International New York Times

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Trump Owns the Booming Economy. Republicans on the Trail Barely Mention It.

By Jim Tankersley
1,729 words
31 July 2018
International New York Times
INHT
English

NEWARK, Ohio — His Republican opponent doesn't say much publicly about the Trump tax cuts, but on a warm night in a small-town union hall an hour outside Columbus, Danny O'Connor was happy to talk about them — a lot.

"We just saw, this last December, a $2 trillion swipe of the national credit card, a giveaway to big corporations," Mr. O'Connor, the Democrat in a special election on Aug. 7 for an open congressional seat here, told the crowd, drawing nods. "That doesn't do anything for us. It doesn't do anything for working people."

That seems to go against what Republicans intended. Party leaders in Washington talk frequently about the tax cuts and a "Trump boom" that will doom the "blue wave" this election year — or at least shrink it to a ripple. News on Friday that the economy grew at a robust 4.1 percent between April and June seemingly supplied more ammunition to a message centered on tax cut-fueled prosperity.

But so far, that is not how it is playing out on the campaign trail.

With little more than a week to go before voters here head to the polls, the airwaves are instead dominated by more general promises to create jobs and, from Republicans, by dark warnings on wedge issues such as immigration, meant to rally the conservative base. A Republican "super PAC" is blitzing the Ohio airwaves, contending that electing Mr. O'Connor will mean "more crimes, more drugs."

"Danny O'Connor would join the resistance," the Congressional Leadership Fund ad concludes, with the Democrat flanked by three women: Hillary Clinton, Representative Nancy Pelosi and Senator Elizabeth Warren.

[Video: Watch on YouTube.]

A Wesleyan Media Project analysis of national advertising data from Kantar Media/CMAG also shows Republicans are rarely bragging to voters about the economy's strength.

Republicans have reason to doubt the efficacy of an economic message in hotly contested midterm campaigns, which have historically been referendums on the sitting president. The last time the economy grew 4 percent in a quarter was in the middle of 2014, under President Barack Obama, just before Senate Democrats lost nine seats — and their majority — that fall.

For their part, Democrats are weaponizing the tax law — which is mired in only middling popularity — against Republican opponents in some key races. Their critiques have been fed by government statistics showing that wages for typical American workers have not risen over the past year, after adjusting for inflation, even though Republicans promised the tax cuts would unleash rapid wage growth.

That's true in Ohio's 12th District, which stretches from mostly affluent suburbs of Columbus, where residents probably benefited a good deal from the tax cuts, to the foothills of the Appalachians, where they haven't. The Democratic Congressional Campaign Committee's first ad in this special election opened with a hit on the Republican, Troy Balderson, for supporting "a massive corporate tax break that helps rack up $2 trillion in debt."

[Video: Watch on YouTube.]

Mr. O'Connor and his allies have now spent more money attacking the tax cuts than Mr. Balderson and Republican groups have spent extolling them, even though the Democrat is being outspent over all, two to one.

The National Republican Congressional Committee has run ads criticizing Mr. O'Connor on taxes and playing up the strength of the economy. But on the Columbus airwaves, those messages have largely given way to more inflammatory issues.

Mr. Balderson's campaign did not respond to repeated requests for an interview on tax policy and his advertising decisions. But other Republicans say the messaging strategy reflects a judgment over how best to motivate their core supporters to vote in the Aug. 7 election to replace Representative Patrick J. Tiberi, a Republican who helped write the House version of the tax bill and who retired this year to lead the Ohio Business Roundtable.

The district has been held by Republicans for nearly four decades. Until this year, it was considered solidly red, thanks in part to a redrawing of its boundaries by Republicans in 2012, which pushed thousands of Democratic voters into another district. Mr. Balderson, a state senator, won a crowded primary this spring with Mr. Tiberi's support.

Mr. Tiberi said in an interview that the timing of the special election — in the depths of summer, as many families vacation and prepare for the start of a new school year — was forcing Mr. Balderson to focus on issues that can best grab Republican voters' attention. Regardless of the outcome next month, the two candidates will face off again in November.

"This right now, for the Balderson campaign, is about turning out Republicans — if Republicans vote, Troy wins," Mr. Tiberi said. "In the fall, I think you'll see more issues, and more economic issues."

Many Republicans said last year, as the tax cuts were speeding through Congress, that the new law would excite their base and help preserve their congressional majorities in the midterms. The law permanently reduced the corporate tax rate to 21 percent, from a high of 35 percent. It doubled the standard deduction for individuals and cut individual tax rates, although those provisions expire at the end of 2025. Party leaders predicted that as Americans began to see the law's benefits, its popularity would rise.

Instead, polls suggest that support for the law peaked shortly after it was passed, and has declined slightly since. A July online poll of 9,767 people by the research firm SurveyMonkey, conducted for The New York Times, found that views on the law were essentially split, with 48 percent in favor and 47 percent against. Opposition was higher among college-educated voters, which could support Mr. O'Connor's argument in the 12th District, which features the most educated electorate in Ohio.

Attendees at Mr. O'Connor's union hall fund-raiser on Wednesday here in Licking County expressed concern over the tax law, especially on fiscal grounds.

"We can't afford it," Ann Petrushka, a teacher in Licking County, said. "I'm not sure we can recover from it."

In an interview over half a turkey sandwich and a Bud Light, Mr. O'Connor said he would vote to keep the law's middle-class tax cuts, but he repeatedly called it unaffordable for working-class voters and raised the possibility that it could lead to safety-net cuts and the raising of the retirement age. Mr. O'Connor's "$2 trillion" price tag for the bill rounds up an estimate of $1.9 trillion from the Congressional Budget Office, which does not account for additional economic growth produced by the tax cuts.

Mr. O'Connor said that many of the voters he talks to feel as if they are still not getting ahead, even with low unemployment and accelerating economic growth, and that even affluent voters in his district see the law as unfair.

"Income inequality is high, wage growth is low," he said. "Folks doing well still want to have an economy that works for the middle class."

As they turn to November, Democratic candidates across the country are echoing that message. They are working critiques of the tax bill into a broader argument about stagnating real wages and rising health care costs, to portray Republican rule under President Trump as primarily benefiting the wealthy and leaving American workers to pick up the tab.

“Democrats are right to press this,” said Andrew Bates, a spokesman for American Bridge, a liberal opposition research group that is helping Democrats in the midterms. “Republicans ran on populism in 2016, and their policies delivered the opposite.”

Senator Sherrod Brown of Ohio, a Democrat running for re-election against Representative James B. Renacci, a Republican, in a state that Mr. Trump won handily, said Republicans “should be ashamed of their tax bill, and I think they are.” In an interview, Mr. Brown said he would be willing to devote an entire debate with Mr. Renacci just to the tax law: “I think this is a fundamental difference between the two parties.”

Republican officials said the strong growth report on Friday could soften candidates’ reluctance to dwell on economic themes, though they also said that Republicans would continue to attack Democrats on other issues, especially their ties to the House Democratic leader, Ms. Pelosi, who is unpopular with conservatives.

Mr. Trump said on Friday that he would stump for Republicans in tough races nearly every day for the last two months of the campaign, arguing that the strength of the economy would help lift his party’s fortunes.

“It’s a positive, unifying message for Republicans around the country” to talk about tax cuts and growth, said Matt Gorman, a spokesman for the National Republican Congressional Committee. “We’re not shying away from it, but I wouldn’t expect to see it in every ad.”

So far, voters have seen it in hardly any. The tax law “takes a back seat” in campaign advertising, said Erika Franklin Fowler, a co-director of the Wesleyan Media Project, and few candidates are talking about the strength of the **stock market** or economic growth.

“Generic tax references are pretty common,” she said. “But when they make tax statements, they typically are, ‘I will fight for lower taxes for the middle class.’”

Mr. Tiberi said Republicans should be proud to tell voters that cuts in corporate tax rates encourage companies to move their headquarters to central Ohio and other parts of America.

Tim Kane, an economist at the conservative Hoover Institution at Stanford University, agreed.

“Tax policy is a winning issue; it’s one that I think Republicans are smart to embrace,” Mr. Kane said.

Mr. Kane ran in the Republican primary for Mr. Tiberi’s seat. He finished third.

PHOTO: Danny O’Connor, the Democrat running for Congress in Ohio’s 12th District, spoke at a fund-raising event for United Steelworkers in Newark on Wednesday. (PHOTOGRAPH BY Maddie McGarvey for The New York Times FOR THE NEW YORK TIMES)

* How the Trump Tax Cut Is Helping to Push the Federal Deficit to $1 Trillion

* Feeling Good About the Economy? You’re Probably a Republican

* Investment Boom From Trump’s Tax Cut Has Yet to Appear

Document INHT000020180730ee7u00008

THE WALL STREET JOURNAL.

Economy

Eurozone Economy Slows Further as Exports Sputter; Business confidence has weakened on worries about future relations with large trading partners

By Paul Hannon
854 words
31 July 2018
09:55 AM
The Wall Street Journal Online
WSJO
English

The eurozone's economy slowed further in the three months through June, as exports sputtered and business confidence weakened on worries over future relations with the currency area's largest trading partners.

The loss of momentum in 2018 contrasts with the U.S., where growth accelerated during the second quarter. The U.S. growth differential was the widest since the second half of 2014, the two economies having expanded at roughly the same pace since then.

If sustained, that divergence could widen the gap between the interest rates set by the Federal Reserve and the European Central Bank, while stalling progress in dealing with legacies from the eurozone's debt crisis, including very high rates of youth unemployment in its southern members.

The European Union's statistics agency Tuesday said the combined gross domestic product of the 19 countries that use the euro—the broadest measure of the goods and services they produce—increased at an annualized rate of 1.4% in the second quarter, down from 1.5% in the first. That was its slowest expansion in three years. In the U.S., growth was 4.1%.

The eurozone economy entered 2018 on a high, having racked up its most rapid expansion in a decade during 2017. However, growth slowed sharply in the first three months of this year, a setback policy makers and many economists attributed to unusually cold weather and a series of labor strikes in Germany and France. The failure of the economy to rebound in the second indicates that other forces are at work.

"It seems like excuses are running out," said Bert Colijn, an economist at ING Bank. "Factors with a longer shelf life seem to have brought eurozone GDP growth down to a lower cruising speed for the moment."

While Eurostat didn't provide any details of how different parts of the economy performed, previously released data and business surveys point to a fall off in export growth during the first half of 2018 and a waning of business optimism that appears to be linked to growing trade tensions between the U.S. and the EU and uncertainties about access to U.K. markets after Britain leaves the bloc next year.

"Externally, U.S. trade policy remains the main source of downside risk together with, to a lesser extent but resurging in importance, the ongoing Brexit negotiations," economists at Barclays wrote in a note to clients.

Confidence may rebound if there is progress in talks to resolve trans-Atlantic tensions announced July 25 by President Trump and European Commission President Jean Claude Juncker.

Higher **oil prices** are another headwind, since they eat into households' spending power.

The ECB confirmed Thursday it will press ahead with plans to end its bond-buying stimulus program in December, but a lengthening period of weaker growth may make it reluctant to raise its key interest rate in 2019.

Figures also released by Eurostat showed the annual rate of eurozone inflation rose to 2.1% in July, further above the ECB's target, although that was largely down to a jump in energy prices.

Surveys of business activity and sentiment for July show no signs of a rebound in growth during the third quarter. A sustained slowdown could aid the rise of antiestablishment political parties, since it would come at a time when some of the eurozone's members have yet to fully recover from the global financial crisis.

In a separate release, Eurostat said the unemployment rate across the eurozone was steady at 8.3% in June, but the number of people without work rose slightly for the first time since July 2017, a sign the slowdown in growth may already be weakening the jobs market.

For some eurozone members, that may be a welcome development, since they are close to exhausting their reserves of unemployed workers.

"The strength of economic growth means our economy risks hitting full capacity, which gives rise to the risk of overheating or boom-bust cycles," Mark Cassidy, director of economics at the Central Bank of Ireland warned Tuesday.

That is a very distant worry for his counterparts in Greece and Italy, which have lagged throughout the eurozone's recovery, now entering its sixth year.

Italy's statistics agency said Tuesday that economic growth in the second quarter was once again below that of the eurozone as a whole, while the country's unemployment rate rose to 10.9% from 10.7% in June. Among people aged less than 25 years, the jobless rate rose to 32.6% from 32.2%. High rates of youth unemployment have fueled a rise in support for the antiestablishment parties that comprise the new government.

In contrast, Spain's economy has been the fastest-growing of the eurozone's four largest members since the recovery began in mid-2013. However, it also slowed in the three months through June, recording its weakest expansion in four years.

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Document WSJO000020180731ee7v001b9

The New York Times

Opinion
How Trump Could Be Like Reagan

By Stephen Moore, Arthur B. Laffer and Steve Forbes
946 words
31 July 2018
02:53 PM
NYTimes.com Feed
NYTFEED
English

President Trump won a victory for freer trade last week when he and the president of the European Commission, Jean-Claude Juncker, agreed to find ways to lower tariffs and other barriers to each other's exports. The outlines of the deal are still sketchy, but it calls for the Europeans to buy more American petroleum, soybeans and manufactured goods and for Mr. Trump to reduce his auto and steel tariffs.

We were particularly heartened that Mr. Trump and the Europeans now have a handshake agreement to aim for zero tariffs on both sides of the Atlantic.

This was Mr. Trump's idea. The night before the agreement, he proposed in a tweet that "Both the U.S. and the E.U. drop all Tariffs, Barriers and Subsidies! That would finally be called Free Market and Fair Trade!" Amen.

This is a winning strategy that we've long endorsed with our friends at the White House because it is fully consistent with what Mr. Trump has often told us: his threat of tariffs is a negotiating tactic to get to lower trade barriers and a "level playing field."

The next step should be to extend this zero tariff offer to other key allies, including Britain, Canada, Mexico and South Korea.

If Mr. Trump's goal is more jobs and higher wages, America comes out the big winner under the zero tariff scenario. Most of our major trading partners have higher tariffs than we do. A study by the president's Council of Economic Advisers calculates that the average American tariff is 3.5 percent, while the average European Union rate is 5 percent, China's is nearly 10 percent and the world average is around 10 percent. On a level playing field, American companies can compete with anyone, and our exporters will gain advantage if trade barriers are abolished.

The alternative is higher tariffs on steel, aluminum, autos and hundreds of products imported from other countries, particularly China. Those actions have led to retaliatory tariffs imposed on products grown or manufactured in America. This has hurt farmers, the **stock market** and economic growth.

With this new offer to abolish tariffs, Mr. Trump might be borrowing a page from Ronald Reagan's playbook. Throughout much of his presidency, Mr. Reagan was portrayed as an anti-Soviet hawk because he oversaw a huge expansion in American military spending. But at a 1986 summit in Reykjavik, Iceland, Mr. Reagan proposed to the leader of the Soviet Union, Mikhail Gorbachev, the radical idea that both countries should abolish their nuclear arsenals. This caught the Soviets by surprise, and though the two leaders left Iceland with no agreement in hand, Mr. Reagan's bold strategy ultimately laid the path to the greatest period of nuclear disarmament in history.

What Mr. Trump has proposed to our trading partners is similar: the United States will abolish all its tariffs, subsidies and other trade restraints on their exports if they do the same for American exports. This solution would be the economic equivalent to total trade disarmament.

A no-tariffs trade strategy would also allow the United States to seize the moral high ground in the debate. Mr. Trump would be transformed from the evil disrupter of international commerce to a potential savior — just as 30 years ago Mr. Reagan's international image changed from superhawk to peacemaker almost overnight.

Finally, if Mr. Trump can secure zero tariff deals with the European Union, Canada, Mexico, Japan and South Korea, this will put America in a much stronger position as he negotiates with China. It greatly increases the odds that Mr. Trump's hard-line stance with China will deliver long overdue concessions from Beijing that could enhance American economic and national security while averting a brutal escalation in the trade war that could hurt both our economies.

Some of our friends in the administration question whether this policy would work because in China and other countries, nontariff barriers are the biggest deterrents to American exports. We agree that nontariff trade restraints — such as foreign companies stealing our patents with impunity, subsidies to state-owned enterprises and currency manipulation — are a problem. But reducing tariffs creates momentum for tearing down other trade restraints.

We know lowering tariffs will be an uphill battle. Freer trade has always been an elusive pursuit because vested interests on both sides of the Atlantic, whether farmers or manufacturers, will fight to maintain tariffs that benefit their products.

We can't predict how other nations would respond to this idea. But the European Union negotiations last week should provide Mr. Trump a clear signal that he can't win just by swinging the stick of higher tariffs. He also needs to offer the carrots of lower barriers. By putting zero tariffs on the table, Mr. Trump will also be able to determine which nations are genuinely committed to freer trade and which prefer to keep their protectionist barriers in place.

We've often reminded politicians that free trade is a pillar of prosperity and a win-win for trading partners. Just as no one ever thought Mr. Reagan would stem nuclear proliferation, if Mr. Trump aggressively pursues this policy, he could build a legacy as the president who expanded world commerce and economic freedom by ending trade barriers rather than erecting them.

A steel tube being made in Düsseldorf, Germany. Zero-tariff deals with the European Union and other trading partners would put America in a much stronger position, argue Stephen Moore, Arthur B. Laffer and Steve Forbes. | Patrik Stollarz/Agence France-Presse — Getty Images

Document NYTFEED020180731ee7v00565

THE WALL STREET JOURNAL.

Markets

Doubts Grow Aramco IPO Will Ever Happen; Listing of state oil company is a centerpiece of government's plan to open Saudi economy

By Summer Said in Dubai, Maureen Farrell in New York and Sarah McFarlane in London
1,141 words
5 July 2018
02:42 PM
The Wall Street Journal Online
WSJO
English

Preparations for the public listing of Saudi Arabia's state oil company, a centerpiece of the government's plan to open its economy, have stalled, leaving government officials and people close to the process doubting that it will go forward at all.

The initial public offering of Saudi Arabian Oil Co., better known as Aramco, was meant to be the cornerstone of the kingdom's plan to be less reliant on oil. It would create the largest public company in the history of capital markets, an opportunity coveted by Wall Street's biggest names.

Yet doubts have crystallized in recent months, after two years of work to prepare Aramco for its debut. Saudi officials and people close to the process say the company and the country simply aren't ready for an IPO that could raise $100 billion but also bring unprecedented scrutiny to the kingdom's crown jewel.

"Everyone is almost certain it is not going to happen," said a senior executive at Aramco, speaking of the IPO.

A spokesman for Aramco declined to comment. Representatives for the Saudi energy ministry and the government didn't respond to questions.

First proposed by Saudi Crown Prince Mohammed bin Salman in January 2016, the IPO was originally meant to be done last year. It has been pushed back several times and was most recently slated for next year.

Until recently, despite the delays, work on the IPO had appeared to be progressing, if slowly. For months bankers and advisers worked with the company and with government officials to ready the company for the IPO, a staggering task that involved figuring out how to disentangle the state company from the government and from other state-owned entities.

Activity has slowed down in recent months. Aramco invited law firms to Dubai to pitch for a possible role in the IPO earlier this year and asked them to prepare for the possibility it could list on several different international venues. Aramco officials later told them they had no plans to make a decision soon, people involved in the process said.

Aramco executives and outside advisers have become more vocal in recent months about telling Prince Mohammed about the problems with listing the company, government officials said.

Saudi officials say they have determined that listing on a large stock exchange in New York, London or Hong Kong would carry too many legal risks, exposing Aramco to shareholder lawsuits, for example.

They have also soured on a backup plan of listing only a tiny part of the company on the Saudi stock exchange, known as the Tadawul, the officials said. Saudi officials are trying to obtain a valuation of as much as $2 trillion for Aramco, so even a small listing could overwhelm the Tadawul, which has a market capitalization of about $523 billion, according to the World Federation of Exchanges.

A decision on what to do rests in the hands of Prince Mohammed, the son of King Salman and the country's day-to-day ruler. He could still plow ahead with the IPO anyway: The float of about 5% of Aramco is meant to be the central pillar in his vision of a more modern, market-oriented kingdom, providing an influx of capital for the Saudis to invest in non-oil sectors.

Opposition to the IPO has been firm within Aramco itself, including from energy minister Khalid al-Falih, who is also chairman of the company, Saudi officials said. Last month, Mr. Falih signaled more delays for the IPO, saying "timing isn't critical for the government of Saudi Arabia."

"It would be nice if we can do it in 2019," Mr. Falih said at an Organization of the Petroleum Exporting Countries conference in Vienna. "There is a lot more at stake than just ticking a box and say: 'We got this out of the way.'"

Saudi leaders no longer see the IPO as the only way to raise money for the kingdom's future, Saudi officials and other people familiar with the kingdom's planning said.

Oil prices have more than doubled to nearly $80 a barrel since Prince Mohammed floated the idea of an Aramco IPO, giving the Saudi kingdom a jolt of cash. The Saudis have a rare moment when they can increase oil production and still benefit from high prices because of oil shortages stemming from Iran, Venezuela and Libya.

The Saudis have also raised billions of dollars by selling sovereign bonds to foreign investors, Saudi officials said. The Saudis raised $17.5 billion in their first-ever global bond issuance in 2016 and have since done several more.

Saudi Arabia has also shown it can make economic and financial changes without the impetus of the IPO. For instance, this year its **stock market** has secured inclusion on key indexes that is estimated to bring billions of investment into the kingdom. The kingdom this year also introduced changes such as a 5% value-added tax and energy-subsidy cuts meant to wean the kingdom off its large reliance on oil revenues.

Another option discussed has been selling a stake in Aramco to China instead of doing an IPO, which would raise a similar amount of money. People close to the process said there have been no active talks about such a sale recently. One person said China is less interested in Saudi crude oil and is more interested in buying Iranian oil at a discount after U.S. sanctions scare away other buyers this year.

Saudi officials say they have been careful to avoid publicly acknowledging how badly the IPO process is going to avoid damaging relationships with banks and other advisers. The delays have already frustrated bankers working on what had been billed as a historic IPO involving JPMorgan Chase & Co., HSBC Holdings PLC and Morgan Stanley, among others, people familiar with the process say.

Bankers and other advisers have stationed dozens of employees inside Saudi Arabia to help the kingdom and Aramco prepare for more than two years, taking minimal fees in the hope of a huge payout when the IPO actually happens.

Scrapping the IPO would also disappoint stock exchanges that have vied for the listing, including exchanges in the U.S. and the U.K.

President Donald Trump tweeted his support for a U.S. listing, while the U.K. has changed its rules for publicly traded companies to make it easier for a state-owned company to do an IPO.

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Document WSJO000020180705ee7500461

THE WALL STREET JOURNAL.
U.S. EDITION

Heard on the Street
Strong Google Results Soothe Cost Worries

By Dan Gallagher
333 words
24 July 2018
The Wall Street Journal
J
B12
English

[Financial Analysis and Commentary]

A company of Google's size and scale rarely gets the benefit of a low bar.

Yet, given the rather downbeat news flow around the internet giant lately, strong second-quarter results reported Monday afternoon by parent company Alphabet Inc. were met with sighs of relief. Total revenue grew 25% year over year to $32.7 billion while advertising revenue rose 24% to $28 billion, both beating Wall Street's projections.

Per-share earnings, excluding the $5 billion fine levied by the European Union last week, jumped 32% year over year to $11.75, well ahead of the $9.66 per share expected by analysts. The results were enough to give the stock an after-hours lift of nearly 4%.

Another encouraging development came in the distribution traffic acquisition costs, or TAC, that Google pays to partners in order to drive traffic to its own sites. The outlay for distribution TAC totaled $3 billion for the second quarter, or 12.9% of the revenue generated by the company's website traffic. That is down slightly from 13.2% in the previous quarter and is the first sequential decline for this important measure in three years. Looking ahead, CFO Ruth Porat says these costs will continue to grow at a "more moderate pace."

That may seem a small improvement, but worries about those costs and political crackdowns have weighed down Alphabet's **stock price** this year.

The shares had been up by just 15% for the year ahead of the report. That was well below the 23% gain notched by the **Nasdaq** Internet Index and lagged behind peers such as Amazon.com, Microsoft and even Facebook, whose shareholders have been quick to forgive that company's more serious consumer-privacy lapses.

Google's regulatory challenges are far from over, but the company has shown that it can keep its business clicking.

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THE WALL STREET JOURNAL.
U.S. EDITION

Slowdown in Residential Sales Spreads --- Less expensive areas in Brooklyn, Queens and suburban New York are seeing a drop

By Josh Barbanel
675 words
13 July 2018
The Wall Street Journal
J
A11B
English

A slowdown in residential sales that began among super-luxury Manhattan condos has spread to less expensive neighborhoods in Brooklyn, Queens and Westchester and other suburban New York counties.

The weakness reflects caution among buyers about the potential impact of federal tax laws that limit the benefits of home ownership, brokers said, as well as the rebellion of some buyers against high asking prices that built up over several years of stronger sales.

"Buyers are circling and circling, and they are not as quick to make offers as they were in years past," said Gina Castellano, manager of the Brooklyn office of brokerage Stribling.

Some analysts also cited higher mortgage rates, as well as **volatility** in the **stock market** that worried some potential buyers.

In Brooklyn the number of sales was down 5.7% during the second quarter of 2018, compared with the same quarter of 2017, according to a market report by Douglas Elliman. That followed a 14% year-over-year decline during the first quarter, according to the Elliman report.

The number of listings on the market rose by 18.5% during the quarter and the number of days it took to sell the typical apartment rose 15%.

The median price of a Brooklyn residence was down 1.9% to $780,000, the report found, but much of the drop was attributed to a steep decline in sales of condominiums in new developments.

The median price of a new development apartment was down 13.7% to $1.4 million, while new development sales slid by 32%.

In an unusually blunt analysis, a market report about the borough by Stribling began: "We aren't going to sugarcoat it: The second quarter of 2018 was tough."

On the positive side it did cite one "silver lining": The number of contracts signed, many of which will close in the third quarter, was essentially flat, up by 1% from the same quarter in 2017.

In Queens, the number of sales fell 6.5%, but the median price rose 11.6% to $558,000, near a record-high price set at the end of last year.

In Dutchess, Westchester and Putnam counties, the number of sales fell sharply, with transactions down 17.7% in Westchester compared with the second quarter of 2017, the fourth consecutive quarter of year-over-year decline in sales in Westchester, said Jonathan Miller, an appraiser and president of Miller Samuel Inc., who prepared the Elliman report.

At the same time, the median price on homes that did sell rose 5% to $525,000, the highest price in the second quarter since 2007, Mr. Miller said.

In Westchester, where taxes are higher than in any other county in the U.S., according to a report last December in ATTOM Data, the federal tax changes are definitely a concern, said Scott Elwell, a regional manager at Douglas Elliman who oversees sales in Westchester and Connecticut.

The new federal tax law limits deductions on state and local taxes -- including property taxes -- to $10,000 a year, making some buyers uneasy, brokers said.

"Buyers are spending a fair bit of time talking to their accountant and finding out what they can afford," Mr. Elwell said.

But in New Jersey, which also has a high income tax, the number of contracts signed set a record in May, according to a report by the Otteau Group, and was up 1% for the year.

Jeffrey Otteau, the president of the Otteau Group, said that sales for the most expensive apartments, costing $2.5 million or more, were up the most, raising a question about the impact of federal tax policy.

Instead, he said rising prices and rising interest rates had increased the cost of home ownership by 10% over the last year, while income has risen by only 3.5%. It has "nothing to do with tax reform," he added.

Document J000000020180713ee7d0001r

THE WALL STREET JOURNAL.

Economy

Trade Fight Poses Big Risks for Smaller Countries; Economies heavily integrated in global supply chains face outsize hit from trade disruptions

By Jason Douglas
897 words
22 July 2018
08:00 AM
The Wall Street Journal Online
WSJO
English

In a global trade conflict, the big players might not be the biggest losers. Instead it might be smaller, open countries caught in the middle, such as Hungary, the Czech Republic, Taiwan, Singapore and South Korea.

What these places have in common is they are heavily integrated into global supply chains—importing raw materials and components from other parts of the world before combining them in their own factories into new products they then sell abroad.

Nestled within the web of economic links joining country to country, such economies face an outsize hit from the higher import costs and weaker demand for exports that would likely flow from an escalation in protectionism.

Though big economies such as the U.S. would also face turbulence, they produce a lot of parts and raw materials at home and are fueled by domestic consumption, offering a partial shield to a downturn in global trade.

"If you are a small, open economy that depends on trade, you are more vulnerable," said Amit Kara, head of macroeconomic forecasting at the National Institute for Economic and Social Research, a nonpartisan London think tank.

The U.S. has imposed tariffs on imported steel, aluminum, solar panels and washing machines, in addition to $34 billion in Chinese imports and has said it could widen China tariffs to hit $500 billion in imports while also slapping new charges on imported cars.

In all threatened tariffs reach nearly $900 billion worth of goods imported into the U.S. China and others have retaliated and say they will respond in kind to any U.S. escalation.

An analysis by Pictet Asset Management of World Trade Organization data estimated small countries' vulnerability to trade conflicts based on their participation in globe-spanning industrial supply chains.

Among those least vulnerable are economies focused less on adding value to exports through manufacturing or services and more on producing raw materials, such as Saudi Arabia, Argentina and New Zealand.

Taiwan, Hungary and the Czech Republic topped the list of vulnerable countries, followed by Singapore and Korea. WTO data shows that between 60% and 70% of these countries' exports are used in global supply chains, where different stages of production are located in different parts of the world, exposing them to disruptions in global trade.

Their economies were hit hard after the financial crisis in 2007 and 2008, which sank global trade. Hungary's economic output contracted 6.6% in 2009, while the Czech Republic's output contracted 4.8%, according to the International Monetary Fund. Taiwan suffered its worst recession in decades.

In Ireland, another small economy that's high on the list, Eoin Gavin, managing director of logistics firm Eoin Gavin Transport Ltd., handles imports and exports between Ireland, other parts of Europe and the U.S.

Mr. Gavin said his business and the wider Irish economy is heavily reliant on foreign investment and trade, especially with the U.S. He said he has five shipping containers of aluminum and steel parts languishing in warehouses after Mr. Trump imposed tariffs on the metals in May.

"If there's going to be tariffs on goods, it's going to have a massive impact on our business," he said.

Some of these countries are already big losers in the eyes of investors. South Korea's Kospi **stock index** is down 7.5% so far this year, while Singapore's Straits Times index is down 3.7% and Hungary's BUX index is down 10.8%. Malaysia, also on the list, is down 2.1%.

"Nobody wins in a trade war," Pictet said in a recent report.

Hungarian Prime Minister Viktor Orban was Europe's first head of government to endorse Mr. Trump and his America-first foreign policy. His country could be among the biggest casualties if trade tensions escalate.

Hungary draws in components from Germany, Russia and the U.S. to make computer equipment and automobiles that it sells back to Germany as well as Italy and the U.K.

The auto industry accounts for 29% of Hungary's annual manufacturing output, according to the Hungarian Investment Promotion Agency, making it especially vulnerable to Mr. Trump's proposed tariffs on EU auto imports. Firms including BMW AG and Daimler AG have production facilities in the country, fed by more than 700 domestic suppliers.

The International Monetary Fund estimates growth in developing European economies will slow to 3.6% in 2019, from 4.3% in 2018 and 5.9% in 2017.

Some small integrated open economies are better placed to weather a trade war than others.

Luca Paolini, chief strategist at Pictet, which manages $193 billion of assets, said investors seeking shelter should consider not just the level of a country's exposure but also its political and financial stability, its debt rating and its level of foreign reserves.

Though Argentina scores lower than Germany on integration, for example, "it everything goes terribly wrong, you would probably still prefer to be invested in Germany than Argentina," he said. Other, more insulated markets include Israel, India and Indonesia, Mr. Paolini said.

Drew Hinshaw contributed to this article.

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* Swings and Misses for U.S. and China in Trade Dispute

Document WSJO000020180722ee7m000gs

THE WALL STREET JOURNAL.

Heard on the Street
Markets
Investors Have Become Too Complacent About Inflation; Markets have been worried about what's happening to growth. In the background, inflation is warming up

By Richard Barley
449 words
11 July 2018
10:48 AM
The Wall Street Journal Online
WSJO
English

Remember inflation?

What with trade conflicts, political turmoil and puzzles around global growth, there's a lot for investors to juggle. But this year's ructions in global markets started with a steep climb in bond yields in part due to rising inflation. U.S. consumer price data for June, due Thursday, are forecast to show inflation at 2.9%, its highest for more than six years. With so much else to worry about, inflation may have moved too far off investors' radar.

Inflation has headed steadily higher this year. In May, it reached 2.6% for the 35 member countries of the Organization for Economic Cooperation and Development, and 2.9% for the G-20 economies. In the U.S., the Federal Reserve's preferred measure of core inflation, based on the personal consumption expenditure index, met its 2% target in May, while data Wednesday showed producer prices rising at a 3.4% annual clip. In the eurozone, the headline measure of inflation watched by the European Central Bank stood at 2% in June.

True, some of the recent gains are down to big swings in energy markets. The price of a barrel of Brent crude is up some $30 from a year ago at over $77. In the eurozone that has helped drive headline inflation up, but core inflation is still low at just 1%. And despite tightening labor markets, particularly in the U.S., wage inflation has remained muted.

The concerns around global growth—with a puzzling slowdown in Europe, **financial-market** turmoil in emerging countries and fears about President Donald Trump's trade policies—are overwhelming worries about inflation.

But surveys show the global economy holding up. The J.P. Morgan global manufacturing and services purchasing managers index rose to 54.2 in June, with both input and output price subindexes showing accelerating inflation. Trade worries raise concerns about growth, but the imposition of tariffs and potential disruptions to supply chains should also make investors wonder about inflation. As it is, inflation expectations are still in check: A measure of five-year U.S. inflation in five years' time is just under 2.2%.

Fears of soaring inflation after the financial crisis have repeatedly failed to turn into reality. But it might only take a few eye-catching inflation numbers to shake markets that are comfortable with the consensus that central banks will only gradually withdraw crisis-era stimulus. On inflation, investors may have become too complacent.

Write to Richard Barley at richard.barley@wsj.com

Document WSJO000020180711ee7b0030e

THE WALL STREET JOURNAL.

Markets

Morgan Stanley Wraps Up Big-Bank Earnings With 39% Profit Growth; CEO James Gorman's turnaround plan benefits from stronger economy, trading, deal environment

By Liz Hoffman
868 words
18 July 2018
05:39 PM
The Wall Street Journal Online
WSJO
English

Morgan Stanley's second-quarter earnings rose 39% from a year ago, wrapping up a big-bank earnings season that showed continued strength in the economy and few signs that global tensions are spilling over into the financial sector.

The smallest of the big six U.S. banks by assets reported $2.4 billion in profit on $10.6 billion revenue. Earnings per share of $1.30 beat the $1.11 expected by analysts polled by Thomson Reuters. Revenue also topped expectations by about $500 million.

The last time Morgan Stanley reported two consecutive quarters of $10 billion-plus revenue was 2007, just before the financial crisis took hold. Its $21.8 billion revenue over the first six months of 2018 is a firm record.

The bank, run by Chief Executive James Gorman, is in the late innings of a multiyear turnaround effort. Mr. Gorman's push into wealth management -- Morgan Stanley manages $2.4 trillion on behalf of about 3.5 million U.S. households -- has steadied its earnings and reassured investors, who had stayed away after repeated burns.

Mr. Gorman, who turned 60 last week, appears to be in harvesting mode and has shown little appetite to set ambitious new targets or chase new businesses.

"A member of my team [asked me] recently, 'what's our strategy?' How about 'make some money?'" Mr. Gorman said Wednesday.

Shares rose more than 2.7% in afternoon trading, outpacing other bank shares.

Steady economic growth, lower taxes, an uptick in demand for loans, and renewed **volatility** in the price of some securities have all helped big banks this year. Goldman Sachs Group Inc., Morgan Stanley's closest peer, on Tuesday reported its best first half in nine years.

So far, escalating global tensions, trade battles and a shrinking gap between the cost of short- and long-term debt -- which has historically signaled a coming economic pullback -- haven't spooked investment funds and corporations that use banks to trade securities, advise on deals and arrange financing.

"Corporations feel good, consumers feel good," Morgan Stanley's finance chief, Jonathan Pruzan, said in an interview Wednesday. "The pockets of **volatility** seem to be isolated and not rolling over into the broader market.

"If that changes, and it starts to put people in defensive mode, we'll have different second half of the year," he said.

Morgan Stanley's return on equity, a measure of how profitably it invests shareholders' money, stood at 13% in the quarter, hitting the goal Mr. Gorman had set -- though with an assist from the lower taxes.

For the last few years, Morgan Stanley's giant retail brokerage has been the star, gathering assets and churning out reliable profits. This quarter, though, its Wall Street businesses shone.

Combined trading and investment-banking revenues of $5.7 billion were 20% higher than last year and capped the best first-half in those businesses since 2007. Fees from merger advice, stock-trading and stock-underwriting were all up double digits from a year ago. Debt trading and underwriting, businesses where Morgan Stanley is smaller, grew but less dramatically.

The quarter provided a boost for Ted Pick, a longtime trading executive who just last week was given oversight for investment banking, too. The move put the 49-year-old in charge of all the firm's Wall Street businesses and marked him as a frontrunner to eventually succeed Mr. Gorman, who is likely to stay on another three to five years.

Morgan Stanley's banking assets, the loans and other instruments sitting in its regulated banking entity, topped $200 billion for the first time in the quarter. The firm converted to a Main Street bank during the financial crisis and has been pushing to grow that business. Corporate loans were up 21% year over year.

On the consumer side, where the firm has been pushing mortgages and loans backed by brokerage portfolios, progress has been hard-won, slowed down by its decision to bring more of its mortgage business in-house last year.

A new savings-like account has boosted deposits, meaning the firm will need to ramp up lending as quickly or else lose money on interest. "The bank will remain a very important source of growth," Mr. Gorman said.

Morgan Stanley's smallest division, asset management, posted a 4% increase in revenue. Mr. Gorman has a soft spot for that business -- which accounts for just 7% of the firm's overall revenue but requires little capital to run -- and is aiming to grow it, in part through acquisitions.

Write to Liz Hoffman at liz.hoffman@wsj.com

More

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Document WSJO000020180718ee7i001e3

THE WALL STREET JOURNAL.
U.S. EDITION

Business & Finance
What's News
Business & Finance

238 words
31 July 2018
The Wall Street Journal
J
A1
English

GE is seeking a buyer for key parts of its digital business as it unwinds a signature initiative of ex-CEO Immelt that loses money despite billions in investment.

The NYSE FANG+ Index, a stock gauge that tracks 10 global technology giants, sank 2.8% and entered correction territory.

U.S. stocks fell amid the tech slide, with the Dow losing 144.23 points to 25306.83. The **Nasdaq** dropped 1.4%.

AmEx's foreign-exchange unit recruited business clients with offers of low currency-conversion rates before quietly raising their prices, people familiar with the matter say.

CBS's board was in the process of picking an outside law firm to handle an investigation into sex-harassment allegations against Moonves.

The cumulative level of Chinese investment in the U.S. dropped in 2017, according to a new report from the Commerce Department.

Samsung posted flat second-quarter net, as a big drop in mobile phone profits dragged down results.

Caterpillar raised its profit outlook, predicting higher prices and strong sales will cover increased materials costs tied to tariffs.

Investors in Puerto Rico's bankrupt electricity monopoly have struck a debt-restructuring deal, inching it closer to privatization.

Vivendi said it will try to sell up to 50% of its Universal Music unit in an attempt to cash in on a resurgent recording industry.

Document J000000020180731ee7v0002a

THE WALL STREET JOURNAL.
U.S. EDITION

REVIEW & OUTLOOK (Editorial)
Iran's Persistent Protests

483 words
5 July 2018
The Wall Street Journal
J
A14
English

Iranians are protesting in the streets again, only a few months after the regime crushed nationwide demonstrations over the country's sagging economy and widespread corruption. The periodic eruptions are a sign of discontent that may spread as the pressure from renewed U.S. sanctions increases.

The latest upheavals occurred in the southwestern city of Khorramshahr over the weekend, after brown fluid started running out of taps. Hundreds of residents gathered in a public space reserved for Friday prayers and blamed local officials for the lack of potable water, chanting such anti-government slogans as "in the name of religion, they plundered us." Protests also broke out in nearby Abadan.

The weekend demonstrations are part of a larger pattern of discontent with the ruling theocracy in Tehran. In December and January, demonstrations erupted in more than 100 cities and towns over inflation, joblessness and graft. Women staged hijab protests, ripping off their veils. In March farmers from Isfahan province in central Iran protested long droughts. In May truckers went on a nationwide strike to protest stagnant wages and rising costs.

Supreme Leader Ayatollah Ali Khamenei and President Hassan Rouhani promised that the 2015 nuclear deal, which funneled tens of billions in hard currency to Iran, would usher in better economic times. Instead, the regime used the money to finance its Quds Force operations and Shiite militias in Syria, Iraq, Yemen and Hezbollah in Lebanon.

President Trump's May decision to exit the nuclear deal and reimpose financial sanctions is already increasing pressure on the regime. Protestors swarmed Tehran's Grand Bazaar last month after the local currency, the rial, slumped to 90,000 to the dollar in the black market. The rial has fallen roughly by half since the end of 2017, as traders and banks anticipate a harder time getting dollars. Economist Steve Hanke estimates annual inflation has spiked to 126%.

In August the U.S. Treasury plans to reimpose sanctions on gold and other precious metals, U.S. dollar dealing, trade in Iranian sovereign debt, and autos. In November U.S. sanctions will kick in on ports, shipbuilding, petroleum, energy, insurance, and more. A State Department official suggested last month that the U.S. wants to halt all Iranian oil exports, but on Monday policy planning director Brian Hook said it will consider waivers for countries on a case-by-case basis.

Mr. Rouhani responded Tuesday by threatening to disrupt oil shipments from neighboring countries in the Middle East, but that would court U.S. intervention to keep oil flowing through the Strait of Hormuz. The U.S. doesn't want an **oil-price** spike with a barrel already selling for nearly $75. But the risks are far greater for Iran if it doesn't change its marauding behavior because its political control at home is far from certain.

Document J000000020180705ee750000e

THE WALL STREET JOURNAL.

Economy
Timiraos's Take: Powell Is Bullish But Not Hawkish

By Nick Timiraos
345 words
23 July 2018
05:49 AM
The Wall Street Journal Online
WSJO
English

Fed Chairman Jerome Powell offered a mostly **bullish** assessment of the U.S. economy over two days of congressional hearings that ended Wednesday, but there weren't many hints of hawkishness.

Consider: Pressed over whether inflation was more likely to be stronger- or lower-than-expected, he said he was "maybe slightly more worried about lower inflation, still."

Perhaps that's not a surprise after the Fed has consistently projected inflation returning to its 2% target, only to see global events or idiosyncratic weaknesses intrude on those forecasts.

The exchange is the latest reminder that Mr. Powell wants to see inflation to stay at 2% or even rise slightly above it for a while before declaring success on hitting the target.

Later, he showed lingering doubts over whether the economy, with 4% unemployment in June, had reached a level of full employment, meaning joblessness can't go sustainably lower.

"We're close to full employment—maybe not quite there," he said.

The exchanges reveal that while some Fed officials worry they could fall behind the curve, particularly with fiscal policy likely to boost growth and further reduce the unemployment rate, Mr. Powell isn't lighting his hair on fire.

At the same time, he declined an opportunity to echo the concerns of more dovish Fed bank presidents. He didn't appear terribly worried by the recent flattening of the yield curve, even though several of officials have raised more alarm over the signal embedded in the shrinking term spread.

He also revealed greater concern than at his June press conference over the downside risks of trade tariffs and related international disruptions.

Mr. Powell offered nothing to push back against market expectations of two more rate increases this year, with the next one coming in September. But he showed how the debate over what to do after that, as the Fed gets much closer to a neutral rate setting, is far from settled.

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

Document WSJO000020180723ee7n000rt

THE WALL STREET JOURNAL.
U.S. EDITION

Corrections & Amplifications
Corrections & Amplifications

382 words
27 July 2018
The Wall Street Journal
J
A2
English

Jean-Claude Juncker is president of the European Commission. In some editions Thursday, a U.S. News analysis about President Donald Trump's trade policy incorrectly gave Mr. Juncker's title as president of the European Union.

The leader of the Aum Shinrikyo cult and six of his followers were executed by Japan on July 6. In some editions Thursday, a World Watch article about the executions of other cult members on Thursday incorrectly said July 5.

(See: "World News: World Watch" -- WSJ July 26, 2018)

The number of shares that changed hands Tuesday on exchanges operated by the New York Stock Exchange and **Nasdaq** was above the July average. A Business & Finance article Wednesday about **stock-market** trading incorrectly characterized the session as the lowest full day for stock trading volume this year.

(See: "Tuesday's Markets: Dow Gains, Powered by Strong Earnings" -- WSJ July 25, 2018)

Wind speeds of 74 miles an hour or more are considered hurricane strength. A U.S. News article Monday about the investigation into the sinking of an amphibious vehicle in Missouri that killed 17 people incorrectly implied that hurricane force winds start at 75 mph.

(See: "U.S. News: Officials Probe Duck Boat Tragedy --- Following 17 deaths in Missouri incident, federal officials focus on weather information" -- WSJ July 23, 2018)

A chart showing the percentage of Supreme Court 5-4 cases decided in conservatives' favor accompanying a June 28 U.S. News article about Justice Anthony M. Kennedy's career labeled the beginning and ending years correctly and contained the correct number of spaces for intervening years, but it mislabeled 2010-2011 and 2015-2016. A corrected version of the chart is available at WSJ.com/Corrections.

(See: "U.S. News: Justice Defined Career At Center of Big Rulings" -- WSJ June 28, 2018)

The refugee crisis in Germany peaked in 2015. A Page One article June 27 about Germany incorrectly implied that it peaked in 2014.

(See: "Refugee Backlash Threatens Merkel --- Bavarian uprising within German leader's coalition could topple the government" -- WSJ June 27, 2018)

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Document J000000020180727ee7r0000n

THE WALL STREET JOURNAL.

Politics

FCC Chairman Has 'Serious Concerns' With Sinclair-Tribune Deal; Ajit Pai says evidence suggests proposed station divestitures would leave Sinclair in control of them 'in practice, even if not in name'

By John D. McKinnon, Joe Flint and Keach Hagey
1,383 words
16 July 2018
07:26 PM
The Wall Street Journal Online
WSJO
English

WASHINGTON—A top federal communications regulator said Monday that he had "serious concerns" about Sinclair Broadcast Group Inc.'s $3.9 billion acquisition of Tribune Media Co. and took action to block the deal.

Federal Communications Commission Chairman Ajit Pai said in a written statement that the evidence suggests that proposed station divestitures by Sinclair to meet FCC media-ownership regulations would leave the company in practical control of those stations "in violation of the law."

Mr. Pai said he has circulated a draft order to fellow commissioners that would send those divestiture issues for a hearing before an administrative law judge.

"When the FCC confronts disputed issues like these, [federal law] does not allow it to approve a transaction," Mr. Pai said in his statement.

As of late Monday, the draft order already had received enough votes to win approval.

The decision is sure to complicate the Sinclair-Tribune deal and appears likely to derail it. Agency experts say such recommendations almost invariably kill merger deals.

