for many car makers and auto-parts suppliers world-wide.

In Europe, where new-vehicle sales have benefited from the continent's economic recovery, the car market is also softening as demand returns to prerecession levels. That is making profits harder to come by in a region where many car companies have long struggled to make money.

To be sure, global demand remains robust, driven by continued economic strength, but headwinds are gathering.

President Trump's trade policies are undermining consumer confidence in many markets outside the U.S. and are widely seen as the biggest threat to continued economic growth.

An easing of tensions between the U.S. and its major trading partners could prevent the slowdown in auto sales growth from becoming a more rapid decline, analysts say.

Evidence of that came Monday, when an agreement between the U.S. and Mexico to rewrite portions of the North American Free Trade Agreement buoyed investors, lifting U.S. stocks, global currencies and commodities. Shares of General Motors Co. and Ford Motor Co. surged. On Tuesday, German auto makers including Volkswagen AG, BMW AG and Daimler AG -- which have big factories in the U.S. and Mexico -- outperformed the country's broader DAX **stock index**.

But the U.S. is still threatening Europe with new import duties and ratcheting up tariffs on China, the world's biggest auto market by sales, which has responded with a 40% import tax on U.S.-built vehicles. An all-out trade war could push the auto industry off a cliff, analysts say. Oxford Economics, a global forecasting group, estimates that a "moderate trade war scenario" could result in a decline in global gross domestic product in real terms of about 0.5% in 2019, which could sap demand for new vehicles.

This worry has put several car makers, including Ford and Fiat Chrysler Automobiles NV, into caution mode as they temper their financial expectations. Daimler in June issued an unexpected profit warning, saying China's retaliatory import duties on vehicles built in the U.S. would dent sales and profits for the sport-utility vehicles it makes at an Alabama plant.

Last week, Continental AG, the world's second-largest auto-parts supplier, also warned investors its profits could take a hit this year, blaming softer demand for cars in Europe and China.

"The slowdown comes at a very difficult time as [the industry] transitions to more electrification and the robocar arms race sucks up research and development money," said Dave Sullivan, an analyst with consulting firm AutoPacific Inc.

The weakening outlook comes as firms grapple with higher steel and aluminum prices stemming from new tariffs imposed by the Trump administration this year. Stiffening emissions regulations in Europe and China are also forcing auto manufacturers to spend billions of dollars on new technologies to curb tailpipe pollution.

Global auto sales have increased steadily since 2010, rising on average more than 5% annually. This year, sales are on track to hit 97 million vehicles world-wide, but the growth rate is expected to slow to 1.8% from 2017, according to forecasting firm LMC Automotive.

Mr. Trump has threatened to impose additional tariffs on the auto industry and has said he sees such threats as a way to extract concessions from trading partners. In May, the White House asked the Commerce Department to investigate whether it could use a national security law to impose tariffs of up to 25% on cars and auto parts imported into the U.S.

Such actions could further crimp car sales, auto makers and analysts say.

In China, the slowdown in the new-car market comes after years of rapid growth driven in part by the wealth amassed by an expanding middle class.

July sales of new cars in China fell 5.3% from a year earlier to 1.59 million, surprising investors and causing auto makers to rethink forecasts. For the full year, sales are forecast to grow 1.2%, according to LMC Automotive, down from 13% growth in 2016 and 2.1% in 2017.

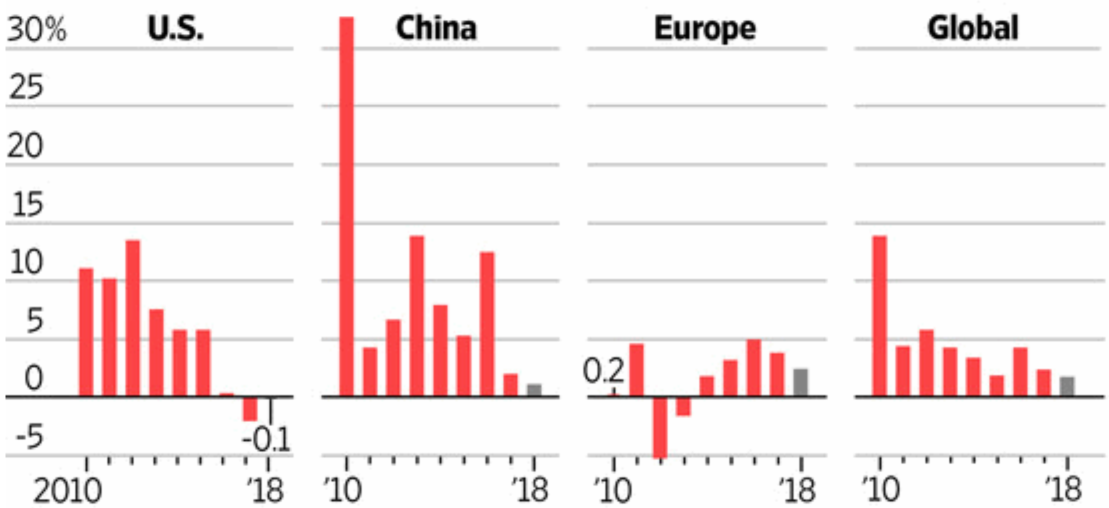
Ford in July cut its full-year profit guidance after reporting weaker-than-expected results in China and Europe, two key markets where it lost money in the second quarter. FCA also has reduced its profit forecast for 2018, blaming poor performance in China.

In Europe, new-car demand has nearly returned to its pre-financial crisis peak. Sales of new cars in the European Union were up 2.9% in the first half, but that is down from the 4.7% growth posted for the first half of 2017.

Downshifting

After a strong run, auto demand is cooling in major markets.

Light-vehicle sales, change from a year earlier



Note: Light-vehicles weigh less than six tons; 2018 figures are estimates
Source: LMC Automotive

THE WALL STREET JOURNAL.

Document J000000020180829ee8t00026

THE WALL STREET JOURNAL.
U.S. EDITION

EXCHANGE --- Heard on the Street: In Australian Drama, China Has Lead Role --- What matters to markets is the stance on Beijing

By Andrew Peaple
363 words
25 August 2018
The Wall Street Journal
J
B12
English

[Financial Analysis and Commentary]

Australia -- land of kangaroos, koalas and curtailed prime ministers. Scott Morrison is the latest to take on one of the most poisoned chalices in global politics. The country's treasurer has replaced Malcolm Turnbull, following a rebellion within the country's right-wing Liberal Party -- the sixth time Australia has changed prime ministers in just over a decade.

Despite the drama, **financial-market** reaction has fallen short of panic. The Australian dollar headed higher against its U.S. counterpart. Stocks in Sydney, which have beaten most other major regional markets this year, were flat Friday.

The calm reaction reflects the fact that Australia's economy has motored on regardless of politics. No Australian aged 30 or under has ever voted for a prime minister who served a full three-year term in office. Nor has anyone there aged under 27 ever lived through a recession.

That record suggests the more significant news from Down Under this past week may prove to be the government's decision to ban Chinese telecom firms Huawei Technologies Co. and ZTE Corp. from involvement in rolling out its next-generation 5G mobile network.

That move has aligned Australia with the U.S. terms of hostility to Chinese tech-related investment, but was arguably more fraught for Canberra than Washington. More than any other Western democracy, Australia is economically beholden to China, the biggest customer for its commodities. Chinese buyers, too, helped fuel a long rise in Australian house prices after the global financial crisis.

The conundrum that has long faced Australian leaders of all stripes -- how open to be to Beijing -- looks set to get even trickier. Australia's long unbroken record of economic growth faces a tough patch as household debt, according to central-bank data, has risen to almost 190% of income.

Cutting off a prime source of foreign investment at such a time looks risky. Mr. Morrison will need some luck running the so-called lucky country.

page,5043
Document J000000020180825ee8p0001d

THE WALL STREET JOURNAL.

Business

Companies Warn Currency Swings Will Weigh on Earnings; Diageo, Unilever say volatile exchange rates have led to poorer financial performance

By Nina Trentmann
848 words
1 August 2018
05:30 AM
The Wall Street Journal Online
WSJO
English

Multinational companies say billions of dollars in revenue and profit are at risk from recent currency fluctuations triggered by escalating tensions between the U.S. and its trading partners.

The Chinese yuan last week touched a new one-year low against the U.S. dollar. The euro gained 0.98% against the dollar over the past six weeks but has retreated 2.50% against the greenback since the start of the year. In the past month, the buck has rallied 1.03% against the yen and lost 0.97% against the Canadian dollar.

These market moves are now playing out in corporate earnings. Facebook Inc., which last week surprised investors with slower-than-expected growth, attributed the miss in part to currency swings and expects exchange rates to act as a headwind in the second half of the year, said Chief Financial Officer Dave Wehner.

British-drinks maker Diageo PLC's sales were £454 million ($590.5 million) lower during the financial year ended June 30 because of currency effects, said CFO Kathryn Mikells.

Consumer-goods maker Unilever PLC has also been hit. "Currency translation decreased turnover by 8.9%," said CFO Graeme Pitkethly, according to an earnings transcript. "This is a result of the euro strengthening against almost all of our major currencies."

Nearly two thirds of the 200 finance chiefs in a July survey said their earnings got hit by unprotected exposure to foreign currencies, according to HSBC Holdings PLC. And, 47% of CFOs at companies with revenue exceeding $5 billion said they want to increase their protection against currency gyrations, while 77% plan to allocate more funds for this, HSBC said.

Finance chiefs at companies including hotel booking site Trivago NV and dairy commodity trader Interfood Holding BV said they plan to expand their currency-risk management despite the added cost. Koninklijke Philips NV, a Dutch technology firm, has turned to trading bots to limit its currency exposure.

The renewed focus on dampening currency risk comes as international trade tensions cloud the outlook for global economic growth and raise concerns about the future of the multinational business paradigm. Decades of globalization and free-trade policies have encouraged scores of companies to source in one country, produce and sell in others, making these companies vulnerable to currency swings. Both sudden and gradual changes to the value of the dollar, euro or yen can hurt earnings at firms already challenged by technological disruption, the threat of tariffs and rising interest rates.

"The perception of risk is higher because of increased political uncertainty and **volatility**," said Holger Zeuner, director of thought leadership in HSBC's corporate treasury solutions unit.

Trivago finance chief Axel Hefer said he would explore launching a currency-hedging program over the course of the next 12 months. The German travel company hasn't hedged its foreign currency exposure yet, and it has plans to expand to countries including India, Turkey and Russia. The U.S. dollar and euro are Trivago's primary vehicles for transactions.

Dutch dairy products trader Interfood includes the cost of hedging in every trade and hedges all business transactions, said Group Treasurer Vincent Almering. What has changed for the company now is it places a hedge the moment a deal has closed. "We are no longer waiting [even] a few hours," Mr. Almering said.

Interfood generates roughly $2 billion in revenue a year, he said. Mr. Almering checks the company's FX exposure daily and introduced secondary checks, resulting in a higher frequency of checks than the bimonthly routine he followed 18 months ago.

"When the currency pairs were more stable, this wasn't as necessary," said Mr. Almering. "Because of **volatility**, we have tighter controls and tighter policies around foreign currencies," he said.

New technologies that allow companies to automate most of the risk management process are making it easier for CFOs to keep a closer eye on exchange rates. Philips has a fleet of software robots to manage its foreign-exchange risks. "With robotics you can now cover all regions in the world, not just the core markets," said CFO Abhijit Bhattacharya.

One reason companies don't hedge currency risks more widely is the cost, which can account for as much as 20% or more of the transaction, according Rudi Alexis, head of foreign exchange distribution at Barclays PLC. "In emerging markets in particular, hedging an asset can be extremely expensive," he said.

But other CFOs say peace of mind, and certainty about profit margins, is worth the investment. Associated British Foods PLC, owner of fashion chain Primark, typically hedges its garment purchase orders and capital purchases six months ahead.

"There is obviously a cost that comes with having a currency hedge," said finance chief John Bason. "That cost is small compared with the removal of that risk on the margin," said Mr. Bason, adding that "currencies can make quite a large move in six months."

Write to Nina Trentmann at Nina.Trentmann@wsj.com

Document WSJO000020180801ee810012y

THE WALL STREET JOURNAL.

Economy

Federal Reserve's Kaplan Still Favors Gradual Path of Rate Increases; In an essay ahead of the Jackson Hole conference, he also warns that the central bank must proceed carefully

By Michael S. Derby
708 words
21 August 2018
12:42 PM
The Wall Street Journal Online
WSJO
English

Federal Reserve Bank of Dallas President Robert Kaplan said in an essay published Tuesday that he would like the central bank to press forward with rate increases amid a very strong job market and inflation hitting desired levels.

But he also warned that the central bank must proceed carefully, with bond market developments suggesting the long-running economic expansion is getting long in the tooth.

The Fed "is meeting its full employment and price stability objectives," Mr. Kaplan wrote. "As such, we should be removing accommodation in a gradual manner in order to get to a neutral policy stance."

Mr. Kaplan said when the Fed reaches what he sees as a neutral level of monetary policy, or a level of short-term rates that neither promotes nor restrains growth, it will be time to take stock of what to do next.

"I would be inclined to step back and assess the outlook for the economy and look at a range of other factors—including the levels and shape of the Treasury yield curve—before deciding what further actions, if any, might be appropriate," he wrote.

In the essay, Mr. Kaplan estimated a neutral level for monetary policy would have short-term rates around 2.50% to 2.75%. That compares with the Fed's current overnight interest rate target of 1.75% to 2%. "It would take approximately three or four more federal-funds rate increases of a quarter of a percent to get into the range of this estimated neutral level," the central banker wrote.

Mr. Kaplan's essay arrives just days before the beginning of the Kansas City Fed's annual research conference in Jackson Hole, Wyo. That event will feature a speech by Chairman Jerome Powell that will be closely looked to for clues as to whether the Fed will press forward with the rate rises most economists now expect to see.

With inflation finally moving toward the central bank's 2% target with expectations that it will go slightly higher, the Fed has a case to boost the cost of borrowing further. However, that path will likely become more controversial. President Donald Trump has already renewed his criticism of Fed rate increases and even lamented his selection of Mr. Powell to the Fed, believing the Fed leader was going to keep short-term rates lower than has proved to be the case.

At the same time, the difference between yields on short- and long-dated bonds has continued to grow smaller. If that normally positive spread turned negative it would become what is called an inversion of the yield curve, which is strongly associated with the onset of economic downturns.

Mr. Kaplan said the bond market is a factor in his thinking.

"The shape of the curve suggests to me we are 'late' in the economic cycle," he wrote, adding, "I do not discount the significance of an inverted yield curve—I believe it is worth paying attention to." Some other Fed officials have said they would favor stopping rate rises if that is what it took to avoid an inversion.

Mr. Kaplan's view of the economy was upbeat in the essay. He wrote that the Dallas Fed believes the current 3.9% jobless rate will fall to 3.7% by the end of this year and hit 3.5% by the second quarter of next year.

The Dallas Fed believes "we are in a tight labor market and are already past the level of full employment in the U.S.," he wrote.

Mr. Kaplan said inflation should stay around the Fed's 2% target through the end of the year. He said "cyclical forces are creating upward pressure on inflation," while structural forces like globalization and automation are pushing back against those increases.

Mr. Kaplan also said that on the energy front "we believe that we are more likely to move to a global undersupply situation in the years ahead—with **oil-price** risk tilted to the upside."

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

Document WSJO000020180821ee8l0040h

White Collar Watch
Business Day; DealBook
How a Ruling on Insider Trading Could Affect the Chris Collins Case

By Peter J. Henning
1,206 words
28 August 2018
05:45 PM
NYTimes.com Feed
NYTFEED
English

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

Insider trading cases are sometimes as simple as a well-timed phone call warning an investor to bail on a stock ahead of impending bad news.

The indictment this month of Representative Chris Collins, a Republican representing a district near Buffalo, N.Y., his son Cameron Collins, and the father of Cameron Collins's fiancée is a good reminder of that.

Mr. Collins was a director and a large shareholder of Innate Immunotherapeutics Limited, an Australian drug company. He is accused of alerting his son and Stephen Zarsky, the father of Cameron's fiancée, to impending bad news from the company. While Mr. Collins did not sell any shares of Innate Immunotherapeutics after receiving the information, his son and Mr. Zarsky did, avoiding over $700,000 in losses. All three have pleaded not guilty.

An insider trading violation does not require the source of the information to trade on it. The law requires only that the government show the information was given to others with the intention that they trade on it and that the tipper received a benefit, which can be something as simple as cash or a gift to family or friends.

But insider trading law has followed a rather tortuous path over the past few years. Figuring out what was required to prove tipping of inside information was a challenge to prosecutors.

The most recent opinion from the United States Court of Appeals for the Second Circuit in Manhattan, where the Collins case will be heard, made life a bit easier for federal prosecutors and the Securities and Exchange Commission to pursue insider trading charges.

In June, the appeals court issued a revised opinion in United States v. Martoma, a case involving a former investment manager at SAC Capital Advisors, Steven A. Cohen's now-defunct hedge fund group. Mathew Martoma was convicted of using inside information about a failed drug trial to avoid losses and rack up gains of over $250 million.

Mr. Martoma challenged his conviction on the grounds that he did not have a "meaningfully close personal relationship" with the source of the information, a doctor involved in the drug trial. That requirement came from a Second Circuit decision in 2014 that roiled insider trading law and what qualified as a benefit.

In that decision, United States v. Newman, the Second Circuit overturned the convictions of two hedge fund managers who received the information from other investors and never dealt directly with the insiders providing the disclosures. The court held that the benefit to the tipper must involve an exchange of something of pecuniary value — like money or property — and that it was not enough to show just "the mere fact of a friendship, particularly of a casual or social nature."

The personal relationship requirement would have made proving a benefit in insider trading cases more difficult because it required showing more than a casual friendship between the source and the recipient of confidential information.

The Supreme Court declined to review the Newman decision, but in the United States v. Salman, it rejected one aspect of the appeals court's ruling. It stated the benefit need not involve something of pecuniary value. The Supreme Court, however, did not address the "meaningfully close personal relationship" requirement outlined by the Second Circuit. That left its status as an element to prove insider trading unclear and complicated figuring out what was left of the Newman decision.

The first time the Second Circuit reviewed Mr. Martoma's case in August 2017, two appeals court judges ruled that the Supreme Court had effectively overturned the entirety of the Newman opinion, so the "meaningfully close personal relationship" requirement was gone. A vigorous dissent from the third judge in the case pointed out that the Salman decision never mentioned this requirement and argued that the majority had overreached in their decision.

Two months ago, the appeals court judges revised that opinion. They pulled back from claiming the Supreme Court had scuttled the Newman ruling in its entirety and held that the "meaningfully close personal relationship" requirement was merely one way of proving the benefit to a tipper. An intent to benefit the recipient of the information, known as the "tippee," was enough to prove insider trading. The appeals court went so far as to say that giving information to a "perfect stranger" by saying "you can make a lot of money trading on this" would be enough to hold the tipper liable. That's a far cry from any meaningful personal relationship.

The revised Martoma decision means the government needs to prove only that Mr. Collins intended to benefit his son, who in turn sought to help Mr. Zarsky, the fiancée's father, by passing on the information.

The Collins indictment indicates that the case will be circumstantial, built around the timing of a series of telephone calls the congressman made to his son while he was attending a picnic at the White House.

According to the indictment, Innate's chief executive emailed Mr. Collins and other directors to inform them that a trial for the company's only drug had failed, which was sure to drive the **stock price** down. Within a few minutes, Mr. Collins called his son. Cameron Collins then quickly visited Mr. Zarsky, and they put in orders to sell their shares the next morning. That kind of timely trading — they avoided losing hundreds of thousands of dollars after shares tumbled more than 90 percent — can be powerful evidence of insider trading.

To strengthen the case, prosecutors included false-statement charges against the three defendants, accusing them of lying to Federal Bureau of Investigation agents who interviewed them about the trading. That charge is designed to discourage the defendants from taking the witness stand because it would require them to explain statements that likely were at least misleading, and perhaps total falsehoods, which could effectively destroy their credibility as witnesses.

The Martoma decision makes proving an intent to benefit the linchpin of the government's case. A father helping his son avoid losing hundreds of thousands of dollars is a powerful motive to disclose confidential corporate information. That may be enough for a jury to infer that the telephone call from Mr. Collins is sufficient to show he passed along confidential information, even though there is no evidence of what the two men actually said to each other.

These charges are typical of an ordinary insider trading case involving tipping, with the added advantage for prosecutors that there are close relations among the defendants, which makes proving the benefit element fairly easy.

Mr. Collins has dropped his re-election campaign, although in a statement he said he would "continue to fight the meritless charges brought against me and I look toward to having my good name cleared of any wrongdoing."

After the Martoma decision, that will be no easy task.

Representative Chris Collins outside federal court in Manhattan earlier this month after he pleaded not guilty to insider trading charges. | Spencer Platt/Getty Images

Document NYTFEED020180828ee8s007y5

THE WALL STREET JOURNAL.

US
Musk's Tweets on Tesla Buyout Face Scrutiny After Saudi Disclosure; CEO's statement describes funding that looks less certain than first described

By Dave Michaels and Michael Rapoport
1,040 words
14 August 2018
07:00 AM
The Wall Street Journal Online
WSJO
English

Tesla Inc. Chief Executive Elon Musk's revelations that he has talked to Saudi Arabia's sovereign-wealth fund to provide the cash to take the company private gives regulators more ammunition to fault how he first disclosed it, securities law experts said.

The Securities and Exchange Commissionhas inquired about Mr. Musk's basis for writing on Twitter last week that he had "funding secured" for the deal. Mr. Musk's Monday statement acknowledged that Saudi Arabia's participation hinges on "financial and other due diligence and their internal review process."

The commission's inquiries, made last week, are preliminary, according to people familiar with the matter. It could become a formal investigation if officials believe a violation of law occurred and that Mr. Musk's conduct caused investor losses. An SEC spokesman declined to comment.

Securities lawyers and former SEC officials said Mr. Musk's blog post Monday looks like he is trying to show that he had a factual basis for making the announcement on Twitter that he could take the firm private and had the financing to do so.

"The release issued earlier Monday clearly raised at least as many questions as it hopes to answer. The probability that there will be an SEC enforcement action is, I think, quite high," said Joseph Grundfest, a law professor at Stanford University and a former SEC commissioner.

Other experts agreed. John Coffee, a securities and corporate law professor at Columbia University, said the SEC can credibly argue that Mr. Musk's tweet last week, which caused Tesla's **stock price** to jump 11% the day he posted it, didn't give shareholders the full picture they needed.

"This is a clear statement that he has nothing more than an expression of interest as opposed to a binding commitment," Mr. Coffee said. "It will tell the SEC that they have a virtually open-and-shut case if they wish to sue."

A Tesla spokesman declined to comment. The company on Tuesday said it hasn't received a formal proposal to take the company private and that it had formed a special committee to review Mr. Musk's suggestion.

U.S. law forbids companies and corporate officers from providing misleading information about meaningful company events. The SEC's main enforcement tools in any case against Tesla include seeking civil penalties and other types of fines.

Monday's statement "adds to his problems," said James D. Cox, a corporate and securities law professor at Duke University. He noted that Mr. Musk's tweet temporarily pushed Tesla's shares above the trigger price for soon-to-mature Tesla convertible bonds—something that would benefit the company by enabling it to hang onto much-needed cash if the price stays high. The stock has since sunk back below the trigger price.

At least two traders sued Tesla and Mr. Musk in federal court last week, alleging his tweets amounted to fraud. The lawsuits claim that Mr. Musk's remarks artificially drove up Tesla's price, hurting short sellers who bet the price would fall as well as others who bought stock at inflated prices. The company declined to comment on the lawsuits.

Regulators, for their part, would want to know more about his discussions with the Saudi sovereign wealth fund, how advanced they were, and whether he talked to outside advisers about how the massive deal could be accomplished, according to securities lawyers.

Mr. Musk said in his Monday statement that he, not Tesla, was behind his tweets and latest statement. That means Tesla's board of directors has to independently weigh any offer that is made. Typically, that requires a company to hire its own advisers and hold a shareholder vote—minus the bidder's participation—to confirm the deal is in the company's best interest and fair to investors.

"I think what was going on this morning was to disassociate himself from Tesla, so Tesla would not be liable for his personal statements," said John O'Hare, a law professor at Northwestern University and former partner at Sidley Austin LLP.

Mr. Musk said Monday that a representative of the Saudi fund as recently as July 31 "strongly expressed his support for funding a going private transaction for Tesla at this time." But the company didn't disclose any talks in a quarterly filing issued on Aug. 6.

Buyouts involving company insiders and controlling shareholders create a thicket of legal complications, according to law professors and attorneys who work on such deals. As a result, companies typically carefully plan how to comply with federal rules and state laws aimed at ensuring a deal is fair.

Management-led buyouts like the one Mr. Musk wants have a built-in conflict of interest, because they create a question of where the CEO's loyalties lie. On one hand, the bidding executive wants to pay a lower price. On the other, the person is supposed to get the best possible valuation for shareholders.

Mr. Musk's dual roles as CEO and buyer "poses a governance problem because it's a self-dealing transaction," Mr. Cox said. "The alarm bells go off."

Mr. Musk said Monday that "if and when" a buyout proposal is ready, Tesla's board would appoint the special committee and hire its own advisers.

But it has to be a truly independent committee, with the ability to reject a deal, Mr. Cox said. "This becomes very problematic at Tesla" because many of the board members have longstanding relationships with Mr. Musk, he added.

Write to Dave Michaels at dave.michaels@wsj.com and Michael Rapoport at Michael.Rapoport@wsj.com

More

* Larger Tesla Stake by Saudi Fund Faces Hurdles

* Tesla Special Committee to Evaluate Taking Company Private

* Elon Musk Met With Saudi Fund About Taking Tesla Private

* Tesla's Big Question: Better or Worse Off as Private Company

* Tesla's Board Has Met Several Times to Discuss Going-Private Proposal

* Musk's Tesla Claim Could Land Him in Regulatory Trouble

* Elon Musk Tweets He Is Considering Taking Tesla Private

Document WSJO000020180814ee8e001ur

THE WALL STREET JOURNAL.

Business

Samsung Tries to Navigate Through U.S.-China Trade Crossfire; The two countries together accounted for about 40% of the company's revenue in 2017

By Timothy W. Martin
925 words
5 August 2018
07:00 AM
The Wall Street Journal Online
WSJO
English

SEOUL—The U.S.-China trade fight has put South Korean electronics giant Samsung Electronics Co. in an uncomfortable spot.

The two countries are among Samsung's biggest markets, together accounting for about 40% of its 2017 revenue. Samsung's challenge is to manage its ties to the U.S. and China without getting caught in the trade crossfire, even as American tariffs threaten its sales of home appliances and device components.

Samsung sells TVs, smartphones and appliances to Americans, and its memory chips power millions of Chinese devices. It's also a big foreign investor in both countries. In recent years, the company has pumped $10 billion into the U.S., including investments in factories that make appliances and semiconductors. In February 2017, President Trump tweeted, "We would love to have you!" before the company made an investment in South Carolina. In China, Samsung has earmarked $7 billion for memory-chip production in Xi'an along the old Silk Road.

But Samsung is being bruised by both sides. Its washing machines sold in the U.S., although a fraction of the firm's overall business, have already been subjected to tariffs of up to 50%. It could also face other levies—or demand declines—for its semiconductors.

At its annual shareholder meeting in March, Samsung Electronics Chairman Kwon Oh-hyun said the company expects "uncertainties such as trade protectionism and geopolitical risks to persist throughout the year."

The overall impact of any new U.S. tariffs on Samsung is hard to gauge because of its global supply chain. Its smartphones are mostly made in Vietnam and India. Its TVs are manufactured all around the world, allowing it to move production to a country not caught in the trade dispute if necessary, analysts say.

The global trade battle could trigger a $4 billion drop in yearly South Korean exports of semiconductors to China, according to Mun Byung-ki of the Korea International Trade Association. Samsung would be among the Korean companies most affected if products made in China for the U.S. market using its chips face tariffs. China accounted for about a sixth of Samsung's annual 2017 revenue of 239.58 trillion South Korean won ($212.7 billion).

Such concerns about a slowdown in the semiconductor industry have clouded Samsung's profit outlook, said HI Investment & Securities, a Seoul-based brokerage, which lowered the company's **stock-price** target last month. The dimmer prospects were "inevitable given the concerns over the recent U.S.-China trade war," HI Investment said.

Samsung's relationship with China too is evolving because Beijing is trying to reduce the country's dependence on foreign chips and promote homegrown alternatives for displays, memory chips and other parts.

The Chinese government has studied Samsung's rise as a global firm. In June, Samsung was one of a handful of South Korean companies and ex-political leaders invited for an informal afternoon chat with Chinese Premier Li Keqiang, according to a person familiar with the exchange. Mr. Li, the person said, shared a Chinese proverb that reminded the South Koreans of the mutual benefits of their ties: "The pavilion closest to the water enjoys moonlight first."

Also in June, Chinese regulators began investigating memory-chip makers including Samsung and visited its China offices.

Some analysts have said regulators could be looking into potential price-gouging involving memory chips. The Chinese government didn't respond to a request for comment.

Although Samsung has remained outwardly neutral, it has been busy lobbying and strategizing in both countries, according to analysts, hoping to protect its turf even as the rising trade tensions and protectionist policies create potential business opportunities.

In the U.S., which accounted for more than a quarter of Samsung's 2017 revenue, the company has stepped up its Washington lobbying efforts. Last year, it spent $3.4 million, more than double its year-earlier splurge, according to a U.S. Senate database. This year, it has already spent $2.2 million in the first six months. Trade has been a prominent lobbying topic for Samsung, according to government filings.

Samsung could also seize an opportunity to build its mobile network-equipment business in the U.S., just as the new fifth-generation cellular technology becomes ready for development. The doors swung open to Samsung and others after American lawmakers raised national security concerns about two Chinese companies, Huawei Technologies Co. and ZTE Corp. Samsung has been aggressively adding to its networks team in the U.S., hiring engineers, senior project managers and others from rival carriers, according to a person familiar with the matter.

Samsung does have some protection from a trade implosion, industry analysts say, as companies lean heavily on its electronic components and find it difficult to line up backup suppliers. It's the world's No. 1 TV maker, and more than one out of every five smartphones sold globally is a Samsung device.

"The world cannot live without them," said Sanjeev Rana, a Seoul-based senior analyst at brokerage CLSA.

Yun-hwan Chae and Xiao Xiao contributed to this article.

Write to Timothy W. Martin at timothy.martin@wsj.com

Related

* China Threatens to Impose Tariffs on $60 Billion of U.S. Products (Aug. 3)

* Diverging Fortunes: High Prices Propel Apple, Sink Samsung (Aug. 1)

* Samsung Electronics Posts Flat Second-Quarter Net Profit (July 30)

Document WSJO000020180805ee850008d

THE WALL STREET JOURNAL.

Business

Philippines' Duterte Cancels Casino—Just After Its Groundbreaking; The move is the latest in a series of blows to the country's fledging gambling industry

By Jake Maxwell Watts
524 words
7 August 2018
08:10 AM
The Wall Street Journal Online
WSJO
English

Philippines President Rodrigo Duterte canceled a $1.5 billion casino project in Manila minutes after the Hong Kong company funding it marked the project's ceremonial groundbreaking.

In a cabinet meeting Tuesday, Mr. Duterte called the project's rental terms "unconscionable" and fired the entire board of the government land-management company overseeing the land lease for the casino, his spokesman, Harry Roque, said. "Sorry to burst your bubble, people," said Mr. Roque.

The cancellation is the latest in a series of blows under Mr. Duterte to foreign investors pushing into the country's fledgling gambling market, which in recent years has significantly outpaced growth in the major gambling hubs of Las Vegas and Macau.

The Hong Kong company funding the $1.5 billion casino project, Landing International Development Ltd., said Tuesday it would push on with the development, contradicting the president's stated position. "Unless the lease contract is cancelled or nullified on solid legal grounds by the courts, Landing has reason to believe that it is a valid leaseholder and can legally proceed with its project," the company said.

Landing's **stock price** closed up 3.6% Tuesday in Hong Kong, at 6.35 Hong Kong dollars (US$0.81), before traders had a chance to react to Mr. Duterte's comments.

The freshly fired board of Nayong Pilipino Foundation, which oversaw the project's land-leasing agreement, was ushered from the ceremonial groundbreaking in Manila surrounded by security personnel and didn't respond to questions. Nayong's chairwoman, Patricia Ocampo, said in a subsequent statement to local media she regretted the president's decision and denied allegations of corruption.

It is the second time Mr. Duterte has moved to cancel a large foreign-funded casino project. In April, he blocked Macau casino operator Galaxy Entertainment Group Ltd. from building a $500 million resort on the tourist island of Boracay. Another Macau casino magnate, Jack Lam, once operated casinos on the site of the former U.S. Clark Air Base north of Manila. But the Philippines gambling regulator revoked those gambling licenses last year after authorities raided his properties in November 2016 and arrested about 1,300 Chinese nationals who were allegedly running an illegal online gambling operation.

While growth in the country's casino sector is robust, its reputation has been marred in recent years by scandals and allegations of money laundering. Lax security resulted in an armed assailant setting fire to a gambling hall last year, killing 37 people including himself. In 2016, some of the $81 million stolen by suspected North Korean hackers from the accounts of Bangladesh's central bank was laundered through Philippine casinos.

