THE WALL STREET JOURNAL.

Politics

**U.S. Trade Is Trump's Main Focus at G-7 Gathering; Tariffs on allies as part of an aggressive trade agenda sow discord ahead of Canadian summit, threaten U.S. leadership role**

By Joshua Zumbrun and Vivian Salama
1,366 words
6 June 2018
08:23 PM
The Wall Street Journal Online
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Corrections & Amplifications

Chad Bown is a senior fellow at the Peterson Institute for International Economics in Washington An earlier version of this article incorrectly gave his surname as Brown. (June 6)

President Donald Trump, heading into this weekend's meeting of the Group of Seven industrialized nations, has signaled his intention to continue pursuing an aggressive trade agenda even if it comes at the expense of America's standing in the world.

The "world trade system is a mess," Mr. Trump's top economic adviser, Lawrence Kudlow, told reporters on Wednesday. "Trump is trying to fix this broken system."

For decades, the G-7 summit has been a venue for the richest countries to coordinate policies around trade and shared values, and the U.S. was the group's undisputed leader. Now, many observers believe the Trump administration seems less interested in maintaining the post-World War II trading system and more concerned with domestic priorities.

The immediate focus of the talks—which include Canada, France, Germany, Italy, Japan, the U.K. and the U.S.—will be the Trump administration decision last week to impose tariffs on steel and aluminum imports from fellow G-7 countries.

"Tariffs imposed last week by President Trump on the EU and Canada have increased significantly tensions before the meeting," a senior EU official said, adding that a breakthrough to ease trade tensions was unlikely. "We have extremely low expectations."

Canadian Prime Minister Justin Trudeau told reporters Wednesday there would be "some very direct conversations" on tariffs at the talks, relating to what he called the Trump administration's "insulting" levies on steel and aluminum.

The consequences of the U.S. driving away allies, even if it wins short-term trade concessions, could do lasting damage to the strength of America's coalition. "If the U.S. loses their support, then it's a different ball game at the global leadership level," said Fred Bergsten, the founding director of the Peterson Institute for International Economics.

Treasury Secretary Steven Mnuchin, asked if the U.S. was surrendering leadership, told reporters at a ministerial-level G-7 meeting in Whistler, Canada, last weekend, that "I don't think in any way the U.S. is abandoning its leadership in the global economy." He cited the recent tax law as a prime example of U.S. leadership.

Yet Mr. Mnuchin was speaking only hours after every country in the G-7, aside from the U.S., had endorsed a joint statement that served as a unanimous rebuke of Washington's tariffs on steel and aluminum.

Mr. Trump is scheduled to hold bilateral meetings with Mr. Trudeau and French President Emmanuel Macron during the summit. As of Wednesday, those were the only two bilateral meetings planned, the White House said, noting that the schedule might change. Mr. Trump will meet with Japanese Prime Minister Shinzo Abe at the White House ahead of the summit on Thursday.

Time and again, Mr. Trump and his team have shown that he sees little value in the hoary traditions of such select multilateral gatherings. People familiar with his thinking on how best to react to the growing discontent among U.S. allies say his response will likely be to double down on his signature confrontational tone, forcing the allies to respond.

"The United States must, at long last, be treated fairly on Trade," Mr. Trump tweeted as G-7 finance ministers finished the pre-summit meeting in Canada last weekend. "If we charge a country ZERO to sell their goods, and they charge us 25, 50 or even 100 percent to sell ours, it is UNFAIR and can no longer be tolerated. That is not Free or Fair Trade, it is Stupid Trade!"

Mr. Trump's stance could lead to concessions. Germany, for instance, is keen not to run afoul of Mr. Trump's trade agenda and has resisted efforts by other G-7 members to coordinate opposition.

That said, the other six members of the G-7 are preparing to express their deep dissatisfaction with Mr. Trump's aggressive "America First" policies. They will decry, in particular, the use of a national security argument to impose tariffs on each of the six other members.

"Japan and the EU will team up on this issue and call on cooperation from other countries," Japanese Trade Minister Hiroshige Seko told reporters Tuesday. Mr. Seko noted that Japan and the EU had issued a statement critical of the U.S. after he and EU Trade Commissioner Cecilia Malmström met in Paris last week. "This is an unusual step," he said.

Despite the heightened tensions going into the summit, Mr. Kudlow sought to signal a willingness to engage in constructive discussions. The Trump administration's policies "are working," and he urged U.S. allies to "take notice and work with us."

Rachel Ziemba, a visiting fellow at the Center for New American Security, said that the "most likely scenario is one in which the trade-policy rollercoaster continues with threats of tariffs with modest implementation of tariffs."

Washington's allies feel more like targets than partners recently. Last week, Commerce Secretary Wilbur Ross announced that exemptions on global steel and aluminum tariffs wouldn't be renewed, subjecting metals exports from Canada, Mexico and the European Union—including the U.K.—to tariffs.

The Trump administration has also vowed to proceed with its plan to impose tariffs on $50 billion of Chinese-made products across 1,300 categories of products. "The whole world agrees with us regarding China's trade practices," Mr. Kudlow said.

Few will dispute Mr. Kudlow's assertions about China's aggressive trade practices. But critics note Washington's actions have taken the pressure off China. At the pre-summit gathering of G-7 finance ministers, as many as four delegations were planning to discuss China's trade practices, and perhaps reach an agreement to pressure China for change.

Instead, the Trump administration's steel tariffs have dominated the discussions at the meetings. "We can get big things done together, but we can't do it when we have a challenge in the approach we've had for so long that has helped so many," Bill Morneau, the Canadian finance minister, told reporters.

"Time we spend squabbling with the steel and aluminum tariffs is time we can't spend on other issues, like working to further open the Chinese market," said Nathan Sheets, the director of international affairs at the Federal Reserve during the financial crisis, and later the undersecretary of the Treasury for international affairs from 2014 to 2017 under Secretary Jack Lew.

"There are enormous risks to this approach, maybe most importantly to our international standing," said Mr. Sheets, of the U.S. going it alone. "Working with the G-7 is in U.S. interests."

The G-7 alliance grew out of a group known as the "Library Group" because it first met in the White House library of President Richard Nixon to discuss the oil crisis of the 1970s. Washington's leadership of the industrialized world, ever since, has paid major dividends in the past. The group helped the industrialized world respond to OPEC, driving **oil prices** back down and stabilizing the economy of oil importers.

 

In 1985, as part of the so-called Plaza Accord, the U.S. allies agreed to help Washington reduce the value of the dollar, which had grown so strong it risked crippling the economy. With the help of other nations, the U.S. brought down the value of its currency smoothly, paving the way for the economic boom under President Ronald Reagan to continue.

Emre Peker in Brussels and Paul Vieira in Ottawa contributed to this article.

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The New York Times

Business Day
# As Fuel Prices Rise, Airlines Warn of Higher Fares

By Martha C. White
715 words
6 June 2018
08:02 PM
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NYTFEED
English


The price of jet fuel has gone up 50 percent in the past year, and airline executives are warning that they may have to raise ticket prices and cut capacity if fuel costs continue to rise.

Delta Air Lines on Wednesday became the latest carrier to cut its profit forecast because of the sharp rise in fuel prices. American Airlines had taken that step a little over a month ago, when it estimated that the higher prices would cost it $2 billion this year.

With the summer travel season about to begin and many of their seats already booked, the airlines have indicated that they are not going to act immediately. In fact, Delta told investors on Wednesday that it planned to make decisions in the next month on capacity in the fall, when demand usually drops off. Delta’s stock fell nearly 1 percent on Wednesday, closing at $54.31.

A growing economy and an increasing reliance on fees, for everything from baggage to premium economy seats, have spurred several years of strong profits for airlines, and they still expect to be profitable this year. But “probably not at the levels we were anticipating in December,” said Alexandre de Juniac, the head of the International Air Transport Association.

And with newer, more efficient planes, fuel now accounts for 17 to 22 percent of airlines’ operating costs, down significantly from the last time fuel costs spiked, an industry consultant, Robert W. Mann, said.

Brent crude, the global benchmark, closed at more than $75 a barrel on Wednesday, up about $20 over the past year. In two weeks, the Organization of the Petroleum Exporting Countries is set to discuss whether to relax the oil production limits that have helped raise prices.

When **oil prices** hit record highs a decade ago, airlines added fuel surcharges to tickets. When **oil prices** dropped a few years later, those extra charges were slow to disappear, as the carriers chose to use the revenue to reinvest in their business, pay dividends to shareholders or raise employee pay.

More recently, the positive economic environment led airlines to add flights in response to strong ticket sales, said Patrick DeHaan, the head of petroleum analysis at GasBuddy, web- and app-based fuel-tracking platform.

“Some of the big legacy carriers have been vocal about their plans to add capacity this year,” he said. “So what you’re seeing is some pretty healthy demand for jet fuel as the economy continues to grow.”

Mr. DeHaan said he did not expect any immediate action by the airlines.

“There’s a lot of pressure on fares right now, and it’s going to be a challenge raising fares, especially in the summer,” he said. If current jet fuel prices emerge as a new norm, he added, “I would look for more increase in the fall.”

And eventually, the high price of fuel could put newly added routes on the chopping block, said Patrick Surry, chief data scientist at the travel app Hopper. “If it continues to rise, we’ll start to see a knock-on effect on pricing and consolidation, maybe some shrinkage of capacity and routes,” he predicted.

George Hobica, founder of Airfarewatchdog, said investors’ concerns would add a sense of urgency to how and when airlines responded.

“Wall Street is just going to slam them if they don’t increase prices or reduce capacity,” he said.

This might not mean higher base fares, thanks to greater competition from low-fare carriers, Mr. Hobica said, but travelers might see fuel surcharges become common again, or have to pay higher fees for checked bags, Wi-Fi and other ancillary services.

In particular, industry experts predicted that travelers flying internationally, booking business-class and premium-economy seats, and flying less competitive routes — especially to or from smaller airports — could expect to pay more in the fall. They may also have fewer flights from which to choose.

“This summer may well be the last time you’re going to get a great price to Europe,” Mr. Surry said.

Zach Wichter contributed reporting.

On Wednesday, Delta Air Lines became the latest carrier to warn of possible fare increases and capacity cuts. | David Goldman/Associated Press

Document NYTFEED020180607ee6700003

 

WSJ PRO CENTRAL BANKING

Economy

**U.S. Jobless Claims Fell Last Week; Continuing claims for unemployment benefits rose by 21,000 in the week ended May 26**

By Sarah Chaney and Sharon Nunn
265 words
7 June 2018
08:33 AM
WSJ Pro Central Banking
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English


WASHINGTON—The number of Americans claiming new unemployment benefits fell last week, signaling continued health in the labor market.

Initial jobless claims, a proxy for layoffs across the U.S., dropped by 1,000 to a seasonally adjusted 222,000 in the week ended June 2, the Labor Department said Thursday. Economists surveyed by The Wall Street Journal had expected 220,000 new claims last week.

Data can be **volatile** from week to week, especially around the holidays when seasonal adjustments are sometimes difficult; last Monday was Memorial Day. The four-week moving average of claims, a more-stable measure, increased to 225,500 last week.

Unemployment-benefit applications have remained low for years, a sign that relatively few Americans are being laid off and seeking assistance in a buoyant U.S. job market.

The unemployment rate fell to 3.8% in May, the lowest since April 2000, the Labor Department reported last week. U.S. nonfarm employers added 223,000 jobs last month, extending the longest continuous job expansion on record to 92 months.

Thursday's report showed the number of claims workers made for longer than a week increased by 21,000 to 1,741,000 in the week ended May 26. That figure, known as continuing claims, is reported with a one-week lag.

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U.S. EDITION

**World News: U.S. Farmers' Export Angst Grows**

By Jacob Bunge, Heather Haddon and Benjamin Parkin
689 words
7 June 2018
The Wall Street Journal
J
A7
English


U.S. farmers, already losing sales to China, are facing new threats to sales in other big overseas markets as trade tensions spread globally.

Mexico this week imposed tariffs on major U.S. exports such as cheese and pork, while Canada and the European Union are considering tariffs on imports of U.S. food and farm goods from corn to orange juice to peanut butter, in response to the U.S. placing tariffs last week on their steel and aluminum exports to the U.S. In addition, analysts say, China could target other crops and products after Trump administration officials last week outlined potential tariffs on $50 billion of Chinese goods.

The rapid-fire exchange of tariffs and trade threats leaves U.S. farmers and agricultural groups fearing tougher sells in their most important overseas markets, with duties adding to the cost of U.S. goods in markets that imported $70 billion of U.S. farm products last year, according to the U.S. Department of Agriculture.

U.S. farmers already are feeling the pinch from the trade sniping. In Iowa, the top pork-producing state, Dean Meyer has seen his prices decline since China levied duties on American pork imports in April.

"We're at a point in our operation where profits are compromised," said Mr. Meyer, who recently expanded his operation near Rock Rapids, Iowa, to sell around 22,000 hogs a year, partly betting on increased demand from abroad. "The last thing we need is a hiccup in demand."

The more-aggressive U.S. trade policy, industry officials say, also strains relationships built over decades with foreign buyers. Casey Guernsey, a Missouri-based cattleman, said he has fielded questions from a business partner in China about what might come next from Washington on trade.

"It shows a level of angst with our good trade partners," he said.

Uncertainty can drive foreign buyers to seek alternative suppliers, said Dan Halstrom, chief executive of the U.S. Meat Export Federation, which develops markets for U.S. beef, pork, lamb and veal.

President Donald Trump has accused Mexico, Canada, China and other countries of treating U.S. farmers unfairly. "By the time I finish trade talks, that will change," he said in a Twitter post this week.

Still, the uncertainty over trade talks is affecting business decisions in the Farm Belt and could linger even if the current tariff threats recede.

In Missouri, some ranchers are reducing the size of their herds, fearing tariffs could further pressure sliding cattle prices. That could mean fewer customers for the bulls Mr. Guernsey's family sells as sires, he said. In the eastern corn belt, some farmers are putting on hold plans to buy new land or build new grain-storage bins.

Heightened trade worries also have big implications for food companies that export, like Cargill Inc., Archer Daniels Midland Co., Tyson Foods Inc., Pilgrim's Pride Corp. and Sanderson Farms Inc.

"At a time when there is already significant uncertainty in the global trading landscape, these actions subject agricultural producers and businesses to even greater risks," a Cargill spokeswoman said. "Cargill urges all parties to focus on negotiated solutions over haphazard trade restrictions."

A Tyson spokesman warned that Mexico's tariffs on U.S. pork will hurt pig farmers who supply the meat giant. "With the current **volatility** in trade relations, we've experienced day-to-day uncertainty in our ability to deliver products and services to customers," he said.

In 2017, the U.S. exported $138 billion of agricultural goods and had a $21.3 billion agricultural trade surplus, according to the USDA, which projects a $21 billion surplus for 2018. The projection was made before Mexico announced its tariffs on U.S. agricultural products.

Many farm groups have urged the Trump administration to tread cautiously in its trade negotiations to avoid disrupting a critical source of business for the U.S. agriculture sector, especially as the industry slogs through the deepest downturn in a generation.


 

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THE WALL STREET JOURNAL.

Markets

**Twitter Plans to Sell $1 Billion in Convertible Debt; The social-media company is joining a rush of tech firms taking advantage of soaring share prices to issue bonds that convert to equity**

By Orla McCaffrey
797 words
7 June 2018
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Corrections & Amplifications

Twitter taking advantage of its soaring share price to issue bonds that convert to equity. A subheading on an earlier version of this article incorrectly stated the company was issuing shares. (June 7, 2018)

Twitter Inc. said Wednesday it plans to sell at least $1 billion in bonds that convert to equity, joining a rush of tech companies taking advantage of soaring share prices to issue convertible debt.

The move comes as Twitter shares have surged to three-year highs after S&P Dow Jones Indices said the company would be added to the **S&P 500** before the start of trading Thursday. The shares on Wednesday rose 0.8% to $40.10, their highest close since April 2015.

Twitter's move is the latest in a recent series of publicly traded technology companies issuing convertible bonds—debt that grants investors the right to exchange the securities for equity once a company's stock hits a certain price. Nearly half of convertible-bond issuers in the U.S. this year have been tech companies, with offerings totaling over $11 billion, according to Dealogic.

Twitter will privately place the unsecured bonds with investors and use the money for general corporate purposes, Twitter said in a news release. The Twitter notes can be converted into shares, cash, or a combination of both, at the company's discretion.

Early Thursday, the company said in a news release that the notes would bear interest at 0.25% a year and would mature on June 15, 2024, unless earlier repurchased or converted. Twitter said the sale of the notes was expected to settle on June 11, 2018, and provide the company with net proceeds of about $989 million. The notes' initial conversion rate is equivalent to about $57.14 a share, the company said.

This year's rise in tech stocks—the tech-heavy **Nasdaq Composite** hit a record Wednesday—has combined with falling issuance costs to spur the biggest wave of convertible bonds from tech companies during the comparable year-to-date period since 2007, even before the Twitter sale. Tesla Inc. also has tapped the market for convertible debt, issuing $3.9 billion of the bonds since the start of 2013.

Convertible bonds are appealing to companies because they carry lower interest rates than traditional debt and, unlike a stock offering, don't immediately dilute shares. They tend to pay regular coupons and are either converted into shares or repaid at maturity, depending on how the stock performs.

Some analysts and investors said Twitter's move would take advantage of the recent highs in its share price, as well as its inclusion in the **S&P 500**, to entice investors to accept a lower yield on the debt in the hopes of receiving higher-priced shares if and when the bond converts.

So far, that hasn't worked out for investors who bought convertible debt the company sold in 2014. Twitter's shares have climbed 90% in the past six months, but haven't reached the level at which investors can exchange those convertible bonds. The 2014 sale raised $1.8 billion, $500 million more than projected. The five-year note from that offering carried a 0.25% coupon, while seven-year debt carried a 1% rate.

The conversion rate was about $77.64 per share for both maturities, the company said in a news release at the time.

"The five-year notes are coming due; unless the stock has a heroic rally, they will need to pay it off," said Dave King, senior portfolio manager and head of income and growth strategies at Columbia Threadneedle. He declined to say whether he was considering buying the debt.

Twitter's 2013 public offering raised about $2 billion. The company's shares declined over the following three years when growth stalled, hitting lows in 2016 after reports that Salesforce and Disney might consider making a bid for Twitter. Advertisers became apprehensive about striking large deals with Twitter because they weren't confident who would lead the company in the future.

Since then, Twitter has shut down some aspects of its business to focus on its best-performing advertising and growth.

Some investors who are wary of the company's variable member growth plan to steer clear of the new offering.

"Other tech companies are offering convertible bonds that are more appealing because of their gains," said Dan Morgan, senior portfolio manager at Synovus Trust Co. "Our biggest issue has been inconsistency in terms of monthly member growth," he said.

Separately, Twitter's head of news Peter Greenberger is leaving the company as part of a recent reorganization of its content-focused team, according to a person familiar with the matter.

Daniel Kruger and Georgia Wells contributed to this article.

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WSJ PRO FINANCIAL REGULATION

Markets
**Michaels's Take: A Pilot Program Is Coming to the Bond Market; Regulators may give the fixed-income market a reprieve from rules that make it easier for investors to see what bonds are worth**

By Dave Michaels
492 words
7 June 2018
07:09 AM
WSJ Pro Financial Regulation
RSTPROFR
English


Regulators may give the fixed-income market a reprieve from rules that make it easier for investors to see what bonds are worth.

Speaking Wednesday at a New York brokerage conference, Securities and Exchange Commission Chairman Jay Clayton said a pilot program to delay reporting of prices for some bond trades "resonates with me." An SEC advisory committee voted April 9 to recommend such a program.

A pilot program would allow regulators and market participants to test whether public dissemination of corporate **bond prices**—intended to be a good thing—can make it more expensive for some institutions to trade. Portfolio managers at certain bond-focused mutual funds have for years complained that quickly reporting prices allows savvy traders to sniff out their orders, jump in front and drive up prices.

Mr. Clayton controls the SEC's agenda, and the SEC would have to approve the pilot program. So, it is a safe bet that, sooner or later, his agency will authorize such an experiment.

Under current rules, the Financial Industry Regulatory Authority reports prices for all trades in the bond market within 15 minutes of trades occurring. The regulator withholds some details about investment-grade trades valued at more than $5 million and high-yield transactions valued over $1 million, such as the number of bonds traded.

The SEC's fixed-income advisory committee recommended raising the cap for delaying reporting of the quantity of bonds in investment-grade trades to $10 million instead of $5 million, and to $5 million from $1 million for high-yield debt. With the change, the market would get more information about investment-grade bond trades between $5 million and $10 million. But for trades valued over $10 million, Finra would only disclose the price 48 hours after they occurred.

Mr. Clayton said Wednesday that he wouldn't "prejudge" the outcome of dialing back transparency. But he suggested that, in a market where assets trade less frequently, having to disclose prices more or less immediately can make it harder to trade at the prevailing market prices.

"If you improve spreads, you improve liquidity, that's good for the Main Street investor," he said.

Academic researchers have found transparency has led to lower costs for investors. That is because investors can negotiate more effectively with bond dealers when they know the prices of similar trades. A 2004 study that found the link was co-wrote by Michael Piwowar, an economist who currently sits on the commission with Mr. Clayton. Notably, academics have found that transparency doesn't have the same magnitude of salutary effect on trades of all sizes—costs may not decline for very large trades.

Write to Dave Michaels at dave.michaels@wsj.com

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THE WALL STREET JOURNAL.

Markets

**Platform Specialty in Advanced Talks to Sell Agricultural Unit to Wilmcote; Deal could value platform unit at about $3 billion, or $4 billion including debt**

By Ben Dummett and Dana Mattioli
620 words
7 June 2018
07:04 AM
The Wall Street Journal Online
WSJO
English


Platform Specialty Products Corp. is in talks to sell its agricultural-chemicals business to London-based Wilmcote Holdings PLC for about $3 billion.

Wilmcote confirmed the talks Thursday morning following an earlier Wall Street Journal report of the possible transaction that could be announced this month, according to people familiar with the matter.

In a statement, Wilmcote didn't disclose the expected sale price. It said discussions are ongoing, but cautioned that a deal isn't certain. In a separate release, Platform said it has had held talks with Wilmcote as well as other parties, but didn't provide specifics on the discussions.

If it proceeds, the sale would offer Platform a path to completing its already-stated plan of turning its two divisions into distinct companies, each with a more focused strategy and improved balance sheet, as it aims to boost an underperforming stock. Platform's shares have lost more than half their value in the past few years, hurt by weakness in the agricultural segment and by concerns over the company's ability to manage a heavy debt load.

Platform had about $5.5 billion of debt at the end of March. Including debt, a deal with Wilmcote could be valued at roughly $4 billion, the people said, meaning that it could help Platform shed a significant amount of its borrowings.

Martin E. Franklin and Nicolas Berggruen founded what is now Platform Specialty as a shell company and took it public on the London Stock Exchange in 2013. The company's backers include William Ackman's Pershing Square Capital Management, which has a 14% stake.

Platform's two businesses—Agricultural Solutions and Performance Solutions—are of similar size, each generating annual sales close to $2 billion. The agrochemicals business, as it is known, develops crop-protection products. It had net sales of $1.9 billion last year, up 4%. The performance-solutions business, which provides specialty chemicals to the consumer-electronics, automotive and energy sectors, had net sales of $1.9 billion, up 6%.

Listed on the London Stock Exchange's AIM **stock market**, Wilmcote is another so-called blank-check company—a vehicle that raises money publicly and then makes acquisitions—that has been focused on buying a chemicals concern it can use as a launchpad for more consolidation.

The chemicals sector has already been a hive of deal activity as companies shed noncore businesses or seek acquisitions that will boost revenue and profit and hand them new geographies and products. In March, Amsterdam-based Akzo Nobel NV struck a €10.1 billion ($11.8 billion) deal to sell its specialty-chemicals business to buyout firm Carlyle Group LP. Also this year, LyondellBasell Industries NV, a Rotterdam-based plastics and refining company, agreed to buyA. Schulman Inc., an Ohio supplier of plastic compounds.

Mr. Franklin, who has a history of building companies through acquisitions, had set out to replicate at Platform what he had created at consumer-products company Jarden Corp. He built Jarden into a portfolio including skis, playing cards and coffee machines before selling it to what is now known as Newell Brands Inc. for about $13 billion in 2016.

But Platform, of West Palm Beach, Fla., has struggled over the past few years under debt that now exceeds the company's $3.5 billion market value. The debt largely comes from a roughly $3 billion deal to buy Arysta LifeScience in 2015.

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WSJ PRO FINANCIAL REGULATION

Markets

**CFPB Shakes Up Advisory Groups | Coinbase Expands Its Base | Michaels's Take: A Pilot Program Is Coming to the Bond Market; The Wall Street Journal's financial regulation newsletter for Thursday, June 7, 2018.**

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Michaels's Take: A Pilot Program Is Coming to the Bond Market

Consumer Agency Tosses Members of Advisory Groups

Coinbase Expands With Deal for Broker-Dealer Keystone Capital

Senate Banking Set to Vote on Fed Nominations

Credit Suisse to Pay U.S. Over Hiring in Asia

A Pilot Program Is Coming to the Bond Market

Regulators may give the fixed-income market a reprieve from rules that make it easier for investors to see what bonds are worth.

Speaking Wednesday at a New York brokerage conference, Securities and Exchange Commission Chairman Jay Clayton said a pilot program to delay reporting of prices for some bond trades "resonates with me." An SEC advisory committee voted April 9 to recommend such a program.

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Clayton. Notably, academics have found that transparency doesn't have the same magnitude of salutary effect on trades of all sizes—costs may not decline for very large trades.

Key Developments in Washington, on Wall Street, and Beyond

Consumer Agency Tosses Members of Advisory Groups

The Consumer Financial Protection Bureau will replace the members of four advisory groups representing companies and consumers, the latest move by a Trump-appointed acting director who is shifting the bureau's approach to enforcing consumer-finance laws.

The bureau, under the direction of acting director Mick Mulvaney, plans to "reconstitute the current advisory groups with new, smaller memberships," according to a memo sent to advisory-group members Wednesday. "Smaller memberships will ensure streamlined discussions about the bureau's policy priorities and needs in a productive manner."

The CFPB will allow current members to serve out their terms, the memo said, but won't hold any new meetings until the new crop of advisers are brought in this fall. In the future, the bureau plans to "increase its strategic outreach to encourage intimate conversations, sharing information, and developing partnerships focused on consumers in underserved communities and geographies."

Coinbase Expands With Deal for Broker-Dealer Keystone Capital

Coinbase, one of the leading cryptocurrency and bitcoin businesses, is acquiring a securities dealer that the company hopes will allow it to expand into the red-hot coin-offerings market.

The San Francisco-based firm said it is acquiring Keystone Capital Corp., a Cardiff, Calif.-based financial-services firm. Keystone is a Finra-registered broker-dealer, and it has licenses to operate as a registered investment adviser, as well as to run an alternative trading system, or ATS.

Senate Banking Set to Vote on Fed Nominations

The Senate Banking Committee is set to vote Tuesday on the nominations of two of President Donald Trump's picks for the Federal Reserve's board of governors, including economist Richard Clarida to become its vice chairman.

Mr. Clarida, a professor at Columbia University and managing director at Pacific Investment Management Co., is a monetary policy expert. If confirmed, he would serve as the Fed's No. 2 alongside Chairman Jerome Powell.

The committee also will vote on the nomination of Michelle Bowman. She is currently Kansas' bank commissioner and would fill a slot reserved for a community banker or regulator of community banks.

Both nominees are likely to win committee approval. Analysts expect them to be confirmed to their posts by the full Senate as soon as this summer.

Credit Suisse to Pay U.S. Over Hiring in Asia

Credit Suisse Group AG said Wednesday that its Hong Kong unit has reached a nonprosecution pact with the U.S. Department of Justice relating to hiring practices in the Asia-Pacific region between 2007 and 2013.

The bank said it will pay a penalty of about $47 million to the Justice Department, and has already provided for that sum in previous periods. The penalty will have no material effect on the company's second-quarter financial results, it said.

New Bitcoin ETF Would Set Buyers Back $200,000

Two firms that unsuccessfully tried to launch bitcoin-based exchange-traded funds last year are teaming up to take a second shot at it.

New York-based asset manager Van Eck Associates Corp. and SolidX Management LLC, a New York-based startup, filed an application on Wednesday with the Securities and Exchange Commission for permission to launch a regulated bitcoin ETF.

 

The SEC hasn't yet given its blessing to such a fund, and the two firms said they haven't had any direct conversations with the federal agency. They did structure the new product however in response to what they felt have been the SEC's main concerns.

U.K. Bars Bank From Taking Deposits Over Compliance Failures

The U.K. Financial Conduct Authority said it barred the U.K. branch of an Indian bank from taking deposits from new customers due to long-running failures in its anti money-laundering compliance program.

Regulators repeatedly warned Canara Bank, which is based in Bangalore, India, that its controls for preventing money laundering were inadequate, yet it failed to properly fix them, the FCA said. The failures were systemic and affected almost all levels of its business and governance structure, it said.

Financial Firms in Management Top 250 Lag in Customer Satisfaction

An analysis of the Management Top 250 finds that financial-services companies are lagging when it comes to customer satisfaction.

Discover Financial Services and Visa Inc. are the only financial-services companies that rank in the top 15% or so of the Management Top 250's measure of effectiveness in customer satisfaction. Eight of the 21 financial-services companies studied score below the mean for customer satisfaction.

The Management Top 250 ranking, which is compiled by the Drucker Institute, uses the ideals and teachings of the late business guru Peter Drucker to analyze and compare the performance of major U.S. companies. Customer satisfaction is one of five categories that make up the overall ranking. It is based on metrics provided by third parties that track things like satisfaction with products and services, customer loyalty and how well customer expectations are met.

The Battle for M.B.A. Talent

More M.B.A. graduates are choosing jobs in technology and consulting even as banks jack up starting salaries, a Wall Street Journal analysis shows.

Financial services last year slipped below consulting as the top destination for grads from the U.S.'s top 10 masters in business administration programs as ranked by U.S. News & World Report. Tech firms are fast catching up on banks in terms of popularity.

The share of full-time M.B.A. graduates from the top 10 business schools accepting jobs at financial-services firms dropped between 2012 and 2017 from 36% to 26%, based on a weighted average calculated by the Journal. The share accepting jobs in technology rose from 13% to 20% in the same period. Consulting edged out financial services as the top draw in 2017, as the choice of 29% of grads, up from 27% in 2012.

Friday, June 8

10 a.m.

Department of Housing and Urban Development Secretary Ben Carson speaks on the Trump administration's health and housing priorities and partnerships at the Bipartisan Policy Center.

Life Insurers Are Becoming 'Overweight' on Risky Bonds

Life insurers in the U.S. and Europe "have significantly expanded the supply of investment products known as variable annuities with guarantees," increasing their exposure to **equity market** fluctuations, according to a paper by researchers posted on VoxEU. "Insurers that underwrite a substantial amount of variable annuities with guarantees...disproportionately tilt their portfolios toward higher yielding illiquid bonds. Hedging of guarantees prompts fire sales of illiquid assets during the market downturn," they say.

New Volcker Rule Is a Boon to Banks and Regulators

Bank regulators are in the process of changing the Volcker rule, which will make life easier for banks and regulators alike, Felix Salmon writes in a Slate opinion piece. "While compliance with the Volcker rule was extremely difficult as written for banks, the fact was that in practice regulators didn't seem to have much appetite for going after individual trades," he says. "Under the new rule, it will be much easier for regulators to force banks to rein in their risk-taking on a bank-wide scale, which is where the systemic dangers tend to be found," he says.

 

Representatives for bondholders competing over Puerto Rico's sales-tax collections said they reached a tentative debt restructuring settlement and sought to delay a potential court ruling on which group has top priority.

Australia's nearly three decades of uninterrupted growth have made its top lenders among the world's most profitable, but recent high-profile scandals have dented their image. The banks could have more than just an impending slew of regulatory fines to worry about.

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The New York Times

STOCKS & BONDS
Business/Financial Desk; SECTB
**Market Keeps Climbing As Trade Worries Ease**

By THE ASSOCIATED PRESS
1,054 words
7 June 2018
The New York Times
NYTF
Late Edition - Final
5
English


U.S. stocks rallied for their fourth gain in a row Wednesday as banks climbed along with bond yields. On Wall Street there were signs investors were getting a bit less nervous about trade tensions.

Some of the biggest gains went to industries that have lagged the market in the last few months, including financial companies. Interest rates rose as **bond prices** in the U.S. and Europe fell. That can signal higher rates on mortgages and other consumer loans. Bank of America gained more than 3 percent.

Multinational companies such as Boeing and McDonald's also rose. That helped the **Dow Jonesindustrial average** make its biggest gain in almost two months.

Worries about international trade disputes have been affecting the market since late February, but Karyn Cavanaugh, senior markets strategist at Voya Investment Management, said investors might have started focusing on the strength of the U.S. economy and continued global growth instead.

"It's refreshing to see that investors are realizing this is an incredibly good economic backdrop and it's an incredibly good environment for companies to make money," she said. "We're in a sweet spot where we have some growth and low inflation and investors just don't want to believe it."

The **S&P 500 index** added 23.55 points, or 0.9 percent, to 2,772.35. The Dow rose 346.61 points, or 1.4 percent, to 25,146.39. The **Nasdaq composite** rose 51.38 points, or 0.7 percent, to 7,689.24. The Russell 2000 index of smaller company stocks gained 11.32 points, or 0.7 percent, to 1,675.95. The **Nasdaq** and Russell have set all-time highs each of the last few days.

Electric car maker Tesla surged to its biggest gain in two and a half years as investors grow more confident it will meet its production targets for the Model 3 sedan. Tesla rose 9.7 percent to $319.50.

Chairman and CEO Elon Musk said he expects the company will be able to produce 5,000 Model 3s in a single week by the end of this month. The Model 3 is Tesla's attempt to reach the mass market with a less expensive car. Tesla has struggled to reach that target, and doing so would help the company stem its long-term losses.

**Bond prices** slipped. The yield on the **10**-**year Treasury** note rose to 2.78 percent from 2.93 percent, and JPMorgan Chase climbed 2.3 percent to $110.36 and Wells Fargo added 2 percent to $55.58.

Banks have fallen over the last few months even though long-term interest rates have reached their highest levels in years. Health care and basic materials companies, which are essentially flat over the same period, did better than the rest of the market Wednesday. CVS Health rose 2.8 percent to $65.08 and chemical maker DowDuPont jumped 3.2 percent to $70.04.

That didn't mean investors were ready to overlook trade issues altogether. Brown-Forman, the maker of Jack Daniel's and other liquors, slumped 6.1 percent to $52.47. The company said it has concerns about how trade tensions might affect its business. On Tuesday, Mexico announced tariffs on bourbon and other U.S. products, and the European Union may place duties on Kentucky bourbon. The duties are in response to the tariffs on steel and aluminum imports that President Trump imposed last week.

Brown-Forman's sales fell short of analyst projections while costs connected with the creation of a charitable foundation affected its earnings.

Devon Energy climbed after it said it will sell its interest in two companies for a total of $3.13 billion. Global Infrastructure Partners will buy its stakes in EnLink Midstream Partners and EnLink Midstream LLC. Devon increased its stock buyback authorization and the stock gained 5.6 percent to $41.51.

Signet Jewelers soared after the company had a stronger first quarter than Wall Street expected and said there are signs its sales are stabilizing. The company also maintained its annual forecasts. Signet traded as high as $75 a share in November. Since then it's reported weak sales, announced more store closings, and dealt with complications from the sale of its credit portfolio. The stock rose 18.4 percent to $52.27 Wednesday.

Athenahealth, a medical billing software company, climbed after it said it is exploring a possible sale. Investor Elliott Management recently offered about $6.5 billion to take Athenahealth private and said it had grown frustrated with the company's performance.

The company also said CEO Jonathan Bush resigned effective immediately. A few days earlier the New York Post reported that Bush settled a sexual harassment claim with a former employee several years ago. The stock advanced 4.2 percent to $157.44.

Benchmark U.S. crude shed 1.2 percent to $64.73 a barrel in New York. Brent crude, used to price international oils, inched down to $75.36 per barrel in London.

Wholesale gasoline fell 1.7 percent to $2.07 a gallon. Heating oil slid 0.7 percent to $2.13 a gallon. Natural gas rose 0.2 percent to $2.90 per 1,000 cubic feet.

Gold fell 0.1 percent to $1,301.40 an ounce. Silver rose 0.9 percent to $16.69 an ounce. Copper gained 2 percent to $3.26 a pound.

The dollar rose to 110.19 yen from 109.76 yen. The euro rose to $1.1768 from $1.1715.

The DAX in Germany rose 0.3 percent, as did the FTSE 100 in Britain. France's CAC 40 lost 0.1 percent. Tokyo's Nikkei 225 rose 0.4 percent and Hong Kong's Hang Seng advanced 0.4 percent. South Korean markets were closed for a holiday.

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

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

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THE WALL STREET JOURNAL.

Markets

**Chinese Liquor Titan Kweichow Moutai Is Drinking Up Funds; Most Asia-Pacific stocks rose in Thursday trading**

By Joanne Chiu
597 words
7 June 2018
02:33 AM
The Wall Street Journal Online
WSJO
English


Asia-Pacific stock markets posted across-the-board gains Thursday following an overnight rise in the U.S. Indexes in Japan, South Korea and Hong Kong led the day, up at least 0.5% each, with Hong Kong set to log its first six-day winning streak since last month. But Taiwan bucked the trend, flat by afternoon after earlier declines fueled by pullbacks from index heavyweights Taiwan Semiconductor and Largan Precision Co.

Thursday's Big Theme

Meet one of the darlings of Chinese stocks—Kweichow Moutai Co. Shares of China's biggest liquor maker hit a new intraday high yesterday, briefly pushing up its market capitalization to over 1 trillion yuan ($156.5 billion) on the back of strong domestic sales and persistent fund flows into the stock.

What's Happening

Kweichow Moutai, which has a market capitalization of US$154.1 billion, overtook British producer Diageo PLC as the world's most valuable liquor company in 2017. As the chart shows, that valuation gap is growing, as Kweichow Moutai's stock is this year outperforming the broader market with a 13% rise.

The company's shares pulled back 0.3% by midday Thursday after early gains, but Kweichow Moutai still secured its place as the fourth-biggest listing on the Shanghai Stock Exchange. Foreign investors have been pouring money into shares of the company, whose products are a household name in China and were once hailed for helping the Red Army survive the tortuous Long March of the 1930s.

Net fund inflows into Kweichow Moutai via the Stock-Connect trading link between Hong Kong and the mainland rose more than 50% to $724 million in May, ahead of global index compiler MSCI's move to include yuan-denominated stocks in its global indexes.

Investors in China and abroad have pulled funds out of Hong Kong's index heavyweights, including, Tencent Holdings Ltd. as they rotated into A-shares like Kweichow Moutai. As of Wednesday foreign investors held a combined 0.73% of Kweichow Moutai's stock via the link, compared with some 0.4% a year ago. Among the company's 10 largest shareholders in the first quarter were New York-based OppenheimerFunds and the fund controlled by Norway's central bank, according to Wind Info.

Market Reaction

Daiwa analyst Anson Chan—who last month visited Kweichow Moutai's headquarters in China's Guizhou province—is positive on the company's growth potential.

Demand for its high-end Baijiu, a potent spirit popular at state banquets, is "still growing at a fast pace in China," he said. And the company's 53%-alcohol Feitian Moutai beverage "is still expanding its market share, as consumers' disposable income is increasing and they are upgrading their consumption."

Mr. Chan added that during the May visit to Kweichow Moutai retailers in China, he saw long early morning queues to buy Feitian Moutai. The company's 15% on-year revenue growth target for 2018 is "very conservative," he said.

Elsewhere

Oil futures have continued to rebound in Asian trading after the selloff that followed last week's surprise increase in U.S. oil inventories, and jumps in fuel-product supplies. The benchmark West Texas Intermediate crude futures contract was up 0.4% at $64.97 a barrel after falling below $64.50 in U.S. trading. And U.S. **S&P 500** futures are up 0.1% in Asia.

Write to Joanne Chiu at joanne.chiu@wsj.com

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THE WALL STREET JOURNAL.
U.S. EDITION

**World News: Record Oil Sales Help to Narrow U.S. Trade Deficit**

By Josh Mitchell and Christopher M. Matthews
502 words
7 June 2018
The Wall Street Journal
J
A7
English


The U.S. exported a record amount of oil and fuel in April, helping to narrow the nation's trade gap while giving the economy a lift.

The country shipped $19.9 billion in petroleum -- a category that includes crude oil, liquefied gases and fuels such as gasoline -- to other countries in April, the Commerce Department said Wednesday. That set a record after adjusting for inflation and seasonal factors. The U.S. is exporting four times as much petroleum each month as it did a decade ago.

The U.S. trade deficit in goods and services -- after surging in 2017 and early 2018 -- narrowed by 2.1% in April, the second straight month of contraction. The declines reflected both rising exports and falling imports.

The country still runs a big trade deficit, which stood at $46.2 billion in April and has been expanding over time. In the first four months of the year, the gap widened 11.5% compared with the year-earlier period.

Some analysts project the economy will grow at an annualized rate of about 4% in the second quarter, which would be the best quarter in almost four years. But the rise in petroleum exports -- a trend that began around the recession -- is boosting earnings for American producers while insulating the economy from shocks caused by rising **oil prices**.

Crude-**oil prices** rose from January through mid-May before slipping in recent weeks. Meanwhile, U.S. economic growth appears to have picked up over that period.

"We're shifting from a stance where we were just a pure oil importer where the effects of rising **oil prices** in the past were seen as a net negative," said Gregory Daco, chief U.S. economist at Oxford Economics. "In today's environment you have a more balanced trade position."

Higher **oil prices** threaten to drive up gasoline prices and pinch consumers, but for the broader economy that effect is being offset by the positive effects of higher earnings in the oil industry and investment spending by oil producers.

The rise in oil exports is partly due to a move by Congress in 2015 to lift a ban on most exports of U.S. crude oil. Prior to the ban, the U.S. exported mainly refined oil products, like gasoline and diesel, rather than crude oil itself.

U.S. crude exports have more than doubled since January 2017, according to the U.S. Energy Information Administration, and are averaging 1.7 million barrels a day so far this year. The uptick in exports has been driven by record U.S. oil production and price discounts relative to international competitors, according Sandy Fielden, an analyst for Morningstar Commodities Research.

Shale drillers have helped propel U.S. oil production to record highs, surpassing 10 million barrels a day this year and rivaling Russia and Saudi Arabia.



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THE WALL STREET JOURNAL.
U.S. EDITION

**Jump in Jet-Fuel Cost Jolts Air Fares Higher**

By Doug Cameron and Alison Sider
968 words
7 June 2018
The Wall Street Journal
J
A1
English


Jet-fuel prices have surged more than 50% over the past year, pushing carriers to raise fares and Delta Air Lines Inc. to cut its profit expectations.

Delta, the nation's No. 2 carrier, said Wednesday it could take six to 12 months to recoup the extra fuel costs via pricier tickets.

Fuel is again the single-largest expense for most airlines -- overtaking labor costs -- accounting for about a quarter of the operating budgets. The recent run-up in prices echoes the jump seen from 2009 to 2011, which first spawned stand-alone ticket surcharges on many international flights.

On Wednesday, the price of jet fuel was $87.05 a barrel, compared with $55.34 a barrel a year earlier, according to S&P Global Platts.

Average domestic airline fares have fallen in each of the past four years, according to trade group Airlines for America, as carriers handed most of the fall in fuel prices back to passengers. Now, higher fuel costs have forced carriers to decide how much can be passed on directly to domestic fliers through higher fares or via surcharges on international flights, without deterring too many travelers.

Investors are edgy about the impact of fuel prices on airline profits. Shares of U.S. carriers are down this year on concerns there were too many aircraft being added to fleets chasing too few extra passengers.

Airline shares were mixed Wednesday, with those of Delta, which bought an oil refinery in 2012 to make its fuel costs less **volatile**, down 0.9%.

"Ultimately we have to be a business that gets paid for the cost of our product," said Paul Jacobson, Delta's chief financial officer. "As you get through that lag period, and as we make the adjustments that we need to, we feel confident that we'll be able to recapture this."

Other carriers shared the sentiment. "We feel good about our ability to pass through the increase in fuel price," United Continental Holdings Inc. President Scott Kirby said at an investor event last month. He said strong summer demand is bolstering industry pricing power -- with carriers pushing through a succession of small increases of between $2 and $5 per flight on domestic routes -- and that will help United recoup about 75% of the higher fuel prices.

Airlines have cut their use of fuel hedging to smooth prices compared with the last price spike, though they differ widely in their approach. In hedging, airlines buy or sell oil derivatives contracts to fix or cap their fuel costs.

American Airlines Group Inc. executives have long avoided hedges, while Southwest Airlines Co., the largest domestic carrier, continues to buy protection.

That still leaves airlines to absorb some of the higher prices through accepting lower profits or trying to make up the difference by cutting costs.

How airlines will recoup higher fuel costs is the main question investors are asking, JPMorgan Chase airline analyst Jamie Baker said. He added that surcharges are better for profits than higher base fares, as airlines can more quickly recoup higher fuel prices. "One benefit of fuel surcharges is it's transparent and highly precise," he said.

Airlines in most markets have turned instead to a patchwork of what they term "airline-imposed surcharges" that can include other costs such as security. This followed a crackdown by the U.S. Department of Transportation in 2012 on use of the "fuel surcharge," with the agency requiring airlines to tie any surcharges to the actual cost of fuel.

Surcharges started to reappear in some international markets at the end of last year as jet-fuel prices closed in on $80 a barrel. Surcharges have become more commonplace in recent months as prices moved above $90.

A handful of countries such as Japan require airlines to include a fuel surcharge on departing flights and regulate them to move in step with global **oil prices**. Others, including Brazil and Hong Kong, banned them completely, arguing they didn't fairly reflect increased airline costs.

Such charges can appear suddenly. Harris Chan, who travels frequently for business from his home in Texas to Asia, said there was no fuel surcharge on May 31 when he booked a trip from Houston to Tokyo to Singapore on All Nippon Airways, a unit of ANA Holdings Inc. A day later, he was assessed a $174 fuel charge when he booked another trip from Houston to Tokyo to Osaka. "Frequent fliers hate fuel surcharges," he said.

The airline-imposed charges disclosed in ticket prices can vary widely. The Hawaiian Airlines unit of Hawaiian Holdings Inc. started including a $30 surcharge on its flights to Japan in January, which has since increased to around $50, or some 6% of the total ticket price.

United and All Nippon both levy surcharges of around $100 on their flights between Los Angeles and Hong Kong -- equivalent to 15% and 13% of the final ticket prices, respectively, according to travel-data provider ITA.

Carsten Spohr, chief executive of Deutsche Lufthansa AG, said the airline is managing higher fuel costs by boosting the fuel efficiency of its fleet rather than counting on fare increases. New jets made by Airbus SE and Boeing Co. are more efficient than those they replace, and Lufthansa said its aircraft consumed an average of 4.5% less fuel in 2017 compared with the previous year.

"It's wishful thinking to believe you can set prices by your costs," said Mr. Spohr. "The fares are set by the market." The German carrier said it has some fuel surcharges in place but isn't looking to increase them because when it comes to price, customers only care about the total cost.



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THE WALL STREET JOURNAL.
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**Bets That Volatility Will Fall Hit Highest Since January**

By Gunjan Banerji
276 words
7 June 2018
The Wall Street Journal
J
B11
English


The resurgence of **volatility** that dominated the U.S. **stock market** in early 2018 has already vanished. And some investors are betting tranquility will continue in equities.