More broadly, the FCC's announcement throws further confusion into a media landscape that has undergone tremendous consolidation in the past few years. While some deals—such as Discovery Communications Inc.'s acquisition of Scripps Networks Interactive Inc.—sailed through, others including AT&T Inc.'s purchase of Time Warner Inc. and the Sinclair-Tribune deal have faced pushback. The Justice Department lost its legal battle to stop the AT&T-Time Warner deal but last week said it was appealing the decision.

Much of the broadcast-television industry has consolidated in large part because of a friendly FCC. Whether the concerns about Sinclair's growth will slow down the deal-making in general is unclear.

While the opposition to the Sinclair-Tribune deal came largely from the left side of the political aisle, there were some prominent voices on the right that might have played an oversize part in quashing the transaction.

After the news, shares of Tribune Media fell 17%, or $6.44, to close at $32.12 on the New York Stock Exchange. Sinclair shares dropped 12%, or $3.85, to $29.10 on the **Nasdaq Stock Market**.

Tribune declined to comment.

In a statement released late Monday, Sinclair said it was "shocked and disappointed" by the FCC's move and it denied that it had misled the commission about its plans. It said its planned station spinoffs are "consistent with structures that Sinclair and many other broadcasters have utilized for many years with the full approval of the FCC." Sinclair added that it has been "completely transparent about every aspect of the proposed transaction" during the company's dealings with the regulator.

Sinclair also said it is "prepared to resolve any perceived issues" and that it looks forward to "working with regulators to make the merger a reality."

The regulatory agency had previously raised concerns about Sinclair's plan to spin off big Tribune-owned stations in New York and Chicago, as The Wall Street Journal reported in April. The FCC had been pushing back on the potential new owners of the spun-off stations, worrying that Sinclair's owners could remain in effective control. The focus of more recent concerns had been stations in Chicago, Dallas and Houston, according to a person familiar with the matter.

At the same time, Mr. Pai, a Republican, has come under tough criticism from many Democrats for enacting a number of changes in media-ownership rules that could have smoothed the way for the Sinclair-Tribune deal. Mr. Pai's action on Monday could have the effect of quieting some of those criticisms.

FCC commissioner Jessica Rosenworcel, a Democrat who has accused Mr. Pai of aiding the conservative-leaning Sinclair, said that Monday's proposal was "welcome" and added that she already has voted to approve it.

"As I have noted before, too many of this agency's media policies have been custom built to support the business plans of Sinclair Broadcasting," she said. "With this hearing-designation order, the agency will finally take a hard look at its proposed merger with Tribune."

The deal also could have been hurt by regulators' perception that Sinclair wasn't being transparent about all aspects of the proposal.

Mr. Pai's draft order cites a possible lack of candor as a concern, without providing details, a person familiar with the matter said.

Christopher Ruddy, the chief executive of Newsmax Media Inc. who had been a vocal opponent of the deal, praised Mr. Pai for his "nonpartisan" decision.

"It's really refreshing that people in Washington can rise above party politics," said Mr. Ruddy, a confidant of President Donald Trump.

Newsmax, which runs a conservative streaming and cable-television channel, was worried about the market power that a combined Sinclair-Tribune would have, especially after reports that Sinclair was pursuing its own conservative streaming channel.

Sinclair's large market share of broadcast stations would give the company leverage over pay-television distributors to get any cable channel it wanted onto a lineup.

The announcement suggests that Sinclair might have overplayed its hand in Washington with regard to its spinoff plans. The Tribune deal has been the subject of intense and politically tinged debate among media watchdogs and other media companies.

Sinclair already is one of the largest owners of television stations in the U.S., with 173 in midsize and smaller markets. Taking control of Tribune would give Sinclair an additional 42 TV stations, including in some of the nation's biggest cities.

Media watchdogs and some cable groups have expressed concern that approving the deal would make Sinclair too big, creating an anticompetitive environment and greatly reducing the number of independent media voices across the country.

Sinclair has said it would spin off major Tribune stations in Chicago and other cities, to be in compliance with current television-ownership rules and to receive government approval for the deal. However, the companies that would take over as licensees all have close ties to Sinclair and its chairman, David Smith.

In Chicago, Tribune's WGN would be sold to Steven Fader for $60 million. Mr. Fader is a partner with Mr. Smith in Atlantic Automotive Corp., a car-dealership concern.

Three stations in Seattle, Salt Lake City and Oklahoma City are expected to be sold to Howard Stirk Holdings LLC, which is operated by conservative commentator Armstrong Williams. Howard Stirk has a long relationship with Sinclair and owns other stations that are essentially managed by the media company.

Sinclair had also planned to spin off Tribune's WPIX-TV in New York City to a friendly operator: Cunningham Broadcasting, which is run by the estate of Mr. Smith's mother, Carolyn Smith. However, after pushback from the FCC, Sinclair has opted to hold on to WPIX-TV.

Sinclair told the FCC it wouldn't be the licensee of the stations it sold but would operate them as its own, handling advertising sales and being involved in news coverage.

Such pacts, known in the industry as "sidecar" arrangements, are permissible by the FCC and allow one broadcaster to essentially operate two stations in a market without running afoul of FCC regulations. However, people at the agency have indicated that the agency wants more distance between Sinclair and the would-be owners.

In his statement, Mr. Pai said the evidence the agency has received "suggests that certain station divestitures that have been proposed to the FCC would allow Sinclair to control those stations in practice, even if not in name, in violation of the law."

The FCC's decision also might disrupt a Sinclair deal to sell seven of the Tribune television stations to 21st Century Fox for $910 million.

A spokeswoman for 21st Century Fox declined to comment. 21st Century Fox and Wall Street Journal parent News Corp share common ownership.

The Justice Department is conducting its own review of the transaction as well.

Write to John D. McKinnon at john.mckinnon@wsj.com, Joe Flint at joe.flint@wsj.com and Keach Hagey at keach.hagey@wsj.com

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THE WALL STREET JOURNAL.

Markets

Soybean Prices Near Decade-Low as China Tariffs Hammer Supply Forecast; USDA projects stocks in next crop year will rise about 50% higher than previous estimate to record level

By Benjamin Parkin and Francesca Fontana
569 words
12 July 2018
03:23 PM
The Wall Street Journal Online
WSJO
English

Soybean prices fell to their lowest point in nearly a decade, after a report forecast that Chinese tariffs will cut into exports and push up stocks of one of America's most widely grown crops.

The U.S. Department of Agriculture on Thursday projected stocks of soybeans for the 2018-19 crop year at a would-be record of 580 million bushels, around 50% higher than its previous estimate and more than analysts expected.

Beijing last week introduced retaliatory tariffs on U.S. soybean imports, as both countries lash out with duties on tens of billions of dollars in goods amid an escalating trade dispute.

China "is trying to put the fear into us right now," said Brian Grossman, a market strategist at Zaner Group, of the USDA's figures.

The USDA expects exports to China—the largest buyer of American soybeans—to suffer as a result of the duties. Soybean exports next year will fall by 11% to 2.04 billion bushels, the agency said, with higher market share in other countries failing to offset the lost demand.

Soybean prices slid after the report. July-dated contracts touched $8.26 a bushel at the Chicago Board of Trade, trading at the lowest point since December 2008. The report was "**bearish**" for soybean prices, said Terry Reilly, a senior analyst at Futures International.

Analysts say many U.S. farmers, who this year planted more soybeans than corn for the first time in 35 years, will struggle to turn a profit at such low prices.

The tariffs are also expected to hurt Chinese consumers of soybeans, who will have to deal with higher domestic prices as some as importers are forced to absorb the duties. Despite a recent string of bumper crops in Brazil, there aren't enough soybeans in the world for Chinese buyers to avoid U.S. product altogether, analysts say. Chinese soybean imports next year will fall by 8% as a result, as domestic pig farmers and other users seek out alternative sources of oilseed.

The global soybean surplus will rise to 98.3 million tons next year, the USDA said, 13% higher than its previous estimate.

The agency projected a starkly different outlook for the corn market, forecasting a larger-than-expected drop in global supplies and higher exports of the U.S. crop.

U.S. corn stockpiles are due to fall to 1.55 billion bushels in 2018-19, down almost 25% from a year earlier, with global stocks sliding around 20% to 260.9 million metric tons.

Corn futures for July rose 1.6% to $3.36 1/2 a bushel after the report.

Traders were concerned that the USDA would forecast a reduction in U.S. corn demand from Mexico, the U.S.'s largest buyer. Both countries have recently clashed over trade, prompting Mexico to introduce duties against a range of agricultural goods.

Some fear that corn could be next. But others see concerns dying down.

Mexico's president-elect, Andrés Manuel López Obrador, "appears to have a less cantankerous approach" to trade tensions with the U.S., said Rich Nelson, a strategist at brokerage Allendale Inc.

Write to Benjamin Parkin at Benjamin.Parkin@wsj.com

Document WSJO000020180712ee7c004bm

THE WALL STREET JOURNAL.

Markets

More Middle East Oil May Not Be Enough; Increased production in response to Trump's request may not stem price rallies sparked by supply disruptions

By Georgi Kantchev and Benoit Faucon
1,341 words
2 July 2018
06:38 AM
The Wall Street Journal Online
WSJO
English

President Donald Trump's request for more Saudi Arabian oil put a spotlight on growing U.S. unease about how quickly the crude sector has switched from glut to deficit, but a boost in Middle East production may not be enough to stem the price rallies that have hit consumers.

Supply disruptions in major producers like Canada and Venezuela, coupled with strong crude demand from robust global growth, have tightened the oil market faster than many analysts expected. Early Monday, Libya's state-run oil company said it couldn't honor contracts to deliver oil at two ports, widening outages there, after rebels blocked exports. Prices have shot up in recent sessions in response. On Friday, U.S. crude ended just over $74 a barrel, its highest since November 2014. Brent, the global price yardstick, is close to $80 a barrel. Early Monday, prices were slightly lower.

That has contributed to rising gasoline prices in the U.S., just months before the midterm elections. GasBuddy, a fuel-tracking app, estimates that prices will be around $2.90 a gallon for the Independence Day holiday, the highest on that day since 2014.

In several tweets, Mr. Trump has blamed the Organization of the Petroleum Exporting Countries and on Saturday, he said he had asked Saudi Arabia, in a call to its leader, to boost its oil production.

But even if the cartel heeds Mr. Trump's call to increase production, there may not be enough spare capacity to quickly make up for supply disruptions, particularly as renewed U.S. sanctions look set to drastically reduce Iranian production, analysts say.

With the combination of supply disruptions and high demand, "we are getting a preview of how the oil market will react when Iranian oil comes off the market," said Ellen Wald, oil-market analyst and president of Transversal Consulting.

Only last summer, oil producers and consumers were contemplating a future of cheap crude following three years of massive oversupply fueled by booming U.S. output. **Oil prices** fell below $30 a barrel in early 2016 and only major production cuts by OPEC and its allies managed to arrest the decline.

Now prices have risen to levels that analysts say could begin to hurt the global economy.

Higher prices take money out of consumer's pockets and damp wider spending while raising energy costs for business. Some economists have a rule of thumb for the U.S: Every one-penny reduction in gas prices puts more than $1 billion a year into consumers' hands.

Still, the oil industry is such a large part of the U.S. economy now that some economists believe high prices will in the end benefit GDP.

Democrats have sought to capitalize on the issue. "The president saying so doesn't make it so," said Senate Minority Leader Chuck Schumer (D., N.Y.) on Sunday. "We await a large Saudi increase in oil production that will actually lower gas prices at the pump so the consumer will recognize it and for the administration to reverse plans to roll back the gas mileage standards so consumers can save money."

Inside the White House, aides believe the president's call to Saudi Arabia was helpful in that Mr. Trump received assurances of Saudi cooperation.

One measure of the call's value is that it provoked a hostile reaction from Iran, which sees the president's intervention on global oil production as a threat to its interests, administration aides say. On Saturday, Iran accused Riyadh of doing Washington's bidding.

The U.S. isn't the only country complaining. The recent decision by OPEC and its allies to relax their production cap and allow about 600,000 barrels a day of new crude on the market came after big-ticket consumers such as India and China asked it to open the taps.

On Saturday Mr. Trump tweeted: "I am asking that Saudi Arabia increase oil production, maybe up to 2,000,000 barrels."

Few analysts believe that number is possible and that there is the spare capacity in general needed to compensate for current disruptions to the oil supply.

As U.S. sanctions dig in, the International Energy Agency estimates that 900,000 barrels a day of Iranian crude could be off the market next year, which would halve Tehran's exports of the commodity.

Economic and political turmoil in Venezuela has hammered its production, contributing to falling global supply. The IEA says the crisis has taken one million barrels a day off the market in the past two years and would likely slash an additional 550,000 barrels a day next year.

A dispute in Libya over oil-marketing rights is hindering the North African nation's export capacity. On Monday, oil officials declared force majeure at two more ports amid a standoff with rebels there. With two other ports previously shuttered, Libyan production is now down by about 850,000 barrels a day, from one million barrels a day before the disruptions.

Even in the U.S., where production is running at a record pace at almost 11 million barrels a day, pipeline constraints are leading some drillers to idle rigs. In Canada, a continued shutdown of an important oil facility has limited output by as much as 350,000 barrels a day.

"The global oil glut has been eliminated," said Rob Thummel, who manages energy assets for Leawood, Kan.-based Tortoise Advisors. "Without increased OPEC production, the global oil market will remain undersupplied in the second half of 2018, which would likely result in higher oil and gasoline prices."

To make up for the loss of Iran's supply and other disruptions, Middle East producers could swiftly increase production by 1.1 million barrels a day, the IEA said. Half of that amount—530,000 barrels a day—could be shouldered by Saudi Arabia, with rest coming from the United Arab Emirates, Kuwait and Iraq. In addition, Russia could increase production by up to 300,000 barrels a day over the coming months, according to the agency.

But disruptions in Libya, Iran, Venezuela "mean that the increase from those with spare capacity will likely be larger," said Warren Patterson, commodity strategist at ING Bank.

Unlike previous periods of higher prices, the rise in U.S. oil output, which has more than doubled in a decade, means that a large swath of the U.S. economy stands to benefit from higher prices.

But even some producers don't want to see oil go too high, for fear it could harm the global economy and so hit demand, among other reasons.

While many U.S. oil companies welcomed prices at $65 or $75 a barrel, some drillers said the prospect of further increases may not be a positive.

"I don't necessarily want higher prices," said David H. Arrington, who operates an independent oil-and-gas company in the booming Permian basin in West Texas and New Mexico. "Our number one problem [in West Texas] is people. We need people in the offices, in the oil field, on frack jobs, in grocery stores and even in convenience stores. If prices go up, it will aggravate that problem."

Boom areas like the Permian have full employment. Rising prices creates higher service costs and increases the cost for labor.

Mr. Arrington said he welcomed Mr. Trump's effort to try to moderate the rise of prices.

Mr. Trump "wants [consumers] to have cheap prices at the pump," he said. "I agree with him."

Bradley Olson and Peter Nicholas contributed to this article.

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Document WSJO000020180701ee71002s3

THE WALL STREET JOURNAL.

Politics

Trump Asks Saudi Arabia to Pump More Oil, Citing High Prices; Saudi Arabia confirms Trump spoke with King Salman but doesn't mention the extra production the U.S. president tweeted about

By Summer Said in Dubai and Mark H. Anderson and Peter Nicholas in Washington
1,257 words
30 June 2018
10:30 PM
The Wall Street Journal Online
WSJO
English

U.S. President Donald Trump said he asked Saudi Arabia to significantly boost its oil production, ratcheting up pressure on Riyadh to help ease fast-rising crude prices.

The intervention comes as global demand is rising, inventories of stored oil are falling and a number of supply disruptions—in Canada, Iran, Libya and Venezuela—have tightened markets.

Oil prices ended Friday at another multiyear high. U.S. benchmark crude finished just over $74 a barrel, its highest since November 2014. Brent, the global benchmark, is close to $80 a barrel.

That has contributed to rising gasoline prices, just ahead of U.S. midterm elections. Mr. Trump has targeted the Organization of the Petroleum Exporting Countries in recent months, blaming it for the higher prices.

Saudi Arabia, the de facto head of OPEC, and Russia have already said they would work together to boost production. Producers get more revenue when prices are high but are also mindful that when they get too high, they can slow economic growth—and oil demand. OPEC has also said it listened to complaints from big consuming nations, like the U.S.

Publicly, Riyadh has committed to only modest output increases, but behind the scenes the kingdom is ramping up quickly—moving from just over 10 million barrels a day a few months ago to a target of close to 11 million barrels a day by July, according to people close to the Saudi oil ministry.

Mr. Trump on Saturday said in a tweet he is asking for even more, a request that oil officials inside and outside the kingdom say would be hard for Saudi Arabia to meet on a sustainable basis.

"I am asking that Saudi Arabia increase oil production, maybe up to 2,000,000 barrels," Mr. Trump said in the tweet, citing a conversation with Saudi King Salman.

"Prices to [sic] high! He has agreed!" the tweet said, citing "turmoil & disfunction" in Iran and Venezuela. It wasn't clear whether Mr. Trump was saying the king agreed that prices were too high or that the kingdom would increase oil output.

A senior Saudi official said the kingdom has made no specific promise to Mr. Trump but rather assured the U.S. of its capability to meet demand.

On Saturday night, about 14 hours after Mr. Trump posted his tweet, the White House put out a statement on the call between the president and King Salman, which took place Friday.

The statement doesn't say that King Salman agreed to ramp up oil production or that he agreed prices were too high.

"In response to the president's assessment of a deficit in the oil market, King Salman affirmed that the kingdom maintains a two million barrel per day spare capacity, which it will prudently use if and when necessary to ensure market balance and stability, and in coordination with its producer partners, to respond to any eventuality," the statement reads.

Some experts said they didn't believe the dramatic increase Mr. Trump called for was necessary. With global economic growth expected to slow in the next two years, producing more oil now could lead to another surplus, said Dean Foreman, the chief economist at the American Petroleum Institute. The previous global surplus, due in part to ramped-up U.S. shale production, pushed **oil prices** as low as $25 a barrel.

"The market doesn't need another two million barrels a day right now," Mr. Foreman said.

Venezuela production has dropped amid an economic crisis there. The U.S. has reimposed sanctions on Iran and earlier this week said it was asking buyers of Iranian crude to stop their purchases by November, a much sooner cutoff than expected.

Oil prices had started to fall in recent weeks, thanks to the Saudi and Russian agreement to increase production. But they started climbing fast again this week.

Prices at the pump have a long history as an issue ahead of U.S. elections. Republicans in November are trying to hold on to majorities in both chambers of Congress.

Democrats have sought to capitalize on the issue. Ahead of the Memorial Day holiday in May, Senate Minority Leader Chuck Schumer (D., N.Y.) appeared at an Exxon Mobil Corp. gas station in Washington, D.C., and blamed Mr. Trump for high gas prices. "Why doesn't he ask them to lower their prices so that the prices at the pump can be lower?" he said.

In an official statement posted on the state-run Saudi Press Agency, Saudi Arabia said King Salman spoke to Mr. Trump but gave no mention of the two million barrels of extra production the American leader tweeted about.

"During the call, the two leaders stressed the need to make efforts to maintain the stability of oil markets and the growth of the global economy," it said.

Saudi Arabia, while a close U.S. ally, has been wary of appearing to respond to specific requests to pump oil. It says it acts to balance markets, keeping prices not too high or low. It is also eager to appear to be acting in coordination with OPEC.

Iran, a fellow OPEC member, has accused Riyadh of doing Washington's bidding. Iran's OPEC governor told Bloomberg on Saturday that Mr. Trump was calling on Saudi "to walk out from OPEC."

Last week, OPEC and a group of non-OPEC producers led by Russia agreed to ease up on a 2016 pact that limited production. The new deal would allow about 600,000 barrels a day of new oil, according to people familiar with the matter.

Most of that increase was expected to come from Saudi Arabia, which is almost alone in the world in having spare capacity that it can quickly turn on. It says it keeps between 1.5 million barrels and 2 million barrels a day of spare capacity at the ready at all times.

Its ability to deliver that in a sustainable way is debatable, according to officials and outsiders.

People familiar with the matter have previously said the kingdom can only sustain output of about 12.5 million barrels a day for a short period.

"Saudi Arabia does not really like going beyond 11 million barrels a day and has no intension of expanding its current production capacity. It is expensive," another Saudi official said.

The U.S., too, is pumping flat out. U.S. output is almost 11 million barrels a day, according to federal estimates. Shale producers are facing infrastructure hurdles that are threatening to slow growth.

In some ways, shale producers and OPEC are aligned. They both want prices high enough to profit, but not so high that it might destroy demand.

"Shale producers don't want prices to fall to $40 again, where most can't make a profit and drill economic wells," said Kirk Edwards, president of Latigo Petroleum. "There needs to be a perfect balance, and there's a chance that these supply issues will leave a big hole out there that needs to be filled."

Benoit Faucon and Bradley Olson contributed to this article.

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Document WSJO000020180630ee6u000gp

THE WALL STREET JOURNAL.
U.S. EDITION

Oil Prices Edge Lower On Supply Anxieties

By Neanda Salvaterra and Amrith Ramkumar
208 words
3 July 2018
The Wall Street Journal
J
B11
English

U.S. **oil prices** edged lower from a multiyear high Monday, with some traders worried that major oil producers could increase production more than previously expected.

Light, sweet crude for August delivery inched down 21 cents, or 0.3%, to $73.94 a barrel on the New York Mercantile Exchange, snapping a four-session winning streak following its best week since 2016. Brent crude, the global benchmark, was down $1.93, or 2.4%, at $77.30 a barrel.

President Donald Trump jolted the oil market on Saturday when he asked Saudi Arabia to significantly boost its production by about two million barrels a day to offset falling production from Venezuela and an expected decline in supply from Iranafter U.S. sanctions on Tehran fall into place.

Investor anxiety about geopolitical events in places like Canada and Venezuela has spurred the recent oil rally. The request from Mr. Trump comes after Washington said it would sanction countries that don't cut oil imports from Iran to "zero" by Nov. 4.

Among refined products, gasoline futures dropped 4.64 cents, or 2.2%, to $2.1048 a gallon.

Document J000000020180703ee730000k

THE WALL STREET JOURNAL.

Markets
Fannie Mae Debt Sale Sets Milestone For New Borrowing Benchmark; New index taking aim at scandal-ridden Libor passes $6 billion test.

By Vipal Monga and Daniel Kruger
690 words
26 July 2018
05:18 PM
The Wall Street Journal Online
WSJO
English

A benchmark lending rate that regulators and investors hope can replace the scandal-plagued Libor as the foundation for trillions of dollars of debt from credit cards to business loans easily passed a key test.

Mortgage finance giant Fannie Mae sold $6 billion of adjustable-rate securities in the first major trial run of the new index Thursday. The sale marked a milestone for borrowers, investors and bankers as Libor, the London interbank offered rate, begins its planned wind-down from ubiquitous metric to expiration at the end of 2021.

Once obscure, Libor eventually became the foundation for trillions of dollars of derivatives and other financial contracts. More recently, it was discredited after evidence emerged that bank traders were manipulating it to boost trading profits. Banks were fined billions of dollars, and several traders were sent to prison. Since 2012, Libor has been under the supervision of U.K. regulators.

On Thursday, investor demand for the Libor-replacement proved strong enough that it could inspire other borrowers to use the new benchmark, analysts said. Known as the secured overnight financing rate, or SOFR, the new index was developed by a panel of banks and investors overseen by the Federal Reserve, as part of an effort to move contracts away from Libor.

The new product is one of several that aims to address a major challenge for the **financial markets**. Libor-based contracts cover many borrowings including floating-rate home mortgages, business loans and complex financial instruments.

"There is a massive amount of work to do to move all that risk from Libor to another index," said Michael Cloherty, head of interest-rate strategy at RBC Capital Markets. "It's a long, long path."

Fannie Mae is part of a group of financial industry associations and banks convened by the Fed in 2014 to address replacing Libor. Last year, the group approved the new rate as an alternative to U.S.-dollar-based Libor.

Libor has been calculated by asking banks how much it theoretically would cost them to borrow money from other banks, making it possible to manipulate. The new SOFR rate is averaged from more than $750 billion of short-term loans made every day, known as repurchase agreements or "repo" trades, backed by Treasury securities as collateral. Analysts expect it to be resistant to attempts at manipulation.

As of Wednesday, the SOFR rate was 1.87%, based on $753 billion worth of transactions, according the Federal Reserve Bank of New York. Fannie Mae's bonds were priced in three segments, maturing in six, 12 and 18 months, carrying rates that exceeded SOFR by 0.08, 0.12 and 0.16 percentage points, respectively.

The rate is "more robust" than Libor because it's based on actual market trades that reflect the price at which banks and other financial institutions can borrow, said Greg Moore, head of U.S. fixed income currencies and commodities at TD Securities USA, which was one of the lead managers on Fannie Mae's offering, along with Barclays Capital Inc. and Nomura Securities International Inc.

Supporting the Libor replacement has been a pressing priority for regulators and market participants as the old benchmark moves closer to disappearing. Fed Vice Chairman for Supervision Randal Quarles last week revealed data showing the dearth of transactions that reference Libor each day, and said banks are "justifiably uncomfortable" with how thin the underlying markets for Libor have become.

Still, Mr. Quarles said the transition toward the replacement rate was proceeding "ahead of schedule."

While Libor's history has been troubled, the rate will likely continue to be widely used for some time to come, said Moti Jungreis, head of global markets at TD. In part, that is because the rate is still used in trillions of dollars worth of contracts that were signed before the index fell out of favor.

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Document WSJO000020180726ee7q0083q

THE WALL STREET JOURNAL.

Markets

Business-Loan Drought Ends for Banks; Borrowing is picking up, a welcome relief for banks and a sign of strength for the U.S. economy

By Rachel Louise Ensign
1,014 words
8 July 2018
10:00 AM
The Wall Street Journal Online
WSJO
English

Business borrowing is picking up, a welcome relief for banks and a sign of strength for the U.S. economy.

Preliminary second-quarter data from the Federal Reserve indicate the year-over-year growth rate of business loans rose to 5.5% in late June from less than 1% near the end of 2017. The upturn marks the reversal of a prolonged slump in business-loan growth that began in earnest about two years ago.

The rebound reflects increased confidence at companies. In April, Manvee, a Milwaukee-based wholesale bakery, decided to take out loans for more than $4 million from Indiana-based lender Old National Bancorp, said co-owner Thomas Roepsch.

"We're trying to keep up with growth," he said. "People are knocking on the door asking for more of our products."

Manvee, which bakes doughnuts, muffins and other goods that are then sold at retail stores, plans to use the loan to expand into Indiana and invest in automation and delivery trucks, Mr. Roepsch said.

The potential spoiler is trade tensions, which could make businesses more cautious. The Federal Reserve's rate-setting committee, at its June meeting, expressed concern about the effect tariffs and trade restrictions could have on future investment activity, according to minutes released last week. Contacts in some Federal Reserve districts "indicated that plans for capital spending had been scaled back or postponed as a result of uncertainty over trade policy," they said.

For banks, the acceleration in lending may help lift results when firms report quarterly results this month. Profits from lending are a major component of bank earnings and grow when total loans increase or rates on loans rise. Business-loan growth often helps on both fronts because these credits typically carry floating rates that allow banks to capture rate increases.

"We've been waiting for this ever since the 2016 election," Scott Siefers, a bank analyst at Sandler O'Neill + Partners said.

A slowdown in businesses' appetite for bank loans began to gather pace in summer 2016, a few months before the 2016 presidential election. Lending growth, which had exceeded 10% for much of the prior two years, dipped into single digits.

Most bankers expected that optimism among business owners in the wake of Republican President Donald Trump's surprise victory would lead to increased borrowing. Instead, loan growth continued to fall, reaching a rate of around 0.5% in December 2017.

The fall-off dampened bank profits. Just as troubling for bankers: Broader economic data was solid and there weren't obvious reasons for the decline.

Some bankers attributed it to competition from nonbank lenders or a lack of confidence at companies due to political upheaval.

The exact reason demand for business loans has risen of late is tough to pinpoint. Many analysts point to metrics that show businesses have a rosier economic outlook. Some bankers think midsize clients are laying plans to expand, including through acquisitions, and are drawing on lines of credit to fund those endeavors, according to a federal advisory council of bank executives.

"Businesses no longer have an excuse not to borrow. Whether it was the election, deregulation or taxes—now we have the answer to all three," said Chris Marinac, director of research at FIG Partners LLC. "They have every reason in the world to take on debt and expand."

Business loans are growing faster at small and midsize banks than they are at the biggest U.S. lenders, according to Fed data. These smaller lenders tend to focus on businesses outside of the largest corporate firms.

At Green Bay, Wis.-based Associated Banc-Corp, clients started to seem more interested in borrowing last year as the tax overhaul took shape, said David Prince, executive vice president for commercial banking. Now, they are taking out loans, driven by both a **bullish** economic view and a desire to borrow before rates rise much further, he said.

Stronger business-loan growth is helping lift broader lending growth. Overall loan growth at banks increased to a 5% year-over-year growth rate in late June from 3.9% at the start of 2018, according to Fed data. Growth in some other categories of lending, such as for commercial real-estate projects like apartment buildings, by contrast, is slowing.

Accelerating loan growth could pressure some banks to raise deposits to fund loans, although most banks still have loan-to-deposit ratios that are low enough to provide them with lending headroom.

That is fortunate because while deposits are still growing across the industry, they are doing so at a slower pace than in recent years. And the three largest national lenders, JPMorgan Chase & Co., Bank of America Corp. and Wells Fargo & Co., continue to garner much of the growth in deposits.

That is causing some smaller banks to pay higher interest rates to attract more deposits. The downside is this can eat into the profit margin on loans, cutting some of the benefit of increased volume growth.

There also are concerns that banks, eager for growth, are making business loans with looser terms that may lead to problems in the future.

In a May report, the Office of the Comptroller of the Currency, or OCC, identified the easing of commercial-loan standards as a top risk in the banking industry. While the rate of bad business loans remains low, and most banks still have a moderate risk appetite, the regulator said that during the past year it privately issued more warnings ordering financial institutions to modify their business-lending practices.

The OCC said banks are extending interest-only periods on commercial loans, allowing borrowers to draw down bigger portions of the value of collateral and relaxing covenants meant to protect from losses.

One big concern: While rising rates will make the loans more lucrative for banks, they may make it harder for businesses to pay off the loans, the OCC said.

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THE WALL STREET JOURNAL.

Markets
House Passes Expansion of JOBS Bill; Bipartisan plan would make it easier for companies to raise money in public markets; fate in Senate uncertain

By Gabriel T. Rubin
579 words
17 July 2018
07:25 PM
The Wall Street Journal Online
WSJO
English

Corrections & Amplifications

The House is expected to pass an expansion of the JOBS Act on Tuesday. An earlier version of this article incorrectly said it was Monday. (July 17, 2018)

WASHINGTON—The House on Tuesday overwhelmingly approved a package of deregulatory measures aimed at making it easier for smaller companies to raise money in public markets.

The legislation, which passed the House on a 406-4 vote, is the latest installment of provisions designed to boost the number of companies that turn to **financial markets** for capital. The Securities and Exchange Commission is working on many of the measures in the bill.

The plan, an expansion of the 2012 Jumpstart Our Business Startups Act, or JOBS Act, would further loosen regulations on securities offerings for small companies, including by broadening the pool of investors who can invest in private stock sales. The package, which includes 32 bills wrapped into one, also would allow all companies to secretly submit IPO paperwork to the SEC and to "test the waters" about a possible offering with investors before filing disclosures with the agency.

The package faces an uncertain fate in the Senate, which spearheaded a larger deregulatory package for the financial industry that was signed into law in May. As part of a deal to expedite House passage of that bill, Senate Majority Leader Mitch McConnell promised House Financial Services Committee Chairman Jeb Hensarling (R., Texas) a vote on the capital-markets legislation before the November midterm elections.

Senate floor time is at a premium during the next several months, with major business like Supreme Court confirmation hearings for Judge Brett Kavanaugh taking precedence. Despite the bipartisan support in the House, some moderate Senate Democrats who voted for the previous deregulatory bill may be reluctant to give Republicans another legislative win so close to November.

"It's very unlikely that another broad financial deregulation bill will be taken up and passed in the Senate before the midterms," said Sen. Chris Coons of Delaware, one of 16 Democrats who voted for the previous deregulatory legislation. In a brief interview before the House vote, he left the door open to passing the measures as riders to appropriations bills, but only if "it's genuinely bipartisan."

Sen. Sherrod Brown of Ohio, the top Democrat on the Senate Banking Committee, said he would meet with Mr. Hensarling on Wednesday to discuss the package.

Mr. Hensarling reminded Mr. McConnell of his promise for a vote in a Wall Street Journal opinion column and in remarks to reporters on Tuesday. "There's not a guarantee of a result, but there's a guarantee that this will be taken up on the floor," Mr. Hensarling said Tuesday. Still, he warned, "never underestimate the Senate's ability to do nothing."

Mr. McConnell said in a written statement, "Senators will continue their ongoing bipartisan discussions as we work towards a vote in the coming months."

The substance of the bill isn't controversial. The package was trumpeted in joint press releases by Mr. Hensarling and Rep. Maxine Waters of California, the top Democrat on the House panel. It includes individual bills that were sponsored by both Democrats and Republicans. All of the underlying bills received significant or overwhelming support by members of both parties, in many instances passing committee or the full House unanimously or by voice vote without objections.

"This is true bipartisanship we are witnessing today," Ms. Waters said.

Write to Gabriel T. Rubin at gabriel.rubin@wsj.com

Document WSJO000020180717ee7h003bh

THE WALL STREET JOURNAL.
U.S. EDITION

Banking & Finance: Banks Pushed to Quicken Switch Away From Libor

By Gabriel T. Rubin
563 words
13 July 2018
The Wall Street Journal
J
B10
English

WASHINGTON -- Global regulators made a coordinated push Thursday urging banks and traders to hasten their transition away from using the scandal-plagued London interbank offered rate.

In meetings and speeches around the world, regulators pressed banks to cease launching new contracts that reference Libor, and to come up with a plan for legacy contracts that will expire after the agreed-on transition date away from Libor, at the end of 2021.

Though some aspects of the transition are proceeding according to schedule, or even faster, U.K. Financial Conduct Authority Chief Executive Andrew Bailey warned in a speech in London that overall, "the pace of that transition is not yet fast enough."

Switching won't be easy. Libor, which has been deeply embedded in **financial markets** for decades, is used to set rates for hundreds of trillions of dollars of derivatives and other borrowings, including loans to consumers, companies and governments.

Libor's integrity was questioned after a rate-rigging scandal where traders at numerous banks were able to nudge it up or down by submitting false data. Banks were fined billions of dollars and several traders were sent to prison.

Legacy contracts represent arguably the greatest challenge for regulators and industry groups. Some $170 trillion in outstanding swap contracts are based on Libor, including a third that are set to mature after the 2021 transition date, Mr. Bailey said. Making matters more complex, some traders continue to launch new Libor-based contracts, despite warnings from regulators about the benchmark's pending disappearance.

"We need to reduce the stock of contracts that reference U.S. dollar Libor if the risks are to be fully addressed," said David Bowman, a senior Federal Reserve official, at a Commodity Futures Trading Commission meeting about Libor on Thursday.

The Financial Stability Board, a group of international regulators that is co-chaired by Fed Chairman Jerome Powell, underscored the need for new reference rates to be "anchored in active, liquid underlying markets."

Also on Thursday, the International Swaps and Derivatives Association began a consultation with market stakeholders to discuss a unified transition plan for contracts that are set to expire after 2021, which is when banks are set to stop submitting the data that helps determine Libor each day. ISDA is also working on a transition process for rates that would serve as a backstop for legacy contracts that use Libor.

Movement away from Libor depends largely on the viability of a replacement reference rate. Regulators expressed optimism about the Fed's Alternative Reference Rate Committee's chosen replacement, the secured overnight financing rate, or SOFR, which began publishing April 3.

CME Group Inc., a major derivatives exchange and clearinghouse, launched SOFR futures in May, and LCH, part of the London Stock Exchange Group, recently began offering clearing of swaps based on SOFR. Regulators and market participants view these developments as key barometers of liquidity growth that is crucial to the health of a new benchmark.

"These are signs that market infrastructure is evolving to accommodate SOFR which is critical," Robert Mangrelli, a director at Chatham Financial, said at Thursday's CFTC meeting. "The next question is when will liquidity for SOFR products develop."

Since 2012, Libor has been under the supervision of U.K. regulators.

Document J000000020180713ee7d0000e

THE WALL STREET JOURNAL.
U.S. EDITION

U.S. News --- THE OUTLOOK: Fed Takes New Look at Portfolio Size

By Nick Timiraos
633 words
2 July 2018
The Wall Street Journal
J
A2
English

After the last recession, the Federal Reserve built up a mammoth $4.5 trillion portfolio of mostly mortgage and Treasury securities in an effort to boost **financial markets** and the economy.

Officials could soon take up an important debate about how much to let that portfolio shrink.

Last year, they started a program to let securities in the portfolio mature without reinvesting the proceeds in other securities, putting it on a path to shrink to $3 trillion by 2020. Some officials are now wondering if they can end this "run-off" process sooner than planned and manage monetary policy with a larger portfolio in the long run.

The Fed's asset purchases were meant to drive down long-term interest rates and drive up asset prices, but they left many investors and policy makers jittery because the consequences of the experiment -- positive and negative -- were unknown.

So far, it has managed to put the program in reverse without creating much turbulence in markets.

When officials agreed last year on the run-off, they didn't say how long they would continue the process, leaving the impression it could last several years.

But developments in short-term money markets of late raise the question of "how long we actually want our balance sheet [wind-down] to go," Boston Fed President Eric Rosengren said in an interview last week. It's possible the portfolio won't have to shrink "dramatically more" from its $4.3 trillion in June, he said.

The decision hinges on complex monetary plumbing.

In the old days before the financial crisis, the Fed kept its portfolio relatively small, at less than $1 trillion. The size of the holdings was dictated in large part by the amount of deposits banks kept on reserve with the central bank. More of these deposits -- known as reserves -- meant a bigger securities portfolio, and fewer deposits meant a smaller portfolio. The Fed, in turn, shifted reserves up and down in incremental amounts to adjust short-term interest rates.

The crisis changed everything. Interest rates were cut to zero and the portfolio soared, flooding the banking system with reserves. The Fed also changed the way it managed interest rates. Rather than shifting the amount of reserves up and down in small amounts to affect interest rates, it left reserves very large and started paying interest on them directly to banks.

Fed officials at first intended to go back to the old way of doing things, with a small portfolio of reserves and securities, meaning a lot of runoff. But some are starting to think they might not want to shrink reserves and securities too much. Instead they would stick to the new system of paying interest on a large pool of reserves outstanding.

Advocates for retaining the current setup say it gives the Fed more operational flexibility.

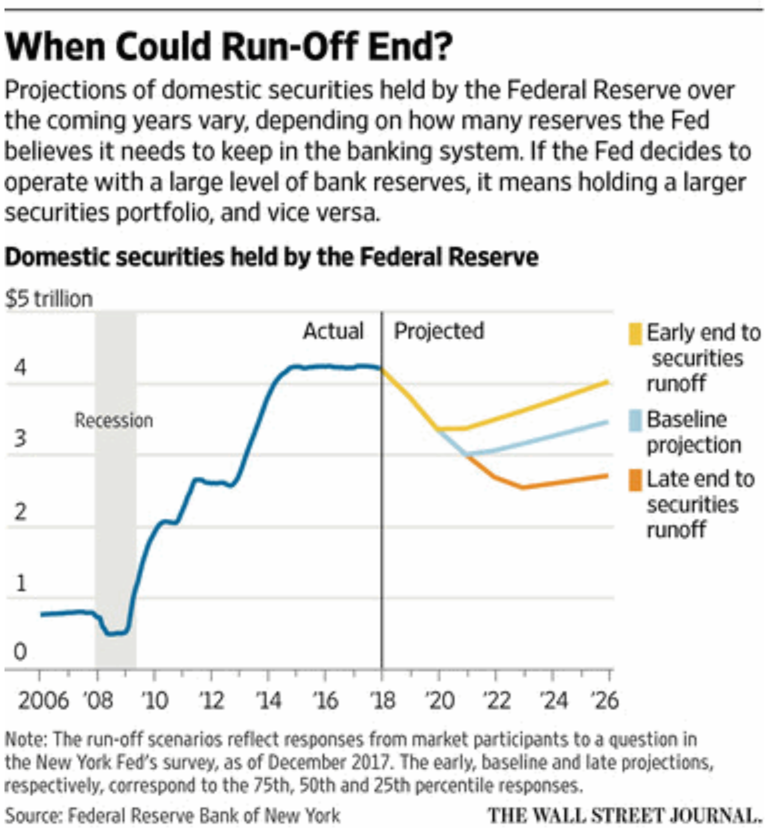
Maintaining the existing framework "certainly looks like that's the way we're headed, but we should still have the debate," said St. Louis Fed President James Bullard in an interview.

Mr. Rosengren said he favors maintaining the current system.

The Fed has to resolve these issues sooner than expected because shrinking the portfolio is draining reserves from the system. This might be putting mild and unexpected upward pressure on short-term interest rates, though officials don't think that is the case right now.

Lou Crandall, chief economist at financial-research firm Wrightson ICAP, estimates the Fed will want to operate with around $1.5 trillion in bank reserves, down from $1.9 trillion in June.

That would require an end to the portfolio runoff next year, which would remove one source of uncertainty for investors.



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Document J000000020180702ee7200014

THE WALL STREET JOURNAL.
U.S. EDITION

U.S. News: Fed Defends Its Use of New Tools

By Nick Timiraos
377 words
14 July 2018
The Wall Street Journal
J
A2
English

WASHINGTON -- The Federal Reserve defended having the flexibility to set interest rates by using relatively new tools that include paying interest to banks, in its semiannual report to Congress on Friday.

Fed Chairman Jerome Powell is scheduled to testify on Capitol Hill over two days beginning Tuesday in the Senate.

Some lawmakers have criticized the Fed in recent years for the use of new facilities that enabled the central bank to guide short-term interest rates higher while maintaining a much larger portfolio of bonds and other assets than existed before the 2008 financial crisis.

Those criticisms reflect in part broader concern on the part of those lawmakers with the emergency steps the Fed undertook from 2008 through 2014 to stimulate growth after the central bank cut interest rates to near zero.

The report included a three-page overview of its new tools that could serve as a pre-emptive rebuttal against any further concerns lawmakers might raise.

The Fed dramatically expanded its bond portfolio after the 2008 financial crisis as it unleashed successive campaigns to stimulate the economy by purchasing Treasury and mortgage securities. Those purchases swelled the amount of deposits, known as reserves, that banks maintain in accounts at the Fed.

The vast increase in reserves, which rose to more than $2.5 trillion in 2014 from about $15 billion in 2007, made it harder for the Fed to change interest rates by buying or selling securities in the open market, as it had before 2008. In order to raise its benchmark federal-funds rate without first draining its bondholdings and the accompanying bank reserves, the central bank implemented new tools to guide the fed-funds rate in a certain range, including by paying interest on those reserves.

Without the new tools, the Fed "would not have been able to gradually raise the federal-funds rate" while maintaining a larger portfolio, the report said. Instead, it would have had to consider "a rapid and sizable reduction" to the bond portfolio to push up borrowing costs.

"Such an approach . . . would have run the risk of disrupting **financial markets**" and hurting economic growth, the report said.

Document J000000020180714ee7e00039

THE WALL STREET JOURNAL.
U.S. EDITION

REVIEW & OUTLOOK (Editorial)
The Peso Federales

175 words
3 July 2018
The Wall Street Journal
J
A14
English

Andres Manuel Lopez Obrador's victory in Sunday's presidential election was a landslide by Mexican standards, as he appears to have won more than 50% of the vote and his Morena party dominated gubernatorial, mayoral and legislative races. Voter participation was a robust 63%, so the president-elect certainly has a mandate.

Yet it didn't take long for Mr. Lopez Obrador to see that he'll have to cope with a different sort of election -- the one that takes place daily in **financial markets**. From Sunday evening into Monday afternoon, the Mexican peso fell 1% against the U.S. dollar as investors assessed what the leftwing sweep might mean for policy. Call them the peso federales.

News later Monday that Mr. Lopez Obrador had spoken to Donald Trump calmed markets and the peso recovered some losses. But the peso message is that the president-elect now has to worry what the markets think if he wants to improve the lives of Mexicans.

Document J000000020180703ee7300013

THE WALL STREET JOURNAL.

World

China's Effort to Control Debt Loses Steam; Trade fight with U.S. and slowing growth make keeping a lid on lending less of a priority

By Chao Deng and Lingling Wei
1,142 words
12 July 2018
09:53 PM
The Wall Street Journal Online
WSJO
English

BEIJING—China is letting up on its drive to keep a lid on debt growth as it faces a softening economy at home and escalating trade tensions with the U.S.

Senior Chinese leaders led by President Xi Jinping have been sending unmistakable signals that the campaign to rein in financial risk isn't the overriding priority it has been. Financial regulators are delaying the release of rules to curtail risky lending by banks and other institutions out of concern that the regulations would choke off a source of funding and rattle **financial markets** already shaken by worries over trade and the economy, people familiar with the decision said.

In a turnabout, the State Council, China's cabinet, stopped hectoring city halls and townships to restrain spending and instead last week launched an inspection to urge them to speed up already approved investment projects to re-energize growth. The central government often uses inspections as a way to evaluate local officials and get top-level directives across.

An April meeting of the Politburo, the inner sanctum of power, offered an initial sign of the shift in government priorities toward growth. Mr. Xi, who presided over the meeting, called for expanding domestic demand as authorities continued to contain financial risks. Such pro-growth emphasis had been absent in Politburo meetings since 2015.

China's economic growth has been on a controlled descent for most of this decade, propped up at times by shots of easy credit that have helped make debt a long-term threat for the world's second largest economy. With growth still buoyantly above the government's 6.5% target, Mr. Xi has taken aim at debt and other financial risks the past two years to put the economy on sounder footing.

Now, that campaign is taking its toll. Signs are building that the economic expansion is losing steam—from weakening investment in factories to anemic household consumption and rising corporate defaults.

The trade fight with the U.S. puts growth further at risk, making Mr. Xi's initiative look unsustainable, government advisers said.

"There is a feeling that the deleveraging campaign has gone a bit too far this year," said a government adviser, pointing to recent drops in total credit growth and anemic investments in factories, highways and other fixed assets. "Now we're going to see some policy adjustments."

The central bank in April began freeing up more funds for banks to make loans. The Chinese leadership is expected to further loosen China's fiscal and monetary stance at a meeting later this month of the Politburo, government advisers and economists said.

"The deleveraging effort should be let up somewhat," said Sheng Songcheng, a senior adviser at the People's Bank of China. As a result of policy loosening, Mr. Sheng expects the amount of money in circulation to expand, with M2—a measure of the money supply that includes cash and most deposits—growing 8.5% this year, from 8.1% last year.

Shoring up growth to employ a huge workforce and meet expectations for rising standards of living is always a priority for China's leadership. Trade conflict with the U.S. raises the stakes.