Landing's project, named NayonLanding, won approval from regulators in July. Plans include a development consisting of a casino and other attractions, which was due to open in 2022 in a special casino zone on reclaimed land in the Philippines' capital, Manila.

Write to Jake Maxwell Watts at jake.watts@wsj.com

Document WSJO000020180807ee87001up

THE WALL STREET JOURNAL.
U.S. EDITION

Business News: Samsung in Trade Crosswind

By Timothy W. Martin
564 words
6 August 2018
The Wall Street Journal
J
B3
English

SEOUL -- The U.S.-China trade fight has put Samsung Electronics Co. in an uncomfortable spot.

The two countries are among the South Korean company's biggest markets, together accounting for about 40% of its 2017 revenue. The electronics giant's challenge is to manage its ties to the U.S. and China without getting caught in the trade crossfire, even as U.S. tariffs threaten its sales of home appliances and device components.

Samsung sells televisions, smartphones and appliances to Americans, and its memory chips power millions of Chinese devices. It is also a big foreign investor in both countries. In recent years, the company has pumped $10 billion into the U.S., including investments in factories that make appliances and semiconductors. In February 2017, President Trump tweeted, "We would love to have you!" before the company made an investment in South Carolina. In China, Samsung has earmarked $7 billion for memory-chip production in Xi'an.

But Samsung is being bruised by both sides. Its washing machines sold in the U.S., although a fraction of the company's overall business, have already been subjected to tariffs of as much as 50%. It could also face other levies -- or demand declines -- for its semiconductors.

At its annual shareholder meeting in March, Samsung Electronics Chairman Kwon Oh-hyun said the company expects "uncertainties such as trade protectionism and geopolitical risks to persist throughout the year."

The overall impact of any new U.S. tariffs on Samsung is hard to gauge because of its global supply chain. Its smartphones are mostly made in Vietnam and India. Its TVs are manufactured all around the world, allowing it to move production to a country not caught in the trade dispute if necessary, analysts say.

The global trade battle could trigger a $4 billion drop in yearly South Korean exports of semiconductors to China, according to Mun Byung-ki of the Korea International Trade Association. Samsung would be among the Korean companies most affected if products made in China for the U.S. market using its chips face tariffs. China accounted for about one-sixth of Samsung's annual 2017 revenue of 239.58 trillion won ($213.3 billion).

Such concerns about a slowdown in the semiconductor industry have clouded Samsung's profit outlook, said HI Investment & Securities, a Seoul-based brokerage, which lowered the company's **stock-price** target last month. The dimmer prospects were "inevitable given the concerns over the recent U.S.-China trade war," HI Investment said.

Samsung's relationship with China is evolving because Beijing is trying to reduce the country's dependence on foreign chips and promote homegrown alternatives for displays, memory chips and other parts.

In June, Chinese regulators began investigating memory-chip makers like Samsung.

Some analysts have said regulators could be looking into potential price-gouging involving memory chips. The Chinese government didn't respond to a request for comment.

Although Samsung has remained outwardly neutral, it has been busy lobbying and strategizing in both countries, according to analysts, hoping to protect its turf even as the rising trade tensions and protectionist policies create potential business opportunities.

The U.S. accounted for more than one-quarter of Samsung's 2017 revenue.

Yun-hwan Chae and Xiao Xiao contributed to this article.

Document J000000020180806ee8600015

THE WALL STREET JOURNAL.

Economy

U.S. Consumer Sentiment Soured in August; With prices rising, sentiment slipped to its lowest level in nearly a year

By Harriet Torry
695 words
17 August 2018
04:19 PM
The Wall Street Journal Online
WSJO
English

Concerns about rising prices soured consumers' views about the economy in early August, suggesting inflation is grabbing shoppers' attention after years of weak price pressures.

The University of Michigan said Friday its preliminary index of consumer sentiment was 95.3 early this month, down from July's final reading of 97.9 and the lowest level since last September.

"What consumers are saying is prices used to be attractive and now they're not attractive," Richard Curtin, the survey's chief economist, said in an interview.

While consumer sentiment remains high by historical comparison, households turned more pessimistic about pricing for property, vehicles and other long-lasting goods.

Survey respondents judged that the conditions for buying a home were less favorable in early August than any time over the past decade, and they found home prices to be less favorable than any time since 2006.

Lee Jolliffe, a journalism professor in Des Moines, Iowa, has noticed an increase in food prices since last winter. "Now you've got to be hyper alert when you go into the grocery store, you look at the prices first then plan a meal for your family," she said.

Inflation has been on the rise in recent months amid robust economic growth. The Labor Department's consumer-price index increased 2.9% in the 12 months to July, while the Commerce Department's price index for personal-consumption expenditures, the Federal Reserve's preferred inflation measure, rose 2.2% over the year to June.

This contrasts with much milder inflation for most of the 10 years since the financial crisis, through a deep recession and fitful recovery. Residential real-estate prices slumped after the housing bubble burst and the Federal Reserve held interest rates very low to stimulate economic growth and fan price pressures.

August's deterioration in sentiment "seems to be linked to the price sensitivity of consumers" following years of weak goods inflation, said Barclays economist Blerina Uruçi.

The Fed started lifting rates gradually in late 2015 and has raised its benchmark rate twice this year and officials have penciled in two more increases this year. While rates are still low in historical terms, the moves are lifting consumers' borrowing costs, including for mortgages and car loans, making many big-ticket purchases more expensive. The national average rate on a 30-year fixed-rate mortgage was 4.53% the week ended Thursday, compared with 3.89% a year earlier, according to mortgage-finance company Freddie Mac.

Higher inflation partly reflects the economy's strength. Unemployment was a low 3.9% in July, and wages have been rising at a moderate pace.

Consumers have been spending as a result: retail sales rose strongly in July, the Commerce Department said earlier this week. Meantime retailers like Walmart Inc. and Nordstrom Inc., have been reporting strong quarterly sales.

The University of Michigan survey found consumers continue to view their current circumstances as rosier than the future.

That "is rather normal in the late stages of an expansion, when [consumers] look ahead they're concerned they'll see some declining performance of the economy," Mr. Curtin said.

Separately, the Federal Reserve Bank of New York reported in its latest Survey of Consumer Expectations that households were less optimistic about wage and **stock price** growth in July than in the month before. The report also found more respondents saw their financial situation worsening by July 2019 than those who expected improvement.

Julia Glassman, who holds a Master's in library and information science, recently got a new job as a librarian at a public library, even though it was lower pay than her previous job in academia.

"I'm happy for myself that I've been able to get full-time work," she said. "I personally feel much more stable, at the same time I can see signs of a sagging economy," she said, noting the high level of homelessness in Los Angeles, where the 37-year old lives.

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

Document WSJO000020180817ee8h00439

THE WALL STREET JOURNAL.

US

Transcript: WSJ Interview With Dallas Fed President Robert Kaplan; The central banker discusses trade fights, political pressure and the likelihood of more rate increases this year

By Nick Timiraos
3,766 words
28 August 2018
12:21 PM
The Wall Street Journal Online
WSJO
English

Dallas Fed President Robert Kaplan spoke with Wall Street Journal reporter Nick Timiraos on Thursday, Aug. 23, in Jackson Hole, Wyo. He discussed his outlook on trade disputes, political pressure and the prospect of additional interest-rate increases this year. Here is a partial transcript of the interview, which has been lightly edited for clarity.

WSJ: Will President Trump's preference for low rates have any bearing not only on how you all set policy, but also on how you communicate those decisions?

ROBERT S. KAPLAN: No. No. In my opinion, no. And listen, our mandate and my job and our job at the Fed is to make good monetary-policy decisions without regard to political considerations or political influence, and I'm quite confident that we will hold to that standard. That's the job. And so I guess I'll stop there.

WSJ: I wonder, even if you can tune everything out, if somebody's throwing rocks at the building, does that make it harder to communicate what you're going to do?

MR. KAPLAN: I think you and folks in the public will have to be the judge of that. I've always believed since I joined the Fed, it would be good for the Fed to be more transparent. One of my jobs as a Fed president was to explain to the public, not only in my district but in the country, what we're doing and why we're doing it and what our process is.

I think there's always room for improvement in communicating more clearly what our thought process is and why we do what we do. I also think it's a positive step, secondly, to go to press conferences after every meeting, which we will next year. I think that's positive. I think we can continue to make strides in that. But I think that was a challenge independent of what any particular political figure says.

And you may remember, at least since I've been involved the last three years, there have been a number of issues that various political leaders have raised about the Fed. And so I've felt all along that will always be there. Our job is to make sure we make good decisions, we do good analysis, and we communicate it clearly. And I think that continues to be the case.

WSJ: If the president is unhappy enough to signal some preference when rates are still relatively low—we're getting to the harder part of the cycle, but unemployment's low. What is there not to like about the economy? Does it give you concern that, gee, 2019, if you look at where the [rate projections are as implied by the Summary of Economic Projections] that could get even—

MR. KAPLAN: No.

WSJ: There's a collision there?

MR. KAPLAN: No, I'm not concerned at all. I joined the Fed because I felt that the Fed needed leaders, not only Ph.D. economists but businesspeople like me who have been around for decades and have a lot of experience. And that the job was—and I also felt that as challenging as the Fed's job was in the aftermath of the—during the crisis, I felt that the challenge of trying to, quote/unquote, "normalize" monetary policy was going to be just as hard, if not harder. And I knew that, and I believed that going in, and nothing's happened to change my view about the challenge or what's required of doing this job. And I think that's part of stepping up to be one of the people around the table at the [Federal Open Market Committee]. That's the job.

WSJ: Not to keep picking at sensitive political subjects, but trade—you've spoken and written about the importance of preserving global trading relationships.

MR. KAPLAN: Yes. Yes.

WSJ: We're heading down a path—there is still some uncertainty, but we're further down the path than we were three months ago of less reconciliation.

MR. KAPLAN: Well, we'll see. On trade?

WSJ: On trade.

MR. KAPLAN: Let me tell you what I think is going to—I'm hopeful—well, let's take it in pieces. And the first comment I always make about trade is I think the U.S. would be well-served to segment its trading relationships and the way it thinks about them. And what do I mean? I mean the trading relationship with Mexico and to some great extent Canada, but particularly Mexico, is an intermediate-goods relationship. You know, our research shows 70% of the imports to the United States from Mexico over the last number of years are intermediate goods, goods going back and forth across the border that make us more competitive, help us add U.S. jobs, allow companies to be domiciled here. So I think we ought to take those intermediate-good relationships, and yes they should be modernized, they should be updated, but it should be a high priority to get those done because I believe strongly that these intermediate-good relationships have allowed us to gain market share in North America. And that market share would otherwise be lost, I believe, to other parts of the world, probably Asia. So I think that's the No. 1 priority.

The trading relationship with China, on the other hand, is a final-goods deficit. And in addition, as important as the final-goods deficit—and I lived in Asia for five years running our business there for my firm—is the intellectual-property and technology transfer issues, which I think are just as significant, maybe more significant, than the trade [deficit]. And I think those issues should be addressed. I don't think they're easy to address. I think it could take an extended period of time to address them. You could debate the tactics of what we're doing, but I think that's actually a very appropriate fight. You can debate the tactics, but I think the objective of trying to address not only the deficit, but technology transfer and intellectual-property rights is very critical to U.S. competitiveness and long-term competition globally. And so that one—it doesn't bother me as much if that takes a more extended period of time.

Having said that I think we'd be far better off in fighting that battle—and I've said this publicly—if we were allied with our allies in Europe and we had gotten North America—those relationships with Nafta shored up, which I'm hopeful now we will. And I think then we should be focusing with our allies on addressing that trading relationship with China.

WSJ: But if we were to end up with tariffs on Chinese finished goods, tariffs on autos, how does the Fed then react to that?

MR. KAPLAN: I'm actually—I'll just say it: I'm hopeful that as tough as these tariff talks have been, it may not—I'm hopeful this won't get more widespread. And I will tell you, if it's contained where we are, it's creating dislocations already. I can tell you that right now and I can give you some examples. But I think the overall impact on [gross domestic produce] growth is modest if it gets contained where it is.

The issue is it's affecting already certain industries in the United States. Either it's agricultural or people that are consumers of steel. It's affecting the oil patch, where we have—one of the big issues we have in oil production in Texas is lack of infrastructure. We need pipeline capacity. That takes steel. My contacts and my board members are telling me that the steel tariffs are making it so that they think it will certainly be more expensive to build pipelines, and maybe slower to build pipelines just on how they have to do the sourcing. So that's—there are a bunch of these second-order effects.

So I don't even want to speculate what happens if it widens. I'm actually cautiously optimistic that that won't happen. And the reason I don't think it'll happen, I don't think it's in the interest of the United States for it to widen to autos.

WSJ: So if it's limited to the products that have already gone—steel, aluminum, a few other things, Chinese goods…

MR. KAPLAN: It's raising input costs in the United States. It's affecting certain industries. It's affecting users of steel and aluminum more than it's affecting—obviously, it's helping some producers. It's affecting users, and there's lots of users.

WSJ: Well, so if you're looking for signs that inflation's picking up and then you have some increase in certain price levels…?

MR. KAPLAN: Yeah, exactly.

WSJ:—is that something that you look through as in terms of reading [the] core [personal-consumption expenditures price index]? Is it just not enough of an impact?

MR. KAPLAN: Here's the way I look at it. What's the sustainable power of the U.S. economy to grow? And when I look at inflation, I'm looking at what's more likely to be the inflation rate that sustains in the medium term, understanding that at any one point in time, in any given six-month period, there are going to be short-term factors—tariffs might be one of them—where input costs are higher. Cellphone pricing might be another.

And, yeah, you try to look beyond transitory factors. We don't know yet whether these higher input costs are going to be transitory or not. I'd be hopeful they're going to be transitory. So, yeah, in making policy, you want to consider the possibility that they may turn out to be transitory.

WSJ: On emerging markets, so far any problems seem to have been limited to Turkey and Argentina, but I wonder where is your blood pressure around the potential for contagion from some of the currency moves we've seen in emerging markets?

MR. KAPLAN: So I have sitting on my desk at any one point in time—and I usually get an update every two weeks—a list in descending order of countries who have dollar-denominated debt exposure, in descending order. And not surprisingly countries like Turkey and Argentina are near the top of the list, but I am getting to the point where I kind of know that list now by heart from high to low. And so right now it's not surprising that the countries that are at the high end of that list, every time the dollar strengthens, that puts strain on them, understandably, and it also affects their balance of payments.

At this point my own judgment would be—is that it may well likely be contained to those countries, but I think in my job I've got to be attuned and watchful. There's a history of things that you thought would be contained that turn out to become more widespread. And, yeah, could this spread more broadly to emerging markets? Sure, it could, and I'm watching for that. And why am I watching for it? Because if it—if it goes too far, it could have the potential to ripple back to financial conditions in the United States.

So what's an example? In the first quarter, you remember, of 2016 we faced this. We had a lot of turmoil in China, and ultimately it rippled back here. You had a lot of turmoil in February of this year, and it went on for a while but it ultimately was contained. But I think in my job it's something you're watching all the time, and that's what I'm looking for. I'm looking for evidence that it's spreading.

I don't see it. I'm still hopeful at this point that it won't create contagion, but I still think there are reasons to think—because when you look at that list, one of the changes that has happened in the last 10 years, because I've looked at the trends, is countries have learned—Mexico is a good example. They've learned what the dangers are of having an excessive amount of dollar-denominated debt. And a lot of countries, in their corporate sector and in their government sector, have worked hard to manage that. And so I think that's one reason why you might not see the contagion this time be as likely, because I think countries have learned a lot of lessons over the last number of years and are managing accordingly—companies and countries both.

WSJ: Are you worried about core inflation getting above 2.3%, 2.5%?

MR. KAPLAN: Despite these short-term pressures, in the medium term I don't see inflation running away from us. I think you could see it in the short run get to more elevated levels. But the over—the counterforces, the structural forces, many of them are in fact creating a headwind for inflation. And they're the same ones: aging population, aggressive investment in technology, technology-enabled disruption, massive—you know, a historic amount of computing power in the hands of consumers that's limiting pricing power, and globalization and automation generally are putting downward pressure on inflation.

So in the short run the cyclical forces are bubbling up. In the medium term the only caution I have is I don't want to overreact to those because the forces of automation and globalization are powerful and, if anything, strengthening. And I think those may become more dominant in the medium term. So the trick for us—and this is why I say gradually remove accommodation, gradually raise rates, let's get to neutral and then let's assess where we go, is because I'm conscious of the fact we've got a lot of fiscal stimulus, we got a very strong economy in 2018, but that GDP growth we believe—and I hope I'm wrong on this by the way—is likely to—you know, to wane and trend back down to 2%—around 2% in '20 and '21. And you may see these big structural forces more come to the fore. So I think we're just going to have to be gradual and patient and try to see our way through this. Does that make sense?

WSJ: It does.

MR. KAPLAN: And that's why on this I think it's wise. First step is to get to a neutral policy stance, but I don't want to prejudge what we do when we get there. I want to actively keep assessing what the outlook is, keep revising the outlook. If we get to neutral—and which, in my view, we should get there by next spring or summer…

WSJ: You're at 2.5%-2.75%, roughly?

MR. KAPLAN: Yeah. it could be 3%. It could be 2.5%. It's somewhere in that range. What I said is a broad band around 2.5% to 2.75%. For me, that means three to four [additional quarter-point increases in the federal-funds rate]. Either get to 2.5%-2.75% or 2.75%-3%. I don't know which. But we'll figure it out as we go. But when we get there, I want to—and as we get there, I want to take a hard look. Now what do you think the outlook is for '19 and '20? What do I then think is the status of these structural forces? What is the status of these cyclical forces? I'm going to want to look at the yield curve and look at all these factors on our dashboard. What's the global growth situation? And try to be very sensible about what we do next.

WSJ: So, given all of that, is there any reason, if the economy performs in line with the forecast, is there any reason to pause from raising rates in December of this year?

MR. KAPLAN: For me, no. I had been saying most of the year that three was my base case. I think I'm comfortable at this point—I'm more interested in the destination, which is neutral. And I think I could be comfortable, as long as the economy continues to perform, that we have actually four increases this year, meaning one in September, one in December. I'm a little less concerned with what we do at any individual meeting than I am at where are we heading broadly…I'm open to pacing that would have [the Fed] raise [rates] in September and December. I'm open to that pacing. And then the question would be what we do in March and, then, what we do in June.

WSJ: So what economic data points are you looking at to make that decision? The March or June 2019?

MR. KAPLAN: And luckily we can make those decisions as we go.

But for me, I want to say are we continuing to add jobs at the rate we are? What does the Dallas trimmed mean say on the inflation outlook? What is my outlook for GDP growth? The other thing I'll be looking at closely is obviously the shape of the yield curve. Now, I'm conscious of the fact that the short end of the curve I think is pretty heavily a reflection of what the Fed's saying. The long end of the curve is where I'm very focused. And I think, yes, it probably reflects some amount of excess global liquidity, which is pushing down the 10- and the **30**-**year** [**Treasury** yields].

But I think even if you take that into account, I think the curve is telling me the expectations for future growth are sluggish. And so I want to keep looking at that. If I saw the curve steepen, if I saw—what it does is going to be a critical factor. It may not be determinative, but it's one of several key inputs and one I'm going to watch very closely. I'm not one that discounts. It's one thing to argue that the long end of the curve reflects a lot of global liquidity. Fair enough. It's another thing to say, because of that it's not a good indicator. I'm not sure—I don't think that's true.

WSJ: So one question I have about 2019, then, is if monetary policy operates with a lag, that creates one hurdle. If you also know that you're maybe going to get a fiscal impulse that's not as good as it's been—

MR. KAPLAN: It's going to fade.

WSJ: If it's fading, that gives you a different kind of forward-looking…

MR. KAPLAN: Yeah. And I'll give you a third issue. Our tools are asymmetrical. It's easier to tighten than to ease.

WSJ: OK. So what does that—

MR. KAPLAN: What does it mean?

WSJ: Yes.

MR. KAPLAN: It means I'm very conscious, because I'm driving, if it's easier to slow the car than to—you know, if it's easier to tighten, but if we get into a situation where GDP growth was like this and we're surprised by that, we don't have a lot of tools to ease at this point. So as I'm driving along the road, that is very much in the back of my mind. If we'd have to resort to extraordinary actions if we, in fact, went through a downturn—and you've got to keep in mind, we don't have the capacity for fiscal stimulus in the next downturn because we're so highly leveraged—I think that's a factor that tells me…

WSJ: …go slower than you otherwise would?

MR. KAPLAN: It means, let's be gradual. And keep in mind—I don't think it's a bad thing to keep in mind that your tools are asymmetrical. So, one, I think the fiscal stimulus is going to fade. And we'll see that more clearly in '19 and '20. But we'll have to see if that's true. No. 2, we know that monetary policy acts with a lag, so the tightening we're doing now—just because we don't see any slowing, doesn't mean it's not having an effect or that it won't. And No. 3, we have to keep in mind that into our toolkit, our tools are asymmetrical. Those are three good things to keep in mind.

WSJ: The countercyclical capital buffer: Are you in favor of raising it? I know it's not really your decision, but you have a voice.

MR. KAPLAN: No, I have a voice. Here's my view: I would like to see our macro—I think we've been well-served by very tough macroprudential policy on the big banks. I think we've been wise to have regulatory relief for small and mid-sized banks. For the big banks, though, I feel strongly, tough capital requirements and tough stress testing is very, very important. And the last thing is I'd like to see our macroprudential policies be countercyclical, not procyclical. Meaning, in good times is when you should think about—they won't like it—but you should think about…

WSJ: …but isn't that an argument for raising the buffer?

MR. KAPLAN: It is. It is. So I'm open-minded to it. I don't know. We've come a long way, and we're in much better shape in terms of the big-bank capital requirements and stress testing. And so I could be convinced that maybe it's sufficient without a capital buffer. But I'm open to the discussion. And the reason I'm open to the discussion is I want to be countercyclical, not procyclical. So I'm open to that discussion.

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

Document WSJO000020180828ee8s004ed

THE WALL STREET JOURNAL.
U.S. EDITION

Business News: Newell Brands Trims Its Forecast --- Maker of Elmer's Glue, Yankee Candles posts lower sales and profit; stock price slides 14%

By Sharon Terlep and Allison Prang
683 words
7 August 2018
The Wall Street Journal
J
B6
English

Newell Brands Inc. blamed a chilly spring and the restructuring of big office stores for unexpectedly weak sales in its latest quarter, as the maker of Sharpie markers, Yankee Candles and Elmer's Glue reduced its profit forecast for the fourth time in a year.

Newell, which overhauled its board last year and rolled out a plan to significantly retrench after a fight with activist investors, on Monday reported a decline in second-quarter sales and profit.

The company now expects sales to be between $8.7 billion and $9 billion in 2018, down from its previous guidance of between $14.4 billion and $14.8 billion. The company expects adjusted earnings of between $2.45 and $2.65 a share, down 20 cents from its previous forecasts. Most of that reduction is from the sale of brands and discontinued operations.

Shares in Newell fell 14% to $22.76 on Monday. The stock is off 26% year to date.

Chief Executive Michael Polk said on a call with analysts that Newell faces "an intense period of change" as shoppers move online and major retailers close stores. He added that the overhauled company "will be simpler, faster and stronger."

Mr. Polk said sales in the company's core units are likely to improve toward year-end.

He cited a "huge inventory shift" at office-supply retailers that are trying to remake themselves as everyday shoppers buy fewer office products and move more of their purchases online. Staples Inc. was acquired last year by a private-equity firm, and Office Depot Inc. installed a new CEO last year and is working to reposition itself as a tech-support provider less dependent on sales of pens and paper.

Newell's writing-products business is among its highest-margin units, responsible for close to one-third of the company's pretax profit, Mr. Polk said. The company last year sparred with Office Depot over the retailer's spending to market and showcase Sharpies and other Newell products, costing Newell millions of dollars in lost sales.

Another hit came in the form of an unseasonably cool spring that hurt Newell outdoor brands such as Coleman and Marmot, executives said.

The company said the liquidation of Toys "R" Us stores in the U.S. led to significant declines in its baby division. Newell also said that 2017 divestitures contributed to its difficulties.

Net sales at Newell fell 13% to $2.2 billion in the second quarter, from the comparable quarter a year earlier. Core sales, which account for impacts from things such as divestitures and foreign currency fluctuations, fell 6.2%.

Newell has missed sales goals and lost billions of dollars of market value since it closed a $15 billion deal to buy Jarden Corp. in 2016.

In late June, Newell said it had closed the sales of its Rawlings Sporting Goods Co. and the Waddington Group. Newell had said in early June it was selling Rawlings for $395 million to investment firm Seidler Equity Partners and Major League Baseball.

In early May, Newell said it also would consider brands such as Pure Fishing and its Jostens yearbook business. The company aims to divest itself of other businesses that in total made up about 35% of its net sales. Mr. Polk said Monday that the company remains on track to raise about $10 billion from those sales.

Newell has faced pressure from two activist investors, Starboard Value LP and Carl Icahn. Both activists struck deals with Newell to place directors on its board. Neither Starboard nor Mr. Icahn immediately responded to requests for comment.

Newell reported earnings of $131.7 million, or 27 cents a share, down 41% from $223 million, or 46 cents a share, a year earlier. On an adjusted basis, Newell earned 82 cents a share, off from 87 cents a share a year earlier.

Cara Lombardo contributed to this article.

Document J000000020180807ee870000z

THE WALL STREET JOURNAL.

Heard on the Street
Markets
AXA's Deal Fallout Creates a Buying Opportunity; The insurance giant shocked investors with off-script megadeal for XL Group but sense should start to show soon

By Paul J. Davies
628 words
21 August 2018
12:09 PM
The Wall Street Journal Online
WSJO
English

A huge acquisition out of the blue is a surefire way to leave your shareholders shell-shocked. Insurance giant AXA SA did just this in March with its $15 billion deal to buy XL Group of the U.S. But as investors get over their shock, shares of the French company should rebound.

Thomas Buberl did promise radical change when he became AXA chief executive in 2016, but investors were expecting investment in digital technologies and smaller deals to boost its property, casualty and health businesses. A year later AXA unveiled plans to list its U.S. life arm, AXA Equitable, a capital-hungry business unconnected to the rest of the group. The initial public offering would raise up to $4 billion that investors expected would fund share buybacks and investment in growth.

Then Mr. Buberl dropped his bombshell: Small deals and buybacks were off and instead he had negotiated one of the industry's biggest takeovers in years.

AXA's stock fell 10% that day. After three weeks, its valuation had fallen from 10 times forecast earnings, in line with Italy's Generali and not far behind Allianz of Germany, to just eight times earnings. This discount has remained.

AXA bought XL to fill in one swoop the gaps in the coverage it can offer to large corporations. Along with the sale of its U.S. life business, the move will reshape AXA's earnings. Life and savings in the future will account for 35% of pretax profits, down from 43% today.

One reason investors were unhappy with the deal is that a flood of yield-seeking capital has flowed into alternative forms of reinsurance, putting pressure on pricing throughout the property-insurance industry. To counter this, Mr. Buberl pledged to cut the group's exposure to reinsurance. At the same time, higher interest rates may cause investors to shift money back to more traditional investments.

A bigger share of profits from general insurance than from life should give AXA a higher valuation, argues Mr. Buberl. Simply returning to the same valuation as Generali would lift the **stock price** by about 10% on current prices.

This isn't far-fetched: At Zurich Insurance Group and Allianz, life business accounted for 31% and 37%, respectively, of first-half profits, and investors value Zurich and Allianz more highly than AXA. Similarly in the U.S., Chubb and Travelers trade at a premium over MetLife and Prudential Financial.

The problem for AXA investors isn't so much with Mr. Buberl's strategy; they also worry about the extra debt needed and how that might strain AXA's balance sheet. But AXA is dealing with the debt question. The sale of an old European life book helped AXA improve its debt-reduction target at half-year results this month.

The missing piece is what this all means for capital returns. General insurance produces more cash profits more quickly than long-term life business and that should boost AXA's ability to pay dividends. Mr. Buberl pledged more detail on this at AXA's investor day in November.

Mr. Buberl should be able to show that AXA's radical remaking means more cash before the year is out. His boldness has brought risks, but before long should also bring rewards.

Write to Paul J. Davies at paul.davies@wsj.com

Summer Stock Picking Event

* Abbott Labs Is a Rare Growth Story in Health Care

* The Case for Stock-Picking

* Get a Great Deal on BMW

* Skechers Is So Uncool It's Cool

* AMD Set to Crack Intel's Lock on Data Centers

Document WSJO000020180821ee8l000xh

THE WALL STREET JOURNAL.

Markets

Investor Lessons From Turkey's Crash to Earth; Turkey is the most extreme example of the failure of institutions, but similar forces are at work in other emerging markets

By James Mackintosh
1,051 words
14 August 2018
09:45 AM
The Wall Street Journal Online
WSJO
English

The collapse of Turkey's currency isn't only a local catastrophe created by kooky economic policies and by picking a fight with the U.S. It is also a warning to investors in other emerging markets. The long-running bull case of improving economic governance is less solid than they think.

Turkey's long boom led investors to think there had been permanent institutional change, but as boom turns to bust the old bad politics and policies have resumed in a new guise. True, the army isn't in control this time around, but the increasingly autocratic president has fallen back on the usual strategy of blaming foreign plots for the country's malaise

rather than accept the pain required to tackle deep-rooted financial problems.

The same story can be told of broader emerging markets. After being scarred by the defaults of the late 1990s, emerging-market countries got their act together. During the 2000s, central banks were given independence, democracy took root, trade boomed and foreign-exchange buffers were built up to counter capital-flight risk. Investors bet that institutional strengthening would continue, and emerging markets became "growth markets" in the language of many executives.

The long-run bear case is that this process is going into reverse. Poor macroeconomic management became evident in the 2013 taper tantrum, and leaders who once espoused Western-style democracy are becoming autocrats. Institutions that protected the rule of law, human rights and monetary policy from the whims of politicians have been exposed as too weak to withstand powerful leaders.

Turkey is the most extreme example of the failure of institutions, but similar forces are at work elsewhere. India has a populist leader happy to interfere with the central bank, China has ditched term limits to make its Communist leadership even more dictatorial than usual and the Philippine president revels in rejecting fetters on extrajudicial killing. Leaders in Eastern Europe, led by Poland, have ripped up institutional controls, while Russia has recovered from being an economic basket case to become a beacon for autocrats everywhere.

Institutional failure isn't enough by itself to create a basket case, though. Ruchir Sharma, author of "The Rise and Fall of Nations" and chief global strategist at Morgan Stanley Investment Management, says economic performance has been similar under democracies and autocracies—but is much smoother in a democracy.

Countries with weak institutions find it harder to cope when stressed, so a downturn hits a lot harder—as Turkey is discovering. Countries with stronger institutions or sensible policies can still be hurt if they run large current-account deficits at a time when the dollar strengthens, for example. But they should prove more resilient and recover more quickly.

The bond markets are making a **bearish** case about emerging markets. Hard-currency debt of emerging markets boomed during the 2000s, moving from the same yields as U.S. junk bonds to trade close to the yield of high-quality U.S. corporate bonds by 2008. Over the past decade the improvement went into reverse, and emerging-market bonds this summer traded at slightly higher yields than U.S. junk for the first time in 13 years.

Investors face two key questions: First, are emerging markets really backsliding? The answer is probably not, overall, because for every country with worse governance there is another clinging on to its gains.

Lots of countries have definitely been moving in the wrong direction. But in other important emerging markets, institutions have stood strong, as the change of leadership after corruption scandals in Brazil, Malaysia and South Africa showed. Indonesia has stuck to economic orthodoxy. Even India, for all Narendra Modi's populism, has pushed through important economic reforms that eluded previous leaders. Overall, it is more a case of emerging markets no longer improving than that as a group they are going backward.

Second, to what extent is worse long-run governance priced in already? Answering requires separating short-term cyclical shifts from the long-run governance trend. In the short term, emerging markets are under pressure from the renewed strength of the dollar, which has hit countries whose current-account deficits leave them reliant on dollar financing—led by Turkey and Argentina. The slowdown in China has hurt countries reliant on commodity exports. And higher interest rates have limited the hunt for yield, which pushed investors into risky emerging-market local-currency bonds during the years of easy money from the Federal Reserve.

The cycle since the brief post-Lehman Brothers recovery has been terrible for emerging-market stocks, which have given back about half their outperformance against developed stocks since 2001. Meanwhile, the return to being treated like junk suggests little optimism about hard-currency emerging bonds.

Both cases, though, overstate how badly emerging markets have done. Junk bond yields are historically low, so being treated like junk isn't such a mark of disrespect as before. Meanwhile, emerging-market stocks are hardly alone in lagging behind the U.S. recently; they have returned almost exactly the same as developed countries excluding the U.S. over one, two and five years.

Equity valuations tell a similar story, looking cheap compared with the U.S. but not especially cheap compared with the rest of the developed world, both on forward price/earnings and price-to-book ratios.