Investors including hedge funds have increased wagers that futures contracts tracking the Cboe **Volatility** Index will fall. The gauge, dubbed the VIX, measures expectations for equity price swings over the next month.

After much turbulence, the **S&P 500** has crept higher and is now up 3.7% this year. Technology companies have powered the benchmark equity gauge higher. Confidence from a strong jobs report last week has started to overshadow the inflation worries and global trade tensions that triggered market tremors earlier.

A quieter **equity market** has led to net **bearish** positions by leveraged funds on VIX futures hitting the highest level since late January, Commodity Futures Trading Commission data as of May 29 show. **Bearish** bets outnumbered **bullish** ones by a ratio of 1.6 to 1, the data show. In other words, leveraged funds -- a group the CFTC describes as "typically hedge funds" -- are "short" the VIX, wagering it will fall.

The VIX has retreated in recent days and closed Wednesday at 11.64, a level not reached since January. The VIX and its futures contracts tend to fall when the **S&P 500** rises, making a **bearish** view on the gauge akin to a **bullish** one on stocks.

Hedge funds clung to a net **bearish** view on VIX futures for all of 2017 as the so-called short-vol trade minted money, CFTC data show.



Document J000000020180607ee670001l

The New York Times

Opinion
**The Democrats Navigate Around an Iceberg**

By Frank Bruni and Ross Douthat
2,179 words
6 June 2018
03:25 PM
NYTimes.com Feed
NYTFEED
English


What do the primary results from California, New Jersey and places in between bode for November? For the Times opinion columnists Frank Bruni and Ross Douthat, they mean plenty — and yet nothing definitive. Their discussion follows:

Frank Bruni: Ross, although Americans less politically engaged than you and I probably wondered at that potent breeze, accompanied by a happy whistling sound, that emanated from California and blew eastward all the way to the Potomac, we recognized it instantly for what it was: an epic Democratic sigh of relief. Based on incomplete returns from the Tuesday primaries there, the party's hopes for retaking control of the House after November are alive! Its candidates in the California districts that it's striving to flip from red to blue did not get shut out of the general election by the state's "top two" system, in which two Republicans could have been graduated to the next, decisive phase.

Ross Douthat: True, the Democrats avoided calamity, and election handicappers gained, well, more ambiguity, it appears. Our colleague Nate Cohn spent Tuesday explaining that if the Democrats closed in on 50 percent of the vote in California's key primaries — the districts held by Republican representatives and won by Hillary Clinton in 2016 — they would be on the pace they need to have a House-taking wave; if they consistently fell below 45 percent the wave would be receding. The provisional totals ? 49, 37, 47, 44, 44, 46, 48.

That looks like a gray zone to me, with the House very much in play, but the Democrats' chances of taking it by no means as great as they would like.

Bruni: This midterm election is refusing to hew to one clear pattern. Just a few weeks ago, in Omaha, a candidate of the left beat a more established Democrat in a fiercely contested primary, pretty much dooming the party in the general election, and there was ample talk of the main energy in the party being on the left. Tuesday's results suggest otherwise, not just in California but in New Jersey, where the Democrats who won their primaries and will now compete in November are ones backed for the most part by the Democratic establishment — whatever that is. They're well within the party's mainstream. And of course Senator Dianne Feinstein prevailed handily in her California primary. So much for the Bernie Sanders insurgency.

Douthat: I think generally there's a lot more division between different Democratic factions on social media than there is in actual electoral politics. Our colleague David Leonhardt has written about how even in hard-fought primaries, like the one for governor in Georgia, the competing Democratic messages aren't that far apart. And moderate incumbents like Feinstein and Montana's Jon Tester won their primaries easily; indeed, it's hard to think of a major Democratic incumbent who's faced a sustained grass-roots challenge. Sure, Bob Menendez did surprisingly poorly in New Jersey — but he won, scandals and all. This is not a Democratic Party in the throes of its own Tea Party moment. It looks more unified, not less, than in 2016.

Bruni: Agreed — for now! I say "for now" because I do feel this is a story still being written, and because if 2016 taught us anything, it's that some of the old expectations and rules are out the window. I'd like to note something additional about Tuesday's results. In California's 39th District, the Democrat who graduated to the general election in November is Gil Cisneros. In New Jersey's 11th District, the Democrat who moved on is Mikie Sherrill. Both Cisneros and Sherrill are military veterans running for the first time and spotlighted and backed by Massachusetts Representative Seth Moulton 's Serve America PAC.

Douthat: Yes, Donald Trump has made candidate recruitment a lot easier for Democrats, and figures like Conor Lamb in Pennsylvania and Doug Jones in Alabama have helped them win close races.

Bruni: At the start of this election cycle, there was a lot of talk about whether veterans were an answer to the party's quest for candidates who could have a broad appeal in certain areas. As of now, 10 of these candidates — veterans running for the House for the first time — are bound for November general elections, including Amy McGrath , who staged that surprise victory in a Kentucky district a few weeks back. Conor Lamb belongs to this crowd of veterans, too.

Douthat: At the same time, I'm a little skeptical that all this unity is exactly what the party needs. The Democrats' problem, in a way, is that they're too ideologically unified: They're a party of consistent social and economic liberalism in a big and messy country, and as they've become more ideologically consistent they've lost power both in Washington and in state houses. Meanwhile, the Republican coalition sprawls across populist, libertarian and social conservative terrain; it's less consistent and unified (and hard-pressed to come up with a governing agenda), but that very inconsistency can be a strength when it comes to winning battleground elections.

It might not be the worst thing if the Democrats were having a few more tough center-versus-left battles; it might be a sign that they were experimenting ideologically after a series of defeats, rather than just doubling down and hoping the right candidates suffice to succeed where the party's larger message has been failing.

Bruni: I think it'd probably help a lot of confused readers if we pulled back from Tuesday's contests and explained why there's any suspense at all about whether Democrats can get the House majority. From a certain historical angle, it looks like a slam dunk. I read recently that since 1865, the party in power has lost, on average, 32 House seats in a midterm election; Democrats need to flip 23. They're attempting to do so against the backdrop of a president with persistently low approval ratings. And yet it's not a slam dunk. Before I theorize why, I want to hear your thoughts.

Douthat: Well, part of it is certainly the gerrymandered advantage Republicans have from the last round of redistricting, which fell conveniently just after their own wave in 2010, and the fact that the Senate map is particularly favorable to them this year. But 2006 and 2010 both show that a wave of the scale the Democrats need is achievable if you're running against a sufficiently unpopular president or agenda. The difficulty is that while Trump is unpopular, the steadily strengthening economy seems to be floating his approval ratings up into the zone he needs to hold the House, and while the Republican agenda is likewise unpopular, the party has wisely stopped (for now) trying to repeal Obamacare and shifted to small ball, leaving the Democrats without a clear target to attack.

Bruni: In short: For Republicans, Trump is the Titanic, but the economy right now is a damned big lifeboat. I do think that the economy means that the Democratic wave may not be tidal and that Republicans could navigate around a mammoth iceberg, and with that I'll quit the seafaring metaphors. I also think that more than the jobs numbers and **stock market** is coloring, or could color, the November outcome. Democrats are still struggling — and they are working diligently and earnestly on this — to encapsulate and communicate what they offer people in America who perhaps have jobs but do not have the security and standard of living they want and deserve.

Douthat: For all of Trump's vulnerabilities, there isn't the equivalent of the Iraq war or the Obamacare debate or the post-2008 economic climate for the opposition to exploit. Which makes their task more challenging than it would be if some true Trump-abetted disaster were unfolding.

Bruni: And Democrats need to be careful not to talk too much between now and November about Trump, Trump, Trump. Voters already know how they feel about Trump: In terms of media, he's the most dominant president of my lifetime and probably of any lifetime past or near future. What voters haven't necessarily decided is which party, and which congressional candidates, might be the sturdiest vessel of hope.

Douthat: That was my take six months ago: I thought the Democrats could effectively let anti-Trump sentiment in their base drive turnout while they talked about policy to swing voters. If the e unemployment rate keeps hitting new lows, though, and the Republicans don't go back to trying to push a wildly unpopular health care reform through Congress, I'm not sure that the economic message is enough.

Keep in mind: Trump won in part because while voters like the Democrats' policy proposals piece by piece, they prefer a vision of full employment to a new set of welfare-state programs — and "bringing back the jobs" was Trump's big promise. And while he may not deserve much of the credit, there really are more jobs every day, so he can answer the Democrats on policy, for now, by just saying "promise kept." And as long as that's the case they need more voters than just the paid-up members of #TheResistance to cast a ballot based on what they dislike about Trump — and to me that means that attacks on Trumpian corruption in the White House and the cabinet is an essential part of their message for the fall. Again, barring some intervening disaster or Robert Mueller bombshell that would make their jobs easier again.

 

Bruni: A few quibbles with that analysis: There's a difference between jobs, as measured by the unemployment figures, and decent wages that allow people to recapture a past standard of living, maintain their current one or count on something better in the future. And the **stock market** benefits some but by no means all. So an appraisal of economic health is more complicated than the happy charts that one of the administration's economists began Tuesday's White House press briefing with — you know, the briefing at which Sarah Huckabee Sanders felt compelled to declaim: "I am an honest person." When you have to say that, you've lost the game already. But I digress!

Douthat: That digression is illustrative, though: It's clearly easier to make a case against this administration on its mix of dishonesty, turpitude and chaos than it is to argue against a 3.8 percent unemployment rate. I agree with you that the economy isn't as good as that number suggests — too many people are still out of the labor force, wages aren't rising fast enough, and we have a whole lost decade-and-a-half of growth, with all the social costs that entails, that a few years of low unemployment won't be enough to heal. But even so, the trend is very positive, Trump isn't going to hesitate to claim credit, and the Democrats' big ideas — a job guarantee, single payer, etc. — become harder to sell when people feel more secure in their jobs and happier with the economy overall.

Bruni: Let's pivot super quickly back to Tuesday's results and then let our patient readers move on to other news, like Scott Pruitt's latest grift . I want to note that Gavin Newsom 's first-place finish in California's Democratic gubernatorial primary — which all but guarantees that he's our most populous state's next governor — makes him a national player on a major scale, ipso facto. That's a developing story line worth watching.

Douthat: My take on Newsom is that California will soon pine for the sensible elder statesmanship of Jerry Brown, and that the state as a whole — rich and beautiful but also stratified and balkanized, with its middle class priced out and homelessness and child poverty rampant — is a cautionary tale about the gap between liberal ideals and the possible real-life consequences of liberal governance. I'd welcome a Newsom for president campaign (after the Kamala Harris campaign, of course) to make that cautionary tale a subject for national debate.

Bruni: Last I checked there were upward of three dozen Democrats potentially running for president in 2020, so I say we wait until the list has been winnowed before we dive too deeply into those waters. (There I go with the sloshy metaphors again.) It's all I can do to stay afloat in 2018. Thanks for splashing around with me, Ross.

Douthat: A pleasure, Frank. See you in the fall campaign.

Andrew Cullen for The New York Times | Mikie Sherrill celebrating at her election night party in Verona, N.J. | Bryan Anselm for The New York Times | President Trump during a Make America Great Again rally in May. | Tom Brenner/The New York Times | Gavin Newson speaking to supporters on Tuesday. | Jim Wilson/The New York Times

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THE WALL STREET JOURNAL.

Business

**Airlines Raise Ticket Prices as Fuel Costs Surge; Oil is again the largest expense for most airlines prompting higher domestic fares, surcharges on international flights**

By Doug Cameron and Alison Sider
1,147 words
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Jet-fuel prices have surged more than 50% over the past year, pushing carriers to raise fares and Delta Air Lines Inc. to cut its profit expectations.

Delta, the nation's No. 2 carrier, said Wednesday it could take six to 12 months to recoup the extra fuel costs via pricier tickets.

Fuel is again the single-largest expense for most airlines, accounting for about a quarter of operating costs. The recent run-up in prices echoes the jump seen from 2009 to 2011, which first spawned stand-alone surcharges on many international flights.

Average domestic airline fares have fallen in each of the past four years, according to trade group Airlines for America, as carriers handed most of the fall in fuel prices back to passengers. Now, higher fuel costs have forced carriers to decide how much can be passed on directly to domestic fliers through higher fares or via surcharges on international flights, without deterring too many travelers.

Investors are edgy about the impact of fuel prices on airline profits. Shares of U.S. carriers are down this year on concerns there were too many aircraft being added to fleets chasing too few extra passengers.

Airline shares were mixed Wednesday, with those of Delta, which bought an oil refinery in 2012 to make its fuel costs less **volatile**, down 1.5%.

"Ultimately we have to be a business that gets paid for the cost of our product," said Paul Jacobson, Delta's chief financial officer. "As you get through that lag period, and as we make the adjustments that we need to, we feel confident that we'll be able to recapture this."

Other carriers shared the sentiment. "We feel good about our ability to pass through the increase in fuel price," United Continental Holdings Inc. President Scott Kirby said at an investor event last month. He said strong summer demand is bolstering industry pricing power—with carriers pushing through a succession of small increases of between $2 and $5 per flight on domestic routes—and that will help United recoup about 75% of the higher fuel prices.

Airlines have cut their use of fuel hedging to smooth prices compared with the last price spike, though they differ widely in their approach. American Airlines Group Inc. executives have long avoided hedges, while Southwest Airlines Co., the largest domestic carrier, continues to make wide use of them, which it said offers protection when prices are above $80 a barrel.

That still leaves airlines to absorb some of the higher prices through accepting lower profits or trying to make up the difference by cutting costs.

How airlines will recoup higher fuel costs is the main question being asked by investors, JPMorgan airline analyst Jamie Baker said. Adding surcharges is better for profits than higher base fares, as airlines can more quickly recoup higher fuel prices. "One benefit of fuel surcharges is it's transparent and highly precise," he said.

Stand-alone fuel surcharges aren't allowed on domestic U.S. routes but started to reappear in some international markets at the end of last year as jet-fuel prices closed on $80 a barrel. Surcharges have become more commonplace in recent months as prices moved above $90.

A handful of countries such as Japan require airlines to include a fuel surcharge on departing flights and regulate them to move in step with global **oil prices**. Others including Brazil and Hong Kong banned them completely, arguing they didn't fairly reflect increased airline costs.

Airlines in most markets have turned instead to a patchwork of what they term "airline-imposed surcharges" that can include other costs such as security. This followed a crackdown by the U.S. Department of Transportation in 2012 on the use of "fuel surcharge," with the department requiring airlines to tie any surcharges to the actual cost of fuel.

Such charges can appear suddenly. Harris Chan, who travels frequently for business from his home in Texas to Asia, said there was no fuel surcharge on May 31 when he booked a trip from Houston to Tokyo to Singapore on All Nippon Airways, a unit of ANA Holdings Inc. A day later, he was assessed a $174 fuel charge when he booked another trip from Houston to Tokyo to Osaka. "Frequent fliers hate fuel surcharges," he said.

The airline-imposed charges disclosed in ticket prices can vary widely. The Hawaiian Air unit of Hawaiian Holdings Inc. started including a $30 surcharge on its flights to Japan in January, which has since increased to around $50, or some 6% of the total ticket price.

United and All Nippon both levy surcharges of around $100 on their flights between Los Angeles and Hong Kong—equivalent to 15% and 13% of the final ticket prices, respectively, according to travel-data provider ITA.

Carsten Spohr, chief executive of Deutsche Lufthansa AG, said the airline is managing higher fuel costs by boosting the fuel efficiency of its fleet rather than counting on fare increases. New jets made by Airbus SE and Boeing Co. are more efficient than those they replace, and Lufthansa said its fleet consumed an average of 4.5% less fuel in 2017 compared with the previous year.

"It's wishful thinking to believe you can set prices by your costs," said Mr. Spohr. "The fares are set by the market." The German carrier said it has some fuel surcharges in place but isn't looking to increase them because when it comes to price, customers only care about the total cost.

Corporate travel experts said companies with big flying budgets prefer higher fuel expenses to be included in the basic fare rather than broken out via a surcharge. That is because total fares are used to calculate discounts.

Chris Sabby, head of the Air Solutions Group for the Americas at Carlson Wagonlit Travel, said large companies typically start preparing next year's budget in August and September, and surcharges levied at a flat rate give buyers less leverage in negotiations with airlines.

Mr. Sabby said companies are already resigned to the prospect of higher airfares and are looking to trim expenses by booking further in advance or placing additional restrictions on the class of travel an employee can book.

Some savvy travelers are looking to circumvent surcharges when paying for tickets with frequent-flier points. Airline policies on adding taxes and surcharges to reward flights vary widely. Brian Kelly, founder of The Points Guy, a blog focused on business travel, said a "cottage industry" has grown up among passengers exploiting differences in where surcharges are applied.

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THE WALL STREET JOURNAL.

U.S. Markets
Markets

**U.S. Stocks Rise as Investors Weigh Latest Trade Signals; The Dow industrials rally to their highest close in nearly three months; Nasdaq sets another record**

By Amrith Ramkumar and Riva Gold
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6 June 2018
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The Wall Street Journal Online
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English


* U.S. stocks rise

* Financial stocks climb alongside bond yields

* Investors weighing latest trade signals

The **Dow Jones Industrial Average** surged to its highest close in nearly three months Wednesday, with markets calm as investors weighed the latest signals on international trade.

Stocks have risen lately despite worries that protectionist policies could slow trade and weaken the global economy, damping growth and hurting markets. Some investors still believe compromises between the U.S. and trade partners, including China, will eventually resolve the conflicts.

China has offered to purchase nearly $70 billion of U.S. farm, manufacturing and energy products if the Trump administration abandons threatened tariffs, The Wall Street Journal reported Tuesday. Chinese telecommunications giant ZTE is also nearing a deal with the U.S. to save its business following the announcement of crippling U.S. sanctions.

Trade tensions and political uncertainty surrounding Italy and other countries remain threats to the market rally, but some analysts still think strong earnings and favorable growth in the U.S. can power major indexes higher.

"The risks are still in play, but the market has just gotten more comfortable that they will be resolved at some point in time," said John Zaller, chief investment officer of MAI Capital Management.

The Dow industrials added 346.41 points, or 1.4%, to 25146.39—its best day since April 10. Wednesday's close above 25000 marks the second for the blue-chip index since mid-March, before concerns over Facebook's data-privacy practices sparked a selloff in technology stocks that bled into the broader market.

The **S&P 500** rose 23.55 points, or 0.9%, to 2772.35 in a fourth straight session of gains and like the Dow posted its highest close since March 12. Ten of its 11 sectors posted gains. The tech-heavy **Nasdaq Composite** advanced 51.38 points, or 0.7%, to 7689.24 and a fresh record.

The World Bankestimated Tuesday that the global economy will still grow 3.1% this year despite trade worries, unchanged from its forecast in January and matching the pace of growth seen in 2017, itself the strongest year since 2011.

Figures Wednesday showed the U.S. trade gap narrowed in April, largely because Americans cut purchases of foreign-made goods while boosting exports, including a record amount of oil. It isn't clear how tariffs affected the April figures.

Financial stocks were among the best performers Wednesday, benefiting from rising Treasury yields, with analysts keeping an eye on interest rates leading up to the Federal Reserve's meeting next week. Higher bond yields tend to support lending profitability.

The KBW Bank Index rose 2.1%, while the yield on the benchmark 10-year U.S. Treasury note climbed to 2.975% from 2.917% Tuesday. Yields rise as prices fall.

Shares of materials companies also climbed with copper continuing its recent rally. Front-month copper futures added 2% Wednesday, closing at their highest level in more than five months.

Some investors expect muted market moves with the first-quarter earnings season largely completed, as worries about a slowdown in growth in Europe and other parts of the world still concern some money managers.

Dave Donabedian, chief investment officer at CIBC Atlantic Trust Private Wealth Management, said trade worries have kept a lid on gains in the market this year.

"If you just look at the trend in U.S. economic growth and the trend in corporate earnings, you might expect this to be another highflying year for the U.S. market, and it hasn't been," he said.

"It's mostly been [trade] threats and accusations back and forth, but it raises all sorts of uncomfortable risks around the way that global business gets done and the potential that what really so far has been spats and skirmishes could deteriorate into a scaled protectionist trade war," he added.

Elsewhere, the Stoxx Europe 600 closed down less than 0.1%. Italy's FTSE MIB Index erased early declines and rose 0.3% after shedding 1.2% in the previous session as Italian Prime Minister Giuseppe Conte said his government would push for a change of the rules underpinning the eurozone, spurring losses in Italian stocks and bonds.

Earlier, Asia-Pacific stocks mostly inched higher, tracking an upbeat finish in the U.S. on Tuesday. Stocks in Japan and Hong Kong closed 0.4% and 0.5% higher, respectively.

Giovanni Legorano, David Hodari and Tom Fairless contributed to this article.

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THE WALL STREET JOURNAL.

Business
**'We Got Lazy': U.S. Recyclers Try Cleaning Up Their Scrap; Prices for recyclables are plunging, a glut of paper and plastic is accumulating and some material is being sent to landfills**

By Bob Tita | Photographs by Dean Casavechia for The Wall Street Journal
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American trash haulers and recyclers are becoming more prudent about how they collect and sort scrap after China stopped accepting most U.S. scrap exports earlier this year.

The move has upended the U.S. recycling industry: Prices for recyclables are plunging, a glut of paper and plastic is accumulating in warehouses and some material is being sent to landfills.

As a result, some recyclers have focused on producing cleaner loads of paper, plastic and corrugated cardboard, which can fetch higher prices. And cities and trash haulers are seeking alternative ways to manage such waste, while an abundance of hard-to-recycle plastics has revived some companies' use of the stuff to produce fuel.

"We got lazy," said Robert Render, commercial manager for Orlando, Fla.-based Ravago Recycling Group. "That mentality has to change."

Residential recyclables are typically harvested in single pick-ups and separated at processing centers. The practice can lead to contamination during collection and sorting, especially for paper—something recyclers are trying to reduce.

Oakland, N.J., in February began collecting paper and cardboard one week and plastic, cans and other materials the next. Now the town is earning $10 a ton for its cleaner loads of paper and paying $3.50 a ton to have other mixed recyclables sorted. The strategy reduced Oakland's recycling costs from the $30 a ton it had been paying to a processing company before changing its collection system.

"It took a little while for people to get used to it," Oakland's recycling coordinator Eugene MacMahon said of the dual-sort system. "The garbage men had to leave a lot of stuff on the curb."

China, the biggest customer of U.S. scrap material, for years accepted loads of recyclables with as much as a fifth spoiled or trash. China's willingness to buy low-quality scrap provided little incentive for U.S. processors and collectors to weed out trash and other contaminants from the recyclable paper, plastic and cans.

Now, China is rejecting shipments with contaminants above 0.5%, a level that most U.S. recyclers have difficulty meeting with conventional recycling and sorting methods. A month-long moratorium has been lifted, but other issues with inspections are effectively keeping U.S. recyclable shipments from leaving for Chinese shores.

Some processors are trying to win back Chinese buyers or attract new customers with cleaner, segregated loads of paper and plastic that can fetch higher prices.

Cal-Waste Recovery Systems, near Sacramento, is processing 30% less scrap each hour to give its machinery and workers more time to separate paper and catch contaminants. At the lower speed, the company can separate newsprint and office paper that is fetching $70 a ton overseas from less-valuable paper such as magazines and catalogs. But about 35% of the paper the company collects is being diverted to residual piles that have no value in the current market for recycled paper. The company is paying paper processors as much as $16 a ton to have it hauled away.

"We're not necessarily finding homes for everything like we did before," Cal-Waste President Dave Vaccarezza said.

Allan Co., a trash hauler and recycler near Los Angeles, slowed its sorting equipment by 20% and hired more people to manually pick waste from conveyor lines. Chief Executive Jason Young said the process produces cleaner loads of cardboard that can be sold to China, albeit at a greater expense. Mixed paper isn't profitable to sort meticulously, he said.

Processors also are looking for new buyers for mixed plastic, an amalgam of discarded packaging of different plastic grades that is difficult to recycle and often contaminated with food waste. China ended up disposing of much of the mixed plastic it used to accept, prompting officials there to ban its import.

Some companies see an opportunity in converting mixed plastics, which they can buy cheaply or get at no cost, into diesel, gasoline and industrial chemicals in airless reactors. Nina Bellucci Butler, chief executive of recycling consultancy More Recycling in North Carolina, said converting plastic to oil is profitable again, with **oil prices** around $70 a barrel.

The market glut is providing a windfall of mixed plastic for Renewlogy, a Salt Lake City company that converts scrap plastic to diesel and petrochemicals by melting it in reactors without air, said founder Priyanka Bakaya. Lower production costs from continuous operations, coupled with growing production volumes, mean that a $5-million Renewlogy reactor can make money even if **oil prices** fall as low as $30 a barrel, Ms. Bakaya said. She wants to build dozens of reactors in coming years near recyclable-processing centers with abundant supplies of low-value mixed plastic.

Ohio-based RES Polyflow LLC expects to convert 100,000 tons of mixed plastic annually into 16 million gallons of diesel and naphtha—a petrochemical used to make new plastic—at a plant opening next year in Ashley, Ind. Oil company BP PLC in March agreed to buy products from the plant.

"We see ourselves as a new market for the recycling industry," said Michael Dungan, RES Polyflow's director of sales and marketing.

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THE WALL STREET JOURNAL.

Markets

**As Oil Soars, Few Hedge Funds Are Left to Profit; Years of choppy and often falling markets obliterated a once-prominent group of commodities hedge funds that managed billions of dollars**

By Laurence Fletcher and Georgi Kantchev
1,107 words
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It's a rare bunch of traders who can say they made a killing on oil's surprising rebound over the past year. The reason: There aren't many of them left.

Years of choppy and often falling markets have obliterated a once-prominent group of hedge funds, collectively running billions of dollars, that bet on commodities. Among firms that have shut commodities funds are Astenbeck Capital Management, Armajaro Asset Management, Clive Capital, Centaurus Capital and Brevan Howard.

Since March 2012, the number of commodities funds globally—which trade in oil and other commodities such as wheat or copper—has dropped to 130 from 368, according to data group eVestment, while assets in commodities funds have dropped 1% to $83.5 billion. In comparison, assets in the global hedge-fund industry as a whole have increased 30%.

Like most investments, getting out when the price is depressed looks terrible in retrospect. Since a low last June, international **oil prices** have rallied by 68%.

Pierre Andurand is among the few oil traders to stick it out. Recently his fund has gained as his **bullish** positions paid off. His $1.2 billion Andurand Commodities Fund was up 16.3% for this year through May 18, compared with the average hedge fund's return of just 0.1%. Brent crude was up 16% over that period.

Others rewarded for sticking it out: the energy fund of New York's DFT Energy, which gained 12.6% this year through May 18, and London based Florin Court Capital, whose main fund has profited in power markets pushed higher by oil's rise.

By Mr. Andurand's own admission, sticking to a **bullish** oil trade had been excruciating. For much of last year, his positions looked wrong as concerns about oversupply kept a lid on prices. Markets moving in a narrow range—a perennial problem in commodities—are tougher to trade than markets moving strongly in one direction, according to Mr. Andurand, because aggressive bets one way or the other tend not to work.

"Emotionally it's very difficult," said Mr. Andurand, a former Goldman Sachs energy trader. "When you start losing money, you start questioning even more than usual. You think, 'maybe there's something I'm missing.'"

By the end of May 2017, his fund had run up a 17% year-to-date loss, compared with oil's 11.5% loss, and he had taken all of his bets off the table.

Others fared even worse. Astenbeck's fund manager Andy Hall, another bull, closed his fund in August with oil at about $50 a barrel, less than half its 2014 high.

In a July 3, 2017 letter to investors, reviewed by The Wall Street Journal, Mr. Hall said "it looks increasingly like **oil prices** will be rangebound for some time to come" and that a price recovery will be limited. Oil has rallied about 50% since then. Mr. Hall didn't respond to a request for comment.

Mr. Andurand said when he ran up losses, he had to liquidate his portfolio for a couple of weeks in April. He took the opportunity to get extra sleep, exercise and took a couple of days out of the office. On the trading floor, he and his team examined their positions from scratch but couldn't find a good reason to turn **bearish**.

Strong demand for crude from a growing global economy and falling supply due to lack of investments led him back to the conclusion that oil would recover. After two weeks, he re-entered the market with a **bullish** bet, sized at around one-third of the maximum risk that he would take in his fund.

Mr. Andurand, a former competitive swimmer who has trained in martial arts such as Shaolin kung fu and capoeira, said those pursuits had helped his trading. "Sometimes you lose money, you take your loss, then you have to come and try again, and not many people can do that for a long time," he said.

Mr. Andurand's strategy is to bet either on the direction of oil—up or down—or to trade small inefficiencies in the market. At the moment, he is taking a maximum bet on rising **oil prices** in the fund and maintains that this is just the beginning.

"Now it's getting interesting," he said. "We are in the middle of a multiyear bull run," he said. "We could see $100 oil this year…$150-plus in 2020-2021."

Many analysts caution the oil rally could be self-defeating, since higher prices at the pump could hit consumption or cause the collapse of a production-cutting deal by the Organization of the Petroleum Exporting Countries and other major suppliers.

Mr. Andurand dismisses the **bearish** arguments. "People think $100 is high. But we've seen $100, we've seen $150 in a much weaker economic environment [2008] than today, and I think today is much more **bullish**," he said. "I don't think we're close to the top at all."

Write to Laurence Fletcher at laurence.fletcher@wsj.com and Georgi Kantchev at georgi.kantchev@wsj.com

Andurand's Crude Tips:

* Big Picture Reading research is important but it's good to talk. "It's easy when you're behind a screen to be drowned in lots of noise and not know why you're doing certain things. We speak with everybody. We try to stress-test our analysis and see where we could go wrong."

* Keep the Faith Oil markets can be dull but it never lasts. "That's how oil markets are - they are boring for a few years, range-bound. But then you have a big break. Now it's getting interesting. Now we are full-risk."

* Don't Trust the Machines "You need some intuition. You need to know what questions to ask, what data to look for, a bit of anecdotal evidence."

* Roll with the Punches "I never celebrate when we make money, because I know I could lose the next day. The same way as when we lose money I don't get too depressed because I know we can make it back a bit later."

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THE WALL STREET JOURNAL.

Business

**Mexico and Canada Add to Nations Striking Fear in U.S. Farmers; Mexico joins China in imposing tariffs on imports of U.S. food and farm goods as Canada, Europe consider similar moves**

By Jacob Bunge, Heather Haddon and Benjamin Parkin
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U.S. farmers, already losing sales to China, are facing new threats to sales in other big overseas markets as trade tensions spread globally.

Mexico this week imposed tariffs on major U.S. exports such as cheese and pork, while Canada and the European Union are considering tariffs on imports of U.S. food and farm goods from corn to orange juice to peanut butter, in response to the U.S. placing tariffs last week on steel and aluminum imports from those countries. In addition, analysts say, China could target other crops and products after Trump administration officials last week outlined potential tariffs on $50 billion worth of Chinese goods.

The rapid-fire exchange of tariffs and trade threats leaves U.S. farmers and agricultural groups fearing tougher sells in their most important overseas markets, with duties adding to the cost of U.S. goods in markets that imported $70 billion worth of U.S. farm products last year, according to the U.S. Department of Agriculture.

U.S. farmers already are feeling the pinch from the trade sniping. In Iowa, the top pork-producing state, Dean Meyer has seen his prices decline since China levied duties on American pork imports in April.

"We're at a point in our operation where profits are compromised," said Mr. Meyer, who recently expanded his operation near Rock Rapids, Iowa, to sell around 22,000 hogs a year, partly betting on increased demand from abroad. "The last thing we need is a hiccup in demand."

The more-aggressive U.S. trade policy, industry officials say, also strains relationships built over decades with foreign buyers. Casey Guernsey, a Missouri-based cattleman, said he has fielded questions from a business partner in China over what might come next from Washington on trade.

"It shows a level of angst with our good trade partners," he said.

Uncertainty can drive foreign buyers to seek alternative suppliers, said Dan Halstrom, chief executive of the U.S. Meat Export Federation, which develops markets for U.S. beef, pork, lamb and veal.

President Donald Trump has accused Mexico, Canada, China and other countries of treating U.S. farmers unfairly. "By the time I finish trade talks, that will change," he said in a Twitter post this week. "Big trade barriers against U.S. farmers, and other businesses, will finally be broken. Massive trade deficits no longer!"

Still, the uncertainty over trade talks is affecting business decisions in the Farm Belt and could linger even if the current tariff threats recede.

In Missouri, some ranchers are shrinking herds, fearing tariffs could further pressure sliding cattle prices. That could mean fewer customers for the bulls Mr. Guernsey's family sells as sires, he said. In the eastern corn belt, some farmers are putting on hold plans to buy new land or build new grain-storage bins.

Heightened trade worries also have big implications for food companies that export, like Cargill Inc., Archer Daniels Midland Co., Tyson Foods Inc., Pilgrim's Pride Corp. and Sanderson Farms Inc.

"At a time when there is already significant uncertainty in the global trading landscape, these actions subject agricultural producers and businesses to even greater risks," a Cargill spokeswoman said. "Cargill urges all parties to focus on negotiated solutions over haphazard trade restrictions."

A Tyson spokesman warned that Mexico's tariffs on U.S. pork will hurt pig farmers who supply the meat giant. "With the current volatility in trade relations, we've experienced day-to-day uncertainty in our ability to deliver products and services to customers," he said.

In 2017, the U.S. exported $138 billion worth of agricultural goods and had a $21.3 billion agricultural trade surplus, according to the USDA, which projects a $21 billion surplus for 2018. The projection was made before Mexico announced its tariffs on U.S. agricultural products.

Many farm groups have urged the Trump administration to tread cautiously in its trade negotiations to avoid disrupting a critical source of business for the U.S. agriculture sector, especially as the industry slogs through the deepest downturn in a generation. Favorable weather has swelled grain stockpiles and made it cheap to expand cattle herds and hog barns, building up supplies and pushing down prices. Changing consumer tastes, such as declining milk consumption, have also caused producers to look abroad.

Beth Ford, chief operating officer for Land O'Lakes Businesses, a top cheese producer, said the company is "especially concerned about any deterioration in a market where farmers are already suffering from low global prices."

U.S. dairy producers, for instance, have been counting on exports to help the struggling sector move past a multiyear milk glut. Mexico, which doesn't produce enough cheese to meet growing domestic demand, is a big customer, buying nearly one-third of all U.S. cheese sold abroad, according to agricultural consultancy Informa Economics.

"Mexico is our No. 1 export destination," said David Ahlem, chief executive of California-based Hilmar Cheese Co., one of the U.S.'s largest cheese producers. Preserving the Mexican market was one of the company's top trade priorities, Mr. Ahlem said.

The Mexican government's move to place tariffs on imports of cheese from the U.S. stands to derail that progress. On Tuesday, Mexican officials said they would immediately impose tariffs of 10% to 25% on a range of U.S. products. The country also is taking steps to expand imports from other countries, including a tariff-free quota for pork.

Some U.S. agricultural groups say North American Free Trade Agreement negotiations will be thornier with Canada and Mexico joining the tariff battle. Nafta has underpinned a trade boom for U.S. meat, crops, fruit and vegetables. Mexico is the top importer of U.S. apples and is imposing a 20% duty on the fruit.

New tariffs likely will make Nafta negotiations "more noisy," said Richard Owen, a vice president at the Produce Marketing Association.

Jesse Newman and Anthony Harrup contributed to this article.

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More

* NATO Bristles Over U.S. Tariffs Pinned to Security

* U.S. Trade Gap Narrowed 2.1% in April

Document WSJO000020180606ee6600134

 

WSJ PRO CENTRAL BANKING

Economy
**Record Oil Exports Help Cut U.S. Trade Gap; Petroleum shipments reached nearly $20 billion in April**

By Josh Mitchell and Christopher M. Matthews
803 words
6 June 2018
03:19 PM
WSJ Pro Central Banking
RSTPROCB
English


The U.S. exported a record amount of oil and fuel in April, helping to narrow the nation's trade gap while giving the economy a lift.

The country shipped $19.9 billion in petroleum—a category that includes crude oil, liquefied gases and fuels such as gasoline—to other countries in April, the Commerce Department said Wednesday. That set a record after adjusting for inflation and seasonal factors. The U.S. is exporting four times as much petroleum each month as it did a decade ago.

The U.S. trade deficit in goods and services—after surging in 2017 and early 2018—fell 2.1% in April, the second straight month of contraction. The declines reflected both rising exports and falling imports.

The country still runs a big trade deficit, which stood at $46.2 billion in April and has been expanding over time. In the first four months of the year, the gap increased 11.5% compared with the same period a year earlier.

Some analysts project the economy will grow at an annualized rate of about 4% in the second quarter, which would be the best quarter in almost four years. The rise in petroleum exports—a trend that began around the recession—is boosting earnings for American producers while insulating the economy from shocks caused by rising **oil prices**.

Crude **oil prices** rose from January through mid-May before slipping in recent weeks. Meanwhile, U.S. economic growth appears to have picked up over that period.

"We're shifting from a stance where we were just a pure oil importer where the effects of rising **oil prices** in the past were seen as a net negative," said Gregory Daco, chief U.S. economist at Oxford Economics. "In today's environment, you have a more balanced trade position."

Higher **oil prices** threaten to drive up gasoline prices and pinch consumers, but for the broader economy that effect is being offset by the positive effects of higher earnings in the oil industry and investment spending by oil producers.

The rise in oil exports is partly due to a move by Congress in 2015 to lift a ban on most exports of U.S. crude oil. Before the ban, the U.S. exported mainly refined oil products, like gasoline and diesel, rather than crude oil itself.

U.S. crude exports have more than doubled since January 2017, according to the U.S. Energy Information Administration, and are averaging 1.7 million barrels a day so far this year. The uptick in exports has been driven by record U.S. oil production and price discounts relative to international competitors, according to Sandy Fielden, an analyst for Morningstar Commodities Research.

Shale drillers have helped propel U.S. oil production to all-time highs, surpassing 10 million barrels a day this year and rivaling Russia and Saudi Arabia.

Meanwhile, the U.S. benchmark **oil price** has been trading at a discount to the global benchmark, due to production cuts by other countries and U.S. infrastructure constraints. A barrel of West Texas Intermediate oil was almost $10 cheaper than the Brent crude global benchmark as of Wednesday.

The export boom has benefited giant oil-and-gas companies with large U.S. assets, including Exxon Mobil Corp., Chevron Corp. and Royal Dutch Shell PLC. Combined, the three companies exported 270,000 barrels of U.S.

crude a day in April, according to Cowen & Co., more than double their 2017 average. If the $10 discount on U.S. oil were to hold, those exports could be worth almost $1 billion this year.

Steady economic growth around the globe is fueling demand for American oil and other products, including soybeans and gem diamonds. U.S. exports rose 0.3% in April and are up 8.1% this year compared with last.

The outlook on trade is cloudy given the Trump administration's push for tariffs to reduce the gap. Some economists say the tariffs and retaliatory moves by other countries will reduce trade flows and hinder economic growth.

The recent drop in U.S. imports might be due to temporary factors. For example, imports of goods, such as cars, rose last year as retailers replenished stockpiles after hurricanes ravaged the South. Imports may be falling back to normal levels.

Overall imports fell 0.3% in April from a month earlier, in part because of lower imports of cars, cellphones and other consumer goods. But in the first four months of the year, imports rose 8.7% compared with the same period in 2017.

Write to Josh Mitchell at joshua.mitchell@wsj.com and Christopher M. Matthews at christopher.matthews@wsj.com

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The New York Times

National Desk; SECTA
**Layoffs and Lower Pay: Why American Teachers Are Taking to the Streets**

By ROBERT GEBELOFF
1,336 words
6 June 2018
The New York Times
NYTF
Late Edition - Final
11
English


American teachers are angry.

They have taken to the streets in West Virginia, Oklahoma, Kentucky, Arizona, Colorado -- and more recently in North Carolina. Dissent is building in Louisiana and Nevada, too.

But while the protests are spreading this year, the underlying conflict between public school employees and policymakers has roots in decisions made during the last recession, when states and local districts short of cash curtailed education spending for the first time in decades.

This had a pronounced effect on school staffing, with layoffs hitting many states. Districts cut support staff as well as regular classroom teachers. In North Carolina, the number of teachers is down 5 percent since peaking in 2009, while the number of teaching assistants is 28 percent lower. And teacher pay stagnated nonetheless.

Moreover, the recovery that has lifted the private economy has not quite restored school spending to pre-recession levels, especially in states run by fiscal conservatives determined to hold the line on government spending.

For a system that had experienced nothing but spending growth for a quarter century, the past few years have been a major shock. K-12 spending per pupil rose 26 out of 29 years before 2010, only to tumble three consecutive years at the beginning of this decade.

''Per-pupil spending went up forever,'' says Matthew Chingos, director of the Urban Institute's education policy program.

One reason for the consistent rise was a movement in education to reduce class sizes by adding teachers, and to provide more social services beyond basic instruction. These efforts picked up steam in the 1990s in part in reaction to publication of Jonathan Kozol's ''Savage Inequalities,'' which documented the vast disparities in school spending between wealthy and poor school districts, spurring lawsuits and education reform movements in many states to equalize funding by enlarging the overall pot of education money.

''The book highlighted these hideous inequalities in schooling, where there were 50 kids in a class with pipes that were broken and stuff like that, and there was a very good, earnest push toward increasing equity,'' said Marguerite Roza, a research professor and director of the Edunomics Lab at Georgetown University.

Then came a one-two punch to the growth in education spending: The recession worsened financial problems already widespread in many states, and voters began electing conservative governors and legislatures that promised to rein in budget woes with spending cuts.

Almost every state reduced education spending during the recession. But as the national economy recovered, education spending did not return to the historical pattern of steady growth across all states. By 2016, more than half of states controlled by Democrats had restored education spending per pupil to 2009 levels, but the same was true in only 5 of 22 states controlled by Republicans.

Some red states have seen slower growth in state and local revenues, in part because of economic factors but also because of tax cuts. The Center on Budget and Policy Priorities, a liberal think tank, notes that seven states with school funding controversies -- Arizona, Idaho, Kansas, Michigan, Mississippi, North Carolina and Oklahoma -- cut taxes in recent years.

In Kansas, where conservatives had been particularly aggressive in cutting the size of government, the state Supreme Court recently ruled the school funding system there unconstitutional because it failed to meet state requirements to finance education adequately. Republican lawmakers were further shocked when their handpicked consultant's report tied increased funding to improved outcomes and recommended billions in additional education spending.

On top of fiscal policy decisions, a more fundamental concern is the increasing **volatility** of state tax revenues, says Bruce Baker, a professor of education at Rutgers University who studies school finance.

States cover about 47 cents of every dollar spent on public education, with a further 45 cents raised locally, mostly through property taxes, and 8 cents coming from the federal government.

Real estate values swing more wildly now than in the past, and traditional wage income has become a decreasing share of the income tax base, making revenue streams less reliable and harder to predict.

The political climate has also made it tougher to overhaul the tax system in any way that could be perceived as a tax increase, whether in good economic times or bad.

It's easy to see why teachers are in the vanguard of the protest. Teacher salaries make up the bulk of education spending -- so when education spending stagnates or is cut, teachers feel the pain most directly.

In many of the states spending less on education, average teacher pay has fallen sharply. Nationwide, pay is down 5 percent this decade, to an average of $58,950 from $61,804.

But this doesn't necessarily mean administrators are cutting teacher pay. It also, in some states, signifies high teacher turnover, with older, higher-paid teachers retiring and being replaced by younger, lower-paid ones.

Over all, however, the American teaching force is growing more experienced, not less. And federal data shows that teacher pay nationally has fallen in inflation-adjusted terms. Compared with 2007-2008, starting teacher pay is lower, as is average pay for more experienced teachers.

Protests over these cuts have been directed mostly at state capitols, where overall education policy is administered.

Yet in states that have struggled with education funding, local revenues have also played a role, especially in red states. Census data shows that while reductions in state aid were universal during the recession, many blue states -- which tend to be wealthier to begin with -- still experienced local revenue growth that somewhat mitigated the losses.

Not so in many red states, where schools saw reductions in both state and local funding.

''Many states will cut state aid for schools and then impose limits on property tax increases as part of a broader package pushing for austerity in spending,'' Mr. Baker said.

Property taxes to fund education have been attacked by both small-government conservatives and by liberals who note the wide disparity in tax bases in wealthy and poorer communities.

Despite the inequity, ''local money was the most relatively stable and healthy'' revenue source for education, Ms. Roza said, ''and so closing that spigot meant it was much harder to fund education from the statehouse.''

''Inevitably, state budgets were competing with Medicaid and pensions and higher ed funding,'' she said, ''and so that money could not grow as fast as local money could grow.''

The nation's chief educator, Betsy DeVos, recently tweeted a chart depicting the huge increase in education spending plotted against a less than stellar trend line showing student performance: ''Test scores continue to stagnate. This is not something we're going to spend our way out of.''

Ms. DeVos's critics, however, say there are many factors that could be holding overall test performance down.

And recent studies have found that spending disparities matter. University of Pennsylvania researchers showed the impact of the recession was greater on low-income students, particularly in districts with major budget cuts.

 

Another paper, by a researcher at Northwestern University, found that students in districts that cut funding the most in the wake of the recession posted lower test scores than peers and were less likely to graduate from high school.

It now seems the pendulum is swinging toward spending growth in states that had been lagging.

Teachers in West Virginia and Oklahoma protested and won a pay raise. Pressure from educators spurred the Kentucky legislature to block the governor from vetoing the budget. And in Georgia, political pressure forced leaders to fully fund the state aid formula for the first time in years.

Attention has turned to North Carolina, where thousands of teachers protested at the opening of the state legislative session. North Carolina teachers once ranked 19th in the nation in pay, but now rank 37th.

GRAPHIC: Change in Education Spending, Per Pupil, 2009 vs. 2016 (Sources: U.S. Census; National Conference of State Legislatures)

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WSJ PRO CENTRAL BANKING

Economy

**Fedspeak Cheat Sheet | Praet Confident Eurozone Inflation Is Returning to Target | RBI Malaysia Central Bank Governor Resigns | RBI Raises Main Lending Rate | Hannon's Take: Suspicious Minds and the ECB; The Wall Street Journal's central banking newsletter for Wednesday, June 6, 2018**

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Hannon's Take: Suspicious Minds and the ECB

Fedspeak Cheat Sheet: What Fed Officials Said Ahead of Their June Meeting

ECB's Praet Confident Eurozone Inflation Is Returning to Target

RBI Raises Main Lending Rate for First Time in More Than Four Years

Malaysia Central Bank Governor Resigns

Suspicious Minds and the ECB

The European Central Bank almost certainly wasn't trying to influence the formation of a new government when it decided how many Italian bonds it would buy in May, but it is noteworthy that some people thought it was.

The central bank and its national affiliates have been buying government bonds since March 2015 through its Public Sector Purchase Programme, roughly in proportion to the share each of the currency area's 19 members has in eurozone economic output.

On Monday, it published the breakdown for its purchases during May, revealing a higher than usual share of German bond buys, and a lower than usual share of Italian bond buys. Indeed, the Italian share was the lowest in the history of the program, although not by much.

Of course, May was the month in which Italy went through a political crisis that hinged around the desire of a new government to name a euroskeptic economy minister, and the president's vetoing of that nomination.