Strong exports, especially those to the U.S. and other developed nations, have buoyed China's economy, which grew 6.9% last year. Exports are expected to take a hit from the intensifying trade fight: The U.S. and China have slapped levies on $34 billion of each other's exports. Trump administration threats of additional tariffs on over $200 billion in Chinese goods would shave 0.3% off China's economic growth by 2020, estimates Oxford Economics.

The gathering economic gloom in recent weeks has been driving down the Chinese yuan. The U.S. has complained in the past that China keeps the currency artificially low to give its exporters a boost; early Thursday the yuan weakened past 6.7 against the dollar—a level closely watched by investors—before rebounding to end roughly flat.

On Thursday night, China's Commerce Ministry accused the U.S. of flip-flopping on trade issues and denied its allegations that Beijing has engaged in unfair trade practices such as pilfering and pressure tactics to acquire U.S. technology. "China has done its best to prevent the trade friction from escalating," the ministry said.

Debt levels, especially for companies and local governments, have soared since China unleased a massive financial stimulus to ward off the 2008 financial crisis. Debt stood at 242% of economic activity at the end of 2017, according to Macquarie Group. While analysts said that the ratio isn't rising as in past, they don't expect a decline soon. A less determined approach to tackling debt, some said, would allow risks to accumulate further.

"If China has an across-the-board loosening up again, borrowing by state-owned enterprises might get more relentless," said Zhu Chaoping, a market strategist at JP Morgan Asset Management. "This is the risk here."

Defaults in the corporate bond market—a barometer of business conditions—ticked up before the first major round of trade tariffs hit this month. Chinese firms defaulted on 19 billion yuan ($2.9 billion) in debt in the first half of the year, compared with 14 billion yuan in the same period last year.

In the prosperous eastern province of Zhejiang, manufacturing firm DunAn Group was on the verge of default this spring until local financial regulators intervened to coordinate talks between creditors to keep the company afloat and from cutting its workforce.

Smaller banks have been feeling the stress, too. A rural bank in southwestern Guizhou province saw its bad loans surge by fourfold to 20% after, acting on requests from regulators, it classified loans overdue for more than 90 days as nonperforming. Commercial banks' bad-debt ratio—currently less than 2% overall according to official data—would be much higher if regulators pressed banks harder to come clean, according to analysts.

On a recent trip to Beijing, David Loevinger, a managing director of asset manager TCW Group's emerging markets division, said he observed Chinese officials digging in for a protracted economic battle and questioning the pace of their efforts to rein in debt: "Are they going too fast on deleveraging? At the margin, should they go a bit slower?"

Write to Chao Deng at Chao.Deng@wsj.com and Lingling Wei at lingling.wei@wsj.com

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Document WSJO000020180712ee7c003s5

THE WALL STREET JOURNAL.

Economy
Fed Chair Jerome Powell Says Trade Policies Complicate Economic Outlook; Bank official speaks in interview with Marketplace radio program to air later Thursday

By Nick Timiraos
939 words
12 July 2018
04:19 PM
The Wall Street Journal Online
WSJO
English

Federal Reserve Chairman Jerome Powell said a strong economy should allow the central bank to keep raising interest rates gradually and it was premature to judge how recent trade policy actions could alter those plans.

Mr. Powell spoke in an interview on the Marketplace radio program set to air Thursday evening. He is scheduled to testify on Capitol Hill next week in semiannual congressional hearings.

"I sleep pretty well on the economy right now," Mr. Powell said in the interview, according to a transcript posted online Thursday afternoon.

Mr. Powell pointed to considerable uncertainty around the range of possible economic effects of recent trade measures and how they might influence the Fed's plans for raising short-term interest rates.

"We don't know. It's very hard to sit here today and say which way that's going," he said.

If the Trump administration is successful over time in lowering trade tariffs, "then that'll be a good thing for our economy," Mr. Powell said. "If it works out other ways, so that we wind up having high tariffs on a lot of products ... and that they become sustained for a long period of time, then yes, that could be a negative for our economy."

In his most direct comments on the issue to date, Mr. Powell highlighted a worse-case scenario, of sorts, for the Fed. "You can imagine situations which would be very challenging, where inflation is going up and the economy is weakening," he said.

The Trump administration on Tuesday announced a third round of tariffs on $200 billion of Chinese products, which could provoke new retaliation from Beijing. The administration has also imposed tariffs on imported steel and aluminum from the European Union, Canada and Mexico, leading those countries to set their own tariffs on U.S. exports.

Mr. Powell has largely refrained from commenting on trade policy because he has said it isn't part of the Fed's responsibilities. "When we don't make policy, we don't praise it; we don't criticize it," he said Thursday, explaining his hands-off approach.

Strong economic growth, low unemployment and stable price pressures have made it easier for Fed officials to agree on a policy of gradually lifting rates to a level they consider neutral, meaning they will seek to neither spur nor slow growth.

The Fed has raised its benchmark federal-funds rate twice this year, most recently in June to a range between 1.75% and 2%, and officials last month penciled in two more rate increases this year and three more next year.

While estimates of the so-called neutral level vary, most officials believe it is around 2.75% or 3%. If the Fed sticks to its anticipated policy path, the rate could reach its estimated neutral level by next spring or summer.

The Fed's mandate from Congress is to maximize sustainable employment and ensure prices are stable, which the central bank defines as meeting a 2% inflation target.

The Fed is closer to meeting those goals than at any point in the past decade. Consumer prices in May rose 2.3% from a year earlier. Excluding **volatile** food and energy categories, they rose 2%, according to the Fed's preferred inflation gauge.

"We're really close to our target. I wouldn't say we've fully achieved it yet," Mr. Powell said.

Fed chairs have traditionally done such on-the-record interviews only sparingly, and Thursday's appearance offers the latest example of Mr. Powell's desire to demystify what the central bank is doing and why.

Alan Greenspan, for example, did just one television interview, on NBC's "Meet the Press" in 1987, a few months into his 19-year term as chairman. He never did another such appearance as Fed chairman. His successor, Ben Bernanke, spoke to CBS's 60 Minutes in 2009 and 2010 and to ABC News in 2012.

Mr. Powell, who began a four-year term as chairman in February, said last month he would double the frequency of his regular news conferences next year. He will take questions from the media after every meeting of the Fed's rate-setting committee, rather than at every other meeting.

Mr. Powell also has expressed a desire to speak more casually about the economy, which reflects his nonacademic background. "It would be harder" to explain things more clearly to the public, he said Thursday, if he had spent "30 years, for example, teaching economics to graduate students."

He described the latest communication changes as part of a long-running push toward transparency at the central bank that began under Mr. Greenspan. "I'm just carrying that forward in my own particular way," he said.

Later, when Mr. Powell said he couldn't easily explain why wages haven't been rising more given complaints from employers about labor shortages, he brushed aside concern that he might not know the answer, revealing uneasiness with the perception of an omniscient central bank chief.

Radio host Kai Ryssdal said the response was "a little troubling, if you're the guy running the economy."

Mr. Powell responded, "I don't think of myself as the guy running the economy."

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

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THE WALL STREET JOURNAL.

Heard on the Street
Markets
Where Rising Inflation Really Hurts; Companies are struggling to pass wholesale price increases onto consumers, and tariffs could make their problem even worse

By Justin Lahart
363 words
12 July 2018
11:56 AM
The Wall Street Journal Online
WSJO
English

Americans hate paying higher prices. That has been a persistent, and growing, problem for U.S. companies trying to pass rising costs onto consumers, and the trade skirmishes President Donald Trump has embarked on may only make it more severe.

Overall consumer prices were 2.9% above their year-earlier level last month, the Labor Department reported on Thursday, marking the largest on-the-year gain since February 2012. That had a lot to do with rising gasoline prices, but core prices, which exclude often-**volatile** food and energy costs, were up 2.3%, offering further evidence that inflation in the U.S. warming up.

There are still some cool spots, however. While prices for services, such as haircuts, are rising, prices for goods—stuff like shoes and toasters—are not. Indeed prices for consumer goods excluding food and energy were down 0.3% on the year in June.

That is not as large as the 1% decline they registered in October, but it stood in sharp contrast with what is happening with the prices retailers and other consumer-facing companies are paying for goods. In a separate report, the Labor Department on Wednesday said wholesale prices for core consumer goods were up 2.7%.

Price changes for wholesale and retail consumer goods used to track each other more closely. That changed starting in the 2000s—around when Amazon.com Inc. really came onto the scene and widespread internet use made it easier for Americans to comparison shop. This is one reason why retailers have struggled so much even in a strong economy.

The tariffs the White House has threatened to impose on Chinese-made consumer goods, as well as the tariff-induced increases in steel and aluminum prices that are already making their way up the supply chain, could create more trouble. Consumers won't easily accept those price increases, meaning retailers might have to eat them to keep sales going. This could further squeeze already tight margins, and that could cause plenty of indigestion.

Document WSJO000020180712ee7c003xp

THE WALL STREET JOURNAL.

Markets

U.S. Regulators Support Removing Fed Oversight of Zions Bancorp; Financial Stability Oversight Council says the bank isn't 'systemically important' to the financial system

By Ryan Tracy
845 words
18 July 2018
03:11 PM
The Wall Street Journal Online
WSJO
English

WASHINGTON—Regional U.S. banks are moving closer to getting relief from the stricter oversight they have faced since the 2008 financial crisis.

The Financial Stability Oversight Council on Wednesday approved Zions Bancorp's plan to shed Federal Reserve oversight, accepting the bank's argument that it isn't "systemically important" to the U.S. financial system.

Fed Vice Chairman for Supervision Randal Quarles separately raised the possibility that about a dozen U.S.-based lenders with $100 billion to $250 billion in assets may no longer have to file expensive and time-consuming "living will" bankruptcy plans and may face looser liquidity requirements.

"I believe we have a unique opportunity to further tailor our supervision and regulation framework," Mr. Quarles said in remarks prepared for a bankers' conference in Utah.

The oversight council's unanimous proposed decision is a win for Utah-based Zions, which is employing a novel legal strategy to avoid stricter regulations that apply to the largest U.S. banks.

The Treasury Department said the council's proposal could be made final within 60 days.

While the 2010 Dodd-Frank financial law automatically applied stricter Fed rules to banks with more than $50 billion in assets, it also gave the oversight council the ability to exempt banks from those rules.

Zions has about $66 billion in assets, making it one of the smallest firms subject to the tougher Dodd-Frank rules.

"The council conducted a careful analysis of Zions' business and found that there is not a significant risk that Zions could pose a threat to U.S. financial stability," Treasury Secretary Steven Mnuchin, who chairs the oversight council, said in a statement. "In appropriate cases, the council's use of this authority promotes regulatory efficiency and enables better service to customers and communities."

The Utah bank would be the first firm to take advantage of the exemption by shedding its Fed-regulated holding company and then winning a ruling from the oversight council that it isn't "systemically important" to the U.S. financial system.

Zions said Wednesday it appreciated the decision and anticipated completing the reorganization by September. The move "is helping us achieve a streamlined organizational structure...while continuing to operate in a safe and sound manner," Chief Executive Harris Simmons said in a statement.

It isn't clear whether other banks will follow in Zions's footsteps. Congress this spring raised the $50 billion asset threshold to $100 billion and gave the Fed the authority to exempt banks with as much as $250 billion in assets. The new law allowed Zions to shed some regulations, including mandatory annual stress tests.

Zions also said it got approval from the Office of the Comptroller of the Currency, which will be the primary federal regulator of the bank.

Mr. Quarles's broader remarks on regional banks amounted to the most detailed guidance yet about how the Fed will decide which banks receive regulatory relief under the new law.

The Fed's regulatory point man said the central bank should start by soliciting public feedback on a set of criteria for evaluating banks. He said looking at a bank's size is "one relevant factor to include on the list," but the Fed should also look at cross-border activities, exposure to **volatile** short-term funding sources, and other factors.

"Stress testing should continue to play an important role" at firms with assets between $100 billion and $250 billion, he said, but the test could occur less frequently. Stress tests for financial firms considered "systemically important" are now conducted every year.

Mr. Quarles said banks that are "less complex and less interconnected" than peers could get relief from liquidity rules governing their funding strategies, as well as from certain risk-based capital calculations and from requirements to file a "living will" explaining how they would fail without hurting the broader economy.

He said the Fed would act "much more rapidly" than a late 2019 deadline set by Congress for tailoring rules to regional banks.

The Fed official didn't comment on foreign-owned banks with less than $250 billion in U.S. assets, which don't automatically get relief under the new law. Fed Chairman Jerome Powell told Congress this week the Fed thinks its foreign bank regulatory regime is working.

At Tuesday's meeting, the oversight council also discussed whether to remove the "systemically important" tag from insurer Prudential Financial Inc. It didn't disclose a vote on Prudential, the only nonbank to still wear the label. Prudential is seeking to have that designation removed, a request regulators are expected to eventually grant.

Write to Ryan Tracy at ryan.tracy@wsj.com

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THE WALL STREET JOURNAL.

Markets

Chinese E-Commerce Startup Fetches Nearly $24 Billion Valuation in Nasdaq IPO; Pinduoduo is an emerging rival to Alibaba and JD.com

By Stella Yifan Xie
633 words
26 July 2018
04:24 PM
The Wall Street Journal Online
WSJO
English

HONG KONG—A three-year-old Chinese internet startup earned a $33 billion market valuation in its trading debut in New York, drawing high investor demand ahead of a string of larger internet IPOs from the country in the coming months.

Pinduoduo Inc., a Shanghai-based online discounter that some people call China's Groupon, priced a $1.63 billion sale of American Depositary Shares at $19 apiece, the top end of their offered range, it said on Thursday.

The securities began trading on **Nasdaq** at $26.50, a 39% jump from their IPO price, and closed at $26.70, up 41%. Pinduoduo said it could raise another $244 million if underwriters of the IPO exercise an option to purchase additional shares.

Pinduoduo, whose backers include Chinese internet heavyweight Tencent Holdings Ltd., is an online bulk purchasing platform and an emerging rival to e-commerce giant Alibaba Group Holding Ltd. and online retailer JD.com. Founded by a former Google employee, it is known in China for marketing and selling goods such as clothing, diapers and groceries via Tencent's popular social-media app WeChat.

The company, which has yet to turn a profit, was valued at about $15 billion in a private fundraising round in April that was led by Tencent. Other investors in Pinduoduo include Chinese venture firms Sequoia Capital, IDG Capital Partners and Gaorong Capital. Tencent and Sequoia earlier indicated they could each buy as much as $250 million worth of shares in the IPO.

The offering has been closely watched by bankers and other Chinese internet startups waiting to go public in the coming months. Online-services platformMeituan Dianping and China's largest music-streaming business, Tencent Music, have filed initial plans for large IPOs in Hong Kong and New York respectively, while Chinese ride-hailing platform Didi Chuxing and the popular online news aggregator known as Jinri Toutiao could go public next year.

Pinduoduo has grown rapidly since it was founded in 2015. It sold goods from 1.7 million merchants in the year through June and had 343.6 million active buyers, or customers who made at least one purchase during the period. The number of active buyers was more than three times what it was a year ago, though the company's sales are a fraction of Alibaba's and JD.com's e-commerce sales. According to its prospectus, Pinduoduo reported a 2017 net loss of $83.7 million on revenue of $278 million, but revenue for the three months to March was already $220.7 million.

Pinduoduo's implied valuation from its IPO price dwarfs the market capitalization of Groupon Inc., which went public in the fall of 2011 and is currently valued at $2.65 billion, down from more than $15 billion in the months after the Chicago-based company listed on **Nasdaq**. Groupon posted $2.84 billion in revenue last year and turned a $14 million profit.

Pinduoduo's IPO pricing was earlier reported by Reuters.

The IPO's oversubscription "shows that investors in developed markets remain confident about the growth potential of China's new-economy companies," said Zhang Gang, strategist at Central China Securities in Shanghai.

A few months before the IPO, Pinduoduo awarded a large amount of stock—now valued at around $1.21 billion based on the latest offering price—to its founder, CEO and controlling shareholder, Zheng Huang, "to reward him for his contributions" to the company, it said in its prospectus.

Credit Suisse, Goldman Sachs, CICC and China Renaissance are underwriting Pinduoduo's IPO.

Julie Steinberg contributed to this article.

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THE WALL STREET JOURNAL.

Economy
Transcript: WSJ Interview With Cleveland Fed's Loretta Mester; Central banker talks about her outlook on employment, inflation and the prospect of further rate moves

4,832 words
13 July 2018
01:21 PM
The Wall Street Journal Online
WSJO
English

Cleveland Fed President Loretta Mester spoke with Wall Street Journal reporter Nick Timiraos on Wednesday, July 11, in Cleveland. She discussed her outlook on employment, inflation and the prospect of additional interest-rate increases this year. Here is a partial transcript of the interview, lightly edited for clarity and length.

WSJ: How has the outlook changed relative to your forecast that you would have made probably in February, once we had the last set of the fiscal policy changes enacted?

LORETTA MESTER: The economy is quite strong. I mean, growth in the second quarter is coming in a rebound from the weakness in the first quarter. I thought that weakness in the first quarter would be temporary, but now we're getting confirmation of that. So the first half looks like 3%. That's a bit stronger than I would have predicted back in the beginning of the year.

I still think we don't really fully know what the effects of the fiscal stimulus will be. We know it's coming. We know it's coming in the second half of the year and next year, so I've built in some of that into my forecast. But if I just think about what's it going to look like in terms of [gross domestic product] growth over the next three years? It's going to be above-trend growth. And I have trend at 2%, which I know is a little bit higher than some others. So I'm thinking of growth between 2.75% and 3% this year, and then a little bit around that range next year, and then coming down a bit in the third year. So it's a pretty strong economy.

Labor markets continue to be very strong. I think the recent report just confirmed continuing strength in the labor market. We've had over 200,000 jobs per month for the last year, and it's actually been a little bit stronger in the last six months than in the prior six months in that year. So that's a really strong labor market. The unemployment rate ticked up a little bit in the last report, but that was actually a good thing because it was because of labor-force participation moving up. So that's very strong.

And inflation is moving up. So we're at 2% on our measures or better, depending on which measure you look at. Now, some of that may not be sustained because some of it may be **oil prices**, but in general inflation has been moving up. And we always say we want it to be sustainably at 2%. We don't want to overreact to one report. But the trend has been moving up. And in my own forecast, I would say that I expect it to be sustainably around 2% by the end of the year, and that's a little bit faster than I thought at the beginning of the year. I thought it might take a little bit longer to actually get there.

So all that is moving in the right direction. My modal outlook is a strong one, I would say, and a sound one for the economy, and the fundamentals underlying that I think are very good.

There are risks around it. Trade is one. Our district is exposed to trade. Canada's a very important trading partner for Ohio and the auto sector. And we have been monitoring that. Of course, we call our business contacts to query about that. And in the last month we did a special survey of our contacts, and about a third of them reported that trade and geopolitical risk were influencing their businesses, and a quarter said that their customers have actually taken some actions because of the uncertainty around trade. A couple firms have said they were postponing some of their investment plans just because of the uncertainty around trade…There's so much uncertainty around what's going to come. Auto-parts suppliers are telling us that some of their customers are looking for alternatives to steel because of the input cost going up.

Now, there's always winners and losers in this. The steel producers, of course, are very happy. The consulting firms tell us they're very happy. They have lots of orders because of the uncertainty around it.

So there are some uncertainties out there in the outlook, but my general take is it's a strong economy.

WSJ: We have a potential overshoot of the natural rate of unemployment, depending on where your estimate is. We're at 4% unemployment now, and we were a little bit below that for a couple of months. Where is your estimate of the natural rate right now? Has it changed at all over the last year? And how do you judge the risk of going below that?

MS. MESTER: You're right. There's a wide range of estimates of the natural rate of unemployment. It's one of these "unobservables" that we have to contend with. I'm at 4.5% for the unemployment rate. It's lower than it was. I've brought it down as we've seen the behavior of the labor market, the economy relative to that labor-market strength. I've come down, and I think a lot of economists have lowered theirs.

I think you have to look at it in terms of is the economy—we know that in the past when the unemployment rate fell well below this estimate or of the estimated range of the natural rate that we've had overheating, and that manifests itself in higher inflation rates, OK? So it is something that you have to take into account. It's a risk to the outlook.

We haven't seen aggressively rises in the inflation rate—rates yet, and partly I think that's because in some sense inflation has been more stable than it would have been otherwise because we're kind of a victim of our own success, right? We've had stable inflation expectations, which makes it harder to sort of maneuver inflation dependent on monetary policy.

That was proved to be very useful during the great recession, right? We had the financial crisis. We had a very, very strong negative shock to the economy, and yet inflation—we didn't get into a deflationary problem.

WSJ: Right. Expectations held.

MS. MESTER: Expectations held. And now we're seeing the opposite side. I would say expectations have been very stable. So that's a good thing, but it also means that you don't have a mechanism that you typically might see. Economists would say the Phillips curve is flat, so you wouldn't necessarily see that relationship.

But what we have seen is that when the economy overheats you can get financial imbalances. So you're going to see some play between maybe inflation will be higher than you want or maybe you're building up financial imbalances. And those are the kinds of risks I think policy makers have to take onboard, right, if we see an economy where unemployment is well below what we think is sort of the equilibrium rate or maximum employment rate. And I think that's kind of what we're trying to do. We're trying to avoid doing anything that will feed imbalances that we'll later have to address going forward that could end up into a bad—so it's all about sort of sustaining this kind of good place that we find ourselves in where we're moving closer and closer to our inflation goal. We may be at it right now. And we may be a little bit beyond full employment, but we haven't seen the bad side of that play out yet. And so we want to prevent that, and so that's what we're trying to do. At least that's how I approach what I'm trying to do with policy and how I think about it.

WSJ: So what does that mean for the setting of interest rates right now? Does that imply kind of continuing with this pattern that has been every other meeting, once a quarter, raising by a quarter point. Do you continue with that until the markets or the economy tells you something different is required?

MS. MESTER: So I think there's a very compelling case for continuing on this gradual upward path of the fed-funds rate. I think we're going to be dependent on what the data does to our outlook. In other words, we take into account the data coming from statistical reports and also our business contacts and what we gather in our economic reconnaissance. And then we form an outlook over the medium run, and then that guides where we put policy. The risks around that outlook, of course, are an important part as well. We're going to be dependent on—yes, we're going to take signals from the data and from the markets and from all the pieces of information that we gather, but policy will be set relative to that economic outlook and that medium-run outlook.

So I guess the way you posed the question, it sounded a little bit like we wait for one piece of data and then we're going to change. And that's not—it's more of a gradual look at the outlook and we adjust our policy stance. It could be that fiscal policy, when it comes fully onboard, is a lot stronger, has a stronger impact than we might have thought. And then I would argue that, well, then we need to steepen the path here. Or it could be that something manifests itself maybe on the trade. The uncertainty really does seem to have a bigger impact on investment plans. And then we might have to adjust to that. So I think we're always constantly trying to calibrate our policy to what that outlook is.

We still are in an accommodative stance on monetary policy, and yet we have a very strong economy and we're very near our goals. To me, that's a compelling case that we want to keep on this path. And I do take into account that we brought interest rates very low for a very good reason, but now that the economy is back and working and strong we want to take account of that and bring policy rates back up to a more neutral stance.

There's work out of the [Bank for International Settlements] and Claudio Borio who argues that you don't want to be biased. You cut rates when you see demand dropping, which is what you should do, and then be reluctant when you see strength to bring rates back up. We saw that in the past, right? When central banks didn't have an anchor, an inflation target… and we got into inflation troubles. His argument is about financial cycles, and you don't want to get into a place where you keep interest rates low for a long time and then you're not willing to bring them back up because you can have a financial imbalance develop.

WSJ: Based on your current medium-term outlook for the economy, is it fair to say that would support two more rate increases this year?

MS. MESTER: Well, firstly, whether it's three or four kind of doesn't really matter, really, for the macroeconomy. The economy can certainly handle two more increases this year, so four [total this year]. I've been there for a while. I think the economy is actually strong, and I think that we're moving in a good direction on both of our goals. We could end up getting behind if we don't keep moving things up, so I'm very comfortable, if the economy stays on the path it's going, that we move rates up as appropriate this year.

WSJ: One of the concerns I sometimes hear about the fiscal package is that—to the extent that it doesn't do more on the supply side, that it's mostly demand stimulus—you get really strong growth this year and next year, but then it tapers off after that and you may have to make a more sudden policy shift beyond, say, 2019. Do you share any of that concern?

MS. MESTER: I don't believe, at least from the research I've seen, that the fiscal stimulus is going to have a large impact on the supply side. I know there's some people who argue that. I just don't see it in past experience or in past research that suggests that's true. It would be great if it did, but I'm a little skeptical of that. It could have some minor impact, but I don't believe it's going to have a large impact.

So in my forecast I do have growth coming down in the third year of the forecast, but of course three years out is very difficult. There's a lot of other things that can happen. And that's a long-run consideration, I mean, well beyond our forecast horizon…If we don't get the supply-side effect, we don't have a pickup in potential growth, then deficits as a percent of [gross domestic product] are high, and so something will have to adjust.

WSJ: I hear a remarkable degree of consensus from your colleagues that we should continue on this path to neutral, but then there's the recognition that maybe the conversation gets a little bit more perplexing at that point because people may have different ideas about what to do once you get to neutral. So I'd be interested to get your thoughts on that.

First, I don't mean to presuppose there is consensus on where neutral is. So where do you think the neutral rate is?

MS. MESTER: So my long-run, nominal fed-funds rate [estimate] is 3%...So you're right, as we move closer to whatever neutral is, whatever that rate is, then it really is, OK, are we sustainably at our goals of maximum employment and 2%? Or does the outlook say if we don't move rates up further we're going to overshoot? So, again, it's all data dependent in the sense of the economy is going to be telling us how it's behaving, it's going to inform our outlook. And that's going to inform whether we have to move beyond neutral to move things down.

If you look at the last Summary of Economic Projections, you'll see that the median path does go above the neutral path. And that's because in the past that's exactly what you had to do. You had to sort of bring rates up a bit above the long-run neutral rate.

WSJ: Do you think there would be a case to pause rate increases once you get to neutral?

MS. MESTER: Tell me where neutral is, firstly. We're not going to know we're at neutral. What we're going to do is we're going to see where the economy's going—where we think the economy's going, and that will inform whether we want to raise interest rates, keep them where they are, lower them. It's all going to be based on sort of what the economy is telling us.

So, in that sense, we could back out. If the economy is telling us, look, it looks like we're at steady state, then we could say, OK, I guess we're at neutral. It's almost the reverse. It's not like neutral is X and we're going to bring our interest rate to that point. It's all about the economy will inform us more than we're going to base it on, like, getting to neutral and then sitting back.

WSJ: There's been more discussion in the minutes and even in the statement about the symmetric inflation target, and what I'm finding is that "symmetric" means something a little bit different to everybody that I talk to, which is natural. But I would ask you: How would you define the symmetric target? I've heard some people say, 'Well, it's not a makeup policy; if we were at 1.5% for seven years, that doesn't mean we should be at 2.5% for seven years. I've had other people sort of imply that maybe that is the way it could be interpreted.'

MS. MESTER: We have an inflation target. We're not price-level targeting, although that's—we could talk about that as we go forward, about sort of the frame or monetary policy framework.

So what does symmetric mean to me? It's like there's something about, yeah, what does symmetric mean to you? (Laughs.)

WSJ: It's like a McKinsey interview question or something. (Laughs.)

MS. MESTER: Yeah, exactly, exactly.

So the way I interpret it is we always want to be targeting 2%, right? So we're saying today we're targeting 2%. The way I read symmetric is I don't want to—I'm not going to overreact if we go a little bit above 2%, right? Just as we did not, I would say, overreact when inflation was below 2%. We were willing to tolerate that, do what we can, but also maintain sort of where we think policy should be given the medium-run outlook.

And that's how I interpret symmetric. It's basically not, once the inflation measures get to 2%, doing everything you can to keep it at 2% or below. It really is, look, we have to be reasonable about this. We're balancing both of our goals. If we go for a while and inflation is running below 2%, am I going to overreact if it goes a little bit above 2%? No. It's really about do we forecast it to go back to 2%. And so that's how I view it, symmetric in that sense, is that we're willing to tolerate small deviations—that you expect to see below and above 2%. But we're always focused on trying to set our policy so we get maximum employment and inflation back to our goal of 2% over time.

And over time—as you know if you look at the strategy, over time can vary depending on where you are in the economy. So, again, it's not like we have to get back to it at a fixed point in time. It's just basically we're navigating back to 2%. Other things, though, in the economy may tell us what the reasonableness of getting back to 2% is. And I'd be willing to tolerate a little bit higher than 2% or a bit lower than 2% as long as we're going to get back to 2% over our medium-run outlook.

WSJ: So let me ask about financial stability, then. You mentioned the risk of falling behind the curve, which is often, or almost always, thought of in an inflation context. But you and others have observed that the last two expansions ended with bubbles. How do you piece together this puzzle? Under what conditions would you support using monetary policy to address perceived financial instability?

MS. MESTER: Yes, so that's a very good question, I think. We have a dual mandate. And I don't think that we should adjust that into a tertiary mandate and add financial stability. But you have to recognize that financial instability will affect the ability to achieve our dual-mandate goals. So in that sense, you have to take into account those kind of imbalances or potential imbalances and risk. And I think that the experience in the financial crisis and the great recession really underscored that. So you have to pay attention.

Now, I think that we've done great things since then in terms of our ability to monitor those. We have a systematic way of monitoring financial stability, risks to financial stability that we did not have before, and systematically looking at where imbalances could be growing in terms of asset prices, in terms of leverage. And we know from a lot of research that leverage is a very important component in terms of being able to identify if there are imbalances building up. So we have this sort of more systematic way of looking at it...So I think we've made great strides from where we were before.

But I still think we have to take into account that there may be things building up. And we need to always be very vigilant in those kind of things. So that said, we also have what are arguably some macroprudential tools. One is the countercyclical capital buffer and one is the stress test. And varying the scenarios in the stress test, that's a tool that can be used. How effective are they? We haven't ever raised the countercyclical capital buffer.

WSJ: Is it time to do that?

MS. MESTER: OK. So I guess I step back and say, well, what is that? How is that supposed to work? So it's supposed to work that you build up capital in good times so that banks have the capital in bad times, so they can continue lending through the cycle, right? So if they have higher capital in good times, then when there's some negative shocks, right, they'll be able to continue to lend…So to my mind, this would be a good time to be raising that capital buffer, because the way it's supposed to work is, in good times is when you raise it. So I would say yes.

Now, I'm not privy to the conversations, right? That's a decision that's made at the Board of Governors. And I'm sure they did a very thorough review of the pros and cons and when and where. But just from what I observe, I would think that we should move that up. Now is a good time because things are strong in the economy. So that banks will have the capital if something comes to pass down the road. And that's the way it's supposed to work—the mechanism is supposed to work. But if we're reluctant to use that tool, then I think that even puts you more into the camp of, well, then monetary policy may be something that has to be on the table when you get to that point.

But, as I pointed out, it's really not adding financial stability to your mandate because when we get into a situation where we do have financial imbalances growing, that has implications for our achievement of our dual mandate goals. And so I think one of the things that central banks around the world are dealing with in different ways is how can you systematize that—make sure that we're being not discretionary about it, but really being systematic in how we're doing it? So I like the fact that at the [Federal Open Market Committee] meetings we talk about financial stability and this framework that we're using. And you can always argue there's ways of tweaking the framework, but we have a systematic way of talking about it, which we did not have before. So I think that's a big stride for us.

WSJ: If the modal forecast from the Summary of Economic Projections is the right view of things, that implies some restrictive policy coming after next year perhaps. It wouldn't be a surprise that that might invert the yield curve. Do you think that the focus right now on the flatness of the yield curve is overdone?

MS. MESTER: Well, I think it's one of the things that we look at. And you know the correlation between an inverted yield curve and recessions. Of course there aren't that many data points. So that's a correlation. It's not a causation. Why would that correlation exist? Let's talk about that.

So when the yield curve inverted in the past and we saw a recession, a lot of times that was because monetary policy was being tightened aggressively because we were trying to get back to our dual mandate goals. We had overheated, right? And so the long end was down because it basically was saying we think bad times are ahead. OK, we aren't in that environment today, right? We've been raising rates gradually. The long end hasn't been that responsive. But I find it ironic because some of the reason that it's not responsive is precisely because of the actions that the central bank took, right? There's [quantitative easing] in the U.S. and around the world.

That was intended to put downward pressure on the long end of the market. So the level of that slope is going to be different and give a different signal than it might have in the past. And so that's one of the issues that's in there. And the other issue is that we essentially have really, and this is a good thing, got people understanding where policy is and where it's headed. So any kind of risk premium on sort of policy uncertainty, that's not in that long end either. People kind of get a sense of where policy is going.

So, again, it's kind of interesting that some of the issue with the slope of the yield curve—and why long rates are a bit down—really isn't a signal about where the economy is. It's more about, was it engineered by our actions? So, again, that gives you some sense that it probably isn't giving you a signal about either the economy is in a bad spot, or that the Fed is going to be aggressively raising rates and therefore, the economy is going to get into trouble.

If you see something as regular as that correlation, you want to look at it. You don't want to ignore it. But I'm not taking a signal from it that says, oh, we're going to go into a recession. I think that's just a misreading of where we are. But you want to always be looking at those things.

WSJ: Do you think it's time to decide the question over the operating framework for monetary policy—the floor versus corridor system?

MS. MESTER: I think it's time to have this discussion. I don't think that anything should be decided on lightly. I think we need to look at the pros and cons…I think we need to think about political economy issues that are maybe associated with the floor system in terms of if you don't have a limited balance sheet in terms of its size, then will you face more political pressure to use your balance sheets in ways that the central bank would be uncomfortable doing? And so there's independence issues.

So I think it's time to have that broad discussion about what do we see as the pros of the floor system—which we've been running, and I think arguably successfully—versus trying to go back to a corridor system, which may not even be that easy to get back to, given the changes that we've seen in the funds market and in the **financial market**. That's a really important discussion to have. And I think now is a good time to start that discussion—or relatively soon, is a good time to start that discussion, so that we can basically clarify to **financial market** participants and the public: Here's where we're going.

But just the way we did with starting to reduce the balance sheet, I think we did a very good job of communicating that, and discussing it well in advance and then communicating as we made progress on the decisions. That was a good example of how that kind of communication could be helpful. And I'd want us to do a similar thing. So that means starting now, so that we can provide some clarity, come to some answers.

Related Article

* Cleveland Fed President: Strong Economy Justifies Two More Interest Rate Increases This Year

Document WSJO000020180713ee7d0048t

THE WALL STREET JOURNAL.

Markets

Tariff Talk Finally Turns Real for Asia Markets; But Chinese stocks rebounded in late trading, with the Shanghai Composite up 1%

By Mike Bird
462 words
6 July 2018
02:15 AM
The Wall Street Journal Online
WSJO
English

Chinese stocks rebounded in late trading Friday, with the Shanghai Composite up 1%. Japan's Nikkei 225 rose 1.2%, but both indexes were set to finish down for the week.

Singaporean stocks fell after the city-state announced tighter limits and higher taxes on real-estate sales, hitting property companies. The FTSE Strait Times Index was down 2.2%.

Friday's Big Theme

After months of intensifying rhetoric, trade tensions between the world's two largest economies are finally translating into concrete action.

What's Happening

U.S. tariffs on $34 billion of Chinese goods across hundreds of product categories came into force at midnight ET on Friday. Beijing was set to levy duties on the same value of U.S. goods exports.

The tariffs have been a driving force in markets around the world this year, particularly for China and the export-heavy economies nearby.

Since steel and aluminum tariffs were initially announced by the White House in March, defensive sectors—like utilities, health care and consumer staples—have outperformed globally. Those that benefit when economic conditions and risk appetite are improving—like financials, industrials and technology—have lagged behind.

Though the direct impact of Friday's tariffs is small, investors have worried about what comes next: more tolls on imports, further investment restrictions or, possibly, aggressive currency-weakening by China.

Market Reaction

Most analysts and investors expect the Chinese and U.S. governments to avoid wider and less-targeted protectionist measures.

"While the prospect of a trade war between the U.S. and China has increased, we nevertheless believe that the risks remain contained—for now," said Peter Donisanu, strategist at the Wells Fargo Investment Institute.

But the general consensus that the tit-for-tat escalations will eventually result in a compromise also leaves global stocks at risk of further weakness if both sides proceed with the increasingly broad measures they have threatened.

"Risks are rising from this game of chicken. Markets are not yet ready to trust the Trump administration on trade negotiations," said Joseph Amato, chief investment officer of equities at Neuberger Berman. "The next few months will be a vital proving period for that trust, during which the noise and anxiety are likely to increase. We still believe the two biggest players are likely to swerve from their collision course and avoid a truly damaging outcome."

Elsewhere

Oil prices were roughly flat, with Brent crude up 0.1% at $77.47 per barrel. The FX market was relatively quiet too, with the ICE U.S. Dollar Index down just 0.1%.

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Document WSJO000020180706ee760015q

The New York Times

Business Day

Troubles for Ford, G.M. and Fiat Chrysler Send Shares Diving

By Neal E. Boudette
1,142 words
25 July 2018
11:20 AM
NYTimes.com Feed
NYTFEED
English

The economy may be humming, but for American car companies, the year is looking less bright.

All of Detroit's Big 3 automakers issued downward revisions on Wednesday in their financial forecasts for the year, with each highlighting rising commodities costs that stem in part from the steel and aluminum tariffs imposed by the Trump administration. The adjustments, made as the companies announced their second-quarter earnings, sent their shares down sharply.

Ford Motor recorded the worst showing of the three, as net income fell by nearly half to $1.1 billion from the same period ago. Aside from higher materials costs, Ford is struggling in Europe, South America and especially China, where it has spent heavily in recent years to expand but made just $3 million in the quarter and has watched its sales fall.

"The deterioration in this important global market has been swift," Jim Farley, Ford executive vice president and president of global markets, said in a conference call. He said Ford's joint ventures in China suffered from uncompetitive costs, weak dealer networks and a shortage of sport-utility vehicles in its model line. Ford is now "taking urgent action," although its troubles will linger, he said.

Casting a further cloud over the company was news it was postponing a daylong meeting with analysts scheduled for September, when Ford was supposed to detail the turnaround plan of its chief executive, Jim Hackett. Mr. Hackett was hired in May 2017 to reinvigorate Ford, but the lack of details on Ford's plans have frustrated some analysts.

"The postponement of the capital markets day is a pretty big deal, Jim," Adam Jonas of Morgan Stanley said on the call. In an unusually blunt question, he then wondered about Mr. Hackett's future with Ford.

"Will you be the one delivering the message or will someone else be doing it?" Mr. Jonas asked.

After replying at some length about the progress he felt the company had made, Mr. Hackett concluded by saying: "And hell, yes, I expect to be in front of everybody declaring where we're going and what we want to get done. So I think there should be zero question about that."

The company said its "global redesign and restructuring" efforts could entail charges of $11 billion against pretax earnings over three to five years. It also revised its forecast for the year's earnings to a range of $1.30 to $1.50 per share, from the previous target of $1.45 to $1.70.

Ford delivered its news after the **stock market** close. In after-hours trading, its shares fell about 4 percent.

General Motors and Fiat Chrysler both reported their earnings before the market opened. G.M. shares ended the day off 4.6 percent, and Fiat Chrysler was down 11.8 percent.

The companies' references to commodities prices signaled that the Trump administration's tariffs and trade policies were already hurting auto company profits and might yet worsen their situations, said Efraim Levy, a stock analyst at CFRA Research.

"It's been a bad day for auto stocks," he said. "Commodities and tariffs and their interrelationship are weighing. It's the big picture that's hitting the outlook."

G.M. said its pretax profit fell 13.3 percent to $3.2 billion, with its North American operations feeling a significant hit. The automaker said it had been affected by economic turmoil in South America and unfavorable exchange rates related to the Brazilian and Argentine currencies, in addition to rising commodities and materials prices.

On a conference call, Mary Barra, the G.M. chief executive, said, “I think it’s in everyone’s best interest to have a strong U.S. auto industry, a big provider of quality jobs.” The company, she added, is “making sure we spend a lot of time with the administration” so that decisions “aren’t made that have unintended consequences.”

In its earnings report, G.M. said it now expected adjusted earnings of about $6 per share for 2018. Earlier this year, it forecast earnings in line with last year’s figure, which was $6.62.

Like Ford, Fiat Chrysler said it had suffered a decline in earnings because of trouble in China, despite a rise in North American profits. The company also reduced its revenue outlook for the year.

“Not overly concerned today, but we obviously need to keep an eye on commodity prices as we move into 2019,” Fiat Chrysler’s chief financial officer, Richard K. Palmer, said in a conference call.

Fiat Chrysler now expects adjusted pretax profit of 7.5 billion to 8 billion euros ($8.8 billion to $9.4 billion), a drop of up to 14 percent from the €8.7 billion it forecast on June 1, reflecting how rapidly conditions in the industry have changed.

The company has been lagging behind its rivals in China, and on Wednesday its new chief executive, Mike Manley, blamed several factors: its dealer network, its marketing and growing competition from Chinese brands. “So there are certainly a combination of things that we need to fix,” he said. “That process has started.”

Mr. Manley, previously head of the company’s North American operations, was named Saturday to succeed Sergio Marchionne, who was gravely ill and died Wednesday.

Automakers warned the Trump administration in recent weeks that tariffs could have a negative effect on their industry. In a filing to the Commerce Department in June, G.M. said tariffs could lead to “less investment, fewer jobs and lower wages” and that the cars hit hardest would probably be those aimed at consumers who could least afford an increase. Slower demand would require cuts to production, which “could lead to a smaller G.M.,” the company wrote.

Fiat Chrysler has said it is making contingency plans to reduce the impact of tariffs, while BMW has already said it will shift some production from its plant in South Carolina to avoid any retaliatory tariffs other countries could levy on vehicles exported from the United States.

There were signs Wednesday afternoon that trade tensions were easing on one front as President Trump and the president of the European Commission, Jean-Claude Juncker, announced in Washington that they would work together to lower tariffs and trade barriers.

* E.U. to Offer Trade Proposals in Bid to Ease Tensions

* Fiat Chrysler Loses Sergio Marchionne With Bumpy Road Ahead

* Fiat Chrysler C.E.O. Marchionne Is Replaced After Falling Gravely Ill

* On Trump’s Car Tariffs, Companies Are United in Dissent

Fiat Chrysler’s Jeep and Ram brands have provided the foundation of its profitability. But the company reported a decline in earnings because of trouble in China, despite a rise in North American profits. | Spencer Platt/Getty Images North America

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THE WALL STREET JOURNAL.

Heard on the Street
Markets
When Will Trade Battles End? Watch Economies, Not Politicians

By Nathaniel Taplin
447 words
11 July 2018
06:14 AM
The Wall Street Journal Online
WSJO
English

Another day, another $200 billion of U.S. imports from China targeted for tariffs—and another defiant response from Beijing. Where, and when, does it all end?

With the bombast emanating from both sides, it's easy to forget that economies often make politicians—and policies—rather than the other way around.

In the U.S., two recent developments could spell trouble for Washington's trade warriors. The Federal Reserve's preferred inflation measure has just hit its 2% target for the first time since 2011.

Second, the

spread of long-dated Treasury yields over short-dated ones is at a decade low. When that spread turns negative, it signals a recession is near, often because the Fed has had to raise rates sharply to control inflation.

The U.S. is already running out of things to put tariffs on that won't push consumer prices higher: This time goods like apparel, furniture and television components are in the crosshairs. U.S. wages, a reliable leading indicator of future inflation, are already rising. Average weekly earnings in the private sector rose nearly 3% on-year in June, their fastest pace since 2011, on a six-month moving average basis. If past relationships hold, that means core inflation could be rising by 2.5% annually by mid-2019, even without an escalating trade war.

If inflation does slip the leash—right around the time President Trump is seeking re-election—price-boosting conflicts with the U.S.'s largest trading partner might start to look less wise, particularly if **oil prices** also remain high.

China has the opposite set of problems. Inflation remains in check: But growth is looking vulnerable. Investment rose just 6.1% on the year in the first five months of 2018, the worst showing this millennium. A crackdown on shadow banking has starved vulnerable companies of cash. And exports are slowing, even before tariffs hit.

If growth keeps heading lower, China may have to unleash another significant domestic stimulus, spelling the end of President Xi Jinping's deleveraging drive—a politically disastrous outcome. China might be more willing to offer real concessions on trade sooner to head off that possibility.

For now, neither economy is in the danger zone, meaning the escalation of trade tensions will likely continue in the short-term.

The climate, though, is poised to change in both economies, whether or not Mr. Trump and Mr. Xi know it. Whichever country finds the temperature getting unbearable first, will likely be the first to crack in a trade war.

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Document WSJO000020180711ee7b001e1

THE WALL STREET JOURNAL.
U.S. EDITION

World News: ECB Signals a Slow Path to Higher Rates

By Tom Fairless
472 words
27 July 2018
The Wall Street Journal
J
A8
English

FRANKFURT -- The European Central Bank confirmed plans to gradually phase out easy money, but said it would probably keep rates steady through next summer, underscoring a growing policy divergence with the U.S. Federal Reserve and a widening gap in U.S.-EU growth rates.

In a policy statement Thursday, the ECB said it expects to phase out its 30 billion euros ($35 billion) a month bond-buying program by December and switch its focus to interest rates. Its deposit rate was held Thursday at minus 0.4%, where it has been since March 2016.

Three other major central banks -- the Fed, the Bank of Japan and the Bank of England -- will all hold policy meetings next week. All could signal or confirm moves toward higher interest rates after years of easy money, in a nod to strengthening economic growth.

Furthest along the path is the Fed, which has increased interest rates seven times since the end of 2015 including twice this year, pushing its key rate to a range to 1.75% to 2%. It is expected to raise rates twice more this year.

The gap between the world's two largest central banks -- the Fed and the ECB -- reflects "different positions in the business cycle," ECB President Mario Draghi said at a press conference.

Economic data published in the coming days are expected to underscore a widening gap between the U.S. and eurozone economies, which grew at a similar pace last year. U.S. data on Friday are expected to show the world's largest economy expanded more than 4% at an annualized pace during the second quarter. That is probably more than double the pace of the eurozone economy, whose second-quarter growth figures will be published on Tuesday.

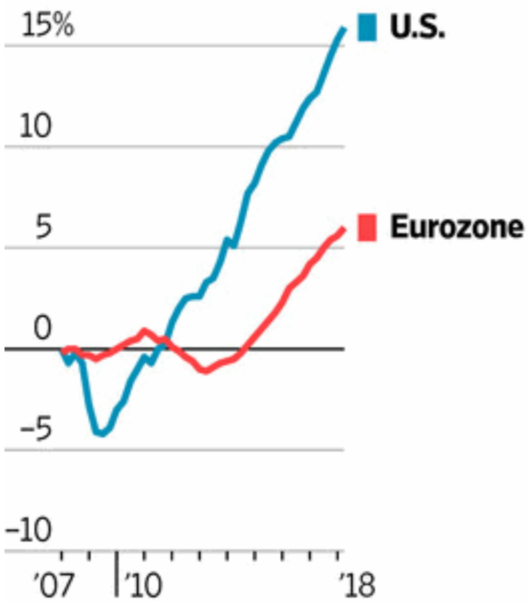
The U.S. is outpacing the eurozone in part thanks to a burst of budgetary stimulus provided by tax cuts that were enacted late last year. The U.S. is also more insulated from external threats such as rising **oil prices** and trade conflict because of its large domestic oil industry and lower reliance on exports.