A lot of bad news has been priced in, and emerging markets aren't the height of fashionable investing any more. But the belief in their long-run outperformance remains, and emerging markets are still popularly viewed as a source of growth, rather than a source of risk. When that sentiment switches it will be time for the true contrarian to pile in.

Write to James Mackintosh at James.Mackintosh@wsj.com

Related Coverage

* Streetwise: Investor Lessons From Turkey's Crash

* Turkey's Central Bank to Support Embattled Lira

* Turkey's Economic Crisis Explained in 12 Charts

* Turkish Lira's Fall Raises Concerns for Emerging-Market Investors

* Erdogan Faces Crossroads in Dispute With U.S.

* Analysis: Optimism on European Growth Reverses as Headwinds Mount

* Emerging Markets Can Withstand Turkey Shock

Document WSJO000020180813ee8d003ml

THE WALL STREET JOURNAL.
U.S. EDITION

Facebook Rewards Scant Work

By Deepa Seetharaman and Kirsten Grind
879 words
16 August 2018
The Wall Street Journal
J
B1
English

After WhatsApp co-founder Jan Koum announced he was leaving Facebook Inc. in late April, he has continued showing up at least monthly at the social-media giant's headquarters in Menlo Park, Calif. His incentive for making the appearances: about $450 million in stock awards, according to people familiar with the matter.

Mr. Koum's unusual arrangement with Facebook is one of the more lucrative examples of a Silicon Valley practice sometimes called "rest and vest," in which the holders of stock grants are allowed to stick around until they qualify to collect a sizable portion of their shares.

Facebook purchased the WhatsApp messaging service in 2014 for $22 billion, and Mr. Koum became a board member shortly after the sale. He decided to leave Facebook earlier this year after a long-simmering dispute with Chief Executive Officer Mark Zuckerberg and Chief Operating Officer Sheryl Sandberg over placing ads in the messenger service, The Wall Street Journal has reported.

Mr. Koum stepped back from running WhatsApp day-to-day soon after he announced his departure in a Facebook post on April 30 and said goodbye to employees in an internal meeting the next day, according to people familiar with the matter. The last time Mr. Koum made one of his periodic visits to the office was in mid-July, those people say.

A Facebook spokeswoman declined to comment on Mr. Koum's schedule, but said he remains employed at the company, working on "various projects and helping transition WhatsApp leadership."

As part of selling WhatsApp to Facebook, Mr. Koum earned about 24.85 million restricted shares, according to his offer letter filed to the Securities and Exchange Commission at the time. The stock has vested in quarterly increments, with the final period taking place in mid-November of this year.

In mid-May, Mr. Koum collected 2.5 million shares worth about $458 million at the time, according to a securities filing. In mid-August, he was set to collect another 2.5 million shares, or about $446 million at Facebook's **stock price** of $179.53 at Wednesday's close.

The stock awards have been contingent on Mr. Koum being employed at Facebook during that time, or "subject to continued service to us through each vesting date," according to one Facebook securities filing.

Mr. Koum fulfilled that requirement by showing up at Facebook headquarters about once a month, according to two people familiar with the matter. It is unclear what he did on his days in the office or how long he stayed.

If Mr. Koum were to formally leave this month, he would forfeit about 2.1 million shares that were set to vest in November, according to these people. That would have netted him an additional $372 million at Wednesday's closing price, according to securities filings.

Facebook compensated at least one other executive, Palmer Luckey, the co-founder of its virtual-reality business Oculus VR, who rarely came to the office in the months before he left Oculus in March 2017, according to people familiar with the matter. It isn't known if Mr. Luckey needed to make appearances at the office to vest his stock awards.

Mr. Luckey declined to comment through a spokesman. Mr. Koum didn't respond to a request for comment.

Restricted stock awards, or RSUs, are a typical form of compensation for employees and executives, particularly in Silicon Valley where a large number of companies are private. Less common are arrangements where employees collect shares and compensation during a period when they are rarely working, according to executive compensation experts.

WhatsApp's sale to Facebook made Mr. Koum and his co-founder, Brian Acton, billionaires. Mr. Koum is valued at about $9 billion, and Mr. Acton $3 billion, The Journal reported in June.

Both men staunchly opposed placing advertising in the messaging service and began to disagree with Mr. Zuckerberg and Ms. Sandberg, who wanted to find ways to wring revenue from WhatsApp's 1.5 billion users.

Mr. Acton resigned in September 2017, leaving behind $900 million in unvested shares, according to people familiar with the matter.

About six months later, Mr. Koum said he was leaving the company.

Messrs. Koum and Acton had an unusual clause in their contracts that allowed them to collect unvested stock awards if Facebook insisted on making any "additional monetization initiatives" such as advertising in the app, so long as they remained employed at the company, according to a nonpublic portion of the companies' merger agreement reviewed by The Journal and people familiar with the matter.

Earlier this month, WhatsApp detailed plans to sell advertisements in the messaging service next year and charge companies to interact with customers.

Mr. Luckey, the co-founder of Oculus, also left Facebook under contentious circumstances. Mr. Luckey sparked anger within the virtual-reality community in September 2016 for donating money to a pro-Donald Trump group that paid for advertising mocking Hillary Clinton.

He apologized, but was sidelined during a major reshuffle of Oculus's executives in December 2016 and people familiar with the matter say he was rarely seen in the office over the next several months.

Document J000000020180816ee8g0001s

THE WALL STREET JOURNAL.

Heard on the Street
Markets

Attention, Walmart Skeptics: This Stock Has Legs; Walmart is becoming an exciting growth story as its e-commerce operations take off

By Aaron Back
566 words
29 August 2018
05:30 AM
The Wall Street Journal Online
WSJO
English

Nearly 20 years ago, Walmart ended a run as one of the greatest growth stocks in history. Watch out, Walmart is growing again.

The retail giant got so big that its growth slowed to roughly match the U.S. economy. Now, with its e-commerce business soaring by 40% in the most recent quarter and its sales in stores growing at their fastest pace in 10 years, Walmart is enjoying a renaissance that should give it several years of strong growth.

Investors are starting to give Walmart credit for that growth but the **stock price** still underestimates the power of the retailer.

Leveraging its 2016 acquisition of Jet.com, Walmart today offers free, nationwide two-day shipping on thousands of household goods. It expects to be able to reach 40% of the U.S. population with grocery delivery by the end of this year. It also is offering free in-store pickup of groceries and other items ordered online at more than 1,800 stores, double the number of a year ago.

As a result, Walmart is deepening relationships with existing customers while reaching whole new audiences such as affluent, urban millennials who were the initial target customers for Jet.com, says Andrew Lipsman, retail analyst at research firm eMarketer.

In 2017, Walmart already was the fourth largest e-commerce company in the U.S. with around $15 billion of sales, according to eMarketer. That puts it well behind Amazon's nearly $200 billion, but ahead of everyone else besides eBay and Apple.

Importantly, Walmart is bringing its traditional focus on low prices to the online world. In a survey of online grocery prices, JPMorgan analysts found that Walmart's online prices were on average 5% below those of Kroger as of July, while prices on Amazon's Fresh service were 12% higher.

E-commerce has gotten big enough that it is pushing up overall growth. The company says e-commerce channels contributed around 1 percentage point to second-quarter comparable store sales growth, a significant chunk. At 4.5%, comparable store sales growth is running at the fastest pace in a decade. Shares rallied 9% in one day following second-quarter results.

At the same time, Walmart's core bricks-and-mortar business is doing what it does best. Wolfe Research analyst Scott Mushkin says that while competitors are raising prices to offset higher input and labor costs, Walmart is mostly holding back by squeezing suppliers and pitting them against one another. As a result, the price gap between Walmart and other grocers is widening and the company is gaining share, Mr. Mushkin says.

Its shares are trading at 19.7 times forward earnings, significantly higher than an average of 16 times over the past five years. But Walmart isn't the same company it was five years ago. As e-commerce momentum keeps building, its shares have room to run.

Write to Aaron Back at aaron.back@wsj.com

Summer Stock Picking Event

* Play Call for Papa John's: Go Long

* Abbott Labs Is a Rare Growth Story in Health Care

* The Case for Stock-Picking

* Get a Great Deal on BMW

* Skechers Is So Uncool It's Cool

* AMD Set to Crack Intel's Lock on Data Centers

Document WSJO000020180829ee8t0015s

International New York Times

world
Erdogan Faces a Challenge He Can't Easily Bully: Turkey's Economy

By CARLOTTA GALL
1,563 words
14 August 2018
International New York Times
INHT
English

ISTANBUL — President Recep Tayyip Erdogan has long made clear that he considered no part of Turkish life beyond his reach, not least the economy.

Even before he was re-elected in June with sultanlike powers, he had built his popularity on sustained economic growth fueled by signature megaprojects — the latest being plans for a canal bisecting the country. But critics have long charged that much of that expansion was built on budgetary sleight of hand, cronyism and corruption.

Now Turkey's worst economic crisis since 2001 — the currency hit another new low on Monday — has confronted Mr. Erdogan with the limits of his authoritarian approach and could end his long run of success.

It is also fanning fears of a global contagion, as Turkey's troubles undermine investor confidence in other emerging market economies and raise concerns about the exposure of banks even in developed regions, like the European Union.

Turkey's economic troubles, analysts say, are largely of Mr. Erdogan's own making. They have less to do with his dispute with the United States and the prospect of greater sanctions than with Mr. Erdogan's deepening economic interference as he attempts to bend the logic of monetary policy and global **financial markets** to suit his political purposes.

Yet while Mr. Erdogan asserts greater control over life in Turkey — including the media, the judiciary, foreign policy and political decision-making — it is far less clear that he can bully an economy increasingly beholden to global markets to submit to his will, they say.

Business leaders warn that the many strands of the president's authoritarian approach are intertwined, and that Turkey will not climb out of its hole until the country enacts major structural reforms that would undo many of Mr. Erdogan's constraints.

Those would include allowing a free press, an independent judiciary and returning powers to Parliament. Another step, the release of political prisoners, would help repair relations with Europe.

"We have to do something at home," said Umit Pamir, a former ambassador to NATO. "Only then can investors come."

While Mr. Erdogan could still change course, whether he will is far from certain. In the meantime, the levers available to him will not avert the economic pain that is now inevitable, they say.

"The interest-rate hikes and budget cuts will be painful," said Atilla Yesilada, an Istanbul-based consultant at Global Source Partners, a management consultancy. "There will be bankruptcies."

Many analysts say that, as he has accumulated power, Mr. Erdogan has become increasingly isolated, surrounding himself with advisers who reinforce his own views, while sidelining real expertise.

In particular, Mr. Erdogan has insisted on following a policy of keeping interest rates low to allow a huge program of fiscal stimulus based around the construction industry to generate high growth.

In May, in an interview with Bloomberg TV, Mr. Erdogan explained why he wanted more control over the central bank and interest-rate policy.

“When the people fall into difficulties because of monetary policies, who are they going to hold accountable?” he asked. “Since they’ll ask the president about it, we have to give off the image of a president who is influential on monetary policies,” he added.

“It is the fundamental view of the true populist,” explained Sinan Ulgen, chairman of the Istanbul-based Center for Economic and Foreign Policy Studies, also known as E.D.A.M. “The fact of his being elected gives him the right to be responsible for all executive authority.”

Yet most economists argue that the policy is no longer tenable and that the economy is already in recession amid mounting foreign debts and a current account deficit. Keeping interest rates low is driving up inflation, which is hurting people’s pocketbooks.

For months credit-rating agencies and investment specialists have been signaling that the political management of Turkey’s economy is scaring away investment.

Turkey has weathered financial storms before thanks to its size and diversity, but the outcome will depend on the “coherence and predictability of the policies that are pursued,” the credit-rating agency Moody’s advised in a statement in June.

In July, after Mr. Erdogan’s re-election, and after he appointed his son-in-law Berat Albayrak to the newly combined position of treasury and finance minister, Moody’s announced another downgrading of Turkey’s credit rating.

“Any perception of encroachment into the independence of the central bank and other public institutions will likely exacerbate investor concerns,” it wrote in a statement.

Since the election, Mr. Erdogan has passed a flurry of decrees bringing the system of government under the president’s control.

The changes center power increasingly in Mr. Erdogan’s hands, allowing him to appoint senior officials in almost every area of life. Far beyond the central bank, analysts warn, the changes represent a creeping politicization of the state.

Among the changes is the elimination of senior Civil Service positions in the powerful Turkish bureaucracy.

Turkey has always had a strong bureaucracy, modeled on the French system, with a senior bureaucrat, called an undersecretary, in every ministry, assisted by deputy undersecretaries. Those positions have been eliminated and the civil servant positions replaced with deputy ministers appointed by Mr. Erdogan.

The change is being felt across the administration, Mr. Ulgen said. “There is no top bureaucrat who sees 360 degrees,” he said. “It is all silos.”

Any positive gain from bringing outsiders into the administration has been tempered by the polarizing nature of Mr. Erdogan’s rule, which has increasingly pushed out people who are seen as ideologically or politically opposed to his Justice and Development Party, and favored party loyalists.

“There’s going to be a convergence of the party and the state, more so than in the past, and the top bureaucrat representing the state will not be there,” Mr. Ulgen added. “The lower levels of the bureaucracy will be open to politicization as career advancement will be increasingly linked to political affiliation.”

Yet relying on the party for appointees excludes a vast pool of talent, something that has also been evident with the purges of 150,000 public employees since the failed coup of 2016.

The appointment of Mr. Albayrak to the post of treasury and finance minister has been taken as a signal not only of Mr. Erdogan’s determination to control monetary and fiscal policy, but also of his intention to prepare a dynasty.

Mr. Albayrak, 40, holds an M.B.A. from Pace University in New York, and worked as the United States representative for Calik Holdings, a Turkish construction and trading company known for its close links to the government.

In 2004 he married Esra, Mr. Erdogan’s eldest daughter, who studied at the University of California at Berkeley, and two years later they returned to Turkey.

Mr. Albayrak entered politics in 2015, becoming a member of Parliament, and later that year was appointed energy minister. He was appointed treasury and finance minister to the new cabinet after the June 24 elections.

Even as the business world regretted the departure of more experienced officials from the government, some hoped that Mr. Albayrak, being a relative, might be able to persuade Mr. Erdogan to moderate his insistence on keeping interest rates low.

But so far Mr. Albayrak has not done enough to stem the damage, Mr. Yesilada said.

At a news briefing Friday, Mr. Albayrak gave assurances of the independence of the Central Bank, yet that the fact that the bank failed to act to shore up the lira showed it was either not independent, or amiss at its job, he said.

“No Central Bank would stand by while its currency is depreciating,” he said.

Mr. Albayrak was undergoing a “fast on-the-job training,” he said. “If the business community and banks tell him what dire straits we are navigating, he may make the right decision.”

As for the immediate crisis, Mr. Yesilada called for a hefty interest rate hike of at least 5 percentage points and said that a “handshake with the United States is an absolute minimum.”

Ankara kept asking for other options to the crisis, he said, but he predicted that Mr. Erdogan would have no option in the end.

“He will wake up and smell the coffee,” he said.

Follow Carlotta Gall on Twitter: @carlottagall

PHOTOS: A mosque under construction on Taksim Square in Istanbul. Turkey’s president has leaned on construction to fuel economic growth. (PHOTOGRAPH BY NICOLE TUNG FOR THE NEW YORK TIMES) (A1); In a news conference on Friday, Berat Albayrak, the treasury and finance minister, promised that the central bank was independent. (PHOTOGRAPH BY SEDAT SUNA/EPA, VIA SHUTTERSTOCK); President Recep Tayyip Erdogan of Turkey with supporters in Trabzon on Sunday. Analysts blame him for economic woes. (PHOTOGRAPH BY CEM OKSUZ/TURKISH PRESIDENTIAL OFFICE, VIA AGENCE FRANCE-PRESSE — GETTY IMAGES) (A8)

* Erdogan: How Turkey Sees the Crisis With the U.S.

* Tensions Between Turkey and U.S. Soar as Trump Orders New Sanctions

* Erdogan, Flush With Victory, Seizes New Powers in Turkey

* Now, Erdogan Faces Turkey’s Troubled Economy. And He’s Part of the Trouble.

* A Canal Through Turkey? Presidential Vote Is a Test of Erdogan’s Building Spree

* Turkey’s Economy Is So Hot That It May Face a Meltdown

Document INHT000020180814ee8e0000a

The New York Times

Climate

Canada's Strong Words on Climate Face a Test in Trump's Nafta Makeover

By Lisa Friedman
1,351 words
28 August 2018
05:30 PM
NYTimes.com Feed
NYTFEED
English

WASHINGTON — As President Trump demanded a makeover of the North American Free Trade Agreement over the past year, Canada staked out a position squarely at odds with the White House: Any new pact must recognize climate change.

That demand is now facing a test.

The United States and Mexico, the other two parties to the three-nation trade deal, in recent days have hammered out a possible revision of the pact, and Mr. Trump is urging Canada to sign on or be hit with automobile tariffs. The revised terms don't mention climate change, according to the scant details made public Monday, and the Trump administration has long dismissed the science that shows global warming poses a serious threat to people and economies.

Chrystia Freeland, Canada's foreign affairs minister, was in Washington on Tuesday to continue negotiations. Her government so far has given little indication of its intentions beyond a statement by Ms. Freeland's spokesman, Adam Austen, who said the priority was that any deal be "good for the middle class."

Canada's calls for a trade deal to address climate change are the latest example of the ways that global warming can break on to the world stage and trigger political setbacks, even in nations already struggling to meet their targets for reducing pollution under the Paris climate agreement.

In France, the environment minister quit during a live radio interview on Tuesday, saying the nation wasn't doing enough on green issues. And last week in Australia, the prime minister was unseated by a challenger with strong coal-industry connections. Canada, much like Australia, has a powerful energy industry, and Prime Minister Justin Trudeau faces a challenge from politicians aligned with the oil industry there. The new premier of Ontario, Doug Ford, also has vowed to fight Mr. Trudeau's plan to put a price on carbon emission in Canada when it takes effect next year.

For reasons like these, Canadian environmental activists and United States foreign-policy experts said Mr. Trudeau's Liberal government would have to pick and choose its priorities in the tense coming days, and many say climate change most likely will not make the cut. The Trump administration has opposed any mention of the phrase.

"I don't think that's going to happen at this point," said George David Banks, former international energy and environment adviser to Mr. Trump. Mr. Banks said neither the Trump administration nor Mexico appeared interested in pursuing climate change in Nafta.

Mr. Trump has said if a compromise cannot be negotiated with Canada he will cut the country out of the deal. It's not at all clear, though, that Congress — which must sign off on any trade deal before it takes effect — would accept that.

For Canada the risks are both economic and political. According to the Office of the U.S. Trade Representative, American exports to Canada have increased 165 percent since 1993, the year before Nafta came into force, and imports from Canada rose 150 percent. If Mr. Trudeau is unable to strike a deal with Mr. Trump he could come off looking weak in the eyes of his public. But if Mr. Trump imposes a 25 percent tariff on automobiles it would hit hard the economic powerhouse province of Ontario.

The absence of climate change language wouldn't have an immediate effect on the planet-warming greenhouse gas emissions projections from Canada, the United State or Mexico. After all, the current agreement also makes no mention of the need to drive down global warming.

But environmentalists say that failing to incorporate a mention would be a missed opportunity to make a statement in support of the 2015 Paris Agreement, which calls on nearly 200 nations to voluntarily reduce greenhouse gas emissions, and which did not exist when Nafta was drafted.

"It violates the norm that the environment belongs at the negotiating table," said Christopher Sands, director of the Center for Canadian Studies at the School of Advanced International Studies at Johns Hopkins University.

"We seem to be pushing our trading partners to say, 'It's prosperity or the environment. It's prosperity or human rights,'" he said, arguing that it shouldn't be thought of as an either-or.

Canada, for its part, has made climate change a centerpiece of its international agenda. It features prominently in the title, for example, of upcoming discussions at the Group of 7 energy discussions slated for Nova Scotia in September.

But the Canadian government also has sought out ways to avoid isolating the Trump administration by bringing less antagonizing issues, for instance cleaning plastic from the oceans, to the table.

When it comes to Nafta, the Trudeau government has taken a similarly pliable position. In August, Ms. Freeland outlined Canada's vision for what it called "progressive elements" to any new trilateral trade deal. The priorities: strengthening labor safeguards and incorporating new chapters on gender equality, indigenous rights and climate change. On climate, Mr. Trudeau maintained that he wanted to see the reduction of greenhouse gas emissions and the need to move to a low-carbon economy to be written into the new Nafta.

"We are certainly looking for a better level playing field across North America on environmental protections," Mr. Trudeau said last year.

Shortly after that remark, the Canadian foreign affairs minister sent the Trump administration a proposed chapter that included those elements but did not require the United States to accept or embrace the Paris Agreement.

However, late last year the Trump administration declined to accept that language, according to Mr. Banks and a Canadian official who asked not to be identified.

The Canadian Foreign Ministry and the office of the United States Trade Representative did not respond to a request to discuss the role of that agenda in this week's talks.

"The big question will be to what extent Canada will be interested in going to the wall on climate," said Dale Marshall, national climate program manager for Environmental Defence, a Canadian nonprofit group. "When the rubber hits the road and we're talking about economic trade, does Canada feel strong enough about those issues to be willing to scuttle a deal? I'm not sure," he said.

Joshua C. Zive, a trade lobbyist who works with energy and utility companies for the firm Bracewell in Washington, said he did not think pushing climate change this week would be in Canada's negotiating interest. Already, he said, the Trump administration is intent on casting Mr. Trudeau as the scapegoat if a deal falls through.

"It's a risk for Canada if they introduced concepts that could be cast as Canada complicating negotiations," Mr. Zive said. "If it became too aggressive, particularly pushing for items that are not on the U.S. or Mexico agenda, it could further the narrative of Canada being the outlier, which is clearly the narrative the administration is preparing to position with the public. The goal here is to jam Canada."

Mr. Zive for his part questioned the need to incorporate climate change into Nafta, and said the trade deal had always been a fairly technical way to deal with specific products like automobiles. If negotiators push for a mention of climate change "just for symbolic purposes, you're also importing the symbolic controversy," he said. "There is no need to force people to resolve this in an already-complicated and high-stakes trade dispute."

Mr. Banks, who accepts climate-change science and supports the overall goal of the Paris Agreement (but not the United States target for carbon reduction), said he was nevertheless **bullish** that in the long run there would be a merger of trade and climate policy, even under the Trump administration.

“As the United States recognizes that it can take advantage of the fact that it is less carbon intensive than its competitors, including China, that bolsters the United States’ competitive advantage when it comes to manufacturing,” he said.

Catherine Porter contributed reporting from Toronto.

Document NYTFEED020180828ee8s007sl

The New York Times

Nonfiction
Books; Book Review
Looking Back at the Economic Crash of 2008

By Fareed Zakaria
1,528 words
10 August 2018
05:00 AM
NYTimes.com Feed
NYTFEED
English

CRASHED How a Decade of Financial Crises Changed the World By Adam Tooze 706 pp. Viking. $35.

Steve Bannon can date the start of the Trump "revolution." When I interviewed him for CNN in May, in Rome, he explained that the origins of Trump's victory could be found 10 years ago, in the financial crisis of 2008. "The implosion of those world capital markets has never really been sorted out," he told me. "The fuse that was lit then that eventually brought the Trump revolution is the same thing that's happened here in Italy." (Italy had just held elections in which populist forces had won 50 percent of the vote.) Adam Tooze would likely agree. An economic historian at Columbia University, he has written a detailed account of the financial shocks and their aftereffects, which, his subtitle asserts, "changed the world."

If journalism is the first rough draft of history, Tooze's book is the second draft. A distinguished scholar with a deep grasp of **financial markets**, Tooze knows that it is a challenge to gain perspective on events when they have not yet played out. He points out that a 10-year-old history of the crash of 1929 would have been written in 1939, when most of its consequences were ongoing and unresolved. But still he has persisted and produced an intelligent explanation of the mechanisms that produced the crisis and the response to it. We continue to live with the consequences of both today.

As is often the case with financial crashes, markets and experts alike turned out to have been focused on the wrong things, blind to the true problem that was metastasizing. By 2007, many were warning about a dangerous fragility in the system. But they worried about America's gargantuan government deficits and debt — which had exploded as a result of the Bush administration's tax cuts and increased spending after 9/11. It was an understandable focus. The previous decade had been littered with collapses when a country borrowed too much and its creditors finally lost faith in it — from Mexico in 1994 to Thailand, Malaysia and South Korea in 1997 to Russia in 1998. In particular, many fretted about the identity of America's chief foreign creditor — the government of China. Yet it was not a Chinese sell-off of American debt that triggered the crash, but rather, as Tooze writes, a problem "fully native to Western capitalism — a meltdown on Wall Street driven by toxic securitized subprime mortgages."

Tooze calls it a problem in "Western capitalism" intentionally. It was not just an American problem. When it began, many saw it as such and dumped the blame on Washington. In September 2008, as Wall Street burned, the German finance minister Peer Steinbruck explained that the collapse was centered in the United States because of America's "simplistic" and "dangerous" laissez-faire approach. Italy's finance minister assured the world that its banking system was stable because "it did not speak English."

In fact this was nonsense. One of the great strengths of Tooze's book is to demonstrate the deeply intertwined nature of the European and American financial systems. In 2006, European banks generated a third of America's riskiest privately issued mortgage-backed securities. By 2007, two-thirds of commercial paper issued was sponsored by a European financial entity. The enormous expansion of the global financial system had largely been a trans-Atlantic project, with European banks jumping in as eagerly and greedily to find new sources of profit as American banks. European regulators were as blind to the mounting problems as their American counterparts, which led to problems on a similar scale. "Between 2001 and 2006," Tooze writes, "Greece, Finland, Sweden, Belgium, Denmark, the U.K., France, Ireland and Spain all experienced real estate booms more severe than those that energized the United States."

But while the crisis may have been caused in both America and Europe, it was solved largely by Washington. Partly, this reflected the post-Cold War financial system, in which the dollar had become the hyperdominant global currency and, as a result, the Federal Reserve had truly become the world's central bank. But Tooze also convincingly shows that the European Central Bank mismanaged things from the start. The Fed acted aggressively and also in highly ingenious ways, becoming a guarantor of last resort to the battered balance sheets of American but also European banks. About half the liquidity support the Fed provided during the crisis went to European banks, Tooze observes.

Before the rescue and even in its early stages, the global economy was falling into a bottomless abyss. In the first months after the panic on Wall Street, world trade and industrial production fell at least as fast as they did during the first months of the Great Depression. Global capital flows declined by a staggering 90 percent. The Federal Reserve, with some assistance from other central banks, arrested this decline. The Obama fiscal stimulus also helped to break the fall. Tooze points out that almost all serious analyses of the stimulus conclude that it played a significant positive role. In fact, most experts believe it ended much too soon. He also points out that large parts of the so-called Obama stimulus were the result of automatic government spending, like unemployment insurance, that would have happened no matter who was president. And finally, he notes that China, with its own gigantic stimulus, created an oasis of growth in an otherwise stagnant global economy.

The rescue worked better than almost anyone imagined. It is worth recalling that none of the dangers confidently prophesied by legions of critics took place. There was no run on the dollar or American treasuries, no hyperinflation, no double-dip recession, no China crash. American banks stabilized and in fact prospered, households began saving again, growth returned slowly but surely. The governing elite did not anticipate the crisis — as few elites have over hundreds of years of capitalism. But once it happened, many of them — particularly in America — acted quickly and intelligently, and as a result another Great Depression was averted. The system worked, as Daniel Drezner notes in his own book of that title.

But therein lies the unique feature of the crash of 2008. Unlike that of 1929, it was not followed by a Great Depression. It was not so much the crisis as the rescue and its economic, political and social consequences that mattered most. On the left, the entire episode discredited the market-friendly policies of Tony Blair, Bill Clinton and Gerhard Schroeder, disheartening the center-left and emboldening those who want more government intervention in the economy in all kinds of ways. On the right, it became a rallying cry against bailouts and the Fed, buoying an imaginary free-market alternative to government intervention. Unlike in the 1930s, when the libertarian strategy was tried and only deepened the Depression, in the last 10 years it has been possible for the right to argue against the bailouts, secure in the knowledge that their proposed policies will never actually be implemented.

Bannon is right. The crash brought together many forces that were around anyway — stagnant wages, widening inequality, anger about immigration and, above all, a deep distrust of elites and government — and supercharged them. The result has been a wave of nationalism, protectionism and populism in the West today. A confirmation of this can be found in the one major Western country that did not have a financial crisis and has little populism in its wake — Canada.

The facts remain: No government handled the crisis better than that of the United States, which acted in a surprisingly bipartisan fashion in late 2008 and almost seamlessly coordinated policy between the outgoing Bush and incoming Obama administrations. And yet, the backlash to the bailouts has produced the most consequential result in the United States.

Tooze notes in his concluding chapter that experts are considering the new vulnerabilities of a global economy with many new participants, especially the behemoth in Beijing. But instead of a challenge from an emerging China that began its rise outside the economic and political system, we are confronting a quite different problem — an erratic, unpredictable United States led by a president who seems inclined to redo or even scrap the basic architecture of the system that America has painstakingly built since 1945. How will the world handle this unexpected development? What will be its outcome? This is the current crisis that we will live through and that historians will soon analyze.

Fareed Zakaria is a CNN anchor, a Washington Post columnist and the author of "The Post American World."

* Trump Is Wrong About Trade. So Is Everyone Else.

* 'The Deluge,' by Adam Tooze

* The Financial Crisis

The last day of 2008 at the New York Stock Exchange. | Todd Heisler/The New York Times | Tyler Comrie; Photograph courtesy of GSO/Getty Images | Sonny Figueroa/The New York Times | A trader on the floor of the New York Stock Exchange in February 2009. | James Estrin/The New York Times

Document NYTFEED020180810ee8a001pb

The New York Times

Business Day; Economy
An Economic Upturn Begun Under Obama Is Now Trump's to Tout

By Patricia Cohen
1,598 words
10 August 2018
05:00 AM
NYTimes.com Feed
NYTFEED
English

By nearly every standard measure, the American economy is doing well — and better than it was a year and a half ago, before Donald J. Trump was elected president. If only the debate over who deserves most of the credit were as easily judged.

Americans' perceptions of the economy's prospects increasingly depend more on their political identity than statistics on output or stock markets. So each new economic report — whether the latest monthly jobs figures or the quarterly growth estimate — reignites the feud between Trump supporters and critics.

The same gauges that illustrate this administration's economic successes also make clear that they are built on the achievements of the previous one, and that the economy is following the upward trajectory begun under President Barack Obama.

In the 18 months before Mr. Trump moved into the White House, 3.7 million jobs were created, seven in 10 Americans said they were doing fine or living comfortably and the economy grew. In the 18 months since, 3.4 million jobs were created, seven in 10 Americans said they were doing fine or living comfortably and the economy grew. Stubbornly slow wage growth and wide income gaps have spanned both periods.

Economists are quick to point out that presidents of both parties are assigned more credit or blame than they deserve for the economy, a colossus whose course is fashioned, bit by bit, from innumerable decisions made every day by investors, consumers, managers and merchants around the globe.

Even so, Mr. Trump — through a combination of skill and circumstance — has been better able than his predecessor to spotlight the economy's gains, political scientists say. And his message never varies, no matter what the numbers show: an economy that was ruinous under Mr. Obama is "amazing" under his own leadership.

The salesmanship seems to have had an impact. Business and consumer sentiment are higher than before the election, and the share of the public that says the economy is improving has grown, according to Gallup surveys.

At the same time, however, both presidents have had trouble transforming their economic successes into more general support. For presidents as far back as Dwight D. Eisenhower, Mr. Obama is the only one whose approval ratings fell as consumer sentiment rose, said Lynn Vavreck, a professor of political science and communication at the University of California, Los Angeles, and a co-author with John Sides and Michael Tesler of a coming book on the 2016 presidential campaign.

And although it's still early, Mr. Trump looks to be headed in the same direction, Ms. Vavreck said. Sunnier views of the economy have so far failed to raise Mr. Trump's approval rating above 50 percent.

What Mr. Trump has been particularly well positioned to do, though, is identify himself with economic success. He made his name as a celebrity tycoon. "It dovetails with a narrative about Donald Trump that has existed for a long time: that he's a businessman, that he understands the working of the economy, that he knows how to make money," said Mark Rozell, dean of the Schar School of Policy and Government of George Mason University in Virginia.

Mr. Obama's background was in community organizing and the public sector. "No one expects such a person to have any feel for creating good economic conditions," Mr. Rozell said. "He is more likely to be seen as riding an economic wave or trend, whereas the businessman is seen as responsible."

Circumstances have also provided Mr. Trump with a tailwind. He has benefited from an additional year and a half of economic growth, which compounds the perception of the economy as resilient. The nine-year expansion has endured in the face of disruptions — from a global slowdown to trade tensions and unpredictable policy pronouncements.

Even if individuals are unaware of most details, the high confidence scores reflect the collective evidence and evaluations that the economy is hardy, said Tyler Cowen, an economist at George Mason University. “Markets aggregate information,” he said.

The extended recovery is naturally digging deeper. The Labor Department reported that joblessness fell to 3.9 percent in July, near the 18-year low it reached in May. The least educated workers — who have received the smallest share of the recovery’s rewards — were hired in greater numbers, while traditional industrial sectors like manufacturing that have suffered from decades of losses, added jobs.