Conspiracy theorists went to work, largely through social media platforms such as Twitter, and quickly concluded that the ECB had been trying to exaggerate the already large rise in Italian bond yields to make the cost of euro skepticism clear to the new government, which has ambitious tax and spending goals.

In truth, the breakdown of monthly purchases has varied, partly as a result of the lumpiness of bond issuance. A particularly large German redemption had to be invested during May, and that required lower purchases of bonds issued by other governments.

But even if the conspiracy theories can quickly be debunked, this is surely bad news for the ECB. The idea that central bankers in Frankfurt might be tempted to interfere with politics in member countries isn't entirely without foundation: It almost certainly did so in Ireland in November 2010, and its critics see a similar pattern in its behavior in Greece.

This is another reminder that the ECB isn't a normal central bank, since it serves 19 separate peoples, some of which are much more powerful than others. In a note to clients Tuesday, Rabobank re-christened the ECB's government bond vehicle the Politically Sensitive Purchase Programme.

Key Developments Around the World

Fedspeak Cheat Sheet: What Fed Officials Said Ahead of Their June Meeting

Federal Reserve officials are likely to raise their benchmark short-term interest rate by another quarter percentage point after their meeting June 12-13. They also will release updated projections for the expected path of rate increases in coming months and years. Almost all have indicated they remain on track for a total of three or four moves this year. Here are some of their key comments on monetary policy since their meeting in May.

ECB's Praet Confident Eurozone Inflation Is Returning to Target

The European Central Bank's chief economist Peter Praet signaled Wednesday that officials are increasingly confident that eurozone inflation will return toward target amid strong underlying economic growth and rising wages, suggesting the bank could phase out its giant bond-buying program this year. "Signals showing the convergence of inflation toward our aim have been improving," Mr. Praet said in a speech in Berlin.

Malaysia Central Bank Governor Resigns

Malaysian central bank Gov. Muhammad Ibrahim has resigned, Prime Minister Mahathir Mohamad said Wednesday, following revelations that the government had used the proceeds of a land sale to the bank to help troubled state fund 1Malaysia Development Bhd. Mr. Muhammad, whose five-year term leading Bank Negara Malaysia wasn't due to expire until 2021, offered his resignation Tuesday, according to people familiar with the matter.

RBI Raises Main Lending Rate for First Time in More Than Four Years

India's central bankraised its main lending rate Wednesday, after inflation picked up following a recent surge in crude-**oil prices**. The Reserve Bank of India's monetary-policy committee, headed by Governor Urjit Patel, raised its repurchase rate to 6.25% from 6%. Of 11 economists polled by The Wall Street Journal, nine had predicted the RBI would leave the rate unchanged. The other two had expected an increase.

Quick Hits: Bank of England Asked to Prepare for ‘Fast Death' of Major Banks

The Bank of England was asked to formulate how it would deal with a quick failure of a large bank, Bank of Japan Gov. Haruhiko Kuroda showed caution in discussing trade issues, and the People's Bank of China said it would improve cybersecurity in the financial sector. Here are quick hits on central banking and related market views from around the world.

American Job Openings Now Outnumber the Jobless

The U.S. had more job openings this spring than unemployed Americans. For the first time since such record-keeping began in 2000, the number of available positions exceeded the number of job seekers, the Labor Department said Tuesday, a shift that is rippling across the economy and affecting the behavior of employers and workers. U.S. job openings rose to a seasonally adjusted 6.7 million at the end of April, a record high, and more than the 6.3 million Americans who were unemployed during the month. The figures are the latest sign the U.S. is facing a historically tight labor market.

Jackson Hole Symposium Scheduled for Late August

Mark your calendars: The Kansas City Fed's annual economic symposium in Jackson Hole, Wyo., has been set for Aug. 23-25. This year's gathering will explore "Changing Market Structure and Implications for Monetary Policy."

Bank Indonesia Governor Sees More Room for Rupiah's Recovery

The Indonesian rupiah still has more room to appreciate as capital inflow has started to return, Bank Indonesia Governor Perry Warjiyo said Wednesday.Bank Indonesia has recorded 13 trillion rupiah worth of inflows into government bonds since May 24. "Inflow also returned to the stock although it's not yet large." Mr. Warjiyo said. "It will possibly continue to increase."

Wednesday

8:30 a.m. EDT

U.S. Commerce Department releases April data and annual update on international trade

Thursday

 

Time N/A

Central Bank of the Republic of Turkey releases policy statement

10:30 a.m. EDT

Bank of Canada releases financial system review

11:15 a.m. EDT

Bank of Canada's Poloz and Wilkins discuss financial system review at press conference in Ottawa

3 p.m. EDT

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

7:50 p.m. EDT

Bank of Japan releases May bank lending

How Does Intergenerational Wealth Transmission Affect Wealth Concentration?

Intergenerational "wealth transmission plays an important role in helping to explain wealth concentration," Laura Feiveson and John Sabelhaus find in a FEDS Notes research post. "In addition to intergenerational transfers in the form of a direct transfer of wealth, there are other ways in which wealth is passed across generations. The most obvious is through education. If wealthier families are able to provide better education for their children, those children will have higher labor incomes, and thus they will tend to save more over their lifetimes and accumulate greater wealth…Another form of wealth transmission may be through including heirs in lucrative family businesses."

Global Markets: A New, More Difficult Stage

"If last year in markets was all about strong returns, this year is about rising risks: a brewing trade war, renewed political turmoil and concerns about growth. The difference is that central-bank policy that helped insulate markets from risk is changing. Investors are increasingly looking after themselves," Richard Barley writes for The Wall Street Journal. "In financial jargon, risk premia are being repriced. In everyday terms, investors are quicker to sell and are starting to pay up for protection in an environment where central banks, whose policies have pushed them to take risk, no longer have their backs…Meanwhile, the gap between investment-grade corporate-bond yields and yields on safer government bonds in both the U.S. and Europe has been widening steadily since early February, a further sign that investors are demanding extra compensation for taking risk."

China's Central Bank Looks to Make Borrowing Easier

"China's campaign to control debt is hitting companies hard, contributing to recent defaults in the corporate bond market. But policymakers are wary of triggering new financial risks, while trying to keep borrowing in check," Chao Deng writes for The Wall Street Journal. "One possible move to ensure that market liquidity is stable: A reduction in the amount of reserves Chinese banks are required to keep with the central bank. Freeing up billions for banks to lend and repay short-term loans—and use toward new lending—could make overall borrowing in China's economy easier, analysts say. Such a move would follow April's 1 percentage point reduction in the reserve requirement ratio. Analysts think the People's Bank of China will probably cut again, as early as June, and by as much as 2 percentage points before the end of the year."

The global economy appears poised to weather turmoil in some emerging markets, a political upheaval in Italy and an aggressive round of trade actions from the U.S., according to the semiannual economic growth forecasts of the World Bank. The World Bank estimates the global economy will grow 3.1% this year, unchanged from its forecast in January and matching the pace of growth seen in 2017, itself the strongest year since 2011.

Firms in the services sector are grappling with delayed supply deliveries because of a truck driver shortage and slow rail service. The Institute for Supply Management said its nonmanufacturing index rose to 58.6 in May. But its backlog of orders index grew in May to 60.5, from 52.0 in April.

Canada's official international reserves declined $1.44 billion in May, the federal Finance Department reported Tuesday. At May 31, the reserves of foreign currencies, gold and other monetary assets totaled $80.78 billion, down from $82.22 billion a month earlier. --Dow Jones Newswires

 

Australia's economy grew strongly in the first three months of 2018 as exports emerged from a brief slump, company profits lifted and a wave of government infrastructure spending continued to build.

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

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

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Document RSTPROCB20180606ee66000dx

 

THE WALL STREET JOURNAL.

Markets

**Slumping Real Yields Reflect Slow-Growth Pains; A hesitance by investors marks a reversal after many entered 2018 anticipating a surge of global growth and inflation**

By Daniel Kruger
832 words
6 June 2018
10:30 AM
The Wall Street Journal Online
WSJO
English


Inflation-adjusted yields on government bonds in developed markets around the globe have retreated from their May highs, a sign investors don't believe the world is poised for a sudden acceleration in economic growth.

In the U.S., the yield on the benchmark **10**-**year Treasury** note Tuesday fell to 2.917%, continuing to hover near 3%. Meanwhile, the yield on the comparable Treasury Inflation-Protected Security, used by investors to hedge against rising prices, has fallen to 0.793% from 0.943% on May 17.

In Germany, the inflation-adjusted 10-year yield has fallen to -1.221% from -1.018% in that time. In the U.K., the yield fell to -1.781% from -1.536%.

So-called real yields, which reflect the nominal Treasury rate minus the expected inflation rate, are important because they measure investors' purchasing power. Investors typically demand higher real yields when they become more confident the economy is gaining traction, which tends to strengthen their appetite for riskier assets such as stocks.

Investors' hesitance now marks a reversal after many entered 2018 expecting a surge of global growth and inflation. Instead, Germany's annualized growth rate slowed to 1.2% from 2.5% in the fourth quarter of last year, the country's Federal Statistical Office said last week. This means that the Europe's largest economy has expanded more slowly than the U.S., which registered 2.3% growth in the same period.

In the U.S., meanwhile, real yields have climbed with expectations for growth and inflation after last year's $1.5 trillion tax-cut package along with a surge in government spending. The shift in fiscal policy has led to a rise in inflation-indexed yields, even as the Fed has been raising interest rates to prevent inflation from gaining a foothold.

Inflation is a threat to the purchasing power of a bond's fixed interest and principal payments. Investors in Treasury Inflation-Protected Securities, or TIPS, receive a smaller interest payment, while the principal of their bond increases at the rate of the annual change of the consumer- price index.

The rise of real yields in the U.S. at the same time they are falling in most of Europe and the U.K. shows investors' changing outlooks for each economy, said Donald Ellenberger, head of multiasset strategies at Federated Investors. It also reflects differences in policy, with the U.S. "getting this fiscal stimulus late in the business cycle" while in Europe "there are definitely structural rigidities that hold back growth," he said.

Federated owns U.S. inflation-indexed debt, but doesn't own it in Europe, Mr. Ellenberger said.

Central-bank intervention is also helping suppress real yields, as postcrisis policies ranging from ultralow interest rates to large central-bank bond purchases are still suggesting to investors that those economies need extraordinary support. While these policies have spurred investors to exchange safe government debt for risky assets, they have yet to produce enough sustained growth and inflation.

Recently, analysts have even begun stepping back from predictions that central bank officials in a number of regions would be able to reduce monetary stimulus. Real yields have fallen in Germany as many analysts have pushed back forecasts that the European Central Bank would end bond purchases in September. That suggests it will take even longer for Europe to join the U.S. on the path to restoring pre-crisis norms to monetary policy.

"That's probably why there's been such a big divergence," said George Goncalves, head of interest-rates strategy in the U.S. at Nomura Securities International. "Until Europe has some constructive fiscal policy, it's all in the ECB's hands."

While the 10-year U.S. real yield has fallen from a 7-year high of 0.943% on May 17, and has remained below 1% since March 2011, its rise this year suggests investors expect the U.S. economy to outpace that of other developed markets.

There are some signs of rising prices in the eurozone. The European Union's statistics agency last week said consumer prices in the 19 countries that use the euro rose a greater-than-expected 1.9% from May 2017, and jumped from the 1.2% rate of inflation recorded in April.

Yet some analysts have noted much of the gains were due to rising **oil prices**, which may not be sustainable.

Central-bank officials are "assuming with growth would come inflation," said Jack McIntyre, who manages international bond portfolios for Brandywine Global Investment Management. With inflation expectations persistently low, the ECB faces "an uphill battle," said Mr. McIntyre, who has been minimizing his holdings of European debt. "To get real yields higher, inflation has to run hot."

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

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WSJ PRO CENTRAL BANKING

World

**Canada's Trade Deficit Narrowed In April; Trade report shows record exports, narrowing trade deficit further than expectations**

By Kim Mackrael
531 words
6 June 2018
10:04 AM
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English


OTTAWA—Canada's trade deficit narrowed in April as exports reached a record high on increased shipments of some mineral products, consumer goods and energy products.

Canada's merchandise trade deficit with the rest of the world narrowed in April to 1.90 billion Canadian dollars ($1.46 billion), Statistics Canada said Wednesday. Expectations were for the trade deficit to narrow to C$3.40 billion, according to economists at Royal Bank of Canada.

The previous month's trade deficit was revised to C$3.93 billion.

Canada's monthly trade report covers the purchase and sale of goods. Unlike the U.S. data, it doesn't incorporate services.

BMO Capital Markets economist Benjamin Reitzes said the report shows Canada's trade picture "perked up" at the start of the second quarter, consistent with expectations for a bounceback in overall growth after a soft start to the year.

"While there's still tons of room for improvement on the trade front, this is welcome news," and consistent with the Bank of Canada raising the key interest rate at its July policy announcement, Mr. Reitzes said.

The central bank raised interest rates three times between mid-2017 and January of this year, and has said it plans to gradually move rates higher. Its next interest rate decision is July 11.

Royal Bank of Canada economist Nathan Janzen said that because monthly trade data is **volatile**, it is unlikely to push the Bank of Canada to raise rates on its own. "But it is another piece of data that's moving in the right direction," he said.

The upbeat April trade report comes less than a week after the U.S. extended tariffs on steel and aluminum to include Canada, the European Union and Mexico, a move that sparked fears of a trade war as those countries announced retaliatory measures. The tariffs also present a new hurdle for North American Free Trade Agreement negotiations, which were already stalled on disagreements over rules of origin for the automotive sector and U.S. demands for a sunset clause.

In April, Canada's trade surplus with the U.S. widened for the first time in six months, with exports to the U.S. up 3.2% on higher exports of crude oil and crude oil bitumen. Meanwhile, imports from the U.S. fell 1.4%, largely because of a decline in shipments of passenger cars and light trucks.

Canada's overall exports climbed 1.6% to a record C$48.56 billion in April, while imports fell 2.5% to C$50.47 billion. In volume, or price-adjusted terms, exports rose 1.2% and imports fell 2.4% in April.

Canadian exports of metal and nonmetallic mineral products advanced 9.1% to C$5.76 billion, led by shipments of unwrought precious metals and precious metal alloys. Consumer goods shipments were up 5.4% in the month, and exports of energy products advanced 2.3% for the eighth monthly increase in nine months.

Write to Kim Mackrael at kim.mackrael@wsj.com

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The New York Times

Business/Financial Desk; SECTB
**Markets Move Mostly Higher On Optimistic Signs in U.S. Economy**

By THE ASSOCIATED PRESS
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U.S. stocks finished mostly higher Tuesday as weeks of up-and-down trading, much of it related to trade tensions, gave way to smaller moves. Technology companies, retailers, and U.S.-focused companies kept rising, while banks fell along with interest rates.

The market spent the day alternating between small gains and losses. Technology companies like Apple and eBay rose for a third straight day, and the **Nasdaq composite** again set an all-time high.

The Labor Department said job openings increased in April, which could help lead to higher pay and greater consumer spending. Retailers climbed, and smaller ones fared especially well following some strong first-quarter results. Larger companies like Amazon and Macy's also rose.

"When people have extra income, they're going to spend it on discretionary goods," said Jason Draho, the head of asset allocation for UBS. "The jobs data would suggest a lot of job openings," which he said should "lead to higher wage growth."

However, banks fell along with interest rates, and health care companies also traded lower.

The **S**.**&P**. **500** added 1.93 points, or 0.1 percent, to 2,748.80. The **Dow Jonesindustrial average** slipped 13.71 points, or 0.1 percent, to 24,799.98. The **Nasdaq composite** rose 31.40 points, or 0.4 percent, to 7,637.86, and the Russell 2000 climbed 11.25 points, or 0.7 percent, to 1,664.63.

The Labor Department said that for the first time since records began in December 2000, there are more job openings than unemployed Americans. That could give workers more leverage for pay raises, while high levels of employment and greater consumer spending are expected to lead to faster economic growth in the coming months.

Retailers helped lead the way Tuesday as more of them reported quarterly results. G-III Apparel Group climbed 10.8 percent to $47.53 after it raised its annual profit and sales forecast following a strong first quarter. Ascena Retail shook off early losses and rose 7.9 percent to $3.95.

Amazon again finished at a record high after it jumped 1.9 percent to $1,696.35. Macy's jumped 8 percent to $40.05.

Mr. Draho said smaller companies are leading the market because they're seen as less vulnerable to tariffs and trade disputes, and because economic growth in the United States is picking up while Europe and other regions don't look quite as strong. He added that technology companies did well in the first quarter, and big companies, including Apple and Facebook, have shaken off some recent struggles.

**Bond prices** rose. The yield on the **10**-**year Treasury** note fell to 2.92 percent from 2.94 percent.

Financial companies fell in tandem with bond yields. Lower yields force interest rates down on mortgages and other kinds of loans, which means lower profits for banks. Morgan Stanley lost 1.5 percent to $50.78 and Capital One gave up 1.1 percent to $94.35.

Mylan climbed 3.8 percent to $39.98 after federal regulators approved its version of Amgen's anti-infection drug Neulasta. The Mylan drug, Fulphila, is called a biosimilar, meaning it's the generic equivalent of a complex biotech drug, and it was approved to reduce the risks of infections during treatment for cancer. Amgen lost 2 percent to $181.73.

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

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

Document NYTF000020180606ee660005n

 

THE WALL STREET JOURNAL.
U.S. EDITION

**Beware Overly Rosy Forecasts on Economy**

By Georgi Kantchev
327 words
6 June 2018
The Wall Street Journal
J
B13
English


Good economic forecasts may be too much of a good thing: They could help cause a recession.

That's according to a new International Monetary Fund working paper, which says that overly optimistic economic-growth forecasts -- including the IMF's own -- could help cause recessions and fiscal problems. The IMF argues that positive forecasts lead the public and private sectors to "celebrate" by borrowing more, which encourages the sort of debt accumulation that builds frailties in the economic system, harming growth.

"Over-optimism brings economic damage in later years," the authors write. "An overestimation of the future rate of economic growth could provide a short-run boost to the economy, but it also increases the subsequent probability of a recession and other economic difficulties," they say.

The paper, written by Paul Beaudry, professor at the University of British Columbia, and IMF economist Tim Willems, uses a sample of forecasts for 189 countries made by the biannual IMF World Economic Outlook publication between 1990 and 2016.

The authors calculate that, on average, forecasts for the next year's growth in gross domestic product have been 0.58 percentage point higher than the actual number. Research shows that such an upward bias is also present in forecasts made by private-sector economists such as banks, the paper says.

The IMF has also missed most recessions in its forecasts, predicting only 24% of recessions one year ahead of the event.

The IMF's analysts aren't the only ones to notice that their own profession can get it wrong.

In **financial markets**, analysts last year wildly underestimated gains on the **S&P 500**. Gold hasn't followed the script of the almost yearly predictions for higher prices. This year's oil rally caught forecasters by surprise.

But the IMF paper goes a step further, arguing that forecasts could take an actual economic toll.



Document J000000020180606ee660000w

THE WALL STREET JOURNAL.

US

**Looking Past Worries on Emerging Markets and Trade, World Bank Sees Synchronized Growth Intact; Bank estimates the global economy will grow 3.1% this year, unchanged from its forecast in January and matching the pace of growth seen in 2017**

By Josh Zumbrun
600 words
5 June 2018
04:01 PM
The Wall Street Journal Online
WSJO
English


The global economy appears poised to weather turmoil in some emerging markets, a political upheaval in Italy, and an aggressive round of trade actions from the U.S., according to the semiannual economic growth forecasts of the World Bank.

The World Bank estimates the global economy will grow 3.1% this year, unchanged from its forecast in January and matching the pace of growth seen in 2017, itself the strongest year since 2011.

The report represents the first major check-in on the health of the overall global economy since a number of shocks cast the outlook into doubt, especially for emerging markets. The dollar strengthened, Argentina sought a bailout from the International Monetary Fund, and Turkey and Indonesia tightened monetary policy sharply to prevent money flooding out of their economies.

The 2018 forecast now includes nearly half a year of economic data, including most of the latest political developments. Adding together everything that is happened produces an estimate for an economy on course for "robust" growth this year.

"About half the world's countries are experiencing an increase in growth," said Shantayanan Devarajan, the World Bank's acting chief economist. "This synchronized recovery may lead to even faster growth in the near term, as stronger growth in, say, China or the United States spills over to other parts of the world."

Some analysts had begun to wonder whether an era of synchronized growth, in which all major economies were simultaneously growing since last year, is already at an end.

While the World Bank sees a number of economies slowing—and projects global growth will slow slightly in 2019 to 3% and 2020 to 2.9%—it forecasts the synchronization will stay largely intact.

Even Argentina will see growth slow, but stay positive, it suggests. Other countries looking slower than in January include Japan, Indonesia and Russia. On the plus side, U.S. growth looks slightly faster than January predictions, as does growth in China, Brazil and Mexico.

The World Bank's forecast is closely in line with those released by the International Monetary Fund in April. (The IMF forecasts 3.9% growth, but uses a different methodology. Using the IMF's method, the World Bank forecast is equivalent to 3.8% growth.)

Still, the World Bank sees a global economy at risk in coming years.

"Protectionist threats cast a dark cloud over future growth," Mr. Devarajan said.

When it comes to emerging markets, investors tracking the current sovereign debt blowups may be focused on the wrong worries, the World Bank suggests.

A special chapter on corporate debt shows businesses in emerging economies have boosted their borrowing to the same level as companies in advanced economies, with both borrowing about 90% of GDP. That is largely driven by China, but not entirely. Even for emerging markets excluding China, corporate debt to GDP has risen by 15 percentage points since 2006.

The borrowing has been heavily in dollars. The primary risk, the World Bank argues, is companies with high debts invest far less in their future than those with low debts. The same applies for countries overall.

But burgeoning debts around the world, and tightening monetary policy, mean risks of financial crisis cannot be dismissed.

"There has been a **financial market** crisis every 10 years or so," Mr. Devarajan said. "It is now 10 years since the last crisis."

Document WSJO000020180605ee65005ha

THE WALL STREET JOURNAL.
U.S. EDITION

**Streetwise: U.S. Stock Returns Belie A Postcrisis Landscape**

By James Mackintosh
710 words
5 June 2018
The Wall Street Journal
J
B1
English


If all you had to go on was the return on U.S. stocks over the past decade, you'd never guess that the world's financial system had its worst crisis in generations, let alone that stocks had their biggest crash since World War II.

The U.S. market has had a vintage 10 years, and returns -- even including the calamity that was just appearing on the horizon in the summer of 2008 -- have been far better than the long-run norm.

An investor who simply bought the **S&P 500** in June 2008 and ignored the market carnage that followed has scored gains of more than 9% annualized, including reinvested dividends, only fractionally below the average nominal return since 1900. But because inflation has been so low, real returns after inflation of 7.8% have been well above the long-term average for the U.S. market of 6.5% calculated by London Business School academics Elroy Dimson, Paul Marsh and Mike Staunton.

The result is far different from what followed deep recessions and financial crashes in the 1930s and 1970s, when it took a decade or more for stocks just to recover to precrash levels in real terms, let alone make money.

The question for investors is whether the speedy recovery from 2009 is an optimistic sign that things are better in the U.S. than generally believed, a demonstration of the ability of investors to ignore reality for extended periods, or a happy illusion created by the Federal Reserve. The evidence provides partial support for each view.

Start in June 2008: Lehman Brothers was fighting for credibility, but few expected the outright failure that would come in September. The market was already down more than one-tenth from its peak in October 2007, but would go on to fall a further 48%.

The optimistic view is that capitalism has done its thing. Shareholders who backed dodgy bankers and excessive debt lost their shirts, while capital has shifted from old technologies to support new and more efficient ways of doing business.

Some of the biggest losers among June 2008 S&P members are obvious: Fannie Mae, Freddie Mac and American International Group, as well as Lehman, helped create the crisis and were crushed by it, losing an annualized 20% or more a year over the decade.

Overleveraged business models were taken out, too, notably General Motors.

But it was the shift in technology that really makes the case for functioning capitalism, moving capital from old to new tech over the past decade.

Coal producer Peabody Energy was valued at $23 billion a decade ago, almost as much as Amazon.com, while retailer Sears Holding was valued at the same $10 billion as graphics-card specialist Nvidia. Peabody failed two years ago and Sears is struggling to survive, having lost shareholders an annualized 28% a year. Amazon and Nvidia, meanwhile, have had money thrown at them by investors and been the two best performers among stocks that were in the S&P in 2008, returning an annualized 35% and 27%, respectively. Optimists think the market is, this time, getting it right.

The pessimistic view is that far too much hope is being invested in the new market leaders. It is true that many of the big tech companies -- though not Amazon -- are highly profitable, but more than one-third of the past decade's market gains were about higher valuations, not higher profits. If the price/earnings multiple merely falls back from the current level of 17 times estimated earnings to the long-run average of 15 times, forecast earnings will have to rise 17% to compensate.

Then, there is the Fed. Its $4 trillion bond-buying program and the lowest interest rates in history boosted asset prices. Long-dated Treasurys returned an annualized 4% above inflation over the past decade, double the return since 1900, making the extra gains offered by shares look less impressive by comparison. Maybe what should really surprise us was the bond market's returns. With rates rising and the Fed's pile of Treasurys being sold down, those gains might prove illusory.


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Document J000000020180605ee650001e

THE WALL STREET JOURNAL.
U.S. EDITION

**Value Investors Step on Gas As Tech Stocks Surge Further**

By Michael Wursthorn
956 words
5 June 2018
The Wall Street Journal
J
A1
English


Hunting for cheap stocks has been out of favor for so long that some self-proclaimed value investors are stepping outside their mandate and buying faster-growing tech stocks, a move that could be costly should the economy start slowing.

Lured by the prospect of higher returns -- the tech-heavy **Nasdaq Composite** Index surged to a record Monday -- some value investors are turning away from stocks of consumer-staples companies, basic-materials firms and big manufacturers in favor of shares of fast-growing companies such as Apple Inc. and Netflix Inc.

These buyers have drifted away from the hallmark of value investing championed by the likes of Benjamin Graham and Warren Buffett: actively picking stocks the market has overlooked. Those legendary investors assessed what they called a company's intrinsic value and compared it with metrics such as its cash flow and price-to-book ratio, a measure of net worth.

Some critics say the measures used to identify value have aged poorly in a market dominated by passive investing strategies and asset-light technology companies. That has prompted them to look at tech. They argue that some of these stocks remain undervalued and that they still have further to run.

Other investors have turned to studying momentum trading, crowded positions, fund flows and event-driven trading, strategies not typically associated with value investing.

While the **Nasdaq** is notching records, value stocks have been stuck in a rut for most of the nine-year rally in equities. The Russell index of 1,000 of the biggest value stocks in the market has fallen 2% in 2018, the fifth straight year -- and the 10th of the past 11 years -- that the index has lagged behind its growth counterpart, which is up 7.7%.

"One of the toughest things is being able to articulate what value investing is anymore," said Laton Spahr, portfolio manager of Oppenheimer's value fund. "It's hard to pinpoint what value investing is today, and that is the hard thing to making it relevant to retail clients again."

Many investors say they aren't looking back, even as most analysts generally agree the U.S. is in the later stages of an economic cycle. That would suggest stocks are due for a pullback, putting investors who have altered their strategies at risk of missing out if the pendulum swings back in favor of traditional value stocks that historically shine when the broader market is under pressure.

Perhaps one of the more controversial changes among value investors is the drift toward growth companies. Value investors who justify buying shares of Amazon.com Inc. or Netflix, for example, say it is because those companies are still undervalued by the broader market, despite their big revenue growth. Others call it portfolio window-dressing to boost returns.

Eddie Perkin, chief equity investment officer at Eaton Vance, said value funds that have ignored the hugely popular FANG stocks -- Facebook Inc., Amazon, Netflix and Google parent Alphabet Inc. -- run the risk of being left behind in the market.

"The FANG stocks are so dominant in those benchmarks that to not own them, you got really hurt the last few years," he said. "So you had to have those in your portfolio to keep up with other growth managers."

Eaton Vance's Large-Cap Value Fund, which has existed for more than 80 years, is tilted toward financial stocks such as JPMorgan Chase & Co. but also counts a position in Alphabet.

Even longtime value investors like Mr. Buffett eventually gave in to the changing value landscape, though his timing hasn't been ideal. His conglomerate Berkshire Hathaway Inc. first took a position in Apple in early 2016, after the stock was already expensive by some measures and has steadily increased its stake since then.

With a cash pile of about $110 billion, Mr. Buffett and Berkshire have a lot of flexibility to put their money to work. But his eye for value didn't spot Amazon, a company that has disrupted the retail sector and has driven much of the broader market's recent gains.

At Berkshire's 2017 shareholder meeting, Mr. Buffett explained his reasoning for never investing in Amazon: "I was too dumb to realize what was going to happen," he said.

Rather than embracing the popular tech stocks, Richard Mathieson, portfolio manager of the BlackRock Advantage Large Cap Value fund, tracks fund flows and other positions to identify crowded positions and find companies that may have been left behind. The fund invested in semiconductors, a corner of the technology market that isn't a traditional value play but more investors say is becoming attractive due to growing demand for chips.

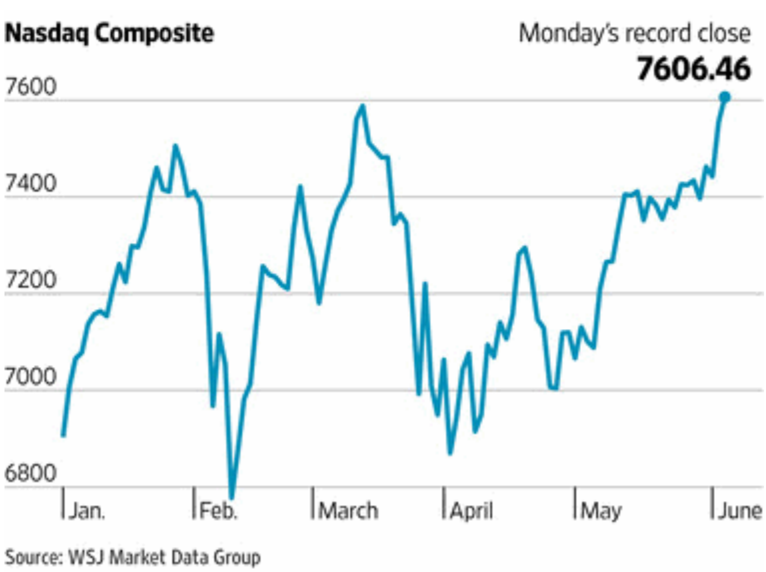
"Traditional value styles of buying cheap stocks has been in the doldrums for a long time," Mr. Mathieson said. "Our approach to value has evolved."

The BlackRock fund is up 0.2% this year, after posting a 15% return in 2017, its best gain over a 12-month period in four years.

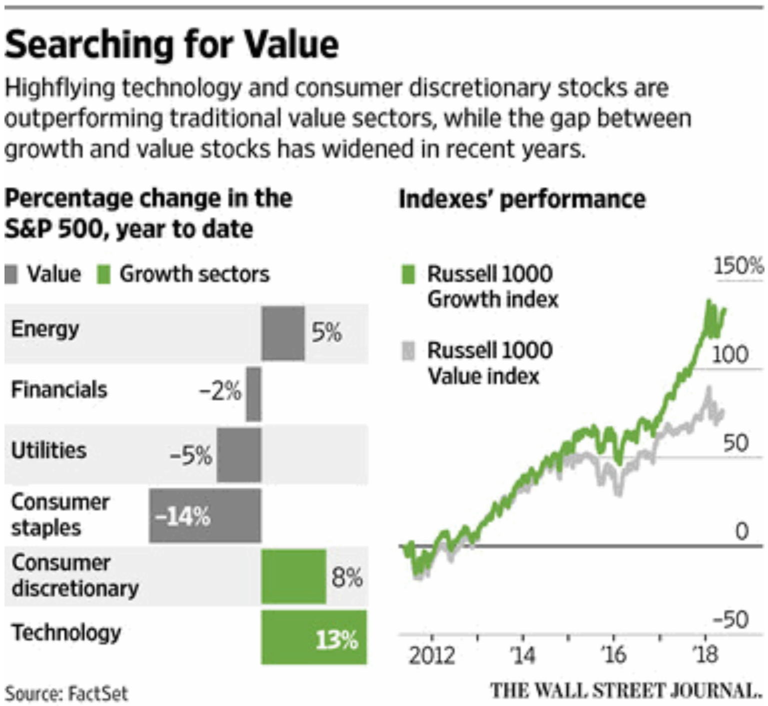
For Mr. Spahr at Oppenheimer, the 2008 financial crisis marked a turning point, when accommodative monetary policies broadly lifted asset prices -- to the detriment of value investors.

Over the past five years, Oppenheimer has been trying to determine which banks are in a position to surprise the market with higher capital returns or faster dividend growth during their annual stress tests.

"We had to become slightly more tactical and trade a little more. There's more awareness of what the catalyst events are," said Mr. Spahr, whose value fund is down less than 0.1% so far in 2018 after returning 10% last year.



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THE WALL STREET JOURNAL.
U.S. EDITION

**Nasdaq Composite Enters Record Territory**

By Akane Otani
417 words
5 June 2018
The Wall Street Journal
J
B1
English


The **Nasdaq Composite** set a record for the first time in nearly three months Monday, the latest sign that investors questioning the global growth story are funneling their money into shares of fast-growing companies.

The index, which heavily weights shares of technology companies, rose 0.7% to 7606.46, topping its March 12 record of 7588.32 and snapping its longest streak without a fresh high since 2016.

The broader **S&P 500** and **Dow Jones Industrial Average** have yet to eclipse their Jan. 26 highs.

The gains mark a dramatic turnaround after investors dumped shares of everything from software makers to biotechnology firms in the spring. Technology stocks stumbled in March, hurt by blowback over Facebook Inc.'s handling of its users' information and fears that increasing scrutiny from regulators and politicians could hurt profitability at a number of U.S. tech giants.

Yet in recent months, middling economic data from the eurozone and fears of tighter trade policies have dented investors' confidence in the global growth story that had driven stocks to records last year.

That has helped drum up fresh enthusiasm for technology companies, which many investors believe can reliably increase earnings even as the global economy looks like it could be losing momentum. The **Nasdaq** is up 10% for the year, with heavyweights like Amazon.com Inc., Apple Inc. and Microsoft Corp. all up by double-digit percentages. All three set records Monday.

In comparison, the **S&P 500** has risen 2.7% this year, while the **Dow Jones Industrial Average** has advanced 0.4%.

In another sign of tech's dominance, S&P Dow Jones Indices said after markets closed Monday that it would add Twitter Inc. to the **S&P 500** on Thursday, while Netflix Inc. will join the S&P 100.

"Investors are going back to the growth engines of their portfolios at a time when many other catalysts seem to be fading," said Michael Arone, chief investment strategist at State Street Global Advisors.

Technology firms are expected to post solid earnings growth throughout the year, something that analysts say has helped boost the sector's allure. Earnings for **S&P 500** technology companies are expected to increase 23% in the second quarter from the year-earlier period, according to FactSet, outpacing the broader **S&P 500**'s estimated earnings growth rate of 19%.

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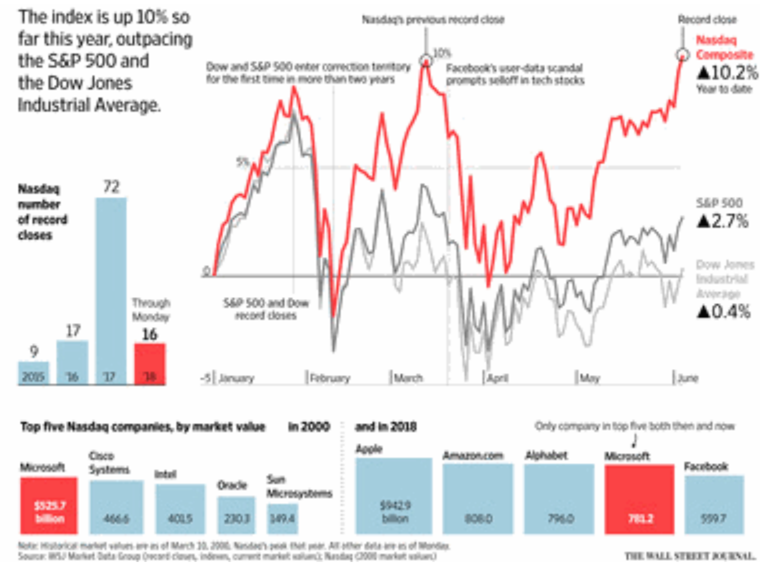
Danielle Chemtob and Allison Prang contributed to this article.

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Document J000000020180605ee6500026

THE WALL STREET JOURNAL.
U.S. EDITION

Heard on the Street
**Global Markets Enter a Tougher Stage**

By Richard Barley
388 words
5 June 2018
The Wall Street Journal
J
B12
English


[Financial Analysis and Commentary]

If last year in markets was all about strong returns, this year is about rising risks: a brewing trade war, renewed political turmoil and concerns about growth. The difference is that central-bank policy that helped insulate markets from risk is changing. Investors are increasingly looking after themselves.

Last week's wild swings in Italian bonds are just the latest in a series of shocks that have made 2017's smooth market ride a distant memory. Surging Treasury yields, **equity-market volatility** and trouble in Argentina and Turkey are all part of the same picture.

In financial jargon, risk premia are being repriced. In everyday terms, investors are quicker to sell and are starting to pay up for protection in an environment where central banks, whose policies have pushed them to take risk, no longer have their backs.

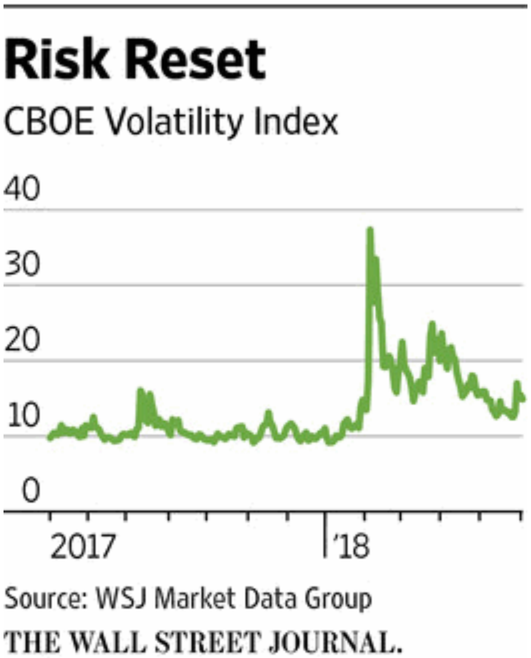
In 2017, the biggest one-day decline for the MSCI All-Country World index of developed- and emerging-market stocks was 1.4%, and only on two days did it fall by 1% or more. This year the biggest drop so far is 2.9%, and 11 days have seen declines of more than 1%.

Meanwhile, the gap between investment-grade corporate-bond yields and yields on safer government bonds in the U.S. and Europe has been widening steadily since early February.

With the global economy solid and inflation rising, the days of central banks doing "whatever it takes" are in the past. The Federal Reserve is raising rates while there is no sign of the European Central Bank further loosening policy.

The low-**volatility** environment made it more profitable to invest without paying for insurance against downswings in markets, notes UBS. That exaggerates the reaction to events like last week's Italian saga or to signs that the U.S. will enter a deeper trade war with its allies and rivals.

Morgan Stanley's strategists call the change "the end of easy" for markets. That doesn't spell the end of returns, as long as global growth holds up. But it will require investors to be more nimble, and, after a long period when much went right, think more carefully about what might go wrong.

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Document J000000020180605ee650001o

THE WALL STREET JOURNAL.

Markets

**When Markets Move, Here's Who Moves the Market; A study of trading patterns from Brexit and the Trump election finds that hedge funds are the most consistent players when currency markets go wild**

By Mike Bird
524 words
5 June 2018
07:00 AM
The Wall Street Journal Online
WSJO
English


When a currency's value plunges at its fastest pace in 20 years, who's trading during the commotion? A new data set based on millions of foreign exchange transaction records attempts to shed light on what's going on during the most frenetic moments in markets.

Researchers at JPMorgan Chase Institute, the bank's global think tank, analyzed 395 million trades processed by the bank's markets division to determine what exactly happens during a market plunge. It looked at three major events, two of which were scheduled and one of which investors were completely unprepared for: The U.S. presidential election and U.K. referendum on EU membership in 2016, and the Swiss National Bank's surprise decision to unpeg the franc from the euro in 2015.

All three events produced violent reactions in currency markets, producing the largest moves in the Mexican peso, British pound and Swiss franc in multiple decades.

One finding presented by the researchers indicates that hedge funds were particularly important in establishing more stable prices for the currencies in the aftermath of the huge market moves.

"There is a popularly held narrative that long-only investors with a long investment horizon act as a stabilizing influence in these situations, we certainly didn't see that in these instances," said Kanav Bhagat, director of **financial markets** research at the JP MorganChase Institute.

Unlike flash crashes in markets, which are typically blamed on poor liquidity and automated trading, the three events weren't anomalies but rather reflected sudden changes in the outlook for the currencies involved.

One finding: during Brexit and the Trump election, only hedge funds were consistent in helping to establish a new stable price for the relevant currencies by both buying and selling, rather than bidding prices in the same direction. Other investors, such as asset managers tended to stay on the sidelines waiting to jump in after most of the **volatility** had gone away.

After the U.S. election, by 8:30 a.m. in London, hedge funds had transacted over $900 million in the U.S. dollar-Mexican peso foreign exchange market, around a third more than asset managers, banks, corporate, pension and insurance clients put together.

Hedge funds initially participated most by selling the Mexican peso, becoming net peso buyers later in the day.

"It was not really institutional investors that were trading but really the hedge funds doing that in a meaningful way," said Diana Farrell, Chief Executive of the JPMorgan Chase Institute.

Trading volumes by asset managers tended to hit their peak levels in U.S. trading hours, 10 to 20 hours after the EU referendum and the U.S. election, according to the report's authors.

The report concludes that company policies that limit trading activity to the normal business hours of a firm might be reducing liquidity during market-moving events.

Write to Mike Bird at Mike.Bird@wsj.com

Document WSJO000020180605ee65001gv

The New York Times

Business/Financial Desk; SECTB
**Looming Tariffs Fail to Rain on Wall Street's Parade**

By THE ASSOCIATED PRESS
824 words
5 June 2018
The New York Times
NYTF
Late Edition - Final
2
English


Stocks rose for the second consecutive day on Monday with technology companies, retailers and household goods companies in the lead. Indexes of technology companies and smaller, more United States-focused companies both hit nominal highs.

Major technology companies made solid gains. Apple rose as it previewed new features and software updates at its Worldwide Developers Conference. Microsoft edged higher after it said it would buy the coder platform GitHub. Facebook fell, however, on new privacy concerns.

Retailers including Target and Walmart rallied, as did Amazon. Energy companies fell as the price of oil continued to slide.

After last week's ups and downs, the **Standard & Poor's 500-stockindex** is on its first winning streak in three weeks. The technology-heavy **Nasdaq composite** index finished at a new high, above a mark it set March 12, while the smaller Russell 2000 surpassed a record it set last week.

Investors reacted last week to political turmoil in Italy and rising trade tensions as the United States continued to hold talks with Chinese officials and placed tariffs on steel and aluminum imported from Europe, Mexico and Canada.

Stocks have wobbled in the last few months as investors worried that tariffs and other barriers to trade would reduce economic growth and corporate profits. But Wall Street has treated the tough talk and proposed tariffs mostly as a negotiating tactic. Kristina Hooper, chief global market strategist at Invesco, said the United States crossed an important line last week when, after months of talks, its aluminum and steel import duties went into effect.

''It appears that will lead to some significant retaliatory tariffs,'' she said. ''Markets seem to treat it as if it's just rhetoric and it's just a bargaining tool, and my view is that that is foolhardy.''

The **S**.**&P**. **500** climbed 12.25 points, or 0.5 percent, to 2,746.87. The **Dow Jonesindustrial average** rose 178.48 points, or 0.7 percent, to 24,813.69. The **Nasdaq composite** gained 52.13 points, or 0.7 percent, to 7,606.46.

The Russell 2000 gained 5.39 points, or 0.3 percent, to 1,653.37.

Apple climbed 0.8 percent to $191.83, and the chip maker Advanced Micro Devices added 3.1 percent, to close at $14.85. Microsoft rose 0.9 percent to $101.67 after the company said it would pay $7.5 billion in stock for GitHub. About 27 million software developers around the world use GitHub to share code and build businesses.

Among retailers, Target gained 4.9 percent to $76.35 and Walmart picked up 2.9 percent to $85.42 after it agreed to sell an 80 percent stake in its struggling Brazilian business.

Facebook shares fell 0.4 percent to $193.28 after The New York Times reported that the social network struck data-sharing deals with at least 60 device makers, including Apple and Amazon, as it tried to get its app onto smartphones, and that the device companies were able to gain access to users' friends without their explicit consent.

Facebook said it maintained tight control over the technology and was not aware of any abuse by the companies that it teamed with. The stock skidded in March after allegations that a firm linked to the Trump campaign improperly harvested the personal data of millions of Facebook users, but Wall Street's concerns about the stock gradually faded and Facebook closed at a new high on Friday.

Energy companies traded lower as benchmark American crude dropped 1.6 percent to $64.75 a barrel in New York. Brent crude, used to price international oils, fell 2 percent to $75.29 a barrel in London.

Wholesale gasoline lost 1 percent to $2.12 a gallon. Heating oil slid 1.1 percent to $2.15 a gallon. Natural gas fell 1.1 percent to $2.93 per 1,000 cubic feet.

**Bond prices** dipped as the yield on the **10**-**year Treasury** note rose to 2.94 percent from 2.90 percent late Friday.

Gold fell $2.70 to $1,292.10 an ounce, silver fell to $16.43 an ounce, and copper jumped to $3.13 a pound.

The dollar rose to 109.82 yen from 109.56 yen. The euro rose to $1.1695 from $1.1653.

In Germany, the DAX rose 0.4 percent, and the French CAC 40 added 0.1 percent. In London, the FTSE 100 climbed 0.5 percent. The benchmark Nikkei 225 in Japan climbed 1.4 percent, and in Hong Kong, the Hang Seng rallied 1.7 percent.

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

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

Document NYTF000020180605ee650005k

 

The New York Times

OP-ED COLUMNIST
OpEd; SECT
**Why a Trade War With China Isn't 'Easy to Win' (Slightly Wonkish)**

By PAUL KRUGMAN
907 words
5 June 2018
The New York Times
NYTF
The New York Times on the Web
English


At this point, it's looking as if Trump's tough talk on China trade will turn out to be as empty as his tough talk on, say drug prices. Faced with the prospect of actually going toe to toe with powerful interests -- as opposed to doing harm to desperate immigrants, poor people who need health care, etc. -- Trump keeps backing down, ignominiously. But what happened to all that bluster about trade wars being ''good, and easy to win''?

I can think of four reasons Trump ran away:

1. Someone actually managed to explain the economics to him, and he realized that the trade war wasn't actually a good idea

2. He just lost his nerve, as he consistently does when confronting people who aren't powerless

3. He was bribed, with China offering sweet deals to his personal business interests

4. The Chinese also have some kind of tape

It tells you a lot about the state of American leadership that (1) is highly implausible, while 2-4 all seem quite possible. And this means that what I'm about to say may amount to overthinking the issue.

Still, I think there are some good reasons why even a crude mercantilist looking at the China situation might conclude that this particular trade war isn't nearly as easy to win as it might appear at first glance.