In Europe, economies like Italy and France have struggled to shift into a higher gear since the region's debt crisis, while the bloc's largest economy, Germany, is running into capacity constraints as unemployment has fallen below 4%.

With Europe's economy slowing, many analysts consider September 2019 to be the earliest possible date for a first ECB rate increase. Mr. Draghi was pressed on that timing at Thursday's press conference but remained vague, probably in order to leave the ECB some flexibility. Annual inflation was 2% in June, slightly above the ECB's medium target of just below 2%.

Left Behind

Change since pre-financial crisis peak in U.S. and eurozone GDP



Note: GDP is adjusted for inflation and seasonality
Sources: U.S. Commerce Department; Eurostat
THE WALL STREET JOURNAL.

Document J000000020180727ee7r0001v

Pro Bankruptcy

Bernanke, Geithner and Paulson 'Have Invented Alternative History' of Lehman Collapse; Professor Laurence Ball talks about his new book 'The Fed and Lehman Brothers'

By Greg Robb, MarketWatch
2,535 words
25 July 2018
02:44 PM
WSJ Pro Bankruptcy
RSTPROBK
English

Nearly ten years ago, Lehman Brothers, declared bankruptcy after a frantic weekend of unsuccessful talks to find a buyer at the New York Fed.

Lehman's collapse followed the takeover of Bear Stearns in early March by J.P. Morgan Chase that was assisted by a Fed loan and the government takeover of Fannie Mae and Freddie Mac.

The outcome has always been controversial.

After rescuing Bear Stearns and the GSEs, no public money was provided Lehman to stay afloat. Days later, the Fed reversed course, providing assistance to two other investment banks, Goldman Sachs and Morgan Stanley, through access to loan programs. Goldman's total borrowing peaked at $69 billion while Morgan Stanley's peaked at $107 billion. The Fed also rescued American International Group through an initial $85 billion line of credit. This was followed by the broad $700 billion bank bailout that Congress passed, known as the Troubled Asset Relief Program.

Ben Bernanke, Timothy Geithner and Henry Paulson have all said that they wished to rescue Lehman but that their hands were tied because Lehman did not have enough collateral to allow the government to provide a financial lifeline.

Laurence Ball, in a new book "The Fed and Lehman Brothers, Setting the Record Straight on a Financial Disaster," debunks this official narrative.

An economics professor at Johns Hopkins University, Mr. Ball says there was no discussion of Lehman's collateral or the legality of a loan during the crucial weekend. In addition, he said that Lehman did have enough collateral, if anyone had looked. Other analysts, including Joseph Gagnon of the Peterson Institute for International Economics, have argued that Lehman was probably deeply insolvent at the time of its bankruptcy.

MarketWatch sat down with Mr. Ball to discuss the findings of his book.

Henry Paulson said this recently: T he thing we get the most criticism for is letting Lehman go down. Despite the fact that the three of us have all said, you know, we did everything we could to save Lehman. We didn't believe then and don't believe now a single authority we had that would have worked. Many people say well "they were able to save Bear Stearns, they were able save AIG, why couldn't they save Lehman?" We answer it and most people still don't believe us." You don't believe them.

I don't believe them. They have been asked that question again and again and they have given the same answer again and again. And when I first started researching this I didn't know what the right answer was — there were such starkly different claims. But having spent four years looking at the evidence — and there's a lot of evidence, what Secretary Paulson is saying there is just simply not true.

What the three officials say is that Lehman didn't have enough collateral so that the Fed couldn't legally give them a loan.

Yes, that's the sense of it. And actually that is absolutely incorrect in two related, but distinct, senses. First of all, in terms of their decision-making— again there's a big record from some investigations with subpoena power about what people were discussing in that weekend — they were discussing various economic and political ramifications of letting Lehman fail or not letting Lehman fail. They were not discussing does Lehman have enough collateral — do we have the legal authority. So that was not the reason that they made the decision. In addition, at this point it is possible to go back and put together the numbers, there is enough data on what Lehman's assets were, what its liquidity needs were, and if one actually does that exercise, it is clear that Lehman did have ample collateral for the loan it needed to survive. So, if the Fed had asked is there enough collateral, the answer would clearly have been yes. They could have made a loan, it would have been legal, it would not have been very risky, and probably the whole financial crisis and Great Recession would have been less severe.

Paulson was trying to say to Wall Street, we're not going to bail out Lehman, let this be a lesson for you. In essence that's Elizabeth Warren's anti-bailout view. But it didn't last more than a day or two.

What I, in my opinion, establish with absolute certainty in the book, is that the official explanation about legal authority and collateral was simply not correct. Again the fact that those three impressive people say it again and again, very strongly, does not make it true. As far as what then is the real reason, there we have to be a little bit more speculative, and my conclusions there are not terribly original: I think it was political.

Of course, many people have said all along obviously it was political but everything I've seen is consistent with that. It wasn't just Elizabeth Warren, it was everybody. It was the one completely bipartisan issue with Bernie Sanders saying this is a giveaways to the rich and conservatives saying this is socialism taking over the banks. The two presidential candidates, Barack Obama and John McCain, both issued very stern statements. This was right after the takeovers of Fannie Mae and Freddie Mac. Obama and McCain issued statements saying we can't have any more of this nonsense. So there was tremendous political pressure. In addition to that, there was an underestimation of the damage the failure would do, maybe some wishful thinking.

And you're absolutely right that there was a 180 degree turn in a day-and-a-half when they rescued AIG. I would put a positive interpretation on that.They made a bad mistake, one that they have not owned up to. But at least they quickly saw what a bad mistake it was. Henry Paulson widely was quoted as saying I can't be "Mr. Bailout." But I think he realized pretty quickly that being "Mr. Caused The Worst Depression Since The 1930s" would be even worse, so we're lucky that he and the other policy makers at least were flexible enough to shift course.

Because Lehman was the accelerant on the financial crisis?

Yes. Federal Reserve economists several days before the Lehman bankruptcy predicted that the unemployment rate would peak at 6% because of strains on **financial markets**. Lehman was the event that caused strains on **financial markets** to turn into... people use metaphors like tsunami, trainwreck and so on.

Earlier in 2008, in March, Bear Stearns has been rescued. Lehman failed in September. What happened in between?

There were the big five investment banks and Bear Stearns was the fifth biggest and they were very invested in real estate. So there was a lot of speculation that maybe this could happen to another one of these investment banks. And the fourth biggest, Lehman Brothers, was also heavily invested in real estate, so there was speculation perhaps Lehman Brothers could be the next one to go. Lehman Brothers actually had a very sharp shift in its business strategy. Up until the Bear Stearns event, they were continuing to try to expand in real estate. They actually thought "Gee, this is great. Real estate prices are depressed and we will buy low and make a lot of money." But after Bear Stearns, they realized they had a big problem and they tried hard to raise capital, they looked for an acquirer, and Secretary Paulson was very involved trying to be a broker for that.

Now I think they talked to basically every global investment bank, every sovereign wealth fund, Warren Buffett, Carlos Slim, anybody with money, and no deal was done. I think various people I think including Secretary Paulson think the problem was that Richard Fuld, the Lehman CEO, didn't fully face reality and had an unrealistically optimistic view about what his company was worth and wasn't going to engage in a fire sale. Of course that changed at the very, very end, when they faced bankruptcy. I can certainly understand why Paulson and Fed officials were very frustrated. They did work very hard for six months to try to arrange at Lehman takeover and were not successful.

The problem with the investment banks is they had long-term investments funded by short-term paper?

The basic mechanism by which they got in trouble is well understood. It's really the same story for all five banks: Goldman Sachs, Morgan Stanley, Merrill Lynch, Lehman and Bear. They all had similar problems with then quite different outcomes. But there were three interrelated problems. Number one, they made these big bets on real estate during the housing boom and they lost a lot of money on those. Factor number two was they had very low equity and once they started losing money on real estate it didn't take long before their equity started getting close to zero and people started to question their solvency and their viability. And then problem number three was exactly what you said: reliance on short-term funding — largely overnight repos — so that once people lost confidence, you had essentially the same phenomenon as a bank run. The people who were providing them funds on a daily basis said: "We don't want to be providing funds for somebody who might go bankrupt." So Lehman Brothers filed for bankruptcy at 1:45 a.m. on a Monday morning because they were supposed to open for business in a few hours and pay somebody a billion dollars and they just didn't have billion dollars. They were out of cash because their short-term financing was not rolled over.

The Fed's job is to step in when there is a bank run.

That's right. According to classic central banking doctrine, going back to Walter Bagehot in the 19th century, the central bank is the lender of last resort, if there is a bank run, a panic. And again, it could be an old-fashioned bank run with the depositors running and taking their cash out or it could be this 21st century version of repurchase agreements cut off. The central bank's job is to provide enough cash to keep things going. Lehman could have been kept going long enough to work out some kind resolution that was better than just telling them you have six hours to prepare a bankruptcy petition for the largest bankruptcy in U.S. history.

Instead of acting, the two Fed officials, Bernanke and Geithner, deferred to Paulson?

The politics are interesting. Under the law at the time, it was the Fed's sole responsibility to decide whether or not to make emergency loans. There was a procedure in which, if the New York Fed had chosen to, they could have told the Board of Governors in Washington we'd like to make a loan and to get approval for that loan by a vote of the Board of Governors. The role of the treasury secretary legally in that process was exactly the same as the role of the secretary of agriculture or the mayor of Baltimore. Now, what actually happened was that Paulson got on an airplane and flew to the New York Fed and started telling Geithner and others what to do, and at some point said: "Lehman has to declare bankruptcy."

As far as I can tell, just by force of personality, he took over and told people what to do. I should say Geithner, in his most recent discussions, made the point that the Dodd-Frank Act has limited the Fed's ability to be the lender of last resort and that's possibly dangerous as far as handling future crises. One of the ways in which the Fed's authority has been limited is now the law says the secretary of treasury has to approve [a loan]. I worry because the treasury secretary is inherently a political appointee that might lead to politically motivated decisions. I have to say it is ironic that Geithner would bring up that point, because again he chose to follow the instructions of the treasury secretary, even though at the time he wasn't legally required to do so.

What are the lessons for today?

There are takeaways at several levels I think. One is I think the whole financial crisis has confirmed the traditional thinking about central banking. I think we saw how beneficial it was when the Fed did perform its role as a lender of last resort with AIG and Bear Stearns. We saw how damaging it was when the Fed did not step up to the plate at the key moment with Lehman. So, one narrow thing we learned is that the part of the Dodd-Frank Act that restricts the Fed's ability to be lender of last resort was a mistake and that's dangerous and that ought to be repealed. Now, of course, in reality a number of parts of Dodd-Frank probably will be repealed and it's not going to be the lender-of-last-resort part but maybe someday. I think more broadly, from my research, I became persuaded the financial crisis didn't have to be nearly as severe as it was. People have told a story in which there were these big mistakes made involving the real-estate bubble and too much debt and risky behavior on Wall Street and when you sin like that there has to be punishment. I think the punishment didn't have to be so bad. I think if Lehman have been rescued we might be looking back at that episode the way we look back at the savings-and-loan crisis of the 1980s or the dot-com bubble of the early 2000s. Those were cases in which people made mistakes, financial institutions lost a lot of money, there was some effect on the economy, but much much milder. The whole Great Recession was not necessary.

I can't help saying the other thing we learned is you've got to really be careful listening to government officials. Messrs. Paulson, Bernanke and Geithner are correctly viewed as the class of government officials as far as very intelligent, competent, dedicated public servants, but still the story they're telling is just not accurate.

If what Paulson, Bernanke and Geithner were saying was "Hey we did a pretty good job overall, yes at 2 a.m. on Sept. 14th we didn't quite get it right on Lehman Brothers in this incredibly crazy confusing situation," I would be the last person to insist on perfection in that kind of situation.

But what irks me is that they have not owned up at all to any kind of mistake and they've invented this alternative history of what happened on the Lehman weekend that just isn't accurate.

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Document RSTPROBK20180725ee7p0008d

THE WALL STREET JOURNAL.

Markets

Growth in Trade Is Already Starting to Slow; Global export growth, strong in 2017, has slowed to a relative crawl as major economic regions come off the boil

By Mike Bird and Riva Gold
795 words
4 July 2018
01:33 PM
The Wall Street Journal Online
WSJO
English

Even before a round of U.S. tariffs levied on China comes into force Friday, there are signs that global trade is already cooling.

Business surveys published this week show that global export growth, strong in 2017, has slowed to a relative crawl—helping to drive sharp **stock-market** falls in big exporting nations like South Korea and Japan.

The data suggest that the synchronized world-wide growth that sustained global markets and company earnings for much of last year is already starting to run on empty. And that slowdown is likely to have a greater impact on trade than the developing conflict among the U.S., China and other major economies, analysts and investors say.

"There is a huge correlation between the performance of Asian exports and Asian earnings. You can extend that analysis from global trade to global earnings," said Tai Hui, chief markets strategist for Asia at J.P. Morgan Asset Management. Companies in sectors like consumer electronics are already suffering, he added.

For nearly half a year, surveys of purchasing managers in manufacturing have indicated dwindling international demand growth, as major economic regions like the eurozone and China come off the boil.

The new-exports portion of JP Morgan's Global Manufacturing PMI fell to 50.5 in June, its weakest in nearly two years. The figure remains above 50, indicating export orders are still rising, but it has grown weaker every month since hitting its most recent peak at 54.2 in January.

The orders data closely mirror year-on-year changes in world trade volumes, suggesting last year's 4.8% rise in global merchandise trade—the strongest since 2011, according to the World Bank, and representing an extra $1.13 trillion worth of goods changing hands—is unlikely to be repeated.

The volume of global trade is so large that even modest changes in its rate of growth are more consequential than what is directly at stake in the row between the U.S. and China. U.S. tariffs due to be implemented on Friday cover $34 billion in Chinese goods; China is levying retaliatory tariffs on an equivalent amount of American exports.

China's customs agency unexpectedly issued trade data that showed growth in exports to the U.S. slowing earlier this week, although some analysts raised doubts about the reliability of government statistics.

Already-imposed tariffs—such as the U.S. has placed on steel and aluminum imports—may not have a meaningful impact on most Chinese businesses.

"With Asian steel and aluminum companies, most of the exports are actually inter-regional. It's only 0.1% of total productive capacity that even goes to the U.S. for Chinese steel companies. Aluminium is just 2%," said Catherine Yeung, investment director at Fidelity International.

The global trade moderation explains the recent sell-off in emerging-market bonds and equities better than any fears of rising protectionism, BCA Research, an independent Canadian research firm, argued in a report last week. Any fall in trade is likely to first hit economies integral to globalized manufacturing processes, such as those of several emerging countries in Asia.

"When global trade expands, weak parts of the chain do well. Conversely, when global trade growth dwindles, these same weak links are the first to break," said Arthur Budaghyan, chief emerging markets strategist at BCA Research.

For sure, some economists argue there's a link between the rise in protectionist policies and soft global export data—even if many talked-about tariffs haven't yet taken effect.

"It might be that companies are anticipating trade becoming more difficult with China or with the U.S. and are adjusting their supply chains," said Joanna Konings, senior international trade economist at ING in Amsterdam.

The latest manufacturing PMI from Germany, an outsize player in global supply chains, offers some weight to that interpretation. Export sales growth there was the weakest in over two years, and a number of businesses cited declining orders from the U.S. and China.

Even small tariffs can have big effects on business confidence. Imposing tariffs in a world of integrated, multinational supply chains might be self-destructive and would likely pass through to U.S. consumers, according to strategists at Morgan Stanley.

"If the trade dispute becomes more complicated, if both sides are not willing to change their stance, you could end up with a much more serious disruption," said William Yuen, investment director at Invesco.

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Document WSJO000020180704ee74001p8

THE WALL STREET JOURNAL.

Heard on the Street
Markets

The Imperfect Science of How Much Tariffs Will Hurt; Economists try to model tariffs' impact but actually believe it could be much worse

By Justin Lahart
875 words
6 July 2018
09:30 AM
The Wall Street Journal Online
WSJO
English

No matter how fiery the rhetoric around trade becomes, one comforting factor is that most economists calculate the impact of expected tariffs on the U.S. economy will be surprising small. The problem is that these same economists concede that their models don't capture the complexity of trade and supply chains, and personally believe the reality could be much worse.

The Trump administration placed tariffs of 25% on $34 billion in Chinese products on Friday, drawing a matching, retaliatory tariff from China. These actions came on top of the tariffs the White House has already imposed on steel and aluminum imports from Canada, Mexico and the European Union at the end of May. And there could be much more to come.

The number-crunching models economists use to build their forecasts suggest the ultimate effect of the tariffs that have been put in place so far will have a minimal effect on the $20 trillion U.S. economy. Moody's Analytics model, for example, shows that the tariffs will shave all of 0.03% off U.S. gross domestic product in the third quarter, rising to 0.1% next year.

But Mark Zandi, Moody's Analytics chief economist, isn't as sanguine about the tariff effects as his model is. "If anything, we're significantly underestimating the disruption this will have on the U.S. economy," he says.

Take Harley-Davidson's announcement late last month that it would shift production to Europe of motorcycles it has been exporting there to avoid retaliatory EU tariffs. A typical economic model might predict that European sales of Harley motorcycles would fall because of the tariff. It wouldn't predict that Harley would wholesale move production of nearly 40,000 bikes it sells in the EU out of the U.S., which amounts to a bigger reduction in GDP.

The models economists use to analyze trade are a lot more complex than the ones in introductory economics textbooks, which predict bigger losses to consumers from tariffs than gains for domestic producers and the government. Economists' more sophisticated models include second-order effects, such as what tariffs do to inflation and how the Federal Reserve reacts. But moves like Harley's plans aren't part of the models. And there are other potentially big factors that they don't include.

Stock prices, for example, aren't in a lot of them, and if they are there aren't assumptions about how negative psychology could affect prices. That means the models could be missing a crucial element in how trade could affect the economy. The U.S. economy is especially sensitive to sharp stock selloffs, which can lead consumers to curtail spending and companies to reduce investment and hiring. Bank of America Merrill Lynch economist Ethan Harris points out that some of the **stock market**'s biggest declines this year have come on days when trade tensions have escalated.

The problem, says Goldman Sachs economist Jan Hatzius (who excludes stocks from his model), is that predicting how stocks will react to tariffs (or just about anything else) is difficult. You can raise your expectations in your model about how much stocks might decline and create a negative economic reaction to tariffs. "But if you do that, in some sense you're assuming the answer," he says.

Other sentiment effects — how worries about tariffs might affect businesses' plans or make workers worried about losing their jobs — are similarly tricky, notes Deutsche Bank economist Peter Hooper. "Nobody's model does a very good job of how uncertainty and hits to confidence affect behavior," he says.

The models also don't address how in modern supply chains, where goods can be imported and exported multiple times through the manufacturing process, tariffs can be magnified as they come on top of one another. That could make the proposed up-to-25% tariffs on autos particularly onerous because car parts can cross borders multiple times. JPMorgan Chase economists point out that less than half of the content of cars sold in the U.S. is sourced domestically.

The U.S. economy is doing well, which will offset much of what isn't captured in economists' models. The danger is that if the U.S. continues to step up tariffs, and other countries continue to retaliate, the effects could be amplified.

Under Mr. Zandi's model, if the administration proceeded with all the tariffs it has floated — the car tariff and the additional 10% tariff on $400 billion in Chinese goods — and China and other countries responded in kind, the hit to GDP next year would go to 0.5% from 0.1%. In an extreme case, where the U.S. put a 25% tariff on Chinese imports, and China responded in kind, the hit would rise to 1.3%. That is a big bite out of the 2.4% growth economists expect next year.

Add all the things that aren't in his model and the reality of any of those scenarios could be much more dire.

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Document WSJO000020180706ee76002xn

WSJ PRO FINANCIAL REGULATION

Markets

Push for Faster Libor Transition | U.S. Banks Could Lose Out Under Brexit Plan | Tracy's Take: The Financial Overhaul Left Behind; The Wall Street Journal's financial regulation newsletter for Friday, July 13, 2018.

1,971 words
13 July 2018
06:33 AM
WSJ Pro Financial Regulation
RSTPROFR
English

Tracy's Take: The Financial Overhaul Left Behind

Global Regulators Push for Faster Transition Away From Libor

U.S. Banks Could Lose Out Under Brexit Plan

SEC Probes Why Facebook Didn't Warn Sooner on Privacy Lapse

Former New York Pension-Fund Executive Sentenced to 21 Months in Prison

The Financial Overhaul Left Behind

U.S. regulators tout their progress in making the financial system safer, but there's at least one item still on their to-do list: the Legal Entity Identifier.

The LEI is a wonky response to the 2008 crisis, which exposed the poor state of financial data. It is a sort of barcode for financial companies.

Why worry about the LEI? Ask John Bottega, a Citigroup Inc. executive when Lehman Brothers was about to collapse. He recalls burning the midnight oil, frantically trying to calculate Citi's exposure. One exasperated colleague threw papers across the room, yelling, "Tell me who Lehman is!" he recalled.

The complicated answer: Lehman was actually thousands of legal entities, many of which weren't named "Lehman." There was no easy way for Citigroup, or other firms, to tell which of their counterparties were owned by Lehman. In turn, they couldn't fully understand their risks.

The LEI was designed to ameliorate that problem that by giving every financial company, including subsidiaries, a 20-character code. The public codes would identify each legal entity and its owner.

The first LEI was issued in 2012. There are about 1.23 million world-wide, according to the nonprofit set up to support the system. About 14% of those are for U.S. companies, despite the importance of the country's financial system.

There are a number of reasons for slow LEI adoption in the U.S.

Data standards can save companies time and money spent on managing internal systems. Some companies have obtained LEIs voluntarily—Citigroup says it has one for all of its subsidiaries consolidated under U.S. accounting rules—but others are waiting for regulators to make the first move. Financial industry groups generally say they want regulators to make the LEI mandatory, so each firm knows its competitors will have to obtain one, too.

But when the Securities and Exchange Commission in 2014 raised the possibility of mandating the LEI for a huge **stock-market** database, the Securities Industry and **Financial Markets** Association said obtaining one should be voluntary in that case. The SEC agreed.

Sifma "has called for regulators to mandate [LEI] use in regulatory requirements on numerous occasions," including in U.S. mortgage-data reporting, the group says. "We continue to actively work to promote the use of LEI."

The U.S. Office of Financial Research helped create the LEI, but it has been shy about exercising its legal authority to boost LEI adoption—in keeping with its conservative approach. The OFR on Tuesday for the first time proposed mandating the LEI as part of a data collection targeting a slice of short-term funding markets.

The Federal Reserve in a 2015 rule decided against mandating the LEI for banks, citing "the burden on institutions, and especially small institutions."

LEIs have cost a couple hundred dollars each, though expenses for updating computer systems could be higher. (Proponents say the benefits, including improved ability to spot financial risks, outweigh the costs.)

People familiar with the Fed's work on this area attribute its reluctance in part to a staffer in the bank-supervision division who also is the agency's representative to the international regulatory committee that oversees LEI. The staffer, people say, has argued that the Fed already has its own data systems, and shouldn't adopt LEI until the new system works out perceived operational kinks.

The Fed declined to comment.

Key Developments in Washington, on Wall Street, and Beyond

Global Regulators Push for Faster Transition Away From Libor

Global regulators made a coordinated push Thursday urging banks and traders to hasten their transition away from using the scandal-plagued London interbank offered rate.

In meetings and speeches around the world, regulators pressed banks to cease launching new contracts that reference Libor, and to come up with a plan for legacy contracts that will expire after the agreed-on transition date away from Libor, at the end of 2021.

Though some aspects of the transition are proceeding according to schedule, or even faster, U.K. Financial Conduct Authority Chief Executive Andrew Bailey warned in a speech in London that overall, "the pace of that transition is not yet fast enough."

U.S. Banks Could Lose Out Under Brexit Plan

The U.K. on Thursday set out its negotiating position on Brexit—and the news isn't great for U.S. banks with big offices in London.

After the U.K. voted to leave the European Union, banks like JPMorgan Chase & Co., Citigroup Inc. and Goldman Sachs Group Inc. lobbied the British government to negotiate a new trade deal whereby the U.K. and EU would agree to adopt similar banking regulation, essentially preserving something akin to the way banks operate now.

The proposal falls far short of something close to the status quo. The U.K. government said it would seek a looser agreement, pushing for a version of "equivalence," a less-integrated deal whereby the European Union allows reciprocal access to a foreign market on condition that it is properly regulated. (It has done this, for instance, on clearing in the U.S.)

After Turmoil, British Government Publishes Its Plan for Brexit

SEC Probes Why Facebook Didn't Warn Sooner on Privacy Lapse

Securities regulators are investigating whether Facebook Inc. adequately warned investors that developers and other third parties may have obtained users' data without their permission or in violation of Facebook policies, people familiar with the matter said.

The Securities and Exchange Commission's probe of the social-media company, first reported in early July, follows revelations that Cambridge Analytica, a data-analytics firm that had ties to President Donald Trump's 2016 campaign, got access to information on millions of Facebook users.

The SEC has requested information from Facebook as it seeks to understand how much the company knew about Cambridge Analytica's use of the data, these people said. The agency also wants to know how Facebook analyzed the risk it faced that developers might share data with others in violation of its policies, they added.

Former New York Pension-Fund Executive Sentenced to 21 Months in Prison

A former New York state pension executive accused of taking bribes from Wall Street salespeople was sentenced to 21 months in prison Thursday.

Navnoor Kang, who served as head of fixed income at the New York State Common Retirement Fund until early 2016, pleaded guilty in November to two counts of fraud. Federal prosecutors had alleged salespeople lavished Mr. Kang with prostitutes, cocaine, getaway weekends and a luxury watch in exchange for steering more trading business to their brokerages.

In relaying the sentence, U.S. District Judge J. Paul Oetken said he weighed the fact that Mr. Kang had no prior record. However, he added, underestimating the nature of his crimes "would be to ignore major corruption of a state official."

JPMorgan Whistleblower Set to Get Largest Payout From CFTC

A whistleblower who alerted regulators to conflicts of interest at JPMorgan Chase & Co. will get $30 million from the Commodity Futures Trading Commission, the largest CFTC payout to a tipster to date.

Edward Siedle, a former Securities and Exchange Commission lawyer who does forensic investigations in the investment-management industry, said he alerted regulators to the JPMorgan Chase matter and handled whistleblower claims at both the CFTC and SEC on his own behalf.

Separately, the SEC has granted preliminary approval for a $48 million payment to Mr. Siedle, he said. That payout is awaiting final review by the SEC staff and approval from the agency's commissioners.

Activist Investors Turn Up Heat in Drive for Returns

CEOs beware: Surging stock prices have done little to placate activist investors.

Activists are launching campaigns at a record pace as the rise in passive investing pressures fund managers to find new ways to beat the market and letting the rabble-rousing investors into boardrooms becomes less taboo.

Activists spent $40 billion targeting 136 companies with market values of more than $500 million in the first half, according to a study released Thursday by Lazard. That's the most since the investment bank started collecting the data in 2013, around when the current wave of activism began. Only 94 companies were the subject of new activist pushes by this time in 2017.

Catching Up on Retirement Savings

When it comes to saving for retirement, conventional wisdom calls for starting early and saving 10% to 15% or so a year. But that can be difficult for parents who are spending on child-rearing while also saving for college.

For parents who have become retirement-savings laggards, new research suggests another route to building a nest egg that says it is acceptable to fall behind on retirement savings during child-raising years as long as there is a plan to catch up after the children leave home.

For many people, "the transition into the empty nest is the key moment for retirement savings," says Michael Kitces, director of wealth management at Pinnacle Advisory Group Inc. in Columbia, Md.

These latecomers in theory can not only dedicate a greater share of their income toward retirement savings, the thinking goes, but they also have less at risk if the market declines, in comparison with those who save early and rely more heavily on compounding for gains.

Tuesday, July 17

10 a.m.

Federal Reserve Chairman Jerome Powell testifies before the Senate Banking Committee.

Mulvaney Is Right to Curb CFPB's Power

The Consumer Financial Protection Bureau is the embodiment of a "fourth branch" of government, "an administrative state of sprawling departments and agencies that govern with increasing autonomy and decreasing transparency," writes Eric Grover for American Banker. Mr. Grover, principal at the consultancy Intrepid Ventures, says CFPB acting chief Mick Mulvaney is making a good start in trying to limit the bureau's independence. "Rolling back an absolutist administrative state to make it the law's servant rather than its overlord is vital for the health of the financial services industry and the country," he writes.

Samsung BioLogics intentionally breached accounting rules, South Korean financial regulators said, triggering a suspension in aftermarket trading of the drugmaker's shares.

Walmart is talking to Capital One about taking over its store credit card, a potential blow to current issuer Synchrony Financial.

China is letting up on its drive to keep a lid on debt growth as it faces a softening economy at home and a trade conflict with the U.S.

Liquidators for Abraaj Group said they have been unable to find key financial statements for the troubled private-equity firm and have identified what they consider unusual borrowing practices involving $1 billion of defaulted debt.

Germany held up the final bailout disbursement for Greece, a move indicative of how difficult it will be for the southern country to regain financial sovereignty even as it exits an eight-year bailout regime in August.

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Document RSTPROFR20180713ee7d00001

WSJ PRO CENTRAL BANKING

Economy

Powell: Keep Gradually Raising Rates | Senate Confirms Quarles | George: More Rate Rises Needed | Financial Regulation Roundup | Timiraos's Take: Powell Pulls Back on Forward Guidance; The Wall Street Journal's central banking newsletter for Wednesday, July 18, 2018

2,056 words
18 July 2018
05:27 AM
WSJ Pro Central Banking
RSTPROCB
English

Timiraos's Take: Powell Pulls Back on Forward Guidance Again With "For Now" Qualification

Powell Says Fed Should Keep Gradually Raising Interest Rates

Senate Confirms Randal Quarles to 14-Year Term on Fed Board

Fed's George: More ‘Gradual' Rate Rises Are Needed

Financial Regulation Roundup

Powell Pulls Back on Forward Guidance Again With "For Now" Qualification

Fed Chairman Jerome Powell has already demonstrated he's ready to cut back on statements revealing the future path of rates. He provided another example of paring such forward guidance with two heavily scrutinized words in his Senate testimony on Tuesday.

In his prepared remarks, Mr. Powell qualified the Fed's expectation that the economy required continued, gradual rate increases by inserting the words "for now," offset by long dashes.

If it feels like the Fed has been raising rates on autopilot—with "gradual" meaning "once every quarter"—adding this "for now" condition to its rate guidance underscores autopilot won't necessarily continue indefinitely.

The phrase shows the Fed is sensitive about not maintaining an ever-upward march that leads policy to tighten more than officials feel may be needed, particularly when they haven't resolved a debate over that path.

The Fed could in the next year reach a neutral policy setting that neither seeks to stimulate nor slow growth. Many Fed officials, including a few who resisted interest rate increases when inflation was soft last year, have indicated a willingness to continue raising rates until they get to neutral.

There isn't clear consensus on where neutral sits. And minutes from the last two Fed policy meetings also suggest the Fed hasn't resolved the question of whether to continue raising rates after they do reach neutral.

Just as the Fed's addition of the word "further" to their policy statement to describe the need for "further gradual increases" signaled greater confidence about the economic outlook, the use of the "for now" phrase suggests greater conditionality.

It allows Mr. Powell to speak more assertively about a shorter time horizon while emphasizing the uncertainty that attends to determining when rates are at neutral and what to do from there.

It also reminds investors the Fed could become more unpredictable if the economic data changes—not a remote possibility as the Trump administration enters a more perilous phase of trade negotiations.

Key Developments Around the World

Powell Says Fed Should Keep Gradually Raising Interest Rates

Federal Reserve Chairman Jerome Powell delivered an upbeat assessment of the economy and said it justified continued interest rate increases. But he opened the door to a potential policy shift and outlined risks if escalating trade tensions result in permanently higher tariffs. Mr. Powell has mostly side-stepped recent questions on trade policy because he says it is outside of the Fed's responsibilities. He offered words of caution Tuesday at a hearing before the Senate Banking Committee. "In general, countries that have remained open to trade, that haven't erected barriers including tariffs, have grown faster. They've had higher incomes, higher productivity," said Mr. Powell. "And countries that have gone in a more protectionist direction have done worse."

WSJ Live Blog Recap of Powell's Testimony

Senate Confirms Randal Quarles to 14-Year Term on Fed Board

The Senate confirmed Randal Quarles to a full term on the Fed's governing board, eliminating uncertainty that has persisted since he took office last fall. Mr. Quarles, a former banking lawyer, is already serving as a Fed governor and as the Fed's vice chairman for supervision, a position that puts him in charge of the Fed's bank regulatory agenda in addition to his monetary-policy responsibilities.

WSJ Pro Transcript: A Conversation With Philadelphia Fed's Harker in Idaho

Philadelphia Fed President Patrick Harker talked about his outlook for inflation and the economy, the possible effects of tariffs, and the potential for an inversion in the bond market's yield curve in a moderated conversation at an event in Victor, Idaho, on Thursday, July 12, 2018. Here is a transcript of the exchange, lightly edited for clarity and length.

Fed's George: More ‘Gradual' Rate Rises Are Needed

Federal Reserve Bank of Kansas City President Esther George said Tuesday more rate rises are needed, and she warned there may be signs of looming stress inside the financial system. "Gradual further increases in our policy rate will be necessary to return policy to a neutral stance, although there is considerable uncertainty about exactly how far or fast we need to go," Ms. George said in the text of a speech prepared for delivery before an event at her bank.

Bernanke: Economic Outlook Is ‘Quite Strong'

Former Fed Chairman Ben Bernanke remains upbeat about the economy's outlook and isn't particularly alarmed by recent bond market developments some investors see as hinting at trouble down the road. "Everything we see about the near term outlook for the economy is quite strong," he told reporters in New York in a roundtable interview with Tim Geithner, a former New York Fed chief and Obama administration Treasury secretary, and Hank Paulson, a former Goldman Sachs banker and Bush administration Treasury secretary. The three men met with reporters to take a look back at the financial crisis at a meeting at the Council on Foreign Relations.

Bank Indonesia Expected to Keep Interest Rate Unchanged

Bank Indonesia is expected to keep its interest rate unchanged on Thursday, after the three recent rate rises have increased inflows, especially to the government's rupiah bonds. All of the 10 economists polled by The Wall Street Journal expect the central bank to keep the benchmark 7-day reverse repo rate unchanged at 5.25%, after a total 100-basis point rate increase in three moves since May 17.

FINANCIAL REGULATION ROUNDUP

Goldman Sachs Names David Solomon to Succeed Lloyd Blankfein as Chairman, CEO

Goldman Sachs Group said veteran investment banker David Solomonwould succeedLloyd Blankfein as chief executive, setting up a high-profile transition for a firm that is expanding well beyond its Wall Street roots. Mr. Solomon will take over Oct. 1 from Mr. Blankfein, who has run Goldman since 2006. Mr. Blankfein will remain chairman of the board until the end of the year, when Mr. Solomon will take that title as well. The announcement puts an end to a waiting game that had captivated Wall Street for months.

Goldman Sachs Is Secretive and Hidebound. Its New Chief Wants to Change That

Lloyd Blankfein secured the survival of Goldman Sachs by leading it through the financial crisis. The challenge for its next leader: how to thrive in a radically altered postcrisis world. Goldman's selection of David Solomon as its next chief executive puts a symbolic cap on the bank's postcrisis era and will fuel the firm's continued evolution from a secretive trading powerhouse into a more nimble and entrepreneurial place.

Heard on the Street: Blankfein's Vindication and His Uncertain Legacy

New JOBS Bill Is Set for House Passage

The House on Tuesday overwhelmingly approved a package of deregulatory measures aimed at making it easier for smaller companies to raise money in public markets. The legislation, which passed the House on a 406-4 vote, is the latest installment of provisions designed to boost the number of companies that turn to **financial markets** for capital. The Securities and Exchange Commission is working on many of the measures in the bill.

GE Still Wrestles With a Big Problem

General Electric Co. has assured investors that its long-awaited reorganization sets the company on a path to recovery, but some on Wall Street still worry its biggest problem, GE Capital, will continue to get in the way. GE Capital wasn't central to the plans Chief Executive John Flannery unveiled last month to restructure the company around its power and aviation businesses. The lending unit, which once financed things including oil-drilling ships and overseas car loans, previously accounted for as much as half of GE's profit and helped fund its dividend. Then the financial crisis hit, and GE Capital nearly sank the entire company. Former CEO Jeff Immelt sold most of the assets late in his career, but some of the less-desired pieces continue to be a drag.

Compliance-Focused Firms Draw Investor Dollars

Recent investments in companies that deal with financial crime and compliance have put these firms on the radar of venture capitalists and private-equity funds, especially as they offer savvier ways to streamline compliance for banks and financial institutions. Following years of big fines for money laundering and other compliance failures, banks bulked up on compliance staff, hiring thousands of employees, in some cases, to sift through transactions and monitor for suspicious activity. That manpower has become a cost burden for banks, observers say, especially as fines decline and a cultural understanding of compliance improves. Banks are looking to explore technological alternatives and analytical research that can augment the surge in human activity.

Wednesday

10 a.m. EDT

Fed's Powell testifies before U.S. House Financial Services Committee in Washington

2 p.m. EDT

U.S. Federal Reserve releases beige book report on U.S. economic conditions

Thursday

Time N/A

Bank Indonesia releases policy statement

Time N/A

South African Reserve Bank releases policy statement

9 a.m. EDT

Fed's Quarles speaks

Tax Reform's Impact on Bank and Corporate Cyclicality

A Liberty Street Economics post by Diego Aragon, Anna Kovner, Vanesa Sanchez and Peter Van Tassel explore how the impact of the Tax Cuts and Jobs Act impacts bank and corporate borrower cyclicality. The researchers find that "in the short run, if corporate leverage does not change, the new tax code will tend to make bank capital and nonbank defaults more cyclical, particularly in a severe downturn. In the long-run, the increased cyclicality could be mitigated by deleveraging if firms respond to the lower corporate tax rate, new limits on net interest expense deductibility, and heightened cyclicality of after-tax cash flows, which potentially increase the probability of distress."

The Working Poor Need Help. Keep the Expansion Alive.

"The late stages of expansions may be the only time when the business cycle really works to the advantage of the country's poorest and most vulnerable workers," writes Noah Smith for Bloomberg Opinion. "Keeping the party going might go against central bankers' instincts, but failing to do so could exacerbate inequality and deny low-paid workers the chance to escape poverty. The Fed shouldn't worry too much about inflation, which at this point remains tame, and should try to prolong this expansion as long as possible."

Don't Expect the Fed to Pause for a Trade Fight

"The Federal Reserve will keep raising interest rates until it thinks it has a reason to stop. The danger for investors is that they believe that the Fed will be stopped by rising trade tensions when its focus is elsewhere," contends Justin Lahart in The Wall Street Journal. "Investors hoping for a Fed bailout could argue that if trade does become a real problem for the economy, the **stock market** would likely tumble and put a nervous Fed on hold. But with stock prices still looking richly valued, the drop would probably have to be fairly steep before the central bank changes its plans—a mere 10% wouldn't cut it. By the time Fed gets worried about trade, investors could be downright alarmed."

U.S. industrial production rose solidly in June, a sign of strength in the economy powered by gains in the mining and manufacturing sectors.

White House economists have identified a potential stumbling block to maintaining the U.S. economy's momentum: a lack of well-trained workers.

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

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Document RSTPROCB20180718ee7i0008d

THE WALL STREET JOURNAL.

Markets

Emerging Markets Fight Back to Bolster Currencies; Some emerging-market central banks started dipping into roughly $6 trillion reserve stash in June reversal

By Chelsey Dulaney
891 words
9 July 2018
11:38 AM
The Wall Street Journal Online
WSJO
English

Emerging-market central banks are tapping a roughly $6 trillion stash of foreign-exchange reserves as they struggle to contain deepening currency declines.

Policymakers across the developing world built up foreign reserve buffers over the past year, capitalizing on investor interest in higher-yielding emerging market assets as global growth remained sanguine. In the first five months of 2018, the central banks added $114 billion to their reserves, the fastest pace of accumulation since 2014, according to data released this past week by the Institute of International Finance.

That's beginning to reverse as emerging markets face a stronger U.S. dollar and escalating trade tensions that have pummeled their currencies, stocks and bonds. Emerging-market central banks used roughly $57 billion in foreign reserves in June, which would rank as the largest monthly intervention since late 2016, according to preliminary forecasts from research firm Exante Data.

Reserves are just one tool central banks use to influence exchange rates, and analysts say it isn't always the most effective one. Policymakers can also adjust government borrowing costs--tightening or loosening the flow of money throughout the financial system--and enact regulations that keep money from leaving the country.

Still, the reserve stockpile--which remains near the highest level since 2015--suggests that emerging markets are better positioned to handle the market **volatility** that has accompanied the rising dollar since mid-April. In the past, emerging market economies short on foreign reserves have struggled to service dollar-denominated debts and contain inflation with a weakened currency.

A basket of emerging-market currencies tracked by MSCI Inc. has fallen 3% this year, pressured by the resurgent dollar, higher U.S. interest rates and trade tensions. The currencies of Argentina, Turkey and China have been hit especially hard, spurring those countries' policymakers into action.

After one of the yuan's worst months on record in June, China's central bank is facing pressure to revive the kind of interventions that helped it stem a decline in the yuan in 2015 and 2016.

In recent weeks, the People's Bank of China has pledged to keep the exchange rate stable while at least one state-owned bank has bought yuan to help support the currency, The Wall Street Journal reported. Those moves helped stabilize the yuan; it slipped 0.3% last week against the dollar after a 3.2% loss in June.

China's reserve stash played a key part in arresting a decline in the yuan after the central bank devalued the currency in 2015, economists say. Beijing blew through nearly $1 trillion in reserves while it also tightened capital controls to keep citizens and companies from taking money out of the country.

China doesn't appear to be dipping into its foreign-exchange reserves just yet. Data released Monday showed the country's foreign-exchange reserves ticked up to $3.11 trillion in June, a sign that the central bank did little last month to resist the yuan's decline, according to Pantheon Macroeconomics.

"China has more reserves than anyone in the world," said Joseph Gagnon,a senior fellow at the Peterson Institute for International Economics. "The question is, what do they want?"

Other central banks have also been using foreign exchange reserves to help stabilize markets. Brazil has spent nearly $44 billion on market intervention this year, according to data from Exante. India has spent around $17 billion.

Benn Steil, a senior fellow at Council on Foreign Relations, said that the impact of those sales is often short-lived.

"Each central bank could sell dollars for local currency to push their currencies up, but only to the extent that they have sufficient dollar reserves, said Mr. Steil.

Brazil's currency, the real, was down nearly 14% on the year through Friday, while the Indian rupee was down 7.1%.

Argentina has proved an extreme example in the limits of currency reserves, which can also be used to cover the costs of things like debt repayment and imports. Argentina blew through more than $10 billion in reserves in April and May, according to IIF, in a largely unsuccessful attempt to stop a plunge in the peso.

Facing dwindling reserves and upcoming payments on dollar debt, the country in June secured a $50 billion credit line from the International Monetary Fund. The peso has recovered nearly 4% this month but remains down 34% for the year.

Whether central banks will continue to deplete their currency reserves depends in part on the path of the U.S. dollar. The greenback rose 5% against a basket of peers tracked by The Wall Street Journal in the second quarter, its first gain in more than a year.

But some analysts believe the dollar's rally could soon unravel if U.S. growth slows and trade uncertainties deter some investors from U.S. markets.

"A lot of this will depend on how emerging-market central banks view the trajectory for the dollar," said Sonja Gibbs, a senior director of global capital markets at IIF. "If you believe the dollar's recent strength is temporary, you may try to ride it out."

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Document WSJO000020180709ee790015p

THE WALL STREET JOURNAL.

Economy

Global Week Ahead: U.S., Japan and Brazil Policy Meetings; U.S. to receive figures on personal income and jobs

By WSJ Staff
506 words
29 July 2018
01:00 PM
The Wall Street Journal Online
WSJO
English

In the week ahead, central banks including the U.S. Federal Reserve, Bank of Japan and Brazil's central bank will hold policy meetings. On the data front, the eurozone will see second-quarter gross-domestic product figures, while the U.S. will receive figures on personal income and jobs.

TUESDAY: The Bank of Japan concludes its regular policy meeting. Policy-board members may consider ways of giving more flexibility to the BOJ's policy of fixing the yield on the 10-year government bond at zero. After nearly two years of stasis, market watchers are watching whether the BOJ backs away from its monetary-easing policy.

The eurozone economy slowed at the start of 2018, and gross domestic product figures for the second quarter aren't expected to record a rebound. At around 1.6%, growth is expected to be well below the 4.1% recorded by the U.S. during the three months through June, ending a period in which the two or growing at similar speeds.

The U.S. Federal Reserve begins a two-day policy meeting in Washington. The Fed is widely expected to leave its benchmark rate unchanged at its policy meeting and then increase it in September by a quarter-percentage-point to a range between 2% and 2.25%. Central bank officials have raised rates twice this year, and penciled in two further increases this year and three in 2019.

The U.S. Commerce Department releases the June report on personal income and spending. In May, personal-consumption expenditures increased a seasonally adjusted 0.2% from the prior month, while personal income rose 0.4% in May. Economists will also parse the report for signs of continued strengthening in inflation. May's data shows the price index for personal-consumption expenditures, the Federal Reserve's preferred inflation measure, was up 2.3% from a year earlier, exceeding the central bank's 2% target. Economists surveyed by The Wall Street Journal expect personal income rose 0.3% in June, while consumer spending was up 0.4%.

WEDNESDAY: Brazil's central bank is widely expected to keep rates steady at a historic low of 6.5% on Wednesday. Currency-market **volatility** and domestic political turmoil raised speculation that a rate increase was coming, but those fears abated recently as inflation remained within target. The bank also will release June's budget data on Monday.

FRIDAY: The U.S. Labor Department releases the July jobs report. In June, the economy added 213,000 jobs, while hundreds of thousands of Americans started looking for jobs, helping push the unemployment rate up to 4.0%. Economists will watch to see whether average monthly job gains this year continue to outpace the last two years. Economists surveyed by The Wall Street Journal forecast employers added 188,000 to nonfarm payrolls in July, while the unemployment rate ticked down to 3.9%.

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THE WALL STREET JOURNAL.
U.S. EDITION

Trade Fears Crunch U.S. Grain Prices

By Benjamin Parkin
787 words
20 July 2018
The Wall Street Journal
J
B11
English

Gluts of corn, wheat and other crops are finally easing after years of oversupply, but prices have yet to meaningfully rebound.

The enormous stocks of agricultural commodities that piled up around the world in recent years are due to start falling, the U.S. Department of Agriculture said. A combination of robust demand for grain to feed to livestock and droughts from Kansas to the Black Sea region have helped chip away at record oversupply.