Steep corporate tax cuts have raised longer-term worries about bloated deficits, and an anti-regulatory stance troubles watchdogs who warn that health and safety risks will increase. But in the short term, those actions have temporarily quickened the pace of growth, pumped money into the economy and buoyed business confidence.

Republicans — led by the president and his Twitter feed — have relentlessly reaffirmed his economic message with superlatives, capital letters and exclamation points. During the campaign, Mr. Trump declared, “I will be the greatest jobs president that God ever created.” On tour this month for Republicans running in the midterm elections, he tweeted: “Pennsylvania has to love Trump because unlike all of the others before me, I am bringing STEEL BACK in a VERY BIG way.”

That exuberance has included claims by the president that sometimes go beyond the economic facts in portraying a turnaround on his watch. But the net effect has been to outshine the economy’s weak spots, like sluggish wage growth, income inequality and the erosion of middle-class jobs — factors that contributed to Mr. Trump’s election and still exist.

The Democrats were less adept at rounding up credit for economic improvements and shaking off criticisms. “Part of Obama’s problem, especially in the last year, was that he was too understated,” said Larry J. Sabato, director of the University of Virginia’s Center for Politics. “In every instance, he downplayed it. It was ‘Just the facts, ma’am.’ That doesn’t work anymore.”

A widening political gap hovers over all these developments. Views of the economy have always been shaped by concrete conditions as well as party affiliation, said Jonathan Rothwell, senior economist at Gallup, the analytics and consulting firm.

“What partisanship does is reset the baseline to be positive or negative depending on whether your party is in power or the other party,” Mr. Rothwell said.

The partisan fracturing that emerged after Mr. Trump’s election has been particularly striking and persistent.

“Republicans and Democrats held much more extreme views under Trump than under past administrations,” Richard Curtin, director of the University of Michigan’s monthly survey of consumer sentiment, writes in a new paper scheduled for release in September.

According to a survey conducted in early July for The New York Times by the online polling firm SurveyMonkey, 76 percent of Republicans said the next year would bring very good or somewhat good times for the country economically, compared with 12 percent of Democrats.

Mr. Trump looms so large that it’s tempting to focus solely on the impact of his can’t-take-your-eyes-off-him persona, which elicits extreme reactions. And he revels in being a polarizing figure.

Roots of the deepening partisan divide around the economy reach further back, however. The small difference in Democrats’ and Republicans’ perceptions of the economy that existed during the Reagan and Bush administrations doubled during the Obama years, Mr. Curtin said. The gap doubled again under Mr. Trump, with Republicans shifting their views in greater numbers than Democrats.

Whatever role personal style and leadership may play, Mr. Curtin argues that wage stagnation and income inequality, particularly among less educated workers, have contributed to the partisan rifts of the last decade. The largest fissures between Republicans and Democrats are among less educated lower- and moderate-income households.

Many of these households turned to Mr. Trump in 2016, and continue to express faith in his ability to better their economic fortunes.

Ms. Vavreck of U.C.L.A. argues that differences around race and ethnicity issues have amplified the partisan divide as views on immigration and diversity increasingly fall along party lines. This has spilled over into appraisals of the economy. That could be part of the reason for the unusual disconnect between favorable economic news and approval ratings for both Mr. Obama and Mr. Trump.

Historically, sentiments about the economy could build up or chip away at a president's support, Ms. Vavreck said, but no longer. "In a polarized age," she said, "Americans may give little credit to a president not of their own party."

Follow Patricia Cohen on Twitter: @PatcohenNYT Ben Casselman contributed reporting.

* Workers Hardest Hit by Recession Are Joining in Recovery

* Economy Hits a High Note, and Trump Takes a Bow

* Trump Crows as a Steel Plant Fires Up, but Tariffs Singe Soybean Farmers

* U.S. Businesses Are **Bullish** Amid Worldwide Instability

President Trump touring a steel mill in Granite City, Ill., in late July. Economists are quick to point out that presidents of both parties are assigned more credit or blame than they deserve for the economy. | Tom Brenner for The New York Times | President Barack Obama at an Ohio steel plant in 2013. Unusually for a postwar president, Mr. Obama’s approval ratings did not improve along with rising consumer sentiment. | Gabriella Demczuk for The New York Times | President Trump's salesmanship of business conditions draws on a narrative that identifies him as someone who understands how the economy works, and how to make money. | Tom Brenner for The New York Times

Document NYTFEED020180810ee8a001pn

International New York Times

world

Trump's Trade War Is Rattling China's Leaders

By KEITH BRADSHER and STEVEN LEE MYERS
1,819 words
15 August 2018
International New York Times
INHT
English

BEIJING — China's leaders have sought to project confidence in the face of President Trump's tariffs and trade threats. But as it becomes clear that a protracted trade war with the United States may be unavoidable, there are growing signs of unease inside the Communist political establishment.

In recent days, officials from the Commerce Ministry, the police and other agencies have summoned exporters to ask about plans to lay off workers or shift supply chains to other countries.

With stocks slumping and the currency dropping 9 percent against the dollar since mid-April, censors have been deleting a torrent of criticism online, some of it directed at President Xi Jinping's leadership.

State news outlets, by contrast, have sought to promote the official line, with the authorities restricting the use of the phrase "trade war."

Still, policy disputes over how to bolster the economy have at times spilled into the open, with the state media sometimes coming under attack for boasting about China's economic strengths.

If the trade war escalates — and Mr. Trump has shown no sign of backing down — some worry that the public's faith in the economy could be shaken, exposing the nation to much more serious problems than a drop in exports. New economic data on Tuesday showed slower growth in investment and consumer spending, and there are fears that the financial crisis in Turkey could spread.

China's leaders have argued that they can outlast Mr. Trump in a trade standoff. Their authoritarian system can stifle dissent and quickly redirect resources, and they expect Washington to be gridlocked and come under pressure from voters feeling the pain of trade disruptions.

But the Communist Party is vulnerable in its own way. It needs growth to justify its monopoly on power and is obsessed with preventing social instability. Mr. Xi's strongman grip may be hindering effective policymaking, as officials fail to pass on bad news, defer decisions to him and rigidly carry out his orders, for better or worse.

Beijing has already had to shift course once, edging away from threats to match American tariffs dollar for dollar. Confronting the possibility that the tariffs may remain for months or years and that Chinese access to the American market could tighten further, Mr. Xi does not appear to have settled on a strategy for limiting the damage or for persuading Mr. Trump to negotiate a deal.

Some inside the government have argued China should be more aggressive and put Mr. Trump on the defensive, while others have proposed concessions to address American complaints, said Chen Dingding, a professor of international relations at Jinan University in the southern city of Guangzhou.

He said the debate was "a healthy development" because it would "inform the public and make policymakers better."

Others said it reflects indecision or political weakness on the part of Mr. Xi, who seemed unassailable in March when the Communist leadership abolished the presidential term limit.

"All of this coming together suggests Xi's grip on authority has been loosened," said Willy Wo-lap Lam, a longtime observer of Chinese politics at the Chinese University of Hong Kong. "He's unable to fill his function as the final arbiter who settles differences among his closest advisers."

It is unlikely Mr. Xi's position is in any jeopardy. But the trade dispute, along with a scandal over tainted vaccines and protests over failed investments, have already emboldened some critics of his sweeping centralization of power.

"The recent Sino-American trade war has, in particular, revealed underlying weaknesses and the soft underbelly of the system," wrote Xu Zhangrun, a law professor at Tsinghua University in Beijing, in a denunciation of Mr. Xi's hard-line policies that was shared widely despite censorship. "All of this has only served to exacerbate a widespread sense of insecurity in society at large."

In public, the leadership has argued that China can weather the trade war with ease. A widely circulated study by economists at Tsinghua University estimated that the tariffs imposed so far and those threatened would trim only 0.3 percentage points from China's growth rate, which has been running at a robust 6.7 percent.

Even so, the government last month requested that dozens of research institutes and universities each submit analyses on how different regions and industrial sectors would be affected if the trade war worsened and what the impact would be on unemployment and the **financial markets**.

China sold roughly $500 billion worth of goods to the United States last year, accounting for nearly a quarter of its total exports and about 4 percent of national economic production.

If the United States imposes tariffs on all Chinese goods, even pessimistic Chinese economists contend the country might suffer only a 1 percent drop of output from lost exports. China so dominates some industries, such as smartphone manufacturing, that tariffs may not do much damage. In other industries, China might lose business to rivals like South Korea but find opportunities to export its goods to other markets.

While factories that make price-sensitive electronics and other electrical products are already beginning to lose orders, China is so competitive across so many sectors that exports to the United States are actually still rising despite the relatively limited tariffs that have taken effect.

The worst case for China, however, is that the trade war undermines economic confidence. The nation's housing market teeters on a mountain of debt, and low-interest loans from state banks have built overcapacity in many industries. The worry is that prolonged trade tensions could cause money to rush out of China despite currency controls and prompt much bigger financial and economic troubles.

Censors have quashed discussion of such scenarios. There also has been almost no news coverage of the substance of American complaints about China's trade practices. Instead, the state news media have been ordered to stop mentioning Made in China 2025, the industrial plan to transform the country into a high-tech superpower that Washington has criticized as unfair and predatory.

To the extent there has been finger-pointing in the establishment, the focus appears to be less on China's trade practices than on its propaganda message. Some analysts have argued that the trade war could have been avoided if Beijing had refrained from triumphalist rhetoric about China's rise as a global power. That rhetoric is closely associated with Mr. Xi himself.

"There's a lot of second-guessing about whether the great leader played his cards right," said Jerome Cohen, faculty director of the United States-Asia Law Institute at New York University.

A group of alumni from Tsinghua, one of China's most prestigious universities, recently circulated a petition calling for the dismissal of a well-known economist on the faculty who is an ardent defender of Mr. Xi's policies. They accused the scholar, Hu Angang, of misleading the leadership by arguing last year that China had already surpassed the United States as an economic and technological power.

The petition appeared weeks after a series of articles in the official People's Daily newspaper mocked scholars and pundits making similar boasts about China's strength.

"A slowing economy and friction with the United States provides an opportunity for people to push back," said Trey McArver, a partner with Trivium China, a research consultancy in Beijing and London.

As the trade dispute festers, Chinese business leaders have been circumspect, saying almost nothing about it publicly for fear of angering Beijing. It is clear, though, that they and government officials were caught off guard.

"Outside of government negotiators, few people took this possibility very seriously until July 6," said Yu Yongding, a prominent economist at the Chinese Academy of Social Sciences, referring to the date when tariffs on $34 billion of Chinese goods took effect.

Scott Kennedy, a scholar at the Center for Strategic and International Studies in Washington, said the assumption that Beijing could avoid a trade war "suffused every conversation" he had with officials earlier this year.

"They were wrong, and they are smarting over that, trying to find north and recalibrate," he said.

Tensions inside the government flared into the open last month when Xu Zhong, the research director of China's central bank, published an essay rebuffing calls to bolster the economy by issuing more money. He castigated the Finance Ministry instead for a "dearth of effective fiscal policies," referring to extra government spending and tax cuts.

Soon afterward, the cabinet ordered more infrastructure spending to shore up growth. In the past week, the central bank has also pumped tens of billions of dollars into the economy and driven short-term interest rates down sharply.

Presented with a choice of fiscal or monetary stimulus, the leadership in effect avoided making a decision by choosing both, despite the risk of exacerbating the nation's budget deficit and chronic debt problems.

Mr. Xi is presumably at the center of such decision-making. He has surrounded himself with officials who built their careers in part on their ability to deal with the United States and who might be damaged politically if the trade war goes badly for China.

They include Wang Huning, the party's chief ideologue, who helped craft the propaganda message trumpeting China's rise that is now being criticized in China for alarming the West; Vice President Wang Qishan, Mr. Xi's most powerful lieutenant, who appears to have distanced himself from trade policy in recent months; and Liu He, the Harvard-trained vice premier handling the stalled negotiations with the United States.

The leadership can still divert criticism by blaming the United States. So far, it has not ratcheted up anti-American propaganda beyond the usual volume nor encouraged protests or boycotts of the sort directed at Japan in the past.

Asked on a recent afternoon about the trade tensions, a worker making digital control panels at a factory in the southern city of Zhongshan paused before she replied. "If we are going to fight a trade war," she said, "even if my job may be affected, I will still support our country."

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

Ailin Tang contributed research from Shanghai, and Olivia Mitchell Ryan from Beijing.

PHOTOS: Clockwise from top, construction workers in Beijing on Monday, where China's housing market teeters on a mountain of debt. A woman packaging bicycle rims for export in Hangzhou in June. A Chinese investor at a brokerage house in Beijing on Thursday. (PHOTOGRAPHS BY EPA, VIA SHUTTERSTOCK; CHINA NETWORK/REUTERS) (A6)

* Trump's Trade War With China Is Officially Underway

* Chinese Goods May Face 25% Tariffs, Not 10%, as Trump's Anger Grows

* Trump's Tariffs Are Changing Trade With China. Here Are 2 Emerging Endgames.

Document INHT000020180815ee8f00003

International New York Times

world
Turkey Cheers as Erdogan Takes On U.S. Over Sanctions

By CARLOTTA GALL
1,421 words
8 August 2018
International New York Times
INHT
English

ISTANBUL — In their recent encounter at the NATO summit meeting, President Recep Tayyip Erdogan of Turkey and President Trump gave each other a fist-bump, as Mr. Trump declared, “I like him, I like him.”

The love fest was short-lived. Days later, the Trump administration imposed financial sanctions against two ministers of Mr. Erdogan’s cabinet, sending the Turkish lira plummeting and a stream of nationalist invective pouring forth from the Turkish media. Mr. Erdogan retaliated last weekend with sanctions of his own against his ministers’ American counterparts.

The tit-for-tat exchange has led many to fear that the longtime allies were headed toward an irreparable rift, driven by two leaders who each pride themselves on driving a hard bargain, in this case over Turkey’s detention of an American pastor, Andrew Brunson, who was swept up in Mr. Erdogan’s sweeping crackdown after a failed coup in 2016 and accused of espionage.

Combative politics is written in Mr. Erdogan’s DNA, one Turkish columnist explained, and for that matter, it seems, in Mr. Trump’s. Indeed, according to diplomats, the several phone calls that have taken place between the two men this year have been stormy.

In the nationalistic mood of the moment, many Turks have even applauded Mr. Erdogan’s riposte.

Across the spectrum, Turkish politicians, despite their deep divisions, took a united front against the United States for freezing the assets of the Turkish interior and justice ministers last week.

Most of the opposition parties in the Parliament condemned the United States sanctions in a joint statement, and the Chambers of Commerce and Industry and other business organizations denounced the sanctions by the United States.

The Ceyhan municipal council, in Turkey’s southern province of Adana, announced that it had revoked its sister-city status with Frisco, Tex., because of the dispute.

Supporters of Mr. Erdogan took to Twitter with the hashtag #Emperyalizmeköleolmayacağız (#We will not be slaves to imperialism), even while acknowledging that the political crisis will not help an already souring economy.

“I have my own company and dollar affects almost our entire business,” said a Twitter post by Erkan Babur, an engineer from Tokat, a province in the Black Sea region, and a local executive member of the right-wing Nationalist Movement Party. “But we are not born as bosses from our mothers. And it is not the dollar that made us the boss.”

“We will close down our company if necessary and paint shoes, sell bagels, thanks to God, but never make Turkey bait for you,” he added.

Newspapers, most of them now under control of businessmen close to the president, took fiercely anti-American stances as well.

“Know your limits, U.S.,” said one headline in the daily Milliyet. Even the newspaper Sözcü, an aggressive nationalist opponent of Mr. Erdogan, called on the government not to bow its head. “Stand tall, that’s enough for us,” one headline read.

Even before Mr. Erdogan ordered matching sanctions on Saturday against two American officials, some analysts had predicted that he would escalate the dispute.

Soner Cagaptay, the director of the Turkish Research Program at the Washington Institute for Near East Policy, predicted an “irrational response from Ankara.”

“Half of Turkey, including many in Erdogan’s circles, has drunk the Kool-Aid and believes that Erdogan is under attack (by his domestic and foreign adversaries) because he’s out to make Turkey great again,” Mr. Cagaptay wrote in a text message.

Kemal Can, writing in the opposition newspaper Cumhuriyet, said much of the dispute was driven by Mr. Erdogan’s personal style.

“Sometimes a cunning tradesman, sometimes a stubborn toughness, sometimes glowering, sometimes bowing, but always with confidence that he would make it happen in the end,” Mr. Can wrote. “A mental state manages this style that Erdogan himself strongly believes in as he molds his close circle around the same religious belief.”

Mr. Erdogan’s propensity to surround himself with yes-men may have led him to misjudge domestic politics in the United States and miscalculate how far he could push Washington, he and others said.

“It is the thinking that ‘we are so valuable that America is not going anywhere,’” said Ahmet Kasim Han, associate professor in international relations at Kadir Has University in Istanbul.

Not only is it wrong, but dangerous, Mr. Han said. “This leads to an escalation that becomes very hard to control and it can really lead to a point where it can all break up.”

The combination of the personalities of Mr. Erdogan and Mr. Trump leave everyone guessing as to the outcome, Asli Aydintasbas, a fellow of the European Council on Foreign Relations, raised in a column on its website.

“It is possible that, in seven or eight months, Brunson will be sitting in his home in North Carolina, Atilla will be back in Turkey, and Trump will be raving about Erdogan on Twitter once again,” Ms. Aydintasbas wrote, describing a proposed deal to exchange the pastor for Mehmet Hakan Atilla, a Turkish banker convicted by an American court.

“But it is also possible that Turkey will become the next Venezuela, clashing with the West and dealing with a dire economic downturn,” she added. “No one can be sure.”

Yet Mr. Erdogan, some analysts pointed out, can also be a pragmatist, capable of conducting an about-face on policy when it suits him.

Officials close to him have continued to offer assurances that an agreement would be found. Foreign Minister Mevlut Cavusoglu has repeated that negotiations were continuing, and reports surfaced Tuesday that a Turkish delegation would travel to Washington within days.

Berat Albayrak, the finance and treasury minister and also the son-in-law of Mr. Erdogan, expressed confidence in a television interview on Friday. “Ties would never break,” Mr. Albayrak said, likening the dispute to an argument within a family.

“Even two siblings in the same household cannot agree on the same issue,” he said. “Wife and husband, partners of 40 years long cannot agree on everything. They sometimes argue and then they make peace.”

His comments were intended to calm the **financial markets** which have suffered losses in the last week since the United States announced the sanctions.

Sedat Ergin, a former Washington correspondent for the newspaper Hurriyet who has followed American-Turkish relations for more than 40 years, suggested that damage control for the economy would be Mr. Erdogan’s priority.

He described the current crisis as the worst he had seen since the weapons embargo over Cyprus by the United States against Turkey 40 years ago.

“It feels like a journey back in time,” Mr. Ergin wrote in a column for Hurriyet Daily News over the weekend.

Both sides were to blame, he said. Turkey did not grasp the grievances that Mr. Brunson’s case caused to the United States. And Washington, he said, had made no progress on the extradition of Fethullah Gulen, who is accused of instigating the 2016 failed coup, and it had disregarded Turkey's security concerns in Syria for far too long.

The relationship would not be easily mended, he said. "There is no magic wand to solve this deadlock with a single touch," he wrote. "Perhaps, it will be best for both sides to put this relationship on ice for a while."

Yet he also saw signs that Mr. Erdogan may yet want a deal.

The president's language, Mr. Ergin wrote, was carefully measured, he expressed the wish that an agreement on the Syrian town of Manbij remain in place, and he made an unusual appeal that was clearly a message to Mr. Trump, the businessman.

Mr. Erdogan complained that some around Mr. Trump were causing the problems by imposing sanctions and "beating the grape grower," while he was for cooperating so both parties could enjoy "eating the grapes."

"Always, everywhere, we are on the side of 'win-win' politics," Mr. Erdogan declared. "We are for every kind of cooperation to eat the grapes. But we will never give the opportunity to those whose aim is to beat the grape grower."

PHOTO: President Recep Tayyip Erdogan of Turkey greeted members of his governing party last week in Ankara, the nation's capital. (PHOTOGRAPH BY TURKISH PRESIDENTIAL PRESS SERVICE)

* Turkey's Erdogan Orders Retaliatory Sanctions Against American Officials

* Turkey Resists Pressure to Release American Pastor From Jail

* Now, Erdogan Faces Turkey's Troubled Economy. And He's Part of the Trouble.

Document INHT000020180808ee880000r

WSJ PRO CENTRAL BANKING

Economy

Jackson Hole Cheat Sheet | Central Bankers Weigh Uncertainties | Kaplan, George Talk Rates Outlook | ECB: Still Need Stimulus | Derby's Take: Some Say Run Economy Hot; The Wall Street Journal's central banking newsletter for Friday, August 24, 2018

2,905 words
24 August 2018
06:56 AM
WSJ Pro Central Banking
RSTPROCB
English

Derby's Take: Some Still Call for Running the Economy Hot

Central Bankers' Jackson Hole Gathering: A Cheat Sheet

Fed's Kaplan Says He Is 'Comfortable' With 4 Rate Increases This Year

ECB Determines Eurozone Still Needs 'Significant' Stimulus

China Getting Even Tougher on Cryptocurrencies a Year After Its Crackdown

Some Still Call for Running the Economy Hot

As central bankers from around the world gather in Jackson Hole this week, expectations that the Federal Reserve will raise rates again at its next meeting seem firmly rooted.

Minutes from the Fed's latest policy gathering, released Wednesday, only helped reinforce that view. But some are still making the case for the central bank to hold off on further rate increases to let the labor market and wage growth gain more steam.

The Kansas City Fed's annual research conference in Wyoming gets rolling with a speech Friday by Fed Chairman Jerome Powell titled "Monetary Policy in a Changing Economy." He will be speaking in a climate where most economists expect the Fed to raise short-term interest rates for the third time this year in September. Markets are placing a 98% probability of a quarter-percentage-point increase then, to a range between 2% and 2.25%, according to CME Group.

The case for higher rates is well-understood at this point: The economy is strong, job creation is robust, and inflation has finally made its way back to right around the Fed's 2% target. Central bankers want rates higher so monetary policy is neutral, rather than stimulative of economic growth. Once they're at that level, they can then decide where to go next.

But the problem remains that, despite the job market's strength, wage gains aren't all that strong. That means that everyday workers who aren't buoyed by financial assets still aren't enjoying the full fruits of one of the economy's longest ever expansions.

Indeed, recent data suggests that the wage gains workers are seeing are being nearly washed away by rising inflation. Higher inflation argues for higher short-term rates, but that could come at the cost of slowing the economy and in turn damping wage gains from already modest levels.

The case for holding off on rate rises isn't finding much favor at the Fed, but some officials have voiced misgivings with moving higher. St. Louis Fed chief James Bullard has warned further increases could push the bond market into a yield-curve inversion in which short-term yields rise above long-term yields, which often has preceded a recession. Minneapolis Fed President Neel Kashkari has said he sees little reason to act given the level of inflation and wage gains.

Elsewhere, others are still arguing the central bank should let the economy run hotter and worry less about inflation in a bid to make sure all groups get better wage gains and employment levels.

A new paper from the left-leaning Economic Policy Institute argues: "The costs of a short period of time running the economy 'too hot' and spurring excess inflation is dwarfed by the potential benefits stemming from faster and more equal wage growth and from reducing race-based disparities in labor market outcomes."

The paper's position isn't likely to sway Mr. Powell' thinking too much. But the issue of workers getting left behind is likely to remain a concern as the Fed, albeit gradually, continues to push interest rates higher.

Key Developments Around the World

Central Bankers' Jackson Hole Gathering: A Cheat Sheet

For the central bankers gathered this week in the Grand Tetons, a meaty discussion of corporate consolidation and declining economic dynamism will take precedence over fly fishing and mountaineering. The Federal Reserve Bank of Kansas City's annual economic retreat begins Thursday evening and runs through Saturday at its traditional venue, the Jackson Lake Lodge, selected decades ago for its appeal to former Fed Chairman Paul Volcker, a fly-fishing enthusiast. Attendance is by invitation only. Here's a roll call of this week's participants and a cheat sheet on what to expect over the next few days.

As Central Bankers Meet, Economic Uncertainties Weigh on Sunny Outlook

Global central bankers are navigating a new set of threats as they decide how aggressively to act in closing out an era of exceptionally easy money. Uncertainties include the prospect of disruptions to economic activity from tariffs imposed by the U.S., and countertariffs imposed by other nations. Emerging markets also look vulnerable if capital flight spreads beyond a handful of countries grappling with currency crises. Then there is the potential for discord between the Federal Reserve and President Trump, who has criticized the central bank in recent weeks for raising interest rates. Fed Chairman Jerome Powell headlines a list of central bankers gathering in the Grand Tetons this week for the Fed's annual retreat. The formal discussion will be about the impact of monopolies on economic activity, but these other issues are sure to dominate sideline talk over cocktails and mountain hiking.

Fed's Kaplan Says He Is 'Comfortable' With Four Rate Increases This Year

Federal Reserve Bank of Dallas President Robert Kaplansaid he is comfortable with the U.S. central bank raising its short-term benchmark interest rate two more times this year to return borrowing costs closer to a level that neither spurs nor slows growth. The Fed has raised the benchmark rate twice so far in 2018, and most officials in June penciled in at least two more moves by year's end to prevent the economy from overheating. "I had been saying most of the year that three [rate increases] was my base case," said Mr. Kaplan in an interview. "I think I'm comfortable at this point…[with] four increases this year, meaning one in September, one in December." Mr. Kaplan spoke on the sidelines of the Kansas City Fed's annual symposium in Jackson Hole.

Fed's Kaplan Says He's Hopeful Rate Rises Won't Invert Yield Curve

Fed's George Calls for More Rate Increases

Federal Reserve Bank of Kansas City leader Esther George reaffirmed her support for more interest-rate increases this year. "I think two more rate hikes this year could be appropriate," Ms. George said Wednesday on Bloomberg's television channel. Ms. George spoke on the sidelines of her bank's annual research conference in Jackson Hole, Wyo., to Bloomberg and CNBC in taped interviews aired Thursday. On CNBC, Ms. George said economic growth could hit 3% for 2018 and that that would be a level of performance stronger than the economy's long-run potential.

Fed's Bostic Says Economic Outlook Is Good, but He Is Watching **Bond Yield** Curve

Federal Reserve Bank of Atlanta President Raphael Bostic wrote in a posting on his bank's website Thursday that the bond-market yield curve is just one of a number of indicators central bankers look at when they seek to divine the economic outlook. In his posting, Mr. Bostic was seeking to address concern over a long-running narrowing in the difference between short- and long-dated Treasury bond yields. Many fear that if the Fed presses forward with rate rises, short-term yields will rise above long-term yields. These so-called inversions of the yield curve are strongly associated with recessions, and officials like Mr. Bostic have said they don't knowingly want to cause an inversion as they press forward with rate rises.

Fed Staff Research Signals Unease About Ignoring Unemployment Drop

New research from the Federal Reserve warns against placing too little attention on an unemployment rate that falls below levels regarded as likely to maintain stable inflation. The work, by top research economists at the central bank, was posted online Thursday, the day before Fed Chairman Jerome Powell is set to speak on challenges facing monetary policy makers at the Kansas City Fed's symposium in Jackson Hole. The paper speaks to a central debate facing the Fed right now: how to set rates when inflation doesn't appear to be accelerating and the unemployment rate is falling to levels that economists expect should push up wages and prices.

Dealers Saw Roughly Two More 2018 Fed Hikes Ahead of Latest FOMC Meeting

Wall Street's biggest banks told the Federal Reserve ahead of its last monetary-policy meeting they were strongly expecting to see the next central bank interest-rate increase arrive in September. According to findings of the July primary-dealer survey conducted by the New York Fed, banks said there was an 89% chance the Fed would increase its overnight target rate range at the Sept. 25-26 Federal Open Market Committee meeting. The survey was conducted last July and released Thursday. Dealers also told the Fed that the overnight target rate range of between 1.75% and 2%, put in place at the June FOMC meeting, would likely be boosted around twice more this year.

ECB Determines Eurozone Still Needs ‘Significant' Stimulus

The eurozone economy still needs "significant" stimulus from monetary policy to ensure inflation continues to climb, according to the minutes of the European Central Bank's last meeting in late July. The ECB's comments underscore a widening gulf with the Federal Reserve, which in its own meeting minutes released Wednesday signaled plans to raise interest rates further in September from the current range of 1.75% to 2%. "Overall, the uncertainties around the inflation outlook still called for caution and it was widely felt that monetary policy had to remain patient, prudent and persistent," the ECB's minutes said.

China Is Getting Even Tougher on Cryptocurrencies a Year After Its Crackdown

China is tightening its clampdown on cryptocurrencies, nearly a year after the government imposed a wide-ranging ban on local exchanges and fundraising for digital currencies. Financial officials in an eastern district of Beijing issued a notice last week to stores, hotels and offices urging them not to host any cryptocurrency-related speeches, events or activities. The document also asked that any activity be reported to local officials and said authorities were acting on behalf of a working group led by the central bank to clean up cryptocurrency trading. In a commentary published in state media on Friday, Sheng Songcheng, an adviser to the People's Bank of China, said that after fundraisings called initial coin offerings were banned last year, government regulation will become even more restrictive.

FINANCIAL REGULATION ROUNDUP

Senate Panel Approves Trump's Pick to Run Consumer-Finance Agency

President Donald Trump's pick to lead the Consumer Financial Protection Bureaucleared a key hurdle Thursday with party-line approval by a Senate committee. The 13-12 vote by the Senate Banking Committee sent Kathy Kraninger's nomination to the full Senate, which is likely to hold a final vote in the coming weeks. If confirmed, Ms. Kraninger, a senior official at the Office of Management and Budget, would replace Mick Mulvaney, who has implemented sweeping changes at the CFPB since taking it over last November. Ms. Kraninger is a close associate of Mr. Mulvaney, who also heads the OMB.

SEC to Rehear Dozens of Cases That Went Before In-House Judges

The Securities and Exchange Commission said it plans to rehear dozens of cases that were pending before its in-house administrative-law judges, following a June Supreme Court ruling that faulted the appointment process for those judges. The agency, in an order late Wednesday revealing how it was responding to the ruling, said it had reappointed the judges to comply with the court holding. The SEC said it would give all the cases pending before the in-house judges, or that had been appealed to the commission, the opportunity for a new hearing.

At Hedge Funds, Where Are the Women?

At hedge funds, women do just about any job—but rarely run the money. Of the largest 50 U.S. hedge funds by assets under management, only two have women as their top investment executive, according to a Wall Street Journal analysis of data from researcher Absolute Return. In that same group of 50 hedge funds, half the investor-relations or marketing departments have female heads or co-heads. Below the top manager, investment teams are overwhelmingly male at hedge funds, according to industry executives, who call it an extreme example of a larger reality: Women are clustered in specific and lower-paying corners of the financial world.

Lenders Shunned Risky Personal Loans. Now They're Competing for Them

Lenders are stepping up offers of personal loans, many to consumers with poor credit histories, promising to fund home renovations, vacations and debt repayments for a group of borrowers they all but ignored in the years after the financial crisis. American Express Co., Goldman Sachs Group Inc., LendingClub Corp. and Social Finance Inc. are among those behind an onslaught of unsolicited mailings offering unsecured loans as large as $100,000. In the first half of this year, lenders mailed a record 1.26 billion solicitations for these loans, according to market-research firm Competiscan.

Juror in Manafort Trial Says There Was One Holdout

One holdout juror kept Paul Manafort from being convicted on all 18 tax- and bank-fraud counts he faced in the Virginia trial that ended earlier this week, another juror said Wednesday. The juror, Paula Duncan, who spoke publicly, said in an interview on Fox News that the evidence in the case against the former Trump campaign chairman was "overwhelming" and that the other jurors had tried to convince the lone holdout, an unidentified woman, to convict on all counts. Instead, the jury voted Tuesday to convict Mr. Manafort on eight counts, including those alleging he had filed false tax returns between 2010 and 2014 in which he failed to report $16 million in income. Jurors were deadlocked on the remaining 10 counts.

Microsoft Hit With U.S. Bribery Probe Over Deals in Hungary

Microsoft Corp. is being investigated by U.S. authorities over potential bribery and corruption related to software sales in Hungary, according to people familiar with the matter. The investigation follows a series of similar probes into Microsoft business partners that surfaced in 2013 in five other countries. The U.S. Justice Department and the Securities and Exchange Commission are probing how Microsoft sold software such as Word and Excel to middleman firms in Hungary that then sold those products to government agencies there in 2013 and 2014, according to these people.

Friday

8:30 a.m. EDT

U.S. Commerce Department releases July durable-goods data

10 a.m. EDT

Fed's Powell speaks at Jackson Hole economic symposium in Wyoming

12:55 p.m. EDT

Bank of England's Haldane speaks on panel at Jackson Hole economic symposium in Wyoming

Saturday

12:25 p.m. EDT

Bank of Canada's Poloz speaks on panel at Jackson Hole economic symposium in Wyoming

Underemployment in the U.S. and Europe

David N.F. Bell and David G. Blanchflower give estimates for a new underemployment rate for 25 European countries, saying that underemployment remains high in most of the nations, in a National Bureau of Economic Research paper. The authors also studied the U.S. and U.K. economies, and found that "underemployment rather than unemployment lowers pay in the years after the Great Recession." They also cite evidence that, in the U.S., "falls in the home ownership rate have helped to keep wage pressure in check."