On the surface, the U.S. would appear to very much have the upper hand in any trade confrontation. After all, last year we only sold China $130 billion in goods, while they sent us $500 billion. So they have a lot more to lose, right?

Well, it's not as clear as all that. You need to look at the realities of modern trade. And when you do, the story looks quite different. It goes without saying that Trump is wrong about the economics of bilateral trade imbalances. But he's also wrong about the political economy, which isn't the same thing.

Admittedly, the political economy of trade is kind of mercantilist, because it's driven largely by producer interests. Long ago I wrote about ''GATT-think'', the view of trade, enshrined in international negotiations, that sees exports as good, imports as bad, so that letting someone sell us stuff, even if it's better and cheaper than we could make ourselves, is a ''concession.'' The genius of the postwar international trading system was that it harnessed this special-interest reality, using the ambitions of exporters to offset the protectionism of those competing with imports, to engineer a kind of enlightened mercantilism that vastly expanded world trade.

But GATT-think needs some modifying in an era of complex international value chains. Even if producer interests predominate over consumer interests, what producers should care about is not how much they export but how much income they derive from exporting. That is, they should care about ''income at risk,'' not ''exports at risk.'' These numbers can be very different, and in the case of US-China trade they are.

Consider the over-used but still illuminating case of the iPhone, which is assembled in China out of components made all over the world. That final assembly accounts for only 3 to 6 percent of the manufacturing cost, but the whole price of an iPhone shipped from China to America is counted as a Chinese export. If I'm doing the numbers right, this means that China exports around $17 billion worth of iPhones to America each year, but Chinese producers account for only around $1 billion of that.

Smartphones are an extreme case, but there's a lot of that sort of thing. The income China derives from exports to the US is probably not much more than half the face value of those exports. There's a bit of the same thing going on in the other direction -- US aircraft, for example, contain quite a few foreign components -- but it's much less extreme.

What this means, in turn, is that even if we only focus on narrow producer interests -- even if we take a mercantilist view -- US-China trade is a lot less lopsided than it seems, which in turn means that the pain from a trade war would be a lot less asymmetric than the raw trade numbers might suggest.

But wait, there's more. Apple sells those iPhones for considerably more than it costs to import them from China. This adds a whole additional chunk of US income at risk to the bilateral trade relationship. True, given time Apple could probably find other suppliers -- but not right away, and not easily. Foxconn wasn't built in a day.

Overall, it's still probably true that China would be hurt worse than the U.S. in an all-out trade war. But the pain wouldn't be at all one-sided. And it's possible, I guess, that Trump dimly recognized that reality, or at least noticed that his beloved **stock market** really doesn't like trade war talk.

Actually, I'm still betting that it's a bribe and/or some kind of tape. But worth talking through, anyway.

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THE WALL STREET JOURNAL.

Economy

**Derby's Take: Dudley Played Key Role In Getting Fed To Think About Financial Conditions; One of the greatest lessons Federal Reserve officials extracted from the financial crisis was the role of financial conditions in affecting the economy and the potency of monetary policy.**

By Michael S. Derby
442 words
4 June 2018
05:40 AM
The Wall Street Journal Online
WSJO
English


One of the greatest lessons Federal Reserve officials extracted from the financial crisis was the role of financial conditions in affecting the economy and the potency of monetary policy.

William Dudley, who retires in mid-June as New York Fed president, played a starring role in that evolution.

Over the past several years, he has been perhaps the strongest advocate for the idea that market conditions—for example, Treasury yields, **stock market** levels, the U.S. dollar's strength, the spread between yields on corporate and government debt—should be taken into account by Fed officials deciding how aggressively to raise interest rates.

Mr. Dudley has said that--all else being equal—if the Fed is seeking to tighten financial conditions and they remain loose (i.e. low Treasury yields, high stock prices, weak dollar, narrow spreads), it might want to raise its own benchmark rate more aggressively.

Conversely, if the markets appear to be following the Fed's lead, policy makers can stick to their gradual pace of rate moves. The market will have done some of their work for them.

Fed officials have long been aware of the linkages between monetary policy and financial conditions, but only in recent years explicitly considered them as an important factor in their policy decisions.

Mr. Dudley's role in driving this shift isn't surprising. In 2000, when he was Goldman Sachs' chief economist, he co-wrote research entitled "The Goldman Sachs Financial Conditions Index: The Right Tool for a New Monetary Policy Regime."

In a number of his speeches since the Fed started raising rates in late 2015, Mr. Dudley has discussed how financial conditions influence his thinking about monetary policy.

But in a twist, financial conditions don't appear to have been much of a factor in the Fed's pace of raising rates in recent years.

By and large, financial conditions have remained easy despite six quarter-percentage point Fed rate increases since December 2015. But that's been OK because central bank officials haven't yet wanted rates to curb economic growth.

The bigger test comes when the Fed's benchmark rate reaches a neutral level that neither stimulates nor slows growth and officials have to debate what comes next. Financial conditions then could play a key role in their decisions.

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

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WSJ PRO CENTRAL BANKING

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THE WALL STREET JOURNAL.
U.S. EDITION

**The Economic Risks of Trump's Premature Tweeting**

By Jason Furman
737 words
4 June 2018
The Wall Street Journal
J
A17
English


The May jobs numbers, released Friday morning, were excellent. If I were still working in the White House, I would have received the numbers around 1 p.m. Eastern Time Thursday. I'd have closed the door of my office and let out a private exclamation of delight. A few hours later I'd have briefed President Obama. He too would have been excited, as he was the 13 times I briefed him on a number that came in even higher than the 223,000 jobs added last month. We then would have waited until 9:30 a.m. Friday to share our enthusiasm, and the news, with the public.

If -- 69 minutes before the numbers were set to be released -- President Obama had signaled via Twitter that they were going to be great, I'd have been shocked. After collecting myself, I'd have marched over to the Oval Office, with the encouragement of the White House chief of staff, and said:

"Mr. President, early release of economic data is a major mistake. You should make it clear that you understand this and that it will not happen again. **Financial markets** reacted to your tweet with unusual **volatility** for the early morning hours, and investors feverishly speculated whether you had conveyed confidential information. In the future, investors will be looking even more closely, hoping to infer from your tweets what inside information you have about the state of the economy. This will increase economic instability and uncertainty at a time when there is already too much."

I hope President Trump's staff said something similar after he tweeted, at 7:21 a.m. Friday: "Looking forward to seeing the employment numbers at 8:30 this morning."

One of America's strengths is the integrity of the economic data informing decisions made by policy makers, businesses, shareholders and citizens. That integrity is compromised if data aren't released by independent statistical agencies in a transparent, nonpolitical manner. A Nixon-era Office of Management and Budget directive prevents executive-branch officials from commenting on data until one hour after their public release.

This rule can be annoying for White House officials. I remember at least one time when Air Force One was scheduled to depart at 9:15 a.m. and we had to hold the plane so the president could make an on-camera statement 15 minutes later. A president, of course, should share his perspective on economic data, but it's crucial that the nonpartisan Bureau of Labor Statistics be the first to release them.

A president who signals advance news about economic data invites concern that he also is bragging about the good news privately, which could result in the information's exploitation for enormous private gain by some well-connected investor. When this happens, it's always at the expense of less-connected members of the public. That's why the distribution of advanced job data is strictly limited to the Treasury secretary, the chairman of the Federal Reserve, the director of the National Economic Council and the president. Even the labor secretary -- whose department produces the numbers -- doesn't get the jobs data a day in advance.

The president -- any president -- doesn't need to hype the jobs numbers before they're released. People will always pay attention to good economic news. In fact, crowing about the numbers ahead of time could end up distracting attention from the story told by the data.

Early in my tenure as chairman of the Council of Economic Advisers, a staffer accidentally shared an analysis of some minor data with unauthorized government officials a few minutes before their scheduled release. In response I instituted a wholesale review of our data-handling procedures, worked closely with independent statistical agencies to ensure their adequacy, developed more-stringent procedures for handling market-sensitive data, and scared my staff into thinking that if anything like this ever happened again, the agencies might withhold the data from the White House.

The same thing may happen if Mr. Trump keeps tweeting about the data prematurely.

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Mr. Furman, a professor of practice at the Harvard Kennedy School, was chairman of the White House Council of Economic Advisers, 2013-17.

(see related letters: "Letters to the Editor: Does Premature Expostulation Hurt Anyone?" -- WSJ June 11, 2018)



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THE WALL STREET JOURNAL.
U.S. EDITION

**Investing In Funds & ETFs: A Monthly Analysis --- 5 Funds That Reopened: Should You Invest?**

By Dan Weil
952 words
4 June 2018
The Wall Street Journal
J
R1
English


Corrections & Amplifications

A Journal Report article Monday about closed funds that have reopened to investors used long-term mutual-fund performance data for periods ended May 22. The article didn't specify the end date of the data.

(WSJ June 9, 2018)

(END)

At some fine restaurants, popularity can surge to the point that average Joes can't get a table. Eventually the reputation begins to slip, making reservations available again.

Mutual funds aren't too different. Many top-name funds have closed to new investors after a strong performance brought a flood of new money, making the funds harder to manage. But then disappointing performance can cause investors to flee, allowing the funds to reopen.

"When funds close to new investors, 95% of the time it's because of liquidity constraints on the portfolio," says Russel Kinnel, director of manager research for Morningstar. Funds can get so big that they either have to buy shares of more companies or buy stocks with a higher market capitalization than they intended, he says. "When you own small-cap stocks or high-yield bonds, or even mid- and large-cap stocks, there are liquidity constraints where bigger trades hurt performance."

On the flip side, when assets are flying out the door, funds will reopen. A loss of assets can make it hard for a fund to establish as many positions as it would like. In addition, less assets mean less fees for the fund managers.

The closing and reopening of funds, however, can be a contrarian indicator. "When a fund closes, it can be a good time to get out quick," says Tim Ghriskey, chief investment strategist at Inverness Counsel, a money-management firm in New York. "That happens following a run-up, and after a fund closes, that style of investing may go out of favor." When the fund reopens, he says, that style may come back into favor amid strong performance.

Morningstar has identified five top mutual funds among those that closed and then reopened over the past 15 years: Artisan Global Value (symbol ARTGX), Dodge & Cox Stock (DODGX), Fidelity Low-Priced Stock (FLPSX), FMI International (FMIJX) and Royce Special Equity (RYSEX).

Here's a closer look:

Artisan Global Value Fund

Closed Feb. 17, 2014, reopened Oct. 1, 2015

This offering boasts a 9.25% annualized return over the past 10 years, compared with 1.96% for the MSCI ACWI Ex-USA index in dollar terms, according to Morningstar.

The fund likes firms with financial strength and shareholder-oriented management, and avoids those with poor accounting and governance, Morningstar analyst Andrew Daniels says in a report.

Chris Litchfield, a retired hedge-fund manager who is a private investor in Greenwich, Conn., says investors should be aware that the fund has a 60% weighting in financial services and tech stocks. "That's a relatively large bet," he says.

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Dodge & Cox Stock Fund

Closed Jan. 16, 2004, reopened Feb. 4, 2008

The fund has outperformed the **S&P 500** for the past five and 15 years, but not for 10.

Mr. Daniels writes that its strong investment team and "rock-bottom fees" give him confidence in its ability to outperform long term. "It favors firms with good management, competitive advantages, and solid growth potential," he writes.

The fund's managers sell only reluctantly, which has contributed to its long-term success but has made for high **volatility**, Mr. Daniels notes.

Mick Heyman, an independent financial adviser in San Diego, says several of his clients have owned the fund and been content. But given its heavy value tilt, he says you'll need another fund focused on growth stocks to be diversified.

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Fidelity Low-Priced Stock Fund

Closed Dec. 31, 2003, reopened Dec. 17, 2008

This fund has generated an annualized 10-year return of 9.15%, compared with 8.97% for the **S&P 500**.

"The fund's eclectic portfolio reinforces its place as a standout," writes Morningstar analyst Katie Rushkewicz Reichart, who praises manager Joel Tillinghast for posting "tremendous long-term results despite a huge asset base." Mr. Tillinghast combs the globe for stocks trading under $35, with a low-turnover, value-oriented approach.

Its size -- more than 800 stocks comprising $38 billion -- can be a hindrance, experts say. "Great performance comes from being selective," Mr. Ghriskey says. "It's tough when you have that much in assets."

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FMI International Fund

Closed April 30, 2017, reopened April 2, 2018

This fund, which began in 2011, generated an annualized return of 7.91% over the past five years, compared with 5.13% for the MSCI ACWI Ex USA index in dollar terms.

Fidelity analyst Alec Lucas likes FMI's "capacity-conscious and cautious, but effective, strategy." The fund uses a risk-averse, value-oriented approach, and most stocks come from outside the U.S.

Ethan Anderson, a financial adviser at Rehmann Financial in Grand Rapids, Mich., is critical of the fund's policy of hedging foreign-currency exposure. "I feel if you're looking for diversification, you don't need to pay extra for hedging," he says.

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Royce Special Equity Fund

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The managers, writes Morningstar's Tony Thomas, "look for businesses with low debt, high returns on invested capital, and growing free cash flow. Top prospects must generate earnings at a rate exceeding a conservative cost of capital."

The fund may work well for patient investors concerned that the market is overheated, says Tom Fredrickson, a New York financial planner.

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



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THE WALL STREET JOURNAL.

Markets

**What I Did at Summer Camp: Stocks and Personal Finance! Investing-focused camps continue to expand, as young adults still struggle with money issues**

By Jane Hodges
1,552 words
3 June 2018
10:10 PM
The Wall Street Journal Online
WSJO
English


At some summer camps, the boys and girls will be skipping the campfire songs and three-legged races. Instead, they'll be learning how to invest in stocks or launch startups.

With names like Camp Millionaire, MoolahU, Financial Investors Club of America and WhizBizKids, the camps are designed to appeal to parents who want to teach their children the basics of money management, or support budding Warren Buffetts and Steve Jobses who show an interest in business. The programs teach everything from basic financial concepts, like active and passive income, to skills such as building money through investments, or launching a startup.

The camps are a compelling summer activity at a time when financial literacy among young adults has foundered and schools lack time and budget to incorporate financial education into the mix. The Council for Economic Education reported in its 2018 Survey of the States that only 16 states require any economics course work during K-12, and only seven states require students to take courses in personal finance.

Citing concern about the lack of financial education available to students and curriculum training available to teachers, the JumpStart Coalition, a financial-literacy advocacy group, in April launched an initiative to expand financial education in schools by 25% between now and 2025.

But for some parents, there's no need to wait for schools. They want to put summer vacations to good use. While devoting part of a summer to profit-and-loss statements isn't every child's idea of fun, some campers say they're happy they did it.

"I liked that even at a young age, we were able to become entrepreneurs," says Ben Aubin, a 15-year-old in Dallas who attended MoolahU at age 8, and since age 12 has worked with the program as an apprentice. "You didn't need permission."

After his first entrepreneurial adventure at camp at 8—developing a duct-tape bracelet with his team, then selling it and coming home with a small check—he says he became a "startups" guy. This spring, on his own, he launched his third app, a tool to help young drivers with learner's permits track their hours behind the wheel.

Money matters

Whether children learn about money through camps or in their classrooms, they need to gain a foundation early, says Lisa Cochran, a senior wealth strategist at PNC Wealth Management in Cleveland who has volunteered in high schools as an instructor for Junior Achievement, an independent nonprofit that offers business and financial education for children.

"Kids absolutely can learn financial literacy in schools as well as in camps," Ms. Cochran says. "Both [approaches] will continue gaining traction. In the past 10 years, there's been a greater awareness of the need for this education."

Youngsters may need help with one area of financial literacy in particular: investing. PNC research among millennials shows they may have learned more about saving than about expanding their wealth via investing, given that their parents were raising them during the 2007-09 recession.

"Money is not an elective in life," says Elisabeth Donati, whose company Creative Wealth International launched Camp Millionaire day camps for youngsters ages 10 to 17 in Santa Barbara, Calif., in 2002.

"Money camps tend to appeal to two types of parents," she says. "Wealthy parents who don't feel they alone can teach their children about finances, and parents who wish they were more financially successful and don't want their children to have to learn the hard way like they did."

Camps' pricing varies. MoolahU is $315 a week (more for food); while 10-day CampBizSmart can run to more than $4,000 with tuition, room and board at Santa Clara University. Camp Millionaire can go as low as $229—but that's only for two days.

Business attire

Most money camps are offered in a day-camp format, although Financial Investors Club's overnight camps can span multiple weeks; it's $2,499 for a week including room and board. (The club's camps also require that students wear suits or business attire to college-campus seminars and on field trips to businesses and city financial districts.)

At MoolahU, a startups camp that launched in Austin, Texas, in 2005 and will soon debut in Singapore, young business minds ages 7 to 17 collaborate for a week to develop a business idea and prototype product, and get a loan from a "barracuda tank" of local business experts—who include established business minds like Gary Hoover of Hoovers.com and entrepreneurs such as the founders of an energy-drink company called Brain Juice.

From there, they sell their product, repay their borrowed money with interest and take turns occupying different leadership roles in their business. They also review a daily profit-and-loss statement and change course according to their findings.

Valerie Granoff's son Aaron attended camp at age 10 in 2017. Before the family knew about the camp, Aaron was asking "us to explain the **stock market** to him and how investing works," says Ms. Granoff, a psychotherapist in Austin. "I saw the camp online and thought, 'This is right up his alley.' "

Ms. Granoff says Aaron's biggest gains from the camp may have been in learning leadership skills—business modeling, course correcting, accountability and public speaking.

Outside of camp, Ms. Granoff and her husband have helped their son open a custodial brokerage account so he could invest in a stock of his choice. Initially, he chose Target, then switched to Netflix—up 130% since his purchase.

"I told him not to get used to returns like that," she says.

Dave Guzman's son, Josh, attended MoolahU at 12 and 13 years old, in 2011 and 2012. While Josh, now 19, wasn't necessarily motivated by strong financial interest—he wanted to earn his Boy Scout entrepreneurship badge—he wound up taking away business lessons such as stopping and pausing before making purchases, planning long term and managing his time.

"You couldn't have paid him to talk when he went off to the camp," Mr. Guzman says. "But when it was done he was more vocal and had more confidence."

(The camp also has courses for parents, such as one on dealing with children who constantly demand money. And local businesspeople like Mr. Guzman, owner of an employee-wellness company, are brought in to help teach as entrepreneur mentors; he says the emphasis is on letting children draw information out of mentors as they need it, versus lecturing down to them.)

MoolahU's 3,000 alums can stay engaged beyond summer through a school-year apprentice program that offers monthly meetings where participants can compare notes on personal investment gains and losses, develop networking skills, and take a deep dive into corporate financial statements with an eye toward understanding valuation, investment metrics and ratios, and operating trends in a given sector of the U.S. economy.

"The basic reason I started our program was to teach my daughter that money isn't just for spending," says Gayle Reaume, MoolahU's founder and CEO. "When children are at school they learn the right answers they need to know to succeed, but when they create something new in an environment like this, they also learn from experimenting and from their failures and mistakes."

Ways to make money

 

At Camp Millionaire, Ms. Donati says, youngsters learn that money can be earned through a salaried job where time is traded for money, or "made" by creating a business or income stream that delivers returns or passive income (rent, licensing fees, royalties, franchising fees, etc.). Because Camp Millionaire's curriculum is sold to different individuals or organizations running the camps, exact camp formats may vary somewhat, but almost all feature a walking-distance field trip to local businesses.

"In camp, kids earn paychecks, pay taxes, learn to budget, how debt works, and, eventually, how to invest," says Kasey Hill, a former Merrill Lynch employee turned high-school teacher. For three years, Ms. Hill has led Camp Millionaire sessions for children ages 10 to 14 in Edmonds, Wash., an affluent waterfront village north of Seattle.

Coming into camp, most children didn't understand stocks or bonds, she says. Some thought the investments were a form of real estate.

With the help of a local Edward Jones office and their parents' custodial oversight, campers bought their own mutual funds—and they each now receive statements about their investment performance. The Edward Jones representative agreed to keep a continuing dialogue with interested campers about their investments.

"These kids are now coming in to see him with plastic bags of cash, and asking him how Boeing and Microsoft are doing," Ms. Hill says.

Ms. Hodges is a writer in Seattle. She can be reached at reports@wsj.com.

Journal Report

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* 5 Funds That Have Reopened: Should You Invest?

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* U.S.-Stock Funds Rose 2.9% in May

* What Matters for Index Funds: Tax Skill

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THE WALL STREET JOURNAL.

Markets

**5 Mutual Funds That Have Reopened: Should You Invest in Them? The closing and reopening of funds, however, can be a contrarian indicator**

By Dan Weil
1,011 words
3 June 2018
10:09 PM
The Wall Street Journal Online
WSJO
English


Corrections & Amplifications

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THE WALL STREET JOURNAL.

Markets

**Twitter to Join S&P 500; S&P Dow Jones Indices names Twitter to replace Monsanto on index as it adds Netflix to S&P 100**

By Aisha Al-Muslim
257 words
4 June 2018
06:36 PM
The Wall Street Journal Online
WSJO
English


Corrections & Amplifications

S&P's methodology requires that the sum of a company's four most recent quarters' of earnings be positive, as should the most recent quarter. An earlier version of this article misstated the guidelines. (June 5, 2018)

Twitter Inc. is slated to join the **S&P 500** before trading opens on Thursday, according to S&P Dow Jones Indices, as the social-media platform replaces Monsanto Co. on the widely watched index.

Twitter is supplanting Monsanto as the agricultural company is due to be acquired by German pharmaceutical and chemical conglomerate Bayer AG in a deal expected to be completed soon. The move also means mutual and exchange-traded funds that track the **S&P 500** will have to add Twitter to their holdings.

S&P said Netflix Inc. will replace Monsanto on the S&P 100. Netflix, founded in 1997, closed Monday trading with a market capitalization of $157.28 billion.

S&P's methodology requires that the sum of a company's four most recent quarters' of earnings be positive, as should the most recent quarter.

Twitter in April reported its second consecutive profitable quarter after 16 straight quarters of losses. Twitter has said it expects to be profitable for the full year.

Shares of Twitter rose 3.6% to $39.24 in after-hours trading, while Netflix shares rose 0.2% to $362.69.

Separately Regenxbio Inc., a clinical-stage biotechnology company, will replace General Cable Corp. in the S&P SmallCap 600. Prysmian Group is acquiring General Cable in a deal expected to be completed soon.

Write to Aisha Al-Muslim at aisha.al-muslim@wsj.com

Document WSJO000020180604ee64004s9

THE WALL STREET JOURNAL.

Markets

**Nasdaq Composite Climbs to Record; Gains mark a dramatic turnaround after tech stocks stumbled in the spring**

By Akane Otani
647 words
4 June 2018
07:46 PM
The Wall Street Journal Online
WSJO
English


The **Nasdaq Composite** set a record for the first time in nearly three months Monday, the latest sign that investors questioning the global growth story are funneling their money into shares of fast-growing companies.

The index, which heavily weights shares of technology companies, rose 0.7% to 7606.46, topping its March 12 record of 7588.32 and snapping its longest streak without a fresh high since 2016.

The broader **S&P 500** and **Dow Jones Industrial Average** have yet to eclipse their Jan. 26 highs.

The gains mark a dramatic turnaround after investors dumped shares of everything from software makers to biotechnology firms in the spring. Technology stocks stumbled in March, hurt by blowback over Facebook Inc.'s handling of its users' information and fears that increasing scrutiny from regulators and politicians could hurt profitability at a number of U.S. tech giants.

Yet in recent months, middling economic data from the eurozone and fears of tighter trade policies have dented investors' confidence in the global growth story that had driven stocks to records last year.

That has helped drum up fresh enthusiasm for technology companies, which many investors believe can reliably increase earnings even as the global economy looks like it could be losing momentum. The **Nasdaq** is up 10% for the year, with heavyweights like Amazon.com Inc., Apple Inc. and Microsoft Corp. all up by double-digit percentages. All three set records Monday.

In comparison, the **S&P 500** has risen 2.7% this year, while the **Dow Jones Industrial Average** has advanced 0.4%.

In another sign of tech's dominance, S&P Dow Jones Indices said after markets closed Monday that it would add Twitter Inc. to the **S&P 500** on Thursday, while Netflix Inc. will join the S&P 100.

"Investors are going back to the growth engines of their portfolios at a time when many other catalysts seem to be fading," said Michael Arone, chief investment strategist at State Street Global Advisors. "In an environment where U.S. GDP growth is a little over 2%, I'm willing to pay a small premium [for tech] for nearly double the sales growth."

Technology firms are expected to post solid earnings growth throughout the year, something that analysts say has helped boost the sector's allure. Earnings for **S&P 500** technology companies are expected to increase 23% in the second quarter from the year-earlier period, according to FactSet, outpacing the broader **S&P 500**'s estimated earnings growth rate of 19%.

The promise of strong earnings has helped investors look past issues like Facebook's data practices and user privacy, said Dan Morgan, senior portfolio manager at Synovus Trust.

Another factor that has helped technology stocks rebound: bets among investors that technology firms are less likely to be hurt by ongoing negotiations over U.S. trade policies, Mr. Morgan said.

Some say investors should remain cautious, noting the potential for tighter regulations hasn't fully dissipated.

"The interesting thing is when we look at regulation in general—it happened in the banks, financials, it happened in utilities—it seems to engulf the prominent sectors, sectors that have a defining role in everyday life," said Quincy Krosby, chief market strategist at Prudential Financial. "Right now they may have bought some time, but this is not an issue that is going to evaporate."

Yet for now, many investors appear to be looking past regulation risks.

"Investors seem to be sticking to what's worked with them—they're going back to the growth engines of their portfolios," Mr. Arone said.

Danielle Chemtob and Allison Prang contributed to this article.

Write to Akane Otani at akane.otani@wsj.com

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* U.S. Stocks Rise, Unfazed by Trade Worries

Document WSJO000020180604ee6400461

THE WALL STREET JOURNAL.

Markets

**Banks Sharply Raise Oil-Price Forecast on Geopolitical Risks; U.S. sanctions on Iran and supply disruptions in Venezuela contribute to the eighth consecutive monthly increase in a survey of banks**

By Christopher Alessi
700 words
4 June 2018
06:30 AM
The Wall Street Journal Online
WSJO
English


LONDON—Banks raised their forecasts for **oil prices** for the eighth month in a row in May, amid escalating geopolitical risks to supply in Iran and Venezuela.

Those concerns have already pushed the price of Brent crude, the global oil benchmark, above $80 a barrel last month for the first time since November 2014.

Brent is now expected to average over $70 a barrel this year, according to a poll of 12 investment banks surveyed by The Wall Street Journal. West Texas Intermediate, the U.S. standard, should average nearly $66 a barrel, the poll showed. Both estimates are a roughly $6 increase on the forecast from April's survey.

The significantly revised estimates come as crude prices have risen to more than 3 ½-year highs in May. On Friday, Brent was trading down 0.53% at $77.20 a barrel, while WTI was down 1.10%, at $66.30 a barrel.

"The key driver here is basically supply risk—supply risks from Iran and Venezuela," said Harry Tchilinguirian, global head of commodity markets strategy at BNP Paribas, one of the banks surveyed by the Journal.

President Donald Trump's decision in early May to pull the U.S. out of a 2015 international agreement to curb Iran's nuclear activities sent **oil prices** up more than 6%. The decision paves the way for the reimposition of U.S. economic sanctions that are expected to hinder the Islamic Republic's oil industry. Analysts have estimated that anywhere from 400,000 to 1 million barrels a day of Iran's 2.4 million daily barrels of crude exports could be at risk.

At the same time, prices have also been bolstered by fears of escalating supply disruptions in Venezuela. The reelection of Venezuela's far-left president, Nicolás Maduro, on May 20 in a race deemed illegitimate by the opposition and many foreign governments prompted the U.S. to broaden a ban on Americans buying Venezuelan debt. The move is expected to make it more difficult for the Latin American country to obtain much needed financing for its already-ailing oil industry.

Venezuelan oil output fell by 50,000 barrels a day in April, month-on-month, to stand at 1.42 million barrels a day, according to the International Energy Agency's latest monthly oil market report. Production is likely to continue to fall to around 1.2 million barrels a day this year, according to Warren Patterson, commodities strategist at ING Bank.

Still, there are risks to the rosy picture for **oil prices**.

Mr. Patterson said geopolitical effects may have receded somewhat over the past week, amid signs that Saudi Arabia and Russia are preparing to ramp up crude production after more than a year of holding back output.

"The geopolitical risk is still there but the market is becoming a little more complacent toward it with the potential increase of production," he said.

The Organization of the Petroleum Exporting Countries—of which Saudi Arabia is the de facto head—and 10 producers outside the cartel have been cutting crude production by roughly 1.8 million barrels a day since the start of 2017. The deal is set to expire at the end of this year, but Saudi Arabia and Russia have indicated they could move to wind it down sooner than planned at the oil cartel's next official gathering in Vienna later this month.

Surging U.S. shale oil production is also expected to put a lid on prices, analysts widely say.

"Price direction will likely be driven by the supply side, with U.S. sanctions on Iran, further Venezuelan declines, Permian Basin pipeline constraints and OPEC's decision on relaxing production the key variables," said Jason Gammel, an oil analyst at Jefferies.

Looking ahead to 2019, banks see **oil prices** coming down slightly, with Brent at around $68 a barrel and WTI at $64 a barrel, according to the Journal survey.

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

Document WSJO000020180604ee64000xe

 

THE WALL STREET JOURNAL.

U.S. Markets
Markets

**U.S. Stocks Rise, Unfazed by Trade Worries; Tech heavyweights help buoy markets; Nasdaq closes at new record**

By Riva Gold and Gunjan Banerji
720 words
4 June 2018
04:45 PM
The Wall Street Journal Online
WSJO
English


U.S. stocks marched higher to start the week as the latest sign of a strong domestic economy overshadowed jitters over the back-and-forth on trade.

Concerns about the pace of growth world-wide have emerged lately, but an upbeat U.S. employment report Friday spurred a bounce in stocks as worries about Italian politics began to dim.

Strong corporate earnings reports, followed by solid jobs data, have supported a move higher for U.S. stock prices, analysts said. Moreover, the latest employment report evinced tame inflation, which had helped roil markets in February.

The tech-heavy **Nasdaq Composite** closed at a fresh record. Markets in Europe, Hong Kong and Japan climbed as well.

"There's an underlying strength that we're still seeing come through in the U.S. economy in particular," said Holly MacDonald, chief investment strategist at Bessemer Trust. "That's an important offset to a lot of the negative headline risks," she said, referring to the trade friction, European politics and geopolitical issues more broadly that have driven market swings in recent weeks.

The **Dow Jones Industrial Average** rose 178.48 points, or 0.7%, to 24813.69. The **S&P 500** gained 12.25 points, 0.4%, to 2746.87. The **Nasdaq Composite** added 52.13 points, or 0.7%, to 7606.46, topping its previous all-time high from March 12.

Technology heavyweights helped buoy stocks, extending a spell of confidence in one of this year's most **volatile** groups. Shares of Amazon.com, Apple, Microsoft and Adobe Systems closed at new highs on Monday.

Corporate news drove tech moves as well. Microsoft rose 88 cents, or 0.9%, to $101.67 after it said it will acquire software development platformGitHub. Apple shares jumped as investors tracked its annual conference for developers.

Strong earnings and economic data are "overwhelming the unknown risks of the trade negotiations," said Michael Baele, senior portfolio manager at U.S. Bank Private Wealth Management. "The market continues to bask in the afterglow of Friday's superb employment report."

Over the weekend, the Trump administration showed no sign of backing down from restrictive tariffs in the face of pushback from allies and China.

Finance officials from the Group of Seven leading nations issued a public rebuke of Washington's new steel and aluminum tariffs on Saturday expressing "unanimous concern and disappointment."

Beijing separately said it wouldn't abide by any agreement to buy more U.S. products without assurances that the U.S. wouldn't go ahead with plans to hit it with tariffs on Chinese imports.

The yield on the 10-year U.S. Treasury note rose for the second consecutive session, rising to 2.939% Monday from 2.895% Friday, pushing **bond prices** down.

U.S. government debt sold off Friday after the U.S. employment report as investors bet the Federal Reserve would pick up the pace on interest-rate increases. Investors see a roughly 41% chance of three or more U.S. rate increases, compared with 34% on Friday, according to Fed-fund futures tracked by CME Group, used to bet on central bank policy.

Political worries about Italy and Spain continued to stabilize Monday.

The Stoxx Europe 600 rose 0.3% Monday, while markets in Hong Kong and Japan closed 1.7% and 1.4% higher, respectively.

Spain's IBEX 35 index closed 1.2% higher, recovering much of last week's decline as Prime Minister Mariano Rajoy was ousted by opposition Spanish lawmakers amid a corruption scandal.

Hong Kong's Hang Seng was led higher by shares of health-care and technology companies and banks. Japan's Nikkei Stock Average benefited from a modest decline in the yen over the past two sessions. Shares of auto companies rebounded, while lenders responded to higher bond yields with gains.

Daniel Kruger contributed to this article.

Write to Riva Gold at riva.gold@wsj.com and Gunjan Banerji at Gunjan.Banerji@wsj.com

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THE WALL STREET JOURNAL.

Markets
**U.S. Government Bond Yields Climb As Stocks Gain; Futures show odds increasing Fed will raise rates three more times this year**

By Daniel Kruger
333 words
4 June 2018
05:13 PM
The Wall Street Journal Online
WSJO
English


U.S. government bond yields climbed with stocks Monday as investors' hopes for a strengthening economy outweighed concerns about recent trade tensions.

The yield on the benchmark U.S. **10**-**year Treasury** note rose for a second consecutive session to 2.939% from 2.895% Friday. The yield on the two-year Treasury note, which is more sensitive to expectations for Fed policy, rose to 2.51% from 2.472% Yields rise as **bond prices** fall.

Yields wrapped up their biggest two-day climb since February, buoyed by last week's jobs report, which provided an upbeat assessment of the U.S. labor market, along with cooling investor concerns about turmoil in Europe following the election of antiestablishment parties in Italy.

The rise in yields was supported by an increase in the odds the Fed will raise interest rates three more times this year.

Fed funds futures, used by investors to bet on central bank policy, late Monday showed the probability of three more rate rises climbed to roughly 41% from 34% Friday.

They fell as low as 13% last week after the minutes from the Fed's May meeting reflected officials' preference for a gradual path of rate increases, and as the Italian elections fueled concerns about the stability of the European Union.

Fed officials had forecast three increases for the year at their meetings in December and in March. They raised rates in March and are widely expected to raise them again at their next meeting, which concludes June 13.

"Equities are strong— there's a follow through on stocks" that is leading some investors to sell bonds, said George Goncalves, head of interest-rates strategy in the U.S. at Nomura Securities International. The Fed has "no reason" to worry about raising rates next week, he said.

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

Document WSJO000020180604ee64002gx

THE WALL STREET JOURNAL.

Best of the Web
Opinion

**Trump, Obama and the Jobs Report; Former Obama officials and the press are suddenly deeply concerned about economic data disclosures.**

By James Freeman
1,427 words
4 June 2018
02:35 PM
The Wall Street Journal Online
WSJO
English


The outrage over President Trump's Friday jobs tweet may be fake, but there's a real issue here over the way our government should communicate.

Here's the story: On Friday, more than an hour before the release of the Department of Labor's monthly jobs report, the President tweeted, "Looking forward to seeing the employment numbers at 8:30 this morning."

The report turned out to include plenty of good news—more job creation than expected and an encouraging increase in wages, particularly for those on the lower rungs of the economic ladder. But the President's vague early tweet sparked an intense reaction from former aides to his predecessor and from many members of the press corps.

"Trump Touts Jobs Report Before Official Release, Breaking Protocol," announced a New York Times headline on Friday. It was just one of many reports focusing on the President's early tweet.

President Trump "has proven he cannot be trusted with the information," proclaimed former Obama White House aide Aaron Sojourner.

Jason Furman, who served as Chairman of the Council of Economic Advisers during President Obama's second term, addresses the issue with an op-ed in the Journal:

If—69 minutes before the numbers were set to be released—President Obama had signaled via Twitter that they were going to be great, I'd have been shocked.

A president who signals advance news about economic data invites concern that he also is bragging about the good news privately, which could result in the information's exploitation for enormous private gain by some well-connected investor.

The handling of such data certainly requires great care. But it's not clear just how shocking such an event would have been during Mr. Obama's second term. Mr. Furman has raised—without evidence—the possibility that Mr. Trump might privately share non-public jobs data. What about Mr. Obama?

The Journal reported on Friday:

While disclosures of economic data are rare, they aren't unprecedented. In February 2009, with the U.S. economy in crisis and Congress debating a stimulus package, then-Senate majority leader Harry Reid (D., Nev.) heard from Mr. Obama around midnight that the following morning's jobs report numbers "would be somewhat scary," he told the Senate after the report's release. The Labor Department reported a loss of 598,000 jobs in January.

And Harry Reid was not alone. The Congressional Record for February 6, 2009 includes the relevant passage from Mr. Reid's remarks on the Senate floor about his talk with then-President Obama:

Mr. REID. Mr. President, around midnight last night I was in conversation with the President and some others, and the President indicated that this morning, unemployment numbers would come out, and they would be somewhat scary. That was absolutely true. At 8:30 this morning, the unemployment numbers were reported for January, and they hit a 16-year high of 7.6 percent.

Who were the others? And did they talk to anyone else about the jobs report between the time they heard about it from Mr. Obama and its formal release?

As it happens Mr. Obama had been discussing the forthcoming release long before midnight. On February 5, 2009, the Associated Press reported that in remarks to employees at the Department of Energy, Mr. Obama said, "Tomorrow, we're expecting another dismal jobs report on top of the 2.6 million jobs that we lost last year. We've lost 500,000 jobs each month for the last two months."

The same day, a Congressional Quarterly transcript quotes Mr. Obama offering similar remarks at a gathering of the House Democratic Caucus.

Five months later in July of 2009, according to a speech transcript from Congressional Quarterly, Mr. Obama said that "when we receive our monthly jobs report next week, it's likely to show that we're still continuing to lose far too many jobs."

But many people who worked for Mr. Obama seem unaware of this history. Former Obama Director of the National Economic Council and current Harvard professor Larry Summersresponded to Mr. Trump's Friday tweet with a tweet of his own:

If during the Clinton or Obama Administrations there had been a statement from @POTUS or anyone senior official in the morning before the Employment Report it would have been a major scandal—with all sorts of investigations following on.

On Sunday he added:

It's extraordinary that premature Presidential observations on sensitive data releases are barely newsworthy in 2018, given all else that @POTUS is doing.

They were certainly not considered newsworthy in 2010 to most of the press corps. A June 2010 Journal editorial called "Obama's 'Whisper Number'" was among the very few to question the practice. The Journal editorial board asked:

Did President Obama contribute to last Friday's **stock market** dive with a head fake to investors? Last Wednesday, in a speech at Pittsburgh's Carnegie Mellon University, the President said, "After losing an average of 750,000 jobs a month during the winter of last year, we've now added jobs for five of the last six months, and we expect to see strong job growth in Friday's report."

Perhaps assuming that the President might have known something about the Department of Labor's monthly unemployment report scheduled for two days later, investors immediately bid up U.S. stocks. On Wednesday, the Dow gained almost 226 points.

But while the report released on Friday, June 2, 2010 did show big job gains, that was only because the government was hiring temporary census workers. Private-sector hiring was anemic, as it was for much of the Obama presidency.

Once the numbers were officially released, the disappointing private hiring in the U.S. and bad news from Europe helped drive the Dow down 3.2% that day. The Journal's editorial board noted:

The episode has left more than a few longtime Wall Street hands scratching their heads. Did the President know the unemployment numbers in advance but somehow interpret them as good news?...

We certainly hope, for the sake of the integrity of the White House and American **financial markets**, that Mr. Obama wasn't dropping hints with nonpublic, market-moving information. It seems more likely that he simply made a prediction that proved to be off target; perhaps he was merely engaging in some old-fashioned spin.

It's nice to see so many reporters and even some former Obama staffers now suddenly interested in this topic. It's an important one. Government data releases and the manner in which they occur should be transparent, credible and predictable.

And they should be designed to reach the broadest possible audience, so that neither insiders nor sophisticated market watchers enjoy an advantage over the average investor.

In April of 2013 the federal government made an announcement related to the way publicly-traded companies report their financial results:

 

The Securities and Exchange Commission today issued a report that makes clear that companies can use social media outlets like Facebook and Twitter to announce key information in compliance with Regulation Fair Disclosure (Regulation FD) so long as investors have been alerted about which social media will be used to disseminate such information...

Regulation FD requires companies to distribute material information in a manner reasonably designed to get that information out to the general public broadly and non-exclusively. It is intended to ensure that all investors have the ability to gain access to material information at the same time.

Like all regulatory schemes, this one has its problems, but on the principle of providing the broadest possible distribution to the public, it suggests there may be room for improvement in sharing the monthly jobs numbers from the federal Bureau of Labor Statistics.

BLS Press Officer Gary Steinberg reports in an email, "In April 2018, there were 79,137 email subscriptions to The Employment Situation news release." The BLS Twitter account has about 50,000 followers.

President Trump's Twitter account has about 52 million.

Perhaps the President should consider sharing more information via Twitter—as long as he lets us know when to expect it.

***

Bottom Stories of the Day will return on Tuesday.

***

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(Lisa Rossi helps compile Best of the Web.)

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THE WALL STREET JOURNAL.

World

**Trade Tensions Intensify as Allies Rebuke U.S., Testing Trump Ahead of G-7; Trump administration shows no sign of backing down from tariffs in face of pushback**

By Josh Zumbrun in Whistler, British Columbia, and Bob Davis in Washington
1,254 words
3 June 2018
08:02 PM
The Wall Street Journal Online
WSJO
English


The Trump administration showed no sign of backing down from restrictive tariffs in the face of pushback from allies and China over the weekend, isolating the U.S. and complicating the president's meeting later this week with leaders of Washington's staunchest partners.

Top finance officials from the Group of Seven leading nations met in Canada, where the non-U.S. members issued a public rebuke of Washington's new steel and aluminum tariffs. Those six—the host Canada, along with France, Germany, Italy, Japan and the U.K.—adopted a formal statement Saturday expressing their "unanimous concern and disappointment."

The following day in China, Beijing said it wouldn't abide by any agreement to buy more U.S. products without assurances that the U.S. wouldn't go ahead with plans to hit it with tariffs on $50 billion on Chinese imports.

But even with retaliatory moves under way in China as well as in Europe and North America, there was no sign over the weekend that the administration was wary of inching closer to a trade war.

"When you're almost 800 Billion Dollars a year down on Trade, you can't lose a Trade War!" President Donald Trumpsaid in a Twitter message Saturday. "The U.S. has been ripped off by other countries for years on Trade, time to get smart!"

The disputes come just as the Trump administration has its arms full of difficult negotiating tasks. Most immediately, Mr. Trump himself now must face leaders of countries who have termed his policies extreme, unwise and in some cases illegal when he arrives in Quebec for a summit of G-7 heads of state scheduled for Friday and Saturday.

That will be followed by a planned summit with North Korea in Singapore just three days later, on June 12. Mr. Trump also is facing European opposition to his push to rewrite the 2015 Iran nuclear deal, and is planning for a summit with Russian President Vladimir Putin.

Still, the push to impose tariffs is causing the most immediate friction. The White House has said the tariffs imposed last week—25% on steel and 10% on aluminum from Canada, Mexico and the European Union—were designed to address the role steel imports have played in undermining the viability of the U.S. steel industry, without which the country would have difficulty mobilizing for its defense.

The administration has signaled its intent to use a similar security argument to affix tariffs on cars from Germany and Japan, and industrial supplies from China.

In response to the tariffs, the administration absorbed one punch after another. Canadian Prime Minister Justin Trudeau called the U.S. move "frankly insulting and unacceptable" in a televised interview Sunday, while his foreign-affairs minister compared it to pre-Depression U.S. policies.

"We know that beggar-thy-neighbor policies don't work. That was the lesson of the 1920s and the 1930s," said the minister, Chrystia Freeland, on CNN. "And I really hope people will take some time to reflect on the lessons of history, and not go down that path again."

Mário Centeno, the Portuguese finance minister who participates at the G-7 by virtue of being president of the Eurogroup, the association of eurozone finance ministers, described the U.S. position within the G-7 in stark terms.

"We can say the U.S. went into the tariff issue alone and they remain alone around the table," said Mr. Centeno in an interview.

With U.S. lawmakers set to return from a Memorial Day break, many top Republicans such as Sen. Orrin Hatch, chairman of the Senate Finance Committee, are warning the administration to change course. In March, more than 100 congressional Republicans urged Mr. Trump in a letter to avoid tariffs.

The decision to impose tariffs contributed to **volatility** in global **financial markets** and led to predictions of potentially adverse economic impacts.

Economists warned that retaliation leading to increased trade barriers on the order of those that existed in the early 1990s could cost thousands of American jobs and even point the U.S. toward recession. Business groups said the number of jobs lost, in the worst case scenario, could climb into the millions.

As the weekend's dust was settling, Mr. Trump's top economic adviser, Lawrence Kudlow, played down the eruption. He said tariffs are necessary to close loopholes and "correct several decades of abuse" in global trade, telling Fox News that Mr. Trudeau, in particular, was overreacting to a "family feud."

"The president has a quiver of tools, and tariffs are part of that quiver," he told The Wall Street Journal.

The G-7 gathering was held for finance chiefs in advance of the summit of those countries' top leaders. The G-7, a club of industrialized nations formed around common interests, rarely issues such strong condemnation aimed at one of its members.

More unlikely is the fact that the target of the criticism is the U.S., which has done more than any other country to establish the free-trade principles upon which the global economy functions today.

"I do not ever recall an instance where the U.S. was singled out for rebuke," said Daniel Price, managing director of Rock Creek Global Advisors, who represented the George W. Bush administration for G-7, G-20 and Asia-Pacific Economic Cooperation summits. "Traditionally, the U.S. has been a driver of G-7 unity, and typically leads efforts to reach consensus. On trade, the U.S. has quite dramatically become a source of discord and division."

As the source of the consternation, Mr. Trump now must face G-7 leaders in five days' time. As he does, other countries are adopting a wary stance even if they have so far been spared by Mr. Trump.

"Trump is trying to get rid of bilateral trade deficits," said former U.S. Trade Representative Carla Hills, a Republican critic of the Trump administration's trade strategy. "He's lining up [trade disputes] one by one."

Ms. Hills said she thinks the administration has taken the wrong strategy on China by fighting first with allies over steel and aluminum, especially given that U.S. complaints about China mirrored those of Washington's friends.

"It would have been more effective if we joined with six of our closest allies and acted together," she said. "Instead, we went after our allies and acted unilaterally" on China.

Treasury Secretary Steven Mnuchin, who attended the G-7 finance officials' meeting, denied the U.S. was left outside the consensus on all matters and insisted Washington is playing a central role. "I don't think in any way the U.S. is abandoning its leadership in the global economy," Mr. Mnuchin said.

"These are our most important allies," Mr. Mnuchin said. "We've had longstanding relationships with all these countries that are very important across all different aspects."

Lingling Wei in Beijing and Dave Michaels and Harriet Torry in Washington contributed to this article.

Write to Josh Zumbrun at Josh.Zumbrun@wsj.com and Bob Davis at bob.davis@wsj.com

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THE WALL STREET JOURNAL.
U.S. EDITION

**Investing In Funds & ETFs: A Monthly Analysis --- Fundamentals of Investing: What Matters for an Index Fund: Tax Skill --- Yes, low fees are important, but the true test can be the after-tax return**

By Derek Horstmeyer
768 words
4 June 2018
The Wall Street Journal
J
R5
English


Many investors believe that the best way to choose among similar index-tracking funds for long-term investment is to pick the one with the lowest fees. But there's a better way: Compare the funds' after-tax returns.