That has done little to bolster prices, however, leaving some analysts scratching their heads. Hedge funds and other investors instead have focused on the prospect that tariffs on U.S. agricultural goods levied by China, Mexico and others could kill demand, erode market share and leave American farmers sitting on even larger surpluses.

Corn futures at the Chicago Board of Trade have fallen 15% from a late May peak. They traded last week at the lowest point in almost a year. Prices for wheat are down around 10% over a similar period and cotton has slid 7% from mid-June.

"It's a new situation for everyone," said Craig Turner, a senior broker at Daniels Trading in Chicago. "When you see that kind of uncertainty and there's no playbook, everything gets sold eight ways to Sunday."

Nowhere is this pessimism more evident than in the corn market, with hedge funds and other speculators betting that prices are headed lower. They have built a net short position of more than 100,000 futures and options contracts, data from the Commodity Futures Trading Commission show. It is a shift from June when they held a net long position of a similar size.

Yet the USDA projects corn stocks falling so far next year that some analysts say another weather issue could spark tight supplies around the world, which could cause prices to jump. The agency's most recent estimates put global corn stocks at the end of the 2018-19 crop year at 152 million metric tons, down over 20% from the same time a year earlier. Supplies of corn sitting in domestic grain bins are expected to fall by almost one-quarter over the same period.

"We've been lulled into complacency because we've produced large crops," said Dan Hueber, general manager of advisory firm The Hueber Report. "They just assume that supply is always going to be there."

Traders of wheat and cotton are facing a similar situation: The USDA's latest figures show a 5% reduction in the global wheat surplus in 2018-19 from a year earlier, with international cotton stocks due to fall over 8%. Producers of both crops have been hit by a series of weather issues this year, with growers in the southern Plains struggling through months of drought and cotton farmers in China's key cotton-producing region of Xinjiang toiling through bad weather.

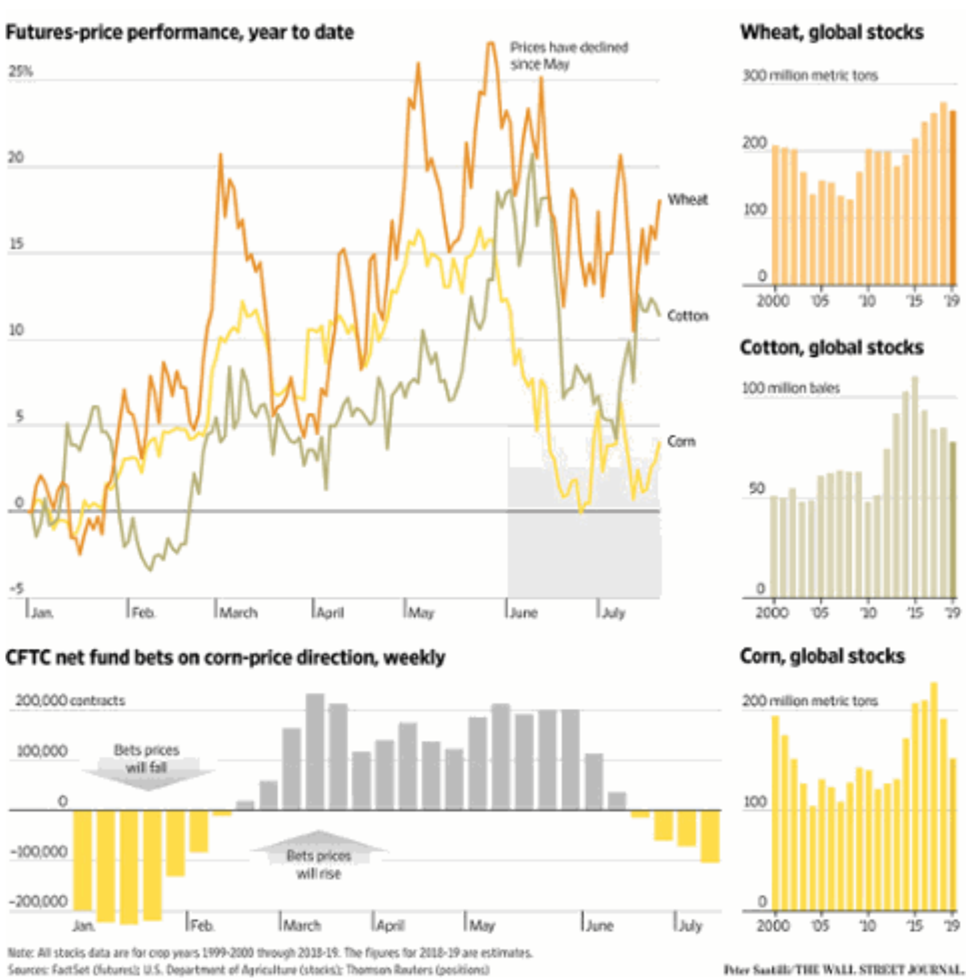
Many of these crops are in the crosshairs of governments around the world looking to retaliate against U.S. duties on steel, aluminum and other products. China this month introduced tariffs on U.S. soybeans, corn, wheat and cotton. Mexico, one of the largest buyers of American grain, is already levying duties on U.S. goods including pork and cheese, and many expect corn could follow if there's any new escalation.

Gluts of agricultural commodities, sparked in part by the rise of major crop exporters like Brazil and Russia, damped investor demand and quashed **volatility**. Many had already started to bet earlier this year that situation was correcting, before tension over trade ramped up.

"It has frustrated analysts because things had been looking better," said Michael McDougall, senior vice president at ED&F Man Capital Markets. "After the trade talk came out, I don't think people perhaps believed it would continue as it has."

Analysts say traders are taking their cues from soybean prices, which fell to near 10-year lows this month. China is the largest buyer of American oilseed. The duties of 25% already have the country's grain merchants buying more soybeans from Brazil, but the agency says higher costs will force some to cut back on oilseed consumption. Chinese imports are expected to fall as a result, pushing up domestic and global supplies next year.

Prices in a number of agricultural markets have started to turn higher this week, which some say is helped by the recent lull in heated rhetoric on trade out of Washington, Beijing and Mexico City. Traders say they may nevertheless struggle to continue putting their money behind the improving long-term outlook as long as the uncertainty around export flows remains.



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THE WALL STREET JOURNAL.

Markets

Amid Trade Tensions, Gold Loses Its Shine as a Haven; Precious metal mainly influenced by U.S. interest rates and the dollar

By Ben St. Clair
669 words
6 July 2018
08:41 AM
The Wall Street Journal Online
WSJO
English

As some investors look for safety, one haven is being ignored—gold.

The precious metal has historically been used as a safe place to invest in times of economic and political stress. But even as investors fret about the prospect of trade war, gold has fallen by nearly 4% this year. In the past month, over $2.1 billion has flowed out of the five largest exchange-traded funds that track the precious metal, according to FactSet data.

That confirms what some analysts have been saying for a while. Gold isn't the haven it once was. In recent years, its price has been mainly influenced by U.S. interest rates and the dollar.

As both rise, gold becomes less attractive. Meanwhile, physical demand from China and India that can buoy gold prices has faded.

On Friday, the U.S. and China imposed tariffs on $34 billion worth of each other's imports. Analysts have warned that a trade war could knock the global economy. Political uncertainty also remains in European countries, such as Germany, Italy and the U.K.

"You would have thought that trade tensions would be a positive for gold, and we would have seen more safe-haven buying," said Caroline Bain, chief commodities economist at Capital Economics. "To be honest it's been quite a surprise."

Gold was trading down 0.3% at $1,255.55 a troy ounce in London trade on Friday, near six month lows.

It wasn't always this way in times of stress. In 1980, prices jumped more than 60% after the Soviet Union invaded Afghanistan and as Iran's Islamic revolution played out. From October 2008 to September 2011 gold prices shot up 150% amid a global recession and concern central bank actions would increase inflation.

But rising U.S. interest rates and subsequent dollar appreciation have made gold less attractive. Since gold is priced in dollars, the metal is more expensive to other currency holders as the greenback rises. The WSJ Dollar Index, which measures the currency against a basket of 16 others, has risen over 4% in the last three months. Higher U.S. rates makes gold less competitive against assets that offer a yield, such as Treasurys.

"The dollar has just been phenomenal in the past month or so, and I think what it really reflects is everything that gold hasn't achieved this year," said Oliver Nugent, a commodities strategist at ING.

To be sure, current uncertainty—which has increased **volatility** in stocks—hasn't provided a blanket boost for all traditional havens. But investors say it has been a factor in the continued strength of government bonds and the dollar.

Gold's own role as a haven has been waning for some time. Analysts note that Russia's annexation of Crimea and turmoil in Syria failed to really move gold prices, while concerns over North Korea's nuclear arsenal and uncertainty about Britain's Brexit vote offered only a temporary boost.

Two academics who studied gold's role as a haven found that investors who hold the metal more than 15 trading days after an extreme negative shock lose money from that investment.

"In the longer run, gold isn't a haven," said Dirk Baur of Dublin City University and Brian Lucey of Trinity College Dublin, in the 2010 research paper.

The recent price drop has also yet to trigger a buying rush in India and China, two of the largest consumers.

Stronger Indian and Chinese demand could typically be expected to stem gold's slide. Gold bullion sellers and jewelers seemed unsure why, but some predicted further price falls could bring bargain hunters in.

"I've given up trying to predict the gold price," said Ben Davis, a mining equity analyst at Liberum Capital Limited.

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Document WSJO000020180706ee76002pa

THE WALL STREET JOURNAL.

Markets

Chinese Yuan Rebounds; China's central bank earlier guided the currency to its largest one-day drop against the dollar in 18 months

By Saumya Vaishampayan and Chelsey Dulaney
531 words
12 July 2018
06:28 PM
The Wall Street Journal Online
WSJO
English

The Chinese yuan rallied against the dollar Thursday, but investors remain on edge over recent moves by the country's central bank to guide the yuan lower amid an intensifying trade fight with the U.S.

The Chinese currency rose 0.5% against the dollar in offshore markets during Thursday's U.S. trading session, extending a rebound that began in Asian trading. That came after the People's Bank of China guided the yuan down by 0.7% at its daily fixing, the largest-one-day decline in 18 months.

Onshore, where the currency is allowed to trade as much as 2% above or below the daily fixing, the yuan in late trading was little changed against the dollar.

The yuan has declined more than 2% against the dollar in 2018, retracing gains made early in the year. It has also reversed its annual advance against a basket of currencies weighted by trade volumes, according to a gauge published by Wind Info.

A weaker currency would make China's exports cheaper and could help cushion the impact of U.S. tariffs on China's economy, which has already been slowing. On Tuesday, the U.S. said it would impose 10% tariffs on $200 billion in Chinese products, less than a week after the countries placed tariffs on $34 billion of each other's goods.

Still, a currency depreciation would be risky for China. In 2015, an unexpected devaluation in China's yuan sparked capital flight as Chinese companies, citizens and investors sought to escape further declines. Allowing the yuan to weaken too fast could revive those outflows, adding further downward pressure on the currency that economists warn could become difficult for Beijing to manage.

Volatility in China's markets has also proved destabilizing to global markets in recent years because of the country's outsize role in the global economy. Many U.S. companies have large businesses in China, and weakening growth there has sometimes weighed on revenue of companies such as Caterpillar Inc.

China also is one of the largest users of commodities such as coal and iron ore; softer demand for those products has rattled those markets and the economies of the countries that export them.

So far, analysts see few signs that China is aiming for a currency devaluation.

In addition to the trade-related worries that have driven investors to dump the yuan, monetary policy is also weighing the currency down. While China's central bank could cut interest rates or free up banks to lend more in coming months, the U.S. is expected to keep raising interest rates.

"This is very different from 2015, when it was the PBOC who initiated the move," said Eddie Cheung, Asia currency strategist at Standard Chartered Bank, referring to a previous devaluation. "This time around, it's driven by the market," Mr. Cheung said. "The PBOC has been leaning against all of this."

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Document WSJO000020180712ee7c000rt

THE WALL STREET JOURNAL.

Economy

As the Fed Moves Rates Higher, the ECB Charts Its Own Course; While the Fed prepares further interest rate moves, the ECB has signaled that it won't raise rates at least through next summer

By Tom Fairless
696 words
24 July 2018
07:35 AM
The Wall Street Journal Online
WSJO
English

FRANKFURT—The European Central Bank is expected to signal its intention to keep its key interest rate below zero for at least another year on Thursday, underscoring a widening gap with the Federal Reserve which is moving steadily toward higher interest rates.

The divergence between the world's top two central banks, reflecting a division in economic fortunes, received renewed attention last week after President Donald Trump said on CNBC that he wasn't happy with the Fed's recent decisions because every time the economy strengthens "they want to raise rates again." He also chided officials in China and Europe for weakening their currencies.

The euro has fallen to $1.17 from as high as $1.25 earlier this year after the ECB signaled increases from the current minus 0.4% policy rate were off the table for now, helping to support the region's export-focused companies. In contrast, the Fed's key rate is at a 1.75% to 2% range and is expected to rise further this year.

Still, even if Mr. Trump's comments have some rooting in recent market trends, many central bankers see such political interventions as a dangerous encroachment on their independence.

Jean-Claude Trichet, the former president of the ECB, rebuked Mr. Trump in an interview for his Fed critique.

"I strongly hope that all executive branches will respect this independence, including in the U.S., where putting into question the remarkable credibility of the Federal Reserve could be devastating," said Mr. Trichet, a 75-year-old Frenchman sometimes known as "Mr. Euro" for devoting much of his career to building the common currency.

Central bankers argue that their independence from politicians, secured in recent decades, gives investors greater confidence that officials will make unpopular decisions in the best interest of the economy, such as raising rates to keep inflation in check.

Foreign-exchange and bond markets swooned last week following Mr. Trump's comments, which marked a departure from a convention under which governments have refrained from speaking about monetary policy.

While the Fed has signaled it will raise interest rates four times this year to keep pace with a U.S. economy currently growing at an annualized pace of 4.5%, the ECB signaled last month that it won't raise rates at least through next summer. That helped cushion any impact in **financial markets** from the bank's decision to phase out its €2.5 trillion ($2.9 trillion) bond-buying program, known as quantitative easing or QE, later this year. But some analysts questioned this interest-rate guidance given that eurozone inflation, at 2% in June, is slightly above the ECB's medium-term target.

The minutes of the ECB's last policy meeting on June 13-14 show that, even as they decided to end QE, officials worried about signs of an economic slowdown and headwinds from trade tensions and fractious **financial markets**. A decline in an index of European purchasing managers in July, reported Tuesday, confirmed this softening trend.

ECB officials are expected to underscore a message of caution after a policy meeting on Thursday. President Mario Draghi is likely to face questions at a news conference about the threat of trade and currency wars.

Ironically, one reason for the euro's recent weakness is precisely Mr. Trump's rhetoric, specifically his threat of tariffs on European goods, says Dirk Schumacher, an economist with French bank Natixis in Frankfurt.

"Of course the ECB's monetary policy does impact the exchange rate. But did the ECB purposefully act to weaken euro? I don't think so," Mr. Schumacher said. "It's now clearly moving in the other direction by ending its bond-buying program."

Write to Tom Fairless at tom.fairless@wsj.com

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THE WALL STREET JOURNAL.

Business

Are Credit-Default Swaps a Cardinal Sin? The CFTC chairman tangles with the Vatican over Pope Francis's criticism of the derivatives product

By Gabriel T. Rubin
766 words
21 July 2018
08:02 AM
The Wall Street Journal Online
WSJO
English

WASHINGTON—Can a good Catholic trade credit-default swaps?

A top U.S. markets regulator and the Catholic Church are debating the issue, after a May treatise from the Vatican criticized derivatives—specifically credit-default swaps—as a kind of "economic cannibalism" that leads to profit from the misfortune of others.

J. Christopher Giancarlo, a devout Roman Catholic and chairman of the Commodity Futures Trading Commission—which oversees derivatives and most swaps products—took issue with the church's position. With the help of his (non-Catholic) chief economist and his hometown priest, Mr. Giancarlo drafted a lengthy rebuttal.

"We write to you as finance professionals striving to lead moral lives," he and CFTC chief economist Bruce Tuckman wrote in a nine-page July 19 letter. "We also feel obligated to respond and defend derivatives and, in particular, credit default swaps, from various censures" in the May document, they added.

The missive was addressed to the two Vatican departments that crafted the document calling derivatives a "ticking time bomb ready sooner or later to explode."

Credit-default swaps act like insurance against bond defaults. The products are used by financial institutions and investors to protect their investments from losses or to make bets on the perceived risk of companies, countries and mortgage debt. Use of products by financial firms to guarantee risky mortgage investments made the agreements a big factor in the 2008 financial crisis.

Messrs. Giancarlo and Tuckman, in the letter, argued for the social utility of derivatives, saying that rather than preying on the vulnerable, derivatives are actually a boon for "the world's poorest farming communities."

The two backed up their rebuttal of the Vatican with detailed descriptions of how, for example, derivatives can help stem boom-and-bust cycles in Madagascar's vanilla-crop prices.

They also included nods to the rhetoric of Pope Francis, including a discussion of how agricultural derivatives help feed the billions of people who live on the global "periphery," a top priority of Francis's tenure.

Pope Francis's tenure has been marked by several Vatican documents critical of capitalism, including his first apostolic exhortation in 2013, which denounced the "idolatry of money" and "trickle-down" economics.

The Vatican didn't respond to a request for comment.

Popes have been writing and speaking publicly about the morality of capitalism since at least 1891, with Pope Leo XIII, said Father Stephen Fichter, Mr. Giancarlo's priest at St. Elizabeth's in Wykoff, N.J., and a sociologist at Georgetown University.

"Jesus didn't talk about derivatives and swaps. This is a 2,000-year-old institution trying to be faithful to the teachings of Christ, and applying it to the modern-day situation," Father Fichter said.

The disagreement over credit-default swaps isn't likely to be settled by a discussion of agricultural derivatives, which make up only around 10% of U.S. derivatives markets. One such area is the use of derivatives for speculative purposes, which the Vatican criticized as betting on the misfortune of others.

"The growth of a finance of chance, and of gambling on the failure of others... is unacceptable from the ethical point of view," the Vatican said in the teaching document, which was personally approved by the pope. It also suggested that greater regulation of the world's **financial markets** was necessary to contain "predatory and speculative" practices and economic inequality.

"Debate about the role of speculation is likely as old as markets themselves and will not be resolved here," Messrs. Giancarlo and Tuckman write, though they note that "profiting from the misfortune of others" isn't unique to credit-default swaps. They compared the product to "unobjectionable" corners of the **financial markets**, such as annuities, where an insurance company makes a greater profit if a customer dies sooner rather than later.

The debate between derivatives advocates like Mr. Giancarlo and skeptics in the Church is likely to continue. Mr. Giancarlo offered to visit Rome during one of his frequent trips to Europe for regulatory meetings to discuss the issue face-to-face.

The Church also is likely to continue making pronouncements about the morality of various vagaries of modern finance that even recent popes couldn't possibly have fathomed, Father Fichter said.

"I'm sure eventually they'll make a statement about bitcoin," he added.

Write to Gabriel T. Rubin at gabriel.rubin@wsj.com

Read the Letter

* Letter from CFTC chairman to Vatican

Document WSJO000020180721ee7l000dx

THE WALL STREET JOURNAL.

Page One
What's News: Business & Finance

241 words
12 July 2018
The Wall Street Journal Online
WSJO
English

The Justice Department is trying to undo AT&T's purchase of Time Warner, appealing the ruling that struck down the government's antitrust challenge.

U.S. inflation hit its highest rate in more than six years, with consumer prices eating away at modest wage gains by American workers.

Powell said a strong economy should keep the Fed's rate plans on track and it was premature to judge how trade actions might alter them.

Delta said it will increase fares and add fewer flights than planned, as airlines face a surge in fuel prices.

Walmart is talking to Capital One about taking over its store credit card, potentially shutting out Synchrony as the retailer's sole issuer.

The SEC is investigating whether Facebook adequately warned investors about lapses involving third-party access to users' data.

U.S. stocks rose, led by surging technology shares. The **Nasdaq** closed at a record and the Dow gained 224.44 points to 24924.89.

Activist investors are launching campaigns to pressure companies at a record pace, even as stock prices make big strides.

The U.K. government said it won't oppose a bid by Fox to consolidate ownership of Sky, as the company battles it out with Comcast.

J&J was ordered by a jury to pay $4.7 billion to 22 women and their families who blamed cancer cases on asbestos in its baby powder.

Document WSJO000020180713ee7c000m9

THE WALL STREET JOURNAL.

Business

Trade Tariffs Could Push Shipping to the Edge; An industry battling higher fuel prices, weak freight rates faces uncertainty of U.S.-China tariff fight

By Costas Paris
815 words
9 July 2018
02:02 PM
The Wall Street Journal Online
WSJO
English

Trade tariffs between the U.S., China and Europe add to the problems confronting the global shipping industry, which was already struggling this year with weak demand and high fuel prices.

Container ships, which move $4 trillion worth of products each year, are suffering from weak freight rates, owing to a glut of boats in the water. Despite consolidation that has left the market dominated by a handful of players, companies have recently issued profit warnings, suspended some sailings and scrapped a planned IPO.

The first round of tariffs kicked off Friday, affecting $34 billion worth of Chinese products, with Beijing saying it will retaliate, slapping similar levies on U.S. imports. The moves mostly apply to engines, medical equipment, semiconductors and other products that account for about 6% of total China-U.S. container-trade capacity, according to the Journal of Commerce.

"Right now it only gets worse for shipping from the escalating trade war," said Peter Sand, chief shipping analyst at BIMCO, an industry group. "A lot of uncertainty is added."

Soybeans, moved by bulk carriers, will be hit. China is the world's biggest importer of soybeans and America's biggest market. Last year the U.S. exported $14 billion worth of soybeans to China, according to the U.S. Department of Agriculture. Brokers in Singapore said U.S. cargoes could dry up, and China is already pumping up soybean imports from Brazil.

Denmark's Maersk Line, the world's biggest shipping company, said the initial round of tariffs is expected to have a small impact on its business, but "a continued escalation could result in severe consequences for global trade."

The National Retail Federation, the biggest retail trade association in the U.S., said in a statement that container volumes at big U.S. ports in May were up 11.6% from April, at 1.82 million boxes, and 4.3% on the year. The NRF expects box numbers to grow every month until November.

"As tariffs begin to hit imported consumer goods…these hidden taxes will mean higher prices for Americans rather than significant changes to international trade." NRF Vice President Jonathan Gold said.

But the tariffs could spell an end to any hopes of recovery in the shipping industry.

Volumes at ports around the world are up this time of year as retailers stock up for the year-end holidays, but ship fuel prices are as much as 50% higher than this time last year and freight rates are down at least 5% over the same period.

The Port of Los Angeles, the nation's biggest gateway, expects the tariffs could affect 15% of all cargo it handles.

Maersk and Mediterranean Shipping Co., which combined control up to 35% of the container market, last month canceled a trans-Pacific route and pulled out six ships.

Germany's Hapag-Lloyd AG, another large boxship operator, issued a profit warning in late June that sent its shares tumbling. GoodBulk, a general cargo operator, recently pulled a $140 million **Nasdaq** IPO, which would have been the first return of a shipping company to the market in three years.

"GoodBulk ship cargoes are not directly affected by the U.S.-China tariffs, but the IPO timing turned out to be bad because everyone realized the Trump tariffs are no joke," said a person involved in the listing. "Nobody wants to be around shipping stocks at this time."

Shipping executives said they are concerned that escalating tariffs could later include crude oil. China is the biggest customer of U.S. crude, buying one-quarter of U.S. exports. In the first 10 months of 2017, total U.S. seaborne crude-oil exports to Asian and European markets were up 150% compared with the same period the year before, according to BIMCO.

"We've got a significant number of megatankers committed to the China-U.S. crude trade on relatively long contracts," a Greek owner who operates about two dozen tankers said. "You can't cancel contracts and find employment for the tankers from a different oil origin overnight."

About 36 very large crude carriers, or VLCCs, have been used this year to move U.S. crude cargoes to China, according to marine-data provider Vessels Value. With nearly all U.S. crude exports to China leaving from the U.S. Gulf, the sailing distance is almost double that of other oil origins such as the Middle East, meaning the cargo is tied up on the ship for longer periods, benefiting tanker owners.

Write to Costas Paris at costas.paris@wsj.com

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THE WALL STREET JOURNAL.

Markets
Supply Crunch Lifts Oil to 3½-Year High; Strikes by oil-and-gas workers in Norway and Gabon compound outages in Libya and Canada

By Sarah McFarlane
482 words
10 July 2018
05:40 PM
The Wall Street Journal Online
WSJO
English

Oil prices climbed toward a 3½ -year high Tuesday, supported by supply issues across several major producing countries.

Light, sweet crude for August delivery rose 0.4% to $74.11 a barrel on the New York Mercantile Exchange, near its highest close since November 2014. Brent, the global benchmark, rose 1% to $78.86.

Strikes by oil-and-gas workers in Norway and Gabon were expected to hit supply, compounding unplanned outages in Libya and Canada, which had already tightened the global market.

Analysts said higher prices indicated investors were losing confidence that rising output from the Organization of the Petroleum Exporting Countries and Russia would be enough to fill the growing gap created by supply problems.

"Prices are holding up well because the increase in output from able OPEC members brought the global supply capacity dangerously lower," said Tamas Varga, analyst at brokerage PVM, adding that further supply issues could lift prices to $100 a barrel.

On Tuesday, Credit Suisse analysts raised their oil forecasts through 2020 on expectations for a tighter market, as Saudi Arabia's spare capacity declines and geopolitical risks threaten supply. The bank raised its 2018 price forecast for U.S. oil prices from $66 to $67.25 a barrel.

Russian and Saudi crude shipments have picked up in recent weeks after OPEC and its allies agreed to pump more oil, having drained global stocks by cutting production since January 2017.

Analysts say the main wild card for the second half of the year is how much Iranian crude is lost from the international market after the U.S. reimposes sanctions in November. European buyers already have cut back purchases sharply.

Iranian exports are expected to fall by 800,000 to 1 million barrels a day from their current level of 2.2 million barrels, said Dubai-based Ehsan Khoman, head of research for the Middle East and North Africa region at MUFG bank.

Buyers including Syria, India, China and Turkey are expected to remain customers, despite the U.S.'s desire to reduce Iran's exports to zero, Mr. Khoman added.

Traders are also looking ahead to government data due Wednesday on the amount of crude in storage. Analysts surveyed by The Wall Street Journal expect on average to see that U.S. oil stockpiles fell by 3.6 million barrels in the week ended July 6.

The American Petroleum Institute, an industry group, said Tuesday its data for last week showed a 6.8-million-barrel decrease in crude supplies.

Gasoline futures rose 0.5% to $2.1603 a gallon and diesel futures gained 1.2% to $2.2218 a gallon.

Stephanie Yang contributed to this article.

Write to Sarah McFarlane at sarah.mcfarlane@wsj.com

Document WSJO000020180710ee7a001rz

THE WALL STREET JOURNAL.

Markets
U.S. Expects China to Buy Even More Iranian Oil After Sanctions; Chinese buying of Iranian crude could blunt impact of U.S. sanctions and weigh on oil prices

By Sarah McFarlane and Benoit Faucon
834 words
17 July 2018
09:17 AM
The Wall Street Journal Online
WSJO
English

There is one big hitch in U.S. plans to stem buying of Iranian oil: China.

Some in Washington now expect that China will vacuum up much of the Iranian oil that other nations won't buy because of the threat of U.S. sanctions, according to a senior U.S. government energy official.

China buying extra Iranian oil could dull the economic impact of those sanctions. It could also bring Iran closer to China at a time of elevated tensions between Washington and Beijing over trade.

In May, President Donald Trumppulled the U.S. out of the 2015 Iran nuclear deal and vowed to reimpose sanctions on Tehran.

Oil prices jumped sharply higher in reaction and if China does take spare Iranian crude that could add to pressure currently pushing crude lower, traders say.

In anticipation of sanctions, foreign oil companies are already exiting Iran and international banks have declined to finance oil trades. While the European Union doesn't back renewed sanctions, countries including Greece and Turkey, are winding down their purchases.

But China, already the largest buyer of Iranian oil, is gearing up to take more, said the senior official. Tehran is currently in negotiations with Chinese companies to ensure that, according to an Iranian oil official involved in those talks.

"We don't have any problem selling our oil" to China, the Iranian official said.

The White House referred calls to the U.S. National Security Council, which didn't respond to emails seeking comment.

China's Foreign Ministry and the country's two biggest oil companies, China National Petroleum Corp. and China Petrochemical Corp., didn't respond to requests for comment. In the past Beijing has decried the U.S.'s resort to unilateral "long-arm" sanctions in international dealings.

Having initially indicated the goal was to reduce Iranian exports to zero, the U.S. government has tempered its expectations.

Last week, U.S. Secretary of State Mike Pompeo said the U.S. would consider Iran sanctions relief for a "handful" of countries. South Korea, India and a handful of other countries had a waiver to buy Iranian oil during the last round of sanctions.

But Washington has also said that it will pursue Chinese companies with U.S. connections if they violate Iran sanctions.

"It is our intent to enforce sanctions on Iran related oil against everybody including China," U.S. Treasury Secretary Steven Mnuchin told the House Financial Services Committee last week.

To be sure, not everybody in the Trump administration believes China will increase Iranian imports, said a former U.S. official briefed by current members of the administration.

Lower demand because of sanctions will make Iranian oil cheap at a time when two of China's other traditional suppliers, Libya and Venezuela, are struggling. China's rising needs could allow it to buy more oil from Iran without moving away from other suppliers, such as Saudi Arabia. The world's No. 2 economy is expected to need an extra 500,000 barrels a day in 2018 and 400,000 barrels a day in 2019, according to the International Energy Agency's latest monthly report.

China has made clear it doesn't support Mr. Trump's resumption of sanctions. It supported the United Nations' 2010 sanctions and reduced its imports of Iranian oil by over a quarter at points.

To get around sanctions, China will likely facilitate purchases through a bank it has historically used for dealing with Iran during previous sanctions, a French official and the senior U.S. official said.

Banks are wary of financing Iranian trade for fear of hurting their access to the dollar. But Bank of Kunlun Co Ltd, a unit of China National Petroleum Corp, has very limited exposure to the global financial system, so is well placed to continue dealing with Iran.

The Central Bank of Iran has accounts at Kunlun into which Chinese buyers have paid the equivalent of billions of dollars for oil, people familiar with the matter said. That money is used by the Iranians to buy Chinese goods.

Kunlun didn't respond to requests for comment.

China sees Iran as pivotal in its effort to extend economic influence through its one belt, one road initiative and is investing heavily in infrastructure such as railroads and roads in the country.

China is already Iran's biggest trading partner.

After Mr. Trump announced plans to reinstate sanctions in May, Iran's Foreign Minister Javad Zarif's first visit was to Beijing.

Write to Sarah McFarlane at sarah.mcfarlane@wsj.com and Benoit Faucon at benoit.faucon@wsj.com

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THE WALL STREET JOURNAL.

Economy

U.S. Hiring Strong in June; Unemployment Rate Rises as More Enter Labor Force; Nonfarm payrolls rise by 213,000; unemployment rate up to 4.0%

By Eric Morath
1,438 words
6 July 2018
05:36 PM
The Wall Street Journal Online
WSJO
English

WASHINGTON—Americans are flocking to the job market as the already robust economy revs up.

Hundreds of thousands of Americans started looking for jobs and employers added 213,000 to their payrolls last month, the Labor Department said Friday. Many of those job seekers were snapped up by employers while some were counted as unemployed while they sought out work, which helped push the jobless rate up to 4.0%, from an 18-year low of 3.8% in May.

Those new entrants to the labor force could provide the raw material needed to support accelerating economic growth nine years after the recession ended.

"It's clear that we're not running out of workers," said Kate Warne, an economist at Edward Jones. "There is additional leeway for job growth to remain strong."

Katie Garrison, 36 years old, is among those finding opportunities. She was out of the labor force for six years while caring for her young children. Last month, two weeks after she started searching, she was hired as a part-time government attorney.

"I was expecting it to be months and months," Ms. Garrison said. "It was actually easier this time to get a job than any of us expected."

New entrants to the labor force—be they parents, recent graduates or those previously frustrated by their prospects—have caused the civilian labor force to grow by an average of about 250,000 workers each month this year. That is the best six-month stretch of Americans entering the labor market in more than two years. In June, the share of American adults working or looking for a job rose by 0.2 percentage point to 62.9%. The gain runs counter to the longer-running trend of an aging population that is less likely to work.

Agreater share of Latino Americans sought jobs last month—and found them. The Latino unemployment rate fell to a record low 4.6%. Labor-force participation also rose in June for women, black people and those with less than a college education. But those additional job seekers caused the unemployment rate to increase for all three groups from historic lows.

Naafee Rone has only a high-school diploma. That left the 23-year old from Baltimore's east side to bounce between short-term jobs, including cleaning airplanes and working fast-food counters. Last year, he left the labor force to receive about five months of job training from NPower, a nonprofit serving young adults. After an internship, he was hired this year as a support analyst at Port Networks. He earns $17.50 an hour, more than he did at those prior gigs, and works in an office tower overlooking the city's Inner Harbor.

"This is amazing," he said. "I have a beautiful view, I work independently, and I have the potential to make more."

Economists expected workers to be in short supply this year and for hiring to slow. So far, the opposite has happened. The pace of hiring has accelerated compared with the average for all of 2017.

Aultman Health Foundation, a hospital operator in Canton, Ohio, has added hundreds to its payroll of 6,600 this year. It is still receiving plenty of applicants for open positions, said Susan Olivera, vice president for human resources. The challenge, especially for nursing applicants, is that many are fresh out of college and lack the needed experience.

To respond, Aultman started "boot camps" in May where nursing students are allowed to work as assistants in critical-care wards so they can gain the necessary background to step into challenging roles more quickly.

"It makes for a much smoother transition," Ms. Olivera said. It also eases recruiting battles. "We want experienced talent, but that's what the other hospitals want as well."

The health-care sector added 25,200 jobs last month. Professional and business services—including engineering services, consulting and temporary help—added 50,000 jobs. Employment in manufacturing grew by 36,000. Employment fell at retailers.

Solid hiring has been a feature of the economy since 2010. U.S. employers have added to payrolls for 93 straight months, extending the longest continuous jobs expansion on record.

What might be different now is the other aspects of the U.S. economy that appear to be picking up steam. Forecasting firm Macroeconomic Advisers lifted its projection for the second-quarter economic growth rate to 4.9% Friday. Barclay's estimates a 5% rate, well above the recent pace of 2% gains.

That view was bolstered by a separate Commerce Department report Friday showing the trade deficit narrowed for the third straight month in May, driven by an increase in exports that will add to U.S. output. Spring data on gross domestic product will be released later this month.

Such high rates of economic growth—stoked by new tax cuts and unusually high soybean exports—may not be sustainable. Still, Macroeconomic Advisers projects the economy will have grown 3.1% at the end of this year from the end of 2017—setting 2018 up to be the best year for growth in more than a decade.

The movement of more workers into the labor force could help to keep the economy from overheating—for example by leading to an upsurge of wages and inflation—and might also keep the Federal Reserve from veering from its plan to raise short-term interest rates only gradually in the months ahead.

But there are risks. Trade-policy gyrations have added a new level of uncertainty to the global economy. In the U.S., rising interest rates could cool purchases of big-ticket items such as homes and cars, and recent accelerating inflation, including higher energy prices, takes a bite out of workers' paychecks.

Wages are rising at a consistent, but unspectacular rate. Average hourly earnings for all private-sector workers increased 5 cents last month to $26.98. Wages rose 2.7% from a year earlier in June. Wages haven't increased at better than a 3% rate from a year earlier since the recession ended in 2009. However, hourly earnings for nonmanagers are rising at the fastest pace in nine years this spring, suggesting the benefits of economic growth are being felt more widely.

There are pockets of labor shortages, and better wage growth.

Ranir LLC, a manufacturer of toothbrushes and other oral-care products, has low turnover among its long-tenured staff, but was struggling to fill entry-level positions in its warehouse and factory floor, said Amy Waters, a human resources executive.

The Grand Rapids, Mich., company recently changed its compensation program, allowing for new hires to receive raises as frequently as every 90 days for the first year and then every six months in their second year. "The employees are really excited about it," Ms. Waters said. "Workers say they're willing to stay with us because they see that growth potential."

The improving labor market is becoming more obvious for some workers—whose phones keep ringing.

After being laid off from a sales job two years ago, Mike Scalise was told by companies that he didn't have enough experience or that there weren't any openings. After three weeks out of work, he took a position, but was frustrated by the low pay.

But in recent months he has been getting pitches from recruiters nearly daily, including from firms that previously passed him over. Two weeks ago, he started as a sales representative at online advertising firm SteelHouse in Culver City, Calif. Mr. Scalise expects to make at least 20% more in commissions and plans to take advantage of company benefits, including $2,000 a year to spend on vacations.

"It's pretty exciting to see things change by leaps and bounds in the past two years," he said. "I definitely feel like I'm in the right spot now."

Sarah Chaney contributed to this article.

Write to Eric Morath at eric.morath@wsj.com

More on the Economy

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THE WALL STREET JOURNAL.

Markets

Indian Shares Set Records; Millions of Indians are pouring money into shares for the first time, and country is comparatively less exposed to changes in U.S. trade policy

By Saumya Vaishampayan and Debiprasad Nayak
574 words
26 July 2018
07:41 AM
The Wall Street Journal Online
WSJO
English

Indian shares have surged to a series of all-time highs this week, fueled by soaring profits and the country's relative isolation from global trade.

The widely followed S&P BSE Sensex rose 0.3% on Thursday to 36984.64, marking its fourth record close in as many days. The index has surged 8.6% in 2018, making it the best-performing major benchmark in the Asia-Pacific region.

Analysts point to several reasons for the rally. For a start, India is booming, even as neighboring China shows signs of slowing, and was the fastest-growing big economy in the first three months of 2018. All else being equal, solid growth bodes well for corporate earnings, and tends to send shares higher.

In fact, per-share earnings for companies in MSCI's India index should rise 28% in 2018, far outpacing the roughly 15% growth for emerging markets in Asia as a whole, said Ben Luk, a global macro strategist at State Street Global Markets. It helps that net profits last year were rather lackluster, especially for financial firms, he said.

In addition, millions of Indians are pouring money into shares for the first time. That has supported stock prices even as overseas buyers, who own roughly a quarter of the market, have grown more cautious. Locals added roughly $800 million in new positions this month, overwhelming the $44 million sold by foreigners.

Unlike rivals in Tokyo and Shanghai, for example, which experienced previous huge rallies, peaking in 1989 and 2007 respectively, it is also comparatively easy for this market to break new ground.

Moreover, India is comparatively less exposed to changes in U.S. trade policy. The U.S. -China spat has rippled through Asia, hurting companies that rely on cross-border trade.

Shares of outsourcers and some banks have driven this year's gains in the Sensex, which has 31 constituents and is dominated by financial companies, which make up roughly 41% of the index's value. Kotak Mahindra Bank and Yes Bank are some of the biggest advancers, gaining more 30% and 17% respectively this year.

The rally in banking shares is partly driven by a new bankruptcy code, which analysts say should help chip away at the bad loans clogging up Indian banks and constraining lending.

Outsourcers Tata Consultancy Services Ltd. and Infosys Ltd. have surged the most, by 46% and 33% respectively for the year. Investors had worried about tighter rules on wages for foreign workers in the U.S. lifting their costs, but the stocks have risen as those fears have receded.

It could be difficult for the rally to go much further. Many analysts say valuation multiples already look rich: the Sensex trades at more than 19 times expected earnings for the next 12 months, higher than its 10-year average of less than 16 times, according to FactSet.

Suresh Tantia, investment strategist at Credit Suisse in Singapore, said stock investors appeared to assume India would grow 8% a year. "When you look at the **equity market**, the kind of optimism [investors] are pricing in…is just too high," he said.

Write to Saumya Vaishampayan at saumya.vaishampayan@wsj.com and Debiprasad Nayak at debi.nayak@wsj.com

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THE WALL STREET JOURNAL.

Opinion
So Much Trade Losing; The tariff shooting begins with China, and where's the deal-making?

By The Editorial Board
923 words
6 July 2018
06:38 PM
The Wall Street Journal Online
WSJO
English

The shooting has begun in the U.S.-China trade war, and let's hope it's not Fort Sumter. The South figured the Civil War would last a few weeks, but things happened. That's the nature of trade wars as well, and while no one is likely to win this confrontation, both sides could certainly lose.

Early Friday the U.S. followed through on President Trump's threats by imposing tariffs of 25% on $34 billion of Chinese imports, and Beijing retaliated on an equal value of U.S. goods. Those amounts are too small to tank either economy, but trade talks have stalled, meaning more tariffs could come as soon as next month.

The damage is already serious for American soybean farmers whose biggest customer is China. They now face a 28% tariff while competitors in Brazil and elsewhere pay no duty. The cash price for U.S. soybeans recently fell to its lowest level in about a decade. Producers of beef, pork, chicken and seafood will also take a hit. U.S. automakers, which will now pay a 40% tariff after it had recently fallen to 15%, will lose sales of highly profitable SUVs that are increasingly popular with Chinese consumers.

Meanwhile, American consumers will pay more for cars and health care due to U.S. tariffs on Chinese-made auto parts and medical instruments. Other prices will rise as companies rearrange supply chains to avoid disruption from future tariffs. For example, world-leading semiconductor companies are upset that chips made in the U.S. and sent to China for assembly or testing will face a high tariff on their total value when they return. Some firms may cut China out of their supply chain, but in other cases it will make economic sense to move U.S. production overseas.

Mr. Trump says this pain is necessary to force China to change its trade behavior. That may be his goal, but it isn't clear what he or his trade advisers want from Beijing. Some U.S. officials fixate on the $375 billion bilateral trade deficit, and early on Beijing offered to buy more American goods. But Mr. Trump rejected that offer, without offering an alternative.

Other U.S. officials justify the tariffs as leverage to force China to change its Made in China 2025 industrial policy that includes forcing American companies to transfer intellectual property. But talks broke down as the Trump cabinet bickered, and the U.S. isn't offering a clear set of demands.

China is guilty of abusing the trading system, including the use of nontariff barriers and arbitrary enforcement to put foreign companies at a disadvantage. Working out a new trading arrangement that stopped this misbehavior would be constructive. But to succeed the U.S. would need a united front with allies and trading partners to press China to obey World Trade Organization rules, or establish some new ones.

Instead the Trump Administration is picking tariff brawls at the same time with Europe, Japan, Canada and Mexico, and it is also attacking global trade rules. Far from being isolated, Beijing is trying to form an alliance with the European Union to punish Washington's misbehavior. On trade at least, America First may soon mean America alone.

Mr. Trump also insists that the U.S. can weather this fight better than China can, and if the damage is so great why is the **stock market** not falling? One answer is that the U.S. economy has significant momentum from tax reform and deregulation. The other is that the tariffs have only begun, and the new costs will take time to affect investment.

But anecdotal evidence is growing of tariff-related investment delays and layoffs. The U.S. Chamber of Commerce this week released state-by-state data of the damage coming from tariffs, and 17 of the 20 worst hit states voted for Mr. Trump in 2016. This isn't the "winning" those voters had in mind.

As for China, the Shanghai **stock market**'s 23% decline since January lends credence to the view that the economy is dependent on exports. Analysts estimate China's economic growth slowed slightly to 6.7% in the second quarter and manufacturers struggled with slow export orders. But China's market headwinds are largely of the government's own making. The central bank has cracked down on banks making risky loans, which has dried up credit. Chinese leaders are sacrificing some growth for a healthier financial system.

China is also much less dependent on trade than it used to be. Exports as a percentage of GDP declined to 18.5% in 2017 from 36% in 2007. Beijing has cultivated trade with developing countries to reduce dependence on the U.S. and European markets. So while a trade war with the U.S. will do some damage, Beijing is not as vulnerable as many think.

The best way out of this showdown is for the two sides to call a truce and negotiate a new trade understanding. Yet neither Donald Trump nor Xi Jinping wants to look like the one standing down, so escalation is more likely than retreat. As the tariff casualties mount, even many Trump voters are going to ask: When is the master negotiator actually going to negotiate a better trade deal?

Potomac Watch Podcast

Exit Scott Pruitt at EPA, and Trump's Supreme Court choices.

Document WSJO000020180706ee760076f

THE WALL STREET JOURNAL.

Markets

Providence Equity Partners Prepares to Take QVC Rival Public; Providence is targeting a market value of at least $1.75 billion

By Ben Dummett and William Louch
594 words
20 July 2018
09:49 AM
The Wall Street Journal Online
WSJO
English

U.S. private-equity firm Providence Equity Partners LLC is preparing to take German home-shopping TV network HSE24 public in 2019 after plans to sell the business fell through, people familiar with the matter said.

Providence is targeting a market value of at least €1.5 billion ($1.75 billion) from the initial public offering and subsequent **stock-market** listing. IPO markets in the U.S. and Europe have had a strong start to the year.

A sale, which attracted interest from a range of buyout shops, was shelved after a mismatch in price expectations between buyers and seller, in part caused by a slump in the value of U.S. competitor QVC Group, people familiar with the matter said.

The firm could revisit a sale of the business if a buyer emerges with a better price, one person said.

The share price of QVC's parent company, Qurate Retail Group Inc., has fallen by around a quarter to $22 on July 19 from a year-to-date high of $29.11 in February. Qurate Retail Group is chaired by media mogul John Malone and was formerly known as Liberty Interactive.

Germany, in particular, has been a beneficiary of a favorable business climate and investors looking to back fast-growing companies.

Companies going public in Germany have raised nearly $9 billion from investors, the highest sum year-to-date since at least 2005, Dealogic Ltd. data shows. **Stock-market** listings in Germany account for just under a third of all cash raised on European exchanges this year, the highest proportion in more than a decade.

HSE24 was launched in 1995 as Germany's first shopping channel, according to its website. It sells over 20,000 products ranging from vacuum cleaners to make up and employs around 1,400 people across Europe.

The slated exit comes after a period of strong financial growth at the company. Sales in 2017 grew on the year by 9% to €821 million, driven largely by the company's push into e-commerce, a statement from the company said in April.

Sales growth is expected to be boosted by HSE24's decision to launch a subsidiary in the Gulf region by the end of 2018, people familiar with the matter said. HSE24 currently operates in countries across Europe including Germany, Russia, Italy and Switzerland.

Launching in the Gulf will see the company look to take advantage of an uptick in consumer spending in the region, one of the people added.

If the IPO proceeds, it will underscore a shift in investor appetite away from traditional bricks and mortar retailers to e-commerce and teleshopping platforms that can sell goods to consumers without having to pay rent costs on stores.

Europe, in particular the U.K., has seen a number of well-established high street retailers struggle in the face of increasing competition from companies like Amazon Inc. in recent years.

Providence bought a majority stake in the company from French private-equity giant Ardian, then known as AXA Private Equity, in 2012. Ardian retained a minority stake in the business.

Write to Ben Dummett at ben.dummett@wsj.com and William Louch at william.louch@wsj.com

More on the IPO Market

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THE WALL STREET JOURNAL.