The Fed Worries About Corporate Monopolies. Investors Should Just Buy Them

"Is rising corporate power hurting capital spending, wage growth and U.S. productivity? Central bankers meeting in Jackson Hole, Wyo., to discuss the issues will be worrying that the answer is yes. Investors should be thrilled if it is," James Mackintosh writes for The Wall Street Journal. "What the Federal Reserve worries about, shareholders should embrace. Less of the economy going to workers means more going to capital—that is, investors. Of course, having a functioning economy and democracy matters, but let the companies that will suffer from that sit in someone else's portfolio."

The number of Americans filing applications for new unemployment benefits fell last week for the third straight week, continuing to hover near historic lows.

Manufacturing activity in a group of states in the middle of the country slowed in August, falling back to levels seen earlier this year and late 2017. Meanwhile, expectations for future activity trended lower.

Mexico's annual inflation rate was unchanged in the first half of August as higher energy and education costs were partially offset by declines in airfares and tourism packages near the end of the summer holiday season.

Argentina's economy contracted 6.7% in June from the year-earlier period, the third consecutive month of decline, the government said Thursday.

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

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

Follow us on Twitter:

@WSJCentralBanks, @NHendersonWSJ, @PaulHannon29, @michaelsderby, @wsj_douglasj, @HarrietTorry, @KateDavidson, @d_harrison, @kimmackrael, @TomFairless, @mikemaloneyny

Document RSTPROCB20180824ee8o000dx

The New York Times

The Upshot
What Will Cause the Next Recession? A Look at the 3 Most Likely Possibilities

By Neil Irwin
1,610 words
2 August 2018
05:18 AM
NYTimes.com Feed
NYTFEED
English

The economic expansion in the United States celebrated its ninth birthday last month. If it survives another year, it will be the longest on record.

But eventually something will kill it. The question is what, and when.

While it's impossible to predict the details or timing of the next recession with any confidence, we can identify some emerging threats to the expansion — and with a bit of imagination, picture how the recession of 2020 (or 2022, or whatever year it ends up being) may unfold.

To be clear, the economy is going gangbusters right now. The nation's G.D.P. rose at an annual rate of 4.1 percent in the second quarter, the strongest quarter of growth since 2014. But when you speak with some of the people who fret and worry about economic risks for a living, a few factors come up repeatedly.

Perhaps most worrisome, many of the culprits in ending the expansion wouldn't necessarily arise in isolation. Rather, each one could make the others worse, meaning the next recession might have multiple causes.

So, with a bit of creative license, here are the three most plausible scenarios for the good times to end.

The Wile E. Coyote Moment

The Federal Reserve has had a relatively easy time over the last year or two. Both inflation and employment have been gradually moving toward healthy levels as the Fed has gradually raised interest rates.

The job facing the Fed and its chairman, Jerome Powell, is on the verge of getting trickier. The risk that the Fed will miscalibrate interest rate policy and cause a slowdown or a recession is rising, in part because of the timing of the tax cuts and spending increases enacted this year.

Krishna Guha, head of global policy and central bank strategy at Evercore ISI, has a term for their likely dilemma: the "train wreck 2020" scenario.

The United States economy is either at or near full employment, and inflation is already near 2 percent. With growth still strong, Mr. Guha says, the Fed may soon find itself needing to raise interest rates more aggressively to keep inflation in check.

But at the same time, mainstream macroeconomic models have the economic lift from tax cuts fading sometime between 2020 and 2022. That means the Fed could be raising interest rates to slow the economy just as tax policy is also working to slow the economy.

Both affect the economy with unpredictable lags, so it could prove hard for the Fed to set policies that can prevent both overheating in 2019 and 2020 and a downturn in 2021 and 2022.

"There is probably some kind of perfect path where the Fed could thread the needle on this," raising rates just enough to prevent overheating but not enough to leave rates so high as to risk a recession once the impact of tax cuts fades, Mr. Guha said. "But what's the likelihood that you'll thread that needle? It's not one you'd want to be betting the farm on."

The former Federal Reserve chairman Ben Bernanke put it more colorfully at a conference in June. The stimulative benefit of the tax cut "is going to hit the economy in a big way this year and the next year," he said. "And then in 2020, Wile E. Coyote is going to go off the cliff."

Pop Goes the Debt Bubble

The last two recessions started with the popping of an asset bubble. In 2001 it was dot-com stocks; in 2007 it was houses and the mortgage securities backed by them.

So it makes sense to look to various markets that might be getting bubbly in dangerous ways. And that search leads quickly to debt markets, both in the United States and overseas.

Corporations have loaded up on debt over the last decade, spurred by low interest rates and the opportunity to increase returns for shareholders. The value of corporate bonds outstanding rose by $2.6 trillion in the United States between 2007 and 2017, according to data from the McKinsey Global Institute — rising to about 25 percent of G.D.P. from about 16 percent.

The rise in debt loads overseas, especially in emerging markets, is even greater, according to McKinsey's data — as is a shift toward more debt being owed by riskier borrowers.

Essentially, businesses have been in a sweet spot for years, in which profits have gradually risen while interest rates have stayed low by historical measures. If either of those trends were to change, many companies with higher debt burdens might struggle to pay their bills and be at risk of bankruptcy.

The 2020 train wreck narrative could intersect with the corporate debt boom. If inflation were to get out of control and the Fed raised interest rates sharply, companies that can handle their debt payments at today's low interest rates might become more strained. Moreover, with federal deficits on track to rise in the years ahead, the federal government's borrowing needs could crowd out private borrowing, which would result in higher interest rates and even more challenges for indebted companies.

The International Monetary Fund included a warning about this run-up in global corporate debt in its most recent Global Financial Stability Report. If inflation were to rise more quickly, Tobias Adrian, an I.M.F. official, said in a news conference, it could "trigger a sudden tightening in financial conditions and a sharp fall in asset prices," which is I.M.F.-speak for the kind of thing that can endanger economic growth.

Susan Lund, a partner at McKinsey, does not see the rise in debt as likely to cause some macroeconomic crisis, but said it could cause distress for individual companies.

"I think there will be a rise in defaults, but I'm not alarmed," she said. "I don't see systemic interlinkages."

The 2007 housing downturn became a 2008 global financial crisis because mortgage-backed securities were stuffed throughout a highly leveraged global financial system. The 2000 dot-com crash became a 2001 recession because it triggered a broader pullback in corporate investment.

The question is whether the potential challenges for corporate borrowers in the years ahead can remain more isolated than in those precedents.

The Trade War Cometh

Many words have been devoted to the economic risks of the trade war with China and other trading partners.

It is relatively easy to identify individuals and companies with plenty to lose. But exports are only about 8 percent of total G.D.P. in a $20 trillion United States economy. The direct economic cost of the American tariffs on imports and retaliatory actions by other countries announced so far should be half a percent of total G.D.P. or less, hardly enough to raise recession alarm bells.

"Trade just isn't that big," said Eric Winograd, senior economist at AllianceBernstein. "I have a very hard time coming up with numbers that would be big enough to cause a recession based on the trade math alone."

For the trade war to trigger a recession, then, it would need to escalate to a much larger scale than the limited tariffs on steel, aluminum, solar cells, washing machines and $34 billion in Chinese products currently covered.

Even if it were to expand to encompass hundreds of billions of dollars worth of imports, as President Trump has threatened, in order to cause a recession it would need to prompt a broader crisis of confidence.

Perhaps the economic damage will be higher in other countries that are more reliant on trade than the United States, causing a slowdown in the global economy that reduces demand for American products over and beyond what tariffs might cause.

A global slowdown could also cause huge losses in American stock and bond markets, as American companies' revenues abroad could plummet. That means a hit to Americans' wealth and more expensive capital for businesses. It could be the thing that triggers a popping of the corporate debt bubble.

For the trade war to cause a recession, it would probably need to do major damage to business confidence, and lead companies to hold back from capital investments because of uncertainty over the future of trade policy.

So a trade war alone might not directly cause a recession in the United States. But a trade war that causes a global economic slowdown, a market sell-off and an evaporation of business confidence certainly could.

What are the odds of that? In a recent report, Moody's Analytics puts what it calls the "trade conflagration" scenario, which includes a late 2019 recession, at 10 percent likelihood.

More likely, the report argued, trade brinkmanship will continue until global **financial markets** weaken, leading to a deal that results in some of the most severe risks being taken off the table.

Each week seems to bring alternating signals of the risks of a trade war. In mid-July, President Trump floated threats to apply tariffs to all Chinese imports, which would drastically escalate the trade war. By late July, he was making more conciliatory gestures toward the European Union about striking a deal to lower tariffs across the board.

Regardless of the true odds of the three scenarios, this much we know: The seeds of the next downturn have almost certainly already been planted. The question is which of them will grow into a problem big enough to matter.

Large bubbles at a bluegrass festival in Owensboro, Ky. | Greg Eans/The Messenger-Inquirer, via Associated Press

Document NYTFEED020180802ee820025t

International New York Times

upshot

What Will Cause the Next Recession? A Look at the 3 Most Likely Possibilities

By NEIL IRWIN
1,669 words
5 August 2018
International New York Times
INHT
English

The economic expansion in the United States celebrated its ninth birthday last month. If it survives another year, it will be the longest on record.

But eventually something will kill it. The question is what, and when.

While it's impossible to predict the details or timing of the next recession with any confidence, we can identify some emerging threats to the expansion — and with a bit of imagination, picture how the recession of 2020 (or 2022, or whatever year it ends up being) may unfold.

To be clear, the economy is going gangbusters right now. The nation's G.D.P. rose at an annual rate of 4.1 percent in the second quarter, the strongest quarter of growth since 2014. But when you speak with some of the people who fret and worry about economic risks for a living, a few factors come up repeatedly.

Perhaps most worrisome, many of the culprits in ending the expansion wouldn't necessarily arise in isolation. Rather, each one could make the others worse, meaning the next recession might have multiple causes.

So, with a bit of creative license, here are the three most plausible scenarios for the good times to end.

The Wile E. Coyote Moment

The Federal Reserve has had a relatively easy time over the last year or two. Both inflation and employment have been gradually moving toward healthy levels as the Fed has gradually raised interest rates.

The job facing the Fed and its chairman, Jerome Powell, is on the verge of getting trickier. The risk that the Fed will miscalibrate interest rate policy and cause a slowdown or a recession is rising, in part because of the timing of the tax cuts and spending increases enacted this year.

Krishna Guha, head of global policy and central bank strategy at Evercore ISI, has a term for their likely dilemma: the "train wreck 2020" scenario.

The United States economy is either at or near full employment, and inflation is already near 2 percent. With growth still strong, Mr. Guha says, the Fed may soon find itself needing to raise interest rates more aggressively to keep inflation in check.

But at the same time, mainstream macroeconomic models have the economic lift from tax cuts fading sometime between 2020 and 2022. That means the Fed could be raising interest rates to slow the economy just as tax policy is also working to slow the economy.

Both affect the economy with unpredictable lags, so it could prove hard for the Fed to set policies that can prevent both overheating in 2019 and 2020 and a downturn in 2021 and 2022.

"There is probably some kind of perfect path where the Fed could thread the needle on this," raising rates just enough to prevent overheating but not enough to leave rates so high as to risk a recession once the impact of tax cuts fades, Mr. Guha said. "But what's the likelihood that you'll thread that needle? It's not one you'd want to be betting the farm on."

The former Federal Reserve chairman Ben Bernanke put it more colorfully at a conference in June. The stimulative benefit of the tax cut “is going to hit the economy in a big way this year and the next year,” he said. “And then in 2020, Wile E. Coyote is going to go off the cliff.”

Pop Goes the Debt Bubble

The last two recessions started with the popping of an asset bubble. In 2001 it was dot-com stocks; in 2007 it was houses and the mortgage securities backed by them.

So it makes sense to look to various markets that might be getting bubbly in dangerous ways. And that search leads quickly to debt markets, both in the United States and overseas.

Corporations have loaded up on debt over the last decade, spurred by low interest rates and the opportunity to increase returns for shareholders. The value of corporate bonds outstanding rose by $2.6 trillion in the United States between 2007 and 2017, according to data from the McKinsey Global Institute — rising to about 25 percent of G.D.P. from about 16 percent.

The rise in debt loads overseas, especially in emerging markets, is even greater, according to McKinsey’s data — as is a shift toward more debt being owed by riskier borrowers.

Essentially, businesses have been in a sweet spot for years, in which profits have gradually risen while interest rates have stayed low by historical measures. If either of those trends were to change, many companies with higher debt burdens might struggle to pay their bills and be at risk of bankruptcy.

The 2020 train wreck narrative could intersect with the corporate debt boom. If inflation were to get out of control and the Fed raised interest rates sharply, companies that can handle their debt payments at today’s low interest rates might become more strained. Moreover, with federal deficits on track to rise in the years ahead, the federal government’s borrowing needs could crowd out private borrowing, which would result in higher interest rates and even more challenges for indebted companies.

The International Monetary Fund included a warning about this run-up in global corporate debt in its most recent Global Financial Stability Report. If inflation were to rise more quickly, Tobias Adrian, an I.M.F. official, said in a news conference,it could “trigger a sudden tightening in financial conditions and a sharp fall in asset prices,” which is I.M.F.-speak for the kind of thing that can endanger economic growth.

Susan Lund, a partner at McKinsey, does not see the rise in debt as likely to cause some macroeconomic crisis, but said it could cause distress for individual companies.

“I think there will be a rise in defaults, but I’m not alarmed,” she said. “I don’t see systemic interlinkages.”

The 2007 housing downturn became a 2008 global financial crisis because mortgage-backed securities were stuffed throughout a highly leveraged global financial system. The 2000 dot-com crash became a 2001 recession because it triggered a broader pullback in corporate investment.

The question is whether the potential challenges for corporate borrowers in the years ahead can remain more isolated than in those precedents.

The Trade War Cometh

Many words have been devoted to the economic risks of the trade war with China and other trading partners.

It is relatively easy to identify individuals and companies with plenty to lose. But exports are only about 8 percent of total G.D.P. in a $20 trillion United States economy. The direct economic cost of the American tariffs on imports and retaliatory actions by other countries announced so far should be half a percent of total G.D.P. or less, hardly enough to raise recession alarm bells.

“Trade just isn’t that big,” said Eric Winograd, senior economist at AllianceBernstein. “I have a very hard time coming up with numbers that would be big enough to cause a recession based on the trade math alone.”

For the trade war to trigger a recession, then, it would need to escalate to a much larger scale than the limited tariffs on steel, aluminum, solar cells, washing machines and $34 billion in Chinese products currently covered.

Even if it were to expand to encompass hundreds of billions of dollars worth of imports, as President Trump has threatened, in order to cause a recession it would need to prompt a broader crisis of confidence.

Perhaps the economic damage will be higher in other countries that are more reliant on trade than the United States, causing a slowdown in the global economy that reduces demand for American products over and beyond what tariffs might cause.

A global slowdown could also cause huge losses in American stock and bond markets, as American companies' revenues abroad could plummet. That means a hit to Americans' wealth and more expensive capital for businesses. It could be the thing that triggers a popping of the corporate debt bubble.

For the trade war to cause a recession, it would probably need to do major damage to business confidence, and lead companies to hold back from capital investments because of uncertainty over the future of trade policy.

So a trade war alone might not directly cause a recession in the United States. But a trade war that causes a global economic slowdown, a market sell-off and an evaporation of business confidence certainly could.

What are the odds of that? In a recent report, Moody's Analytics puts what it calls the "trade conflagration" scenario, which includes a late 2019 recession, at 10 percent likelihood.

More likely, the report argued, trade brinkmanship will continue until global **financial markets** weaken, leading to a deal that results in some of the most severe risks being taken off the table.

Each week seems to bring alternating signals of the risks of a trade war. In mid-July, President Trump floated threats to apply tariffs to all Chinese imports, which would drastically escalate the trade war. By late July, he was making more conciliatory gestures toward the European Union about striking a deal to lower tariffs across the board.

Regardless of the true odds of the three scenarios, this much we know: The seeds of the next downturn have almost certainly already been planted. The question is which of them will grow into a problem big enough to matter.

PHOTOS: Above, the port in Lianyungang, China, last month, when the country's surplus with the United States hit a record high. Left, the former Federal Reserve Board chairman Ben Bernanke, who predicted that in 2020 the economy "is going to go off the cliff." Below left, Christine Lagarde of the International Monetary Fund, which recently issued a warning regarding corporate debt. (PHOTOGRAPHS BY AGENCE FRANCE-PRESSE — GETTY IMAGES; ALEX WONG/GETTY IMAGES; GUSTAVO GARELLO/ASSOCIATED PRESS)

Document INHT000020180805ee850000f

Business Day
5 Takeaways From Elon Musk's Interview With The Times About Tesla

By Prashant S. Rao
820 words
17 August 2018
06:06 AM
NYTimes.com Feed
NYTFEED
English

Tesla is not considering hiring a second in command, the electric carmaker's founder and chief executive, Elon Musk, said in wide-ranging comments to The New York Times.

Mr. Musk's remarks came during an hourlong interview Thursday in which he described the extraordinary demands of running Tesla and the profound effect it has had on his personal life.

"If you have anyone who can do a better job, please let me know. They can have the job," he said from his home in Los Angeles. "Is there someone who can do the job better? They can have the reins right now."

[Read more from Mr. Musk's interview.]

Here are five takeaways from the interview.

Impromptu Tweet on the Way to the Airport

Mr. Musk provided a detailed timeline of the events that preceded thetweet that roiled **financial markets**, outlining how the day began with an early workout at his home before he drove himself to the airport in a Tesla Model S.

En route, he typed out the message that provoked the latest crisis over his leadership of Tesla.

Mr. Musk said no one reviewed or saw the tweet before he sent it, but the post sent Tesla's shares soaring. He then reached the airport and took a private jet to a Tesla battery plant in Nevada. Later that evening, he flew to the San Francisco Bay Area and held meetings into the night.

When Mr. Musk sent out the tweet, Tesla's share price rocketed upward, finally closing up 11 percent to finish the day just above $379. He said in the interview that he had sought to offer shareholders a roughly 20 percent premium over where the stock had recently been trading, and rounded up to $420 a share.

Since then, however, Tesla's share price has nose-dived. On Friday, Tesla shares ended trading at $305.50, a fall of about 9 percent for the day — and about 24 percent lower from where the price closed on the day of the tweet.

Will There Be a No. 2?

"To the best of my knowledge," Mr. Musk told The Times on Thursday, there was "no active search right now." People familiar with the matter, however, said that executives were looking for a No. 2 executive, and one person said the hunt had intensified in recent weeks.

A couple of years ago, Tesla approached Sheryl Sandberg, currently Facebook's second most senior executive, about the job, Mr. Musk said.

No Regrets

Although his tweet prompted questions from the Securities and Exchange Commission — such information is usually issued through official channels after extensive preparation — and from his own board, Mr. Musk said he did not regret sending it.

“Why would I?” he asked.

The Tesla chief said he did not plan to stop using Twitter, either. Some board members have recently told him that he should lay off the social media platform and focus on his company, according to people familiar with the matter.

‘Not on Weed’

Once Mr. Musk’s tweet about taking Tesla private was posted, speculation was rife that his target share price, $420, held an implicit message — the number has become code for marijuana in counterculture lore.

Mr. Musk was, however, definitive in his response. “I was not on weed, to be clear,” he said.

“Weed is not helpful for productivity. There’s a reason for the word ‘stoned.’ You just sit there like a stone on weed.”

He did note, though, that he sometimes takes Ambien to help him sleep when he is not working, a practice that has worried some of Tesla’s board members.

They worry that the drug does not put Mr. Musk to sleep, but instead contributes to late-night Twitter sessions, a person familiar with the matter said. Some board members are also aware that Mr. Musk has occasionally used recreational drugs, according to people familiar with the matter.

‘The Worst Is Yet to Come’

Mr. Musk outlined the toll that running Tesla had taken on his personal life, from spending the entirety of his birthday at work to nearly missing his brother’s wedding, where he was to be best man.

But while that effort appears to have helped Tesla gain a firmer footing, things could get worse for him personally, he said.

“I thought the worst of it was over — I thought it was,” he said. “The worst is over from a Tesla operational standpoint.”

“But from a personal pain standpoint,” Mr. Musk added, “the worst is yet to come.”

Follow Prashant S. Rao on Twitter: @prashantrao.

* Elon Musk Details ‘Excruciating’ Personal Toll of Tesla Turmoil

In a wide-ranging interview with The New York Times, Elon Musk spoke of the heavy toll that running Tesla has taken on his personal life. | Joshua Lott/Getty Images

Document NYTFEED020180817ee8h0028l

International New York Times

opinion

Trump's Economic Claims Are Overblown; Contributing Op-Ed Writer

By STEVEN RATTNER
821 words
6 August 2018
International New York Times
INHT
English

For the second consecutive Friday, the Trump administration had an opportunity to point to fresh data that supposedly demonstrates the strong boost the president's policies have given to the nation's economy. Last week, news that the gross domestic product expanded at a 4.1 percent rate in the second quarter occasioned a presidential appearance on the south lawn of the White House. Friday's announcement that 157,000 new jobs were added in July was marked more modestly, with a statement from the White House.

Yes, the economy is continuing to expand nicely, which all Americans should celebrate. But no, there's nothing remarkable in the overall results since Mr. Trump took office. Most importantly, there is little evidence that the president's policies have meaningfully improved the fortunes of those "forgotten" Americans who elected him.

Let's start with the jobs numbers. While the latest figures are certainly positive, the United States has been adding jobs since well before Mr. Trump took office. And the rate of job growth during Mr. Trump's first 19 months in office (194,000 jobs per month) is slightly less than the rate at which jobs were added during President Barack Obama's final 19 months (205,000 per month). So the good news on jobs is the same good news Americans have been hearing for the last three years.

With each month's jobs figures, the Labor Department also releases the latest wage data, which often gets short shrift in the news accounts. That's unfortunate because for a majority of the roughly 150 million Americans who have jobs, the income picture is harsh and not improving.

After adjusting for inflation, wages have barely increased during the Trump presidency. When July's Consumer Price Index is reported next week, it is likely to show that whatever modest increase workers are getting in their wages continues to be eaten up by rising prices.

Over the first 18 months since Mr. Trump took office, real earnings, which reflect earnings after accounting for inflation, rose at an annual rate of just 0.3 percent.

Then there's the matter of the seemingly stellar second-quarter increase in gross domestic product of 4.1 percent. That also requires context. For one thing, quarterly numbers can be **volatile**, and the most recent figure includes an unusual number of special factors.

Notably, there are the tax reductions and spending increases concocted by the Trump administration and Congress, which added an estimated 0.8 percent to quarterly G.D.P. growth while more than doubling next year's federal deficit to nearly $1 trillion.

Another one-time event propping up growth is the rush by farmers to export more soybeans, particularly to China, before July 6, the date when tariffs on soybeans went into effect. That accounted for about 0.6 percent of the growth in the second quarter, according to Pantheon Macroeconomics, a research firm.

Without these extraordinary interventions, the underlying rate of economic expansion in the second quarter of this year was about 2.7 percent, according to calculations by the Committee for a Responsible Federal Budget, a fiscal policy research and advocacy group.

Moreover, that 4.1 percent number isn't heroic. During the Obama presidency, the economy produced four quarters of growth that were higher. And the consensus among private and government forecasters is that the G.D.P. growth rate is likely to ebb quickly, once tariffs are actually in effect and the tax cut gains are all realized. Goldman Sachs, for example, forecasts that the annualized growth rate will fall to 3.3 percent in the third quarter and then taper down to 1.5 percent by the end of 2019.

Beyond all the facts and figures, let's not forget that the Trump administration's policies have done little for the average worker. Mr. Trump's tax cut delivered 84 percent of its benefits to business and to individuals with incomes above $75,000 a year. A typical middle-income worker will get a $930 reduction in his taxes this year, half of which will be consumed by higher gasoline prices.

That's the key lesson from all these numbers: Whatever claims Mr. Trump may make about the economy as the midterm elections approach, most Americans have yet to experience any improvement in their economic well-being. And there's little sign of that sorry situation changing. In fact, it could even get worse.

Follow The New York Times Opinion section on Facebook and Twitter (@NYTopinion), and sign up for the Opinion Today newsletter.

Steven Rattner, who served as counselor to the Treasury secretary in the Obama administration, is a Wall Street executive and a contributing opinion writer. For latest updates and posts, please visit stevenrattner.com and follow me on Twitter (@SteveRattner) and Facebook.

Document INHT000020180806ee860000l

THE WALL STREET JOURNAL.

Economy

Fed Research Director David Wilcox to Retire at Year's End; David Wilcox, a 30-year veteran at central bank, has run the Fed's research and statistics division since 2011

By Paul Kiernan
335 words
20 August 2018
11:40 AM
The Wall Street Journal Online
WSJO
English

WASHINGTON—The Federal Reserve Board said its head economist will retire at the end of 2018, in what would be the most significant change in a senior staff position since Chairman Jerome Powell took office in February.

David Wilcox plans to step down after a seven-year stint as director of research and statistics at the Fed board and 30 years of total service at the central bank, the board said in a statement. A search for his successor will begin later this year.

As research director, Mr. Wilcox has fulfilled one of the most important roles at the central bank outside the committee that votes to set interest rates. The Fed's research director is responsible for briefing the committee on the outlook for the U.S. economy, overseeing 350 employees who produce analysis and forecasting of the domestic economy and **financial markets**.

Staff economists at the Fed produced overly optimistic forecasts for U.S. economic growth during the earlier years of Mr. Wilcox's tenure. Last year, however, they correctly predicted that an inflation slowdown would prove temporary, a key projection that encouraged officials to continue raising rates even though inflation was below the 2% target.

Had the Fed waited to raise rates, inflation, which in recent months has crept slightly above-target, could have accelerated too much. That likely would have forced the Fed to act more aggressively, potentially harming the economy.

"David's depth of expertise and wise counsel have helped guide the Federal Reserve through a time of unprecedented challenges," Mr. Powell said in a statement. "We will miss his prowess as an economist, his leadership in promoting diversity and inclusion in the field of economics, as well as his incomparable wit and good humor."

Write to Paul Kiernan at paul.kiernan@wsj.com

Document WSJO000020180820ee8k002bd

THE WALL STREET JOURNAL.
U.S. EDITION

REVIEW & OUTLOOK (Editorial)
Half a Nafta

947 words
28 August 2018
The Wall Street Journal
J
A14
English

The Presidents of America and Mexico announced a new trade agreement Monday that Donald Trump called "much better" than the North American Free Trade Agreement. We'll reserve judgment until we see the fine print, but on first inspection this is half a Nafta that contains some improvements but is notably worse in many ways. Whether it can pass Congress is far from certain.

Financial markets staged a modest relief rally Monday on the talk of trade progress. At least for now, and at least for Mexico, Mr. Trump has set aside his threat to withdraw unilaterally from Nafta. We're not sure he has the legal authority to withdraw, and it would be a huge economic blow to all of North America if he did -- and to his own chances for re-election. But with Mr. Trump, self-damage isn't always an effective restraint.

The good news in the new deal includes an extension on data protection for biologic drugs to 10 years from five. Genetically modified crops couldn't be discriminated against, and there are protections for agriculture producers such as cheese farmers against regulatory abuse. These and other details are helpful modernizations for a pact that is nearly 25 years old.

The U.S. also seems to have stepped back from its demand for a five-year "sunset" that was essentially a backdoor way to dampen cross-border investment. The two parties agreed instead to a 16-year pact with a review period after six years. They could then extend the pact for another 16 years if everyone is happy, or they could renegotiate areas that have become problems. This introduces more political uncertainty for investors than under the current pact but may be tolerable.

The new deal has many problems, however, not least that it excludes Canada. U.S. Trade Rep Robert Lighthizer used the desire of Mexican President Enrique Pena Nieto to sign a deal before he leaves office to raise the negotiating pressure on Canada. Mr. Trump implied Monday that either Ottawa signs on or he'll slap a 25% tariff on cars made in Canada.

Canada handled that threat with prudent restraint, praising the U.S.-Mexico "progress" and offering to rejoin trilateral talks this week. Mr. Trump griped Monday with cause about Canada's dairy protection, but Canada is right to want to retain Nafta's Chapter 19 provisions that provide a way to settle trade disputes by a special tribunal.

Another problem, a large one, is that the bilateral deal strips current protections from most U.S. investors in Mexico. Oil and gas, telecom and power-generation investors will retain what they now have. Others will be protected only against physical expropriation.

But countries other than Venezuela are smart enough not to send in the police to occupy a plant or hotel. They'll use regulation to favor domestic competitors. Believe it or not, this was a Trump-Lighthizer demand: They figure that if U.S. companies are more vulnerable to foreign abuse, CEOs will keep their money at home. This is economic nonsense since American workers prosper when their companies prosper -- abroad and at home. Why make it harder for U.S. firms to court customers abroad?

The deal also imposes new red tape and costs on the auto industry to punish imports. The deal says that to get tariff-free treatment cars sold in North America must have 75% of their content made here, up from 62.5%, and at least 40% of the content must be made with workers who earn $16 an hour.

This is politically managed trade, and its economic logic is the opposite of Mr. Trump's domestic deregulation agenda. Ford and GM seem to have made their peace with this intrusion into their management, but car makers with assembly plants in Tennessee, Alabama and other GOP-leaning U.S. states could suffer if they import more than 25% of their parts.

This auto gambit is part of the Trump-Lighthizer strategy to blow up global supply chains, and it is a political strategy to get a revised deal through Congress. That also explains the deal's new labor provisions that go far to imposing U.S.-style labor laws on Mexico. The details still aren't clear, but Mr. Lighthizer said Monday those rules will be "enforceable" on Mexico as part of the new deal.

Mr. Lighthizer has quietly courted Ohio Democrat Sherrod Brown and protectionist Lori Wallach of Public Citizen during the negotiations. He's betting that helping the AFL-CIO unionize more of Mexican industry will coax Democrats to support a new Nafta. Good luck with that. No trade deal has passed in recent decades without a preponderance of Republican votes. Democratic leaders in Congress have fought every one.

Yet by waiting so long to strike a new deal, Mr. Lighthizer may have made himself hostage to Democrats. Under trade-promotion law, there isn't enough time to vote on the revised deal during the current Congress. The deal would go to the next Congress, which could be run by Nancy Pelosi and Chuck Schumer. Are they really going to support a Donald Trump trade deal? The President will need their votes because free-trade Republicans and U.S. businesses are likely to be a hard sell.

The deal announced Monday has moving parts and there is still time to make improvements before it is signed and sent to Congress. We're glad to see Mr. Trump step back from the suicide of Nafta withdrawal, but on the public evidence so far his new deal is worse.

Document J000000020180828ee8s00014

The New York Times

Business/Financial Desk; SECTB
Fed Keeps Rates Steady But Signals It Will Raise Them, Defying Trump

By JIM TANKERSLEY
1,209 words
2 August 2018
The New York Times
NYTF
Late Edition - Final
2
English

WASHINGTON -- The Federal Reserve raised its already high marks for the state of the economy on Wednesday, refusing to bow to President Trump's recent push for the central bank to pause its march toward higher interest rates.

Federal Open Market Committee officials voted unanimously at the end of their two-day meeting to keep interest rates unchanged, at a range of 1.75 to 2 percent. But the statement they issued keeps the Fed on track to raise rates next month and again in December, after two rate increases in the first half of the year. Its revised assessments of economic growth and the inflation rate could signal that those coming increases are even more likely than investors previously thought.

The statement declared that the job market continues to strengthen and that ''economic activity has been rising at a strong rate.'' That is a change from the June statement, when the Fed said economic growth was ''solid.'' Officials also improved their assessment of consumer spending, saying that it has ''grown strongly.''

The Fed statement did not convey any concern that Mr. Trump's trade policies could hamper growth, nor did it suggest worry about the sluggish pace of wage increases for most workers. The Fed chairman, Jerome H. Powell, fielded a barrage of questions from members of Congress on those topics in testimony last month.

In their statement on Wednesday, Fed officials said the overall inflation rate and the rate that excludes **volatile** food and energy prices both ''remain near 2 percent,'' which is the Fed's target level. In June, officials said those rates ''have moved close to 2 percent.''

In keeping with previous statements, officials continued to signal they will raise rates again soon, saying they expect ''that further gradual increases in the target range for the federal funds rate will be consistent with sustained expansion of economic activity, strong labor market conditions and inflation near the committee's symmetric 2 percent objective over the medium term.''

The slight changes reflect improving economic data in recent weeks. Economic growth clocked in above a 4 percent rate for the second quarter, and inflation ran slightly above 2 percent.

The statement did not come with an updated set of economic forecasts issued after the meeting or a question-and-answer session with Mr. Powell, who gives quarterly news conferences now but has chosen to pick up the pace next year and brief reporters after every Fed meeting. So there was no direct response to Mr. Trump, who has broken recent protocol and publicly criticized the Fed's path of rate increases, worrying that they will dampen a strong economic run.