Looking at the 25 most popular **S&P 500 index** funds, measured by assets under management, it's clear that the tax-management practices of the funds are more important to their long-run performance than their fees are.

It might seem that because index funds are meant to be passively managed, there shouldn't be much distinction among them when it comes to portfolio turnover and other tax-management issues. While the buying and selling of securities in an active manager's portfolio will surely affect the taxes paid on short-term and long-term capital gains -- and affect long-term performance -- how could tax issues be of significant concern for funds whose managers are simply tasked with following an index?

At first glance, they aren't. When the 25 most popular **S&P 500 index** funds are ranked by their pretax performance over 10 years, the difference in average annual returns between the fund at the 75th percentile of performance and the fund at the 25th percentile of performance is 0.115 percentage point. That nearly matches the difference between those funds in operating expenses -- passed on to investors as fees -- of 0.10 percentage point (0.06% for the fund at the 75th percentile of performance versus 0.16% for the fund at the 25th percentile).

In other words, for pretax returns, all that appears to matter when deciding which index fund to go with is the fees that you will be paying the fund manager.

However, a much bigger gap emerges when the funds are ranked by after-tax returns. After adjusting for the management fees paid at each fund, the difference in the average annual returns over 10 years of the fund at the 75th percentile of posttax returns and the fund at the 25th percentile is 0.26 percentage point. This is a pure measure of the performance difference due to tax-management practices, since operating expenses and other fees have been negated in this calculation.

For the most part, differences in the after-tax performance of the 25 **S&P 500 index** funds were persistent over the entire decade. A fund that performed in the top half of the group for after-tax returns during the first five years of the sample period had a 72% chance of being in the top half of the group in the latter five years of the period.

It seems that some funds are just better at managing tax issues than others.

What drives after-tax differences in returns among **S&P 500 index** funds? The biggest challenge to fund managers is largely out of their control: inflows and outflows of money from the funds. The greater the **volatility** in these flows, the more the fund manager has to rebalance -- to keep the fund in line with the index it tracks -- by buying or selling securities, which leads to a greater tax bill.

While the overall trend of inflows and outflows depends largely on the movements of the **stock market** -- the greatest outflows, for instance, occur during times of market panics -- the effect differs for each fund. And fund managers can distinguish themselves by how effectively they tackle this challenge. For instance, it's possible for an index-fund manager who is attuned to the tax considerations of the fund's portfolio to harvest some losses along the way -- selling stocks that have fallen, to realize a tax-deductible loss -- to reduce the future tax bill while minimizing the effect on the fund's ability to track its benchmark index, says Rich Powers, head of ETF product management at Vanguard.

Other drivers of differences in after-tax returns are how managers handle rebalancing their portfolios around market-moving events like mergers and acquisitions, or around the occasional changes in the **S&P 500 index**.

In the end, the numbers make it clear: Taxes matter in passive investing, just as they do for actively managed funds.

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THE WALL STREET JOURNAL.
U.S. EDITION

**Global Growth Loses Steam --- Shift dims outlook for stocks as some investors turn to safer assets such as bonds**

By Michael Wursthorn, Daniel Kruger and Ben Eisen
1,002 words
4 June 2018
The Wall Street Journal
J
A1
English


Stock indexes that rode accelerating global growth to fresh records in January are now hamstrung by a moderate but unmistakable slowdown in economic momentum in Europe and elsewhere.

Business activity globally has slowed from multiyear highs, according to the JPMorgan Chase and IHS Markit global purchasing managers index. The global manufacturing index fell to 53.1 in May, a nine-month low. The services index for April, which will be updated Tuesday for May, slid to 53.8 from 54.8 two months earlier.

Meantime, business activity in the eurozone fell to its lowest level in a year and a half last month.

The Baltic Dry Index, a measure of shipping costs that investors often look to as a proxy for global demand, has fallen 22% from a recent peak last month. Copper prices, another gauge of economic activity, have been declining. Among developed economies, data on the whole have been missing economists' expectations by a wide margin, according to Citigroup's index on economic surprises, after easily exceeding expectations for most of 2017.

Hardly anyone expects a recession any time soon. A rise this year in energy prices is being attributed to a combination of solid demand, reduced stockpiles and producer discipline. Growth in the U.S. and some other major economies continues apace, with the U.S. nonfarm payrolls report Friday showing a gain of 223,000 jobs and an unemployment rate of 3.8%, the lowest since 2000.

The upbeat jobs report helped steady the **Dow Jones Industrial Average**, but not enough to recoup all of its losses from earlier in the week. The blue-chip index on Friday added 219.37 points, or 0.9%, to 24635.21.

But with government bond yields near record lows in many countries and the median **S&P 500** stock trading at price/earnings multiples seen only rarely in the past century, many investors are buying government bonds and other lower-risk assets to brace against what is expected to be a **volatile** market year. It is a safe way to proceed, they say, when much of the expected upside from the global economic expansion for 2018 appears significantly less likely to be realized.

Investors' risk-off approach has been a hurdle for the **stock market**. The Dow industrials have struggled to push past 25000 since March, a feat the index has done just once before falling below the mark again, even as the Federal Reserve has stuck to its well-choreographed pace of interest-rate increases.

In the U.K., the path is less certain as the Bank of England weighs whether to forgo further planned rises in its key interest rate or even ease policy depending on how its departure from the European Union proceeds. Meanwhile, trade issues and a **volatile** currency could force the European Central Bank to alter its own fiscal-tightening plans.

"We generally think markets are in for a series of rude awakenings," said Joachim Fels, a global economic adviser at the money-management firm Pacific Investment Management Co. The firm recently said it expects to see more market **volatility**.

Developments in some of Europe's biggest economies, such as labor strikes in Germany and France in recent months and a harsh cold-weather spell across Northern Europe, are also undercutting the global growth narrative. The threat of more-restrictive trade policy has added further uncertainty to the outlook. And recent data have underscored how the economy remains sluggish, even years into the economic cycle.

Politics has also caused concern. Investors fled stocks and piled into supersafe U.S. Treasurys on Tuesday after a brief stretch of turmoil over the formation of a government in Italy that included a euroskeptic candidate for economy minister. The episode refocused investors on the weaknesses in Italy's economy as European policy makers attempt to pull back on postcrisis monetary policies.

Italy's divisions have dimmed much of the investor enthusiasm around last year's election of the business-friendly French president Emmanuel Macron, whose victory eased fears that the Continent would be riven by anti-Europe populist movements.

Fears of a trade war sharpened after the Trump administration imposed tariffs on steel and aluminum imports from Canada, Mexico and the EU. All three outlined their own tariffs in response, such as proposing levies on U.S. food and agricultural products.

Barclays economists estimated that steel tariffs plus the toll from retaliation could reduce global growth by 0.1 percentage point. That, plus tariffs on $150 billion of Chinese goods and any retaliation, could hit growth by 0.9 point.

The tariffs "reduce business confidence," which makes it more difficult for companies to make plans and execute on them, said Gary Pollack, head of fixed-income trading at Deutsche Bank Private Wealth Management. "That has ramifications for the real economy."

The strengthening dollar is also exposing weaknesses in the developing world. Currencies are tumbling in countries with large trade deficits and large positions of short-term dollar debt. Turkey and Argentina felt compelled to jack up interest rates in May. Indonesia also lifted rates on Wednesday to stop its currency slide.

The U.S. is again looking like the star performer. That was reinforced Friday by data that showed the U.S. continued to rapidly add jobs. The U.S. factory sector picked up in May, according to data from the Institute for Supply Management.

U.S. corporate profits soared in the first quarter of the year, a result of the fiscal stimulus companies received after the passage of a $1.5 trillion tax overhaul in December. Profits for companies in the **S&P 500** jumped 26% in the first three months of 2018 from the same period a year earlier, according to Thomson Reuters I/B/E/S.

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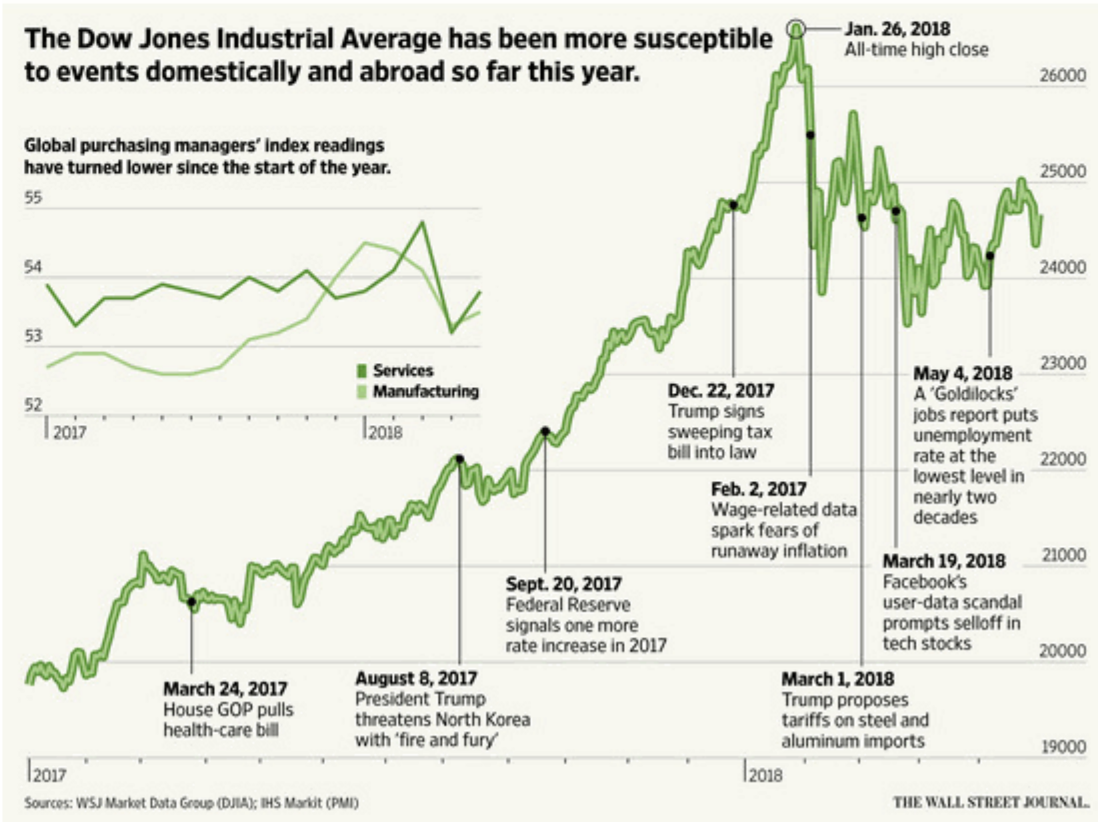
Nick Timiraos contributed to this article.






Document J000000020180604ee640002a

THE WALL STREET JOURNAL.

Heard on the Street
Markets
**The Next Threat to Oil Prices: China; It has been a bad week or two for oil investors, but most concerns have centered on supply. Next up: demand.**

By Nathaniel Taplin
397 words
4 June 2018
02:32 AM
The Wall Street Journal Online
WSJO
English


**Oil prices** have had a spectacular run, rising by nearly 50% since last July, thanks to a potent mix of OPEC discipline, geopolitical risk and strong demand. The rally has moderated in the past couple of weeks, thanks to concerns OPEC's resolve on supply cuts is weakening just as U.S. oil production is showing renewed signs of vigor. What investors may not appreciate is that demand growth is also poised to slow in the world's largest net oil importer last year, China.

Chinese petroleum demand still appears fine. Growth bounced back to a healthy 9% on the year in April, twice the rate in March. April's petroleum burn was flattered, however, by exceptionally weak demand in the same month the year before—and probably by the official end of the government's winter pollution controls, which had given a

temporary shot in the arm to Chinese industry this spring.

Unfortunately the overall trend for the industrial and transport sectors—which together account for about 70% of Chinese oil demand—looks shaky. Growth rates in freight traffic and electricity production both peaked in the third quarter of 2017, excluding January and February figures distorted by the Lunar New Year holiday. Freight tonnage growth is now running at barely half the 11%-12% rate it reached in mid-2017. Weakening global trade, driven partly by the slowdown in Europe, will put further downward pressure on those numbers. Given that background, sustaining Chinese oil-demand growth at close to 10% in the second half of 2018 looks unlikely.

The weakening yuan, which makes oil more expensive for Chinese importers, isn't likely to help. In yuan terms, Brent crude is up 20% in the past three months alone. But Chinese benchmark diesel prices are only up 12%. Unless China's state-set benchmarks are adjusted higher in the weeks ahead, Chinese refiners may start to feel the squeeze and cut back on crude purchases.

Oil-supply growth—Venezuela and Iran aside—is suddenly looking a bit bubblier. If Chinese demand goes pop, **oil prices** and shares could be in for a rocky second half.

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

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WSJ PRO CENTRAL BANKING

Economy

**Jobs Report Keeps June Increase on Track | Kashkari: Expected Stronger Wage Growth | Dollar Adds Stress to Emerging Market Currencies | Derby's Take: Dudley Played Key Role In Getting Fed To Think About Financial Conditions; The Wall Street Journal's central banking newsletter for Monday, June 4, 2018**

1,576 words
4 June 2018
05:33 AM
WSJ Pro Central Banking
RSTPROCB
English


Derby's Take: Dudley Played Key Role In Getting Fed To Think About Financial Conditions

Jobs Report Keeps Fed's June Rate Increase on Track

Kashkari: Would Have Expected Stronger Wage Growth

Dollar's Strength Adds Stress to Emerging Market Currencies

Dudley Played Key Role In Getting Fed To Think About Financial Conditions

One of the greatest lessons Federal Reserve officials extracted from the financial crisis was the role of financial conditions in affecting the economy and the potency of monetary policy.

William Dudley, who retires in mid-June as New York Fed president, played a starring role in that evolution.

Over the past several years, he has been perhaps the strongest advocate for the idea that market conditions—for example, Treasury yields, **stock market** levels, the U.S. dollar's strength, the spread between yields on corporate and government debt—should be taken into account by Fed officials deciding how aggressively to raise interest rates.

Mr. Dudley has said that--all else being equal—if the Fed is seeking to tighten financial conditions and they remain loose (i.e. low Treasury yields, high stock prices, weak dollar, narrow spreads), it might want to raise its own benchmark rate more aggressively.

Conversely, if the markets appear to be following the Fed's lead, policy makers can stick to their gradual pace of rate moves. The market will have done some of their work for them.

Fed officials have long been aware of the linkages between monetary policy and financial conditions, but only in recent years explicitly considered them as an important factor in their policy decisions.

Mr. Dudley's role in driving this shift isn't surprising. In 2000, when he was Goldman Sachs' chief economist, he co-wrote research entitled "The Goldman Sachs Financial Conditions Index: The Right Tool for a New Monetary Policy Regime."

In a number of his speeches since the Fed started raising rates in late 2015, Mr. Dudley has discussed how financial conditions influence his thinking about monetary policy.

But in a twist, financial conditions don't appear to have been much of a factor in the Fed's pace of raising rates in recent years.

By and large, financial conditions have remained easy despite six quarter-percentage point Fed rate increases since December 2015. But that's been OK because central bank officials haven't yet wanted rates to curb economic growth.

The bigger test comes when the Fed's benchmark rate reaches a neutral level that neither stimulates nor slows growth and officials have to debate what comes next. Financial conditions then could play a key role in their decisions.

Key Developments Around the World

Jobs Report Keeps Fed's June Rate Increase on Track

The May employment report keeps the Federal Reserve firmly on track to raise short-term interest rates at its June meeting and provides new fuel for officials' debate over how much more to lift them this year. Fed officials raised rates in March and were then equally divided over whether they would likely lift them a total of three or four times this year. The latest signs of a robust job market will strengthen the hands of officials who favor four rate moves in 2018. Officials will update their projections for the rate path at their meeting June 12-13.

Trump Tweeted About Employment Report Before Release

Unemployment Rate Falls to 18-Year Low

May's Jobs Report in Numbers

Kashkari: Would Have Expected Stronger Wage Growth

Minneapolis Fed President Neel Kashkari said the jobs report shows wages are starting to rise but not as strongly as he had expected given the tight labor market and low unemployment rate. "It's slowly picking up," Mr. Kashkari told an audience in Minneapolis. "We would have expected stronger wage growth given how the unemployment rate has fallen."

WSJ Pro Transcript: Audience Q&A With Federal Reserve Board Governor Lael Brainard

Federal Reserve Board governor Lael Brainard took audience questions following her remarks at the Forecaster's Club of New York on Thursday, May 31, 2018. She discussed the U.S. economy, financial stability, the path of interest rates and other topics. Here is a transcript of the exchange, lightly edited for length and clarity.

Elizabeth Warren Maintains a Hard Line on Big Banks

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. Here we spotlight U.S. Senator Elizabeth Warren.

Clozel's Take: How the Fed Could Help Spur Fintech Investment

The Office of the Comptroller of the Currency and Federal Deposit Insurance Corp. are seen as the gatekeepers for fintech firms seeking to enter banking. But the Federal Reserve could also help by easing a major obstacle for the fintech world: how it defines ownership under the Bank Holding Company Act.

Dollar's Strength Adds Stress to Emerging Market Currencies

A surging dollar is pressuring emerging market countries to support their currencies by halting rate cuts or even tightening monetary policy, adding to investor concerns about growing stresses on their economies. Indonesia's central bank raised rates on Wednesday, its second increase after lifting rates for the first time in four years earlier in May. Turkey's monetary authority last month raised rates by 300 basis points to arrest a sharp drop in its currency, while the plummeting Argentine peso forced that country's central bank to raise rates to 40%—among the highest in the world.

A Vote to Upend Banking as We Know It

A decade after the collapse of Lehman Brothers, the world is still debating the causes of the financial crisis—down to the meaning of money itself.In buttoned-down Switzerland, that debate is taking the form of a nationwide referendum set for June 10. Voters are being asked to consider fundamental questions rooted in the crisis: what is money; who creates it; and how safe is it? And they'll have a chance to blow up one of the foundational features of global finance: the ability of banks to create money with just a few keystrokes.

MONDAY

1 p.m. EDT

BOE's Silvana Tenreyo speaks

TUESDAY

12:30 a.m. EDT

Reserve Bank of Australia releases policy statement

6 a.m. EDT

BOE's Jon Cunliffe speaks

10 a.m. EDT

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

NBER Paper Explores Measuring Inflation in a World of Ecommerce

Austan Goolsbee and Peter Klenow explore whether online pricing has a rising impact on the overall consumer-price index in a National Bureau of Economic Research paper. Using Adobe Analytics data on online transactions from 2014 to 2017, the researchers estimate that online inflation was about 1 percentage point lower than in the CPI for the same categories.

Rising Wages, Trade Tensions Are Nasty Brew for Business

Wage growth and tariff feuds mean companies will be hit with a double dose of higher costs, writes Justin Lahart for The Wall Street Journal. "The natural response from companies facing rising labor and materials costs is to raise prices, but that will be hard. Not only have Americans become conditioned to low prices, but the competitive landscape has been fundamentally altered by players such as Amazon.com that are willing to accept lower profit margins for the sake of more market share. Companies are at risk of being stuck between rising costs and a hard place," Mr. Lahart contends.

The Italian Saga Is Far From Over

The markets have given Italy's new leaders a baptism of fire and more tests loom, says Richard Barley in The Wall Street Journal. "Italy has stepped back from the brink, so markets have too. But the country, which faces some of the most entrenched economic problems in the eurozone, is now led by a novice government," Mr. Barley asserts.

Central Bankers Versus the Market: Who Would Lend Better?

If passed, a proposal that comes before Swiss voters on June 10 would give a committee of central bankers direct control of how much lending happens in an economy, writes Paul J. Davies for The Wall Street Journal. "The Swiss central bank is independent, like its equivalents in the U.S. and U.K.," he writes. "But if it has to decide when to turn credit off—which could directly cut growth and cost jobs—the temptation among politicians to step in would likely be too great to resist. There is no guarantee that politicians or central bankers make better decisions than the market."

Factory activity picked up in May after a two-month slowdown, the latest sign that U.S. economic growth rebounded in the second quarter.

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

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THE WALL STREET JOURNAL.

Markets

**U.S.-Stock Funds Survive the Swings, Gain 2.9% for Month; Volatility returns with Italian political crisis and rumblings of trade war**

By William Power
409 words
3 June 2018
10:05 PM
The Wall Street Journal Online
WSJO
English


Fund investors are getting a reminder about long-term investing: Don't overreact to daily price swings.

Markets were relatively calm for a good stretch, until recently. Volatility returned in reaction to Italy tumult and trade-war rumblings. Still, May was a positive month for the U.S. market and for funds. The average diversified U.S.-stock fund's total return for the month was 2.9%, according to Thomson Reuters Lipper data, to bring the year-to-date return to 2.8%.

International-stock funds were down 1.2%, making the year-to-date decline nearly 1%.

"People should not overreact to political happenings or one-day events. Leave that to traders, not investors," says Brent Schutte, chief investment strategist at Northwestern Mutual Wealth Management in Milwaukee. That said, he adds, "we are getting later in the [economic and market] cycle, so make sure you're not too far over your skis in terms of risk."

Mr. Schutte says he remains more focused on inflation than on political events. "I still think that for the next two years, the boogeyman of this market is inflation, and the Fed's reaction, if it spikes above where people currently have it priced, which is still low."

Bond funds were up overall in May. Funds focused on intermediate-maturity, investment-grade debt (the most common type of bond fund) advanced 0.6%, leaving them down 1.6% for 2018 so far.

Regulated funds number 114,000, ICI says

The 2018 Fact Book from the Investment Company Institute trade group is hot off the press. Total assets of world-wide regulated funds have more than doubled since 2008, surpassing $49 trillion. There are 114,000 regulated open-end funds. The U.S. remains the biggest fund market, with $22.1 trillion in assets (45% of the world total) in mutual funds and ETFs.

Mr. Power is a Wall Street Journal news editor in South Brunswick, N.J. Email him at william.power@wsj.com .

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* Should Retirees Start Traveling?

* What Matters for Index Funds: Tax Skill

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THE WALL STREET JOURNAL.

Markets

**How Effective Are Bond ETFs That Are Hedged Against Rising Rates? There are a few catches, but they can work better than a bond ladder in the short term**

By Mark Hulbert
1,053 words
3 June 2018
10:06 PM
The Wall Street Journal Online
WSJO
English


Even though bond-market yields are now high enough to be an attractive alternative to the **stock market**, many investors are avoiding the fixed-income market because of the near-certainty that interest rates are headed even higher.

But there is a way of capturing bonds' newly attractive yields without incurring the losses that would result from higher interest rates: interest-rate-hedged bond ETFs.

About a dozen such exchange-traded funds now exist, with a combined total of nearly $2 billion in assets under management. Several have been around long enough that there is enough data to judge them not just for their theoretical potential but also for their real-world performance.

The theory behind interest-rate-hedged bond ETFs isn't new, as it has been exploited in the hedge-fund world for some time. The idea is to invest in a basket of corporate bonds while simultaneously selling short a group of U.S. Treasurys with similar maturities. Any losses incurred by the corporate bonds as interest rates rise would, in theory at least, be offset by gains realized by selling the Treasurys short. An interest-rate-hedged bond ETF's expected return, therefore, should be its starting yield minus the cost of the hedge, which typically is about 50 basis points, or half a percentage point.

With and without

To judge how this works in practice, contrast iShares Interest Rate Hedged Corporate Bond ETF (LQDH) with the identical fund without the hedge—iShares iBoxx $ Investment Grade Corporate ETF (LQD). From July 8, 2016, when the **10**-**year Treasury** yield hit its low of 1.37%, to today, with that yield at 2.895%, the unhedged ETF has produced an annualized loss of 0.8%, in contrast to an annualized gain of 4.7% for the interest-rate-hedged version. Not bad for a bond fund during a nearly two-year period in which interest rates more than doubled.

There are several catches, however. One is that, by investing in an interest-rate-hedged bond fund, you are forfeiting any capital gain if interest rates were to decline. That's just the flip side of not losing money when rates rise, of course. And you may be more than willing to give up that possibility, given the widespread expectation that rates will rise.

Another catch is that a hedge created by shorting Treasurys, even though it should be largely effective, may still not precisely offset the risk of higher corporate interest rates, says Lawrence Tint, chairman of Quantal, a risk-management firm for institutional investors. Until 2000, Mr. Tint was U.S. CEO of Barclays Global Investors, the organization that created iShares. One way in which shorting Treasurys could falter as a hedge, according to Mr. Tint, would be if the spread between corporate bond yields and Treasury yields widened or narrowed. Another would be if the slope of the corporate yield curve—the yield difference between short-term and long-term debt—became steeper or shallower than the comparable curve for Treasurys. He adds, however, that he is aware of no other hedging technique that would do a better job than shorting Treasurys.

Regardless of the reason, the possibility of an imperfect hedge means that rate-hedged bond ETFs could perform worse than expected. Take LQDH's performance from June 2014 through July 2016, during which the **10**-**year Treasury**'s yield fell from 2.67% to 1.37%. The fund produced a loss of 1.3% annualized over this period, even though in theory its return should have come close to its initial yield of more than 3%. The unhedged version of this fund performed well during this two-year period of falling rates, producing a gain of 6.1% annualized.

Another catch

Yet another catch with interest-rate-hedged bond funds is that you still are incurring so-called credit risk: the possibility that the corporate bond issuers will run into financial trouble and be unable to pay back some or all of their bonds' principal. This is especially worth remembering in the case of those rate-hedged ETFs that invest in high-yield, or junk, bonds. These yields can look awfully attractive, especially if you hedge away the risk of rising rates. But if those rising rates accompany a slowdown in economic activity, you may end up regretting your decision to invest in such bonds.

There are no rate-hedged bond funds that invest in U.S. Treasurys, and there's a good reason for that. According to Finance 101, a bond's return is compensation for two kinds of risk—credit (or default) risk and maturity (or interest rate) risk. Since presumably there is no credit risk for a U.S. Treasury, its yield—at least in theory—will be a pure reflection of maturity risk. And if you hedge away that remaining risk, you will be left with the functional equivalent of a simple money-market fund.

Finally, it's worth keeping in mind that there are other ways of hedging interest-rate risk.

One popular way is the so-called bond ladder, consisting of a basket of bonds of successively longer maturities. When rates rise, you are able to reinvest the proceeds of any maturing bond in a new one with a higher yield. Provided you hold on to the bond ladder for several years, those higher yields of the newly bought bonds will almost completely make up for the capital losses incurred by previously owned ones, says Martin Leibowitz, managing director at Morgan Stanley. If so, then rate-hedged bond funds may be most appropriate for bond investors with a shorter-term horizon.

Mr. Hulbert is the founder of the Hulbert Financial Digest and a senior columnist for MarketWatch. He can be reached at reports@wsj.com.

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* U.S.-Stock Funds Rose 2.9% in May

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THE WALL STREET JOURNAL.

Markets
**Dollar's Strength Adds Stress to Emerging Market Currencies; Central banks react to U.S. currency by delaying rate cuts, tightening monetary policy**

By Ira Iosebashvili
891 words
3 June 2018
08:00 AM
The Wall Street Journal Online
WSJO
English


A surging dollar is pressuring emerging market countries to support their currencies by halting rate cuts or even tightening monetary policy, adding to investor concerns about growing stresses on their economies.

Indonesia's central bankraised rates on Wednesday, its second increase after lifting rates for the first time in four years earlier in May. Turkey's monetary authority last month raised rates by 300 basis points to arrest a sharp drop in its currency, while the plummeting Argentine peso forced that country's central bank to raise rates to 40%—among the highest in the world.

Other central banks halted a long series of cuts. Brazil's central bank last month left rates unchanged for the first time in 19 months, citing concerns about global economic turbulence weakening the local currency. The South African Reserve Bank, which cut its main policy rate in March, left it unchanged in May and warned of inflation risk and weaker economic growth.

Low **oil prices** and last year's weakness in the dollar had allowed many developing countries to cut rates and boost growth without having to worry about sparking higher inflation—often a consequence of loose monetary policy. Now, a 5.5% rally in the dollar from its February lows and a 14.8% rise in **oil prices** this year have forced central banks to rethink that strategy. So have yields on U.S. government bonds, which hit multiyear highs above 3% last month, making emerging markets a less attractive option to some investors.

A stronger U.S. dollar can dent emerging markets because it pushes down the value of their currencies, makes dollar-denominated debt more expensive to repay and increases the cost of commodities and other goods priced in dollars. That is causing anxiety at a time when investors are increasingly uncertain about the global growth picture.

"The world has turned for emerging markets," said Greg Anderson, global head of FX Strategy at BMO Capital Markets.

That shift comes as last year's extraordinary pickup in world-wide growth is already meeting a number of hurdles, from concerns over global trade to higher **oil prices**. Investors are closely watching emerging markets to see how they withstand the bouts of risk aversion these pressures have sparked. Many view the asset class, where investors typically take on greater risk for greater returns, as an important barometer of global economic health.

The MSCI Emerging Markets Index, which measures stock performance, rose 37.3% in 2017, as investors bet the eurozone would lead a revival in global expansion. Few analysts now believe that Europe will repeat its 2017 performance, and recent data has been uneven. The eurozone's annual rate of inflation hit the European Central Bank's target for the first time in a year in May, a hopeful sign. Yet, earlier last month, Germany—Europe's largest economy—reported that its growth had slowed sharply in the first quarter amid a drop in government spending and weak exports.

For now, rates in many emerging markets stand near historic lows and growth remains strong, Mr. Anderson said. But the combination of higher commodity prices, slowing expansion around the world and a stronger dollar can test economies that are either highly dependent on external financing or commodity imports, analysts said.

Turkey, which has borrowed heavily in dollars and has a comparatively high rate of growth in energy demand, is vulnerable on both counts, analysts at BNY Mellon said in a note to investors. President Recep Tayyip Erdogan has said he is opposed to high interest rates because they slow down investment.

Brazil's central bank said last month that the lack of a fiscal overhaul to address a gaping budget deficit, currently at 7% of gross domestic product, makes the country more vulnerable to **volatility**. Analysts polled by the central bank in May lowered their 2018 economic growth forecast to 2.5% from 2.9% in March.

Indonesia's new central bank governor last month signaled more rate increases to bolster the country's weakening rupiah, which is hovering near its lowest level since late 2015.

The recent **volatility** has spooked some investors. Emerging market stocks and bonds have notched some $20 billion in outflows since mid-April, data from the Institute of International Finance showed.

Meanwhile, the dollar has continued to march higher, fueled by political uncertainty in the eurozone and signs of steady economic growth in the U.S. The WSJ Dollar Index, which measures the U.S. currency against a basket of 16 others, on Friday rose 0.2%, to 87.24, on strong U.S. employment data.

Still, some investors believe emerging market fundamentals remain relatively robust and the recent selloff in the asset class has provided an opportunity to buy on the cheap.

"The policy response from emerging market authorities is picking up and supports sentiment," analysts at Morgan Stanley said in a note to clients. They expect Indonesia's rate increases to buoy the rupiah.

Gorky Urquieta, co-head of the emerging markets debt team at Neuberger Berman, said he has recently increased his position in dollar-denominated Argentine and Turkish debt.

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THE WALL STREET JOURNAL.

Markets

**Japan's Institutional Investors Seek Reliable Returns in Hedge Funds; Hedge funds such as Two Sigma Investments in New York and French-based CFM are staffing up in Tokyo to court new business**

By Kosaku Narioka
867 words
3 June 2018
07:00 AM
The Wall Street Journal Online
WSJO
English


TOKYO--Some of Japan's biggest investors are stepping up investments in hedge funds in their struggle against low rates and market turmoil triggered by political uncertainty.

Japan Post Insurance Co., which has about $700 billion in assets, started investing in hedge funds in the second half of last year and now has put in nearly $1 billion, with plans to add more, said Takayuki Haruna, head of credit and alternative investments. Taiyo Life Insurance Co. plans to put nearly $400 million into hedge funds, private equity and other nontraditional assets this fiscal year, more than the previous year.

"Relying on stocks for returns doesn't offer a sense of stability," said Masanori Nakamura, Taiyo's general manager of investment planning. "We are feeling risks."

With interest rates stuck at extraordinarily low levels in Japan, institutions such as insurance companies and pensions, with trillions of dollars collectively to invest, are under pressure to keep up returns for pensioners and policy holders. The 10-year government bond, long a staple for them, is earning barely more than zero interest under the Bank of Japan's easy-money policy.

Until recently, global stock prices were on a solid upward trend, offering the institutions an outlet for their money and leaving hedge funds with less opportunity to outperform. But stock performance has become choppier as many central banks outside Japan are withdrawing stimulus, and the prospect of U.S. tariffs and conflict on the Korean Peninsula has unnerved investors.

That explains the heightened interest in hedge funds, despite higher fees and the funds' spotty record of meeting their stated goal of making money under any market conditions.

A survey in April by Nomura Securities of banks, insurance firms and asset managers found that they typically expected 5% to 10% returns from hedge-fund investments, and 59% of them were satisfied with 2017 results. The survey found 46% of managers wanted to increase their allocation to hedge funds at their next portfolio change compared with 8% who wanted to cut.

Hedge-fund investments by Japanese investors are generally made outside Japan, where the opportunities are much broader. Hedge Fund Research Inc. estimates that funds focusing on Japan had $31 billion in assets as of the first quarter of this year, compared with the global industry total of $3.2 trillion.

Some foreign funds are stepping up their presence in Tokyo to court the new business. New York-based Two Sigma Investments LP opened an office in Tokyo earlier this year. French hedge fund CFM hired more Japanese staff over the past few years to sell to local investors, said Philippe Jordan, president of CFM International.

CFM wants eventually to get 10% of its funds or about $2 billion from Japanese investors, up from 1% to 2% currently, said Yuji Uchiyama, director of investor relations for Japan.

Japan Post Bank Co. has built a hedge-fund portfolio of several billion dollars over the past year-and-a-half, putting money in a wide range of strategies, said Naohide Une, the postal bank's senior managing director. "We are trying to access every opportunity for alpha," or returns above market benchmarks, Mr. Une said at the Alternative Investment Management Association forum in Tokyo on May 24.

Afterward, participants lined up to hand their business cards to Mr. Une, whose institution has nearly $2 trillion in assets.

The Japanese institutions generally don't identify which hedge funds are getting their money. Newcomers often invest through "funds of funds," which pool investments in multiple hedge funds.

Hedge funds, after significantly underperforming the U.S. and Japanese stock markets last year, have returned an average 0.2% so far this year through April, according to eVestment. That compared with the **S&P 500**'s decline of 1% and Nikkei Stock Average's drop of 1.3% during the same period.

Kazuyuki Shigemoto, general manager of investment planning at Dai-ichi Life Insurance Co., said Dai-ichi didn't see much upside for U.S. and Japanese stocks and planned to cut stock holdings this fiscal year. He said he was looking at hedge funds with several strategies that can work in declining markets, such as an event-driven strategy that bets on mergers.

Ken Hokugo, a 20-year industry veteran and director of hedge-fund investments at the Pension Fund Association, cautioned that Japanese asset owners too often take the word of advisers at face value and neglect their duty of vetting managers.

"There is no end to the vicious cycle of their being deceived by entertainment and falling for the smooth talk of useless gatekeepers or consultants when making investments," said Mr. Hokugo, whose association manages corporate pensions.

Nobuo Ohtsuka, head of investment consulting for Japan at the global consulting firm Mercer, said Japanese pension funds tend to regard hedge funds as alternatives to bonds and expect consistent positive returns, making them less patient with losses than U.S. and European counterparts who see hedge funds as an alternative to stocks.

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The New York Times

Business/Financial Desk; SECT
**New Milestones in Jobs Report Signal a Bustling Economy**

By NELSON D. SCHWARTZ
1,355 words
2 June 2018
The New York Times
NYTF
The New York Times on the Web
English


The American economy roared into overdrive last month, the Labor Department reported Friday, extending the longest streak of job growth on record and echoing other recent signs of strength.

The unemployment rate fell to 3.8 percent, its lowest level since the heady days of the dot-com boom in early 2000.

The net increase of 223,000 jobs reflected healthy gains in a broad range of industries, from manufacturing and transportation to health care and retailing.

The monthly numbers are traditionally kept under wraps by the Labor Department until their release, under rules meant to keep officials from influencing markets by discussing them publicly beforehand or immediately afterward. But in an unusual departure from protocol, President Trump hinted on Twitter more than an hour before the announcement that positive data was in store. ''Looking forward to seeing the employment numbers at 8:30 this morning,'' he tweeted.

It was the 92nd consecutive month of job creation. Most economists expect the momentum to continue, but a deeper drop in the unemployment rate or a big bump up in average hourly earnings would stoke fears of inflation and, in turn, a more hawkish Federal Reserve .

Fed policymakers are almost certain to raise interest rates when they meet this month, with at least one additional increase likely in the second half of 2018.

In May, average hourly earnings rose slightly, lifting the year-on-year gain to 2.7 percent. That's healthy enough to assuage fears that wages are stagnating but not so strong as to change the Fed's expected course.

''It was a stronger report than expected, but it wasn't so hot as to lead the Fed to believe it's behind the curve,'' said Michael Gapen , chief United States economist at Barclays, adding that the Fed's plans shouldn't worry **stock-market** bulls. ''It will keep the Fed on its gradual normalization path.''

Indeed, the **stock market** rallied in the wake of the news. The **Standard & Poor's 500-stockindex** finished the day up more than 1 percent. **Bond prices** dipped slightly as traders braced for the possibility of faster economic growth, lifting the yield on benchmark **10-year Treasury** bonds to 2.9 percent.

Mr. Gapen believes the unemployment rate could sink as low as 3 percent by the end of 2019. That would bring it to levels last seen in 1953, the height of the economic boom after World War II.

The only negative in the report was a slight drop in the share of Americans who are either working or looking for a job, paced by a 170,000 increase in the number of people not in the labor force. That, in turn, put downward pressure on the unemployment rate, which sank from 3.9 percent in April.

Still, the overall report painted a picture of a robust labor market by any measure. Unemployment among African-Americans fell to 5.9 percent from 6.6 percent in April, the lowest since the Labor Department began breaking out unemployment by race in 1972. Among college graduates, the unemployment rate is 2 percent, while it stands at 3.9 percent for workers with a high school diploma.

''It was certainly a good number, with some weather-related bounce-back in construction,'' said Diane Swonk , an economist with Grant Thornton.

## Wages, Wages, Wages

Ms. Swonk said the great conundrum in the current economic environment was why wage growth had been so modest. After all, a tighter labor market should prompt employers to raise salaries to keep the workers they have and lure new ones, right?

In theory, yes, but in practice it hasn't been working out that way -- and everything from slow productivity growth to the decline of unions and digital disruption has been cited as a reason.

"This is the last shoe to drop in the labor market," said Torsten Slok, chief international economist at Deutsche Bank. "It's just a matter of time before wages start going up more strongly, but there's frustration that it hasn't happened yet, even though unemployment is the lowest it has been in almost 18 years."

Besides the other potential causes, Mr. Slok has one of his own: While job switchers are being rewarded with raises, people who stay where they are not. Nearly 15 percent of what he calls "job stayers" saw no increase in wages in the past 12 months. At comparable periods in past economic cycles, that share was more like 10 percent.

"If you just stay around, you have less bargaining power," Mr. Slok said.

## Back From the Sidelines?

Sectors like construction, energy, transportation and hospitals have been especially tight, Ms. Swonk said, with some employers offering signing bonuses to lure workers. For evidence of the trend, she is watching teenage unemployment, which was 12.8 percent last month. In April, it stood at 12.9 percent, down from 14.7 percent in April 2017.

The teenage unemployment rate is significant because this cohort is a prime beneficiary of tight labor markets, Ms. Swonk explained. When there was more slack in the system, teenagers had to compete with 50-somethings for scarce jobs. Now, as the latter group finds higher-paying positions, young workers are filling the gap.

In some regions, workers have grown particularly scarce, forcing companies to pony up to compete for new hires. Union Pacific , the railroad giant, has long struggled to find mechanics, electricians and other skilled trade workers. But now it is having trouble filling even unskilled positions in some areas.

In Council Bluffs, Iowa, where the unemployment rate is under 3 percent, Union Pacific has started offering $20,000 in hiring incentives for train crews -- a job requiring no experience or education beyond a high school diploma. In some cases, the company isn't even waiting for students to graduate to start the recruiting process.

"We have communities where we work where the unemployment rate is a percent and a half," said Lance Fritz , Union Pacific's chairman and chief executive. "Finding people to do work there is mostly about getting them in high school and making them aware of the career path so that when they graduate and are in the work force, we get them."

## Turning to Trucking

In Wisconsin, workers like Chris Bogan are benefiting from a surprisingly tight labor market. When he was laid off last fall by Appleton Coated , a paper mill, he feared the worst. As his family's main breadwinner, Mr. Bogan was earning $28.66 per hour, a solidly middle-class wage in the Neenah area, which The New York Times reported on in November.

As it turned out, a shortage of workers in one of the industries recently cited in the Fed's Beige Book economic survey -- trucking -- came to Mr. Bogan's rescue. The day the mill shut, he signed up for a course at Fox Valley Technical College to get a license to drive trucks. And the day after he graduated, he landed a job at a local trucking company.

"I didn't wait around," Mr. Bogan said. "I graduated on a Thursday night and went to the trucking company office on Friday morning."

Trucking accounted for nearly 7,000 of the jobs gained nationwide last month. And the demand for workers that Mr. Bogan encountered is part of the larger economic picture in Wisconsin, which has one of the nation's lowest unemployment rates. The jobless rate there stands at 2.8 percent, down from 3.3 percent a year ago.

 

In fact, after the mill resumed production and Mr. Bogan got a call asking if he'd like to come back, he politely declined. Under a Teamsters union contract, Mr. Bogan's employer covers all of the cost of his health insurance, so he's essentially earning the same take-home pay as before.

"Things are going pretty well," he said. "I love it. Instead of just watching that machine turning, I'm outside, and it's different every day."

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WSJ PRO CENTRAL BANKING

Economy

**Unemployment Rate Falls to 18-Year Low; Solid Hiring in May; Nonfarm payrolls rose seasonally adjusted 223,000; unemployment rate at 3.8%**

By Eric Morath and Sarah Chaney
1,311 words
1 June 2018
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WASHINGTON—Americans traditionally left behind as jobs and wages grow—high-school dropouts, blacks and Latinos—are reaping the benefits of a tightening labor market, with an unemployment rate that hasn't been lower in nearly half a century.

The jobless rate in May ticked down to a seasonally adjusted 3.8%, the lowest since April 2000, the Labor Department said. The last time the rate was lower was in 1969.

At the same time, U.S. employers added 223,000 jobs last month, extending the longest continuous job expansion on record to 92 months. Average hourly earnings edged up 2.7% from a year earlier—and raises were even stronger for rank-and-file than managers.

"It's pretty hard to argue that the labor market is anything but right in the sweet spot," said Dan North, chief economist at business insurer Euler Hermes North America. "There is tremendous demand for labor right now."

And those gains are extending to all corners of the labor market. The unemployment rate for women, at 3.6% last month, was the lowest since 1953, when a far smaller share of women sought jobs. The jobless rate for workers older than 24 without a high-school diploma fell in May to 5.4%—near a record low. The jobless rates for blacks and Latinos are also near record lows.

Jackie Brunka dropped out of high school in 2010, and even though she later earned a GED, she felt employers looked down upon her lack of a traditional diploma.

She worked at a fast-food restaurant and two different gas stations between long spells without a job. But in March, the 25-year-old landed a job as a front-office coordinator at an Express Employment Professionals branch in Buffalo, N.Y. She is earning the highest wages of her career.

"I'm able to take my daughter to places that we couldn't afford before, so we can go to the zoo on the weekend," Ms. Brunka said. "It's definitely opened up a lot of doors in my life."

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The yield on the benchmark **10**-**year Treasury** note and the WSJ Dollar Index both rose after the tweet and then moved higher after the report was released. Gold prices fell after the tweet and dipped further just after the official release.Stock futures didn't move significantly on the president's tweet, but stocks rose Friday. The Dow industrials added 219 points, or 0.9%, to 24635. The **S&P 500** rose 1.1%, while the **Nasdaq Composite** added 1.5%.

The pace of overall wage gains has been modest, despite expectations that a tighter labor market should produce larger paychecks. But wages for rank-and-file workers are improving. Nonsupervisor wages rose 2.8% in May from a year earlier, the best annual gain since mid-2009.

In the first quarter of this year, median weekly earnings for Americans without a high-school diploma rose by 10% from a year earlier, separate Labor Department data showed. That compared with 0.5% annual growth for college graduates.

"When employers run out of workers, that's when people with the weakest bargaining positions get put in the driver's seat and can negotiate for better pay and get themselves into roles," said Andrew Chamberlain, chief economist at recruiting site Glassdoor.

Strong hiring implies economic growth can accelerate this year, after increasing at a modest 2.2% annual pace in the first quarter. Forecasting firm Macroeconomic Advisers slightly raised its forecast for second-quarter output gains to a 4.1% rate after the jobs report.

The employment report bolsters the view of Federal Reserve officials who favor more increases in short-term interest rates in order to keep the economy from overheating.

The central bank is on track to next boost rates at its June 12-13 meeting. Inflation has firmed this year, and many officials believe falling unemployment will fuel faster wage and price increases.

The historically low unemployment rate, however, may overstate the strength of the labor market, said Diane Swonk, chief economist at accounting and consulting firm Grant Thornton LLP.

"This is not your father's 3.8% unemployment rate," she said, noting that economic conditions are different from the last time joblessness was so low. In the spring of 2000, wages and the economy were growing significantly faster. A broader measure of unemployment and underemployment that includes Americans stuck in part-time jobs or too discouraged to look was 6.9%. Last month, it was 7.6%.

And a smaller share of Americans are working or seeking work today than when the unemployment rate was last this low. That partly reflects that the share of women doing so—which grew for 50 years up until 2000—has declined in the past decade.

"When women lose their jobs they often end up taking roles caring for children or elderly adults, and then aren't counted among the unemployed," Ms. Swonk said.

Still, the tight labor market is causing Timberline Total Solutions, an Omaha, Neb., call center, to get more creative to attract workers without escalating wages: The company, which provides customer support to clients in the telecommunication and home-security industries, allows employees flexibility to largely pick their own schedule. The center is open seven days a week for at least 12 hours a day.

"We've gotten a lot of feedback that people need the flexibility to take a day off, or leave early to help their son with homework," said Mitch Kampbell, vice president of operations.

Mr. Kampbell said the flexibility helps attract workers for $11.50- to $14-an-hour jobs, who might otherwise seek to work in retail or food service. Timberline has held starting wages steady in the past year, but it offers a bonus of as much as $2 an hour for employees who work 85% of their hours during the company's busiest periods.

Silent-Aire LP, which builds commercial air-conditioning systems in Gilbert, Ariz., has been losing workers to the booming construction industry in the Phoenix area. That has caused the company to modestly increase wages, about 3% from last year, and boost benefits, said Mario Scrivano, vice president of human resources. But that hasn't stopped some employees from leaving for higher pay elsewhere.

"Turnover numbers are higher than anticipated, especially in the last year and half," Mr. Scrivano said.

To combat that, Silent-Aire is hiring lower-skilled, lower-paid workers and gradually training them for expanded roles, such as plumbers and electricians.