Economy
Before House Panel, Jerome Powell Affirms Fed's Plan to Raise Interest Rates Gradually; Federal Reserve chair says it's too soon to say if trade disputes might interfere with plans

By Nick Timiraos
917 words
18 July 2018
04:49 PM
The Wall Street Journal Online
WSJO
English

Federal Reserve Chairman Jerome Powell affirmed the central bank's plans to gradually raise interest rates "for now," but warned of risks from an escalation of trade tensions.

During a second day of Capitol Hill testimony Wednesday, he also said officials would soon resume technical discussions that could determine when the Fed stops shrinking its holdings of $4.3 trillion in bonds and other assets.

Over both days, lawmakers in both parties expressed some unease with the direction of President Donald Trump's trade policies. The Fed chairman provided some words of caution, while noting that the outcome of the trade disputes remains uncertain.

"The bottom line is a more protectionist economy is...less competitive. It's less productive," he told the House Financial Services Committee on Wednesday. "So it's not a good thing if that's where this goes."

Later, Mr. Powell said it could be difficult to reduce trade tensions once countries begin to impose tariffs and others retaliate with countermeasures. "I think you want to be careful to walk on this path because it may not be so easy to get off," he said.

Mr. Powell also faced skeptical questions from Republicans, including Texas Rep. Jeb Hensarling, the House committee's chairman, about some Fed officials' suggestions that the central bank might stop shrinking its portfolio of bonds and other holdings sooner than expected.

"A balance sheet that may never return to a more conventional size" would be "problematic," Mr. Hensarling he said.

The portfolio grew much larger after the financial crisis—to about $4.5 trillion at its peak from less than $1 trillion—when the Fed bought bonds to drive down long-term interest rates and drive up asset prices. The purchases left many investors and lawmakers jittery because the consequences of the experiment were unknown.

So far, the Fed has reduced its holdings to about $4.3 trillion without creating turbulence in markets.

When officials agreed last year to begin the process, they didn't say how long it would continue and gave the impression it could last several years. Mr. Powell said Wednesday the process was running smoothly and that its end date is "fairly uncertain."

At issue is the demand for the Fed's liabilities, which include currency in circulation and deposits, known as reserves, that banks maintain at the central bank. Because the size of those liabilities will be larger than before the crisis, the Fed will end up with a larger balance sheet.

"We're going to be finding out how large the demand is for those two liabilities," Mr. Powell said. That in turn "will guide the time at which we will ultimately stop shrinking the balance sheet."

In other words, the decision won't be guided by economic or **financial-market** conditions that prompted the Fed to purchase more assets beginning nearly 10 years ago.

Developments in short-term money markets this spring raised the question of "how long we actually want our balance sheet [wind-down] to go," Boston Fed President Eric Rosengren said in an interview last month. It is possible the portfolio won't have to shrink "dramatically more" from its size of $4.3 trillion in June, he said.

A related issue for the Fed is how it will set its benchmark federal-funds rate in the future—a separate issue from where the rate should be set. The decision hinges on complex monetary plumbing.

Before the financial crisis, the Fed kept its portfolio relatively small. The central bank shifted the amount of reserves up and down in incremental amounts to adjust the fed-funds rate, which in turn influences many other rates in the economy.

After the crisis, with the fed-funds rate held near zero, the Fed's bond-buying flooded the banking system with reserves. The Fed changed the way it managed rates: Rather than setting the fed-funds rate at a specific point, it targets a range, currently between 1.75% and 2%. And instead of shifting the amount of reserves up and down in small amounts, it started paying interest on them directly to banks at a rate near the top of the fed-funds range.

Several Fed officials have said they believe they should stick with the new system because it's easier to implement, but the Fed hasn't made any final decisions. Mr. Powell said they would take up the question "in a serious way in the relatively near future."

Wednesday's hearing showed the potential political challenges of maintaining the larger holdings. While Republicans have criticized the idea, some Democrats pushed for a bigger portfolio.

For example, the Fed's annual remittances to the Treasury Department have been falling in recent years as it raises interest rates. Democrats displayed a slide on large screens in the hearing room Wednesday, pointing out how the end of the Fed's bond-buying program had slightly widened deficits.

"Keep your balance sheet was big as it was," Rep. Brad Sherman (D., Calif.) told Mr. Powell.

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

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THE WALL STREET JOURNAL.

World

Trump's Pact With Europe Points to Tactical Shift on 'America First'; President pushing to show successes, yet details of how the accord will be executed remain unclear and EU's concessions are minimal

By Valentina Pop and Emre Peker in Brussels and Jacob M. Schlesinger in Washington
1,525 words
26 July 2018
03:00 PM
The Wall Street Journal Online
WSJO
English

BRUSSELS—President Trump's truce with the European Union signals a tactical shift in his "America First" trade policy, as he scrambles to show successes after an intensifying revolt from Republican lawmakers and American businesses.

But beyond a shift in rhetoric, the concrete results so far remain minimal. Europeans touted Wednesday's joint statement as reaffirming a trans-Atlantic free-trade relationship that Mr. Trump had openly questioned, without forcing them to make concessions to Washington's demands.

Mr. Trump and European Commission President Jean-Claude Juncker, in their hastily arranged White House ceremony, pledged to work toward negotiating a broad reduction in tariffs on industrial goods and to cooperate against unfair Chinese trade practices. The U.S. agreed not to impose

tariffs on European autos as long as negotiations are ongoing, while the EU also said it would try to boost purchases of U.S. liquefied natural gas and soybeans.

EU officials, elaborating Thursday in Brussels on the joint statement, highlighted the extended process that lies ahead. The core of the pact is a plan to hammer out a report in 120 days that establishes a framework for future negotiations toward a trade deal.

While that process is under way, U.S. officials made clear, the threat of escalation remains should the process not yield results. Commerce Secretary Wilbur Ross on Thursday said Mr. Trump had directed him to "continue the investigation" into auto tariffs but not impose them, pending the outcome of negotiations with the EU. He said a report on auto tariffs would be submitted next month. Steel and aluminum tariffs will remain in place during the negotiations, Mr. Ross said.

The most immediate elements of the statement were pledges by the EU to "start buying soybeans from our great farmers immediately," Mr. Trump wrote on Twitter on Wednesday night, adding that "they will be buying vast amounts of LNG!" Lawmakers have been especially concerned about U.S. soy farmers, after China moved to curb imports in retaliation for U.S. tariffs on Chinese goods.

But even that, one European official said, was "a bit of a stunt…you give something without giving anything."

The official said the EU was essentially acknowledging what market forces might yield, rather than specifying how much it might buy. U.S. soybean prices are dropping amid Washington's trade war with Beijing, while rising **oil price** are making American LNG more competitive. Those factors could increase European demand for imports and please Mr. Trump, two EU officials said.

"We are not going to turn into some kind of a Soviet-style economy," one said. "Market rules will remain in place."

The Wednesday announcement followed increasingly aggressive moves by lawmakers to challenge Mr. Trump's trade policies, which have been at odds with his Republican party's longstanding free-trade stance. GOP leaders have been pushing legislation that would curb the president's freedom to set his own trade policy, and have been hammering Trump aides with complaints from constituents about rising costs for U.S. manufacturers from steel tariffs, and lost sales abroad due to retaliatory tariffs from Europe and China.

Mr. Trump's trade representative, Robert Lighthizer, got an earful from members of Congress during Senate testimony Thursday. Kansas Republican Sen. Jerry Moran said "the effects of the current tariffs are real…and farmers are feeling the pressure." Tennessee GOP Sen. Lamar Alexander told Mr. Lighthizer that a gas grill maker in his state was paying more for materials and losing sales due to European retaliation, and that "they wish they had moved to China."

Top lawmakers are also now urging Mr. Trump to follow his peace offering to Europe with one to China. Mr. Trump has imposed tariffs on $34 billion in Chinese imports—prompting Chinese retaliation on an equivalent amount—and is considering adding tariffs on more than $200 billion in additional imports. Texas GOP Rep. Keven Brady, head of the House Ways and Means Committee overseeing trade policy, wrote to Mr. Trump on Thursday urging a trade summit with Chinese President Xi Jinping along the lines of this week's meeting with Mr. Juncker.

In response, Mr. Trump and his aides are now trying to emphasize that their new trade policies—heavy on using tariffs and threats to pressure other countries to make concessions—will soon yield gains, beyond the pain.

"I think we're well on our way to resolving a lot of these trade issues," Treasury Secretary Steven Mnuchin told CNBC Thursday morning. He said he hoped for an agreement in principle soon with Mexico and Canada on a modernized version of the quarter-century-old North American Free Trade Agreement. A Mexican negotiating team was scheduled to arrive in Washington on Thursday for two days of talks.

In his Senate testimony, Mr. Lighthizer touted the pending completion of a revised pact with South Korea, and said his aides are "speaking with a number of countries in Southeast Asia and sub-Saharan Africa" to strike new deals. Mr. Trump is scheduled to visit a United States Steel Corp. factory in Illinois on Thursday afternoon, where he is expected to credit his steel tariffs for the restart of idled blast furnaces there.

But the change so far appears to be more a shift in tone than substance, as illustrated by this week's European agreement.

For all the talk on both sides of a trade peace, the deal doesn't immediately lift tariffs the U.S. levied on imports of steel and aluminum from the EU last month or retaliatory measures imposed by the EU. In a joint statement and comments, the two presidents pledged to "resolve" the matter.

The details of how the accord will be executed remain unclear, especially as the European Commission, the EU's executive, isn't directly involved in energy or agricultural purchases, which an EU official stressed Thursday was up to private companies and market conditions.

French Finance Minister Bruno Le Maire said his government is seeking details on the terms of the agreement, reiterating Paris's commitment to safeguarding EU standards on health, food and the environment, as well as France's demand for a reciprocal trade deal that opens American markets to European exporters.

The statement largely matched an offer put forth by the EU in May, with some additions, such as the pledge to buy more U.S. soybeans. The EU slightly shifted its position by entering into talks before the White House exempted the bloc from its metals tariffs, but it hasn't expanded concessions already on the table to secure waivers and de-escalate trade tensions.

Another sign of the limited nature of the agreement is its narrow agenda, compared with the more ambitious Transatlantic Trade and Investment Partnership, or TTIP, launched by the Obama administration with the EU. In those talks, which stalled in mid-2016, the two sides explored expanding American access to Europe's agricultural market, an issue that won't be covered in the new round of talks.

The pledge to try to buy more American soybeans was an easy one for Europe, which doesn't have any tariffs or subsidies on that crop, in contrast with a range of other agricultural products. The sides also won't discuss harmonizing regulations and standards—another touchy issue for Europe—or opening up the U.S. market for government procurement.

"Agreeing to work toward what appears to be a free-trade agreement without agriculture is a big giveaway to the Europeans," said Paul Drazek, an agricultural trade negotiator in the Clinton administration. "They're probably sipping champagne right now."

Perhaps the biggest change, albeit only tentative, is the suggestion from the Trump administration that it would hold off on car tariffs as long as negotiations are ongoing.

Germany has been particularly concerned about that threat, which would hit some $60 billion of annual European exports to the U.S. Mr. Trump has specifically targeted German car makers in his tweets criticizing EU auto tariffs, which at 10% are quadruple the U.S. levies. The U.S. has a 25% levy on European light trucks.

"Good news from the USA," German Economics Minister Peter Altmaier tweeted after the announcement. "Breakthrough achieved that can avoid trade war & save millions of jobs!"

Yet Washington and Brussels left autos out of their decision to push ahead for a free-trade deal on industrial goods. An EU official familiar with the discussions said the leaders kept out cars because they couldn't agree on zero tariffs.

"Are German cars safe? They are, for now," the official said. "But we are not naive. We don't know how long it will last."

Laurence Norman contributed to this article.

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Document WSJO000020180726ee7q003jt

The New York Times

Business/Financial Desk; SECTB
Trapped in the Jaws of a Trade War Vise

By DON CLARK; Raymond Zhong contributed reporting from Beijing.
1,300 words
20 July 2018
The New York Times
NYTF
Late Edition - Final
1
English

SAN DIEGO -- Steve Mollenkopf, the chief executive of Qualcomm, has been waiting for a phone call with news from China. It has been a long wait.

His company, which makes chips that help mobile phones communicate, has been on extended hold while the Chinese authorities review a deal that Qualcomm struck 20 months ago to buy another chip maker, NXP Semiconductors. Mr. Mollenkopf said Qualcomm had done all it could to persuade Beijing to approve the $44 billion transaction, which the companies have said will be terminated next Wednesday without regulatory consent.

But both the acquisition and Qualcomm have now become entangled in the trade war raging between the United States and China. China's prolonged review of the deal for NXP is widely seen by analysts and trade experts as part of Beijing's retaliation for President Trump's tariffs on Chinese goods.

''We want to see it get done,'' Mr. Mollenkopf, 49, said in an interview at Qualcomm's headquarters in San Diego. When asked if his company was caught in the trade war, he said, ''That's probably accurate.''

The situation, which may be a sign of what is to come for other multinationals that also have interests dependent on China, is laced with irony. In March, Mr. Trump moved to protect Qualcomm when his administration blocked a $117 billion hostile takeover bid for the company by another chip maker, Broadcom. At the time, Mr. Trump said the deal would ''impair the national security of the United States'' after a government committee found that Broadcom would most likely reduce vital Qualcomm wireless research to the benefit of Chinese companies.

Now Mr. Trump may end up hurting the company that he sought to shield, in an unintended consequence of the mounting trade hostilities that his administration has spearheaded. Mr. Mollenkopf and others have said buying NXP, a Dutch chip maker, is important to helping Qualcomm move more quickly into technology for cars and other new markets.

A White House spokeswoman did not respond to a request for comment.

Mr. Mollenkopf appeared resigned to Qualcomm's lack of options with China's review. ''We can only influence so much,'' he said.

But the chief executive, a company veteran who took the top job in 2014, also struck an optimistic tone, arguing that Qualcomm can prosper without NXP because ''we have a good technology road map.''

''That technology road map is going to be valuable regardless of whatever the outcome is with NXP,'' Mr. Mollenkopf said.

The heart of that road map is 5G, industry shorthand for a next generation of ultrafast global cellular networks that Qualcomm has been helping to develop. Mr. Mollenkopf predicts 5G will take his company beyond its stronghold in smartphones. And since signing the deal for NXP, Qualcomm has made progress on its own in diversifying its business by selling more chips into cars, he added, with its backlog of chip orders from the auto industry recently totaling $4 billion.

In addition, Mr. Mollenkopf said, if the NXP deal does not go through, Qualcomm plans a stock buyback of $20 billion to $30 billion to help lift its **stock price**.

Stacy Rasgon, an analyst with Sanford Bernstein, said Qualcomm's political stalemate with China and the question of whether the company could integrate NXP effectively had led some investors to prefer a buyback. ''People just want certainty, one way or another,'' he said.

The fallout from the trade war is the latest challenge for Mr. Mollenkopf, who has been on the hot seat for much of his tenure as chief executive. Qualcomm has been hurt by slower sales of smartphones, while an unusual business model that combines patent licensing with chip sales has prompted antitrust squabbles on three continents.

Qualcomm's share price has been largely under pressure since January 2017, when its longtime customer Apple and the Federal Trade Commission filed lawsuits accusing Qualcomm of abusing its market power and patent position to charge unfairly high royalties. The company has rejected the accusations.

And Mr. Mollenkopf faces faces the possibility that Paul Jacobs, a former chairman of Qualcomm and the son of one of the company's founders, Irwin Jacobs, may mount a bid to take the chip maker private.

More recently, after the Trump administration blocked the Broadcom bid, White House actions have been problematic for Qualcomm. In April, the administration issued an order preventing American companies from selling components to China's ZTE after finding that ZTE violated United States sanctions involving North Korea and Iran. ZTE is a major Qualcomm customer.

Mr. Trump later softened his stance toward ZTE, which agreed to changes. The Commerce Department removed ZTE from a list of proscribed customers on Friday, enabling Qualcomm to resume selling chips to the Chinese company.

It's unclear if China might now relent on NXP, or keep withholding approval of the deal to push back against the Trump administration's trade tariffs. ''One weapon is obviously the Qualcomm weapon,'' said Robert Atkinson, president of the Information Technology and Innovation Foundation, a think tank.

China's antitrust authority, the State Administration for Market Regulation, did not respond to a faxed request for comment. The country would be the ninth jurisdiction to complete a customary antitrust review of Qualcomm's NXP deal; eight others, including the United States, have approved it.

An NXP spokeswoman referred to recent remarks by Richard Clemmer, the company's chief executive, who said the chip maker continued to believe in the Qualcomm transaction.

Mr. Mollenkopf embarked on the NXP deal nearly two years ago to reduce Qualcomm's dependence on the maturing mobile phone market. While Qualcomm primarily makes mobile chips and earns most of its profit from royalty payments from handset makers, NXP sells more than 14,000 different chips that are widely used in cars, mobile payments and other applications.

The deal, announced in October 2016, seemed ambitious from the start. NXP has nearly as many employees as Qualcomm -- about 30,000 -- and a tradition of operating factories, which still make some of its products. Qualcomm has always relied on other companies to make the chips it designs.

Regulatory approval was expected to take time, with the companies predicting they would not be able to close the deal until the end of 2017. But the review has dragged on even longer. In Europe and South Korea, where Qualcomm has faced antitrust challenges from regulators, the authorities won concessions to make sure the company would not unfairly exploit patents on a payment technology called near-field communications it would acquire by buying NXP.

China presented special issues. The country's regulatory authorities have taken an activist stance on antitrust reviews in the past few years. Qualcomm gets more than half of its revenue from the country, but its relations with customers and Beijing have not always been smooth.

China's antitrust authority previously investigated Qualcomm and found in 2015 that its patent-licensing practices violated antimonopoly laws. Qualcomm agreed to pay a settlement of $975 million.

Mr. Mollenkopf, who rose through Qualcomm's engineering ranks and helped lead chip development efforts, said the company had endured a turbulent period. But one thing is certain, he said: There will be no extension of the NXP deal deadline beyond next Wednesday, when Qualcomm reports quarterly earnings.

''We think NXP is a great deal for us,'' Mr. Mollenkopf said. ''If it doesn't get done, we also have means to create value in different ways.''

Follow Don Clark on Twitter: @donal888.

Qualcomm's chief, Steve Mollenkopf, is facing opposition to his company's bid for NXP Semiconductors. (PHOTOGRAPH BY BRENDAN SMIALOWSKI/AGENCE FRANCE-PRESSE -- GETTY IMAGES)

Document NYTF000020180720ee7k0006b

The New York Times

Business/Financial Desk; SECT
DealBook Briefing: Welcome to the Trade War

1,169 words
7 July 2018
The New York Times
NYTF
The New York Times on the Web
English

Good Friday. Want this in your inbox every morning? Sign up here.

Buckle up: U.S. and China tariffs are official

They're here. At 12:01 a.m. Eastern this morning, the Trump administration followed through on its threat to impose tariffs on $34 billion worth of Chinese products. That prompted Beijing to respond with tariffs on $34 billion of U.S. goods, the state-run newspaper China Daily said.

The duties are expected to cascade through supply chains, raising prices for businesses and, eventually, consumers. And President Trump has warned that there may be more to come, saying that America could ultimately impose charges on up to $500 billion of Chinese goods.

More from Anna Swanson of the NYT on how -- or whether -- the trade war might play out:

Mr. Trump's threats have been met with vows from China to retaliate, a stalemate that will require one side to blink first in order to avoid a protracted fight. With no official talks scheduled between the two countries, and disagreements within the Trump administration about how best to proceed, a quick resolution seems increasingly unlikely.

More on trade: The Fed is worried about the conflict, but there isn't much it can do to intervene. Here's where investors are putting their cash amid the turmoil, and how Mr. Trump's businesses still benefit from ties to China.

Scott Pruitt is gone, but the E.P.A. will still go easy on fossil fuels

The cabinet official whom President Trump praised for sweeping efforts to deregulate business resigned yesterday after months of ethics investigations. But don't expect the E.P.A. to change much.

Mr. Pruitt's interim replacement is his deputy, Andrew Wheeler, a former coal industry lobbyist who could prove even more adept at rolling back environmental regulations. From Coral Davenport of the NYT:

Unlike Mr. Pruitt -- who had come to Washington as an outsider and aspiring politician, only to get caught up in a swirl of controversy over his costly first-class travel and security spending -- Mr. Wheeler is viewed as a consummate Washington insider who avoids the limelight and has spent years effectively navigating the rules.

The agency has drafted a new power plants rule that would be much less stringent than President Barack Obama's Clean Power Plan.

Walmart is taking a stand on social issues, but it's risky

America's biggest retailer has headquarters in the deeply red state of Arkansas, and its core customer base tends to be politically conservative. But Walmart has been taking a stand on issues like gun control and gay rights to improve its image among younger, more liberal consumers.

More on why the retailer is following other companies and speaking out on hot-button topics, from Sarah Nassauer of the WSJ:

Today, around 72% of Walmart shoppers want the company to "take a stand on important social issues" and 85% want the retailer to "make it clear what values you stand for," said Walmart's chief marketing officer, Tony Rogers, in a June presentation to reporters, citing a survey by research firm Kantar.

Finding the right balance is tricky: One customer complained to the WSJ about not being able to buy ammo from Walmart anymore, and said he had urged his friends to boycott the retailer.

There may be a better recession indicator than the yield curve

For years, the Fed has used the yield curve -- which tracks the payouts from Treasury securities of different repayment periods -- as a barometer of economic health. But it's now reconsidering whether the tool is a useful predictor of recessions.

Economists worry that the yield curve could soon invert -- when the yields of two-year Treasury notes rise above those of 10-year notes, the reverse of the norm. Historically, that's been a sign of economic trouble. But there are other reasons for an inverted yield curve, including the Fed's interest-rate policies.

So the central bank has started looking at other indicators, including the interest rate used in the federal funds market. Whether that's a more useful tool, however, remains an open question.

Big Pharma has been paying F.D.A. doctors after drugs get approved

If drug companies give money to physicians before they sit on a Food and Drug Administration panel to approve a therapy, it would clearly look like a conflict of interest. But what if payments come after?

The journal Science found that to be more common than one might think:

In examining compensation records from drug companies to physicians who advised FDA on whether to approve 28 psychopharmacologic, arthritis, and cardiac or renal drugs between 2008 and 2014, Science found widespread after-the-fact payments or research support to panel members.

The situation is ethically troubling, regardless of the time of payment, especially since the sums can amount to millions of dollars. But Science says that the F.D.A.'s safeguards "are not designed to prevent such future financial ties."

Revolving door

Drew Faust, the former president of Harvard, has joined the board of Goldman Sachs. (Goldman)

Three former executives from Social Capital -- Arjun Sethi, Ted Maidenberg and Jonathan Hsu -- have started their own venture fund. (Business Insider)

Heinrich Hiesinger stepped down as ThyssenKrupp's C.E.O., days after the company announced a merger with Tata Steel. (FT)

The speed read

Deals

Boeing agreed to buy control of Embraer's commercial-jets business for $3.8 billion, in a move to build smaller planes. (NYT)

Singapore's competition regulator threatened to unwind a merger of Uber's Southeast Asian business with Grab, over antitrust concerns. (WSJ)

Glencore is buying back $1 billion worth of its shares to shore up its **stock price** after it disclosed that it had been subpoenaed by the Justice Department. (FT)

Steven Cohen has been blocked from accepting British investors in his new hedge fund. (FT)

Politics and policy

Michael Cohen has hired Lanny Davis, a lawyer who helped defend President Bill Clinton during his impeachment hearings, as an adviser. (NYT)

What President Trump is looking for in his next Supreme Court nominee. (Politico)

Tech

Amazon is threatening another industry: advertising. (NBC)

Tech giants succeeded in shooting down a bill in Europe that would have imposed some of the world's strictest copyright laws. (NYT)

California is still trying to enact its own net neutrality bill. (Verge)

Samsung predicts that its record-breaking earnings streak might come to an end. (WSJ)

Best of the rest

How much patience does the White House have for a hawkish Fed? (DealBook)

It's getting harder for employers to fill jobs. (CNBC)

U.S. regulators fined Credit Suisse $77 million for hiring relatives of powerful Chinese officials to win business. (NYT)

Hop into an Uber, hop out with a new business plan: Is ride-sharing the new LinkedIn? (NYT)

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Document NYTF000020180707ee7700049

The New York Times

U.S.; Politics
Wilbur Ross Says He Will Sell Stock After Watchdog Warns of Potential for Criminal Violation

By Ana Swanson
1,101 words
13 July 2018
02:23 PM
NYTimes.com Feed
NYTFEED
English

WASHINGTON — Wilbur Ross, the commerce secretary, said he would sell all of his remaining stock holdings after the Office of Government Ethics faulted him for continuing to maintain investments that he was required to divest and entering into new ones.

In a strongly worded letter, the ethics office said Mr. Ross's continued ownership of assets that his ethics agreement required him to divest — and his decision to open short sale positions while serving as Commerce secretary — could have placed him in position to violate criminal conflict of interest laws. It also faulted him for "various omissions and inaccurate statements" in documents filed with the Office of Government Ethics.

"Your failure to divest created the potential for a serious criminal violation on your part and undermined public confidence," David Apol, acting director of the ethics office, wrote in a letter dated Thursday.

In a statement Thursday evening, Mr. Ross said that he had made "inadvertent errors" and would sell all of his equity holdings and place the proceeds in United States Treasury bills "to maintain the public trust."

"I take my ethics obligations very seriously," Mr. Ross said. "My investments were complex and included hundreds of items. I self-reported each error, and worked diligently with my department's ethics officials to make sure I avoided any conflicts of interest."

The value of the investments Mr. Ross continued to hold was significant, including stock sales worth at least $10 million.

"This is not like the change that falls out in between the sofa cushions," said Kathleen Clark, a professor of law and an ethics expert at Washington University. "This is a significant falsity."

Norman Eisen, an ethics czar in the Obama White House and the chairman of the government watchdog group CREW, said that Mr. Ross "evidenced a level of recklessness that in a normal administration would be extraordinary."

Mr. Ross, a financier who built his fortune through decades of restructuring distressed businesses, has been dogged by questions about his finances since the release last year of the Paradise Papers, a cache of documents from an offshore law firm obtained by the German newspaper Süddeutsche Zeitung. Those documents showed that Mr. Ross retained a financial stake in the shipping firm Navigator Holdings, which has a partnership with a Russian energy company owned by oligarchs with close ties to President Vladimir V. Putin of Russia.

Three business days after Mr. Ross was contacted by The New York Times for a forthcoming article about those ties, he took out a short position valued at between $100,000 and $250,000 on Navigator's stock — essentially a bet that the stock's value would decrease — putting him in a position to potentially profit from negative news about the company. The company's **stock price** fell roughly 4 percent before Mr. Ross closed his position, 11 days after The Times and the International Consortium of Investigative Journalists published an article on his ties to Navigator.

In a response in June, Mr. Ross said that the information the reporter had contacted him about was not "market-moving" and that making money was not the goal of the short sale.

The letter from the Office of Government Ethics also cited Mr. Ross for failing to sell stock in a company called Invesco, the parent company of his private equity firm, W.L. Ross & Co., in keeping with his ethics agreement. Mr.

Ross signed a form in November 2017 saying he had completed divestitures that he had agreed to earlier that year, but in December, he submitted a report revealing that he had not sold the Invesco stake until Dec. 19-20.

The office said that an internal Commerce Department investigation that reviewed Mr. Ross's calendars, briefing books and correspondence did not indicate the presence of a criminal violation, and that it had no evidence to contradict Mr. Ross's argument that the omissions and inaccuracies were inadvertent. However, it added that even inadvertent errors could damage public trust and violate criminal conflict of interest law. Federal ethics rules prohibit government employees from using information they view in the course of their work for private profit.

"It is a serious matter, particularly when you're dealing with someone like the secretary of Commerce, who has his finger on so many decisions that affect businesses and financial investments," said Richard Briffault, a professor at Columbia Law School.

Senator Ron Wyden, an Oregon Democrat, called on the Justice Department to investigate the transactions.

"The top federal ethics watchdog confirmed what anyone with eyes and ears already knew: Wilbur Ross's stock trades seriously compromised his ability to act in America's best interests, and may have broken the law," Mr. Wyden said. "In light of this report, the Justice Department should conduct a thorough investigation to ensure that Ross was working on behalf of all Americans and not just his own bank account."

Potential ethics violations have dogged several high-profile members of the Trump administration, including Scott Pruitt, the former chief of the Environmental Protection Agency, who resigned last week after facing questions about his spending, travel and conduct, and Tom Price, the former secretary of health and human services, who resigned last year after drawing criticism for spending at least $400,000 on chartered flights.

Forbes removed Mr. Ross from its list of the 400 richest Americans in 2017, after his ethics disclosures showed his assets to be less than $700 million, a fraction of what Forbes had previously reported and what Mr. Ross had previously claimed.

Ms. Clark said the errors that Mr. Ross made demanded further inquiry. "I'm not saying Ross violated the criminal conflict of interest statute; I'm not saying that he intentionally made a false statement," she said. "But both of those things need to be investigated."

Marilyn L. Glynn, who served as general counsel and acting director of the Office of Government Ethics during the George W. Bush administration, said given how many errors were present in Mr. Ross' accounts a further investigation was warranted, including by the inspector general for Commerce.

"There's a lot of smoke here," Ms. Glynn said. "So the inspector general should find out if there is a fire."

* Commerce Secretary Shorted Stock as Negative Coverage Loomed

* Commerce Secretary's Offshore Ties to Putin 'Cronies'

* As Trade War Persists, Mnuchin Says China Talks Have 'Broken Down'

Wilbur Ross, the commerce secretary, cited "inadvertent errors" in his failure to make required stock divestitures. | Win Mcnamee/Getty Images

Document NYTFEED020180713ee7d00669

The New York Times

Business/Financial Desk; SECT
Index Ventures Has Been on a Run. Now It's Raising Funds to Keep It Up.

By MICHAEL J. de la MERCED
838 words
10 July 2018
The New York Times
NYTF
The New York Times on the Web
English

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

LONDON -- When Adyen, a Dutch financial payments processor, began trading publicly last month -- and nearly doubled its **stock price** on its first day -- partners at Index Ventures had reason to cheer.

It was the second investment by the venture capital firm to cash out in a short time. Just a month earlier, the European mobile payments company iZettle was sold to PayPal for $2.2 billion, or nearly double what that the start-up had hoped to fetch in its own initial public offering.

Index, founded in Switzerland in 1996 and now based in London and San Francisco, is trying to seize on the moment and amass more financial firepower.

The firm plans to disclose on Monday that it has raised $1.65 billion for its two newest funds: $650 million for its early-stage investment fund, and $1 billion for a so-called growth fund that invests in slightly older companies.

Those figures are up slightly from the $550 million that the firm raised in early 2016 for its last early-stage fund and $700 million for the later-stage round.

The new funds, raised in a matter of weeks, are meant to help Index continue its recent roll, one that has impressed its investors.

''When you find a venture fund that we will back in successive iterations, it tends to be because they've figured out that formula or magic where they're investing early in transformative companies,'' said Kathryn Mayne, a managing director at Horsley Bridge Partners, which has invested in every Index fund since 2005.

To be clear, Index does not have the name recognition of Silicon Valley's biggest boldface names, like Sequoia Capital, Kleiner Perkins or Benchmark Capital. Nor does it have the firepower at the command of those firms: Sequoia, for instance, is reportedly raising $8 billion for its latest fund, and SoftBank's Vision Fund has nearly $100 billion to spend. (Partners at Index argue that they are not interested in competing with those titans.)

And while Index has had a remarkable run so far this year -- in addition to Adyen and iZettle, it was an early backer of the file-sharing company Dropbox, which went public in March, and the speaker company Sonos, which just filed for an initial offering -- repeating that performance will be difficult.

But Index has come a long way since 1996, when it was founded as a way to import Bay Area-style venture capital to Europe. It has become one of the top European venture capital firms, investing in start-ups like Skype and the food delivery provider Deliveroo.

And since it opened an office in San Francisco in 2011, it has gained more recognition in the United States by investing early in start-ups like Dropbox. (One of its San Francisco-based partners, Danny Rimer, ranked 17th on a list of the top 100 venture investors from 2009 through March compiled by CB Insights in partnership with The New York Times.)

Still, among the big selling points for Index -- both to investors in its funds and to the entrepreneurs it hopes to back -- is its international reach and outlook. (Executives speak often of their staff members' 17 passports and 20 languages.)

"What's important is how fluent entrepreneurs are about their international opportunities," Mr. Rimer said in an interview. "They have to win globally from Day 1."

Drew Houston, chief executive of Dropbox, in which Index invested in 2012, asked for help moving into international markets, with Index helping to introduce the company to European cellphone carriers to create partnerships.

"We were really interested in global expansion," Mr. Houston said in a telephone interview. "By starting in Europe, they bring that global perspective first."

And Vladimir Tenev, the chief executive of the online financial brokerage app Robinhood, said he regularly asks the Index partner Jan Hammer, who gave him his first venture financing, for thoughts on political developments that could affect regulation of companies like his.

Meanwhile, Index said that its global perspective helped it recognize early the potential for Bird, one of the big electric scooter sharing companies. Martin Mignot, a London-based partner, said that the success of similar businesses in Europe persuaded the firm to be an early backer and take part in the company's Series B round in March at a $400 million valuation.

Bird raised money again last month at an enormous $2 billion valuation, with Index again participating.

With the new fund, Index's partners plan to do more of what they're already doing: being among the first investors in companies, rather than trying to follow rivals into ever-bigger investments.

"We're sticking to our knitting," Mr. Hammer said.

Follow Michael J. de la Merced on Twitter: @m_delamerced.

Document NYTF000020180710ee7a00049

The New York Times

Europe Edition
Briefing
Trump, Amazon, Syria: Your Friday Briefing

By Matthew Sedacca
1,339 words
27 July 2018
12:17 AM
NYTimes.com Feed
NYTFEED
English

(Want to get this briefing by email? Here's the sign-up.)

Good morning. Details emerge on E.U.-U.S. trade talks, Amazon releases earnings and Syria acknowledges prisoner deaths.

Here's the latest:

• A trade crisis has been averted, for now.

President Trump and the European Commission president, Jean-Claude Juncker, above, have reached a truce defusing Washington's trade war with Europe, for the moment. Now broader negotiations will begin.

Mr. Trump said the two sides would work to lower tariffs and other trade barriers, and try to reduce roadblocks to industrial goods like American liquefied natural gas flowing across the Atlantic — which sounds much like the approach pursued under President Barack Obama, which Mr. Trump had shelved.

The big question is whether this cease-fire will amount to a meaningful improvement in strained trans-Atlantic relations, or just the latest change in course by an unpredictable president.

—

• Hundreds of Syrian families have suddenly learned that their missing relatives, many of them arrested years ago, were registered as dead by the government. Officials have not said how many detainees died or what happened to them.

It appears to be the first public acknowledgment by the government of President Bashar al-Assad, depicted in the poster above, that hundreds if not thousands of prisoners had died in custody. They included rebels as well as political protesters.

"The regime is closing one chapter and starting a new one," one analyst said. "It is telling the rebels and the activists that this chapter is gone, that whatever hope in some surviving revolutionary spirit has been crushed."

—

• President Trump threatens Turkey with sanctions.

Mr. Trump announced on Twitter that the U.S. would impose sanctions on Turkey for its "long time detainment" of Andrew Brunson, an American pastor, above center, and called for his release.

The case of Mr. Brunson, who has been accused of aiding the failed coup in Turkey in 2016, has become a flash point in the two countries' relationship.

Former U.S. officials said it was highly unlikely that the Trump administration would impose broad sanctions on Turkey, a NATO ally. But it could target individuals involved in Mr. Brunson's case.

—

• President Trump may have tweeted himself into legal trouble.

The special counsel, Robert Mueller, is scrutinizing tweets and statements from the president attacking Attorney General Jeff Sessions and the former F.B.I. director James B. Comey, our Washington team reports.

Mr. Mueller is examining whether the actions add up to attempts to obstruct the investigation by both intimidating witnesses and pressuring law enforcement officials to tamp down the inquiry. Mr. Trump's lawyers said that none of the evidence Mr. Mueller is looking at constitutes obstruction.

Here's how Mr. Trump's private and public statements line up in a possible obstruction case.

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• Checking in on the Tour de France.

"Tour hostesses," better known as podium girls, have been a key part of a daily Tour de France ritual, helping winners slip into their leaders' jerseys and giving them trinkets — as well as chaste kisses. To many women, the routine seems out of touch, if not offensive, our correspondent writes.

Arnaud Demare of France, who had been accused of holding on to his team car in Wednesday's mountain stage, scored a win in the bunch sprint, the first victory this year for a French team in the Tour. Meanwhile, American racers, once dominant forces at the Tour, are becoming a rarity. This year, they make up just five of the 176 riders.

Business

• Amazonreleased its second-quarter earnings. While profit was strong, revenue was not quite what analysts had anticipated. And strikes on Prime Day last week highlighted tensions between Amazon and its European employees.

• President Trump complained about the E.U.'s $5.1 billion penalty against Google, and our columnist says he has a point. It's hard to find an antitrust expert who endorses the case's logic or outcome, he writes.

• Facebook's **stock price** plunge on Thursday, which erased more than $120 billion in market value, shattered the myth that the biggest tech companies were essentially invulnerable. It came on the heels of a disappointing earnings report.

• Here's a snapshot of global markets.

In the News

• In Britain, three Jewish newspapers published identical front-page commentaries that said a Labour Party government led by Jeremy Corbyn, above, would be an "existential threat" to their community. [The New York Times]

• Hundreds of migrants charged border fences separating Ceuta, Spain's North African enclave, from Morocco. [Associated Press]

• Russian officials promised to prosecute anyone involved in a prisoner-abuse scandal, but human rights experts at a United Nations hearing were skeptical. [The New York Times]

• The builders of the dam that failed in Laos this week, killing at least 27 people and displacing thousands, knew beforehand that it was in trouble. [The New York Times]

• Imran Khan, a former cricket star and fierce critic of America's war on terror, is on the verge of becoming Pakistan's next prime minister. [The New York Times]

• In Greece, officials said there were "serious indications" that the wildfires that killed at least 83 people this week was started intentionally. [BBC]

Smarter Living

Tips for a more fulfilling life.

• Recipe of the day: Looking for a weekend project? Make lemon gelato at home.

• More sleep means better metabolic health for teenagers.

• Want to make your partner's parents more woke? Here's some advice.

Noteworthy

• Iceland Airwaves has become the first music festival to ensure that half its acts are women, putting pressure on bigger festivals to do the same. Above, the band Soccer Mommy at the South by Southwest festival in Austin, Texas.

• Here's a guide to watching Mars in opposition on Friday (and a long lunar eclipse with a "blood moon" if you're in Europe).

• In memoriam: Mary Ellis, who overcame public disapproval to fly hundreds of Spitfires and heavy bombers to the front lines for Britain in World War II, died at 101.

Back Story

Last week's Back Story about the anniversary of the 1848 women's convention in Seneca Falls, N.Y., mentioned that women won the national right to vote in the U.S. in 1920.

Not all women, several readers pointed out.

Voting rights have been broadened throughout U.S. history; in 1870, the Constitution's 15th Amendment granted all male citizens the right to vote regardless of race, but left out women.

For this reason, some suffragists opposed its passage.

In 1920, the 19th Amendment extended suffrage to women, but a variety of tactics were used at the state level to limit nonwhite citizens' right to vote, including poll taxes, literacy tests, violence and whites-only primaries. (Our video examines that history.)

Native Americans were not granted citizenship until 1924, and were denied the right to vote by some states well into the 20th century.

It wasn't until President Lyndon B. Johnson signed the Voting Rights Act in 1965, above, that many of these barriers were dismantled. The Supreme Court ruled in 2013 that part of the act, which has been updated several times by Congress, was unconstitutional.

Emma McAleavy wrote today's Back Story.

Your Morning Briefing is published weekday mornings and updated online.

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THE WALL STREET JOURNAL.

Business

Big Auto Makers Trim Forecasts; Aluminum and steel tariffs exact toll at GM, Ford and Fiat Chrysler; China adds to the pressures

By Mike Colias and Chester Dawson
707 words
25 July 2018
08:04 PM
The Wall Street Journal Online
WSJO
English

Detroit's Big Three auto makers lowered their profit outlooks for 2018, and each said fallout from U.S. tariffs on steel and aluminum is weighing on their bottom lines.

For months, automotive executives largely sidestepped questions about how the metals tariffs might affect them. The second-quarter results issued Wednesday by General Motors Co., Ford Motor Co. and Fiat Chrysler Automobiles NV made clear the elevated costs will linger through the year and into 2019, shadowing a relatively healthy backdrop for U.S. auto sales.

GM and Ford each said rising commodity prices—primarily steel—shaved about $300 million from their second-quarter results versus a year earlier. Ford said nearly half of the hit was related to the metals tariffs, while GM executives blamed "market forces" that drove up costs.

Both companies buy almost all of their steel for U.S. production from domestic suppliers. But U.S. steel prices have increased in reaction to the 25% tariff on imported steel that the Trump administration announced in March, according to analysts. The steel tariff took effect June 1, along with a 10% duty on aluminum imports.

Steel accounts for about 53% of the material in a typical automobile and aluminum 11%, according to consultancy Ducker Worldwide.

FCA said it expects prices for commodities such as steel to continue to rise over the next year. Fixed-price contracts this year will help blunt the impact but the company is building higher-price expectations into its 2019 plan.

The auto makers cited other factors for their lowered profit forecasts, too. GM has been hit by currency devaluations in South America. Both Ford and FCA said they face struggles in China, where recently increased tariffs threaten to cut into future profits.

The rising commodity costs come as auto makers try to extend a long run of strong U.S. auto sales. The strong economy and job market have helped U.S. vehicle sales remain near record levels, while auto makers have benefited from a consumer shift toward larger—and more profitable—rides, such as pickup trucks and sport-utility vehicles.

Fiat Chryslercut guidance on a number of targets for the full year, marking a rocky start to the tenure for new Chief Executive Mike Manley. The lower-than-expected earnings sent the company's **stock price** sliding and came hours after FCA said former Chief Executive Sergio Marchionne had died of complications from surgery.

FCA said adjusted operating profit fell 11% to €1.66 billion ($1.94 billion) from €1.87 billion a year earlier, short of analysts' consensus forecast of €2.1 billion. The auto maker cut its guidance for adjusted operating profit to between €7.5 billion and €8 billion, against a previous forecast of at least €8.7 billion.

GM's adjusted operating profit fell 13% to $3.2 billion. The nation's largest auto maker by sales reduced its 2018 earnings-per-share forecast to $6, from a range of $6.30 to $6.60. Shares in GM fell 4.6%.

The downgraded profit outlook signals a likely end to GM's three-year string of record adjusted-operating profits, which totaled $12.8 billion in 2017. GM originally had forecast this year's bottom line to be in the same range as last year's.

"While we were expecting an end to earnings resilience, this is slightly worse than feared" for the quarter and 2018 outlook, Jefferies analysts said in a note to clients.

Ford's second-quarter profit was cut nearly in half, to $1.1 billion, and the company lowered its full-year profit guidance to $1.30 to $1.50 a share, from $1.45 to $1.70. It also outlined plans for a broad, multiyear restructuring that could result in $11 billion in charges.

Ford's China business swung to an operating loss of $483 million, from a $23 million profit a year earlier. Ford finance Chief Bob Shanks said the company's product portfolio has grown stale in the world's largest car market, which has hurt pricing and sales volumes.

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THE WALL STREET JOURNAL.

Business

Sudden CEO Shift Jolts Fiat Chrysler; Mike Manley takes over top role from Sergio Marchionne as auto maker deals with rapidly evolving industry, global trade dispute

By Chester Dawson
1,397 words
23 July 2018
06:56 AM
The Wall Street Journal Online
WSJO
English

DETROIT—The deteriorating health of Sergio Marchionne forced Fiat Chrysler Automobiles NVto replace him as CEO this weekend, a sudden change at a company dealing with a rapidly evolving industry and a global trade dispute.

"It is with great sadness that I have to tell you that our CEO Sergio Marchionne, who recently underwent surgery, unfortunately experienced complications that have worsened in recent hours and will prevent his return to FCA," Fiat Chairman John Elkann told employees in a letter Saturday.

Fiat Chrysler hadn't specified the nature of Mr. Marchionne's illness but said earlier this month that he had an operation on his right shoulder.

Company officials have said privately that he has been absent from his day-to-day role at the company for weeks. It wasn't clear how serious the surgery was and when Mr. Marchionne's condition began to grow worse. "We were very careful to be transparent," a company spokesman said.

Shares in Fiat fell 2.7% in early trading on Monday.

Fiat Chrysler named Mike Manley to succeed Mr. Marchionne as chief executive. The 54-year-old was one of Mr. Marchionne's top lieutenants since 2009 and most recently ran the auto maker's Jeep SUV and Ram truck brands—two of the company's most profitable units.

The British-born executive inherits a company that in recent years has made progress paying down its debt and improving its balance sheet, due in large part to the success of its highly profitable trucks and sport-utility vehicles in the U.S.

Fiat Chrysler has doubled down on a continued shift in demand toward larger vehicles by retooling its factories and largely exiting the sedan business.

Still, Mr. Manley faces several challenges.

Fiat Chrysler is spending heavily to catch up on new technologies, such as electric and self-driving vehicles. It needs to restore a reputation tarnished by regulatory crises involving safety lapses, suspected emissions cheating and bribery allegations. Representatives for Fiat Chrysler have denied any intentional wrongdoing.

Fiat also has to deal with the fallout on the company's supply chain and pricing from tariffs on aluminum and steel, which the White House says it may widen to include vehicles and auto parts.

"That storm is right on the horizon. He's going to have to have a voice in that [trade debate]," said Mike Jackson, CEO of AutoNation Inc., the largest U.S. car dealer chain.

The accelerated succession also may rekindle speculation that the auto maker could seek to sell off all or part of itself. Mr. Marchionne once sought such a deal but, more recently, had abandoned the idea.

Finally, Mr. Manley has to earn the confidence of the 236,000-large global workforce, including those who got overlooked for the CEO post, and possibly deal with questions about how Mr. Marchionne's illness was disclosed.

Mr. Marchionne appeared last week in a video at the Automotive Hall of Fame ceremony, but a company spokesman couldn't say exactly when it was filmed. His last public appearance was on June 26, when he presented a Jeep Wrangler SUV to military police in Rome.

A workaholic known for making blunt comments and wearing black sweaters instead of formal business attire, Mr. Marchionne has been an outsize presence in the auto industry.

After taking over Italy's Fiat SpA in 2004, Mr. Marchionne then took control of Chrysler Group LLCfollowing the auto maker's federally sponsored bankruptcy in 2009. At the time, few thought Chrysler would survive, but as the U.S. market rebounded following the recession, it ended up generating the bulk of the profit for the two car makers, which were formally combined in 2014.

Under his watch, Fiat Chrysler confounded critics on Wall Street and elsewhere by meeting most debt-reduction and profit targets. The company's **stock price** has nearly quadrupled since 2014 and its 6% profit margin is higher than Ford Motor Co.'s 5.2% margin and is approaching General Motors Co.'s 7.2%.