Here are four takeaways from Wednesday's Fed statement:

The economy is running hot, but inflation fears remain contained.

Mr. Powell has consistently played down the notion that the economy is close to ''overheating'' -- growing so fast, with unemployment so low, that it sets off a rapid escalation in wages and consumer prices. The economy's 4.1 percent growth rate in the second quarter certainly is rapid, but its current pace for the year, about 3 percent, is only slightly above the Fed's most recent forecasts. The statement acknowledged that acceleration but expressed no concern over it.

"Risks to the economic outlook appear roughly balanced," officials wrote, meaning that the likelihood is about the same that things could get better or worse in the economy. It's standard language of late for the Fed, and in keeping with analysts' expectations.

"We expect only minor changes to the policy statement to reflect the latest developments in the economy," economists at Bank of America Merrill Lynch wrote in a research note on Tuesday.

Trade fears aren't showing up in data.

As Mr. Powell noted in his testimony before Congress last month, the Fed has heard a lot anecdotally from businesses about fears of Mr. Trump's tariffs and threats hurting investment and growth -- but those fears have not shown up in the economic data. That's partly because a pre-tariff surge in soybean exports helped prop up growth in the second quarter, a trend that economists warn will reverse in the back half of the year.

"The escalating trade rhetoric hampers forecasters' near-term view of the economy, which is a particular problem for the Fed currently as it attempts to engineer a soft landing from the current expansion," Deutsche Bank researchers wrote this week.

A question before the meeting was whether the trade war had escalated enough to merit a warning in the statement.

Answer: It has not.

The Fed's next move still looks to be a rate increase.

Nothing in the statement suggested that officials are worried about growth or prepared to slow their pace of rate increases, a development that defies some recent Fed attempts to leave its options open on next policy moves.

Even when the Fed is not raising or cutting rates, it still sends signals to the market about where monetary policy is headed, through subtle, but crucial, changes in language. Some of those recent changes have sent a purposefully muddy signal, apparently meant to demonstrate flexibility to respond to events in the economy.

For example, in his testimony last month, Mr. Powell, the leader of the Federal Open Market Committee, said that "with a strong job market, inflation close to our objective and the risks to the outlook roughly balanced, the F.O.M.C. believes that -- for now -- the best way forward is to keep gradually raising the federal funds rate."

Analysts saw that phrase and honed in on "for now."

"The inclusion of those words diluted the signal for continued gradual tightening, but not necessarily in a dovish or a hawkish way," Jim O'Sullivan, chief United States economist for High Frequency Economics, wrote this week. "Rather, as we have been discussing, their inclusion continued the recent trend toward reduced forward guidance: The pace of tightening could be stepped up or slowed down, depending on the data."

That still seems possible, particularly from Mr. Powell's recent testimony, but the statement only points one way for now.

The Fed will not be bullied.

Mr. Trump has made no secret of his disagreement with the Fed's rate increases, tweeting last month that the central bank's moves undercut the United States economy and that its pattern of rate increases "hurts all that we have done."

The president, who had accused the Fed of keeping interest rates artificially low to help President Barack Obama, now appears ready to blame the central bank for trying to slow down a booming economy.

Mr. Powell has insisted the Fed is an independent body that moves in response to economic data, not political pressure. The statement seems to back that up. We'll have to wait for direct questioning at the next meeting, but for now, the Fed is telling Mr. Trump, in its very Fed way, to mind his own business.

Jerome H. Powell, the chairman of the Federal Reserve, has played down the idea that the economy is close to "overheating." (PHOTOGRAPH BY AL DRAGO FOR THE NEW YORK TIMES)

Document NYTF000020180802ee820004c

THE WALL STREET JOURNAL.
U.S. EDITION

U.S. News: Head Economist Will Step Down

By Paul Kiernan
229 words
21 August 2018
The Wall Street Journal
J
A2
English

The Federal Reserve Board said its head economist will retire at the end of 2018, in what would be the most significant change in a senior staff position since Chairman Jerome Powell took office in February.

David Wilcox plans to step down after a seven-year stint as director of research and statistics at the Fed board and 30 years of total service at the central bank, the board said.

As research director, Mr. Wilcox has fulfilled one of the most important roles at the central bank outside the committee that votes to set interest rates. The Fed's research director is responsible for briefing the committee on the outlook for the U.S. economy, overseeing 350 employees who produce analysis and forecasting of the domestic economy and **financial markets**.

Staff economists at the Fed produced overly optimistic forecasts for U.S. economic growth during the earlier years of Mr. Wilcox's tenure. Last year, however, they correctly predicted that an inflation slowdown would prove temporary, a key projection that encouraged officials to continue raising rates even though inflation was below the 2% target.

"David's depth of expertise and wise counsel have helped guide the Federal Reserve through a time of unprecedented challenges," Mr. Powell said in a statement.

Document J000000020180821ee8l0000t

THE WALL STREET JOURNAL.

Economy

Inequality Grows Between Top Firms, Everybody Else, Paper Finds; Most of the increase in earnings inequality 'has happened between firms rather than within firms,' paper says

By Paul Kiernan
436 words
24 August 2018
10:30 AM
The Wall Street Journal Online
WSJO
English

JACKSON HOLE, Wyo.—Differences between companies' productivity, sales volumes and wages have grown across a range of industries, a trend that might help explain widening income disparities among workers in recent decades, according to a paper released at a conference here Friday.

The author, Massachusetts Institute of Technology economist John Van Reenen, found that both sales and employment have tended to become increasingly concentrated among the largest firms in a given industry over the past 30 years in the U.S. Economists have noted similar growth in sales concentration in nine European Union nations where comprehensive data are available.

The differences extend to worker pay.

"Just about all of the increase in earnings inequality has happened between firms rather than within firms (except maybe for the top percentile, dominated by the CEO)," Mr. Van Reenen wrote.

The findings appear consistent with a theory that globalization and rapid technological advancement may facilitate the rise of "superstar firms" such as Apple Inc., Amazon.com Inc. and Google, Mr. Van Reenen wrote. As such companies grow more productive and dominant of their markets, a sorting of labor may take place whereby skilled workers increasingly flock to firms employing other skilled workers, and vice versa.

"Increased concentration brings with it the concern of market power and indeed, some have argued that many of the economic ills we face today in terms of sluggish productivity and real wage growth are due to rising monopoly power," Mr. Van Reenen said. "My view is that this conclusion is premature."

But while he didn't conclude that anticompetitive behavior is the reason for deepening inequality among companies, Mr. Van Reenen said the largest firms in each industry do appear increasingly likely to remain there five years later. As a result, antitrust authorities would do well to watch out for practices that harm future innovation and competition.

"If superstar firms attain their dominant positions on the merits, it does not mean that they will always use their market power for the good of consumers," Mr. Van Reenen said. "They have incentives to entrench their position through lobbying, erecting entry barriers and buying up future rivals."

Write to Paul Kiernan at paul.kiernan@wsj.com

Jackson Hole Research Papers

* Increasing Differences Between Firms: Market Power and the Macro-Economy

* Understanding Weak Capital Investment: the Role of Market Concentration and Intangibles

* More Amazon Effects: Online Competition and Pricing Behaviors

* Competition, Stability, and Efficiency in **Financial Markets**

Document WSJO000020180824ee8o002jq

The New York Times

Business/Financial Desk; SECTB
Europe Feels The Squeeze Of the Trump Trade Tariffs

By JACK EWING; Milan Schreuer contributed reporting from Brussels.
1,337 words
3 August 2018
The New York Times
NYTF
Late Edition - Final
1
English

FRANKFURT -- Higher prices. Disrupted supply chains. Wavering exports.

Those are some of the ways that some of Europe's biggest companies have been affected by President Trump's trade war, offering a preview of how tensions in global commerce could begin to ripple through the European economy.

As companies like BMW, Siemens and Volkswagen reported otherwise solid earnings this week, they warned that Mr. Trump's aggressive stance on trade presented them with a host of new risks, which may already be acting as a drag on growth.

The president's tariffs have not just raised the costs of materials like steel, they have also diverted trade worldwide and warped the complex global supply systems that businesses rely on. Here in Europe, there are signs of strain, which, along with risks ranging from Britain's withdrawal from the European Union to the excessive debt loads of Italy and Greece, are piling pressure on the region's economy.

Beyond the direct effect of Mr. Trump's policies, surveys in both the United States and Europe show that businesses are nervous about the fragile détente reached in late July between Mr. Trump and the region he had referred to only a few weeks earlier as a ''foe.'' When managers are afraid, they may cancel or delay investments in new equipment or expansion, hurting companies like Siemens, the German industrial goods giant, whose products include technology to operate factories or manage buildings.

Joe Kaeser, the chief executive of Siemens, acknowledged a risk that ''all the noise will scare away the confidence of our customers.''

''Investment is about trust,'' Mr. Kaeser told reporters Thursday as Siemens reported a fall in quarterly profit that helped cause the company's shares to slump nearly 5 percent. It was, he added, about ''predictability.''

Even though the White House declared a truce with Brussels last week, American tariffs on European steel and aluminum imports remain in effect. The Continent is also caught in the crossfire of a worsening trade dispute between the United States and China.

European companies can suffer collateral damage in that battle -- BMW has already raised prices of S.U.V.s exported to China from its factory in Spartanburg, S.C. The German automaker is passing on the added cost from tariffs that China imposed on American products in retaliation for Mr. Trump's tariffs on Chinese goods.

If the trade war continues, some companies may begin to move production to avoid paying the levies. BMW hinted as much on Thursday, saying it could sidestep the tariffs by transferring some car production to China, though the company hasn't done so yet.

''BMW can react very quickly to changes in the market because of our flexible network,'' Harald Krüger, the chief executive of BMW, said during a conference call with reporters.

The rival German carmaker Volkswagen, which reported a 7 percent increase in quarterly profit Wednesday, also warned that trade tensions could become a drag on sales and profit.

"Protectionist tendencies are escalating worldwide," Herbert Diess, the chief executive of Volkswagen, said at a news conference.

This pessimism is affecting not just major companies but the European economy broadly.

The eurozone economy is slowing, and evidence is growing that the trade war -- or anxiety about a trade war -- is one of the reasons. The currency bloc grew 0.3 percent in the second quarter of 2018, down from 0.4 percent in the first quarter, Eurostat, the European statistics agency, said Tuesday.

Eurostat has not yet provided any underlying data to explain the loss of momentum. So far, the direct effects of Mr. Trump's steel and aluminum tariffs are limited, Johannes Bahrke, a spokesman for the European Commission, said Thursday.

But, Mr. Bahrke said in a statement, "trade protectionism is a serious downside risk for the global economic outlook."

The tariffs that Mr. Trump imposed on European steel and aluminum don't amount to a lot of money, relatively speaking. They hit European exports worth about $8 billion annually, a substantial sum but not enough to knock the economy off course.

So far, corporate profits have not collapsed, but they are not growing very much, either. BMW reported a 6 percent decline in quarterly profit Thursday, which it attributed mostly to increased spending on new technologies like autonomous driving. Siemens said profit from April through June fell 14 percent, in part because of a slowdown in the United States auto market.

Gauges of the mood among European businesses, however, show a clear negative trend, one that could have an outsize impact on the regional economy. And if Europe's economy suffers, so will that of the United States. Despite all the hostile rhetoric, the European Union and United States remain each other's biggest trading partner.

"In the hard facts, hardly anything has changed," said Carsten Brzeski, chief economist for Germany and Austria at ING Bank. Rather, he said, trade tensions are "a cloud of uncertainty hanging over" Europe.

For example, a survey published Thursday by the Ifo Institute, a Munich-based think tank, showed increasing gloominess among economists who work for European banks, companies, research institutes and government institutions.

American businesses are worried, too. A closely watched barometer of sentiment among United States managers dipped to a 12-month low Thursday. Concern about tariffs is "an overwhelming concern," the Institute for Supply Management, which conducted the survey, said Thursday.

There are other forces at work, as well, that are weighing on European growth, such as a stronger euro, which makes products manufactured in the eurozone more expensive in markets abroad.

The damage from trade tensions would be much more substantial if Mr. Trump broke the cease-fire he reached last month with Jean-Claude Juncker, the president of the European Commission.

The two leaders agreed to begin talks on an accord that would eliminate tariffs between the United States and the European Union. They also pledged not to take any measures against each other while the negotiations took place. That would seem at least to postpone moves by Mr. Trump to impose 20 percent tariffs on vehicles imported from Europe, which were worth $47 billion last year.

But given Mr. Trump's history of making nice with foreign leaders one day and then blasting them on Twitter the next, there is palpable nervousness about how long the truce will last.

On Tuesday, representatives of Canada, Japan, South Korea and the European Union, all of which have large car industries, met in Geneva and discussed the Trump administration's effort to use national security as a justification to place tariffs on imported cars. The meeting was a sign that the car-making nations continue to gird themselves for a resumption of hostilities, just in case.

Even if Europe manages to stay relatively clear of any dispute over auto imports, its economy would be disrupted by escalating tensions between the United States and China. Carmakers and other manufacturers depend on complicated supply networks in which components often move across borders and continents multiple times. Both the United States and China are integral players in those networks.

"The global supply chains are deeply interconnected," Ralf P. Thomas, the chief financial officer of Siemens, told reporters Thursday. Stable conditions are "of utmost importance."

For now, business leaders are hoping that the cease-fire holds and that negotiations between Brussels and the White House are successful.

"The trade situation is certainly **volatile**," Mr. Krüger, the BMW chief, said Thursday. "We hope that the talks continue in a constructive way."

Follow Jack Ewing on Twitter: @JackEwingNYT.

Volkswagen, which reported a 7 percent increase in quarterly earnings Wednesday, also warned that trade tensions could become a drag on sales and profit. (PHOTOGRAPH BY JENS MEYER/ASSOCIATED PRESS); Joe Kaeser, the Siemens chief, acknowledged a risk that "all the noise will scare away the confidence of our customers." (PHOTOGRAPH BY JASON LEE/REUTERS) (B6)

Document NYTF000020180803ee830004q

The New York Times

Opinion; Sunday Review
Beware Rich People Who Say They Want to Change the World

By Anand Giridharadas
1,282 words
24 August 2018
03:00 PM
NYTimes.com Feed
NYTFEED
English

“Change the world” has long been the cry of the oppressed. But in recent years world-changing has been co-opted by the rich and the powerful.

“Change the world. Improve lives. Invent something new,” McKinsey & Company’srecruitingmaterials say. “Sit back, relax, and change the world,” tweets the World Economic Forum, host of the Davos conference. “Let’s raise the capital that builds the things that change the world,” a Morgan Stanley ad says. Walmart, recruiting a software engineer, seeks an “eagerness to change the world.” Mark Zuckerberg of Facebook says, “The best thing to do now, if you want to change the world, is to start a company.”

At first, you think: Rich people making a difference — so generous! Until you consider that America might not be in the fix it’s in had we not fallen for the kind of change these winners have been selling: fake change.

Fake change isn’t evil; it’s milquetoast. It is change the powerful can tolerate. It’s the shoes or socks or tote bag you bought which promised to change the world. It’s that one awesome charter school — not equally funded public schools for all. It is Lean In Circles to empower women — not universal preschool. It is impact investing — not the closing of the carried-interest loophole.

Of course, world-changing initiatives funded by the winners of market capitalism do heal the sick, enrich the poor and save lives. But even as they give back, American elites generally seek to maintain the system that causes many of the problems they try to fix — and their helpfulness is part of how they pull it off. Thus their do-gooding is an accomplice to greater, if more invisible, harm.

What their “change” leaves undisturbed is our winners-take-all economy, which siphons the gains from progress upward. The average pretax income of America’s top 1 percent has more than tripled since 1980, and that of the top 0.001 percent has risen more than sevenfold, even as the average income of the bottom half of Americans stagnated around $16,000, adjusted for inflation, according to a paper by the economists Thomas Piketty, Emmanuel Saez and Gabriel Zucman.

American elites are monopolizing progress, and monopolies can be broken. Aggressive policies to protect workers, redistribute income, and make education and health affordable would bring real change. But such measures could also prove expensive for the winners. Which gives them a strong interest in convincing the public that they can help out within the system that so benefits the winners.

After all, if the Harvard Business School professor Michael E. Porter and his co-author Mark R. Kramer are right that “businesses acting as business, not as charitable donors, are the most powerful force for addressing the pressing issues we face,” we shouldn’t rein in business, should we?

This is how the winners benefit from their own kindness: It lets them redefine change, and defang it.

Consider David Rubenstein, a co-founder of the Carlyle Group, a private equity firm. He’s a billionaire who practices what he calls “patriotic philanthropy.” For example, when a 2011 earthquake damaged the Washington Monument and Congress funded only half of the $15 million repair, Mr. Rubenstein paid the rest. “The government doesn’t have the resources it used to have,” he explained, adding that “private citizens now need to pitch in.”

That pitching-in seems generous — until you learn that he is one of the reasons the government is strapped. He and his colleagues have long used their influence to protect the carried-interest loophole, which is enormously beneficial to people in the private equity field. Closing the loophole could give the government $180 billion over 10 years, enough to fix that monument thousands of times over.

Mr. Rubenstein's image could be of a man fleecing America. Do-gooding gives him a useful makeover as a patriot who interviews former presidents onstage and lectures on the 13th Amendment.

Walmart has long been accused of underpaying workers. Americans for Tax Fairness, an advocacy group, famously accused the company of costing taxpayers billions of dollars a year because it "pays its employees so little that many of them rely on food stamps, health care and other taxpayer-funded programs." Walmart denies this criticism, citing the jobs it creates and the taxes it pays.

When a column critical of Walmart ran in this newspaper some years ago, David Tovar, a Walmart spokesman, published a red-penned edit of the piece on a company blog. Beside a paragraph about how cutthroat business practices had earned the heirs of the Walton family at least $150 billion in wealth, Mr. Tovar wrote: "Possible addition: Largest corporate foundation in America. Gives more than $1 billion in cash and in kind donations each year."

Mr. Tovar wasn't denying the $150 billion in wealth, or that more of it could have been paid as wages. Rather, he seemed to suggest that charity made up for these facts.

A few years ago, some entrepreneurs in Oakland, Calif., founded a company called Even. Its initial plan was to help stabilize the highly **volatile** incomes of working-class Americans — with an app. For a few dollars a week, it would squirrel away your money when you were flush and give you a boost when you were short. "If you want to feel like you have a safety net for the first time in your life, Even is the answer," the company proclaimed.

The rub against such an idea isn't just that it's a drop in the bucket. It's also that it dilutes our idea of change. It casts an app and a safety net as the same.

Fake change, and what it allows to fester, paved the road for President Trump. He tapped into a feeling that the American system was rigged and that establishment elites were in it for themselves. Then, darkly, he deflected that anger onto the most vulnerable Americans. And having benefited from the hollowness of fake change, he became it — a rich man who styles himself as the ablest protector of the underdogs, who pretends that his interests have nothing to do with the changes he seeks.

President Trump is what we get when we trust the rich to fix what they are complicit in breaking.

In 2016, Mr. Trump and many of the world-changing elite leaders I am writing about were, for the most part, on opposite sides. Yet those elites and the president have one thing in common: a belief that the world should be changed by them, for the rest of us, not by us. They doubt the American creed of self-government.

A successful society is a progress machine, turning innovations and fortuitous developments into shared advancement. America's machine is broken. Innovations fly at us, but progress eludes us. A thousand world-changing initiatives won't change that. Instead, we must reform the basic systems that allow people to live decently — the systems that decide what kind of school children attend, whether politicians listen to donors or citizens, whether or not people can tend to their ailments, whether they are paid enough, and with sufficient reliability, to make plans and raise kids.

There are a significant number of winners who recognize their role in propping up a bad system. They might be convinced that solving problems for all, at the root, will mean higher taxes, smaller profits and fewer homes. Changing the world asks more than giving back. It also takes giving something up.

Document NYTFEED020180824ee8o006k5

Business Day; Economy
Workers Hardest Hit by Recession Are Joining in Recovery

By Nelson D. Schwartz and Ben Casselman
1,372 words
3 August 2018
05:00 AM
NYTimes.com Feed
NYTFEED
English

The least educated American workers, who took the hardest hit in the Great Recession, were also among the slowest to harvest the gains of the recovery. Now they are a striking symbol of a strong economy.

The unemployment rate for those without a high school diploma fell to 5.1 percent in July, the Labor Department reported Friday, the lowest since the government began collecting data on such workers in 1992. At the economy's nadir in the summer of 2009, the unemployment rate for high school dropouts hit 15.6 percent, more than three times the peak unemployment rate for college graduates.

Buffeted by technological change and seemingly out of place in an economy where skills and credentials are in ever more demand, this cohort struggled while more educated workers scored jobs and promotions and rose on the economic ladder.

High school dropouts make up 7.2 percent of the labor force, and some experts doubted they and other low-skilled workers would ever fully recover from the effects of the recession, said Betsey Stevenson, a professor of economics at the University of Michigan.

"As economists, we worried these workers would be shut out forever," she said. "But the long duration of the recovery has pulled them back in. As the economy adds more jobs, employers have had to dig a little deeper."

The improvement in the fortunes of less-educated workers was a highlight in a jobs report that showed continuing gains across a broad variety of sectors.

Over all in July, employers increased payrolls by 157,000, while the unemployment rate edged downward to 3.9 percent, near the 18-year low achieved in May.

The data echoed other positive economic news recently, including a report last week showing the economy grew by 4.1 percent in the second quarter.

And the headlines about President Trump's tariffs on steel and aluminum and a widening trade war with China seem to have done little to put a damper on hiring. The manufacturing sector, which is particularly sensitive to exports, was robust, adding 37,000 jobs.

Although the payroll increase in July was slightly below what Wall Street was expecting, upward revisions for May and June alleviated fears of a slowdown.

Several economists linked the shortfall to the shutdown of Toys "R" Us, and the loss of 32,000 jobs at sporting goods, book and hobby stores last month.

On Wednesday, the Federal Reserveupgraded its view of the economy's underlying condition from "solid" to "strong." The central bank remains on course to raise interest rates twice more this year, in September and December, to avert overheating.

Other indicators suggest the recovery is finally extending its reach. The Labor Department's broadest measure of unemployment, which includes workers forced to take part-time jobs because full-time positions are unavailable, fell to 7.5 percent in July, the lowest since 2001.

All this has translated into better economic opportunities for workers without a college degree, who account for a majority of the work force. It is a contingent that was championed by Mr. Trump during his presidential campaign, and one that both parties want to appeal to in the midterm elections in November.

The White House was quick to note that the economy is in the midst of the longest monthly streak of job growth in history.

And after 94 consecutive months of job creation, bosses and human resource departments are recalibrating their requirements.

“You definitely get the sense that employers are willing to look at workers they haven’t looked at in the past,” said Martha Gimbel, director of economic research at Indeed.com, the employment website.

Unemployed Americans who might not have put feelers out in the past are also venturing back into the hunt for a job, she said. On Indeed’s search engine, much of the growth in queries lately has been for positions like full-time cashier, mobile home park manager, maintenance person and fulfillment associate.

“This is an indicator that low-skilled workers are seeing opportunities for themselves in the labor market,” Ms. Gimbel said.

Until recently at Steel Ceilings in Johnstown, Ohio, the company’s president, Rick Sandor, insisted on a couple of years’ experience in metal fabrication before considering applicants. But he’s had a harder time lately finding workers for his company, where shifts run from 5 a.m. to 2 p.m. and temporary positions start at $14 per hour.

He now settles for candidates who show mechanical skills, like carpentry or heating and cooling repair. Mr. Sandor is willing to waive the requirement for a high school diploma as well and has even hired applicants with what he terms “minor” prison sentences.

“If a person was truly trying to get their life back together, we thought it would be helpful to offer them a job,” he said.

Unemployment for less-skilled workers has been dropping for several years, with a pickup in hiring in sectors like manufacturing, construction and parts of health care. And to be sure, the month-to-month figures for unemployment among high school dropouts are **volatile**.

But the long-term trend is clear, as is hiring among the sectors responsible for it. Last month, the leisure and hospitality field recorded a 40,000 gain in positions, with half of that coming from restaurants.

For example, Buffalo Wings & Rings, a restaurant chain with 60 locations in 13 states, has been stepping up hiring and opening new restaurants.

Many outlets have seen double-digit sales growth over the past year, and some are up as much as 40 percent, said Nader Masadeh, the company’s chief executive. The tax cuts that took effect in January are playing a role, Mr. Masadeh said — most families may have gotten a relatively small tax cut, but it is enough to fuel a few more nights out.

“People feel good. They’re going out and spending more money,” he said. “In our segment, $50 feeds you and your family.”

Still, the hot economy brings challenges of its own. At an annual gathering of the company’s franchisees in June, Mr. Masadeh said, he was bombarded with questions about how to retain talent when workers can readily walk out the door and find another job. And costs are rising throughout his business.

“Right now the economy is great, but we’re also seeing higher construction costs, higher commodity items, shortages of labor, so there’s always something that counterbalances something else,” he said.

That pressure, however, has not resulted in much fatter paychecks for most workers. The Labor Department said average hourly earnings ticked modestly higher in July, putting the annual rise at 2.7 percent. That’s below the pace of inflation in recent months.

One reason for the lack of big raises is that a substantial number of workers remain on the sidelines, including the less-skilled ones who are now gradually coming back, said Simona Mocuta, senior economist with State Street Global Advisors.

“We are bringing unemployment way below 4.5 percent, which the Fed considers full employment,” Ms. Mocuta said. “But we are getting very modest wage inflation. This is an issue not just for the U.S., but in every other developed market.”

“Because the labor market is tight, less-educated workers have more of a chance of getting hired,” she added. “For people with the highest level of education, it’s easier to find jobs even when the economy isn’t doing well.”

* Economy Hits a High Note, and Trump Takes a Bow

* Trump’s Numbers on ‘Amazing’ Economy Sometimes Don’t Add Up

* Times Reporters Answer Questions About Our G.D.P. Coverage

* If the Trade War Starts to Damage the Economy, Here’s How You’ll Be Able to Tell

A plant in Spartanburg, S.C., that assembles components for BMWs. With strong jobs growth in manufacturing in July, the unemployment rate for those without a high school diploma fell to 5.1 percent, the lowest since the government began collecting data on such workers in 1992. | Dustin Chambers for The New York Times

Document NYTFEED020180803ee83001p9

The New York Times

News Analysis
Business Day
The West Hoped for Democracy in Turkey. Erdogan Had Other Ideas.

By Peter S. Goodman
1,790 words
18 August 2018
04:02 PM
NYTimes.com Feed
NYTFEED
English

In Western capitals a decade ago, Turkey's now-paramount leader, Recep Tayyip Erdogan, held promise as a potential beacon of democracy for a region rife with religious conflict.

Turkey was a stalwart NATO ally bridging Europe and the volatile Middle East. As Mr. Erdogan sought to secure a place for his country in the ranks of the European Union, he presented himself as a moderate and modernizing Muslim leader for the post-9/11 age. He catered to perceptions that Turkey was becoming a liberal society governed by tolerance and the rule of law.

But that was before Mr. Erdogan began amassing supreme powers, and before his brutal crackdown on dissent following an attempted coup two years ago. It was before Turkey descended into a financial crisis delivered in no small measure by his authoritarian proclivities and unorthodox stewardship of the economy. Whatever was left of the notion that Mr. Erdogan was a liberalizing force has been wholly extinguished.

For the West, Mr. Erdogan has devolved from a righteous hope — would-be proof that Islam and democracy can peacefully coexist — into another autocrat whose populism, bombast and contempt for the ledger books have yielded calamity.

Regional experts contend that visions of Turkey's leader as an agent of liberal progress were always fantastical. Mr. Erdogan — who served as Turkey's prime minister for 11 years before becoming its president in 2014 — forged his political career as an Islamist intent on challenging the strictures of Turkey's state-imposed secularism. His early democratic reforms and assertion of civilian control over the military were largely about winning the welcome of the European bloc while enabling Turkey's Muslim populace to practice its religion free of state interference.

"For us, democracy is a means to an end," Mr. Erdogan once declared.

History is full of examples of Western nations — especially the United States — projecting their aspirations and values onto foreign leaders with their own objectives.

In its effort to prevent China from falling under the control of Communists, Washington backed the Chinese Nationalist general Chiang Kai-shek, celebrating him as a courageous hero even as he brutalized opponents and profited on the spoils of American support. In Vietnam, Afghanistan and elsewhere, the United States cast flawed figures as veritable George Washingtons before writing them off as corrupt tyrants.

"As much as we might fantasize about things changing and there being liberal progress, we probably got overly carried away with those sorts of visions for Turkey," said Philip Robins, a professor of Middle East politics at the University of Oxford.

Yet even inside Turkey, the European Union exerted a powerful pull as a means of elevating society. It aligned commercial interests — access to a vast European marketplace — with the imperative to democratize. To win European favor, Turkey abolished notorious state security courts, elevated human rights and scrapped the death penalty.

"This is a process that is going to change the perception of life in Turkish society," the then-president of the Istanbul Chamber of Commerce, Murat Yalcintas, said in 2005. "It's a mechanism that will integrate us into the freethinking, modern world."

If that was ever really so, it now looks like a lost opportunity.

Europe never got comfortable with admitting an overwhelmingly Muslim nation that is home to more than 70 million people. Repeated rebuffs laced with anti-Muslim sentiments proved galling for Turkey, especially as Bulgaria and Romania managed to join the European bloc despite reputations for rampant corruption.

In recent years, Mr. Erdogan has broken from the reformist path while forging new alliances, especially with Russia and its strongman leader Vladimir Putin. He has jailed journalists, seized the assets of political opponents and crushed dissent while amassing complete control over the levers of Turkish power. He has run the economy like a patronage network, lavishing credit on companies controlled by cronies, while yielding growth through debt.

His spending spree has bettered life for the working class Turks who make up Mr. Erdogan's political base, erecting hospitals, schools, roads and other infrastructure. But he has fueled the construction boom by supplying government credits and guarantees that have encouraged private companies to take on alarming debts.

Much of the borrowing has been conducted in American dollars. With the Turkish currency now in free-fall, those debts have multiplied. That has put the Turkish corporate realm in uncomfortable proximity to insolvency while potentially delivering a full-blown economic disaster.

The dangers were already mounting when the global financial crisis emerged in 2008, prompting the world's largest central banks to unleash an unprecedented gusher of cheap credit. They dropped interest rates to zero while purchasing bonds to make cheap money abundant.

Whatever pressure Mr. Erdogan had felt to respect the traditional limits of arithmetic was gone. Money was practically free, giving him virtually infinite supplies of cash to throw at constructing monuments to his prowess. Up went an enormous new Istanbul airport. High-rise apartment blocks filled the horizons. The jackhammer became the national soundtrack.

"This was the easy way to pump up the economy," said Jacob F. Kirkegaard, a senior fellow at the Peterson Institute for International Economics in Washington. "He took the money and used it for his own political purposes."

Yet in nourishing the economy with borrowed foreign money, Mr. Erdogan effectively ceded control of Turkey's fate to financiers who answered not to him but to the global marketplace.

As the Federal Reserve and other central banks have begun to lift rates in recent years, investment has flowed more slowly into emerging markets while streaming back into the United States. It has provoked troubles from Mexico to Malaysia to Turkey.

The exodus of cash from Turkey has wiped away nearly half the value of the nation's currency, the lira, over the past year. This has lifted the price of imported goods, forcing Turks to pay more for food and fuel.

"This is a classical case of populism," Mr. Kirkegaard said. "It can get you growth for some time, but there's a bill that comes due. And when the bill comes due, populists tend to get more authoritarian and oppressive."

Turkey's troubles have been worsened by other problems that are at least in part influenced by decisions made in Western capitals.

As the war in neighboring Syria spiraled into catastrophe, and as the Obama administration opted to largely stand aside, millions of refugees streamed into Turkey. Europe barricaded itself against this flow, leaving Turkey to contend with a crisis. The migrants competed with lesser-skilled Turks for jobs, while placing a strain on Turkish services.

Amid the instability, Mr. Erdogan kept the taps open for public spending, accelerating growth and elevating the debt dangers.

"Clearly, the dynamics in Syria did affect the Turkish economy," said Selva Demiralp, an economist who previously worked at the Federal Reserve in Washington and now teaches at Koc University in Istanbul. "The increase in unemployment put more pressure on Erdogan to press his growth agenda and his populism."

At the same time, the United States backed Kurdish forces inside Syria to pressure the Islamic State. Mr. Erdogan has long viewed the Syrian Kurds as an extension of those in southeastern Turkey, whom he portrays as a mortal threat to national security.

As the Syria war raged, a fragile cease-fire between Turkish and Kurdish forces unraveled, giving way to fresh fighting. Mr. Erdogan took the resumption of hostilities combined with a coup attempt in 2016 as the impetus for an intensified crackdown on opponents — real, imagined and otherwise.

His most recent foe is President Trump, whose doubling of tariffs on Turkish steel and aluminum earlier this month was delivered as punishment for Mr. Erdogan's refusal to release a jailed American pastor. Mr. Erdogan claims the pastor aided the failed coup. Washington says that's nonsense.

Mr. Trump's action sent the Turkish lira plunging anew, while handing Mr. Erdogan a useful device: Here was ostensible proof that enemies of Turkey were to blame for its economic problems.