"We realized that every aspect of our work doesn't require someone to have a skill level of 10," he said. "It's more cost effective for the company for people to work their way up, and it shows employees that there is a pathway to advance."

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More on the Jobs Report

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* The Jobs Data in Eight Charts

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THE WALL STREET JOURNAL.

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**Unemployment Rate Falls to 18-Year Low; Solid Hiring in May; Nonfarm payrolls rose seasonally adjusted 223,000; unemployment rate at 3.8%**

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The New York Times

National Desk; SECTA
**Surge in Jobs Is a Case Study In Consistency**

By BEN CASSELMAN
866 words
2 June 2018
The New York Times
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Late Edition - Final
1
English


Friday's jobs report was a blockbuster: Job growth rebounded after a recent dip, and the unemployment rate fell to a nearly two-decade low. But it's worth taking a step back and putting the latest numbers in some longer-run context.

The United States lost nearly 8.7 million jobs in the Great Recession and its aftermath. It has gained 18.9 million since then -- a powerful rebound that belied fears of another ''jobless recovery.'' (Net growth was needed just to keep pace with the working-age population, which has increased by about 10 million during the same period.)

Politicians, investors and, yes, journalists love to obsess over the month-to-month swings in the job numbers. But the true story of the recovery is one of remarkable consistency. American employers have added jobs for 92 straight months -- far and away the longest streak on record -- and apart from a few blips, the gains have been steady.

The trend in job growth is easier to see by focusing on the year-over-year growth at any point, rather than the more **volatile** monthly figures. Looked at this way, hiring accelerated early in the recovery, peaking in early 2015 at a pace of more than three million jobs per year. Growth gradually tapered after that, which isn't surprising -- most economists expected the rate of job creation to keep falling as companies recovered from the downturn and the pool of available workers dried up.

More recently, though, job growth has experienced an unexpected uptick. Employers have added an average of 207,000 jobs per month so far in 2018, up from 172,000 in the same five months a year ago. It's too soon to say whether that acceleration is the start of a new trend or just a blip. But many economists expect the faster pace of growth to continue because of the tax cuts passed in December and the extra government spending approved by Congress in January.

All that hiring has gone a long way toward putting Americans back to work. The unemployment rate, now 3.8 percent, is the lowest since 2000. The progress is increasingly reaching groups that often face discrimination or other disadvantages in the job market: The unemployment rate for African-Americans hit its lowest level on record in May. The jobless rates for Hispanics, teenagers and those with less than a high school education are likewise at or near multidecade lows.

The unemployment rate doesn't tell the full story, however. Government statistics count people as unemployed only if they are looking for work, a definition that excludes people who are voluntarily or involuntarily out of the labor force entirely. During the recession and recovery, that distinction was crucial: The official unemployment rate ignored millions of people who had abandoned their job searches as hopeless. Eight years of job growth, however, have shrunk the pool of ''discouraged'' workers, and broader definitions of unemployment all show strong progress.

But while the labor market today is healthy, there are signs it still isn't booming the way it was in 1999 and 2000. The employment rate -- the share of adults who have jobs, a measure that avoids tricky questions about who should count as unemployed -- still hasn't returned to its prerecession level. That's largely because of the retirement of the baby boom generation. But even adjusted for the aging work force, the employment rate is below its peak in 2000.

Then there is the mystery that has loomed over the job market in recent years: lackluster wage growth. With unemployment low, companies are increasingly complaining about a shortage of qualified labor. Yet that hasn't translated into fat raises for workers.

It's important to note that wages are rising. Average hourly earnings were up 2.7 percent in May from a year earlier, faster than inflation. And while noisy and sometimes conflicting data make it hard to discern a clear trend, there are signs that the pace of growth is accelerating, especially for lower earners.

Still, many economists think wages should be rising faster given the tight labor market. Economists are divided over what explains the disconnect, with some seeing evidence of a long-term, structural shift in the economy, and others arguing that the slow wage growth suggests there is still room for the economy to improve.

CHARTS: MONTHLY CHANGE IN JOBS (A1); A Record Run: The current streak of 92 months of job gains is by far the longest on record.; Back Where We Started: Fewer Americans, as a share of the population, have a job today than before the recession. But that's largely because of the aging of the baby boom generation. Adjusted for demographic shifts, the employment rate is back where it was before the recession, but still well short of its peak in 2000.; Making Progress, by Any Measure: The official unemployment rate can be misleading because it ignores people who have given up looking for work. But recently, even broader measures of unemployment and underemployment show substantial improvement. (Source: Bureau of Labor Statistics) (A16)

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THE WALL STREET JOURNAL.
U.S. EDITION

**Mideast Rivals Target New Regions --- Billions are being invested in Horn of Africa ports and military bases**

By Matina Stevis-Gridneff
2,001 words
2 June 2018
The Wall Street Journal
J
A1
English


BERBERA, Somaliland -- The battle for hegemony in the Middle East is playing out at an ancient African port where traditional dhow fishing boats now share space with giant, container ships loaded around the clock by men in yellow high-visibility vests.

Berbera, in the breakaway republic of Somaliland, is perched on a narrow shipping lane leading to the Suez Canal and is just 260 nautical miles from Yemen's civil war. Since antiquity, the town's strategic shore has been coveted by military and maritime powers. Described by colonial-era travelers as the "key to the Red Sea," the port became an Ottoman stronghold and later a British colonial outpost.

That explains why United Arab Emirates, Saudi Arabia's strongest ally, pledged close to $450 million to take over the port here. Elsewhere along the Horn of Africa, allies Saudi Arabia and U.A.E. have snapped up ports and military bases at sites in Somalia, plus farther north in Djibouti and Eritrea. Qatar and Turkey, which support a different model of political Islam and are closer to Saudi Arabia's arch-rival Iran, are building in Somalia and Sudan. China is positioned with a military base and a container port, for which it paid $700 million, in Djibouti and is exploring sites in Somalia. The U.S., meanwhile, conducts Africa operations and directs drones in the Persian Gulf from Camp Lemonnier in Djibouti, the largest U.S. base on the continent.

The scramble to lock down critical sites like Berbera is unscrolling all along the Horn and northward into the Red Sea. At stake is the precarious peace in one of the world's most **volatile** and strategic corners, and the balance of power in the Middle East. The nearby Suez Canal, meanwhile, is the fastest and most heavily used shipping lane connecting Asia with Europe. It handles about 10% of the world's seaborne trade, including roughly 10% of the world's oil trade, according to the United Nations and the U.S. Energy Information Administration.

"We have new kids on the block . . . competition in the Middle East between the Sunnis and the Shias, and the Americans, the Russians, the Turks, the Qataris," said Saad Ali Shire, Somaliland's foreign minister. "It's a poisonous meeting of interests coming together."

Berbera and other sites along the northern coast of the Horn are important because of their proximity to Yemen, a stage for the rivalry between Iran and Saudi Arabia across the Middle East. Saudi Arabia has been fighting a war there against Iran-backed Houthi rebels since 2015 with the support of allies like the U.A.E. Iran denies arming or training the Houthis.

The United Nations and independent investigators say Iran has used ports in Sudan and Somalia to smuggle weapons to Hezbollah and to allies in Yemen. In support of the other side in Yemen, a vast U.A.E. military base erected in isolated and secretive Eritrea in 2016 has been a launching pad for drones and jet strikes into the battle zone.

Other complications abound. Saudi Arabia and its allies are concerned about jihadist groups, including Islamic State and al Qaeda affiliates, gaining strength in the Arabian peninsula.

And Saudi and U.A.E.'s break last year with Qatar, claiming the Gulf state supports terrorism, upended traditional alliances. The diplomatic crisis spurred a realignment of deals on the poor and conflict-prone African coast, where Somalia, Djibouti, Eritrea and Sudan have welcomed more than $2 billion in investments from the richer Middle East nations since 2016.

"Turmoil in the Gulf has sharply escalated the Horn's already dangerous militarization," said Rashid Abdi, an expert on the region at the International Crisis Group, a Brussels-based global geopolitics think tank. "Gulf powers want to control this region to support an economic future that doesn't fully depend on oil production, and to be ready for a potential future war with Iran."

The situation has left Washington in a diminished position of influence, Western diplomats say. The U.S. has few commercial investments in the region but has spent tens of billions of dollars on military programs, including efforts to fight piracy, in recent decades, and has increased drone strikes and special-forces deployments against jihadists in Somalia.

"There's no evidence that there's a coherent U.S. strategy to deal with divisions in the Horn and the militarization of the Red Sea," said Payton Knopf of the United States Institute of Peace, a Washington-based nonpartisan think tank.

State Department officials didn't respond to requests for comment.

Tensions flared in May when Chinese military personnel at its Djibouti base used a high-powered laser to harass U.S. flight crews from Camp Lemonnier, the Pentagon said.

The maneuvering for territory has drawn a motley crew of actors, including U.A.E. state-owned shipping giant DP World; a Turkish conglomerate owned by the family of President Recep Tayyip Erdogan's son-in-law; and Navy-SEAL-turned-businessman Erik Prince, who wants to develop a port south of the capital Mogadishu. France and Japan have military bases, and Russian entities are scouting for deals.

Sudan, which ditched a longstanding alliance with Iran to secure desperately needed investments from Saudi Arabia, is contributing some 5,000 troops to the war in Yemen, and has been carefully straddling both sides of the Middle East rift in a bid to save itself from economic collapse.

In December, Turkey secured the rights to develop Suakin Island, a former Ottoman outpost in Sudan. Qatar in March reached a preliminary agreement with Sudan to spend $4 billion developing a nearby port on Sudan's mainland that hosts a passenger ferry to the Saudi port of Jeddah. If finalized, it will be the biggest single planned investment in the area's ports to date.

Berbera, a coastal city of about 200,000, is a focus of the military and commercial buildup. The Soviets erected a major military base here during the 1960s and 1970s, which flipped to the U.S. in the 1980s after the Soviets stopped supporting dictator Siad Barre, and he switched sides. The U.S. arranged for access to Berbera's airport runway, one of Africa's longest, as a potential emergency landing strip for the space shuttle.

When DP World, the world's third-largest port operator, struck a $442 million deal to modernize and manage Berbera's port in mid-2016, a more-lucrative military agreement between Somaliland and the U.A.E. quickly followed. The deal will see the U.A.E. refurbish the old military base as well as a small port nearby for military use for 25 years.

DP World said it boosted traffic at the commercial port by more than 20% in the past year. It recently brought in modern cargo equipment to speed up the loading and unloading of vessels, and this month the company plans to start extending the quay.

"We have no doubt this place and the broader area will look very different in a few years' time," said Supachai Wattanaveerachai, the port's chief executive.

DP World said Berbera's expansion is part of a strategy to secure more points of access along the Horn and further inland, helping to increase trade with fast-growing economies like Ethiopia and tapping East Africa's swelling consumer class.

Mr. Shire, the Somaliland foreign minister, said as part of the deal U.A.E. will build new roads to connect the commercial port to the Ethiopian border and fund education and health-care programs.

Somalilanders, long isolated after declaring independence from Somalia in 1991, said they hoped the first major economic recognition will connect them to regional trade and help bolster a fledgling army. Somaliland is treated as de facto independent of Somalia by many countries, although it hasn't been formally recognized as such.

"I am hopeful improvements to the port will bring more people here . . . business is already getting bigger daily," said 24-year-old Hamda Abdirahman, who cooks at her mother's restaurant in the town center.

DP World is by far the biggest private-sector employer in Somaliland, with some 2,200 workers. The company until recently hauled in the devalued local currency in trucks to pay salaries.

Property prices have risen as much as 100% along the waterfront, and compounds are being constructed near the ocean. Older hotels are getting upgraded.

On a recent day, Berberawis sitting cross-legged and chewing the narcotic khat leaf said the investments provide a shield for their breakaway state. "As Somalilanders our passports aren't recognized anywhere, we can't travel," said 28-year-old Mohamed Jama, a veterinarian who was in a shop nearby. "After this deal, the U.A.E. may accept our passports, and I could get a chance to work in Dubai." U.A.E. officials didn't respond to requests for comment.

Others fear the investments come with too high a price: being dragged further into conflicts across the Middle East and the Horn. Frictions between Somaliland and Somalia -- a country war-torn for decades -- have already been worsened by the Gulf's diplomatic crisis over Qatar.

In a Western-backed model, Somalia has been divided into federal states. Outside Mogadishu, half of the states have broken with President Mohamed Abdullahi Mohamed, who critics say is aligned with Qatar despite formally being neutral in the Gulf spat. The states have declared support for the U.A.E. and Saudi Arabia, which are pouring in dozens of millions in investment to help sway opinion.

The Mogadishu government has called the U.A.E.'s Berbera investment illegal and has complained to the U.N. "If you become part of a bloc against another bloc, you gain friends, you make enemies," said Somaliland's Mr. Shire. "It's as simple as that."

Somali-U.A.E. relations broke down spectacularly in April, when Somali agents boarded a U.A.E. airplane in Mogadishu and confiscated $9.6 million in cash. In a Hollywood-style operation, the Somali agents held U.A.E. security personnel at gunpoint, seized the aircraft and removed the money in large bags.

U.A.E. said the funds were flown in to pay salaries and costs at its military base in Mogadishu, where its forces since 2014 have trained Somali soldiers to fight against al-Shabaab, the local al Qaeda-affiliated Islamist insurgency. After the incident, U.A.E. suspended aid and the training program in Somalia and left the base. Later, Somali soldiers trained by U.A.E. skirmished with officers loyal to Somalia's president.

Officials from U.A.E. and Somalia didn't respond to requests for comment.

In January, 103 unmarked containers arrived at Mogadishu's port from Jeddah, Saudi Arabia. Puzzled officials examined the manifest, to discover the containers held millions of rounds of Chinese-made ammunition, for AK-47 assault rifles, DShK machine guns and shoulder-mounted rocket-propelled grenades, people familiar with the matter said. In the past few weeks, another 57 containers with similar contents arrived from Saudi Arabia.

The shipments were intended for some part of the Somali forces under a deal between Saudi Arabia and the previous Somalia administration, according to two senior international-community officials briefed on the matter. Saudi officials didn't respond to requests for comment.

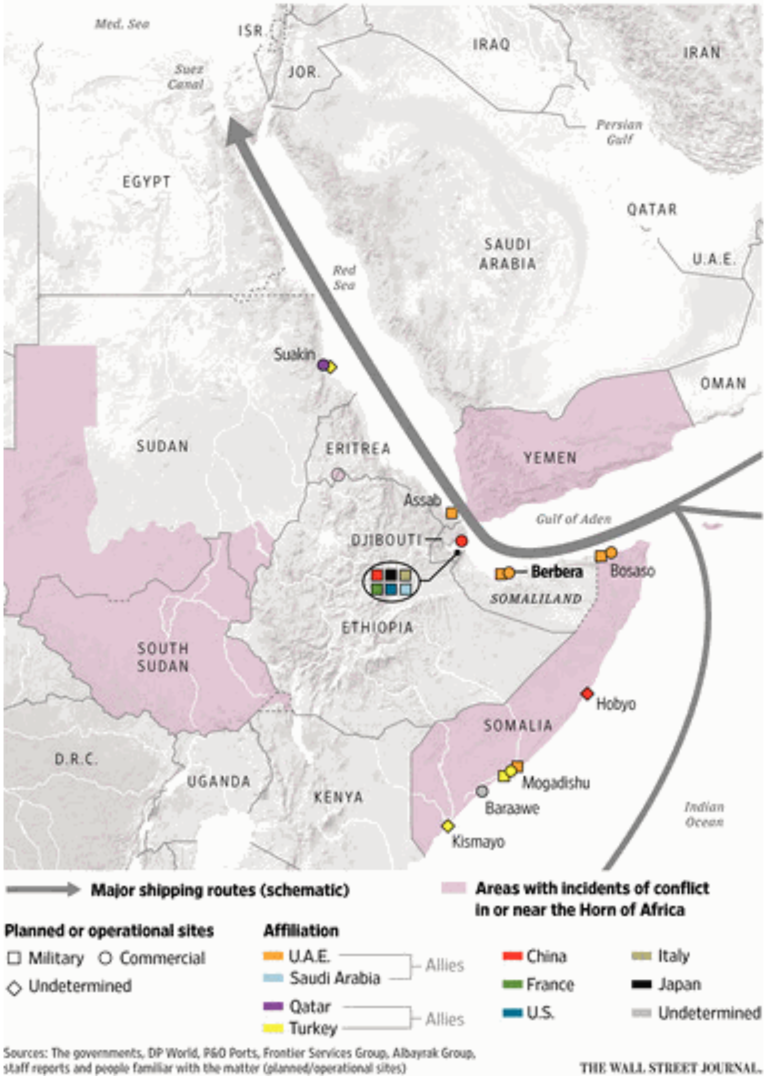
Now guarded by the ragtag Somali National Army, most of the containers have been languishing in temperatures higher than 100 degrees for months, raising concerns the ammunition will be siphoned off to warring militias or to al-Shabaab, or explode in the heat.

"This is just the perfect example of how things could literally explode in the current environment," said a senior Western diplomat. "If there's conflict . . . it will spread like wildfire."

## New Focus on Strategic Zone

World powers have spent billions in recent years to build ports and military bases in the Horn of Africa region, which is strategically located on important shipping routes and in the midst of conflict zones.

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THE WALL STREET JOURNAL.
U.S. EDITION

**Jobs Engine Finds New Gear**

By Eric Morath and Sarah Chaney
1,075 words
2 June 2018
The Wall Street Journal
J
A1
English


WASHINGTON -- Americans traditionally left behind as jobs and wages grow -- high-school dropouts, blacks and Latinos -- are reaping the benefits of a tightening labor market, with an unemployment rate that hasn't been lower in nearly half a century.

The jobless rate in May ticked down to a seasonally adjusted 3.8%, the lowest since April 2000, the Labor Department said. The last time the rate was lower was in 1969.

At the same time, U.S. employers added 223,000 jobs last month, extending the longest continuous job expansion on record to 92 months.

Average hourly earnings edged up 2.7% from a year earlier -- and raises were even stronger for rank-and-file than managers.

"It's pretty hard to argue that the labor market is anything but right in the sweet spot," said Dan North, chief economist at business insurer Euler Hermes North America. "There is tremendous demand for labor right now."

And those gains are extending to all corners of the labor market. The unemployment rate for women, at 3.6% last month, was the lowest since 1953, when a far smaller share of women sought jobs.

The jobless rate for workers older than 24 without a high-school diploma fell in May to 5.4% -- near a record low. The jobless rates for blacks and Latinos are also near record lows.

Jackie Brunka dropped out of high school in 2010, and even though she later earned a GED, she felt employers looked down upon her lack of a traditional diploma.

She worked at a fast-food restaurant and two different gas stations between long spells without a job. But in March, the 25-year-old landed a job as a front-office coordinator at an Express Employment Professionals branch in Buffalo, N.Y. She is earning the highest wages of her career.

"I'm able to take my daughter to places that we couldn't afford before, so we can go to the zoo on the weekend," Ms. Brunka said. "It's definitely opened up a lot of doors."

President Donald Trump, who had been briefed on the rosy employment figures Thursday night, moved markets Friday morning before the report's public release when he tweeted that he was "looking forward" to the data. Mr. Trump's tweet broke with decades of protocol by which White House officials refrained from publicly commenting on such market-sensitive data before their release.

The yield on the benchmark **10**-**year Treasury** note and the WSJ Dollar Index both rose after the tweet and then moved higher after the report was released. Stock futures didn't move significantly on the president's tweet, but stocks rose Friday. The Dow industrials added 219 points, or 0.9%. The **S&P 500** rose 1.1%, while the **Nasdaq Composite** added 1.5%.

The pace of overall wage gains has been modest. But wages for rank-and-file workers are improving. Nonsupervisor wages rose 2.8% in May from a year earlier, the best annual gain since mid-2009.

In the first quarter of this year, median weekly earnings for Americans without a high-school diploma rose by 10% from a year earlier, separate Labor Department data showed. That compared with 0.5% annual growth for college graduates.

"When employers run out of workers, that's when people with the weakest bargaining positions get put in the driver's seat and can negotiate for better pay and get themselves into roles," said Andrew Chamberlain, chief economist at recruiting site Glassdoor.

Strong hiring implies economic growth can accelerate this year, after increasing at a modest 2.2% annual pace in the first quarter. Forecasting firm Macroeconomic Advisers slightly raised its forecast for second-quarter output gains to a 4.1% rate after the jobs report.

The employment report bolsters the view of Federal Reserve officials who favor more increases in short-term interest rates in order to keep the economy from overheating.

The central bank is on track to next boost rates at its June 12-13 meeting. Inflation has firmed this year, and many officials believe falling unemployment will fuel faster wage and price increases.

The historically low unemployment rate, however, may overstate the strength of the labor market, said Diane Swonk, chief economist at accounting and consulting firm Grant Thornton LLP.

"This is not your father's 3.8% unemployment rate," she said, noting that economic conditions are different from the last time joblessness was so low. In the spring of 2000, wages and the economy were growing significantly faster. A broader measure of unemployment and underemployment that includes Americans stuck in part-time jobs or too discouraged to look was 6.9%. Last month, it was 7.6%.

And a smaller share of Americans are working or seeking work today than when the unemployment rate was last this low. That partly reflects that the share of women doing so -- which grew for 50 years up until 2000 -- has declined in the past decade.

The tight labor market is causing Timberline Total Solutions, an Omaha, Neb., call center, to get more creative to attract workers without escalating wages: The company allows employees to largely pick their own schedule.

"We've gotten a lot of feedback that people need the flexibility to take a day off, or leave early to help their son with homework," said Mitch Kampbell, vice president of operations.

Mr. Kampbell said the flexibility helps attract workers for $11.50- to $14-an-hour jobs. Timberline has held starting wages steady in the past year, but it offers a bonus of as much as $2 an hour for employees who work 85% of their hours during the company's busiest periods.

Silent-Aire LP, which builds commercial air-conditioning systems in Gilbert, Ariz., has been losing workers to the booming construction industry in the Phoenix area. That has caused the company to modestly increase wages, about 3% from last year, and boost benefits,said Mario Scrivano, vice president of human resources.

"Turnover numbers are higher than anticipated," Mr. Scrivano said.

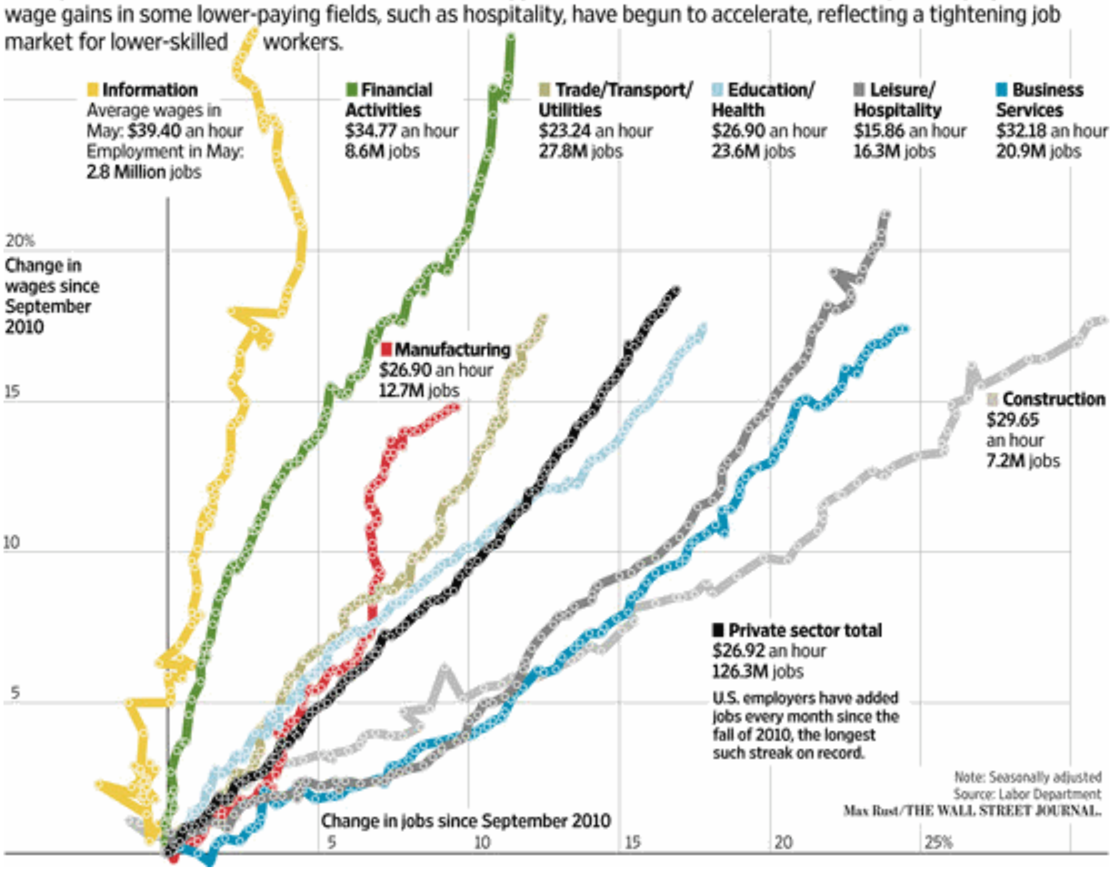
To combat that, Silent-Aire is hiring lower-skilled, lower-paid workers and gradually training them for expanded roles, such as plumbers and electricians.

"We realized that every aspect of our work doesn't require someone to have a skill level of 10," he said.

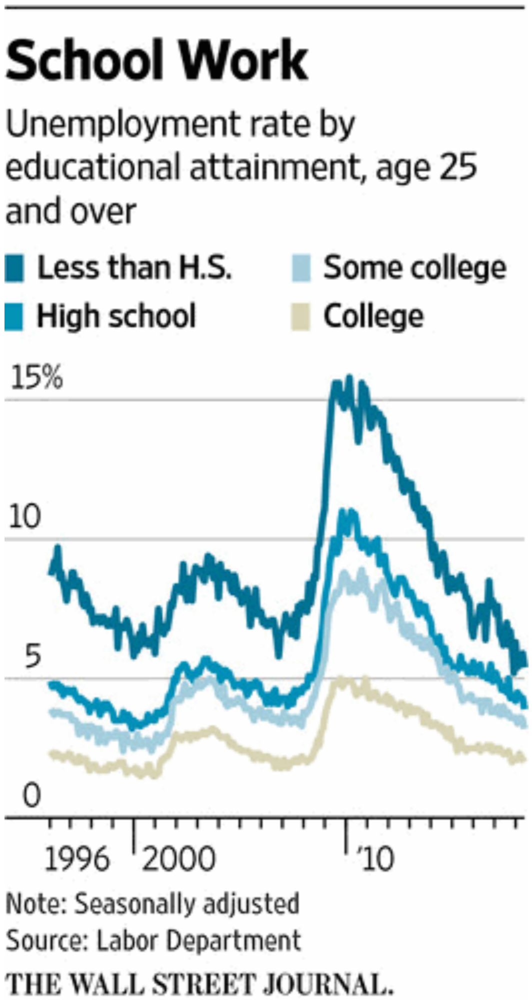
## Upward Mobility

During much of the current expansion, job creation lagged behind in industries with the strongest wage growth. But wage gains in some lower-paying fields, such as hospitality, have begun to accelerate, reflecting a tightening job market for lower-skilled workers.




Note: Seasonally adjusted
Source: Labor Department
Max Rust/THE WALL STREET JOURNAL.



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The New York Times

Business/Financial Desk; SECTB
**Strong Jobs Report Buoys Markets**

By THE ASSOCIATED PRESS
270 words
2 June 2018
The New York Times
NYTF
Late Edition - Final
2
English


Stocks climbed Friday after a better-than-expected report on jobs, even with the specter of a possible trade war hanging over markets around the world.

The **Standard & Poor's 500**-**stockindex** more than recovered all its losses from earlier in the week. Interest rates and the value of the dollar also rose on expectations that the Federal Reserve got more justification to continue raising interest rates steadily.

Stronger-than-expected readings also came in on American manufacturing growth and construction spending. They helped turn attention away from the worries about global trade tensions and European politics that had dragged on stocks recently.

The **S**.**&P**. **500 index** rose 29.35 points, or 1.1 percent, to 2,734.62. For the week, it climbed 0.5 percent after scrambling back from a loss of more than 1 percent earlier.

The **Dow Jonesindustrial average** jumped 219.37, or 0.9 percent, to 24,635.21, and the **Nasdaq composite** rose 112.21, or 1.5 percent, to 7,554.33. The Russell 2000 of small-company stocks rose 14.37, or 0.9 percent, to 1,647.98.

The yield on the **10**-**year Treasury** note rose to 2.90 percent from 2.86 percent late Thursday.

Benchmark United States crude fell $1.23 to settle at $65.81 per barrel. Brent crude, the international standard, lost 77 cents to settle at $76.79.

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

Document NYTF000020180602ee620004x

The New York Times

Foreign Desk; SECTA
**This Factory Was Ready to Expand. Then Washington Made Its Moves.**

By JIM TANKERSLEY
1,232 words
2 June 2018
The New York Times
NYTF
Late Edition - Final
9
English


WASHINGTON -- Andy Marsh's New York factory is trapped in the Trump trade wars.

As Mr. Trump threatens tariffs on America's economic allies and its adversaries, many of the domestic businesses that the president says his policies are meant to protect are finding themselves victims of his aggressive approach.

Prices are rising for imported goods, other nations are erecting retaliatory trade barriers, and companies like Plug Power, the manufacturing business that Mr. Marsh runs outside Albany, are facing crippling uncertainty from Mr. Trump's fickle approach.

It is not the first time Mr. Marsh has felt firsthand the impact of decisions made hundreds of miles away in Washington.

In February, Congress and Mr. Trump gave Plug Power an injection of optimism, by extending a tax credit that was crucial to the manufacturer's American expansion plans. The credit allowed Plug Power to reduce the price of its fuel cells for trucks and forklifts, and to forge ahead with new hiring.

By May, Mr. Marsh had slowed his efforts to fill more than 10 open positions in Plug Power's factory as he began worrying that the tariffs on steel and some Chinese products crucial to its business would raise the costs of the components it imports to build fuel cells. So executives had raised the price on their fuel cells, and sales were slowing as a result.

United States Customs and Border Protection had also begun delaying some of those imported components for several days after they arrived from overseas, slowing their trip to Plug Power's factory floor, Mr. Marsh said. The reason for the delay was unclear, but Mr. Marsh suspected that it could be related to the recent trade upheaval.

Other American companies, such as Ford, have faced delays with their products in China, as customs officials subjected their exports to additional scrutiny once they arrived in that country.

''For us, it's created uncertainty,'' Mr. Marsh said this week, referring to the administration's flurry of trade threats and decisions in recent months. ''I buy a good deal of metal parts and electronic assemblies around the world. I sit, and I'm not really sure what my costs may be and what I should be charging in price.''

Plug Power exemplifies the manufacturers, large and small, that find themselves buffeted by uncertainty from Mr. Trump's trade agenda. The administration has implemented tariffs on imported steel and aluminum from countries like China, Canada, Mexico and Japan, as well as the European Union. It has threatened tariffs on other Chinese imports, rescinded those threats, and then resumed them. At Mr. Trump's urging, officials have opened an investigation that could lead to tariffs on imported automobiles and auto parts, many of which come from Canada, Mexico and other allies.

The tariffs already in place are raising the prices of components that many manufacturers depend on and must secure from global supply chains. The threat of other tariffs, and of retaliation from the trading partners Mr. Trump is targeting with his actions, has added an additional layer of unease. Trade groups and executives warn that the uncertainty is undercutting some of the benefit that businesses expected from the tax cuts Mr. Trump signed into law.

Federal Reserve officials frequently cite trade tensions as a threat to investment and economic growth. Minutes from the May meeting of the Federal Open Market Committee said that in many regions of the country, the Fed's business contacts "expressed concern about the possible adverse effects of tariffs and trade restrictions, including the potential for postponing or pulling back on capital spending."

Plug Power employs more than 600 people in the United States, including 300 at its factory in Latham, N.Y., where it assembles fuel cells that run on hydrogen. In February, it was poised to continue increasing its investment in the United States, thanks to a bipartisan bill that extends, then gradually phases out over time, a tax credit for fuel cells. Mr. Marsh had been nervous about that bill's prospects, but when it was approved, he said he felt "really good" about the future of his business.

For much of the spring, armed with the certainty of the tax credit, he was able to raise more capital for Plug Power to invest.

"With stability," Mr. Marsh said, "I think 2019 would be a breakout year."

In April and May, though, Mr. Marsh saw the stability of his supply chain begin to erode. Much of what goes into Plug Power's fuel cells comes from abroad, including fans from Japan, radiators from Canada, tanks from Italy and harnesses from Mexico. One of the company's suppliers buys raw steel from China.

At first, Mr. Marsh did not worry about the administration's proposed steel and aluminum tariffs, and its escalating tensions with China. By May, after watching administration officials vacillate on proposed penalties against the Chinese telecommunications company ZTE, Mr. Marsh was more nervous. He hoped to expand Plug Power's small presence in the Chinese market through a joint venture partnership with a Chinese company, but he worried about possible new restrictions from the administration on American investment there.

"When you have uncertainty," he said, "you're not as quick to hire. I've been slow."

Perhaps most important, Mr. Trump's proposed tariffs on $50 billion worth of Chinese imports included six products that directly affected Plug Power, including certain forklifts.

"If the tariffs are implemented," Mr. Marsh wrote on May 11 to Robert E. Lighthizer, the United States trade representative, "the more than 600 employees at Plug Power could potentially lose their livelihood, not to mention jobs associated with our customers, supply chain partners and others that support the distribution and sales of our products."

Plug Power's supplier that procures steel from China was struggling to give the company reliable price quotes, given the **volatility** in the steel market stemming from the White House's wavering tariff announcements. Mr. Marsh, in turn, was struggling to give potential customers a reliable price on his fuel cells. Plug Power ultimately settled on a higher price, to reduce its risk, a move that would most likely reduce the number of fuel cells customers could afford to buy.

Mr. Marsh said he agreed with the administration that the United States needed to do more to deter China from taking intellectual property from American companies, and from heavy government support of industries. But he said he would prefer that America act concertedly and strategically with its allies to apply that pressure.

"I do buy that the U.S. has not been aggressive enough in protecting our interests," he said, adding that he did not expect that effort to affect his business. "I've run companies for 20 years, I've had high positions in companies for 30 years. I've never thought about trade so much."

President Trump's threat of tariffs has presented risks to domestic companies like Plug Power, left, which makes fuel cells at a factory in Latham, N.Y., outside Albany. The **volatility** forced Andy Marsh, right, the company's chief executive, to slow down on hiring and to raise the price on fuel cells, which has put a damper on sales. (PHOTOGRAPHS BY NATHANIEL BROOKS FOR THE NEW YORK TIMES)

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THE WALL STREET JOURNAL.
U.S. EDITION

**World News: Ross Heads to China as Trade Talks Stall --- U.S., seeking to cut deficit, presses Beijing to commit to long-term purchase agreements**

By Lingling Wei
751 words
2 June 2018
The Wall Street Journal
J
A6
English


BEIJING -- U. S. and Chinese trade negotiators are haggling over how to get Beijing to carry out recent promises to purchase more American farm and energy products, with Washington pushing for long-term contracts that Chinese officials are reluctant to commit to.

The snag is hanging over high-level negotiations scheduled for this weekend. U.S. administration officials said Commerce Secretary Wilbur Ross remains scheduled to be in China on Saturday. The plan is for two days of talks in Beijing with China's top trade negotiator, Liu He, but the White House's recent moves to revive the threat of tariffs on Chinese imports complicated the prospects for his mission.

During the discussions, held by a U.S. advance team and its Chinese counterpart in Beijing on Thursday and Friday, U.S. officials pressed their Chinese peers to commit to multiyear purchase agreements, according to people with knowledge of the exchanges from both sides. For the U.S., such pacts could be useful in prodding China to lower tariffs and ease regulations and other barriers to imported goods.

Chinese officials have been reluctant to get locked into long-term commitments, these people said. Beijing wants "control and leverage," one of them said.

The trip was initially seen as a positive move in the months of wrangling between the U.S. and China over trade. On Tuesday, however, the Trump administration unexpectedly declared it would move forward with tariffs on $50 billion in Chinese goods and take other actions aimed at restricting China's access to U.S. technology.

The U.S. team led by Mr. Ross is aiming to secure a deal in which China would buy more U.S. soybeans, beef, poultry, natural gas and crude oil, among other agricultural and energy products. The U.S. hopes that such purchases would narrow its trade deficit with China, which stood at $375 billion last year. President Donald Trump wants the trade gap slashed by at least $200 billion by 2020.

In negotiations in May in Washington, a Chinese team led by Mr. Liu, President Xi Jinping's economic envoy, agreed to try to step up purchases of U.S. goods, though it declined to commit to any numerical targets. In the talks this week, Chinese negotiators again have resisted agreeing to specific, long-term commitments.

One reason for the Chinese side's wariness to make concessions are Mr. Trump's looming tariffs and restrictions on Chinese investments, according to the people. On top of that, a divide between Trump administration factions also casts doubt over how long any trade deal can last, these people said.

A group led by Treasury Secretary Steven Mnuchin has been pushing for a deal centered on boosting U.S. exports, while another led by U.S. Trade Representative Robert Lighthizer is looking for more significant changes in how China treats foreign companies -- and is more willing to resort to trade sanctions.

China's chief trade negotiator, Mr. Liu, so far has had the blessing of Mr. Xi to use the U.S. pressure to accelerate plans to liberalize **financial markets**, the auto sector and other industries, according to Chinese officials. But he is also running up against growing nationalist calls for Beijing to take a tougher stance against U.S. demands.

Those differences suggest that rather than a breakthrough, Washington and Beijing are likely in for a long haul of recurring talks, economists and analysts in both countries said.

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Bob Davis in Washington contributed to this article.

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Beijing Woos

Countries Angered

By Tariff Threats

As the U.S.'s plans to impose import tariffs prompt anger from allies including Canada and Mexico, China is trying to line up other countries against Washington by enticing them with greater access to Chinese markets.

China's Finance Ministry on Friday released a list of more than 1,000 products that will be subject to lower import tariffs, starting July 1. Chinese consumers have long complained about having to pay higher prices for Bulgari jewelry, Rolex watches and other imported items.

By cutting the tariffs, Beijing is also hoping to spur domestic consumption as a way to offset any weakening of trade, said Zhang Ming, a senior economist at the Chinese Academy of Social Sciences, a state think tank in Beijing.

-- Lingling Wei



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THE WALL STREET JOURNAL.
U.S. EDITION

**EXCHANGE --- Heard on the Street: Overheard**

203 words
2 June 2018
The Wall Street Journal
J
B14
English


[Financial Analysis and Commentary]

Stock investors are a lot like fishermen, often lamenting "the one that got away." It turns out that traders should also be casting their lines when the time is ripe. Doug Ramsey of Leuthold Group, a Minnesotan who keeps track of such things, notes that the fish like to bite in the days surrounding a full moon or new moon and not in between.

Since the **S&P 500**'s inception, the index has returned 10% annually but 19% in the part of the month when fishing was most auspicious and just 4.9% in the least-promising part. The effect was even greater for high-beta stocks, at 33% and negative 13% for the best and worst periods, respectively.

By any measure, this is one of the most profitable investing strategies around. The problem is, there is no provable connection between the phases of the moon and stock returns. That has been made clear since 2015, when the relationship has reversed; returns around full and new moons have lagged behind those in between. At least the fish are still biting on schedule.



page,5043

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The New York Times

Business Day; Economy
**New Milestones in Jobs Report Signal a Bustling Economy**

By Nelson D. Schwartz
1,492 words
1 June 2018
05:00 AM
NYTimes.com Feed
NYTFEED
English


The American economy roared into overdrive last month, the Labor Department reported Friday, extending the longest streak of job growth on record and echoing other recent signs of strength.

The unemployment rate fell to 3.8 percent, its lowest level since the heady days of the dot-com boom in early 2000.

The net increase of 223,000 jobs reflected healthy gains in a broad range of industries, from manufacturing and transportation to health care and retailing.

The monthly numbers are traditionally kept under wraps by the Labor Department until their release, under rules meant to keep officials from influencing markets by discussing them publicly beforehand or immediately afterward. But in an unusual departure from protocol , President Trump hinted on Twitter more than an hour before the announcement that positive data was in store. “Looking forward to seeing the employment numbers at 8:30 this morning,” he tweeted .

It was the 92nd consecutive month of job creation. Most economists expect the momentum to continue, but a deeper drop in the unemployment rate or a big bump up in average hourly earnings would stoke fears of inflation and, in turn, a more hawkish Federal Reserve .

Fed policymakers are almost certain to raise interest rates when they meet this month, with at least one additional increase likely in the second half of 2018.

In May, average hourly earnings rose slightly, lifting the year-on-year gain to 2.7 percent. That’s healthy enough to assuage fears that wages are stagnating but not so strong as to change the Fed’s expected course.

“It was a stronger report than expected, but it wasn’t so hot as to lead the Fed to believe it’s behind the curve,” said Michael Gapen , chief United States economist at Barclays, adding that the Fed’s plans shouldn’t worry **stock-market** bulls. “It will keep the Fed on its gradual normalization path.”

Indeed, the **stock market** rallied in the wake of the news. The **Standard & Poor**’**s 500**-**stockindex** finished the day up more than 1 percent. **Bond prices** dipped slightly as traders braced for the possibility of faster economic growth, lifting the yield on benchmark **10**-**year Treasury** bonds to 2.9 percent.

Mr. Gapen believes the unemployment rate could sink as low as 3 percent by the end of 2019. That would bring it to levels last seen in 1953, the height of the economic boom after World War II.

The only negative in the report was a slight drop in the share of Americans who are either working or looking for a job, paced by a 170,000 increase in the number of people not in the labor force. That, in turn, put downward pressure on the unemployment rate, which sank from 3.9 percent in April.

Still, the overall report painted a picture of a robust labor market by any measure. Unemployment among African-Americans fell to 5.9 percent from 6.6 percent in April, the lowest since the Labor Department began breaking out unemployment by race in 1972. Among college graduates, the unemployment rate is 2 percent, while it stands at 3.9 percent for workers with a high school diploma.

“It was certainly a good number, with some weather-related bounce-back in construction,” said Diane Swonk , an economist with Grant Thornton.

Wages, Wages, Wages

Ms. Swonk said the great conundrum in the current economic environment was why wage growth had been so modest. After all, a tighter labor market should prompt employers to raise salaries to keep the workers they have and lure new ones, right?

In theory, yes, but in practice it hasn't been working out that way — and everything from slow productivity growth to the decline of unions and digital disruption has been cited as a reason.

"This is the last shoe to drop in the labor market," said Torsten Slok, chief international economist at Deutsche Bank. "It's just a matter of time before wages start going up more strongly, but there's frustration that it hasn't happened yet, even though unemployment is the lowest it has been in almost 18 years."

Besides the other potential causes, Mr. Slok has one of his own: While job switchers are being rewarded with raises, people who stay where they are not. Nearly 15 percent of what he calls "job stayers" saw no increase in wages in the past 12 months. At comparable periods in past economic cycles, that share was more like 10 percent.

"If you just stay around, you have less bargaining power," Mr. Slok said.

Back From the Sidelines?

Sectors like construction, energy, transportation and hospitals have been especially tight, Ms. Swonk said, with some employers offering signing bonuses to lure workers. For evidence of the trend, she is watching teenage unemployment, which was 12.8 percent last month. In April, it stood at 12.9 percent, down from 14.7 percent in April 2017.

The teenage unemployment rate is significant because this cohort is a prime beneficiary of tight labor markets, Ms. Swonk explained. When there was more slack in the system, teenagers had to compete with 50-somethings for scarce jobs. Now, as the latter group finds higher-paying positions, young workers are filling the gap.

In some regions, workers have grown particularly scarce, forcing companies to pony up to compete for new hires. Union Pacific , the railroad giant, has long struggled to find mechanics, electricians and other skilled trade workers. But now it is having trouble filling even unskilled positions in some areas.

In Council Bluffs, Iowa, where the unemployment rate is under 3 percent, Union Pacific has started offering $20,000 in hiring incentives for train crews — a job requiring no experience or education beyond a high school diploma. In some cases, the company isn't even waiting for students to graduate to start the recruiting process.

"We have communities where we work where the unemployment rate is a percent and a half," said Lance Fritz , Union Pacific's chairman and chief executive. "Finding people to do work there is mostly about getting them in high school and making them aware of the career path so that when they graduate and are in the work force, we get them."

Turning to Trucking

In Wisconsin, workers like Chris Bogan are benefiting from a surprisingly tight labor market. When he was laid off last fall by Appleton Coated , a paper mill, he feared the worst. As his family's main breadwinner, Mr. Bogan was earning $28.66 per hour, a solidly middle-class wage in the Neenah area, which The New York Times , a paper mill, he feared the worst. As his family's main breadwinner, Mr. Bogan was earning $28.66 per hour, a solidly middle-class wage in the Neenah area, which The reported on in November .

As it turned out, a shortage of workers in one of the industries recently cited in the Fed's Beige Book economic survey — trucking — came to Mr. Bogan's rescue. The day the mill shut, he signed up for a course at Fox Valley Technical College to get a license to drive trucks. And the day after he graduated, he landed a job at a local trucking company.

"I didn't wait around," Mr. Bogan said. "I graduated on a Thursday night and went to the trucking company office on Friday morning."

Trucking accounted for nearly 7,000 of the jobs gained nationwide last month. And the demand for workers that Mr. Bogan encountered is part of the larger economic picture in Wisconsin, which has one of the nation's lowest unemployment rates. The jobless rate there stands at 2.8 percent, down from 3.3 percent a year ago.

 

In fact, after the mill resumed production and Mr. Bogan got a call asking if he'd like to come back, he politely declined. Under a Teamsters union contract, Mr. Bogan's employer covers all of the cost of his health insurance, so he's essentially earning the same take-home pay as before.

"Things are going pretty well," he said. "I love it. Instead of just watching that machine turning, I'm outside, and it's different every day."

* Trump Touts Jobs Report Before Official Release, Breaking Protocol

* We Ran Out of Words to Describe How Good the Jobs Numbers Are

* Fed Minutes Suggest Few Worries of Economy Overheating

* Bond Market Indicates Doubt About Trump's Economic Targets

A jobs fair last month in Holmdel, N.J., viewed from the township library. Average earnings last month rose by 8 cents an hour and are up 2.7 percent over the past year. | Stephen Speranza for The New York Times | People discussing job opportunities at the George Washington Bridge Bus Station in Upper Manhattan, where new stores are opening. | Gregg Vigliotti for The New York Times

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THE WALL STREET JOURNAL.

Politics

**Trump Tweeted About Jobs Report Before Release; President's comments, which broke with longstanding practice surrounding sensitive economic data, sent bond yields and the dollar higher**

By Ben Leubsdorf and Nick Timiraos
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Corrections & Amplifications

Ari Fleischer's last name was misspelled as Fleisher in an earlier version of this article. (June 1, 2018)

WASHINGTON—President Donald Trump tweeted about the May jobs report before its release Friday, in an unusual break from decades of protocol that sent bond yields and the value of the dollar higher.

About an hour before the Labor Department released a report Friday morning showing the unemployment rate had fallen to its lowest level since April 2000 , Mr. Trump said on Twitter he was "looking forward" to seeing the figures.

The president had been briefed on the numbers Thursday evening, but they hadn't yet been made public. Longstanding rules on sensitive economic data call for executive branch officials to withhold comment for at least an hour after figures are released.