Mr. Marchionne, a fan of poker, was fond of taking big risks as CEO—such as killing off the company's sedans years ahead of rivals—and publicly berating the industry for excessive production capacity and low profitability. He raised eyebrows in 2015 by writing a missive called "Confessions of a Capital Junkie," arguing the industry makes too many low profit margin vehicles, and by pursuing an unsolicited merger with GM, which the larger rival spurned.

On June 1, Mr. Marchionne—who had planned to retire in early 2019—outlined a five-year plan that included increasing sales of the company's Jeep and Ram truck brands and investing in future technologies such as electric-powered and self-driving cars.

Mr. Manley's appointment ends a succession race that included European head Alfredo Altavilla and financial chief Richard Palmer, according to industry analysts and company insiders. Fiat Chrysler announced Monday that Mr. Altavilla resigned to pursue other professional interests. A spokesman for the company said no decision has been made yet on who will fill Mr. Manley's role as head of Jeep and Ram.

Mr. Marchionne had planned to exit Fiat Chrysler next year but stay on as the CEO and chairman of Ferrari NV, which was spun out in 2016. But on Saturday the luxury sports car maker said Mr. Elkann would take over as chairman and that the CEO role would go to Louis Camilleri, the chairman of Ferrari racing division sponsor Philip Morris International Inc.

Mr. Elkann is a member of Fiat's founding Agnelli family, which through a holding company owns nearly 43% of Fiat Chrysler's voting rights and about 33% of Ferrari's voting rights, giving it controlling stakes over both companies.

"The long term relationship between our two companies is deep and meaningful and we look forward to continued business collaboration," the tobacco company said, adding Mr. Camilleri would continue to serve as its nonexecutive chairman.

Mr. Manley, who first joined the company in 2000 when it was still DaimlerChrysler, is as hardworking as the multitasking Mr. Marchionne but keeps a much lower profile than his outspoken ex-boss, say dealers and Fiat Chrysler officials.

"He is a workaholic and detail-oriented guy," said Wes Lutz, a Jackson, Mich.-based Chrysler dealer, who serves as chairman of the National Automobile Dealers Association. "As far as the dealers are concerned, we think he is going to be a good fit" because of his deep experience in retail sales, he said.

Mr. Manley has worked closely with dealers throughout much of his career and oversaw the roll out of new models, such as the redesigned Jeep Wrangler and Ram 1500 pickup truck. During his time as head of the Jeep brand, he grew global sales to nearly 2 million this year—double the number sold as recently as 2014 and up from 338,000 in 2009, in part by rolling out new and refreshed higher-end models in the U.S. and building plants for entry-level Jeeps overseas.

The new CEO has less experience with finance and manufacturing, core areas that Mr. Marchionne obsessed over during his tenure, say analysts and dealers, but he has the benefit of Mr. Marchionne's recently announced strategic plan.

Mr. Manley hasn't made any public statements since being named CEO but will host an earnings call Wednesday for financial analysts. Delays associated with the launch of the company's new Ram 1500 pickup truck are expected to weigh on otherwise strong second-quarter results, according to Evercore, which says the consensus forecast sees adjusted operating profit of €2.1 billion, up from €1.6 billion last quarter and €1.8 billion a year ago.

Write to Chester Dawson at chester.dawson@wsj.com

Read More

* Top Fiat Chrysler Executive Alfredo Altavilla to Leave in Wake of CEO Change

* Fiat Chrysler Taps Jeep Head as New CEO to Replace Ailing Marchionne

* Fiat Chrysler Unveils Five-Year Plan (Jun 1)

* Fiat's Future Without Marchionne (May 26)

* Fiat Chrysler Profit Surges (April 26)

* Marchionne Sweats Details of Chrysler Revival (Jan. 31, 2011)

* Fiat Nears Stake in Chrysler That Could Lead to Takeover (Jan. 20, 2009)

Document WSJO000020180722ee7m002mh

THE WALL STREET JOURNAL.
U.S. EDITION

Emerging-Market Rally Eyed

By Mike Bird
333 words
18 July 2018
The Wall Street Journal
J
B13
English

After a sharp selloff in emerging-markets stocks, some investors are wondering if the pullback has gone too far.

Shorts, or **bearish** bets, on emerging-market equities have sneaked back onto the list of most "crowded" trades in Bank of America Merrill Lynch's latest fund-manager survey.

The 231 respondents, managing a combined $663 billion, still view investments in the group of U.S. technology titans known as the FAANG (for Facebook, Amazon.com, Apple, Netflix and Alphabet's Google) as the most crowded position globally.

The last time bearishness about emerging-market stocks was seen as the most crowded trade was in March 2016, after which the sector began to rally.

From April 2016 until its peak in late January, a buyer of the MSCI Emerging Market index could have made a 60% return in dollar terms. Even a buyer who held until today would be up 36% in slightly over two years.

The conventional wisdom can hold for some time, but investors often look at measures of gloom and exuberance as a contrarian indicator of future reversals.

As recently as May, long positions in emerging-market assets broadly were listed among the most-crowded trades in the same survey.

Though U.S. interest-rate increases typically hurt emerging markets, according to Chetan Sehgal, portfolio manager at Templeton Emerging Markets Investment Trust, investors often overreact in advance. "Markets tend to price in a worst-case scenario prior to the event," he said.

Emerging-market equity strategists at JPMorgan Chase & Co. cut their 2018 target for the MSCI EM index from 1,300 to 1,230 this week.

However, that target would still mean a rally of nearly 15% in the next 5 1/2 months.

The gauge is dominated by Asia, including some comparatively developed markets -- shares from mainland China, South Korea, Taiwan and India account for roughly two-thirds of the overall index's value.

Document J000000020180718ee7i0002k

THE WALL STREET JOURNAL.

Markets

Platinum Rebounds as Recent Slide Lures Investors; Metal starting to look 'cheap and attractive,' one analyst says

By Amrith Ramkumar and Ben St. Clair
428 words
3 July 2018
03:46 PM
The Wall Street Journal Online
WSJO
English

Platinum prices surged Tuesday, rebounding from their worst day in nearly seven years as the dollar weakened.

Platinum for October delivery added 4% to $846.30 a troy ounce on the New York Mercantile Exchange. Prices fell 5.2% a day earlier, closing at their lowest level since December 2008 as investors eyed the prospect of U.S. tariffs on imported vehicles.

Roughly 40% of platinum demand comes from its use in diesel engines to scrub emissions. Adding to investor worries, the silvery-white metal has fallen alongside gold and other materials with the dollar strengthening. A stronger dollar makes commodities priced in the U.S. currency more expensive for overseas buyers.

But on Tuesday, the WSJ Dollar Index, which tracks the dollar against a basket of 16 other currencies, fell 0.3%.

Some analysts also think platinum's recent tumble could provide a buying opportunity, with hedge funds and other speculators the most **bearish** they've ever been, according to net futures data from the Commodity Futures Trading Commission.

"People are starting to look at this as cheap and attractive, and I do think that will help stem some of the bleeding," said Maxwell Gold, director of investment strategy at ETF Securities by Aberdeen Standard Investments.

Mr. Gold said he has observed inflows into the firm's ETFS Physical Platinum Shares exchange-traded fund since Friday, after investors pulled money from platinum-backed ETFs in May and June.

Other metals also rebounded Tuesday, with most-actively-traded gold futures adding 1% to $1,251.60 a troy ounce. A strong dollar and higher Treasury yields have recently sent the yellow metal to its lowest level of the year.

Some analysts still expect the metals complex to come under further pressure, with the Federal Reserve expected to continue raising interest rates gradually—which usually makes other investments, like stocks, more attractive.

"We need to see more gains and lasting gains to say that gold is out of the woods already," said Carsten Fritsch, a metals analyst at Commerzbank.

Among base metals, front-month copper for July delivery declined 0.9% to $2.9060 a pound in a fifth straight session of losses. Prices have hit their lowest level since September. With trade tensions between the U.S. and China ratcheting up, some investors fear growth-hindering tariffs will crimp demand for industrial metals.

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Document WSJO000020180703ee730025t

International New York Times

opinion
Trump's Taking Us From Temper Tantrum to Trade War; Op-Ed Columnist

By PAUL KRUGMAN
946 words
3 July 2018
International New York Times
INHT
English

In one way, Donald Trump's attack on our foreign trade partners resembles his attack on immigrants: in each case, the attack is framed as a response to evildoing that exists only in his imagination. No, there isn't a wave of violent crime by immigrants, and MS-13 isn't taking over American towns; no, the European Union doesn't have "horrific" tariffs on U.S. products (the average tariff is only 3 percent).

In another way, however, the trade crisis is quite different from the humanitarian crisis at the border. Children ripped from their parents and put in cages can't retaliate. Furious foreign governments, many of them U.S. allies that feel betrayed, can and will.

But all indications are that Trump and his advisers still don't get it. They remain blithely ignorant about what they're getting into.

Back in March, as the U.S. was imposing tariffs on steel and aluminum imports — and yes, justifying its actions against Canada (!) on the grounds of national security — Peter Navarro, the White House trade czar, was asked about possible retaliation. "I don't believe any country will retaliate," he declared, basing his claim on the supposed upper hand America has because we import more than we export.

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On Sunday, Canada — a country that, by the way, imports about as much from us as it exports in return — announced retaliatory tariffs against $12.6 billion of U.S. products.

The European Union and China have also announced retaliatory tariffs. Mexico, with its new leftist president-elect, is hardly likely to be accommodating. And the E.U. has warned that it will go much bigger if Trump follows through on his threat to put tariffs on European cars, potentially imposing retaliatory tariffs on almost $300 billion of U.S. exports.

It's important to understand that this isn't the normal give and take of trade disputes.

The rules of world trade, established under U.S. leadership in the 1940s and enforced by the World Trade Organization, do allow some flexibility. For example, countries are allowed to impose temporary tariffs in the face of import surges, like the tariff Barack Obamaimposed on Chinese tires back in 2009.

But both the scale and the motivation behind the Trump tariffs — their obviously fraudulent national security rationale — are something new. They amount to rejecting the rules of the game we created; the E.U., in its warning, bluntly calls U.S. actions "disregard for international law." Sure enough, Axios reports that the Trump administration has drafted legislation that would effectively take us out of the W.T.O.

The U.S. is now behaving in ways that could all too easily lead to a breakdown of the whole trading system and a drastic, disruptive reduction in world trade.

Yet Trump appears to believe that the whole world will bow down to American economic power and his deal-making prowess. "Every country is calling every day, saying, 'Let's make a deal'" on trade, he told Fox News.

Of course, he also declared that the head of U.S. Steel called to tell him that the company was opening six new facilities; it isn't, and the conversation apparently never happened.

So we're heading into a trade war, and it's hard to see how the escalation ends. After all, foreign governments literally can't give Trump what he wants, because he wants them to stop doing things they aren't actually doing.

How will all of this affect the U.S. economy? Exporters will be hurt, of course — and exports support around 10 million jobs. Some industries that compete with imports might end up adding jobs. But they wouldn't be the same jobs, in the same places: A trade war would cause huge worker displacement.

And what's especially striking right now is that even industries Trump claims he wants to help are protesting his policies, urging him to reverse course. General Motors warns that proposed auto tariffs could lead to "less investment, fewer jobs and lower wages for our employees." The Motor & Equipment Manufacturers Association has urged the administration to stand down, declaring that "counterproductive unilateral actions" will "erode U.S. jobs and growth" while doing nothing to protect national security.

What do these industries understand that Trump and Company don't? That international economics isn't a game in which whoever runs trade surpluses wins, and that disrupting global supply chains can hurt almost everyone.

But as I said, none of this seems to be getting through. Another administration might look at foreign retaliation, industry protests and stories about jobs lost due to its tariffs and consider the possibility that it's on the wrong path. This administration? Never.

For what it's worth, I don't think most businesses, or most investors in **financial markets**, are taking the threat of trade war seriously enough. They're acting as if this is a passing phase, as if the grown-ups will step in and stop this downward spiral before it goes too far.

But there are no grown-ups in this administration, which basically makes policy by temper tantrum. A full-blown trade war looks all too possible; in fact, it may already have begun.

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Document INHT000020180703ee730000t

The New York Times

Business Day; Economy
Why Friday's G.D.P. Number May Be a Size Too Big

By Ben Casselman
1,043 words
26 July 2018
07:17 PM
NYTimes.com Feed
NYTFEED
English

Prepare to be excited about a blockbuster economic report on Friday morning — but not too excited.

Preliminary data from the Commerce Department is expected to show that United States gross domestic product grew at an annual rate of more than 4 percent in April through June. Some economists think growth may have topped 5 percent — a figure reached only once in the eight years of the Obama administration as the economy recovered from the recession.

While he said he didn't know the actual number, President Trump didn't wait to herald the rosy news. At an event in Iowa on Thursday, he said he was expecting a very strong result, noting predictions that ran to 5 percent or higher. "It could be very close," he said. "Could even happen."

"We'll take anything with a four in front," he added.

Even a number starting with a four, though, will almost certainly be misleading. Several one-time factors — including a surge in exports tied, at least in part, to Mr. Trump's trade policies — probably combined to pump up growth in the second quarter. Those effects won't last, and economists expect growth to slow in the second half of the year. Pretty much no one outside the White House thinks a growth rate of 4 percent is sustainable in the long term.

Still, recent data does suggest that the pace of growth has picked up this year. Some economists think full-year growth in gross domestic product could hit 3 percent in 2018 for the first time since 2005.

"The bottom line is that the economy is doing better," said Diane Swonk, chief economist for the accounting firm Grant Thornton.

Economists, though, will be digging deeper into the report to figure out how much of the acceleration is driven by short-term factors and how much reflects a real shift in the underlying pace of growth. Here are three questions that will help distinguish a solid report from a great one.

How much did the trade war muddle the numbers?

Economists are nearly unanimous in thinking that the escalating rounds of tariffs and countermeasures will be bad for the United States economy in the long run. But for one quarter, at least, trade tensions could have actually led to faster growth, as foreign buyers rushed to stock up on American goods before tariffs took effect. The resulting surge in exports could add a percentage point or more to the G.D.P. figure.

The trend is particularly clear in exports of soybeans, which were up more than 50 percent in May from a year earlier. Those buyers presumably didn't want more soybeans than usual — they just wanted them sooner. Exports will almost certainly slump in the third and fourth quarters, and will turn into a drag on overall economic growth.

For a better sense of the pace of growth, economists will look at what the Commerce Department calls "final sales to domestic purchasers." That measure strips out the effects of trade and of inventories, which can be similarly skewed by quirks of the calendar. (Both numbers are also subject to big revisions.) Anything above 3 percent would reflect strong underlying growth.

How much did government spending contribute?

Early this year, Congress approved a budget deal that will increase federal spending by hundreds of billions of dollars over the next two years. Many economists question the wisdom of passing what amounts to a debt-funded stimulus package when unemployment is low and the economy is strong. But whether or not they like the policy, they agree it will give the economy a temporary jolt.

Unlike the trade effects, the lift from government spending won't disappear overnight. Most economists expect the budget deal to keep adding to growth for the rest of the year and into 2019. After that, though, the effects will fade.

As a result, some economists are focused on a measure of growth that strips out government spending, as well as trade and inventory effects. Research from President Barack Obama's Council of Economic Advisers found that measure, known as "final sales to private domestic purchasers," to be a better predictor of long-run growth trends.

What about the tax cuts?

The Republican tax cuts, which took effect in January, didn't have much effect on economic growth in the first quarter. Consumer spending growth actually slowed, and business investment in equipment, which the tax law was meant to encourage, had its weakest showing in a year.

The second quarter could be a different story. Retail sales and other data suggest that consumer spending rebounded, and capital spending has been picking up as well. The tax cuts probably contributed to both trends, although it will be hard to discern exactly how much.

Economists will be watching business investment particularly closely. The Trump administration and its supporters argue that the tax cuts will stimulate investment, which could make the American economy more productive in the long term. Critics argue that companies will mostly return their tax windfalls to shareholders in stock buybacks and dividends, giving the economy the equivalent of a short-term sugar high but doing little for the longer run.

"We have yet to see any meaningful evidence of an increase" in investment, said Joe Brusuelas, chief economist at the accounting firm RSM U.S. "That's something that you can't make a judgment on in one or two quarters. That's something that you make a judgment on in two or three years."

Follow Ben Casselman on Twitter: @bencasselman. Mark Landler contributed reporting.

* Trump to Promote Impact of Steel Tariffs in Illinois

* U.S. Businesses Are **Bullish** Amid Worldwide Instability

* If the Trade War Starts to Damage the Economy, Here's How You'll Be Able to Tell

* Tariffs Trim a Factory's Profit, but Loyalty to Trump Endures

A worker at CP Industries in McKeesport, Pa., which makes pipes from imported steel. Metal tariffs figure to increase costs for many companies, but the trade battle is expected to provide a transitory lift to the nation's economic growth. | Ross Mantle for The New York Times

Document NYTFEED020180726ee7q0096l

The New York Times

National Desk; SECTA

Tariffs Trim Ohio Plant's Profits, But Support for Trump Is Steady

By NELSON D. SCHWARTZ; Ben Casselman contributed reporting from New York.
1,594 words
24 July 2018
The New York Times
NYTF
Late Edition - Final
1
English

COLUMBUS, Ohio -- You might think that managers and workers at Banner Metals would be up in arms over the Trump administration's trade policies. After all, tariffs on imported steel and aluminum have pushed raw-material prices up and margins down, forcing the company to delay plans to purchase a new $1 million cutting machine and hire two new employees to operate it.

But the reaction at the plant is based on more than self-interest. ''I'm not looking at what's best for Banner right now,'' said Bronson Jones, a part-owner of the company and its chief executive. ''I'm looking at what's best for the national economy. The U.S. has been taken advantage of for too long.''

That proposition, tracing a **volatile** political fault line, is frequently encountered on the factory floor here, a few miles from this prosperous city's gleaming downtown.

Casey Jackson, a maintenance technician, said he would support the tariffs even if they cost him personally. ''If it comes out of my paycheck, so be it,'' he said. ''You got to look at the big picture. That tiny bit of sacrifice we make will create jobs.''

While the manufacturing sector is on the upswing nationally -- factories have added 344,000 jobs since the beginning of 2017 -- there is an abiding sense of siege among factory workers and executives alike, of having been shortchanged in the trade equation.

Mr. Trump, in departing from the traditional Republican embrace of free trade, struck a chord in 2016, carrying this battleground state by eight percentage points. And the workers on the factory floor underscore his reservoir of blue-collar support -- even as he pursues a trade conflict in which key American industrial sectors could be hit. For them, there is still a larger wrong that must be righted.

Divisions on the issue remain stark. In a poll conducted by SurveyMonkey for The New York Times in early July, 76 percent of Republicans supported the metal tariffs, while 79 percent of Democrats opposed them. Nearly half of workers with a high school diploma or some college said they approved of the tariffs, compared with 39 percent of college-educated workers.

As Mr. Jackson, a 34-year-old Air Force veteran, sees it, the current trade war recalls past military conflicts. ''We had victory gardens in World War II,'' he said during a break between shifts, which run from 6 a.m. to 4:30 p.m. and then from 4:30 p.m. to 2:30 a.m. ''I know the tariffs have an impact on us, but I don't think it was a mistake.''

Besides the 20 to 25 percent increase in raw material prices in recent months, Mr. Jones has found himself scrambling to line up shipments of the steel and aluminum that Banner's two-story-tall stamping machines turn into parts for aircraft brakes and seats. Bigger manufacturers have been hoarding metal supplies, he said, ordering larger amounts to get ahead of rising prices and leaving smaller firms like Banner at a disadvantage.

''We were accustomed to four weeks' lead time, but now it can be as long as 16 to 20 weeks,'' he said. In response, Banner has been flying in steel from an Austrian supplier, an expensive proposition when the price of airfreight and the new tariffs are taken into account.

With about 70 percent of Banner's business coming from the aerospace industry, Mr. Jones can't easily switch metal suppliers. Anything going into an airplane has to be carefully certified beforehand, restricting Banner's options when raw material is delayed.

"With aerospace, you can't pick up and move it," Mr. Jones said.

Mr. Jones had planned to buy a laser cutting apparatus that would be able to do some production currently outsourced, but pressure on profit margins forced him to postpone the order in May. He even visited the manufacturer while the machine was under construction and had a spot picked out for it at the plant.

"It was like going to see your new car in the showroom," he said. "But with steel prices up, we could see the writing on the wall."

Nevertheless, while Mr. Jones isn't always comfortable with what the president may say or put on Twitter, he likes the overall strategy.

"He's going for the jugular, which is typical Trump style," he said. "I'm not used to it, and it's not a presidential style we are accustomed to. But he's the only president who's taken a significant stance on trade, and we need a brash approach."

The scope of the trade tensions has been widening -- 25 percent tariffs on imported steel went into effect this spring, and the White House imposed duties on hundreds of billions of dollars' worth of Chinese imports this month. The Commerce Department has also been examining whether imports of foreign cars pose a national security threat, a prelude to protectionist steps in the auto industry.

The steel tariffs have resulted in the creation of some new jobs. After going cold in 2015, for example, the blast furnaces are restarting at U.S. Steel's plant in Granite City, Ill., in large part because of higher prices for the tubular steel churned out there.

But a vast majority of economists argue that over all, tariffs cost more jobs than they create. And there are many more metal consumers out there, like Banner, than metal producers like U.S. Steel.

Despite the perception of an uneven playing field in trade, Banner has been thriving.

Founded in 1921 as a tool-and-die producer, the company has added eight workers in the last couple of years, bringing its work force to 38. Demand from customers like Boeing, Airbus and United Technologies has been strong.

"We do parts for everything that flies," said Rick Sayre, Banner's vice president for engineering. "It's been a good run."

Even though manufacturing accounts for only 8.5 percent of the nation's work force, compared with 15 percent a quarter-century ago, it continues to offer opportunity at plants like Banner's.

Machine operators earn $15 to $20 an hour, and experienced tool-and-die makers can earn twice that. There are also avenues for advancement -- Mr. Jones himself started in the shipping department at Banner 24 years ago, earning $8 an hour as a quality-assurance inspector. He eventually rose into management and bought the company with two partners in 2013.

"We believe in promoting from within, and we encourage people to go back to college," he said. In some cases, Banner will pay for additional training for employees.

Even as the talk of a trade war has intensified, and new duties go into effect, Mr. Jones said he saw the Trump administration's moves as part of a negotiating strategy, not a fundamental move away from free trade, which he said he supported.

"I don't think hundreds of billions in tariffs are going into effect with other countries, but it sure gets their attention," he said. "I don't think it will all stick, and they'll meet in the middle. It's short-term pain for long-term gain."

The results of the survey for The Times echoed Mr. Jones's analysis. Among Americans who said they approved of the tariffs, a third said they thought Mr. Trump's approach to trade would be "helpful in the long term but harmful in the short term."

Mr. Sayre concurred -- with one caveat. "I never cared much for the way Trump does it, but he's doing O.K. as far as I'm concerned," he said. What exactly doesn't he like? "The way he bullies everybody and bends the truth," Mr. Sayre said.

Back on the factory floor, Mr. Jackson said he was comfortable with the president's game plan. ''It's aggressive, it's tough, and he won't back down,'' Mr. Jackson said. ''Using trade as a bargaining chip will help someone else put food on the table.''

James Ford, another hourly employee, who is a production supervisor, jumped into the conversation. ''I like that Trump doesn't sugarcoat anything,'' he said. ''People get offended very easily by somebody being direct.''

Other workers, like Todd Grizzle, a 25-year-old maintenance technician, said he could see both sides of the tariff debate. But his memories of the closing of Columbus Casting on the city's South Side are still fresh.

Once the nation's largest foundry, the century-old complex employed 800 people when it filed for bankruptcy in 2016. ''There was a flood of people looking for work,'' Mr. Grizzle said.

The red-brick factory, which looked like something out of Dickens and covers 90 acres, is being demolished. The lesson that Mr. Grizzle said he had learned was that American jobs needed to be protected.

''I like the idea of the U.S. having allies,'' he said. ''But if this can bring more jobs back to America, that's a good thing.''

Clockwise from top: Machines at Banner Metals in Columbus, Ohio, turn steel and aluminum into parts for aircraft brakes and seats; products in the company's quality-control room; and a worker loading a roll of steel onto a machine at the factory. (PHOTOGRAPHS BY ANDREW SPEAR FOR THE NEW YORK TIMES) (A14)

Document NYTF000020180724ee7o0005b

The New York Times

Foreign Desk; SECTA
President-Elect of Mexico And Trump Have a Chat

By MICHAEL D. SHEAR and ANA SWANSON; Kirk Semple contributed reporting from Mexico City.
1,471 words
3 July 2018
The New York Times
NYTF
Late Edition - Final
6
English

WASHINGTON -- President Trump reached out to Mexico's new populist president-elect on Monday in an early, but potentially short-lived, show of détente, saying the two leaders engaged in a ''good conversation'' about border security and the North American Free Trade Agreement.

The two countries remain locked in a heated dispute over the fraught issues of immigration and trade, areas that may face difficult complications from the election of Andrés Manuel López Obrador, a leader known for being as strong-headed and nationalist-minded as Mr. Trump -- and just as willing to engage in a public clash of ideas.

Mr. López Obrador, who has said Mexico will not be a ''piñata'' for foreign governments, has said he will stand up to Mr. Trump to protect his country's interests. And he may find himself under pressure by an electorate that, weary of Mr. Trump's hectoring and disparaging comments about Mexico, will demand that he cede no ground, leaving little room to manage the relationship.

''There are going to be so many opportunities for this to go wrong,'' said Duncan Wood, the director of the Wilson Center's Mexico Institute. ''If there are too many provocations, if there are too many insults against Mexico, López Obrador will not be able to just sit back and take it. His character shows that he will respond, and that could lead us down a dark path.''

Relations between Mexico and the United States are already tense, particularly over trade and the future of Nafta, which has enabled companies to create critical supply chains across North America. Talks to revise the trade pact among Mexico, the United States and Canada have stalled over dramatic changes proposed by the Trump administration, including altering protections for investors and rules for manufacturing automobiles in North America.

Mr. López Obrador has been a longtime critic of the 1994 trade pact and has given no indiction he will be more willing to accommodate Mr. Trump's demands than the current Mexican government. Among other things, Mr. López Obrador has blamed Nafta for triggering an influx of grain from the United States that ultimately forced Mexican farmers off their land.

But Mr. López Obrador has pledged to continue to renegotiate Nafta -- a promise that could ultimately put him in the position of defending the trade agreement against the frequent criticisms of Mr. Trump, who has called it the ''worst'' trade deal in history and blamed Mexico for siphoning off American jobs. Mr. López Obrador's advisers have said they will start working with the current Nafta negotiators soon to ensure a smooth transition when the new administration takes office on Dec. 1.

The president-elect has also taken a far more critical view than his predecessor of corporations -- which have among the most to win or lose with a revised Nafta. He has long criticized the role of multinational corporations in Mexico and once promised to turn the presidential palace into a public park. He has promised to review dozens of outstanding oil and gas exploration contracts for corruption, potentially delaying hundreds of billions of dollars in foreign investment. His election has put the value of the peso and Mexican government bonds on a more **volatile** path.

During the campaign, Mr. López Obrador and his advisers worked to reassure voters and industry that he would provide continuity for the private sector.

Known as an anti-establishment candidate, Mr. López Obrador is a divisive figure with Mr. Trump's flare for capturing attention. After a failed bid for the presidency in 2006 against Felipe Calderón, Mr. López Obrador held a faux inauguration ceremony for himself, appointed a shadow cabinet and protested in the middle of the capital for weeks.

Mr. Trump and Mr. López Obrador spoke for 30 minutes Monday morning after the latter 's landslide victory Sunday night. The call came just hours after Mr. Trump congratulated Mr. López Obrador in a rare, friendly tweet that said: ''I look very much forward to working with him.''

The incoming Mexican president in turn pledged never to ''disrespect'' the United States government. In a tweet of his own, Mr. López Obrador said there was ''respectful treatment'' on the call.

Any period of gracious talk may be short lived, however, with Mr. Trump almost certain to continue his tirade about the 2,000-mile border with Mexico, and Mr. López Obrador virtually guaranteed to fire back in ways that his predecessors did not.

Mr. López Obrador ''has committed to a louder, more combative posture with the U.S.,'' said Carlos M. Gutiérrez, the former secretary of commerce under President George W. Bush. ''He's getting ready to take it up a notch.''

Mr. Trump campaigned for the presidency by demanding a wall across the southern border and suggesting that people being ''sent'' from Mexico into the United States are ''bringing drugs. They're bringing crime. They're rapists.''

More recently, Mr. Trump has escalated his language against Mexico, accusing Democrats in a tweet of wanting ''illegal immigrants, no matter how bad they may be, to pour into and infest our Country, like MS-13.''

Enrique Peña Nieto, the outgoing Mexican president, has objected to the construction of a wall -- and insisted that Mexico would not pay for one if it was built -- but repeatedly tried to avoid messy diplomatic confrontations with his American counterpart. Mr. López Obrador is sure to be less restrained. In a speech last year, he railed against Mr. Trump's government.

''When they want to build a wall to segregate populations, or when the word 'foreigner' is used to insult, denigrate and discriminate against our fellow human beings, it goes against humanity, it goes against intelligence and against history,'' Mr. López Obrador said.

''López Obrador's initial reaction will be to try to find a way to work with Trump rather than attacking Trump,'' said Jorge Guajardo, a former Mexican diplomat who served in the United States and China. ''If there's a chill cast on the relationship, it will be on Trump. If he does, López Obrador will easily run away from the United States.''

Diplomatic and financial relations between Mexico and the United States run deep, and the two have quietly continued to work closely together on a range of matters critical to their mutual well-being, including security, trade and migration. That is expected to continue despite the seismic shift in Mexican leadership.

Chrystia Freeland, the Canadian foreign minister, was also optimistic about the ongoing negotiations on Nafta on Friday, saying that talks would ''really be moving into high gear'' now that the Mexican election was concluded.

But with major obstacles remaining and no time left for the sitting Congress to pass a deal, trade experts say negotiations seem likely to drag into 2019. In an interview broadcast Sunday on Fox News, Mr. Trump said he wanted to wait to conclude the deal until after the midterm elections.

''I could sign it tomorrow, but I'm not happy with it,'' Mr. Trump said. ''I want to make it more fair, O.K.?''

The fate of the pact could be further complicated if Democrats gain congressional seats in November, given longstanding concerns by many in the party about the pact and its effect on American jobs and wages.

The finer points of Mr. López Obrador's views on Nafta remain to be seen, but analysts say he is likely to toughen Mexico's defense of its agriculture -- an issue that he sees as linked to migration from Mexico to the United States.

Manuel Pérez-Rocha, an associate fellow at the Institute for Policy Studies in Washington, said Mr. López Obrador believed that failed economic policies championed by the United States but also Mexican elites were one of the main causes of Mexicans being pushed off farms and on the path to immigration to the United States.

"He really doesn't want to criticize Nafta too much, because that would put him at odds with the business community and investors," Mr. Pérez-Rocha said. "But what he's all about is strengthening the internal economy to focus on Mexico's jobs and the countryside."

The leaders may also find more room for compromise on the need to raise salaries in the Mexican auto industry, an area where the Trump administration has concurred with Democrats, but clashed with the current government of Mexico.

Representative Sander M. Levin, Democrat of Michigan, called the election "an opening to address the key flaw in Nafta."

"There is an opportunity to improve conditions for workers and communities in all three countries," he said.

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Document NYTF000020180703ee730004p

The New York Times

The Week Ahead
Business Day
Moguls Rub Shoulders in Idaho, and China Releases Trade Numbers

By The New York Times
620 words
8 July 2018
02:59 PM
NYTimes.com Feed
NYTFEED
English

Media and tech moguls gather to discuss deals.

Some of the biggest moguls in technology and media — including Mark Zuckerberg of Facebook, Timothy Cook of Apple and Rupert Murdoch of 21st Century Fox — are expected to be in Sun Valley, Idaho, this week for an annual conference run by the investment bank Allen & Company. The gathering, which starts on Tuesday, is expected to focus on the intensifying consolidation in the media sector, and it could be the hatching ground for the next big takeover, conceived in the hallways of the resort between panel discussions.

E.U.'s treaty with Japan to counterbalance U.S. protectionism.

Shinzo Abe, the prime minister of Japan, will visit Brussels on Wednesday to sign an agreement with the European Union to lower trade barriers. The treaty is the latest example of how the European Union is aggressively signing free trade agreements as a counterweight to American protectionism, and it follows similar accords with Canada and South Korea. The agreement is expected to be benefit, among other industries, European wine and cheese makers, whose products will no longer be subject to tariffs when entering Japan.

Inflation probably picked up in June.

Friday's jobs report showed that hiring was strong in June but that wage growth remained sluggish. That's bad news for workers hoping for a raise, but it should ease fears that low unemployment will lead to faster inflation. Still, investors and policymakers will be watching closely on Thursday when the Labor Department releases data on consumer prices in June. Economists surveyed by FactSet expect the report to show that the Consumer Price Index rose 2.9 percent from a year earlier, which would represent the fastest growth since 2012. Setting aside **volatile** food and energy prices, however, consumer prices probably rose a more modest 2.3 percent.

European Central Bank will release an account of June's meeting.

The European Central Bank on Thursday will publish an account of its June monetary policy meeting, shedding light on the thinking behind the decision to end its main stimulus program after the end of the year. The European economy boomed in 2017, though growth has slowed in recent months and a number of problems lurk in the region. Investors and analysts will also be looking for clues about when the central bank may start to raise key interest rates from record low levels. The bank said last month that it wouldn't raise rates before the end of next summer, but was vague about how it defined "summer."

Chinese trade numbers may show effect of fight with the U.S.

Monthly figures from the Chinese government could provide a hint of whether the trade fight with the United States is beginning to take a toll. The data from June, to be released on Friday, will reflect the period before President Trump officially began a trade war last week by imposing tariffs on $34 billion in Chinese-made goods. So far, China's exports to the United States have risen despite the escalating rhetoric between Washington and Beijing. That reflects the strength of the American economy, though stockpiling by American buyers may also be a factor.

Banks to report earnings on the heels of stress tests.

Banks will begin reporting second-quarter earnings this week, with Citigroup, JPMorgan Chase and Wells Fargo set to report results on Friday. Fresh from winning regulatory approval to give 17 percent more cash back to their shareholders this year than last year, the country's biggest banks may reveal another stellar quarter — if they've managed to stay ahead of rising interest rates.

Document NYTFEED020180708ee78002p9

THE WALL STREET JOURNAL.

Markets
U.S. Banks Could Lose Out Under U.K.'s Brexit Plan; Lenders won't get special treatment under the British government's proposal

By Max Colchester
605 words
12 July 2018
12:27 PM
The Wall Street Journal Online
WSJO
English

The U.K. on Thursday set out its negotiating position on Brexit—and the news isn't great for U.S. banks with big offices in London.

After the U.K. voted to leave the European Union, banks like JPMorgan Chase & Co., Citigroup Inc. and Goldman Sachs Group Inc. lobbied the British government to negotiate a new trade deal whereby the U.K. and EU would agree to adopt similar banking regulation, essentially preserving something akin to the way banks operate now.

That could have allowed banks in London to keep selling products like loans to Europe-based clients even after Brexit.

What did they get?

The proposal falls far short of something close to the status quo. The U.K. government said it would seek a looser agreement, pushing for a version of "equivalence," a less-integrated deal whereby the European Union allows reciprocal access to a foreign market on condition that it is properly regulated. (It has done this, for instance, on clearing in the U.S.)

Lenders don't like equivalence because it applies to a narrow range of activities and can be pulled by the EU at short notice. That makes it hard to build a business around.

The British government said it wanted an enhanced version of equivalence that allows for each side to consult on any rule changes to reduce the chance of such a deal being ditched. The U.K. also wants to make it harder to quickly ax an equivalence deal.

Lobbyists at banks were disappointed. The U.K. Treasury had previously reassured financiers it would seek to bind the U.K.'s banking system close to the EU's. TheCityUK, a trade group representing financial services, said in a statement it was "frustrated" by the government's decision.

One senior lobbyist saw the move as a conciliatory gesture by the British to their counterparts in Brussels. The idea the U.K. could leave the trade bloc's single market yet retain access for its banks was seen as unworkable by EU officials.

Lobbyists at banks were disappointed. Lenders don't like equivalence because it applies to a narrow range of activities and can be pulled at short notice. That makes it hard to build a business around.

Why does all this matter?

U.S. banks are among the businesses with the most to lose from Brexit. They spent billions of dollars building large operations in the U.K. to sell products to clients across the EU and beyond. That relied on regulatory clearances based on the U.K. staying in the EU. Brexit will likely force banks to go back to a more disparate—and more expensive—setup, with big offices in both the EU and Britain.

So what happens now?

The paper is just a first pitch by the U.K. government. The EU—which is skeptical about giving London privileged access to its **financial markets**—could dismiss it out of hand. Regulators in the EU, meanwhile, are pressuring banks to set up on the Continent in case Brexit talks suddenly collapse. All the big U.S. banks have drawn up plans to bulk up offices in the EU. Jobs have already started to move.

Not everyone is unhappy. Some in the City of London hope a move away from the EU opens the possibility for a deregulation drive that could attract even more business to the U.K.

Write to Max Colchester at max.colchester@wsj.com

Document WSJO000020180712ee7c0025u

THE WALL STREET JOURNAL.

Markets

Hedge Funds Set to Face Off Over Debt-Ridden Windstream; Aurelius Capital, Elliott Management take sides in broadband provider's fight for survival

By Soma Biswas
936 words
22 July 2018
08:00 AM
The Wall Street Journal Online
WSJO
English

Corrections & Amplifications

James Millar is a bankruptcy lawyer at Drinker, Biddle & Reath. An earlier version of this article misspelled his name as Miller. (July 24, 2018)

Two heavyweights of distressed-debt investing will face off this week over Windstream Holdings Inc. Hedge fund Aurelius Capital Management is looking to profit from the internet provider's precarious financial position, while Elliott Management Corp. is betting it will stay afloat.

Aurelius Capital Management, founded by former bankruptcy lawyer Mark Brodsky, is known for winning big bets on distressed corporate bonds and sovereign debt. This time, Aurelius is betting against Windstream, people familiar with the matter said.

Aurelius in September sent Windstream a letter accusing the company of defaulting on a bond when it spun off its fiber-optic cable business. The move violated a provision in the company's bond documents, Aurelius said.

A default on one bond could potentially trigger defaults on $6 billion of debt.

On the other side is Paul Singer's Elliott Management, which has bought up Windstream debt. Elliott, equally adroit at navigating the courts and making money on distressed debt, is joined by other Windstream bondholders, including BlueMountain Capital and J.P. Morgan Asset Management, according to people familiar with the matter.

Elliott and Aurelius share a history. The firms joined forces to win a 15-year battle to get Argentina to pay them back in full on defaulted bonds.

But Aurelius's push for a Windstream default means Mr. Brodsky, 64 years old, is now on the opposite side from Elliott, the firm where he got his start.

The legal fight will come to a head on Monday, when a trial kicks off before Judge Jesse M. Furman in U.S. District Court in New York. Windstream is asking the court to void Aurelius's declaration of default.

Windstream spun off its fiber-optic cable network into a separate company called Uniti Group Inc. in 2015. Aurelius claims that, as a result, it is owed full repayment on its bonds plus interest—a sum of $371 million. Windstream has said such an adverse ruling will push it into bankruptcy.

Windstream's lawyers claim that Aurelius has a position in Windstream bond insurance and is pushing for a default just so it can collect on instruments known as credit-default swaps, according to court documents.

In its own filings, Aurelius hasn't said whether it has a position in Windstream bond insurance and has stuck to its arguments about the company's spinoff violating bond covenants.

Elliott and BlueMountain have made various bets that Windstream will win its case. The funds have bought Windstream bonds as well as debt and equity stakes in Uniti, according to people familiar with the matter. Keeping Windstream out of bankruptcy is key to protecting those investments.

J.P. Morgan Asset Management is also a large holder of Windstream bonds, according to public documents.

Windstream, based in Little Rock, Ark., has been losing residential and business customers to cable and wireless companies for years and has slowly been replacing its copper network with faster fiber-optic cables.

Aurelius says Windstream's spinoff is really a sale-leaseback agreement that is prohibited by the company's bond covenants. Uniti's cable network remains essential to Windstream's business, and, under a 15-year lease, Windstream pays $650 million a year to Uniti.

Windstream's lawyers, in defense of the deal, rely on the fine print of the bond covenants. The company says Windstream Services, the subsidiary that issued the bonds, isn't party to the lease with Uniti. It is the parent company, Windstream Holdings, that signed the lease and pays the rent to Uniti. Nothing in the Windstream Services bond documents forbids Windstream Holdings, the parent, from entering into a sale-leaseback deal with Uniti, the company says.

Lance Vitanza, a distressed-debt analyst at Cowen & Co., believes Aurelius will have a tough time showing the Uniti spinoff was improper.

"I don't think they'll be able to prove that this was a violation," he said.

Other observers of the closely watched case believe Aurelius has too many hurdles to clear in order to win in court. It must convince a judge to void waivers investors granted against any default tied to the Uniti spinoff and unwind a related debt swap last year.

"The main goal most judges have is to preserve companies as going concerns," said Stan Manoukian of Manoukian Research, a distressed-debt research firm. "And typically they're not inclined to reverse old transactions."

Some distressed-debt professionals also believe Windstream has a viable business and a reasonable chance to turn it around within the next few years as it raises cash from asset sales and deploys new technology.

One sign that investors are **bullish** on Windstream is a decline in the cost of insuring $10 million of Windstream bonds against a default within one year. It has fallen to $1.9 million from about $3.2 million in March, one trader said.

Not everyone, however, is ready to count out Mr. Brodsky.

"I think [Aurelius's] argument is stronger than what people have been thinking," said James Millar, a bankruptcy lawyer at Drinker, Biddle & Reath.

While acknowledging the difficulty in predicting how the judge will rule, Mr. Millar, who isn't involved in the case, believes Aurelius has a good shot if Judge Furman focuses solely on the language in Windstream's bond documents and ignores broader implications of the ruling, such as the fate of the company and its thousands of employees.

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Document WSJO000020180722ee7m000gr

THE WALL STREET JOURNAL.

Opinion

Some Good Trade News; Europe and the U.S. call a truce and pledge to negotiate 'zero tariffs.'

By The Editorial Board
761 words
25 July 2018
07:17 PM
The Wall Street Journal Online
WSJO
English

The meeting on trade Wednesday between President Trump and European Commission President Jean-Claude Juncker had all the makings of a potential crackup, but in the event it provided the best economic news in weeks. **Financial markets** were clearly pleased, as stocks rose across the board before the closing bell on the statements by the two presidents after their White House session. Call it a relief rally.

The two sides essentially declared a tariff truce, pending negotiations on a larger trade deal between the 28-nation European Union and the U.S. Mr. Trump agreed to step back from his threat of 25% tariffs on European car imports, while the two sides pledged to resolve the current U.S. steel and aluminum tariffs and Europe's retaliatory levies on U.S. goods.

Europe also agreed to buy more soybeans immediately, and much more liquefied natural gas from the U.S. in the future as its import capacity expands. U.S. LNG export capacity is expected to nearly triple by 2020 to 9.6 billion cubic feet a day, as more export terminals come online and the fracking boom continues.

Most important, the two sides agreed to negotiate a larger trade deal that Mr. Trump said would have as a goal "zero tariffs, zero non-tariff barriers and zero subsidies on non-auto industrial goods." This suggests that Europe has taken Mr. Trump up on his offer, floated at the last minute at the G-7 meeting in June, to work toward zero tariffs. The question at the time was whether this was serious, or political misdirection, and now we'll find out.

The zero tariff target won't be easy to reach. Europe has a 10% tariff on U.S.-made cars and the U.S. charges only 2.5% on cars made in Europe. But the U.S. charges a 25% tariff on imported trucks, which Europe will want the U.S. to take to zero. That won't please Ford and U.S. companies that make the bulk of their profits from trucks and SUVs. But perhaps they'll be willing to consider zero on trucks as an alternative to the disaster that would come from Mr. Trump's threat of 25% on cars.

The White House will crow that Europe blinked, but it's more accurate to say the two sides are stepping back from mutually assured economic destruction. The car tariffs would certainly have punished Germany, the locomotive of Europe's economy.

But Mr. Trump also had ample political and economic incentive to call a truce. The retaliatory tariffs from China, the EU, Mexico, Canada and Japan are beginning to hurt U.S. farmers and manufacturers. Mr. Trump felt obliged this week to bail out U.S. farmers by providing up to $12 billion to buy surplus crops that can't find a foreign market. Harley-Davidson and other firms are moving plants abroad to avoid higher import costs and duck retaliatory tariffs. All of this in turn is beginning to have political consequences as more Republicans in Congress are finding their voice in favor of free markets.

The protectionist threat is far from over. The talks with Europe could founder on any number of issues, especially European barriers to competition from America's more efficient service industries or genetically modified foods. France will be a particular problem.

Then there's the fast-closing deadline for getting a Nafta deal done during the current U.S. Congress and before the Mexican presidential handoff on December 1. A Nafta modernization that can pass Republican muster on Capitol Hill would remove a big threat to business investment.

Deals with Europe and the Americas would let Mr. Trump focus on China trade with some allies to back him up. Fighting trade wars on multiple fronts makes little sense and lets China play Western countries against one another. Beijing would have to take seriously a united front of the world's largest importers against, say, intellectual property theft.

The U.S. economy has broken out of its Obama doldrums and is growing at a faster than 3% pace for the first time in 12 years. Mr. Trump's trade policies are the biggest threat to that economic progress. The faster Mr. Trump concludes his new deals, the more likely the economic revival will continue.

Potomac Watch Podcast

* Potomac Watch podcast: The fight over documents in Kavanaugh's confirmation.

Document WSJO000020180725ee7p007hh

THE WALL STREET JOURNAL.

Markets
State Street to Buy Charles River Systems for $2.6 Billion; Bank has looked to step out of money managers' back offices and onto trading floors

By Justin Baer
910 words
20 July 2018
05:15 PM
The Wall Street Journal Online
WSJO
English

State Street Corp. is paying nearly $3 billion in cash to prove it is serious about its transformation from sleepy custodian to tech-savvy data manager.

The Boston bank said Friday it had agreed to buy financial-data firm Charles River Systems Inc. The decision is its boldest move yet to step out of its financial-services clients' back offices and onto their trading floors, where State Street can offer data, analytics and trading tools to investment staff.

"Our overall strategy even before we started talking to Charles River has been about data, and about this idea that information delivered in an appropriate way and in a usable way is the most powerful tool we can provide to market," State Street President Ron O'Hanley said on a conference call with analysts.

Reacting to the agreement, some investors said they were concerned State Street is paying too much, and skeptical the company would be able to meet all of the revenue targets laid out in the deal.

State Street's shares fell 7.4% on Friday, their biggest one-day drop in more than two years. The stock closed at $85.87, down $6.87.

To help pay for the acquisition, State Street canceled plans to buy back about $950 million in company stock this year. The firm will spend $2.6 billion on the acquisition—nearly nine times Charles River's revenue in 2017.