Whatever the political optics, Turkey's crisis is in large part a homegrown affair. Mr. Erdogan's authoritarianism has destroyed confidence in Turkish institutions, especially its central bank, the body most crucial to arresting the economic fall.

As of June, Turkish private companies carried foreign currency debts reaching $220 billion, according to government figures, or roughly one-fourth of the overall economy. Persuading international investors to extend these debts and spare companies from bankruptcy requires that the central bank lift interest rates. But Mr. Erdogan has refused to go along, claiming — contrary to basic economics — that inflation is caused by high interest rates.

His unwillingness to raise rates reflects rational fears. Such a move would choke off growth and probably plunge Turkey into recession. But holding the course probably amounts to a slower, more winding path to the same destination, as investors flee Turkey and forsake the lira. That route may yet end at the doorstep of the International Monetary Fund, with a plea for a bailout.

If matters come to that, Mr. Erdogan would be back in a familiar place, his national fortunes tied again to relations with Europe and the United States, though not in the way he once hoped.

* Turkey's Economy Is So Hot That It May Face a Meltdown

* Why Turkey's Lira Crisis Matters Outside Turkey

* Now, Erdogan Faces Turkey's Troubled Economy. And He's Part of the Trouble.

Mr. Erdogan after a coup attempt in Istanbul in 2016. He took the resumption of hostilities with Syrian Kurds combined with the coup attempt as the impetus for an intensified crackdown on opponents — real, imagined and otherwise. | Kayhan Ozer/Presidential Press Service, via Associated Press | Mr. Erdogan, far left, during a bilateral meeting in 2015 with then-President Barack Obama. In remarks, Mr. Obama stressed that Turkey was a NATO ally. | Stephen Crowley/The New York Times | People waiting to break their fast in June at Taksim Square in Istanbul next to a mosque project championed by Mr. Erdogan. | Sergey Ponomarev for The New York Times | Istanbul's new airport, one of the many construction projects financed by borrowed foreign money under Mr. Erdogan. | Andrew Urwin for The New York Times | Soldiers involved in the coup attempt surrender on Bosphorus Bridge in Istanbul on July 16, 2016. | Gokhan Tan/Getty Images | The exodus of cash from Turkey has wiped away nearly half the value of the nation's currency, the lira, over the past year. This has lifted the price of imported goods, forcing Turks to pay more for food and fuel. | Andrew Urwin for The New York Times

Document NYTFEED020180818ee8i003ux

THE WALL STREET JOURNAL.
U.S. EDITION

Advisers Urge Raising China Tariffs to 25%

By Bob Davis and Lingling Wei
793 words
1 August 2018
The Wall Street Journal
J
A1
English

As Washington and Beijing struggle to break a trade impasse, some administration advisers are urging President Trump to raise the stakes with a sharp increase in the level of tariffs proposed for $200 billion in Chinese imports targeted for punitive measures.

Trump administration advisers are debating measures that might bring Chinese negotiators to the table. Some are pushing the president to apply tariffs as high as 25% on $200 billion of Chinese imports, up from an original proposal for 10%.

The White House won't make a final decision until at least late August on those tariffs, which are likely to target consumer goods and food as well as machinery components. Advisers are justifying the steeper tariffs, in part, to make up for the rapid depreciation of the yuan in recent months. Since May 30, the yuan has fallen 6% against the dollar.

"Once you go down the road of using tariffs to disrupt the Chinese, you have to say 25% compared to 10%," said Derek Scissors, a China expert at the American Enterprise Institute who advises the administration on trade.

The U.S. has already imposed 25% tariffs on $34 billion worth of Chinese imports and is on schedule to levy similar tariffs on an additional $16 billion of goods, probably this week or next.

The additional $200 billion would be the next step, should the U.S. make good on Mr. Trump's threat to ratchet up pressure and, if needed, impose tariffs on all $505 billion in goods China ships to the U.S. should negotiations fail to reach a favorable outcome.

The debate over tariff levels comes as Washington has yet to make meaningful progress in settling its market-rattling trade dispute with Beijing. Treasury Secretary Steven Mnuchin and Chinese envoy Liu He and their staffs continue to talk about a possible meeting, said officials in both capitals, but the talks remain at a very preliminary stage.

Both sides argue that it is up to the other to make the first move after several preliminary Chinese offers, mainly involving the purchase of more U.S. goods, were rejected by Mr. Trump as inadequate.

The two sides have agreed that their initial offers weren't a solid base for further negotiations, according to a senior member of the U.S. business community tracking the discussions. Those included the Chinese offering mainly to buy U.S. goods, and the U.S. demanding that China essentially scrap the industrial policy that turned it into an economic powerhouse, the senior executive said.

"They are discarding useless ideas and rhetoric," the executive said. "They are figuring out what could be on an agenda and what could be a solution."

Mr. Mnuchin said at Group of 20 meeting last week in Buenos Aires that he and members of the Chinese delegation engaged in "chitchat."

Longtime China hands have been urging a resumption of talks and been working with Washington and Beijing to get the discussions started. They include former Treasury Secretary Hank Paulson, who was Mr. Mnuchin's boss at Goldman Sachs Group Inc., and Blackstone Group LP Chief Executive Stephen Schwarzman, said people familiar with the efforts.

The administration believes it strengthened its hand last week with a tentative trade accord with the European Union. The two sides agreed to use the World Trade Organization to deal with intellectual-property theft, government pressure on companies to transfer technology and the operation of state-owned industries -- all code words for alleged trade infractions by Beijing.

With the agreement, China is "in a very difficult position," Lawrence Kudlow, director of the National Economic Council, said Sunday on CBS. "China is, I think, being isolated."

Whatever gains the U.S. might have made with Europe, however, haven't eased the trade fight with Beijing. The U.S. alleges that China presses U.S. companies to hand over valuable technology and uses unfair trade practices to produce an enormous trade surplus with the U.S.

The Trump administration remains deeply divided over how best to deal with the Chinese, and the two main factions are moving in different directions. China trade hawks, led by U.S. Trade Representative Robert Lighthizer, believe China will make concessions only if it feels the brunt of heavy tariffs, said U.S. officials.

Trade doves, led by Messrs. Mnuchin and Kudlow, have been looking for a solution short of massive tariffs, fearful that those levies, plus Chinese retaliatory tariffs on American goods, could slow U.S. growth and tank **financial markets**. Mr. Mnuchin and Mr. Liu have continued to discuss U.S. China relations, but some of those conversations have gone poorly.

Document J000000020180801ee810002g

Contributing Op-Ed Writer
Opinion
Trump's Economic Claims Are Overblown

By Steven Rattner
824 words
3 August 2018
11:04 AM
NYTimes.com Feed
NYTFEED
English

For the second consecutive Friday, the Trump administration had an opportunity to point to fresh data that supposedly demonstrates the strong boost the president's policies have given to the nation's economy. Last week, news that the gross domestic product expanded at a 4.1 percent rate in the second quarter occasioned a presidential appearance on the south lawn of the White House. Friday's announcement that 157,000 new jobs were added in July was marked more modestly, with a statement from the White House.

Yes, the economy is continuing to expand nicely, which all Americans should celebrate. But no, there's nothing remarkable in the overall results since Mr. Trump took office. Most importantly, there is little evidence that the president's policies have meaningfully improved the fortunes of those "forgotten" Americans who elected him.

Let's start with the jobs numbers. While the latest figures are certainly positive, the United States has been adding jobs since well before Mr. Trump took office. And the rate of job growth during Mr. Trump's first 19 months in office (194,000 jobs per month) is slightly less than the rate at which jobs were added during Mr. Obama's final 19 months (205,000 per month). So the good news on jobs is the same good news Americans have been hearing for the last three years.

With each month's jobs figures, the Labor Department also releases the latest wage data, which often gets short shrift in the news accounts. That's unfortunate because for a majority of the roughly 150 million Americans who have jobs, the income picture is harsh and not improving.

After adjusting for inflation, wages have barely increased during the Trump presidency. When July's Consumer Price Index is reported next week, it is likely to show that whatever modest increase workers are getting in their wages continues to be eaten up by rising prices.

Over the first 18 months since Mr. Trump took office, real earnings, which reflect earnings after accounting for inflation, rose at an annual rate of just 0.3 percent.

Then there's the matter of the seemingly stellar second-quarter increase in gross domestic product of 4.1 percent. That also requires context. For one thing, quarterly numbers can be **volatile**, and the most recent figure includes an unusual number of special factors.

Notably, there are the tax reductions and spending increases concocted by the Trump administration and Congress, which added an estimated 0.8 percent to quarterly G.D.P. growth while more than doubling next year's federal deficit to nearly $1 trillion.

Another one-time event propping up growth is the rush by farmers to export more soybeans, particularly to China, before July 6, the date when tariffs on soybeans went into effect. That accounted for about 0.6 percent of the growth in the second quarter, according to Pantheon Macroeconomics, a research firm.

Without these extraordinary interventions, the underlying rate of economic expansion in the second quarter of this year was about 2.7 percent, according to calculations by the Committee for a Responsible Federal Budget, a fiscal policy research and advocacy group.

Moreover, that 4.1 percent number isn't heroic. During the Obama presidency, the economy produced four quarters of growth that were higher. And the consensus among private and government forecasters is that the G.D.P. growth rate is likely to ebb quickly, once tariffs are actually in effect and the tax cut gains are all realized.

Goldman Sachs, for example, forecasts that the annualized growth rate will fall to 3.3 percent in the third quarter and then taper down to 1.5 percent by the end of 2019.

Beyond all the facts and figures, let's not forget that the Trump administration's policies have done little for the average worker. Mr. Trump's tax cut delivered 84 percent of its benefits to business and to individuals with incomes above $75,000 a year. A typical middle-income worker will get a $930 reduction in his taxes this year, half of which will be consumed by higher gasoline prices.

That's the key lesson from all these numbers: Whatever claims Mr. Trump may make about the economy as the midterm elections approach, most Americans have yet to experience any improvement in their economic well-being. And there's little sign of that sorry situation changing. In fact, it could even get worse.

Steven Rattner, who served as counselor to the Treasury secretary in the Obama administration, is a Wall Street executive and a contributing opinion writer. For latest updates and posts, please visit stevenrattner.com and follow me on Twitter (@SteveRattner) and Facebook.

President Trump announcing last Friday that the gross domestic product expanded at a rate of 4.1 percent in the second quarter. | Samuel Corum for The New York Times

Document NYTFEED020180803ee83003ml

THE WALL STREET JOURNAL.

Economy

How 'Intangible Capital' Explains Rising Corporate Concentration, Weak Investment; Monetary policy may have less influence over intangible investment than over traditional physical investment, paper presented at Jackson Hole suggests

By Nick Timiraos
518 words
24 August 2018
11:55 AM
The Wall Street Journal Online
WSJO
English

JACKSON HOLE, Wyo.—The rise of "intangible capital" such as software, patents, intellectual property and innovative business processes explains much of the weakness in private capital investment since 2000, according to new research presented at a conference here.

The conclusion of the paper presented at the Kansas City Fed's economic symposium Friday carries important ramifications for monetary, fiscal and regulatory policy.

The work by economists Janice Eberly and Nicolas Crouzet of Northwestern University also explores how the rise of these so-called intangibles, which are often pioneered by industry leaders, can partly explain growing market concentration over the last 20 years in industries that have seen some of the strongest growth, such as health care, technology and retailing.

Intangibles such as online platforms or patents aren't as sensitive to interest rates and can't be as easily pledged as collateral for financing as can physical capital, such as property, plants or equipment.

This helps to explain why low interest rates or easier financial conditions after the 2008 financial crisis didn't boost such investment.

For example, as the technology sector has boomed, its share of private investment has been weak, "as companies with the highest growth and valuations failed to fuel investment demand," wrote Ms. Eberly and Mr. Crouzet.

Better understanding of why investment has been weak in these sectors—and the potential role played by intangible capital—is important to policy makers because investment is often "a leading target of public policy interventions," including efforts to reduce taxes or interest rates.

Weak investment in physical capital due to inadequate credit or unfavorable tax incentives would require different policy responses than weaker investment "because the composition of the capital stock used by firms has changed over time," the authors wrote.

The authors concluded that intangible capital, "when treated as an omitted factor in production, can fill a substantial part of the gap left by weak physical investment."

Ms. Eberly and Mr. Crouzet argued rising concentration and market share by industry leaders has occurred "hand-in-hand" with their accumulation of intangible capital.

The authors concluded different policy responses may be needed to address rising industry concentration owing to the different properties of intangible capital. Software or online platforms can be more easily replicated than equipment, and ownership is controlled by patents or trademarks.

The upshot for central bankers gathered here is that monetary policy may have less influence over intangible investment than over traditional physical investment, which means policy makers in other policy areas—such as antitrust and intellectual property regulation—will have a greater role to play in spurring investment in intangibles.

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

Jackson Hole Research Papers

* Understanding Weak Capital Investment: the Role of Market Concentration and Intangibles

* Increasing Differences Between Firms: Market Power and the Macro-Economy

* More Amazon Effects: Online Competition and Pricing Behaviors

* Competition, Stability, and Efficiency in **Financial Markets**

Document WSJO000020180824ee8o003ux

THE WALL STREET JOURNAL.

Economy

Better Regulations Needed for Competitive Banking System to Work, Paper Says; Research presented at Jackson Hole finds intense competition among banks tends to squeeze profit margins and encourage riskier investments

By Paul Kiernan and Ryan Tracy
592 words
25 August 2018
11:00 AM
The Wall Street Journal Online
WSJO
English

JACKSON HOLE, Wyo.—In most business environments, economists see competition as an unqualified force for good, driving companies toward efficiency and innovation and ultimately bringing more affordable, higher-quality products and services to consumers.

But it's a more complicated story for banks in the era of "too big to fail," according to a paper presented here Saturday at the Kansas City Fed's annual economic symposium.

In the paper, economists Dean Corbae, of the University of Wisconsin-Madison, and Ross Levine, of the University of California at Berkeley, found that while intense competition among banks indeed spurs greater efficiency, it also tends to squeeze profit margins and encourage riskier investments. That leaves banks more fragile—an outcome that can have devastating consequences when the effects ripple across the financial system.

But the authors made a second observation that could prove timely as the Fed works to fine-tune financial regulation a decade after the 2008 crisis: Policy makers can avoid the "fragility costs" of competition by enhancing bank governance and tightening leverage requirements to make banks hold more equity for every dollar they lend out or invest.

"These findings highlight the enormous welfare benefits of legal and regulatory reforms that improve the incentives of bank decision makers," Messrs. Corbae and Levine wrote. "Such reforms improve bank efficiency, reduce bank fragility, allow for a more competitive banking system without increasing bank fragility, and bolster the effectiveness of capital requirements."

Regulation, the authors argue, should encourage bank executives to focus more on long-term value than on temporary stock gains that would trigger bonuses. This could be done by setting up boards of directors that reflect the interests of shareholders rather than executives, establishing clawback provisions in executive compensation schemes, and requiring key decision makers at banks to have a personal financial stake in the risks undertaken by their firms.

Since tighter leverage requirements would increase the amount of personal wealth that bank shareholders have at stake, the shareholders should be less likely to support excessive risk-taking by banks, the authors say.

Regulators tightened capital requirements after the 2008 financial crisis, but Trump-nominated officials have been open to revisiting them. The Federal Reserve and the Office of the Comptroller of the Currency proposed in April to loosen a big-bank capital rule known as the leverage ratio. The agencies said at the time that the banks would still be constrained from taking excessive risks because other capital rules would remain tight.

A third finding presented in the paper—and one that should catch the eye of Fed officials engaged in the debate over financial regulation—is that competition makes monetary policy more effective.

"In uncompetitive banking environments where banks enjoy large interest rate spreads and profit margins, banks can cushion the effects of monetary policy on bank lending," Messrs. Corbae and Levine said. "However, in more competitive banking markets, small interest spreads and profit margins force banks to respond more aggressively to monetary policy changes."

Write to Paul Kiernan at paul.kiernan@wsj.com and Ryan Tracy at ryan.tracy@wsj.com

Jackson Hole Research Papers

* Competition, Stability, and Efficiency in **Financial Markets**

* Increasing Differences Between Firms: Market Power and the Macro-Economy

* Understanding Weak Capital Investment: the Role of Market Concentration and Intangibles

* More Amazon Effects: Online Competition and Pricing Behaviors

Document WSJO000020180825ee8p0012y

THE WALL STREET JOURNAL.

US

At Heart of New Fed Debate: Bonds or Bills? The Federal Reserve must decide how to manage the mix of long-term versus short-term in its Treasury portfolio

By Nick Timiraos
1,009 words
20 August 2018
05:30 AM
The Wall Street Journal Online
WSJO
English

Federal Reserve officials left many important questions unanswered when they decided last year to begin shrinking the central bank's $4.5 trillion portfolio of mostly mortgage and Treasury securities.

They are now beginning an internal debate to answer one of the most important of those questions: What exactly will this portfolio look like when they are done shrinking it?

The Fed has decided it wants to hold primarily Treasury securities rather than mortgage securities once it is done. But it hasn't worked out what the mix of those Treasury securities will look like. Will it be mostly very short-term bills? Or will it include a hefty share of longer-term bonds?

The difference is critical. Fed policy in the past decade has operated on the theory that holding long-term securities stimulates **financial markets** and the economy by holding down long-term interest rates. That is thought to drive investors into riskier assets like stocks and corporate bonds and encourage business investment and consumer spending. Holding short-term securities, this theory holds, provides little stimulus.

The idea was at the core of former Fed Chairman Ben Bernanke's strategy to move heavily into long-term Treasury bonds during the financial crisis. Fed estimates suggest the strategy pushed down long-term interest rates by a full percentage point, making it less costly for millions of homeowners, car buyers and corporations to borrow. The mix of long-term and short-term bonds also influences the federal government's borrowing costs.

Fed officials, led by the Federal Reserve Bank of New York and economists at the Fed board in Washington, D.C., are beginning studies and internal debates on how to manage that mix of long-term versus short-term in the Fed's Treasury portfolio in the years ahead, according to several people familiar with the matter.

It is among several big questions facing Fed Chairman Jerome Powell, including how big the overall portfolio should be in the long run and what tools should be used to manage short-term rates.

Mr. Powell is uniquely situated to lead the discussions. In the early 1990s as a senior U.S. Treasury official, he oversaw debt-management policy, including questions about how many long-term bonds the government would issue.

The review process and internal debate about the portfolio's composition is in its early stages and could take months to play out, these people said.

"Everyone has been focused on the final size of the balance sheet, but they are going to have to make an important decision about its composition as well," said Brian Sack, who ran the New York Fed's markets desk from 2009 to 2012 and is now the director of economics at hedge-fund manager D.E. Shaw group. "They haven't said anything about the composition of maturities for their Treasury holdings."

Officials said they aren't in a hurry to finalize their approach. "This is certainly something to think about," said St. Louis Fed President James Bullard in an interview. "We're in good shape now. We have to address this more seriously in the next year."

The Fed's options are likely to fall somewhere between two strategies. The first would target a "maturity neutral" approach that maintains a portfolio of bills, notes and bonds in a proportion that mirrors Treasury Department issuance of these securities.

Alternately, officials could weight their portfolio mostly toward Treasury bills and other shorter-maturity holdings, the inverse of their crisis-era interventions into long-term bonds and one that would provide less support to the economy.

At some point, after it has shrunk to a size the Fed finds appropriate, the Fed's portfolio will start growing again, in line with the economy and money supply's natural growth. That means the Fed will need a strategy for how it should grow. Complicating the planning, it will take years for the mortgage holdings to passively mature and be replaced by Treasury holdings.

The Fed's share of shorter-duration securities is much lower now than before the crisis. In 2007, around half of its Treasury securities matured within one year or less, compared with 17% today.

Officials are torn about which strategy would be best.

Concentrating holdings in any single maturity range could distort market functioning. That argues for a mix of short-term and long-term securities holdings that mirrors the supply of securities already in the marketplace.

But spreading holdings broadly across many different maturities means some measure of potentially unwanted stimulus to the economy in the form of long-term holdings. Maintaining an appropriate mix could be complicated if the Treasury shifts the mix of securities it issues, altering the mix of securities in the marketplace.

A portfolio heavily concentrated in bills provides the Fed with operational flexibility. Because bills are so liquid, they can easily be replaced in an emergency and moved into other assets, such as loans through the Fed's discount window to banks in a crisis.

"That flexibility might prove useful in some circumstances," said Mr. Sack.

A portfolio concentrated in short-term bills has some other advantages. It would allow Fed officials to argue they are no longer providing the economy with unconventional stimulus, something congressional Republicans criticized during and after the financial crisis.

Some Republicans told Mr. Powell at a hearing last month they were troubled the Fed might maintain a larger portfolio, a sign of the lingering disapproval of the central bank's crisis-era interventions.

Finally, a portfolio with mostly shorter-maturity holdings would give the Fed another lever to pull should another recession hit. In that situation, it could shift the portfolio back into long-term securities to provide new stimulus, as it did in 2011 with a program called "Operation Twist."

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

Document WSJO000020180820ee8k000p3

THE WALL STREET JOURNAL.

Markets

Speaker Maker Sonos Soars on Debut; Home-audio maker trades on the Nasdaq under the ticker symbol SONO

By Maureen Farrell and Nishant Mohan
637 words
2 August 2018
06:28 PM
The Wall Street Journal Online
WSJO
English

Speaker company Sonos Inc.'s stock surged 33% above its initial public offering price on Thursday in its market debut.

The shares closed at $19.91 after being priced Wednesday night at $15, as investors scrambled for a piece of the maker of popular, high-end home-audio gear at a time when IPO stocks are performing well.

Still, the first-day pop for Sonos, which trades on the **Nasdaq** under the ticker symbol SONO, came after the company priced the shares below the $17-to-$19 range that it had initially targeted. Sonos executives and investors attributed the lowered pricing in part to a recent selloff in technology stocks.

Sonos Chief Executive Patrick Spence said in an interview Thursday that he had to spend much of the past week educating investors about the business model and how the company could be valued. "Because we're so unique, I don't have anything to compare it to," he said, adding that some investors were skittish after losing money on other consumer-hardware stocks. Both GoPro Inc. and Fitbit Inc. are down more than 70% from their 2014 and 2015 respective IPO prices.

Sonos's offering raised $208 million and gave the company a valuation of $1.8 billion on a fully diluted basis at its initial price.

Founded in 2002, Sonos has been a pioneer in high-end wireless speakers, building a loyal customer base that drove sales to nearly $1 billion in the year ended Sept. 30. The company's speakers support streaming services such as Spotify and Apple Music.

The company's sales have been increasing, albeit at a more modest pace recently. It had revenue of $993 million in the last fiscal year, compared with $844 million in 2015. Sonos, based in Santa Barbara, Calif., struggled to turn a profit, posting annual losses in its three most recent fiscal years.

The company warned in its IPO documents that it expects operating expenses to increase, as it expands operations and absorbs costs of going public, including legal and accounting and compliance expenditures.

Mike Volpi, a partner at Index Ventures who first invested in Sonos in 2010, said he expects the company will fare well against tech giants like Apple Inc. and Alphabet Inc., as they pay only partial attention to the home-audio market. "The secret to survival is to build a special product in a sizable market," he said in an interview.

The IPO market has been booming this year, as 146 companies have raised $41.2 billion on U.S. exchanges, according to Dealogic. That is up more than 30% from last year's dollar volume at this point in the year. Helping entice companies to go public, U.S.-listed shares that have debuted this year are up 14% on average.

The offering included 13.9 million shares, including 5.6 million shares issued by the company and 8.3 million shares offered by shareholders. Underwriters have a 30-day option to buy an additional 2.1 million shares.

The company's existing investors include private-equity firm KKR & Co., former chief executive and co-founder John MacFarlane and venture-capital firms Index Ventures and Redpoint Ventures.

For the six months ended March 31, Sonos reported $13.1 million in profit on $655.7 million in revenue, compared with $15.2 million in profit and $555.4 million in revenue in the comparable period a year earlier.

Write to Maureen Farrell at maureen.farrell@wsj.com and Nishant Mohan at nishant.mohan@wsj.com

Related

* Speaker Maker Sonos Sets IPO Price Range (July 23)

* Heard on the Street: Sonos Can Play Its Own Tune (July 9)

Document WSJO000020180802ee82005v5

THE WALL STREET JOURNAL.
U.S. EDITION

Finance & Markets: Fed Policy Makers Debate Future Mix of Treasury Bond Holdings

By Nick Timiraos
539 words
22 August 2018
The Wall Street Journal
J
B10
English

Federal Reserve officials left many important questions unanswered when they decided last year to begin shrinking the central bank's $4.5 trillion portfolio of mostly mortgage and Treasury securities.

They are now beginning an internal debate to answer one of the most important of those questions: What exactly will this portfolio look like when they are done shrinking it?

The Fed has decided it wants to hold primarily Treasury securities rather than mortgage securities once it is done. But it hasn't worked out what the mix of those Treasury securities will look like. Will it be mostly very short-term bills? Or include a hefty share of longer-term bonds?

The difference is critical. Fed policy in the past decade has operated on the theory that holding long-term securities stimulates **financial markets** and the economy by holding down long-term interest rates. That is thought to drive investors into riskier assets such as stocks and corporate bonds and encourage business investment and consumer spending. Holding short-term securities, this theory holds, provides little stimulus.

The idea was at the core of former Fed Chairman Ben Bernanke's strategy to move heavily into long-term Treasury bonds during the financial crisis. Fed estimates suggest the strategy pushed down long-term interest rates by a full percentage point, making it less costly for millions of homeowners, car buyers and corporations to borrow. The mix of long-term and short-term bonds also influences the federal government's borrowing costs.

Fed officials, led by the Federal Reserve Bank of New York and economists at the Fed Board of Governors, are beginning studies and internal debates on how to manage that mix of long term versus short term in the Fed's Treasury portfolio, several people familiar with the matter said.

It is among several big questions facing Fed Chairman Jerome Powell, including how big the overall portfolio should be in the long run and what tools should be used to manage short-term rates.

Mr. Powell is uniquely situated to lead the discussions. In the early 1990s as a senior U.S. Treasury official, he oversaw debt-management policy, including questions about how many long-term bonds the government would issue.

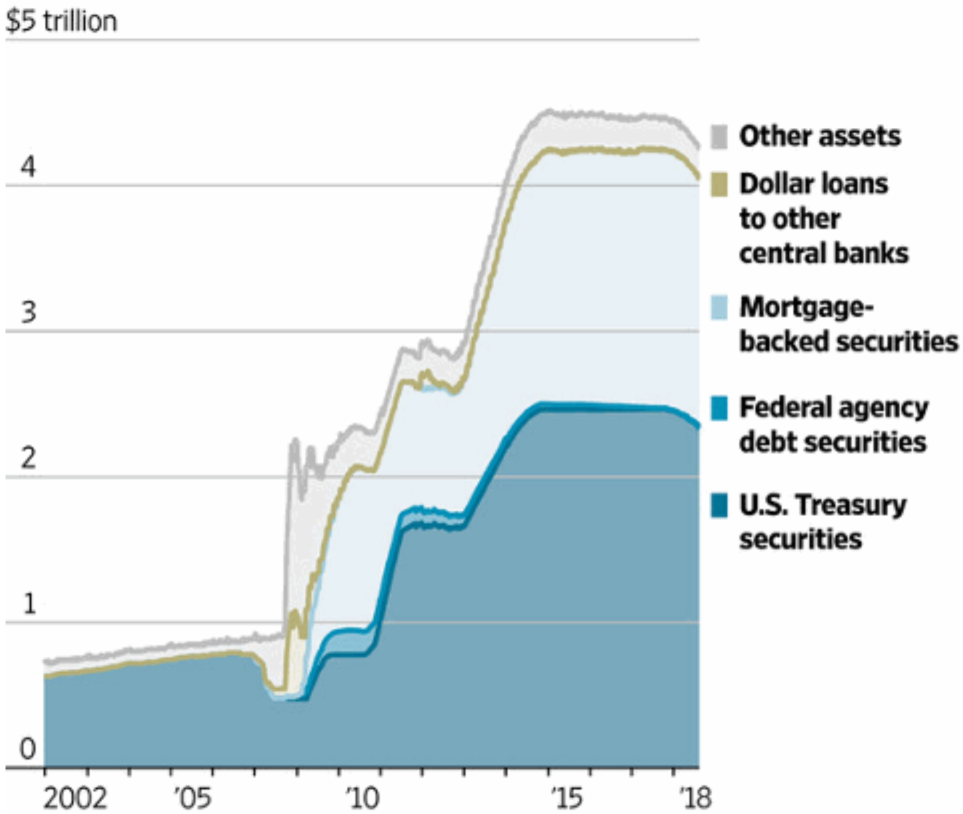
The review process and internal debate about the portfolio's composition are in their early stages and could take months to play out, these people said.

"Everyone has been focused on the final size of the balance sheet, but they are going to have to make an important decision about its composition as well," said Brian Sack, who ran the New York Fed's markets desk from 2009 to 2012 and is now the director of economics at hedge-fund manager D.E. Shaw Group. "They haven't said anything about the composition of maturities for their Treasury holdings."

Officials said they aren't in a hurry to finalize their approach. "This is certainly something to think about," said St. Louis Fed President James Bullard in an interview. "We're in good shape now. We have to address this more seriously in the next year."

Uncle Sam's Club

The Fed's holdings expanded dramatically during and after the 2008 financial crisis, and the central bank began paring those holdings in October 2017.



Source: Federal Reserve

THE WALL STREET JOURNAL.

License this article from Dow Jones Reprint Service

Document J000000020180822ee8m0001s

THE WALL STREET JOURNAL.

Markets

Copper Steadies After Brutal Week for Metals; Analysts expect more headwinds for industrial metals generally on the continued strength of the dollar

By David Hodari and Benjamin Parkin
467 words
17 August 2018
05:53 PM
The Wall Street Journal Online
WSJO
English

Copper prices rose Friday, with a dip in the dollar helping to steady metal markets after a tough week.

Front-month contracts for August rose 0.4% to $2.6245 a pound at the Comex division of the New York Mercantile Exchange, having clambered back from the lowest point in over a year this week. The more-active September contract also rose.

The forces that battered metal markets earlier in the week cooled during Friday's session, leaving some room for modest buying. The WSJ Dollar Index—which measures the U.S. currency against a basket of 16 others—fell 0.3%. A weaker greenback often helps attract investors to dollar-denominated currencies.

"Nerves of steel have been needed on the metals markets," said Commerzbank analysts in a note. "The situation appears to have calmed down again somewhat."

But analysts nevertheless pointed to considerable headwinds for industrial metals generally. The dollar index is up almost 5% this year, which analysts expect to limit rallies.

Increased tensions between the U.S. and Turkey earlier this week, combined with broader macroeconomic fears about emerging-market contagion and Chinese economic growth, pummeled commodities. Prices rose on Thursday after the U.S. and China agreed to resume lower-level talks over trade, soothing some market concerns. But traders were skeptical that this amounted to much.

"There was little that was outright **bullish**," Edward Meir, a consultant at INTL FCStone, said of Thursday's rally.

Copper traders were looking at their own particular set of supply pressures, too. Market participants were widely expecting a strike at BHP Billiton's Chilean Escondida operation, the world's largest copper mine, before 11th-hour progress suggested disruption had been averted for now.

Escondida's No. 1 union and management reached an agreement late Thursday, according to BN Americas, with voting on the latest wage offer likely to conclude Friday.

"These successful negotiations have certainly not helped the copper market at a time when broader macro concerns have weighed heavily on the metal," ING strategists noted.

Some analysts nevertheless suggested that recent selling in copper, which has fallen around 20% from June, might be overdone. They said that traders might try to rally the market higher if they read chart patterns to suggest that copper is too cheap.

Gold prices, meanwhile, steadied Friday. August-dated contracts closed little changed at $1,176.50 a troy ounce, helped by the weakness in the dollar. The more-active October contract was unchanged. Gold prices have fallen for six weeks consecutively.

Write to David Hodari at David.Hodari@dowjones.com and Benjamin Parkin at Benjamin.Parkin@wsj.com

Document WSJO000020180817ee8h004v1

Economy

Q&A With Raphael Bostic | Yield Curve Not Signaling Impending Recession | Senate Nears Vote on Clarida | Timiraos's Take: Fed Takes Stock of Its Tool Kit; The Wall Street Journal's central banking newsletter for Tuesday, August 28, 2018

2,406 words
28 August 2018
06:37 AM
WSJ Pro Central Banking
RSTPROCB
English

Timiraos's Take: To Fight the Next Recession, the Fed Takes Inventory of Its Tool Kit

Transcript: WSJ Interview with Atlanta Fed's Raphael Bostic

Yield Curve Suggests Rising, but Still Low, Recession Risk, San Francisco Fed Paper Says

Senate Nears Vote on Clarida's Fed Nomination

Financial Regulation: CFPB Student-Loan Official Quits, Citing Boss's Enforcement Policy

To Fight the Next Recession, the Fed Takes Inventory of Its Tool Kit

At its most recent policy meeting, Federal Reserve officials heard from staff economists about the tools available should the Fed cut rates in another downturn to near zero.

The upshot: Unlike in 2008, when the tools hadn't ever been deployed in the U.S., officials now know they have some firepower in their arsenal. The problem is that no one seems terribly confident that these tools will give them enough bang for their buck.