While Mr. Trump didn't give any details on the data in his tweet, investors appeared to take his early comment as a signal that the data would be strong, figuring it was unlikely the president would tell Americans he was looking forward to a weak report.

The yield on the benchmark **10**-**year Treasury** note rose after Mr. Trump's 7:21 a.m. EDT tweet, then jumped higher after the 8:30 a.m. EDT report.

"The entire market stopped and focused on it immediately," said Michael Lorizio, a bond trader at Manulife Asset Management. "For sure, one could take that tweet and position accordingly."

The WSJ Dollar Index climbed after Mr. Trump's tweet and spiked immediately after the report came out. Gold prices fell after the tweet and dipped further just after the official release. Stock futures didn't move significantly on his tweet.

"The implication was certainly there that he was expecting a great number, and it affected the market," said Peter Hug, global trading director at Kitco Metals. "I can't believe he did that."

The White House receives the jobs report and other major economic indicators before their public release, but officials "are responsible for assuring that there is no release prior to the official release time," according to a longstanding White House Office of Management and Budget directive .

The president was briefed on the numbers Thursday by Lawrence Kudlow, director of the National Economic Council and the president's chief economic adviser.

Mr. Kudlow on Friday dismissed a furor in markets over the president's tweet. "All these traders need to see a shrink," he said in an interview. "People are really overthinking this."

Kevin Hassett , chairman of the White House Council of Economic Advisers, said Mr. Trump hadn't done anything wrong because he didn't disclose the report itself.

"If he had tweeted the numbers, that would have been a process foul," he said.

Mr. Hassett defended Mr. Trump's use of Twitter to advertise the coming data release. "He said he was excited to see the data. We were all excited to see the data," he said.

Former government officials and private-sector economists were critical of the president's move.

"This certainly was a no-no," tweeted Ari Fleischer, former White House press secretary for President George W. Bush . "The advance info is sacrosanct - not to be shared."

Jason Furman , chairman of the Council of Economic Advisers under President Barack Obama , wrote on Twitter : "If this tweet is conveying inside information about a particularly good jobs number you should never get them in advance."

Mr. Kudlow said he saw no need to change the procedures for briefing Mr. Trump on future jobs reports.

"I don't tell the president what to do. I give him the information," he said. "When I get the numbers, I will determine whether I think the president needs to hear it, or whether it's not important enough to bother him."

One person close to the White House, and familiar with the process by which the monthly job numbers are released, said Mr. Trump has "been told before that every piece of economic data that he receives the night before he can't comment on until 9:30 a.m. the next day."

Asked if the tweet resulted from a breakdown in White House processes, the person added: "It was a breakdown in his conduct."

The Securities and Exchange Commission , a regulator of U.S. markets, declined to comment on whether it was reviewing trading related to Mr. Trump's tweet. Another regulator, the Commodity Futures Trading Commission , didn't immediately respond to a request for comment.

A tweet is generally viewed as public disclosure, so traders who bet that Mr. Trump's tweet suggested positive news about the jobs report wouldn't face any consequence, said Andrew Vollmer, a former deputy general counsel of the SEC. He added that regulators are unlikely to investigate the White House or the president unless there is evidence that government officials traded before Mr. Trump's tweet.

While the president could have violated White House policies, executive branch regulations or laws that control how confidential information is disclosed, market regulators such as the SEC don't enforce those rules and laws, said Mr. Vollmer, now a law professor at the University of Virginia.

"The president or the White House staff could have violated those things, but for the president, there is unlikely to be any consequence," he said.

The OMB directive says executive branch officials shouldn't comment on economic data until an hour after reports are released.

In March 2017, then-White House press secretary Sean Spicer drew criticism when he tweeted 22 minutes after the release of a jobs report. But he shrugged off any concern. "I apologize if we were a little excited and we were so glad to see so many Americans back to work," Mr. Spicer said at the time.

The intersection of presidential politics and economic data has sparked controversy in the past. President Dwight Eisenhowerannounced labor-market figures early ahead of elections during the 1950s. He didn't repeat that move in the 1960 election, when unemployment was on the rise, but the data leaked anyway to the Washington Post a few days before voters went to the polls.

While disclosures of economic data are rare, they aren't unprecedented. In February 2009, with the U.S. economy in crisis and Congress debating a stimulus package , then-Senate majority leader Harry Reid (D., Nev.) heard from Mr. Obama around midnight that the following morning's jobs report numbers "would be somewhat scary," he told the Senate after the report's release. The Labor Department reported a loss of 598,000 jobs in January .

Peter Nicholas, Ira Iosebashvili, Daniel Kruger and Dave Michaels contributed to this article.

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Economy

**Transcript: Audience Q&A With Federal Reserve Board Governor Lael Brainard; Official talks about the U.S. economy, financial stability, interest rates and other topics**

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Federal Reserve Board Governor Lael Brainard took audience questions following her remarks at the Forecaster's Club of New York on Thursday, May 31, 2018. She discussed the U.S. economy, financial stability, the path of interest rates and other topics. Here is a transcript of the exchange, lightly edited for length and clarity.

Q: So thank you. Your yield curve and term premiums, and you're thinking of term premiums of long – (inaudible).

LAEL BRAINARD: So I think there are a variety of Federal Reserve Board studies that have looked at term premiums in the medium term, as well as the long term. And you're right that the medium-term term premia have been somewhat low by historical standards as well. And so there's some of the same relationships, and we looked at the shorter-term yield curve as well.

Q: The shape, I'm sorry. How does that affect the shape?—

MS. BRAINARD: So, as—I think I'm following you. So some of the same relationships would be affected—would be expected to affect the medium term as well.

Q: There has been some suggestion that the stimulus to the economy, the tax cuts, is being offset in a pretty dramatic way by increasing pump prices for gasoline. What does that do to your assumptions about the robustness of growth going forward?

MS. BRAINARD: So certainly prices at the pump have been moving up as **oil prices** internationally have gone up. And just as we saw when those prices went down in late 2014 and 2015—at the time that was seen as a bit of a windfall for consumers—right now that is seen as taking some disposable income out of the pocket of consumers. But at the same time they're starting to see higher returns because of the changes in the tax, so that as they're coming home they should be seeing higher disposable income.

Now, the effect on the overall economy, though, as we saw in the early period 2014-2015, importantly is not just through consumers, but it's also through the activity that we saw, business investment in the oil and gas sector. And just as we saw that was either a material drag on growth back in the earlier period when **oil prices** came down, so today one is already starting to see the drilling and mining activity and general activity in that sector as being a support to growth. So it's a much more complicated set of effects and broader set of effects on the U.S. economy than we might have seen a few decades ago before shale really came online. And so it, I think, has some very beneficial effects for overall production, even as consumers may be paying more out of pocket for gas.

Q: (Fed) Chairman (Jerome) Powell – (inaudible) – had said that the international influences weren't—really weren't going to be that important for the Fed. You are going to pursue your policies for domestic reasons, and countries are going to have to sort out their issues. You know, with Italy now we obviously have some different things in regard to the international community. Certainly, you've got an issue with the dollar being a currency that denominates a lot of commodities. We have low inflation around the world. Do you think that the (Federal Open Market Committee's) view of international risks is going to change in the wake of some of these circumstances?

MS. BRAINARD: So we have a very clear mandate given to us by Congress. And our focus—our dual-mandate focus has to be on U.S. inflation or price stability plus maximum employment. And so that's clearly what our policy is oriented to achieve, full employment and inflation around a target of 2 percent.

That said, the U.S. economy is highly global, and we have financial sectors that are highly integrated. We have—a large share of our production is highly integrated across borders as well. And so, of course, as we think about the U.S. economy and in particularly our dual-mandate objectives, we have to take into account how those international developments, whether they be synchronized for the last year, or the more choppy picture that we saw in the year prior to that, or some of the more recent risks that we've seen re-emerging, those things are at least, for my assessment of the U.S. economy, can be important to take into account. Whether those transmit into the U.S. context of financial channels, whether they occur through the exchange rate adjustment mechanism, whether they take place through trade channels or financial stresses, all of those kinds of developments abroad are important considerations as we think about monetary policy.

Q: New York Fed President (William) Dudley gave a speech at the Bank of England warning that if we don't start moving on this (London interbank offered rate) transition, the transition away from Libor, it could pose financial risks, and he cited some $200 trillion of financial contracts tied to Libor. Do you share his concern that we may not be moving fast enough, even though they'll be around to 2021?

MS. BRAINARD: Well, so I think, you know, a lot of the pieces have been put in place and, you know, we have some recommendations from the committee. We have an alternative rate that is a much more robust or should be a much more robust kind of a benchmark. And so really now we need to see the private sector taking the baton and starting to move contracts away from Libor and to this new, more robust rate or set of rates. And so, yes, I do set—I do share the sense of urgency. But I think the path is pretty well-paved, and now it's really for private-sector participants to start making those transitions through their financial contracts.

Q: Real interest rates remain extraordinarily low, and that in turn is—there will be more financial imbalances that might manifest themselves in the future. How do you trade off a few decimals of inflation relative to the risk of financial-sector vulnerabilities building because real interest rates remain consistently low? Therefore, I'm asking, particularly, what's our monetary policy vis-à-vis financial instability risks?

MS. BRAINARD: So, as we think about this late cycle—you know, we're in a period where resource utilization is tightening, we're growing above trend, had a sizable business stimulus coming into that context, and the potential that unemployment will fall to levels that we haven't seen, then people start to ask, what are the risks there? And what we've seen—in earlier decades when unemployment has fallen to the kinds of levels that are in some people's projections, we've seen there's been a risk of an outbreak of inflation to the upside. More recently, in the most recent decades, in a period where inflation expectations seem to be quite well-anchored to the upside, instead what we've tended to see is those imbalances emerging more in the financial sector, in financial imbalances.

So I think it's incumbent upon us to be keeping a very close eye on imbalances that could emerge anywhere in the economy. Certainly inflation is kind of the most focal point because of our dual mandate, but more broadly.

How do we—what kinds of instruments do we have to deal with that? So we have both I think much better routine, detailed surveillance technology than we had prior to the crisis to monitor where those kinds of imbalances might be arising and whether they could be broadening. And the framework we have looks at the obvious things, but it looks at them very systematically.

So it looks at valuations. Valuations have been elevated. We've seen some recent **volatility**. But nonetheless, according to a whole variety of historic benchmarks, valuations are still pretty elevated, both in equity and credit markets.

If you look at leverage, which is a second area that we look at very systematically for obvious reasons, leverage is a—it's a more mixed story. So we see household leverage is still relatively contained, and that's partly because of the experience during the crisis and the deleveragings subsequent to that. But if you look in the business segment, you do see leverage has grown quite a bit—the rate of increase has slowed a bit—but particularly among riskier corporate borrowers.

But then, if you look at the other two areas that we think of for worrying about whether financial imbalances may create some vulnerabilities, leverage in the financial sector and liquidity and maturity transformation, in those two areas risk remain relatively moderate. And the reason for that, in part, is because of very important financial reforms that have been put in place, whether it be money market reforms when you look at maturity transformation or the core capital liquidity requirements in the banking system. So it's a moderate picture overall.

But we do have mechanisms that are macroprudential in nature in addition to the traditional monetary policy tool because monetary policy has a—has a complicated relationship to financial imbalances. We do have the scenario setting for the stress tests, which I think we've used very effectively to try to make sure that that resilience will remain in place for a variety of shocks. And the second tool that we have, but we have not activated because conditions have so far not led to the conditions that are in our rules, which is the countercyclical buffer. But that has been used in other jurisdictions, and it's obviously something where that is a secondary important part of our macroprudential framework.

Q: Thank you for your comments. You talked about the short-run neutral rate being still relatively low. And we know, or at least we think we know, that monetary policy works with a lag. Would it make sense to pause at some point to evaluate whether the current—or the latest increases in the funds rate have begun to restrain the economy in some way? Thanks.

MS. BRAINARD: So I can just tell you what my assessment of the appropriate path of policy is, sitting where I am today with the data and the outlook that I have today. So, from where I sit today—again, for the reasons that I said earlier: we've got above-trend growth, we've got tightening resource utilization, inflation is moving up to target after a long period of underperformance, we've got a quite substantial amount of fiscal stimulus—for me, in that context, in addition to that gradual and predictable runoff of the balance sheet in the background, it seems to call for gradual increases in the federal-funds rate.

Now, obviously, the path forward will have to be sensitive to developments that may change that outlook. And as I said earlier, you know, there are some upside risks; there are some downside risks, downside risks mostly at the moment emanating from abroad. And so, as we move forward, we'll have to continually reassess whether that is the appropriate path or whether some adjustments may be warranted.

Q: If I could follow up on that, the Taylor rule approach that has been favored—the version of the Taylor rule that has been favored by former (Fed Chairwoman Janet) Yellen, which put a double weight on the unemployment rate, and I believe that Richard Clarida's version of the Taylor rule—(inaudible)—also puts extra demands on it. We've always argued that's a double-edged sword. What happens when you get beyond full unemployment? The momentum in the economy, the systematic under-forecasting, forecast too-high unemployment rates, so it seems if we keep this momentum in the jobs market going we're going to get down well below 3 ½ percent. One of the best indicators of recession is when the unemployment rate comes up by six-tenths of a point. So how do you calibrate the inflation rate if the inflation rate sticks around 2 percent but we continue to get momentum to a lower and lower unemployment rate? How do you take that calibration into your thinking about policy?

MS. BRAINARD: So, as we look at the labor market and try to assess our—how close are we to maximum employment, the unemployment rate, U3, is an important indicator. It's very important indicator. It's not the only indicator. We have to look at a broader set of indicators, because some of these relationships were perturbed by the crisis. So, for instance, we saw that some components of unemployment took a very long time to start moving down.

Now, as I look at the employment picture today, I think, you know, there are reasons to believe that slack has diminished. There is possibilities that slack—there is still some margins of slack, and in particular the EPOP ratio—the employment-to-population ratio for prime-age workers that I was referring to earlier—that's still a percentage point below where we were pre-crisis. And so it's just a question mark as to how many of those people could be drawn back in under the right conditions.

That said, I think—as I look at our policy path going forward, I really think about it as sustaining full employment while achieving inflation around target. And inflation is currently moving up. We've seen progress. We will want to see sustained performance of inflation after seven years of underperformance. But that policy path should be increasingly calibrated to sustainable employment and inflation at target.

Q: The thing I want to kind of focus on is, like—is about the balance sheet of the Fed. You've been in the market, and I would say the Fed is moving toward talking about the fed-funds rate as being the barometer for tightening policy. But is—the gradual runoff of the balance sheet has been announced, and it is proceeding as kind of announced by the Fed…How is the Fed thinking about what tightening is actually happening? What are you monitoring? And what will be, quote/unquote, a "trigger," perhaps just to say maybe we've done enough, maybe we don't need to taper the balance sheet anymore, maybe we need to preserve this size of the balance sheet?

MS. BRAINARD: So, obviously, conditions in money markets and financial conditions more broadly are buffeted by many different developments. Monetary policy is one of many. Fiscal policy matters greatly, of course, and so do a variety of other factors. As we think about the last year, I think it's worth nothing that while we have been—while the committee has made a clear decision about that pace of runoff, and it's as gradual and predictable and transparent as it can be, we still have before us a discussion about whether it will be a floor system, which we've been operating in for some time, or whether we might return to a world of scarce reserves.

I think I have been pretty clear that I think the system that we're in now worked pretty well, in which case all the questions that you've raise are good ones. They'll be relevant. Or, you know, we still have to have that discussion about whether we want to go back to a pre-crisis operating framework, which I would argue against. I think it's—I think it's much more difficult. But some of those questions, I think, are related.

If the decision were made to operate in a floor system, then some of those other details would need to be fleshed out. And at some point—and the New York Fed has done a nice job of providing some scenarios to the public, so you can kind of take a look at different scenarios for the balance sheet. At some point you would—you would actually start to see an inflection point and the balance sheet would start to grow again. So those kinds of questions that you're raising would be relevant in that context. But again, the decision still lies before us.

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THE WALL STREET JOURNAL.

Economy
**U.S., China Trade Negotiators Haggling Over Purchases of American Goods; Washington seeks long-term contracts; Commerce Secretary Ross heading to Beijing this weekend to lead talks**

By Lingling Wei
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BEIJING—U.S. and Chinese trade negotiators are haggling over how to get Beijing to carry out recent promises to purchase more American farm and energy products, with Washington pushing for long-term contracts that Chinese officials are reluctant to commit to.

The snag is hanging over high-level negotiations scheduled for this weekend. U.S. administration officials, having said earlier that a lack of progress by the advance team might lead to Commerce Secretary Wilbur Ross canceling a trip to Beijing, said Mr. Ross remains scheduled to be in China on Saturday. The plan is for two-days of talks in Beijing with China's top trade negotiator, Liu He, but the White House's recent moves to revive the threat of tariffs on Chinese imports have complicated the prospects for his mission.

During the discussions, held by a U.S. advance team and its Chinese counterpart in Beijing on Thursday and Friday, U.S. officials pressed their Chinese peers to commit to multiyear purchase agreements, according to people with knowledge of the exchanges from both sides. For the U.S., such pacts could be useful in prodding China to significantly lower tariffs and ease regulations and other barriers to imported goods.

Chinese officials have been reluctant to get locked into long-term commitments, these people said. Beijing wants "control and leverage," one of them said.

The U.S. team, which includes officials from the Commerce, Treasury, Agriculture and Energy departments and the office of the U.S. Trade Representative, was scheduled to make recommendations late Friday to Mr. Ross on whether he should travel to Beijing this weekend as planned to lead the negotiations, according to the people. Chinese officials said their government is committed to dialogue to fend off a trade war with the U.S. Mr. Ross wanted to take the trip to maintain conversations with Beijing, the people said.

The trip was initially seen as a positive move in the months of wrangling between the U.S. and China over trade, a follow-up after both sides declared a truce two weeks ago. On Tuesday, however, the Trump administration unexpectedly declared it would move forward with tariffs on $50 billion in Chinese goods and take other actions aimed at restricting China's access to U.S. technology.

The U.S. team led by Mr. Ross is aiming to secure a deal in which China would buy more U.S. soybeans, beef, poultry, natural gas and crude oil, among other agricultural and energy products. The U.S. hopes that such purchases would narrow its trade deficit with China, which stood at $375 billion last year. President Donald Trump wants the trade gap slashed by at least $200 billion by 2020.

In negotiations in May in Washington, a Chinese team led by Mr. Liu, President Xi Jinping's economic envoy, agreed to try to step up purchases of U.S. goods, though it declined to commit to any numerical targets. In the Beijing talks this week, Chinese negotiators again have resisted agreeing to specific, long-term commitments.

One reason for the Chinese side wariness to make concessions are President Trump's looming tariffs and restrictions on Chinese investments, according to the people. On top of that, a divide between Trump administration factions also casts doubt over how long any trade deal can last, these people said.

A group led by Treasury Secretary Steven Mnuchin has been pushing for a deal centered on boosting U.S. exports to China, while another led by U.S. Trade Representative Robert Lighthizer is looking for more significant changes in how China treats foreign companies—and is more willing to resort to trade sanctions even if they disrupt **financial markets**.

China's chief trade negotiator, Mr. Liu, so far has had the blessing of President Xi to use the U.S. pressure to accelerate plans to liberalize **financial markets**, the auto sector and other industries, according to Chinese officials. But he is also running up against growing nationalist calls for Beijing to take a tougher stance against U.S. demands. Many state-owned companies, for instance, have a strong interest in keeping foreign competitors at bay.

Those differences suggest that rather than a breakthrough, Washington and Beijing are likely in for a long haul of recurring talks, economists and analysts in both countries said.

Meantime, as U.S.'s plans to impose levies on imports from its allies prompt anger and retaliation from countries including Canada and Mexico, China is trying to line up other countries against Washington by enticing them with greater access to Chinese markets. On Friday, China's Finance Ministry released a list of more than 1,000 products that will be subject to lowered import tariffs, starting July 1.

Chinese consumers have long complained about having to pay much higher prices for Bvlgari jewelry, Rolex watches and other imported items sold on the mainland. By cutting the tariffs, Beijing is also hoping to spur domestic consumption as a way to offset any weakening of trade and to keep the economy on an even keel.

"To counter the effects from the U.S.-China trade conflict, China should continue to open its markets to the rest of the world," said Zhang Ming, a senior economist at the Chinese Academy of Social Sciences, a government think tank in Beijing.

Bob Davis in Washington contributed to this article.

Write to Lingling Wei at lingling.wei@wsj.com

More on Trade

* Europe Launches Challenge to U.S. Tariffs

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* Trump's Trade Policies Threaten Millions of Jobs, U.S. Chamber of Commerce Says

Document WSJO000020180601ee61001rx

 

THE WALL STREET JOURNAL.

Heard on the Street
Markets

**The New Tech That Terrifies OPEC; U.S. shale oil drillers are boosting efficiency with giant pads and walking rigs, lowering prices to a point that could hurt exporters like Saudi Arabia.**

By Spencer Jakab
722 words
1 June 2018
05:30 AM
The Wall Street Journal Online
WSJO
English


What doesn't kill you makes you stronger.

Two years ago, it looked like Saudi Arabia was winning its fight against the U.S. shale oil industry by furiously pumping crude to drive down prices. Some drillers went bust and many more flirted with bankruptcy while oil drilling in places like West Texas and North Dakota collapsed.

The Saudi effort backfired. Instead of killing shale it spurred a wave of innovation that transformed drilling in the U.S. into a highly efficient industrial process, dramatically lowering costs and boosting output. During the next oil bust, it will be the Saudis who have to worry.

"High prices tend to create sloppiness in this industry because people focus only on growth," says Doug Suttles, chief executive of shale driller Encana. "Downturns make you focus on cost because it's the only thing you can control—the **oil price** is out of your hands."

Meanwhile, something remarkable is happening. The U.S., where production was once thought to have peaked nearly 50 years ago, will become the largest oil producer on the planet by next year.

One region alone, the prolific Permian Basin, recently passed 3.1 million barrels a day of output. Stretching from West Texas to New Mexico, it would now rank No. 4 of the 14 members of the Organization of the Petroleum Exporting Countries and may soon produce more than No. 3, Iran.

The amount of oil being pulled from the ground there is already driving global markets. But what should really frighten energy ministers in Riyadh, Tehran and Moscow is how that oil is produced. The number of drilling rigs now active in the Permian is the same as back in October 2011, yet the region is producing three times as much crude.

Just a few years ago, a well would be drilled and then the rig would be disassembled and moved to a new location—a time- and labor-intensive process. Today it is more common for rigs to sit on giant pads, which host multiple wells and the necessary infrastructure, and for them to move on their own power to a new well yards away. These rigs drill over a wider area and increasingly are being guided by instruments developed for offshore drilling that see hundreds of feet into the rock. They inject more sand underground to break open the rocks, boosting output.

Those small gains add up. Between 2010 and 2016, the average number of drilling days per rig including transport time fell at a pace of about 8% a year in the Midland section of the Permian, while initial well production grew by 33% in just two years, according to McKinsey Energy Insights.

The efficiency and drilling intensity is clear from just one site owned by Encana. The pad in the Permian started out with 14 wells, recently had 19 more added to it and may reach 60 wells—a once unimaginable concentration.

That also may make America's reserves last longer. Encana's approach, which it calls "the cube," targets different layers simultaneously, which can boost the amount that can be recovered economically by about 50%, Mr. Suttles said.

The efficiency gains mean that even an epic price decline won't halt activity at the best fields. What's more: The industrial scale of U.S. drilling means that companies able to write big checks and handle complex logistics are driving the market. They are less likely to feel true financial distress during the next pullback.

Producers reckon that the core of the Permian is still profitable in the high $30-to-mid-$40-a-barrel range for U.S. benchmark crude, now trading around $66 a barrel. According to the International Monetary Fund, not a single Middle Eastern OPEC country can finance its budget at Brent crude below $40 a barrel.

OPEC, a cartel out to maximize its profit, talks a lot about bringing "balance" to the oil market. The bust they helped engineer left that balancing point at a price they will find it hard to live with.

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

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THE WALL STREET JOURNAL.

Markets

**How OPEC and Shale Have Squeezed Out Volatility in the Oil Market; Even threats of war, sanctions and an economic crisis fail to rouse market moves**

By Sarah McFarlane
893 words
1 June 2018
10:27 AM
The Wall Street Journal Online
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English


Corrections & Amplifications

The Organization of the Petroleum Exporting Countries is an oil cartel. An earlier version of this article incorrectly stated the name as the Organization of Petroleum Producing Countries. June 1, 2018.

Volatility in the oil market is being squeezed out by two giant forces: U.S. shale and OPEC.

Even threats of war, sanctions and an economic crisis can't rouse the sort of market movements that drive profits for traders and hedge funds.

The volatility of Brent crude, the international benchmark, has fallen to around 22%, measured by the standard deviation of daily price moves over the past year. Since 1995, the average has been 32%. A lower figure indicates less volatility.

The oil price tends to move around more when global inventories shift between being very high, prompting prices to fall because of extra supply, and very low, which pushes up the price.

Currently, when inventories fall, nimble U.S. shale producers respond quickly to price rises by producing more oil, meaning their tanks don't empty too much. On the other side, supply cuts from the Organization of Petroleum Exporting Countries and other major producers mean inventories don't rise too high.

"It's a combination of shale becoming a bigger force and then you have this more cyclical story of inventories coming down helped by OPEC cuts, Venezuela and strong demand," said Francisco Blanch, head of commodities research at Bank of America Merrill Lynch.

An economic crisis has crimped production in Venezuela, one of several geopolitical factors that would typically stir volatility.

Tensions are high in the Middle East, with Yemeni rebels targeting Saudi Arabian oil facilities and Israel hitting Iranian targets in Syria. Meanwhile, the U.S. is reinstating sanctions against Iran, which analysts say will likely curb supply from the country.

"Even with the events in the Middle East and the geopolitical price premium, the market volatility is not screaming panic," said Thibaut Remoundos, chief executive of consultancy Commodities Trading Corporation.

Volatility has fallen across most markets in recent years, but stocks are now whipsawing more as central banks withdraw stimulus and political risk rises.

Brent was up 0.1% at $77.66 on Friday, having fallen from over $80 a barrel last month. It may feel like oil is swinging about a lot, but it isn't.

Swings in prices are currently at the lower end of a historical range that stretches back over 20 years.

OPEC and its ability to move prices isn't a new factor. But the addition of U.S. oil exports has added another large supply stream that can respond to price signals. Shale producers can react to price moves within months, whereas other sources of crude—such as deep water oil fields—can take years.

This faster response time has muted swings in prices. When the **oil price** rises shale producers turn on the taps, when it falls they ease off, capping big moves in either direction.

"Shale is contributing a lot in the sense that it's giving people comfort that even if inventories fall a lot or build, production is going to adjust," said Bank of America Merrill Lynch's Mr. Blanch.

The supply cuts agreed in 2016 by OPEC and its allies puts a cap on supply from about half of global production, affecting just how high those inventories can rise.

It was Washington's decision to reinstate sanctions on Iran that sent Brent above $80 a barrel. But that led Saudi Arabia and Russia to step in, saying they are working to boost production soon, pushing oil lower again.

Analysts say that when oil inventories are neither particularly high nor low, price **volatility** tends to diminish.

Oil inventories brimmed after U.S. shale technology unleashed vast reserves of oil after 2010 and OPEC reacted by turning on its taps in a battle for market share.

But now inventories are low again, hitting their lowest level in three years in March, and back in line with their five-year average, according to the Organization for Economic Cooperation and Development.

"The possibility of inventories becoming extremely high or low should diminish which reduces the likelihood of extreme spikes or drops in price," said Sebastian Barrack, head of commodities, at Chicago-based hedge fund Citadel.

Less **volatility** is a good thing for oil producers and consumers, who find it easier to plan ahead if prices aren't whipsawing around. But it isn't so great for traders and hedge funds.

Lower **volatility** is putting pressure on the razor-thin margins of the giant trade houses that ship millions of barrels of oil around the world in a high volume.

"We work on margins which are less than half a percent of turnover which means you don't have a lot of margin for error," said Marco Dunand, chief executive of Switzerland-based trader Mercuria Energy Group.

Amid such trading conditions hedge funds are bowing out. Oil trader Andy Hall's main fund at Astenbeck Capital Management LLC closed down last August, while Madava Asset Management led by veteran energy trader George Taylor and New York-based Jamison Capital Partners LP have also shut down funds.

Jon Sindreu and Patricia Minczeski contributed to this article

Write to Sarah McFarlane at sarah.mcfarlane@wsj.com

More

* **Oil Prices** Fall on Rising Production

* Heard on the Street: The New Tech That Terrifies OPEC

Document WSJO000020180601ee61002ec

 

The New York Times

Editorial
Opinion
**Fed Makes a Risky Bet on Banks**

By The Editorial Board
820 words
1 June 2018
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English


That banks can't be completely trusted to judge the risks they take was a painful lesson regulators learned from the Great Recession. Or so it seemed.

After financial institutions' casino-like investments in complex derivatives and questionable mortgage lending nearly collapsed the global financial system a decade ago, Congress established the Volcker Rule as part of the Dodd-Frank reform act in 2010. The Volcker Rule restricted banks from speculating with depositors' money. It limited them to trading on behalf of customers — market making — or to hedge potential risks from swings in interest or foreign currency rates. The banks were also banned from investing in hedge funds and private equity funds.

Under the rule, in force since 2015, any security held for less than 60 days is deemed a proprietary trade — speculation with the bank's accounts. More important, banks had to demonstrate to regulators that such trades were for permitted purposes and were not the product of some clever trader's hunt for enhanced returns.

Not any more, it seems. Under a revision proposed by the Federal Reserve on Wednesday, banks would establish their own risk limits and determine whether such trades are compliant, rather than running every trade they make on behalf of clients by the regulators.

In other words, trust them, they're risk-taking experts.

There's no question that the banks have had to function within a more cumbersome regulatory harness under Dodd-Frank. Including the Fed, five agencies are involved in enforcing Dodd-Frank and its Volcker component: the Office of the Comptroller of the Currency, the Federal Deposit Insurance Corporation, the Securities and Exchange Commission and the Commodity Futures Trading Commission. And all must approve the proposed revision.

That's a sea of bureaucracy, but the scope of the damage committed by financial institutions a decade ago — consider the hundreds of billions of dollars in bailouts — required a vigorous response. It still does. And there's no good reason to end it.

If banks are overly burdened by this regulatory load, it's not apparent in their robust results.

Yet they have successfully argued that the rule has restricted liquidity, and choked their ability to trade in complex products such as derivatives, which are often used by banks and their clients to offset risk.

When markets got more **volatile** earlier this year, though, there seemed to be more than adequate liquidity available. Keefe, Bruyette & Woods, a financial services firm, reported that revenues from stock trades increased 37.5 percent for the median American bank in the first quarter of 2018.

"Total revenue for the U.S. banks was the highest since 2009," KBW noted.

Similarly, JPMorgan Chase said that its trading revenue increased 13 percent, to $6.57 billion from $5.82 billion from the prior year's quarter. Aided by tax cuts, JPMorgan posted a record $8.71 billion in quarterly earnings. Other big banks, with the exception of the tarnished Wells Fargo, were putting up similarly admirable profit numbers. And rising interest rates point to more to come.

So why rush to undo the proprietary trading safeguard? The former Federal Reserve chairman Paul Volcker, who helped write the rule, is sympathetic to the banks' desire to unwind some of the red tape. Still, he warned that deregulation should not "undermine the core principle at stake — that taxpayer-supported banking groups, of any size, not participate in proprietary trading at odds with the basic public and customers' interests."

It's also disappointing to see that this proposal has the backing of the Fed chairman, Jerome Powell, and the former Obama official and board member Lael Brainard, who both know from the experience of the last downturn the possible risks here. The Great Recession amply demonstrated that when banks chose between proprietary trading and customers' interests, the customers lost out. And we haven't even had any kind of market jolt to thoroughly test what would happen under the existing rules.

Congress has already rolled back some Dodd-Frank risk regulations on all but the largest banks, in a law President Trump signed last month.

Mr. Volcker, a truly wise man who conquered rampant inflation as Fed chairman from 1979 to 1987, said he had faith that proprietary trading would still be amply regulated and "the final rule will strongly maintain that position by, as intended, facilitating its practical application."

Forgive us for being less trusting, Mr. Chairman. There's a saying that the time to fix a leaky roof is when the sun is shining. And our economy is, if not shining, certainly sunny. The fear is that, when it comes to our financial system, both our Congress and our regulators are now loosening the shingles.

Under a revision to the Volcker Rule proposed by the Federal Reserve, banks would establish their own risk limits. | Andrew Burton/Getty Images

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The New York Times

U.S.; Politics
**Trump Touts Jobs Report Before Official Release, Breaking Protocol**

By Jim Tankersley and Matt Phillips
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1 June 2018
09:21 AM
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WASHINGTON — President Trump broke years of presidential protocol on Friday morning with a tweet that signaled a strong jobs report was on its way from the Labor Department, an hour before the report was released.

While the White House brushed off any notion that Mr. Trump had crossed a line, legal experts said the tweet raised possible insider trading concerns and economists said it was a blatant misuse of presidential power.

The Bureau of Labor Statistics routinely releases its monthly employment report on the first Friday of the month. The night before, under longstanding tradition, the president and several senior administration officials — including the Treasury secretary and the chairman of the Council of Economic Advisers — are briefed on the numbers, which they are not supposed to disclose until the report is made public at 8:30 a.m. Eastern Time the next morning.

But Mr. Trump, who was briefed on the numbers Thursday evening, appeared to foreshadow the strength of the latest report on Friday morning on Twitter.

"Looking forward to seeing the unemployment numbers at 8:30 this morning," Mr. Trump posted at 7:21 a.m.

Social media users saw the message as evidence that Mr. Trump had seen the numbers, and that they were good. Sure enough, the report showed that the economy added 223,000 jobs in May, above forecasters' expectations. The unemployment rate dipped to 3.8 percent — the lowest level in 18 years.

White House officials downplayed the president's tweet. Larry Kudlow, the chairman of the National Economic Council, said that he had shared the jobs report on Thursday evening with the president but expressed no concern with Mr. Trump's tweet on Friday morning.

"I don't think he gave anything away, incidentally. I think this is all according to routine, law and custom," Mr. Kudlow said on CNBC.

But economists criticized Mr. Trump for breaking a longstanding practice, and possibly a federal regulation.

Because it is widely known that presidents have early access to jobs numbers, and because Mr. Trump has never before tweeted that he was "looking forward" to a report release, "I would be willing to bet that some people traded off of this," said Thomas O. Gorman, a former Securities and Exchange Commission enforcement official who is now a partner at the law firm Dorsey & Whitney.

"The fact of the matter is, he knew it was good, it was good, and he signaled it," Mr. Gorman said, referring to the number in the jobs report. "You don't have to say, by the way, company A is going to buy company B. You can just signal it. The word selection is very clear. He knew exactly what he was doing."

A spokesman for the Securities and Exchange Commission would not comment on whether the agency was aware of any unusual market activity before the report was released. The Commodity Futures Trading Commission did not respond to a similar request for comment.

On Wall Street, where the 8:30 a.m. release on Jobs Friday is a major event for the markets each month, traders disagreed on whether the tweet actually moved prices, which fluctuate constantly and make it difficult to determine if any single event pushed them in one direction or another.

But observers also said it is clear that watching the presidential Twitter feed is now being incorporated into the ritual of preparing for the Bureau of Labor Statistics update.

“I think the markets certainly paid attention,” said Aaron Kohli, a government bond market strategist at BMO Capital Markets in New York, of the president’s Friday tweet. “And will do so next month should there be a tweet, or lack of one.”

Many trading firms already use computers to keep track of social media traffic in the hope of garnering trading signals.

“Most sophisticated firms these days are following Twitter, and in the age of Trump, a lot of firms have trading models that are following him,” said Larry Tabb, founder of the Tabb Group, a **financial markets** research and advisory firm.

Still, some expressed concern that the president could turn one of the most important signals about the health of the economy into a trading game that could destabilize **financial markets** by prompting a rapid sell-off in advance of future jobs reports if Mr. Trump did not tout the upcoming release.

Before he became president, and began to celebrate strong jobs reports, Mr. Trump actively worked to undermine confidence in economic data. Throughout his run for the White House and even in the months before he took office, he often dismissed the reports as “fiction.”

Washington has long tried to prevent market-moving data like the employment numbers from being prematurely released. In 1985, the White House Office of Management and Budget issued a regulation governing the release of embargoed federal data like the jobs report, including a requirement that employees of the executive branch not comment publicly on the data until an hour after its release.

“All employees of the executive branch who receive prerelease distribution of information and data estimates as authorized above are responsible for assuring that there is no release prior to the official release time,” the regulation states. “Except for members of the staff of the agency issuing the principal economic indicator who have been designated by the agency head to provide technical explanations of the data, employees of the executive branch shall not comment publicly on the data until at least one hour after the official release time.”

It is unclear whether the regulation applies to Mr. Trump, some legal experts said. “I would be very cautious about assuming this applies to the president, who is generally not considered an employee” of the executive branch, said Adam Scales, a law professor at Rutgers University who teaches administrative law.

The Republican National Committee responded to the criticism of Mr. Trump on Friday afternoon by flagging an evening speech by President Barack Obama on Feb. 5, 2009, the night before the first jobs report release of Mr. Obama’s presidency.

The economy was shedding jobs rapidly in the depths of the Great Recession and Mr. Obama, pushing for passage of an economic stimulus bill, told a congressional Democratic retreat that “Tomorrow we’re expecting another dismal jobs report, on top of the half a million jobs that were lost last month, on top of the half a million jobs that were lost the month before that, on top of the 2.6 million jobs that were lost last year.”

Even before the numbers were released on Friday, economists said they were stunned at the prospect that Mr. Trump was giving hints about the report’s content, which fast-acting traders in **financial markets** could seize on to place bets on an optimism-fueled market surge.

Austan Goolsbee, who served as chairman of the Council of Economic Advisers for a year during President Obama’s first term, called Mr. Trump’s tweet “totally inappropriate”. If he or another official had sent a tweet like the president’s, he said, he would have been investigated.

“It’s more than just a breakdown of a norm, this is really an abuse of the office,” Mr. Goolsbee said.

Other economists went further, raising the possibility that if Mr. Trump was willing to give Twitter users a premature hint at the strength of report, he could also have shared the numbers with a more select group even earlier.

“President Trump was sent the jobs numbers in advance,” said Jason Furman, an economist at Harvard University’s Kennedy School of Government who was Mr. Obama’s final chairman of the Council of Economic Advisers. “Sharing them with the public is destabilizing and inappropriate. A bigger concern is if he was bragging about them privately to his friends last night — friends who could make millions on the information.”

 

Mr. Furman said during his tenure, he briefed the president in person in the early evening if Mr. Obama was in Washington, and usually gave him the numbers over a secure phone line if the president was traveling. Mr. Obama also received a paper summary of the next day's major economic releases around 7 p.m.

Mr. Furman said he and other officials took the security of the numbers seriously. When he started at the White House, Mr. Furman said, he signed a memorandum of understanding with the Labor Department agreeing only to share the numbers with the handful of people authorized to see them. He said he did not believe the information was formally classified, but the staff treated it that way, discussing it via a secure line.

Letting the numbers leak, Mr. Furman said, risked undermining public confidence in the integrity of economic data.

Jim Tankersley reported from Washington and Matt Phillips from New York. Ben Casselman contributed reporting from New York.

* New Milestones in Jobs Report Signal a Bustling Economy

* Trump's Blocking of Twitter Users Is Unconstitutional, Judge Says

* The Man Behind the President's Tweets

* Trump, Twitter and the Art of His Deal

President Trump on Thursday. Mr. Trump appeared to foreshadow the strength of the most recent jobs report with a post on Twitter on Friday morning. | Doug Mills/The New York Times

Document NYTFEED020180601ee61003jt

 

THE WALL STREET JOURNAL.

Economy

**Less-Educated Workers See Sharpest Drop in Unemployment; Unemployment rate for workers 25 years and older with less than a high-school diploma falls to 5.4%, from 6.2% a year earlier**

By Sarah Chaney
771 words
1 June 2018
01:37 PM
The Wall Street Journal Online
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English


The job market for Americans who didn't finish high school has never been better.

In May, the unemployment rate for workers 25 years and older with less than a high-school diploma was 5.4%, down from 6.2% a year earlier. The unemployment rate for those without a high-school diploma touched a 25-year record low late last year, and has held below 6% this year, a sharp drop from 8.5% in September 2016.

Though the unemployment rate for Americans with only a high-school diploma hasn't dropped as quickly as for those without a diploma, it has still fallen more than the rate for college graduates. In May, the unemployment rate for college grads clocked in at 2%, in line with the past couple of years and still well below the rates for those without a degree.

The swift decline in unemployment for the less-educated is a sign that a tightening labor market is drawing in workers from the margin to share in the gains that more highly educated workers began experiencing earlier in the economic expansion, said Andrew Chamberlain, Glassdoor chief economist.

"When employers run out of workers, that's when people with the weakest bargaining positions get put in the driver's seat and can negotiate for better pay and get themselves into roles," Mr. Chamberlain said.

Employers are relaxing their criteria as the pool of job seekers shrinks.

"You were willing to hire somebody with [a] high-school degree, you cannot find that—now you're willing to give somebody a chance who has less than a high-school degree because there just aren't that many people around to work," said Fatih Guvenen, professor of economics at the University of Minnesota.

The growth of e-commerce is another factor likely behind the fast-falling unemployment rate for the less-educated.

"Amazon, Walmart and all of the other online giants are struggling to fill these roles because the last stage of the e-commerce pipeline is just getting goods to people. Those jobs don't require a high-school diploma, they don't require a college degree in some cases," Mr. Chamberlain said.

Throughout much of the economic expansion that began in mid-2009, the gap in unemployment rates between Americans without a high-school diploma and those with a college degree remained wide. In recent months, the gap has been trending at the lowest on record.

Evidence suggests the falling unemployment rate is translating into swifter wage growth for the less educated, in line with the economic theory that employers should ratchet up wages to attract talent when the supply of workers is tight.

In the first quarter of this year, median weekly earnings for Americans without a high-school diploma surged by 10% from a year earlier. This compares with 0.5% annual growth for college graduates. Though earnings data can be **volatile** from quarter to quarter, the trend has been ongoing: In the third and fourth quarters of last year, earnings growth for high-school dropouts also outpaced gains for college graduates

Evidence suggests the falling unemployment rate is translating into swifter wage growth for the less-educated.

Jackie Brunka, age 25, left high school in March 2010 when she was 17 years old. She earned her graduate-equivalency degree a couple of months later and worked at a fast-food restaurant, later returning to the job market and finding it nearly impossible to land a position. She felt employers looked down upon her GED.

"I probably got maybe one interview out of every six to eight applications I was putting in. They were interviews for grocery stores, gas stations," Ms. Brunka said. "I felt like I had a bigger purpose."

Opportunities increased as the unemployment rate went down, she said.

In March, Ms. Brunka interviewed for a job as a front-office coordinator at the southern office for Buffalo Express Employment Professionals. She received a job offer just a few days later with vacation perks and a higher wage than she had ever had.

Write to Sarah Chaney at sarah.chaney@wsj.com

More

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* Unemployment Rate Falls to 18-Year Low; Solid Hiring in May

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THE WALL STREET JOURNAL.

Politics

**U.S. Tariffs Prompt Anger, Retaliation From Trade Allies; Canada, Mexico and the European Union promise to issue their own levies on U.S. goods, increasing chances of a trade war**

By William Mauldin
1,420 words
31 May 2018
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The Wall Street Journal Online
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English


WASHINGTON—The Trump administration raised the prospect of a global trade war by imposing tariffs on imports from the closest U.S. neighbors and allies, who swiftly pledged to retaliate with duties of their own.

President Donald Trump is pursuing an aggressive strategy to win economic concessions from neighbors and allies in an effort to cut the U.S. deficit in merchandise trade.

The new tariffs—on steel and aluminum imports from Canada, Mexico and the European Union—come as the U.S. is studying global levies on autos and auto parts. The administration also plans tariffs on industrial supplies from China. Beijing has promised to retaliate with its own duties.

**Financial markets** fell early on Thursday before partly recovering later, with the **Dow Jones Industrial Average** closing down 1% to 24415.84.

The move follows months of U.S. threats to impose tariffs, part of a push to negotiate new trade terms. The Trump administration is negotiating with virtually all of its major trading partners around the globe, including with Mexico and Canada over the North American Free Trade Agreement.

Those initiatives have generally failed to bring the large, quick victories Mr. Trump has promised.

Administration officials said they were still open to deals to drop the metals tariffs. "We continue to be quite willing and indeed eager to have further discussions with all of those parties," Commerce Secretary Wilbur Ross told reporters Thursday.

The reaction from allies was swift and severe. Canadian Prime Minister Justin Trudeau said his government would impose a 25% tariff on steel imports from the U.S. and a 10% tariff on aluminum and a wide range of other U.S. goods, including some food and agricultural products. Ottawa said it would hold consultations for two weeks before imposing the tariffs on July 1.

Mexico's Economy Ministry said it would target a number of U.S. goods, including some steel and pipe products, lamps, berries, grapes, apples, cold cuts, pork chops and various cheese products "up to an amount comparable to the level of damage" linked to the U.S. tariffs.

The EU has said it is also planning to hit back with its own duties on U.S. exports worth €6.4 billion ($7.5 billion), including on steel, motorcycles and some agricultural products. Up to €2.8 billion of that could go into effect starting June 20. The EU said it would also launch a case against U.S. measures at the World Trade Organization on Friday.

"This is protectionism, pure and simple," the EU's top executive, European Commission President Jean-Claude Juncker, said Thursday. "We will defend the Union's interests, in full compliance with international trade law."

Some participants in the U.S. steel industry, which Mr. Trump has vowed to protect, applauded the move. "The president's trade actions have already begun putting steelworkers back to work in Ohio and Illinois," said Tom Gibson, president of the American Iron and Steel Institute.

However, the United Steelworkers union, which includes Canadian members, broke with the Trump administration, criticizing the tariffs.

Mr. Trump's "America first" economic message continues to appeal to a wide swath of voters, especially in the industrial Midwest, which he credits for his victory in the 2016 presidential election.

"I've supported steel tariffs from the beginning, because China's cheating has cost too many Ohio steelworkers their jobs," said Sen. Sherrod Brown (D., Ohio). "I'm open to carving out allies who are not part of the problem, but steel overcapacity is a global problem that needs a global response."

Washington announced unilateral, global steel and aluminum tariffs in March, but Canada, Mexico and the European Union, which includes the U.K., had been offered temporary exemptions to the duties. All three economies received an extension a month ago. On Thursday, Mr. Ross told reporters the exemptions won't be renewed, subjecting their metals exports to the tariffs.

The move capped a week of intensifying pressure on trading partners. On Tuesday, the White House revived a plan it had previously suspended to place tariffs on $50 billion in industrial imports from China, and it is studying whether tariffs should be imposed on imported cars and auto parts.

The Trump administration is citing national security to justify the tariffs, arguing that America's allies and rivals are employing unfair trade policies to undermine the viability of critical U.S. industries, starting with steel and aluminum. The administration says the national security justification comports with U.S. law and a special security exception at the WTO.

On Thursday, the White House said the "steel and aluminum tariffs have already had major, positive effects on steel and aluminum workers and jobs."

The policy risks higher prices on imports, painful retaliation against U.S. exports and longer-term strife with allies if the Trump administration alienates politicians in allied democracies.