The Fed's tools fall into two categories. The first is forward guidance, or language that tells the public and markets about the Fed's future commitments—for example, to hold rates down for a longer period than might otherwise be expected. The second includes purchases of long-term Treasury securities and other assets to spur investors to make other riskier investments.

Officials concluded that their tools were effective, but they agreed to "broaden the discussion" to evaluate other policy tools, according to the minutes. The account doesn't say what those possible alternatives might be.

The discussion suggests officials may lack confidence in their current recession-fighting tools. "Our tools are asymmetrical. It's easier to tighten than to ease," said Dallas Fed President Robert Kaplan in an interview Friday.

And while the unconventional policies unleashed between 2008 and 2012 seemed large in scope during the time, officials are now rethinking whether they did enough.

Fed Chairman Jerome Powell indirectly referenced this view during his speech Friday in Jackson Hole, Wyo., by pointing out that the neutral level of interest that seeks to neither spur nor slow growth had fallen considerably after the crisis.

The observation "implies that the federal-funds rate was considerably closer to its longer-run normal and, hence, that policy was less accommodative than thought at the beginning of normalization," he said.

If a recession hits and the Fed cuts rates to near zero again, it now knows how to use the different tools in its kit. Officials are ready to defend the steps they took earlier this decade, but they don't sound convinced the tools are as powerful as they would have hoped.

Key Developments Around the World

Transcript: WSJ Interview with Atlanta Fed's Raphael Bostic

Federal Reserve Bank of Atlanta President Raphael Bostic discussed his outlook on trade disputes, political pressure and the prospect of additional interest-rate increases this year with Wall Street Journal reporters Nick Timiraos and Paul Kiernan on Friday in Jackson Hole, Wyo. Here is a partial transcript of the interview.

Yield Curve Suggests Rising, but Still Low, Recession Risk, San Francisco Fed Paper Says

The bond market is signaling that the risk of recession is rising but a downturn is far from imminent, new research by the Federal Reserve Bank of San Francisco released Monday said. Fed officials tend to focus on the relationship between the two- and 10-year note, but the San Francisco Fed paper said there is a more reliable way to link yield-curve inversions and recessions. "The difference between 10-year and three-month Treasury rates is the most useful term spread for forecasting recessions," bank economists Michael Bauer and Thomas Mertens wrote. "Although this particular spread has narrowed recently like most other measures, it is still a comfortable distance from a yield curve inversion," the authors wrote.

Senate Nears Vote on Clarida's Fed Nomination

The Senate could vote as soon as Tuesday morning to clear a procedural hurdle that would bring up a final vote on the confirmation of Richard Clarida, a Columbia University economist, to serve as vice chairman of the Federal Reserve, according to a GOP Senate side. Depending on how much floor debate lawmakers devote to Mr. Clarida's nomination, the final vote could be recorded later this week, and possibly as soon as later Tuesday. Mr. Clarida is likely to be confirmed to the Fed's seven-member board after clearing the Senate Banking Committee in June on a 20-5 vote. That would leave three additional vacancies on the board, for which President Trump has submitted two nominations. --Dow Jones Newswires

High Expectations Skew Global Investors' View of U.S. Growth

The U.S. continues to grow at its quickest pace in years. Perversely, its very strength keeps raising the bar for investors flocking to the U.S. By some measures, the U.S. is starting to fall short of heightened expectations, while other regions, with much lower and manageable targets, are beating theirs. The Citigroup Economic Surprise Index, a measure of whether economic reports are meeting projections, has fallen to its lowest level in nearly a year in the U.S. The gauge has dropped into negative territory, indicating economic data are broadly starting to come in below expectations.

China Boosts Yuan by Most in More Than a Year

China guided the yuan 0.7% stronger against the dollar Tuesday, boosting the Chinese currency by the most since June 1, 2017. The People's Bank of China fixed the dollar's midpoint for daily trading at 6.8052 yuan, compared with 6.8508 yuan Monday. The move followed an onshore surge in the yuan Monday, which came after the currency's offshore jump late Friday. With Tuesday's fix, the yuan is at its strongest against the dollar since Aug. 2. --Dow Jones Newswires

Why China's Yuan Will Struggle to Rally Further

Eurozone Bank Lending Steady in July: ECB

Eurozone bank lending grew at a steady rate in July, a trend that should support corporate investments in the region. The European Central Bank said Tuesday that lending to nonfinancial corporations grew at an annual rate of 4.1%, the same rate as in June and the fastest pace since May 2009. The eurozone economy is heavily dependent on the availability of funding, and economists watch lending data as an indicator of economic health. Lending to eurozone households remained robust too, growing at an annual rate of 3% in July—the same rate as in June. --Dow Jones Newswires

Brazil Records Current-Account Deficit, Reflecting Interest Payments

Brazil posted a wide deficit in its transactions with foreign nations in July, after four consecutive monthly surpluses, due mainly to interest payments, the central bank said Monday. The country recorded a $4.4 billion current-account deficit in July, compared with a $435 million surplus posted in June, the bank said. July's deficit was wider than the $3.4 billion deficit posted in the same month a year ago. The latest result was influenced by the payment of $2.5 billion in interest on public debt, the central bank said.

FINANCIAL REGULATION ROUNDUP

CFPB Student-Loan Official Quits, Citing Boss's Enforcement Policy

A top student-loan official at the Consumer Financial Protection Bureauresigned Monday and released a letter saying Trump administration officials running the bureau were undermining staff work on enforcement cases. "The bureau's new political leadership has repeatedly undercut and undermined career CFPB staff working to secure relief for consumers," Seth Frotman, the bureau's student-loan ombudsman, said in the letter dated Monday, referring to enforcement matters. "Their actions will affect millions of student loan borrowers, including those harmed by the company that dominates this market." A CFPB spokesman declined to comment, saying the bureau doesn't discuss personnel matters.

Legg Mason to Pay SEC More Than $34 Million to Settle Libya Bribery Case

Legg Mason Inc. will pay more than $34 million to the Securities and Exchange Commission to settle an investigation into the role one of its former subsidiaries played in bribing officials in Libya, the SEC said Monday. The settlement comes after the Baltimore-based investment-management firm in June agreed to pay $64.2 million to settle a Justice Department investigation into the matter. Because of the settlement with the SEC, Legg Mason's payments to regulators will total about $71 million.

Transamerica's Entities to Pay $97.6 Million to Misled Retail Investors

Transamerica Corp. has agreed to pay $97.6 million following a settlement with the U.S. Securities and Exchange Commission over charges that four of its entities misled retail investors. The SEC said Monday that Aegon USA Investment Management LLC, along with Transamerica Asset Management Inc., Transamerica Financial Advisors Inc. and Transamerica Capital Inc., claimed that investment decisions would be based on Aegon's quantitative models. The models, however, were developed solely by an inexperienced junior analyst, contained numerous errors, and didn't work as promised, the SEC said. When the entities found out about the errors, they stopped using the models without telling their investors, who had put billions of dollars into mutual funds and other strategies using the models.

How a Banker's Message to a Client Spelled Trouble for UBS

A UBS Group AG banker working on a large Hong Kong initial public offering last year disclosed the identity of an investor that sold shares shortly after the listing, a breach of client confidentiality that triggered an internal investigation and the suspension of a senior employee, according to people familiar with the matter. An individual at the bank sent a message to ZhongAn Online P & C Insurance Co., a company whose backers include the founders of Chinese internet giants Alibaba Group Holding Ltd. and Tencent Holdings Ltd. The message revealed the identity of an investor who bought shares during ZhongAn's September 2017 IPO and quickly sold them for a profit, the people said.

Meet the Lawyer Representing Wall Street's #MeToo Men

A few months ago, attorney John Singer was catching up with a childhood friend. He told her about a new crop of clients he was representing: men fired over allegations of unwanted advances and other misconduct. "You're on the wrong side of the issue," the friend, Stacey Creem, told him, half joking. He laughed, she said. For lawyers, a willingness to take on clients some find unsavory can be part of the job. Mr. Singer has waded into particularly controversial territory, helping men felled by the burgeoning #MeToo movement take on their former Wall Street employers. His approach, insisting his clients are the true victims, has helped earn some of the men unlikely victories.

Manafort Sought Deal in Next Trial, but Talks Broke Down

Paul Manafort's defense team held talks with prosecutors to resolve a second set of charges against the former Trump campaign chairman before he was convicted last week, but they didn't reach a deal, and the two sides are now moving closer to a second trial next month, according to people familiar with the matter.

Wednesday

8:30 a.m. EDT

U.S. Commerce Department releases second estimate of second-quarter GDP

Correction: Monday's Forward Guidance incorrectly listed Chicago Fed President Charles Evans as speaking in Buenos Aires on Monday and Tuesday. He is scheduled to speak there Sept. 3 and 4.

How Have Equity Markets Reacted to Brexit News?

A post on the Bank of England's Bank Underground blog examines how Brexit news has affected stock markets. Srdan Tatomir, Iryna Kaminska, Marek Raczko and Gregory Thwaites split companies into two groups: those whose share prices are particularly sensitive to Brexit news and those whose shares aren't. "The ratio of the two groups' prices gives a barometer of **equity market** sentiments around Brexit," the post says. "So far, this measure points to downward pressure on valuation of companies more exposed to Brexit. The bulk of the fall occurred on the night of the referendum, with little movement afterwards, suggesting little additional 'news' from subsequent developments beyond the immediate aftermath."

The Depth of the Next U.S. Recession

Jeffrey Frankel, writing for Project Syndicate, says that "whatever the immediate trigger" of the next recession, "the consequences for the U.S. are likely to be severe, for a simple reason: the U.S. government continues to pursue pro-cyclical fiscal, macro-prudential, and even monetary policies. While it is hard to get counter-cyclical timing exactly right, that is no excuse for pro-cyclical policy, an approach that puts the U.S. in a weak position to manage the next inevitable shock…As we approach the tenth anniversary of the global financial crisis, we should recall how we got there. In 2003-2007, the U.S. government pursued fiscal expansion and financial deregulation—an approach that, even at the time, was recognized as likely to constrain the government's ability to respond to a recession. If the U.S. continues on its current path, no one should be surprised if history repeats itself."

The Chicago Fed National Activity Index fell in July, as the pace of growth from production-related indicators slowed. The index, which provides a snapshot of national economic activity and inflation pressures, registered 0.13 in July, compared with 0.48 in June.

General business activity in Texas fell in August, but came in above economists' expectations as the production index, a measure of state manufacturing conditions, held steady.

Mexico's trade deficit nearly doubled in July from a year earlier as growth in imports outpaced that of exports, led by a big increase in purchases of petroleum products from abroad.

South Korea's liberal government has proposed the biggest budget increase in a decade, with President Moon Jae-in pushing to follow through on a campaign promise to create more jobs for young people in Asia's fourth-largest economy as his popularity stumbles.

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

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

Follow us on Twitter:

@WSJCentralBanks, @NHendersonWSJ, @PaulHannon29, @michaelsderby, @wsj_douglasj, @HarrietTorry, @KateDavidson, @d_harrison, @kimmackrael, @TomFairless, @mikemaloneyny

Document RSTPROCB20180828ee8s0002t

THE WALL STREET JOURNAL.
U.S. EDITION

U.S. News: Cost of Imports Eased by Strong Dollar

By Paul Kiernan
479 words
15 August 2018
The Wall Street Journal
J
A2
English

WASHINGTON -- As escalating trade disputes threaten to drive up the cost of imported goods for U.S. consumers and businesses, economists say a stronger dollar may be helping to offset some of the pain.

Import prices excluding **volatile** fuel items fell 0.3% in July after posting a similar drop in June, the Labor Department said Tuesday, reversing five straight months of increases this year. The price declines came after the dollar rallied as much as 7% between mid-February and late May against a basket of currencies, bolstering Americans' purchasing power relative to the rest of the world.

"Import prices had been trending higher for a couple of years, but we have seen some weakening in the very recent data that is likely at least partially related to the dollar appreciation so far this year," said Daniel Silver, an economist at J.P. Morgan, in an emailed note.

Because the Labor Department data don't include taxes, it is unclear what effect the tariffs that Washington has slapped on imported goods from China and other countries in recent months are having on final consumer prices. But a number of economists say the dollar, which has strengthened another 2% since July 31, should continue to restrain import prices in the short term.

Interest rates are significantly higher in the U.S. than in other developed markets such as Europe or Japan, and the Federal Reserve plans to further raise its benchmark rate by as much as a half percentage point before the end of the year. Such moves tend to boost returns on U.S. assets, drawing investment funds from the rest of the world and causing the dollar to appreciate.

Geopolitical turmoil in recent weeks has also contributed to the dollar's rise as investors flee Turkey and a host of other emerging markets.

"Global trade contracts are decided months in advance, so movements in exchange rates affect import prices with some lag," said Mickey Levy, chief economist for the Americas and Asia at Berenberg Capital Markets LLC. "Accordingly, we expect the dollar appreciation to weigh on import prices and push up export prices in coming quarters."

Another potential downward force on prices is tariff retaliation from U.S. trade partners, which constrains demand for U.S. goods abroad.

Soybean prices, for instance, have withered in recent months after China threatened -- and then imposed -- tariffs on U.S. exports of the oilseed.

"On the inflation side, on the price side, I think you see movements on both sides, and we'll see where that lands," Richmond Federal Reserve President Thomas Barkin told reporters last week. "When you see tariffs being put on our exports -- soybeans, pork . . . you'll see prices go down. You'll see an oversupply."

Document J000000020180815ee8f00019

THE WALL STREET JOURNAL.
U.S. EDITION

World News: Negotiators Pressed for Deal Before Mexico's Transition

By Vivian Salama and Michael C. Bender
429 words
28 August 2018
The Wall Street Journal
J
A5
English

WASHINGTON -- Months of tensions and volatile trade talks between the U.S. and Mexico ended -- not with the conventional handshake -- but with a virtual embrace.

"I'm extending you an affectionate hug," Mexico's President Enrique Pena Nieto told President Trump by telephone on Monday as the White House unveiled the framework of a new trade agreement.

"A hug from you would be very nice," Mr. Trump responded, sitting at his desk in the Oval Office.

The exchange wrapped up months of fragile talks, which were racing against the clock because of the transition of administrations in Mexico.

Behind the scenes, three individuals are said to have led the talks over the finish line: Mr. Trump's top adviser and son-in-law, Jared Kushner; U.S. Trade Representative Robert Lighthizer; and Mexico's Foreign Minister Luis Videgaray, people familiar with the talks said .

Mr. Lighthizer was the chief negotiator and knew the details best. Mr. Kushner developed relationships with Mexican officials, said people familiar with the matter.

The process began in January 2017, when Mr. Trump rearranged his schedule to fit in an hourlong phone call with Mr. Pena Nieto, who had snubbed the new president by canceling his visit to Washington over Mr. Trump's demands that Mexico pay for his proposed border wall, according to a former White House official.Mr. Trump's team hit back by threatening a border tax on Mexican imports.

But the call presented a window of hope. Mr. Trump tasked Mr. Kushner -- a real-estate executive with no trade experience -- with managing the dispute, the former official said.

Together with Mr. Videgaray, the two were expected to solve some of the toughest issues crippling the relationship.

In April, Mr. Trump canceled a trip to Peru, instead sending Vice President Mike Pence and Mr. Kushner in his place. It was then that Mr. Kushner spied opportunity.

In a "random conference room" on the sidelines of the summit, Mr. Kushner huddled with Mr. Videgaray to discuss ways to renegotiate the deal, conferencing Mr. Lighthizer in from Washington.

But the tides of change left officials on both sides uncertain about their future.

Had talks stretched another week, the timeline for signing the new deal would have required newly elected President Andres Manuel Lopez Obrador -- and not Mr. Pena Nieto -- to sign the new deal.

"It was important to get it across the finish line this week," one official said.

Document J000000020180828ee8s0001f

THE WALL STREET JOURNAL.
U.S. EDITION

U.S. News: Inflation Reaches Fed's 2% Target

By Paul Kiernan
280 words
31 August 2018
The Wall Street Journal
J
A2
English

A key measure of inflation accelerated last month to the fastest annual clip since 2012, as robust spending by consumers and businesses steadily pushed up prices for goods and services across the economy.

The personal-consumption-expenditures price index, a broad inflation gauge closely watched by the Federal Reserve, rose a seasonally adjusted 0.1% in July from June, the Commerce Department said Thursday. From July 2017, the index was up 2.3%, the biggest increase since early 2012.

More importantly for the Fed, the so-called core PCE index, which excludes **volatile** food and energy prices, rose 0.2% in July from June and 2% from a year earlier, matching the central bank's target. Core PCE prices are seen as an indicator of the economy's longer-term, underlying inflation rate.

Although the numbers were in line with forecasts from economists surveyed by The Wall Street Journal, the return of 2% core inflation marks a welcome development for policy makers. Before this year, price increases had run below the central bank's target for most of the past six years, despite falling unemployment and steady economic growth. That had led policy makers to question some of their basic assumptions about the economy.

Now, however, the job market is stronger than in nearly two decades, and Thursday's data will likely bolster Fed officials' belief that inflation is finally consolidating around the central bank's objective.

The stronger inflation numbers should reinforce expectations the Fed will continue raising interest rates in a bid to keep the economy from overheating.

Document J000000020180831ee8v0002g

THE WALL STREET JOURNAL.
U.S. EDITION

U.S. News: U.S. Watch

433 words
17 August 2018
The Wall Street Journal
J
A2
English

HOUSING

Construction Stages

A Slight Rebound

Home construction across the U.S. staged a small rebound last month after a big June drop but fell short of expectations.

Housing starts grew 0.9% in July from the prior month, weaker than the 8.3% growth economists surveyed by The Wall Street Journal expected. The drop followed a 12.9% decline in June, the largest monthly fall since the end of 2016.

"After a tough report last month, this is strike two for the housing market," said John Pataky, executive vice president at TIAA Bank. "This report reflects some fundamental issues that cloud the housing horizon."

-- Sharon Nunn

ECONOMY

Jobless Claims Drop,

Remain Muted

The number of Americans filing applications for new unemployment benefits fell by 2,000 last week to a seasonally adjusted 212,000, the Labor Department said Thursday.

Initial jobless claims can be **volatile** from week to week; the four-week moving average of claims, a steadier measure, rose by 1,000 to 215,500.

Jobless claims have remained low for years, a sign that employers are laying off few workers. The unemployment rate fell to 3.9% in July, hovering near the lowest level since April 2000, according to the Labor Department's latest jobs report.

-- Sarah Chaney

CALIFORNIA

Two Charged in Fire

Likely Going to Trial

The two men charged in the deadly Oakland warehouse fire that killed 36 people in 2016 appear to be headed to trial after a prosecutor said she wouldn't consider any further pleas deals.

Alameda County District Attorney Nancy O'Malley said in a letter Tuesday to the judge on the case that her office is ready to try the case and that she wouldn't entertain any plea agreements, according to a copy of the letter reviewed by The Wall Street Journal.

Derick Almena and Max Harris have been charged with 36 counts of involuntary manslaughter for allegedly creating a fire trap with inadequate means of escape at the warehouse and underground concert venue that was known as a Ghost Ship.

A spokeswoman for Ms. O'Malley declined to comment. An attorney for Mr. Almena didn't return a call seeking comment.

Curtis Briggs, an attorney for Mr. Harris, said he welcomes a trial for his client. "We are going to show the public and the jury all the institutional incompetence they can stomach, including that of O'Malley's office, and every inept and incompetent public official who allowed this fire to happen," he said.

-- Zusha Elinson

Document J000000020180817ee8h0002c

THE WALL STREET JOURNAL.
U.S. EDITION

U.S. News: Fed Stays on Course For Interest Rates

By Nick Timiraos
428 words
2 August 2018
The Wall Street Journal
J
A2
English

WASHINGTON -- The Federal Reserve held short-term interest rates steady Wednesday and offered an upbeat assessment of the economy's performance, suggesting another interest-rate increase is likely at its next meeting.

The Fed repeatedly emphasized the economy's strength in a statement released after its two-day policy meeting. It offered nothing to dispel market expectations that it would deliver its third interest-rate increase of the year when it meets in late September.

"Economic activity has been rising at a strong rate," the statement said. In all, the Fed's rate-setting committee used the word "strong" -- or a derivative of it -- six times to describe the economy and labor markets.

Officials voted in June to raise their benchmark rate to a range between 1.75% and 2%. They voted unanimously on Wednesday to leave it there for now.

Overall U.S. economic output expanded at a 4.1% annual rate in the second quarter, the best three-month increase since 2014, the Commerce Department reported last week. During the first half of the year, the economy expanded at a 3.1% annual rate, slightly better than the 2.8% median forecast for the full year submitted by Fed officials in June.

The question looming over the Fed's meetings this spring and summer has centered on how much further officials believe they will need to raise rates over the next two years.

In June, Fed officials penciled in plans to raise rates two more times this year and three times next year, which would push their benchmark rate above 3%. Officials estimate that moving rates about that level would effectively be tapping brakes on economic growth.

Traders in futures markets largely agree with the Fed's outlook. On Wednesday, they placed a roughly 90% chance of a rate increase this September and a 70% chance of at least one more increase by December, according to CME Group.

The challenge for central bankers is to lift borrowing costs enough to prevent the economy from overheating but not so much that it tips into recession.

Inflation is close to the Fed's 2% target after undershooting it for many years. Consumer prices in June rose 2.2% from a year earlier. Excluding **volatile** food and energy categories, they rose 1.9%, according to the Fed's preferred inflation gauge. The Fed likes to maintain inflation around 2%, seeing it as a sign of a balanced economy.

Document J000000020180802ee820002b

THE WALL STREET JOURNAL.

Economy
Chicago Business Barometer Falls in August; Softer supplier deliveries, order backlogs and unemployment contribute to the drop

By Kimberly Chin
293 words
31 August 2018
10:30 AM
The Wall Street Journal Online
WSJO
English

The Chicago Business Barometer fell in August due to softer supplier deliveries, order backlogs and unemployment.

The barometer fell to 63.6 in August from 65.5 in July. This was ahead of expectations from economists polled by The Wall Street Journal of a reading of 63.

When the barometer is above 50, it means there is expansion. The reading takes into account five different components: new orders, order backlogs, production, supplier deliveries indicators and employment.

The prices-paid indicator was slightly lower in August though it was still considered high compared to a decade ago. Around 60% of businesses polled by MNI Indicators said they passed the higher input costs to consumers.

New orders and backlogs rose in the past while the indicator for supplier deliveries fell for the second straight month. The lull in new orders gave some businesses time to catch up on existing, unfinished orders, MNI Indicators said in a news release.

MNI Indicators also asked those surveyed about their assessment of their inventory level. Three-fifths said they thought their current stock was "about right," while one-fifth said their inventory level was either "too high" or "too low."

"Inflationary pressures look set to continue, potentially bleeding into consumer prices," MNI Indicators Economist Jamie Satchi said in prepared remarks.

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

Write to Kimberly Chin at kimberly.chin@wsj.com

Document WSJO000020180831ee8v0048t

THE WALL STREET JOURNAL.

Economy
U.S. Jobless Claims Fell Last Week; Initial claims declined by 6,000 to a seasonally adjusted 213,000

By Sharon Nunn and Sarah Chaney
263 words
9 August 2018
08:34 AM
The Wall Street Journal Online
WSJO
English

WASHINGTON—The number of Americans filing applications for new unemployment benefits fell last week, continuing to hover near historic lows.

Initial jobless claims, a proxy for layoffs across the U.S., declined by 6,000 to a seasonally adjusted 213,000 in the week ended Aug. 4, the Labor Department said Thursday. Economists surveyed by The Wall Street Journal expected 220,000 new claims last week.

Data can be **volatile** from week to week. The four-week moving average of claims, a steadier measure, also fell, declining to 214,250.

Jobless claims have remained low for years, a sign that employers are laying off few workers in the U.S.'s tight labor market as some managers face difficulty finding qualified employees.

The unemployment rate fell to 3.9% in July, hovering near the lowest level since April 2000, according to the Labor Department's latest jobs report. Meanwhile, the number of open jobs this spring exceeded the number of unemployed Americans seeking work for the first time in records going back to 2000.

Still, Thursday's report showed the number of claims workers made for longer than a week increased by 29,000 to 1,755,000 in the week ended July 28. The figure, also known as continuing claims, is reported with a one-week lag.

Write to Sharon Nunn at sharon.nunn@wsj.com and Sarah Chaney at sarah.chaney@wsj.com

Document WSJO000020180809ee89002s1

THE WALL STREET JOURNAL.

Economy
U.S. Trade Deficit in Goods Widened to $72.2 Billion in July; Gap had narrowed from February to May but now appears to have widened two months in a row

By Joshua Zumbrun
436 words
28 August 2018
11:44 AM
The Wall Street Journal Online
WSJO
English

A preliminary report on international trade for the month of July showed the U.S. trade deficit in goods widened last month to $72.2 billion from $67.9 billion in June.

The trade deficit in goods had narrowed slightly from February to May, and now appears to have widened two months in a row, although the data is preliminary and only covers trade in goods and not trade in services.

Exports of goods dipped to $140 billion last month from $142.5 billion in June, while imports of goods rose to $212.2 billion, up from $210.4 billion in June on a seasonally adjusted basis, according to the Commerce Department's latest "Advance Economic Indicators" report, which provides an early and partial snapshot of trade and inventories data.

Exports face a number of headwinds that could contribute to a wider trade deficit for the rest of the third quarter, which may ultimately weigh on third-quarter readings of gross domestic product.

"Export growth is expected to cool over the coming months, weighed down by more modest global momentum, a firmer U.S. dollar, trade tariffs and trade policy uncertainty," said Oren Klachkin, lead economist for Oxford Economics, in a note.

The preliminary data report is not a major economic indicator, but has been watched by some economists in recent months for two reasons: First, because a narrowing of the trade deficit in the second quarter provided a lift to U.S. GDP, which clocked in at 4.1% growth at a seasonally adjusted annualized rate. If the preliminary data are confirmed in final reports, then part of the boost in second quarter GDP could be reversed in the third-quarter GDP report. That report, however, will not be released until October.

Macroeconomic Advisers lowered its tracking estimate of GDP growth for the third quarter by 0.1 percentage point to 3.1% based on the report.

The report has also been watched for any insight into whether President Trump's trade actions are succeeding in reducing the U.S. deficit. Because the data are so **volatile**, however, it is too soon to provide meaningful answers.

The data may also be distorted by factors like soybean exporters rushing to ship their crop to China and other locations before agricultural tariffs take effect. That movement could now be going into reverse.

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

Document WSJO000020180828ee8s003e9

THE WALL STREET JOURNAL.

Economy

U.S. Jobless Claims Fall for Third Consecutive Week; Initial claims, a proxy for layoffs across the U.S., dropped to 210,000 in the week ended Aug. 18

By Sarah Chaney and Sharon Nunn
277 words
23 August 2018
08:34 AM
The Wall Street Journal Online
WSJO
English

WASHINGTON—The number of Americans filing applications for new unemployment benefits fell last week for the third straight week, continuing to hover near historic lows.

Initial jobless claims, a proxy for layoffs across the U.S., dropped by 2,000 to a seasonally adjusted 210,000 in the week ended Aug. 18, the Labor Department said Thursday. Economists surveyed by The Wall Street Journal expected 215,000 new claims last week.

Data can be **volatile** from week to week. The four-week moving average of claims, a steadier measure, declined by 1,750 to 213,750.

Jobless claims have remained low for years, a sign that employers are laying off few workers in the U.S.'s tight labor market as some managers face difficulty finding qualified employees.

The unemployment rate fell to 3.9% in July, near the lowest level since April 2000, according to the Labor Department's latest jobs report. Meanwhile, the number of open jobs this spring exceeded the number of unemployed Americans seeking work for the first time in records going back to 2000.

Thursday's report showed the number of claims workers made for longer than a week decreased by 2,000 to 1,727,000 in the week ended Aug. 11. That figure, also known as continuing claims, is reported with a one-week lag.

Write to Sarah Chaney at sarah.chaney@wsj.com and Sharon Nunn at sharon.nunn@wsj.com

Document WSJO000020180823ee8n002gx

THE WALL STREET JOURNAL.

Economy

Home Building Disappoints Again, Raising the Specter of a Cementing Trend; U.S. housing starts rebounded in July but were far shy of estimates; residential building permits also climbed

By Sharon Nunn
546 words
16 August 2018
12:04 PM
The Wall Street Journal Online
WSJO
English

WASHINGTON—Home construction across the U.S. staged a modest rebound last month after a big June drop, but was weaker than Wall Street had expected, with many analysts taking a bleak view of the housing market.

Housing starts grew 0.9% in July from the prior month, significantly weaker than the 8.3% bounce back economists surveyed by The Wall Street Journal had expected. This follows a sharp 12.9% drop in housing construction in June, the largest monthly decline since the end of 2016.

"After a tough report last month, this is strike two for the housing market," said John Pataky, executive vice president at TIAA Bank. "This report reflects some fundamental issues that cloud the housing horizon."

The weaker-than-expected home building could signal fewer homes on the market in the coming months, potentially exacerbating supply constraints in the housing sector. Rising borrowing costs are an added headwind to the market, making the residential sector a drag on an otherwise robust national economy. Residential investment has contracted in four of the past five quarters, according to the Bureau of Economic Analysis.

"June appeared to be an anomaly, but July results indicate a trend," said Scott Volling, principal at PricewaterhouseCoopers.

Meanwhile, a gauge of U.S. home-builder confidence fell in August after plateauing in July and declining for much of 2018.

Still, home builders seem willing to attempt to push through new construction projects. Residential building permits, which can signal how much construction is in the pipeline, for single-family homes grew 1.9% in July from the prior month, the largest monthly gain since October.

The broader trend shows the housing market notching continued building, as starts rose by 6.2% in the first seven months of 2018 compared with the same period a year earlier. Housing-starts data are **volatile** from month to month and can be subject to large revisions. July's 0.9% increase for starts came with a margin of error of 11.5 percentage points.

Some analysts argued weather could have been at play in the recently weak figures. While construction grew in the South and Midwest, they declined in the Northeast and fell starkly in the West in July.

"There have been extensive weather issues in the West this summer, including wildfires and a regionwide heat wave, while the Northeast was very wet in July … and so far in August," said Stephen Stanley, chief economist at Amherst Pierpont Securities, in a note to clients Thursday. "If this factor is impacting the data, then do not be surprised if August is relatively soft as well."

Overall, single-family home building has held near the highest levels since before the 2007-09 recession, while construction of multifamily buildings eased as the market for new condominiums and apartments has cooled.

Starts grew in July from the prior month for single-family construction and multifamily construction. Permits last month were up for buildings with five or more units and for single-family homes compared with June.

Write to Sharon Nunn at sharon.nunn@wsj.com

Document WSJO000020180816ee8g001rx

THE WALL STREET JOURNAL.

Economy

U.S. Jobless Claims Fell Last Week; Initial jobless claims, a proxy for layoffs across the U.S., drop by 2,000 to 212,000

By Sarah Chaney and Sharon Nunn
269 words
16 August 2018
08:36 AM
The Wall Street Journal Online
WSJO
English

WASHINGTON—The number of Americans filing applications for new unemployment benefits fell last week, continuing to hover near historic lows.

Initial jobless claims, a proxy for layoffs across the U.S., dropped by 2,000 to a seasonally adjusted 212,000 in the week ended August 11, the Labor Department said Thursday. Economists surveyed by The Wall Street Journal expected 215,000 new claims last week.

Data can be **volatile** from week to week. The four-week moving average of claims, a steadier measure, rose by 1,000 to 215,500.

Jobless claims have remained low for years, a sign that employers are laying off few workers in the U.S.'s tight labor market as some managers face difficulty finding qualified employees.

The unemployment rate fell to 3.9% in July, hovering near the lowest level since April 2000, according to the Labor Department's latest jobs report. Meanwhile, the number of open jobs this spring exceeded the number of unemployed Americans seeking work for the first time in records going back to 2000.

Thursday's report showed the number of claims workers made for longer than a week declined by 39,000 to 1,721,000 in the week ended August 4. That figure, also known as continuing claims, is reported with a one-week lag.

Write to Sarah Chaney at sarah.chaney@wsj.com and Sharon Nunn at sharon.nunn@wsj.com

Document WSJO000020180816ee8g001up

Search Summary

Text	S&P 500 index or Dow Jones index or Bond yield or oil price or stock index or stock market or DJIA or SPX or equity market or Dow Jones Industrial Average or S&P 500 or Standard & Poor's 500-stock index or U.S. treasury rates or U.S. treasury yield or stock price or earnings suprise or earnings surprises or oil prices or Nasdaq Composite or standard & poor's 500 index or 30-year Treasury bond or 10-year Treasury bond or 30-year Treasury or 10-year Treasury or Bond prices or bull market or bear market or bull market or bear market or bullish or bearish or financial markets or financial market or volatile or volatility or Nasdaq
Date	08/01/2018 to 08/31/2018
Source	The New York Times - All sources Or The Wall Street Journal - All sources
Author	All Authors
Company	All Companies
Subject	Commodity/Financial Market News Or Economic News
Industry	All Industries
Region	United States

Language	English
Results Found	573
Timestamp	30 November 2018 8:36 AM