Republican lawmakers were quick to voice their disapproval. "This is dumb," said Sen. Ben Sasse, a Nebraska Republican. "Europe, Canada, and Mexico are not China, and you don't treat allies the same way you treat opponents."

Rep. Kevin Brady, the Republican chairman of the House committee that oversees trade, said the Trump administration "will need to come to Capitol Hill to provide answers about the indiscriminate harm these tariffs are causing our local businesses."

Sen. Orrin Hatch of Utah, chairman of the Senate Finance Committee, said: "Tariffs on steel and aluminum imports are a tax hike on Americans and will have damaging consequences for consumers, manufacturers and workers. I will continue to push the administration to change course."

The countries hit by tariffs include some of the biggest suppliers of metals.

Canada accounts for about half of the raw aluminum imported by the U.S. and about 21% of the finished steel imports by the U.S. It is a major provider of steel plate and hot-rolled coil steel used widely in manufacturing.

Mexico supplies 9% of finished steel imports and 11% of semifinished steel. These are generally big slabs of steel that U.S. mills buy to make finished products like sheet steel and pipe.

EU countries provide 17% of the steel imported by the U.S. The EU is a major supplier of stainless steel, high-value steel used by the automotive industry.

Canada Foreign Minister Chrystia Freeland said Ottawa was considering its strongest retaliatory action since World War II, due to "a very bad U.S. decision."

Canadian officials made a last-ditch effort this week to get the exemption extended. Ms. Freeland visited U.S. Trade Representative Robert Lighthizer to plead Ottawa's case, and Canada's government issued a new policy late Wednesday to prevent the dumping of cheap foreign steel into North America.

Mr. Ross, who is leading the reviews of steel, aluminum and auto-industry imports, said countries aren't being singled out as national-security threats but instead evaluated through a broader economic lens.

"The question is what is the overall impact of the overall global supply situation in steel and aluminum, relatively to those industries, relative to national defense, and relative to the national economy," he said.

 

Mr. Ross said Agriculture Secretary Sonny Perdue is leading the administration's efforts to support farmers hurt by any retaliatory duties or quotas. Mr. Trump has warned he may respond to retaliatory tariffs with barriers against European cars.

"I think it's important for countries to retaliate," said Luis de la Calle, a former Mexican official who was part of the original Nafta negotiating team. "If we don't do it now, it's only going to get worse with possible car tariffs."

Emre Peker in Brussels, Paul Vieira and Kim Mackrael in Ottawa, Santiago Perez in Mexico City and Bob Tita in Pittsburgh contributed to this article.

Write to William Mauldin at william.mauldin@wsj.com

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THE WALL STREET JOURNAL.
U.S. EDITION

**China to Attract Billions as It Joins Indexes**

By Asjylyn Loder and Joanne Chiu
898 words
1 June 2018
The Wall Street Journal
J
B10
English


China's decadeslong effort to open up its markets to more foreign investors takes a big step forward this week when global index provider MSCI Inc. adds mainland Chinese shares to its widely followed emerging-markets index.

MSCI will be adding around 230 stocks -- which are denominated in China's local currency and listed in either Shanghai or Shenzhen -- to its emerging markets, Asia and global indexes. It is a much-anticipated move that is expected to boost demand for these shares by billions of dollars.

China earned a spot in MSCI's indexes after regulators made progress at opening up China's once-insular markets, allaying the concerns of many fund managers and institutional investors who track the MSCI indexes. But the addition of Chinese companies will expose global investors to a market still beset by limited transparency and government intervention.

After August, China A-shares will be 0.79% of the MSCI Emerging Markets Index, an index tracked by $1.9 trillion in assets from pensions, endowments, passive funds and other investors, meaning the move could attract about $15 billion from that index alone.

"The move is actually quite small, but the message behind it is huge," said Luke Oliver, head of U.S. ETF capital markets for DWS Group, which launched the Xtrackers Harvest CSI 300 China A-Shares ETF in 2013. "It's being blessed by the global benchmark provider that China is a real, viable part of a portfolio."

Q: What are China A shares?

A: A shares are yuan-denominated shares of Chinese companies listed on mainland Chinese stock exchanges in Shenzhen and Shanghai. The A-shares market was opened up to foreign investors beginning in 2003 but was limited to qualified institutions and subject to certain limits, including restrictions that made it hard to move money out of China. These limitations were a concern for mutual-fund and exchange-traded-fund managers, who must be able to meet daily buy and sell orders from shareholders. More recently, restrictions have been eased. Since 2014, trading links connecting the Hong Kong and mainland Chinese exchanges have made it easier for foreign investors to trade Chinese A shares from outside the country.

Q: How are A shares different from other types of shares in Chinese companies?

A: China opened its markets to foreign investors in the early 1990s with B shares, which are domestic stocks traded in foreign currencies. Local investors were initially barred from owning B shares, though many found ways around the rules. B shares were opened to domestic investors in 2001. H shares are China-registered companies listed in Hong Kong, while red-chip stocks are companies registered and listed in Hong Kong that do the bulk of their business in China.

Q: Why is MSCI's move significant?

A: It took MSCI five years of deliberations to add China A shares to their emerging-markets, all-country world and Asia indexes. Investors including pensions, endowments, passive funds and other investors use those indexes as investment strategies or performance benchmarks for $6.1 trillion in assets, according to MSCI. Investors were concerned about a number of issues that plagued Chinese markets, including **volatility**, erratic accounting, rampant speculation and capital controls. Chinese regulators have been able to address many of those issues, said Chia Chin Ping, a Hong Kong-based managing director of research with MSCI.

Q: What are some of the concerns about the Chinese markets?

A: China's financial regulators have relaxed limits on trading and moving money out of China, but some asset managers still worry that a sharp selloff could trigger problems like those seen in 2015, when at one point many of the roughly 2,800 listed companies had stopped trading. This is a concern for U.S. ETFs and mutual funds, which must be able to meet investor redemptions every day. Widespread trading halts could leave funds unable to sell Chinese securities to meet investor demand.

Q: What does this mean for investors?

A: If you invest in an ETF or mutual fund pegged to the affected indexes, such as BlackRock Inc.'s $49.8 billion iShares Core MSCI Emerging Markets ETF, then your fund will likely buy a slice of China A shares. The decision will also affect asset managers such as pension funds, endowments, and sovereign-wealth funds that measure their performance against one of the affected indexes.

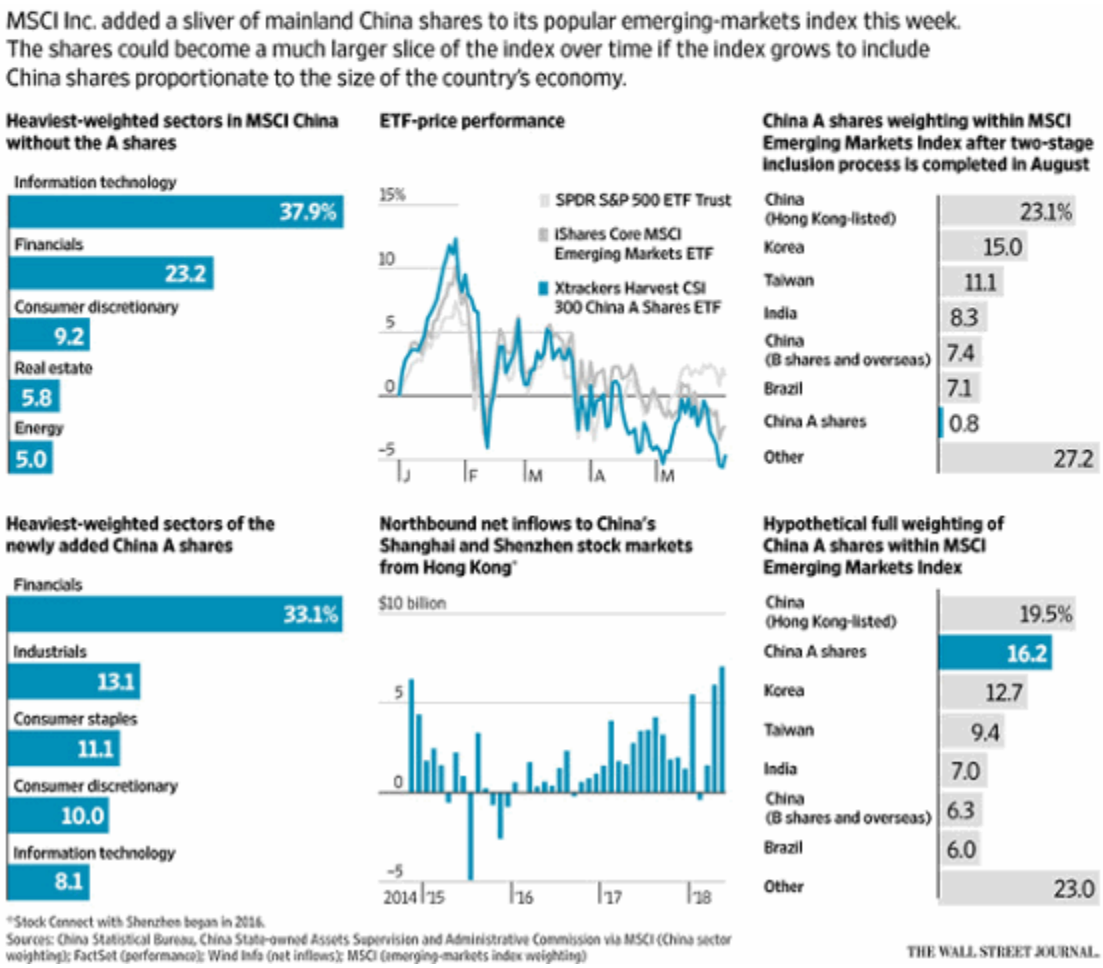
Q: How big is MSCI's move relative to the size of China's **stock market**?

A: There are more than 3,000 companies listed for trading in China, and the market capitalization of China's A shares market is more than $8 trillion, according to MSCI data from China's exchanges and financial regulators. Foreign investors currently own around 2% of China's A shares, far less than their 30% ownership in some other Asian markets, according to Jupiter Asset Management.

Q: How has China's **stock market** performed?

A: Chinese stocks have broadly trailed other major stock markets since the start of 2017, and China's benchmark Shanghai Composite Index is down 6.4% year to date. The threat of a U.S. trade war, high debt levels among Chinese companies and concerns of slowing economic growth have weighed on stock valuations.



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THE WALL STREET JOURNAL.
U.S. EDITION

Heard on the Street
**Oil Prices Pinching Producers' Profits**

By Spencer Jakab
383 words
1 June 2018
The Wall Street Journal
J
B10
English


[Financial Analysis and Commentary]

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

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

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

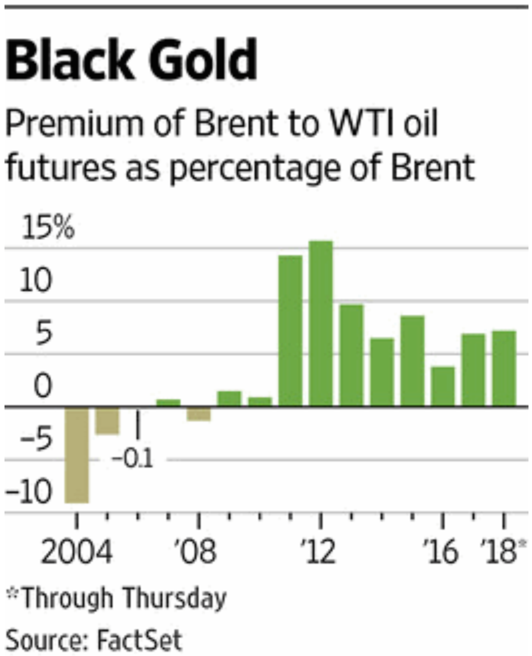
But many U.S. producers would love to get even today's depressed WTI price. Oil delivered at the Midland Hub in the booming Permian Basin is now about $10 a barrel lower or nearly $20 below Brent. Analysts at Raymond James see that continuing until late 2019 when more pipelines ease the glut.

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

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

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

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

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THE WALL STREET JOURNAL.
U.S. EDITION

**U.S. News: Spending Rises, Along With Inflation**

By Harriet Torry
338 words
1 June 2018
The Wall Street Journal
J
A3
English


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

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

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

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

Nonetheless, spending at the pump was a leading contributor to the 0.7% increase in outlays on goods in April, as gasoline prices climbed.

After Thursday's report, the Federal Reserve Bank of Atlanta raised its estimate of economic output in the second quarter to a seasonally adjusted 4.7% annual rate from a projection of 4% on May 25.

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

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

The Federal Reserve targets 2% year-over-year inflation.

## On Target

The Fed's preferred measure of inflation has remained at the 2% target for two straight months after falling short for most of the past six years.


Source: Commerce Department

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THE WALL STREET JOURNAL.
U.S. EDITION

**U.S. Levies Raise Fear of Trade War**

By William Mauldin
1,022 words
1 June 2018
The Wall Street Journal
J
A1
English


WASHINGTON -- The Trump administration raised the prospect of a global trade war by imposing tariffs on imports from the closest U.S. neighbors and allies, who swiftly pledged to retaliate with duties of their own.

President Donald Trump is pursuing an aggressive strategy to win economic concessions from neighbors and allies in an effort to cut the U.S. deficit in merchandise trade.

The new tariffs -- on steel and aluminum imports from Canada, Mexico and the European Union -- come as the U.S. is studying global levies on autos and auto parts. The administration also plans tariffs on industrial supplies from China. Beijing has promised to retaliate with its own duties.

**Financial markets** fell early on Thursday before partly recovering later, with the **Dow Jones Industrial Average** closing down 1% to 24415.84.

The move follows months of U.S. threats to impose tariffs, part of a push to negotiate new trade terms. The Trump administration is negotiating with virtually all of its major trading partners around the globe, including with Mexico and Canada over the North American Free Trade Agreement.

Those initiatives have generally failed to bring the large, quick victories Mr. Trump has promised.

Administration officials said they were still open to deals to drop the metals tariffs. "We continue to be quite willing and indeed eager to have further discussions with all of those parties," Commerce Secretary Wilbur Ross told reporters Thursday.

The reaction from allies was swift and severe. Canadian Prime Minister Justin Trudeau said his government would impose a 25% tariff on steel imports from the U.S. and a 10% tariff on aluminum and a wide range of other U.S. goods, including some food and agricultural products. Ottawa said it would hold consultations for two weeks before imposing the tariffs on July 1.

Mexico's Economy Ministry said it would target a number of U.S. goods, including some steel and pipe products, lamps, berries, grapes, apples, cold cuts, pork chops and various cheese products "up to an amount comparable to the level of damage" linked to the U.S. tariffs.

The EU has said it is also planning to hit back with its own duties on U.S. exports worth 6.4 billion euros ($7.5 billion), including on steel, motorcycles and some agricultural products. Up to 2.8 billion euros of that could go into effect starting June 20. The EU said it would also launch a case against U.S. measures at the World Trade Organization on Friday.

"This is protectionism, pure and simple," the EU's top executive, European Commission President Jean-Claude Juncker, said Thursday. "We will defend the Union's interests, in full compliance with international trade law."

Some participants in the U.S. steel industry, which Mr. Trump has vowed to protect, applauded the move. "The president's trade actions have already begun putting steelworkers back to work in Ohio and Illinois," said Tom Gibson, president of the American Iron and Steel Institute.

However, the United Steelworkers union, which includes Canadian members, broke with the Trump administration, criticizing the tariffs.

Mr. Trump's "America first" economic message continues to appeal to a wide swath of voters, especially in the industrial Midwest, which he credits for his victory in the 2016 presidential election.

"I've supported steel tariffs from the beginning, because China's cheating has cost too many Ohio steelworkers their jobs," said Sen. Sherrod Brown (D., Ohio). "I'm open to carving out allies who are not part of the problem, but steel overcapacity is a global problem that needs a global response."

Washington announced unilateral, global steel and aluminum tariffs in March, but Canada, Mexico and the European Union, which includes the U.K., had been offered temporary exemptions to the duties. All three economies received an extension a month ago. On Thursday, Mr. Ross told reporters the exemptions won't be renewed, subjecting their metals exports to the tariffs.

The move capped a week of intensifying pressure on trading partners. On Tuesday, the White House revived a plan it had previously suspended to place tariffs on $50 billion in industrial imports from China, and it is studying whether tariffs should be imposed on imported cars and auto parts.

The Trump administration is citing national security to justify the tariffs, arguing that America's allies and rivals are employing unfair trade policies to undermine the viability of critical U.S. industries, starting with steel and aluminum. The administration says the national security justification comports with U.S. law and a special security exception at the WTO.

On Thursday, the White House said the "steel and aluminum tariffs have already had major, positive effects on steel and aluminum workers and jobs."

The policy risks higher prices on imports, painful retaliation against U.S. exports and longer-term strife with allies if the Trump administration alienates politicians in allied democracies.

Republican lawmakers were quick to voice their disapproval. "This is dumb," said Sen. Ben Sasse, a Nebraska Republican. "Europe, Canada, and Mexico are not China, and you don't treat allies the same way you treat opponents."

Sen. Orrin Hatch of Utah, chairman of the Senate Finance Committee, said: "Tariffs on steel and aluminum imports are a tax hike on Americans and will have damaging consequences for consumers, manufacturers and workers."

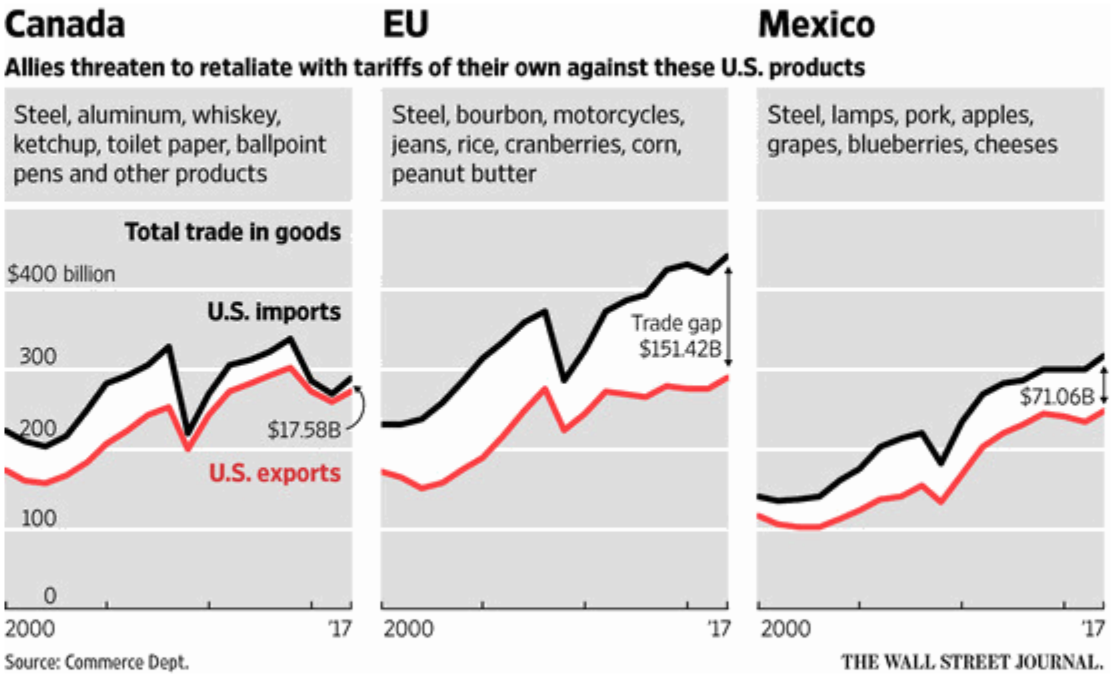
The countries hit by tariffs include some of the biggest suppliers of metals.

Canada accounts for about half of the raw aluminum imported by the U.S. and about 21% of the finished steel imports by the U.S. It is a major provider of steel plate and hot-rolled coil steel used widely in manufacturing.

Mexico supplies 9% of finished steel imports and 11% of semifinished steel. These are generally big slabs of steel that U.S. mills buy to make finished products like sheet steel and pipe.

EU countries provide 17% of the steel imported by the U.S. The EU is a major supplier of stainless steel, high-value steel used by the automotive industry.


Canada
EU
Mexico
Allies threaten to retaliate with tariffs of their own against these U.S. products
Steel, aluminum, whiskey, ketchup, toilet paper, ballpoint pens and other products
Steel, bourbon, motorcycles, jeans, rice, cranberries, corn, peanut butter
Steel, lamps, pork, apples, grapes, blueberries, cheeses
Total trade in goods
$400 billion
U.S. imports
300
200
$17.58B
U.S. exports
100
0
2000
'17
Trade gap $151.42B
$71.06B
Source: Commerce Dept.
THE WALL STREET JOURNAL.

## Metal Fatigue

Tariffs dull already stalled Nafta talks.

**Steel and aluminum as a percentage of country's exports to the U.S.**


Source: U.S. Census Bureau

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THE WALL STREET JOURNAL.
U.S. EDITION

**Markets Sparkled, Then Fizzled**

By Chelsey Dulaney
672 words
1 June 2018
The Wall Street Journal
J
B1
English


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

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

Higher crude-**oil prices** also helped lift the shares of energy companies.

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

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

Those concerns spilled over to the U.S., where the **Dow Jones Industrial Average** dropped nearly 400 points on Tuesday and Treasury yields fell.

The yield on the **10**-**year Treasury** note dropped below 2.8% after climbing above 3.1% earlier in the month.

Despite the renewed **volatility**, the S&P notched a 2.2% gain in May, its best month since January, and is up 1.2% for the year.

The Dow industrials added 1% in May but remain down 1.2% in 2018.

Tech rebounds

After a rocky few months, U.S. stocks bounced back in May as tech giants resumed their gains.

The S&P's tech sector added 7.1% in May, as Apple gained 13% and Facebook advanced 12%.

Strong first-quarter earnings reports and plans among many big tech companies to use tax savings to boost share buybacks and dividends helped draw investors back in the past month.

**Volatility** returns

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

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

Dollar strengthens

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

Emerging markets sink

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

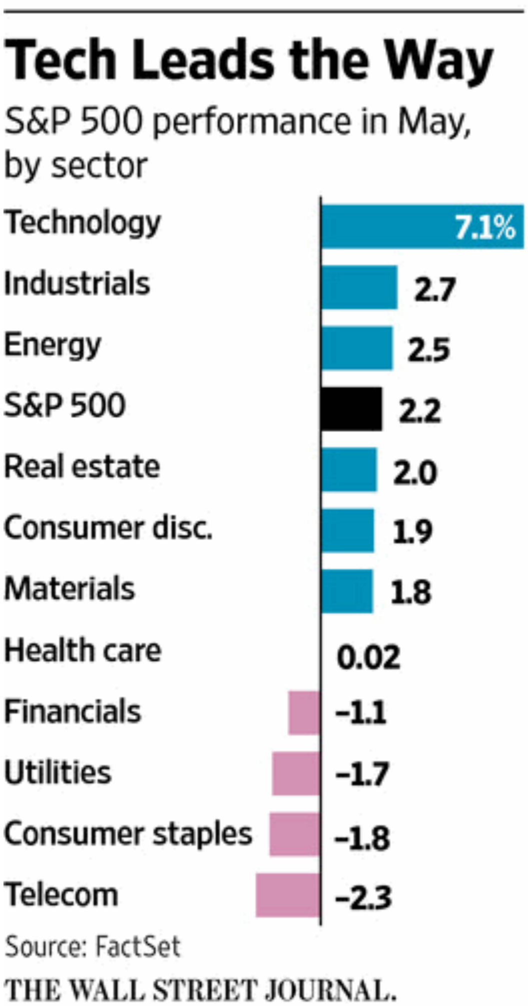
Argentina's peso tumbled 18% against the dollar in May. Turkey's currency tumbled 10%.

Trade is a wild card

U.S. trade policy and its potential impact on economies around the globe remains a focus for investors.

The Trump administration has said it would impose tariffs on steel and aluminum imports from Canada, Mexico and the European Union starting Friday. It is also considering new tariffs on vehicle and auto-parts imports, The Wall Street Journal reported.

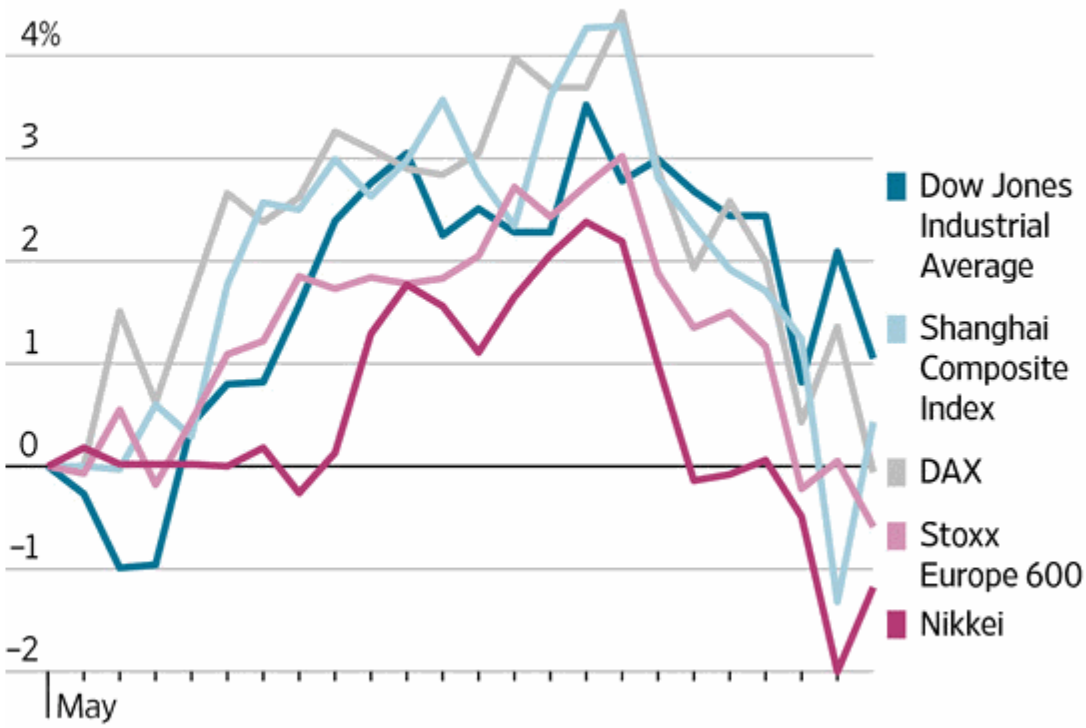
Those worries have weighed on stocks in export-dependent countries. Germany's DAX **stock index** has fallen 2.6% this week.



## Roller-Coaster Month

Index performance in May




Source: FactSet

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WSJ PRO FINANCIAL REGULATION

Markets

**Deutsche's 'Troubled' U.S. Operations | CFPB Restarts Data Collection | Clozel's Take: How the Fed Could Help Spur Fintech Investment; The Wall Street Journal's financial regulation newsletter for Friday, June 1, 2018.**

2,212 words
1 June 2018
06:35 AM
WSJ Pro Financial Regulation
RSTPROFR
English


Clozel's Take: How the Fed Could Help Spur Fintech Investment

Deutsche Bank's U.S. Operations Deemed 'Troubled' by Fed

CFPB to Resume Private Consumer Data Collection

Goldman Sachs Banker Accused of Insider Trading by SEC

Jamie Dimon Tops List of Highest-Paid Finance CEOs

How the Fed Could Help Spur Fintech Investment

The Office of the Comptroller of the Currency and Federal Deposit Insurance Corp. are seen as the gatekeepers for fintech firms seeking to enter banking. But the Federal Reserve could also help by easing a major obstacle for the fintech world: how it defines ownership under the Bank Holding Company Act.

According to the law, if a company owns 25% or more of the voting shares of a bank, it is a bank holding company and subject to Fed oversight. But the Fed also applies scores of discretionary factors to determine whether a company owns a bank or not.

Those include whether the company has influence over the bank's management, continuing business relationships with the bank, or the ability to appoint or remove its top executives.

Randal Quarles, the Fed's new Trump-appointed regulatory czar and a former bank lawyer at Davis Polk & Wardwell LLP, wants to simplify the process.

"We are taking a serious look at rationalizing and recalibrating this framework," he said in a January speech to the American Bar Association, describing what he viewed as an overly opaque regulatory process.

"The practical determinants of when one company is deemed to control another are now quite a bit more—ornate—than the basic standards set forth in the statute," he said to laughter from bank lawyers in the audience. "And in some cases [they] cannot be discovered except through supplication to someone who has spent a long apprenticeship in the art of Fed interpretation."

Simplifying how the law is interpreted could be a big deal for venture-capital-backed fintech companies interested in obtaining their own bank charters. "If a VC wants to invest in a fintech entity that is a bank, they need to make a decision: whether they want to control it or not," said Charles Horn, a partner at Morgan, Lewis & Bockius LLP.

Bank holding companies are subject to a substantial compliance burden, including capital and liquidity requirements, regular examinations by the Fed and restrictions on their ability to invest in nonfinancial firms.

As a result, if the standards for becoming one were clearer, private-equity firms might be less hesitant to invest in a bank.

This could also open the door to more joint ownership ventures between fintechs and banks. Private-equity-owned fintechs might be more likely to engage in such partnerships if they knew they could avoid triggering the Fed's ownership determination.

Ownership as defined under the Bank Holding Company Act "was designed long before the type of fintech collaboration that I think you're going to see in a few years," said J.W. Verret, a law professor at George Mason University. "This clarification would be a great change to help facilitate partnerships between fintechs and banks."

Key Developments in Washington, on Wall Street, and Beyond

Deutsche Bank's U.S. Operations Deemed 'Troubled' by Fed

The Federal Reserve has designatedDeutsche Bank AG's sprawling U.S. business in "troubled condition," a rare censure for a major financial institution that contributed to constraints on its operations, according to people familiar with the matter.

The Fed's downgrade, which took place about a year ago, is secret and hasn't been previously made public. The "troubled condition" status—one of the lowest designations employed by the Fed—has influenced moves by the bank to reduce risk-taking in areas like trading and lending to customers.

It also means the bank has had to clear decisions about hiring and firing senior U.S. managers with Fed overseers. Even reassigning job duties and making severance payments for certain employees require Fed approval, the people said.

CFPB to Resume Private Consumer Data Collection

The interim head of theConsumer Financial Protection Bureau announced Thursday he would lift the freeze on the bureau's collection of private consumer data, which helps its examiners oversee financial institutions.

"Out of an abundance of caution and a desire to protect Americans' privacy, I placed a hold on the collection of personally identifiable information and other sensitive data," Mick Mulvaney said in a memo to agency staff. "We can lift that hold."

Mr. Mulvaney said the concerns he had raised when he implemented the freeze in December had been assuaged after an independent review of the CFPB's cybersecurity defenses.

Goldman Sachs Banker Accused of Insider Trading by SEC

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

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

Jamie Dimon Tops List of Highest-Paid Finance CEOs

The highest-paid banking and finance chief executive in the **S&P 500** is no surprise. It is James Dimon, head of JPMorgan Chase & Co., the biggest U.S. bank by assets and market capitalization.

Mr. Dimon, who has run the bank since late 2005 and steered it through the financial crisis, made $28.3 million in 2017, up 4% from $27.2 million a year earlier.

The median pay for the 43 banking and financial CEOs in the Journal's analysis was $12.1 million, matching median pay for the **S&P 500** as a whole, according to a Wall Street Journal analysis of pay data from MyLogIQ LLC. The analysis omits CEOs who changed jobs during the year.

Malaysians Donate Nearly $2 Million to Pay Country's Debts

Malaysians are trying their hand at crowdfunding to help pay their country's debts as the full extent of a financial scandal at state investment fund 1Malaysia Development Bhd., or 1MDB, becomes clear.

 

Finance Minister Lim Guan Eng said Thursday that Malaysians had contributed nearly $2 million to a specially created fund on its first day, echoing how South Koreans lined up to hand over wedding rings, jewelry, sports medals or anything else made of gold to help bail out their government during Asia's financial crisis in the 1990s.

Analysis: Big Bank, Big Spender on Tech

Citigroup spent $8 billion on technology in 2017, easily more than was invested by venture capital across all U.S. financial technology startups last year.

Chief Executive Michael Corbat, speaking to investors at a conference Wednesday, said that about 20% of the bank's expenses go to technology, which translates roughly into a more than $8 billion annual tech budget based on last year's expenses. Meanwhile, U.S. fintech firms, such as online banking firm Social Finance Inc. and business payments service AvidXchange Inc., received $6.5 billion in new funding last year from venture-capital firms, according to a report by the National Venture Capital Association and Pitchbook.

The gap highlights how furiously banks are spending to keep themselves ahead of potential upstart competitors. Even large, established fintech firms can't rival what Citigroup is spending on tech: PayPal Holdings total expense base in 2017 was $11 billion.

That Calm Chinese **Stock Market**? It's Engineered by the Government

Long derided as a casino, China's once-**volatile stock market** is going through a long stretch of calm. One reason is an orchestrated government effort to keep traders and investors in line.

Three years after a national uproar when Chinese stocks plunged by nearly half in just over two months, traders and brokers say regulators are increasingly stepping in to influence trades and make China's markets appear less **volatile**, especially during political events when Beijing wants to project stability.

The steps, aided by advanced surveillance techniques to monitor traders, include warning brokerage firms to police trades that are out of step with government wishes and phoning investors directly when they act out of line. The intervention is becoming more common just when Chinese equities are about to be included for the first time in a global **stock index**.

China to Attract Billions of Dollars From Foreign Investors as it Joins MSCI Indexes

Volcker 2.0 Comes at a Good Time

The new Volcker rule comes at an opportune time for banks, which are poised to ride a new wave of global market **volatility**.

The proposed changes unveiled by the Federal Reserve Wednesday would preserve the prohibition on proprietary trading by banks that enjoy government backstops. But it lightens and simplifies enforcement of the rule, giving bank managers more leeway to set limits on trader behavior.

Regulators and bankers all insist they support the principle behind the Volcker rule, so a big increase in trading activity is unlikely. What's more, trading volumes have been held down for years by global factors, including bond-buying by central banks that has suppressed **volatility**. As a result, fixed-income trading revenue at major global banks has fallen in six of the past eight years, according to data from research firm Coalition.

But these trade-muffling forces are beginning to subside. With the Fed now raising rates and shrinking its balance sheet, and the sudden return of eurozone-crisis fears, **volatility** is back in the markets. Volcker 2.0 gives banks more flexibility to take advantage of the shifting landscape. The difference will be subtle but potentially significant. During episodes of **volatility** and other market displacements, bank managers may be just a bit more likely than before to clear an aggressive market-making trade.

Italy's Financial Crisis Explained

Turmoil in Italian politics has sent shock waves through **financial markets** in moves reminiscent of the eurozone crisis. WSJ markets reporter Ben Eisen answers questions about the latest Italian financial crisis.

Monday, June 4

9:30 a.m.

 

The Commodity Futures Trading Commissionmeets to consider a final rule on indemnification, a proposal to change the Volcker rule, a proposed amendment to the swap dealer registration de minimis exception, and to establish subcommittees for the CFTC Technology Advisory Committee.

Tuesday, June 5

10 a.m.

The Securities and Exchange Commissionmeets to consider and vote on proposed changes to the Volcker rule, which would give banks more freedom to trade in securities and derivatives.

Credit Unions Charge Lower Checking, Overdraft Fees Than Banks

Most of the major U.S. credit unions charge their customers lower checking account and overdraft fees than banks, while ATM fees are roughly the same, according to surveys by Bankrate.com. Bankrate surveyed 10 banks and thrifts in each of 25 large U.S. markets last fall and 50 of the largest credit unions by deposits this spring. Most of the 50 largest credit unions in the U.S. offer free checking accounts to all members (82%), with no minimum balance requirements or monthly service fees, while 38% of banks can say the same, the report states. Among the credit unions that charge monthly service fees, the most common fee is $5, compared to the $12 most commonly charged by banks for non-interest accounts and $25 for interest-bearing accounts. Nearly all credit unions (92%) and banks (99%) charge non-account holders ATM fees, usually around $3, the report says.

EU's New Privacy Law Could Help Financial Data Sharing

Data sharing in the financial-services industry relies on customers granting access to third-party services, which exposes customer information to potential abuse, but Europe's new data-privacy law could bring about safer alternatives, Bob Miller of Private Client Resources writes for American Banker. "Many U.S. banks will have to comply with [the General Data Protection Regulation] to serve their European customers anyway," which "will require a complete retooling of information-management platforms across financial services," he writes. "Consumer consent is a core tenet of GDPR, and new methods of obtaining that consent that do not violate consumer privacy, and which cannot be circumvented, need to be developed," he says.

Fitch Group has agreed to buy information provider Fulcrum Financial Data from private-equity firm Leeds Equity Partners, its latest move to expand beyond credit ratings.

Shareholders of Kinder Morgan and Anardarko Petroleum Corp. passed resolutions earlier this month seeking specific climate-change risk disclosures, a sign that large asset managers continue to pressure companies on their environmental strategy.

Alexandra Court, the Guggenheim Partners LP sales executive whose tenure sparked controversy, has left the firm after a nearly yearlong leave.

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WSJ PRO CENTRAL BANKING

Economy
**Timiraos's Take: Geopolitics Has Hurt the Case for Four Rate Increases, So Watch the Jobs Report; The strong U.S. labor market, however, could give some Fed officials reason to look past the risks from abroad and favor more rate increases than they did in March.**

By Nick Timiraos
440 words
1 June 2018
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English


Geopolitical developments and economic data since March have given Federal Reserve officials little reason to raise their projections for interest rate increases. But the May employment report might.

The Fed raised rates in March and 12 of 15 officials penciled in a total of three or four increases this year.

The dozen were equally split, with six penciling in four rate increases and six penciling in three. Two officials favored fewer moves, leaving the median at three.

The jobs report to be released Friday offers one of the last key data sets that could nudge the median projection up to four rate increases this year when officials meet in June.

A number of geopolitical uncertainties make such a shift unlikely because they pose risks to economic growth.

Among them, trade tensions loom large. Since March, President Donald Trump has threatened new tariffs on autos and a variety of Chinese exports and is imposing steel and aluminum tariffs on Europe, Mexico and Canada.

Negotiations on the North American Free Trade Agreement have stalled. And European allies are nervous over the imposition of new U.S. sanctions on Iran.

Meantime, investors have had to digest Italian political brinkmanship over the euro and new financial **volatility** in emerging markets.

The strong U.S. labor market, however, could give some Fed officials reason to look past the risks from abroad and favor more rate increases than they did in March.

Unemployment fell to 3.9% in April, well below the level all officials believe is sustainable long-term. Average hourly earnings rose 2.6% in the year ended last month. If the May report provides signs of a breakout in wage growth, that could strengthen the case for four rate rises this year.

So, too, would signs that a tighter labor market isn't attracting more workers from the sidelines, which would be reflected in an unchanged ratio of employment to population or labor-force participation rate for prime-age workers.

Absent such shifts, officials are unlikely to signal in June that they expect to raise rates four times this year. They'll have plenty of time later this year to do so if they want.

But if the case strengthens for four moves, look to the monthly employment reports for the reasons.

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

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WSJ PRO CENTRAL BANKING

Economy

**Brainard: Gradual Rate Increases ‘Appropriate' | Inflation Firms in April | Things to Watch in the Jobs Report | Trade Uncertainties Affect Canada Interest Decision | Timiraos's Take: Geopolitics and the Case for Four Rate Increases; The Wall Street Journal's central banking newsletter for Friday, June 1, 2018**

1,367 words
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Timiraos's Take: Geopolitics Has Hurt the Case for Four Rate Increases, So Watch the Jobs Report

Fed's Brainard Says Gradual Rate Increases ‘Appropriate'

U.S. Inflation Firms in April, Stays at Fed Target for Second Month Straight

5 Things to Watch in the May Jobs Report

Trade Uncertainties, Mortgage-Finance Rules Factored Into Canadian Interest Decision

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But if the case strengthens for four moves, look to the monthly employment reports for the reasons.

Key Developments Around the World

Fed's Brainard Says Gradual Rate Increases ‘Appropriate'

Federal Reserve governor Lael Brainard said Thursday that continued gradual increases in interest rates would be appropriate in light of tight labor market and strengthening inflation. But she warned that global developments, including the Italian political crisis and the prospect of a trade war, pose some risk to the central bank's outlook. "I continue to view gradual increases in the federal-funds rate as the appropriate path, although I will remain vigilant for the emergence of risks and prepared to adjust if conditions change," she said in remarks prepared for a speech in New York.

Deutsche Bank's U.S. Operations Deemed Troubled by Fed

The Fed has designated Deutsche Bank AG's sprawling U.S. business in "troubled condition," a rare censure for a major financial institution that contributed to constraints on its operations, according to people familiar with the matter. The Fed's downgrade, which took place about a year ago, is secret and hasn't been previously made public. The "troubled condition" status—one of the lowest designations employed by the Fed—has influenced moves by the bank to reduce risk-taking in areas like trading and lending to customers. It also means the bank has had to clear decisions about hiring and firing senior U.S. managers with Fed overseers. Even reassigning job duties and making severance payments for certain employees require Fed approval, the people said.

U.S. Inflation Firms in April, Stays at Fed Target for Second Month Straight

Inflation remained at the Federal Reserve's target in April for a second straight month, bolstering policy makers' plans to gradually raise interest rates. The personal-consumption expenditures price index, the Fed's preferred inflation yardstick, was up 2% from a year earlier, matching the Fed's annual goal for inflation. So-called core prices were up 1.8% in the 12-months ended in April.

5 Things to Watch in the May Jobs Report

The Labor Department releases its latest view of the job market Friday. Economists surveyed by The Wall Street Journal expect it to show employers added 190,000 jobs in May and the unemployment rate held steady at 3.9%, the lowest level since December 2000. Here are five things to look for in the report.

Trade Uncertainties, Mortgage-Finance Rules Factored Into Canadian Interest Decision

Uncertainty over trade policies and the impact of tougher mortgage-financing rules are part of the reason interest rates in Canada remain low, Bank of Canada deputy governor Sylvain Leduc said in a speech Thursday. Mr. Leduc told an audience in Quebec City that Canada's economy is evolving largely as expected, with inflation close to the central bank's 2% target and economic activity near its potential. The speech is part of an economic update the central bank provides one day after interest rate decisions that aren't accompanied by a full monetary policy report.

Friday

8:30 a.m. EDT

U.S. Labor Department releases May jobs report

8:55 a.m. EDT

Minneapolis Fed's Kashkari speaks

Measuring the Effects of Conventional and Unconventional Monetary Policy in the Euro Area

Juho Anttila explores the effects of the ECB's unconventional monetary policy on macroeconomic variables such as GDP, inflation and employment in a Bank of Finland research paper. The researcher's findings "suggest that monetary policy shocks have had fairly small effects on the overall euro area economy with monetary policy likely influencing the economy through its anticipated part." The results support the notion that unconventional monetary policy has similar effects as conventional policy does.

Jobs Are Booming. Are Wages Next?

The data for May are likely to show the U.S. unemployment rate at a low, but still-sluggish growth in labor participation and pay, writes Mohamed A. El-Erian for Bloomberg View. "Moving the labor participation rate to higher levels will remain challenging. And the longer this is left unaddressed by the public and private sectors, the greater the headwinds to the inclusive medium-term prosperity that the U.S. economy is able to deliver."

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

Activity in China's factories held steady in May, a private gauge indicated, pointing to a sustained growth momentum in the world's second largest economy.

Australian house prices on year fell in May for the first time since October 2012, as worries grow that the retreat, led by Sydney and Melbourne, could play out until the end of the decade.

South Korea's headline consumer-price index gained 1.5% from a year earlier in May, with inflation turning slightly softer and moving further away from the central bank's annual target.

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

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The New York Times

Business/Financial Desk; SECTB
**Markets Skid as U.S. Imposes Tariffs and Allies Retaliate**

By THE ASSOCIATED PRESS
701 words
1 June 2018
The New York Times
NYTF
Late Edition - Final
2
English


Stocks in the United States skidded Thursday after the Trump administration said it is imposing tariffs on steel and aluminum imported from Europe, Canada and Mexico. Canada and Mexico responded with tariffs of their own, and the European Union is expected to follow suit.

American steel makers mostly rose, while industrial companies fell as they face the prospect of paying more for metals they use to make aircraft and machinery. Companies that make household items took some of the worst losses, as products including orange juice and peanut butter might be hit with European tariffs.

Mexico is planning duties on American exports including steel, pork products and sausages, while Canada said it will put reciprocal tariffs on steel and aluminum. The European Union also said it will dispute the United States' tariffs with the World Trade Organization, which could take years.

Meanwhile the parties will likely keep negotiating, and contentious talks between the United States and China are continuing as well. And while experts say a trade war remains a remote possibility, all of those disputes have been weighing on the market for months, and the uncertainty that is creating has real effects.

David Kelly of JPMorgan Funds said the dragged-out process is discouraging businesses from investing because they do not want to build a product only to see it targeted by tariffs.

''You can do great harm to an economy just by leaving people up in the air about what the final deal is going to be,'' said Mr. Kelly, chief global strategist of JPMorgan Funds. He said the uncertainty is undoing some of the effects of the recent corporate tax cut.

The **Standard & Poor's 500-stockindex** lost 18.74 points, or 0.7 percent, to 2,705.27. The **Dow Jonesindustrial average** fell 251.94 points, or 1 percent, to 24,415.84.

The **Nasdaq composite** dipped 20.34 points, or 0.3 percent, to 7,442.12, as technology companies like Alphabet and Facebook bucked the market's decline.

The United States' tariffs go into effect Friday. U.S. Steel jumped 1.7 percent to $36.87, and Century Aluminum gained 3.4 percent to $17.72. They made larger gains earlier in the day, but slipped after Canada announced reciprocal tariffs on steel and aluminum from the United States starting July 1.

Boeing dropped 1.7 percent to $352.16 and Caterpillar fell 2.3 percent to $151.91 while farm equipment maker Deere fell 3.6 percent to $149.51. The tariffs could increase the cost of the metals they use to make their products, and tariffs in Europe or other markets could hurt their sales.

Mexico said it would penalize American imports including flat steel, cheese, fruits, pork bellies and sausage. Dairy maker Dean Foods fell 4.3 percent to $9.57, and Tyson Foods, which makes products including Jimmy Dean sausages, lost 3.9 percent to $67.47.

French officials said the European Union will decide exact countermeasures in the coming weeks, but peanut butter and motorcycles are among the items being discussed. Harley-Davidson fell 2.2 percent to $41.08. Hormel, which makes Skippy peanut butter, declined 3.4 percent to $35.89.

General Motors said SoftBank is taking a 20 percent stake in the GM Cruise automated division. The carmaker's stock jumped 12.9 percent to $42.70. That was its biggest gain since G.M. went public again in 2010 after emerging from bankruptcy.

United States crude oil slipped 1.17 percent to $67.04 a barrel in New York.

The yield on the **10**-**year Treasury** note ended unchanged at 2.86 percent.

Gold lost 0.1 percent to $1,300.10 an ounce.

The dollar fell to 108.64 yen from 108.85 yen. The euro rose to $1.1689 from $1.1661.

CHARTS: The **S**. **& P**. **500 Index**: Position of the **S**. **& P**. **500 index** at 1-minute intervals on Thursday. (Source: Reuters); Jobless Claims: Weekly number of people who have filed for unemployment benefits for the first time. (Source: Labor Department, via Reuters)

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