Boston-based State Street also reported quarterly results that fell short of some analysts' expectations.

"There's definitely some strategic sense to it," Glenn Schorr, an analyst with Evercore ISI, said of the Charles River deal. "Execution-wise, it will take time and will be hard to do."

Charles River, a closely held firm based in Burlington, Mass., runs a software platform used by more than 300 investment firms, wealth managers and other financial-services companies—many of which overlap with State Street's client list. It has 745 employees and tallied revenue of more than $300 million last year.

Mr. O'Hanley said Charles River's founder and chief executive, Peter Lambertus, owns nearly all of his company's equity. He will serve in a consulting role as State Street completes the acquisition.

The bank will appoint a new CEO to run Charles River, which will be a stand-alone division within State Street. The bank expects the deal will begin to add to its earnings in 2020.

The deal comes as State Street and other custody banks look to pull out of a yearslong rut of low revenue growth as financial-services firms push to lower the fees they pay for custody and accounting. The industry's biggest players, including State Street and Bank of New York Mellon Corp., have slashed expenses in a bid to lift earnings.

But investors want them to boost revenue, too. Those firms are betting technology, and the sweeping digitization of **financial markets**, will emerge as a panacea, of sorts—allowing them to automate functions and lower costs, but also giving them the tools to harness the reams of data they collect from clients as custodian to trillions of dollars in assets.

State Street, which performs core administrative and accounting tasks for 86 of the world's largest 100 money managers, has been steadily adding to its own data and analytics offerings. The bank estimates there is an $8 billion market for those tools. Bloomberg LP and BlackRock Inc.'s Aladdin unit are among Charles River's biggest rivals.

The Charles River agreement is also the latest bid by Mr. O'Hanley to lean on acquisitions to speed up State Street's transformation. As head of the firm's asset-management business, he had championed State Street's 2016 purchase of General Electric Co.'s investments division.

Mr. O'Hanley did a series of deals as president of BNY Mellon's asset-management arm, and joined State Street in 2015 after a four-year stint at Fidelity Investments. He is slated to succeed Joseph Hooleyas the bank's chief executive at the end of the year.

State Street announced the Charles River agreement minutes before it reported second-quarter net income of $698 million, or $1.88 a share. The profit figure marked a 20% increase from a year earlier, when the firm earned $584 million, or $1.53 a share.

Included in the latest results was a $77 million charge, or 17 cents a share, related to job cuts and management changes related to its continuing push to automate functions and eliminate expenses.

Excluding the charge, State Street earned $2.05 a share. Analysts polled by S&P Global Market Intelligence had expected a per-share profit of $2.01.

Total revenue rose 7.7% to $3.03 billion.

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Document WSJO000020180720ee7k0015p

International New York Times

business

How Rare Earths (What?) Could Be Crucial in a U.S.-China Trade War

By ALEXANDRA STEVENSON
1,413 words
12 July 2018
International New York Times
INHT
English

KUANTAN, Malaysia — Amanda Lacaze grabbed her iPhone and rattled off the names of the special minerals needed to make it. The screen was polished with lanthanum and cerium. The inside has a magnet made with neodymium and praseodymium.

Those minerals almost certainly came from China. Ms. Lacaze's job is to give the world an alternative source, in case a global trade war spirals out of control and China cuts off supply.

Right now, she can't. Her company, Lynas Corporation, can provide only a fraction of the minerals — known as rare earths — that China produces. And even that source isn't a sure thing: The work is so **volatile**, complex and expensive that Lynas once came close to collapsing.

"There were times where we were sitting there and I'm saying, 'Can we really afford to put coffee into the staff rooms?'" Ms. Lacaze said.

The Trump administration amped up its trade fight with China on Tuesday when it threatened to impose tariffs on an additional $200 billion in Chinese goods, ranging from frozen catfish fillets to copper wires to piston engines. China has threatened to match them dollar for dollar.

But it has other ways to retaliate beyond tariffs. It could refuse to buy American products, like planes from Boeing. It could intensify regulation of American companies doing business on the mainland. It could threaten to offload a piece of its huge portfolio of Treasuries, which could rattle the bond market.

And in one of its more strategic weapons, Beijing could use its dominance to cut off key parts of the global supply chain. China is the major supplier of a number of mundane but crucial materials and components needed to keep the world's factories humming. They include obscure materials like arsenic metals, used to make semiconductors; cadmium, found in rechargeable batteries; and tungsten, found in light bulbs and heating elements.

They also include rare earths. A trade war risks putting those minerals in the middle of the conflict, potentially giving China a way to get back at the United States by cutting off supplies to American companies. Already rare earths have become embroiled in the conflict — they were among the long list released on Tuesday of Chinese-made goods that the Trump administration wants to tax.

China has used its control of rare earths to try to get its way before. In 2010, it stopped exports to Japan for two months over a territorial dispute. Speculators hoarded rare earth minerals, sending prices soaring.

"There is a hole in the western supply chain," said Ryan Castilloux, the founder of Adamas Intelligence, a research firm.

It is hard to go a day without using rare earths. They are found in personal electronics like smartphones, televisions and hair dryers, and electric and hybrid cars.

They aren't actually rare — they are made up of 17 elements found together in the ground all over the world. But turning individual minerals into useful material is complicated, messy and costly, as Lynas well knows.

Rare earth refining is done on a large scale in only two places on earth: China, and Lynas's plant here in Kuantan, Malaysia, a sprawling industrial area on the coast of the South China Sea. The company mines rare earths out of a collapsed volcano in Australia and ships them to Kuantan to be refined.

Building that plant nearly sank Lynas. When Ms. Lacaze was named chief executive in June 2014, the company was struggling with $450 million in debt. Design flaws had delayed full production. It faced criticism from environmentalists.

With the business hemorrhaging cash, Ms. Lacaze slashed costs. She negotiated with impatient lenders, including hedge funds and a Japanese government agency that had backed Lynas because it was unsettled by China's hold over the industry. She reduced rent and overhead by closing the company's Australian headquarters and moved the company, her husband and herself to Lynas's facility in Kuantan.

On a recent visit, Lynas technicians mixed rare earth concentrate, which looks to the untrained eye like unremarkable dirt, into chemical tanks that extract elements like lanthanum and cerium. Through a series of steps that take place in more than a dozen buildings, the resulting pinkish powder was funneled through oversize sieves into boxes on a conveyor belt and baked at 1,000 degrees Celsius.

"It's just like a giant pizza oven," Ms. Lacaze said.

Next door to the oven, more than 150 bags of neodymium and praseodymium and cerium sat on a warehouse floor to be shipped to customers around the world. These bags are precious goods — each one filled with neodymium and praseodymium is worth around $50,000.

"Just don't hit the bag!" Ms. Lacaze said she likes to tell the forklift operators. "It's like hitting a BMW."

Ms. Lacaze, 58, was an experienced turnaround specialist who had worked in telecommunications and consumer products in Australia before coming to Lynas. In a drawl that hints at her Brisbane roots, she said she knew well the "glass cliff" phenomenon, in which organizations in crisis are more likely than successful businesses to offer leadership positions to women.

"Women more often get to do jobs like mine, where you clean up other people's mistakes," said Ms. Lacaze, wearing her signature pink work boots. She is one of fewer than a dozen women running the 200 biggest companies in Australia, where Lynas is publicly listed.

She has looked to elevate women at Lynas, often out of necessity as well as virtue. Unable to expand payroll during the the slump, Ms. Lacaze turned to current employees — often women — who worked in support roles like human resources and finance and shifted them to the factory floor to be operators, technicians and shift supervisors.

China is her most immediate challenge. Lynas is now profitable, but Ms. Lacaze sees a potential trade war between China and the United States as more of a threat than an opportunity. Beijing could keep rare earths off the market, depriving many American and European manufacturers of the minerals they need.

Lynas couldn't compensate for it all. It accounted for only about 12 percent of world output of rare earths last year, according to Adamas, the research firm. Chinese companies accounted for more than four-fifths.

"If there is a full-blown trade war, I can't believe that the Chinese wouldn't use rare earths as part of that," Ms. Lacaze says. If China wanted to restrict the supply of rare earths by sticking tariffs on rare earth products or stopping exports outright, "they could do it, literally overnight."

Under that scenario, companies would look for alternatives to rare earths. Tesla Motors, for example, briefly turned to engines that don't use rare earths after the 2010 price surge. That could hurt Lynas's business.

The Association of China Rare Earth Industry, an industry group controlled by the Chinese government, did not respond to a request for comment.

Even if it doesn't disrupt the supply, China will likely keep its grip over the market for rare earths for a long time to come. It also dominates research and development of these minerals, giving it a leg up on the future, Ms. Lacaze said.

"I think there's about 100 Ph.D.s in rare earths working in applications inside China and working in technology development," she said. "To my knowledge, do you know how many Ph.D.s there are outside of China?" With the fingers of her right hand, she made a zero.

For other countries, that means depending on China for a long time to come, she said.

"It doesn't scare me," Ms. Lacaze said, "but it should scare policymakers."

Want more coverage and discussion from Australia and the region? Join us in ourFacebook group, sign up for the weeklyAustralia Letterand start your day with theAustralian Morning Briefing.

Cao Li contributed research.

PHOTOS: Lynas Corporation provides materials for phones, TVs and cars. (A1); Amanda Lacaze, top left, the chief of Lynas Corporation, sees China as an urgent challenge. Lynas's plant in Malaysia, right, is one of only two places where rare earths, left, are refined on a large scale. (PHOTOGRAPHS BY RAHMAN ROSLAN FOR THE NEW YORK TIMES) (A10)

* Taking a Risk for Rare Earths

* China Restarts Rare Earth Shipments to Japan

* The Fear of a Toxic Rerun

Document INHT000020180712ee7c00005

THE WALL STREET JOURNAL.
U.S. EDITION

World News: Beijing's Bid to Control Debt Loses Steam --- Trade fight with U.S. and slowing growth make keeping a lid on lending less of a priority

By Chao Deng and Lingling Wei
750 words
13 July 2018
The Wall Street Journal
J
A7
English

BEIJING -- China is letting up on its drive to keep a lid on debt growth as it faces a softening economy at home and escalating trade tensions with the U.S.

Senior Chinese leaders led by President Xi Jinping have been sending unmistakable signals that the campaign to rein in financial risk isn't the overriding priority it has been.

Financial regulators are delaying the release of rules to curtail risky lending by banks and other institutions out of concern that the regulations would choke off a source of funding and rattle **financial markets** already shaken by worries over trade and the economy, people familiar with the decision said.

In a turnabout, the State Council, China's cabinet, stopped hectoring city halls and townships to restrain spending and instead last week launched an inspection to urge them to speed up already approved investment projects to re-energize growth. The central government often uses inspections as a way to evaluate local officials and get top-level directives across.

An April meeting of the Politburo, the inner sanctum of power, offered an initial sign of the shift. Mr. Xi, who presided over the meeting, called for expanding domestic demand as authorities continued to contain financial risks. Such pro-growth emphasis had been absent in Politburo meetings since 2015.

China's economic growth has been on a controlled descent for most of this decade, propped up at times by shots of easy credit that have helped make debt a long-term threat for the world's second-largest economy. With growth above the government's 6.5% target, Mr. Xi has taken aim at debt and other financial risks the past two years to put the economy on sounder footing.

Now, that campaign is taking its toll. Signs are building that the economic expansion is losing steam -- from weakening investment in factories to anemic household consumption and rising corporate defaults.

The trade fight with the U.S. puts growth further at risk, making Mr. Xi's initiative look unsustainable, government advisers said.

"There is a feeling that the deleveraging campaign has gone a bit too far this year," said a government adviser, pointing to recent drops in total credit growth and anemic investments in factories, highways and other fixed assets. "Now we're going to see some policy adjustments."

The central bank in April began freeing up more funds for banks to make loans. The Chinese leadership is expected to further loosen China's fiscal and monetary stance at a meeting this month of the Politburo, government advisers and economists said.

"The deleveraging effort should be let up somewhat," said Sheng Songcheng, a senior adviser at the People's Bank of China.

Shoring up growth to employ a huge workforce and meet expectations for rising standards of living is always a priority for China's leadership.

Trade conflict with the U.S. raises the stakes. Strong exports, especially those to the U.S. and other developed nations, have buoyed China's economy, but exports are expected to take a hit from the intensifying trade fight.

Debt levels, especially for companies and local governments, have soared since China unleased a massive financial stimulus to ward off the 2008 financial crisis. Debt stood at 242% of economic activity at the end of 2017, according to Macquarie Group. While analysts said the ratio isn't rising as in the past, they don't expect a decline soon. A less determined approach to tackling debt, some said, would allow risks to accumulate further.

"If China has an across-the-board loosening up again, borrowing by state-owned enterprises might get more relentless," said Zhu Chaoping, a market strategist at JP Morgan Asset Management.

Defaults in the corporate bond market -- a barometer of business conditions -- ticked up before the first major round of trade tariffs hit this month.

Smaller banks have been feeling the stress. A rural bank in Guizhou province saw its bad loans surge by fourfold to 20% after, acting on requests from regulators, it classified loans overdue for more than 90 days as nonperforming. Commercial banks' bad-debt ratio -- currently less than 2% overall according to official data -- would be much higher if regulators pressed banks harder to come clean, according to analysts.

Document J000000020180713ee7d00015

THE WALL STREET JOURNAL.
U.S. EDITION

World News: Europeans Explore Ways to Open Financial Channels for Iran

By Laurence Norman
633 words
17 July 2018
The Wall Street Journal
J
A18
English

BRUSSELS -- The French, British and German governments have told Iran they are exploring activating accounts for the Iranian central bank with their national central banks in a bid to open a financial channel to keep alive the Iranian nuclear deal, according to several European officials.

The move is the first concrete sign that Europe could deliver on its promise to take steps to sustain the Iranian nuclear deal, setting European governments squarely against the Trump administration's Iran sanctions policy aimed at isolating Tehran economically.

Following the U.S. withdrawal from the deal in May, Iran has said it would stop complying with the nuclear deal unless it continues to receive the economic benefits of the 2015 agreement. That deal saw most international sanctions on Tehran lifted in exchange for strict but temporary restrictions on Iran's nuclear work.

Officials involved in discussions said the option of central banks activating Iranian central bank accounts -- or reactivating some which have been dormant for years -- is one of several that European governments are actively exploring. The three European governments laid out their plans to Iran during discussions this month among foreign ministers and senior officials in Vienna. Officials said they are still trying to iron out details.

Other European governments, including Austria and Sweden, have also said they would consider doing likewise, the officials said.

However, officials stressed that while discussions have started with central banks, they haven't yet received buy-in. European Central Bank officials have said there is reluctance to forge financial links with Iran as the U.S. prepares to reimpose sanctions.

Iran would also need to implement legislation to meet anti-money-laundering standards set by an international watchdog, the Financial Action Task Force, the officials said.

The Bank of England had no comment. The French and German national banks didn't respond to requests to comment.

Last week, Washington rebuffed a formal European request for the U.S. to give European companies broad exemptions from sanctions, which will seek to minimize Iranian energy exports and the country's commercial links with foreign businesses.

"Until Tehran is ready to make the tangible, demonstrated and sustained shifts in the policies we have enumerated, we will work to apply unprecedented financial pressure on the Iranian regime," Treasury Secretary Steven Mnuchin and Secretary of State Mike Pompeo said in response to the European request, according to a letter reviewed by The Wall Street Journal.

The U.S. officials explicitly warned against doing business with the Iranian central bank, saying it "should not be considered a legitimate institution with which European banks -- including central banks -- should be engaging."

According to two officials, the hope is that by activating euro, sterling and other-denominated accounts for Iran's central bank in Europe, Iran could more easily repatriate global oil export revenues -- or at least use that revenue to purchase key products, like spare parts for its automobile industry, in Europe. Most large commercial Western banks have refused to open Iranian accounts, fearing that U.S. sanctions would see their access to dollars being cut by U.S. authorities.

While European officials hope that European central banks would be protected from sanctions, they acknowledge there is no guarantee. The U.S. could place sanctions on central bank governors and board members -- or even deny them access to U.S. **financial markets**, though there could be broad economic costs for doing so.

The U.S. already has placed sanctions on Iran's central bank governor, designating him a terrorist for funneling money to Iran's Lebanese proxy, Hezbollah.

Jason Douglas in London, Tom Fairless in Frankfurt and Ian Talley in Washington contributed to this article.

Document J000000020180717ee7h0001v

THE WALL STREET JOURNAL.

World

European Governments Explore Financial Channels for Iran; The French, British and German governments aim to keep the Iranian nuclear deal alive by providing financial conduits

By Laurence Norman
915 words
16 July 2018
02:02 PM
The Wall Street Journal Online
WSJO
English

BRUSSELS—The French, British and German governments have told Iran they are exploring activating accounts for the Iranian central bank with their national central banks in a bid to open a financial channel to keep alive the Iranian nuclear deal, according to several European officials.

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U.S. officials have repeatedly said that European companies and people could be targeted if they continue doing business in Iran once U.S. sanctions fully snap back in November. U.S. sanctions apply to foreign as well as domestic companies.

With major European companies announcing plans to leave or freeze investments in Iran almost daily, Iran has been pressing for speedy solutions from Europe to lock in the economic benefits of the nuclear deal. Iranian Foreign Minister Javad Zarif has demanded some measures be put in place before the first set of U.S. sanctions is reimposed on Aug. 6, a timetable French Foreign Minister Jean-Yves Le Drian called unrealistic.

However after the July 6 Vienna meeting, Mr. Zarif said he was encouraged by European, Russian and Chinese work on Iran's key concerns: opening financial channels to Iran and allowing Iran to continue exporting oil.

"Moving in right direction on concrete steps for timely implementation of commitments," Mr. Zarif said at the time on Twitter.

France, Germany, Britain, Russia and China—the countries that negotiated the 2015 nuclear deal alongside the U.S. and Iran—pledged in Vienna to protect "economic operators" for investing or carrying out "commercial and financial activities," a reference to possible central bank payment channels, according to European officials.

On Monday, EU foreign policy chief Federica Mogherini said the bloc was determined to follow through despite the U.S. refusal to grant exemptions.

"I don't see this reply as bringing anything new to the work we're doing," she said of the U.S. response.

According to two officials, the hope is that by activating euro, sterling and other-denominated accounts for Iran's central bank in Europe, Iran could more easily repatriate global oil export revenues—or at least use that revenue to purchase key products, like spare parts for its automobile industry, in Europe.

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Jason Douglas in London, Tom Fairless in Frankfurt and Ian Talley in Washington contributed to this article.

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Document WSJO000020180716ee7g0043a

THE WALL STREET JOURNAL.
U.S. EDITION

Heard on the Street
OPEC Isn't Reason for Oil's Surge

By Spencer Jakab
291 words
2 July 2018
The Wall Street Journal
J
B10
English

[Financial Analysis and Commentary]

Your perception of how the world is moving depends a lot on where you're standing -- especially when it comes to the world oil market.

Energy-related headlines in the U.S. have been almost unremittingly **bullish** in the past several days. The main reason is that crude prices surged to a 3 1/2-year high in the wake of last week's meeting of the Organization of the Petroleum Exporting Countries, despite OPEC's decision to raise output quotas.

But it is the U.S. benchmark, West Texas Intermediate, that has surged, not the globally important Brent which is more sensitive to OPEC's decisions. As of Friday, the former had rallied by 12.6% in three weeks, while Brent was a mere 2.2% higher over the same time.

Much has to do with North American rather than global conditions. Surprisingly strong drops in inventories at Cushing Okla., the delivery point for the WTI futures contract, are the biggest reason. Most recently at 29.89 million barrels, inventories have dropped 4.7 million barrels in three weeks and are now half their level of this time last year. Another reason is an outage in western Canada affecting 360,000 barrels a day.

WTI's surge also comes from an extreme and unsustainable discount relative to Brent. By late May the discount had reached its highest since 2015 at over $10 a barrel. That reflects surging U.S. production swamping transport capacity. Before the surge in shale production, WTI often traded at a small premium.

OPEC's solidarity has been impressive, but not that impressive.

page,5043

Document J000000020180702ee720000z

The New York Times

Business Day
Trump’s Trade War Against China Is Officially Underway

By Ana Swanson
1,390 words
5 July 2018
12:47 PM
NYTimes.com Feed
NYTFEED
English

WASHINGTON — A trade war between the world’s two largest economies officially began on Friday morning as the Trump administration followed through with its threat to impose tariffs on $34 billion worth of Chinese products, a significant escalation of a fight that could hurt companies and consumers in both the United States and China.

The penalties, which went into effect at 12:01 a.m., prompted quick retaliation by Beijing, which said it immediately put its own similarly sized tariffs on American goods. Previously, the Chinese government had said it would tax pork, soybeans and automobiles, among other products

China’s Ministry of Commerce said in a statement that the United States “has launched the biggest trade war in economic history so far.”

The escalation of the trade war from threat to reality is expected to ripple through global supply chains, raise costs for businesses and consumers and roil global stock markets, which have been **volatile** in anticipation of a prolonged trade fight between the United States and almost everyone else.

On Thursday, President Trump showed no signs of backing down from his fight, saying aboard Air Force One that the first wave of tariffs on $34 billion in goods would quickly be followed by levies on another $16 billion of Chinese products. And Mr. Trump continued to threaten Beijing with escalating tariffs on as much as $450 billion worth of Chinese goods.

For now, it is unclear how — or whether — the trade war might conclude. Mr. Trump’s threats have been met with vows from China to retaliate, a stalemate that will require one side to blink first in order to avoid a protracted fight. With no official talks scheduled between the two countries, and disagreements within the Trump administration about how best to proceed, a quick resolution seems increasingly unlikely.

“At the moment, I don’t see how this ends,” said Edward Alden, a senior fellow at the Council on Foreign Relations. “This is very much in the president’s hands because he’s got advisers that seem divided, some substantively, some tactically. I just don’t think we’ve had any clear signs of the resolution he wants.”

[Read more about how Chinese shoppers reacted to the tariffs on American products.]

The Trump administration is waging trade wars on multiple fronts as it imposes tariffs on foreign steel, aluminum, solar panels and washing machines from countries like Canada, Mexico, the European Union and Japan. Yet the tariffs on China, the world’s largest manufacturing hub, affect a much larger share of products and a greater percentage of companies that rely on global supply chains, potentially hurting American companies even more than the Chinese firms the Trump administration is targeting.

Mr. Trump’s aggressive stance toward China is aimed at pressuring the country to curtail what the White House describes as a pattern of unfair trade practices and theft of American intellectual property. In addition to the tariffs, the White House is placing restrictions on investment and on visas for Chinese nationals. The administration says the trade barriers are being used as leverage to force Beijing to make changes, including opening its markets to American companies and ending its practice of requiring firms operating in China to hand over valuable technology.

But the trade measures come at a cost for American firms, which are facing potentially devastating disruptions to their businesses.

As of Friday morning, companies like Husco International, a Wisconsin-based manufacturing company that makes parts for companies like Ford, General Motors, Caterpillar and John Deere, now face a 25 percent increase on a variety of parts imported from China. Austin Ramirez, Husco International's chief executive, said that increase would immediately put him and other American manufacturers at a disadvantage to competitors abroad.

"The people it helps most of all are my competitors in Germany and Japan, who also have large parts of their supply chain in Asia but don't have these tariffs," he said.

Mr. Ramirez said his company would not be able to absorb the additional costs, and would be forced to try to pass them on to suppliers or customers — if it could. He was also fearful of how China's tit-for-tat retaliation would ultimately affect his business in that country.

"One of the big scary unknowns is we don't know how China will react," Mr. Ramirez said. "There are lots of things they could do to make life difficult for U.S. businesses operating in China that would be detrimental to us."

China is expected to respond with its own tariffs on $34 billion worth of American goods, joining other countries that have retaliated against Mr. Trump's trade measures and bringing the total value of affected American exports to about $75 billion by the end of the week. That is still a small fraction of the $1.55 trillion of goods the United States exported last year, but in some industries, the pain is becoming intense.

Brent Bible, a farmer who cultivates 5,000 acres of corn and soy in western Indiana, said the trade war was already damaging his farm and the broader agricultural economy. More than half of American soybeans that are exported go to China, giving the country influence over the price of the American crop. Trade worries have pushed down the price of soybeans roughly 15 percent in recent months, erasing his typical yearly profit margin of 8 percent to 10 percent.

Mr. Bible said farmers are now putting off purchases of tractors, grain storage facilities and other items to make ends meet.

"If we're not spending money," he said, "then other industries aren't making any money off of us, either."

The Trump administration drafted its initial tariff list to spare consumers, and many of the products that American families purchase from China, like flat-screen TVs and shoes, are not directly hit on Friday. But American companies that depend on Chinese products are expected to feel the pinch, given the tariffs focus heavily on the kind of intermediate inputs and capital equipment that businesses purchase and ultimately sell both in the United States and abroad.

China's Commerce Ministry accused the United States of "typical trade bullying" and said in a statement that its tariffs "will impact innocent multinational companies and ordinary enterprises and consumers alike."

"It will also harm the interests of U.S. businesses and its people," it said.

Economists say Mr. Trump's trade war will raise costs for American industry, potentially threatening the manufacturing jobs that the president has long said he wants to protect. And some of those higher costs will ultimately work their way through the supply chain to American consumers.

Razat Gaurav, the chief executive of LLamasoft, which advises companies on organizing their supply chains, said that many of his customers have been making alternate plans to restructure their operations, with some choosing to set up in countries like Vietnam or Mexico. Others are postponing large investments, like new factories, and are trying to avoid signing long-term contracts with suppliers — all changes that will eventually take a toll on the economy.

Many international companies route their supply chains through China, and American companies may end up feeling the effects of a trade war more keenly than their Chinese competitors. Research by Mary Lovely and Yang Liang of Syracuse University shows that in the field of computer and electronics products, for example, non-Chinese multinational corporations operating in China supply 87 percent of the products that will be affected by tariffs, while Chinese firms send only 13 percent.

A 2011 study by the Federal Reserve Bank of San Francisco showed that, for every dollar spent on an item labeled "Made in China," 55 cents went for services produced in the United States.

“I think you’re going to see an effect on the longer-term view of the U.S. as a place to export,” Ms. Lovely said. “These tariffs are not hitting the mark, and they’re making it much harder for American firms to do business inside the United States, let alone export markets.”

The port of Savannah, Ga. China was quick to retaliate against tariffs imposed by Washington early on Friday. | Stephen B. Morton/Associated Press

Document NYTFEED020180705ee75004bn

THE WALL STREET JOURNAL.
U.S. EDITION

U.S. News: Fed Shifts Focus to Risks of Overheating Economy

By Nick Timiraos
524 words
6 July 2018
The Wall Street Journal
J
A2
English

WASHINGTON -- Federal Reserve officials at their meeting last month signaled they could raise interest rates over the next year to a level that no longer seeks to spur growth, formally ending the long postcrisis chapter in which the central bank rewrote its policy playbook to provide unprecedented economic stimulus.

In a sign of the economy's changing fortunes, officials intensified their discussions over how to manage rates if growth accelerates so much that unsustainable price pressures or financial bubbles emerge, according to minutes of the Fed's June 12 to 13 meeting released Thursday.

"Some participants raised the concern that a prolonged period in which the economy operated beyond potential could give rise to heightened inflationary pressures or to financial imbalances that could lead eventually to a significant economy downturn," the minutes said.

The Fed raised its benchmark federal-funds rate at the June meeting by a quarter percentage point to a range between 1.75% and 2%, the second such increase this year. Most of the officials penciled in at least four rate increases this year, up from three in forecasts released in March.

The discussions reflected how the economy's recent strength has moved the Fed to a point at which it could soon seek to cool growth.

"Participants generally judged that . . . it would likely to be appropriate to continue gradually raising the target rate for the federal-funds rate to a setting that was at or somewhat above their estimates of its longer-run level by 2019 or 2020," the minutes said.

The officials' discussions framed the big questions shaping policy over the next few years: They must determine the neutral setting for the fed-funds rate -- the level that neither spurs nor slows growth -- now that they expect the economy to grow faster than is sustainable over the long run. Then they must decide how much to push rates above neutral to slow growth and prevent the economy from overheating.

The minutes didn't suggest, however, that most officials think they need to pick up the pace of rate increases.

"These minutes don't give the impression that a clear majority is ready now to abandon the idea that the risks are 'roughly balanced' or that 'gradual' rate hikes are no longer enough," said Ian Shepherdson, chief economist at Pantheon Macroeconomics, in a note to clients.

The minutes did reveal one potential source of caution: concern that trade policy could hold back business investment and weaken economic growth relative to officials' forecasts for a sustained upturn this year and next.

President Donald Trump is in the process of increasing tariffs and other penalties against major trading partners, which could fuel uncertainty among U.S. businesses that rely on global suppliers and markets for their goods and services.

A slowdown in trade could hinder business confidence, weigh on **financial markets** and reverse a recent synchronized upturn in global growth. The minutes said some businesses contacts have scaled back or shelved plans for new investments amid uncertain trade-policy changes.

Document J000000020180706ee760002b

THE WALL STREET JOURNAL.

Economy

ECB Takeaways: Draghi Sticks to Script on Rates Guidance, Economic Outlook; ECB president touched on a series of topics including trade, currencies and the widening economic gap between the U.S. and Europe

By Brian Blackstone
427 words
26 July 2018
10:02 AM
The Wall Street Journal Online
WSJO
English

The European Central Bank played it safe Thursday, sticking to its plan to end bond purchases at the end of this year and repeating that interest rates will stay where they are through summer 2019.

Still, ECB President Mario Draghi touched on a series of topics including trade, currencies and the widening economic gap between the U.S. and Europe.

But in a sign that the ECB policy outlook is pretty settled, the press conference only lasted 40 minutes including Mr. Draghi's 10-minute introduction. That's about 20 minutes shorter than usual.

Here are five takeaways from the ECB.

1 Summertime Mr. Draghi caused some head-scratching in **financial markets** last month when he said the ECB's key interest rates—which include a minus 0.4% deposit rate—would stay where they are "at least through the summer of 2019." The question was whether that includes the Sept. 12, 2019 meeting, for instance. Mr. Draghi didn't veer from the "summer" script. That will leave investors guessing, but the bottom line is rates will stay where they are for a long time.

2 Divergence The ECB's rate inaction means the gap between the ECB and Federal Reserve rates will widen further in the coming months assuming the Fed keeps tightening policy. That's normal, Mr. Draghi said, because the two economies are at different stages of the business cycle.

3 Trade Mr. Draghi warned that protectionism remains a "prominent" uncertainty, but he praised Wednesday's trade talks between U.S. President Donald Trump and European Commission President Jean-Claude Juncker as a "good sign." He added: "It shows that there is a willingness to discuss trade issues in a multilateral framework."

4 Currencies Mr. Draghi repeated a line he has often used, that the exchange rate isn't a policy target but that it does affect economic growth and inflation. He said that against a broad basket of currencies, the euro has risen in value over the past year to year and a half.

5 Happy Anniversary Thursday marked the sixth anniversary of Mr. Draghi's most famous speech when he pledged to do "whatever it takes" to save the euro. Asked for his reflections on that event, he said it seems "distant" because "the euro is on such stronger foundations" than it was back then.

Document WSJO000020180726ee7q0043b

THE WALL STREET JOURNAL.

Economy

Fed Expects to Keep Raising Rates, Ending Years of Stimulus; Economy's recent strength has moved the Fed to a point at which it could soon seek to cool growth

By Nick Timiraos
903 words
5 July 2018
04:56 PM
The Wall Street Journal Online
WSJO
English

WASHINGTON—Federal Reserve officials at their meeting last month signaled they could raise interest rates over the next year to a level that no longer seeks to spur growth, formally ending the long postcrisis chapter in which the central bank rewrote its policy playbook to provide unprecedented economic stimulus.

In a sign of the economy's changing fortunes, officials intensified their discussions over how to manage rates if growth accelerates so much that unsustainable price pressures or financial bubbles emerge, according to the minutes of the Fed's June 12-13 meeting, which were released Thursday.

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The discussions reflected how the economy's recent strength has moved the Fed to a point at which it could soon seek to cool growth.

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The minutes didn't suggest, however, that most officials think they need to pick up the pace of rate increases.

"These minutes don't give the impression that a clear majority is ready now to abandon the idea that the risks are 'roughly balanced' or that 'gradual' rate hikes are no longer enough," said Ian Shepherdson, chief economist at Pantheon Macroeconomics, in a note to clients.

The minutes did reveal one potential source of caution: concern that trade policy could hold back business investment and weaken economic growth relative to officials' forecasts for a sustained upturn this year and next.

President Donald Trump is in the process of increasing tariffs and other penalties against major trading partners, which could fuel uncertainty among U.S. businesses that rely on global suppliers and markets for their goods and services. A new round of tariffs against China, for example, is set to take effect Friday.

A slowdown in trade could hinder business confidence, weigh on **financial markets** and reverse a recent synchronized upturn in global growth. The minutes said some businesses contacts have scaled back or shelved plans for new investments in the face of uncertain trade policy changes.

Contacts in the steel and aluminum industries, where the U.S. already has imposed tariffs, told officials they hadn't planned "any new investments" to boost domestic production capacity, the minutes said.

Officials flagged other international risks to growth, including from turbulence that has hit some emerging markets as the dollar strengthens and from political turmoil that could weigh on investment sentiment in Europe.

Still, concerns over trade and a potential weakening in global growth don't appear to have shaken the Fed from its view that more rate increases will be needed to keep the economy on an even keel.

Fiscal policy is one reason why. Tax cuts and government spending increases approved late last year and earlier this year are expected to stimulate growth and push unemployment down to half-century lows. The jobless rate dropped to 3.8% in May, matching its lowest level in 18 years. It hasn't been lower since 1969.

The Labor Department is set to report Friday on hiring in June.

Fed officials have now spent several meetings discussing the prospect of monetary policy moving from stimulating growth to possibly restricting it. Their June projections show most of them expect the fed-funds rate would settle over the long run between 2.75% and 3%—an approximation of neutral.

Some officials have said they aren't looking to increase rates to a level that would try to cool down the economy because they don't want to push short-term rates higher than long-term rates, a so-called inversion of the yield curve that typically has preceded a recession by a year or so.

But officials reviewed staff research at the June meeting that offered reasons why the shape of the yield curve might be less meaningful now. For example, long-term yields could be depressed by recent bond-buying campaigns by the Fed and other major central banks.

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

Related

* Yield Curve Squeezed From Both Sides

* Streetwise: Fed's Role in the Global Market Malaise

Document WSJO000020180705ee7500439

Asia and Australia Edition
Briefing
Trade War, Thailand Rescue, Myanmar: Your Friday Briefing

By Charles McDermid
1,344 words
5 July 2018
03:58 PM
NYTimes.com Feed
NYTFEED
English

(Want to get this briefing by email? Here's the sign-up.)

Good morning. Countdown to a trade war, negotiations in North Korea and fighting darkness in Hong Kong. Here's what you need to know:

• Ticking down to a trade war.

The Trump administration is set to impose tariffs on $34 billion of Chinese products, setting off a potentially devastating clash between the world's two largest economies.

The penalties, which go into effect at 12:01 a.m. Eastern, are expected to bring immediate retaliation from Beijing: taxes on an equal amount of U.S. exports, including pork, soybeans, steel and peanuts. American metal producers in the Rust Belt, the energy sector and automakers are worried.

The dispute is expected to ripple through global supply chains. Global stock markets have been **volatile** in anticipation of a trade fight between the U.S. and almost everyone else.

• "Fire and fury" no more.

When North Korea conducted missile tests and detonated atomic bombs last year, President Trump responded with threats and ordered the military to come up with pre-emptive strike options.

But since his summit meeting last month with the North's leader, Kim Jong-un, Mr. Trump has done an about-face — though Pyongyang's weapon programs have continued.

Secretary of State Mike Pompeo was on his way to North Korea on Thursday, with the challenge of negotiating a better nuclear deal than the one reached with Iran, which Mr. Trump has called a "disaster."

• "Have you no shame, sir?"

That was Zeid Ra'ad al-Hussein, the U.N. high commissioner for human rights, in a heated exchange with a diplomat from Myanmar over the 700,000 Rohingya who have fled to Bangladesh and are stuck in overcrowded camps. Above, the Kutupalong camp.

When the diplomat told the U.N. Human Rights Council that his country was "committed to the defense of human rights," it was too much for Mr. Hussein.

That claim, he saidd, "almost creates its own level of preposterousness."

• Update: Thailand's cave rescue.

The third straight day of better weather raised speculation that rescuers might try to quickly evacuate the 12 young boys and their soccer coach trapped in the vast and monsoon-flooded Tham Luang Cave network since June 23.

Several factors weighed against such a decision. “If it rains and the water volume increases, we have to calculate, how much time do we have? a Thai official said. “How many hours, how many days?”

Here’s the latest.

• Meet the “Darkness Fighters” of Hong Kong.

Our correspondents went along with a dragon boat team composed of visually impaired paddlers as they prepared for Hong Kong’s annual Dragon Boat Festival, a centuries-old tradition throughout Asia that combines sacred rituals with serious competition.

“This is the Darkness Fighters’ mantra,” the team shouted before carefully getting into the boat. “Challenge the impossible!”

Business

• Data companies are identifying what people are watching on internet-connected TVs, and using that information to send targeted advertisements to other devices in their homes.

• Credit Suisse is paying $77 million to settle charges in the U.S. that it hired the relatives of influential Chinese officials in order to win business for the bank in China.

• The price of pet pampering. Americans spent $69.5 billion on their “fur babies” last year, according to a pet products group. Kibble and vet bills are only the beginning.

• Tagwalk, a French start-up, says it has created fashion’s first search engine.

• U.S. stocks were up. Here’s a snapshot of global markets.

In the News

• Scott Pruitt, the head of the U.S. Environmental Protection Agency, resigned after months of allegations over legal and ethical violations. President Trump announced the resignation in a tweet in which he thanked Mr. Pruitt for an “outstanding job.” [The New York Times]

• Australia will allow a young girl to leave Nauru, the offshore refugee detention center, to seek mental health care. But others are not getting the help they need, advocates say. [The New York Times]

• Poisonings and strained relations. Four months after a Russian ex-spy and his daughter were left critically ill in an England town, two Britons were sickened by the same toxin. Here’s how the case has unfolded. [The New York Times]

• In India, a woman working at a charity founded by Mother Teresa in 1950 was arrested on suspicion of selling a 14-day-old baby. The police are looking into other possible cases. [BBC]

• Kim Dotcom, the internet mogul known for his lavish lifestyle in New Zealand, lost another bid to avoid extradition to the U.S. on charges of copyright infringement and money laundering. [The New York Times]

• Many Asian-Americans in New York City feel snubbed by Mayor Bill de Blasio’s plan to change admissions to the city’s elite high schools, where they dominate. [The New York Times]

• Wimbledon’s “Mrs. Williams.” Serena Williams, who married in the fall, now shares a courtesy title with other champions, including Mrs. L.W. King, Mrs. J.M. Lloyd and Mrs. R. Cawley (better known as Billie Jean King, Chris Evert and Evonne Goolagong). [The New York Times]

Smarter Living

Tips for a more fulfilling life.

• How to keep up with the World Cup if you can't watch it live.

• Clean those pesky summer stains.

• Recipe of the day: Finish the week strong with a plan to make peach raspberry pie.

Noteworthy

• "The Art of War," animated. C.C. Tsai, a Chinese artist and illustrator of Sunzi's classic treatise on warfare and strategy, spoke with The Times about his own time in the military and what readers often misunderstand about "The Art of War."

• Gerry Ryan became one of Australia's richest people by making RVs. Now he's betting big on musicals: His Sydney-based company is producing its first four. On three continents. At the same time. (One is "King Kong" on Broadway.)

• A new position for Ichiro Suzuki. The Seattle Mariners have shifted the Japanese star into a front-office advisory role that seems unprecedented in the modern game — uniformed consultant, mentor, baseball professor and cheerleader.

Back Story

The boys' soccer team trapped in Thailand has prompted a sprawling rescue effort and riveted the world's attention.

But the effort is just the latest chapter in the annals of cave rescues.

The sport of caving was first developed in the late 19th century, and its popularity grew partly thanks to explorations by Édouard-Alfred Martel, a caving pioneer from France. The first caving clubs were formed in England in the 1920s and '30s.

Comprehensive data on worldwide cave rescues since then is scarce. But one study found that between 1980 and 2008, there were 1,356 documented cases of "cavers requiring rescue" in the U.S.

And the Cave Rescue Organisation, the oldest cave-rescue group in Britain, says it has responded to 2,927 incidents since its founding in 1935. Of those, 745 were in caves; the rest were on mountains and in disused mines and other locations.

The all-volunteer group says the incidents involved 4,193 people and hundreds of animals, including 252 lambs, 226 sheep, 79 dogs, nine cows, nine ducks, one rabbit and one cat.

Mike Ives wrote today's Back Story.

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Your Morning Briefing is published weekday mornings and updated online. Sign up here to get it by email in the Australian, Asian, European or American morning. You can also receive an Evening Briefing on U.S. weeknights.

And our Australia bureau chief offers a weekly letter adding analysis and conversations with readers.

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Document NYTFEED020180705ee75006mx

Business Day
Bitcoin Funds Are Rare: They Sail Uncharted Waters

By Conrad De Aenlle
1,045 words
13 July 2018
05:20 PM
NYTimes.com Feed
NYTFEED
English

Cryptocurrencies like Bitcoin are on their way to being the next big thing or yesterday's news. Their novelty makes it hard to tell which.

For better or worse, funds are being introduced that let investors capture the rewards and risks available in cryptocurrencies. Most are listed on foreign markets or aimed at so-called accredited investors, those with high incomes or substantial wealth, although the funds often have minimum investments of as little as $10,000 to $25,000.

Several firms have filed to sell specialty exchange-traded funds in the United States, but none have been approved yet. The Securities and Exchange Commission has cited "significant investor protection issues that need to be examined before sponsors begin offering these funds to retail investors."

The fund manager Van Eck and the software developer SolidX asked the S.E.C. in early June for permission to offer an E.T.F. that addresses the agency's concerns, partly by setting the share price so high, nearly $200,000, that small investors could not afford it. That request is still pending.

If and when funds are listed, prospective shareholders should treat them with caution and skepticism, investment advisers and authorities on cryptocurrencies warn. Since its invention in 2009, Bitcoin has risen from pennies to about $6,400, and other cryptocurrencies have experienced astounding runs of their own.

There are fascinating aspects to Bitcoin and its peers, especially the underlying blockchain technology, but prices have been driven to a large extent by hype and hope, and the gains could be reversed.

"There is no intrinsic value to a Bitcoin," said Lee McKnight, an associate professor in the School of Information Studies at Syracuse University. "The market is caught up in a frenzy for new technology."

One sign of the frenzy is in the trading price of Bitcoin Investment Trust, one of the funds for well-off investors. It has been 56 percent above the value of the portfolio's assets this year on average, according to Morningstar, bid up by shareholders eager for access to the market when few other avenues exist. The premium, which was 45 percent on June 30, could fall sharply if other investment vehicles come along.

"The challenge with cryptocurrency-oriented investing is it's hard to gain exposure, as there are no U.S.-listed E.T.F.s," said Todd Rosenbluth, director of E.T.F. and mutual fund research at CFRA.

"When the supply to gain exposure to Bitcoin grows via E.T.F. choices and better meets demand, the premium will narrow."

Just what the right prices are for Bitcoin and other cryptocurrencies, fund premiums aside, is hard to judge, Matthew Hougan, global head of research at Bitwise Asset Management, acknowledged.

"The crypto ecosystem hasn't evolved an agreed-upon framework to value crypto," he said. Referring to extreme long-range valuation estimates floated for Bitcoin, he added, "Anyone who says they know it's worth $10,000 or $20,000 or $1 million or $0 is wrong."

Mr. Hougan thinks there's a reasonable chance that cryptocurrencies will become widespread alternative forms of money, much as gold may be considered today, putting a floor under prices. He cited the decentralized nature of cryptocurrencies — the blockchain ledgers recording transactions exist in no one spot and under no one's control — and their built-in digital scarcity.

"It's entirely feasible that a new store of value could emerge in the world," he said. "I don't think that concept began and ended with gold."

Bitcoin is the best-known cryptocurrency but not the only one. There are roughly 1,600 of them, Mr. McKnight said, and, "Eighty percent are scams, or assets with no value in the long run."

The technologies embodied in these ventures will undoubtedly serve other purposes, he said. Blockchains — secure, time-stamped sets of digital records — are expected to be valuable tools in areas like supply chain management and banking that feature large amounts of information shared among multiple parties using varied data management systems.

"There's a mass of confusion between blockchain technology, which will have a big impact, and cryptocurrencies," Mr. McKnight said. The former "is what investors should be looking at."

A mature business devoting large resources to blockchain projects is I.B.M. It has about 15 commercial ventures focused on supply-chain management, he said, and it has "purposely stayed away from cryptocurrencies."

Many professional investors find promise in the core blockchain technology, even as they scoff at the notion that it can be used to reinvent money. In a note to investors this year, Joe Davis, the head of Vanguard's Investment Strategy Group, said he was "enthusiastic about the blockchain technology that makes Bitcoin possible." But "as for Bitcoin the currency? I see a decent probability that its price goes to zero."

Even a believer in cryptocurrencies like Mr. Hougan said Bitcoin is inefficient, with "a slow, simple network" and limited programming capabilities.

But he wouldn't rule it out as a portfolio holding. Because its price movements are minimally correlated with those of conventional assets, adding a modest allocation to Bitcoin to a 60 percent stock-40 percent bond portfolio could improve performance, he said. A study by Bitwise found that a 5 percent allocation would have doubled the Sharpe ratio, a measure of risk-adjusted returns, of such a portfolio between the end of 2013 and the end of March.

Because Bitcoin is so **volatile**, however, rebalancing the allocation is essential, Mr. Hougan added. If the desired weighting is 1 percent, he would sell back to that level whenever it reached 1.5 percent and buy more when it reached 0.5 percent.

The value of a Bitcoin rose to just under $7,000 from about $600 during the time of the study. Whether owning it or other cryptocurrencies will be as helpful if the price persistently falls remains to be seen. Mr. McKnight is skeptical.

"It's buyer beware," he said. "Don't go into this space saying you're going to pick this or that cryptocurrency without knowing anything. And you should not be using your living money."

Mengxin Li

Document NYTFEED020180713ee7d0083p

THE WALL STREET JOURNAL.

Markets

Former CFTC Chair Has Bitcoin on the Brain; After helping implement new oversight for the swaps market, Gary Gensler now lectures about blockchain technology and cryptocurrencies at MIT

By Gabriel T. Rubin
556 words
21 July 2018
09:00 AM
The Wall Street Journal Online
WSJO
English

A decade after the financial crisis , The Wall Street Journal has checked in on dozens of the bankers, government officials, chief executives, hedge-fund managers and others who left a mark on that period to find out what they are doing now. Today, we spotlight former Citigroup CEO Vikram Pandit and the former chairman of the Commodity Futures Trading Commission, Gary Gensler.

In short order in the past few years, Gary Gensler went from cleaning up the fallout from the financial crisis to grappling with the challenge of cryptocurrencies.

Mr. Gensler, a former Goldman Sachs Group Inc. partner with close ties to Bill and Hillary Clinton, became chairman of the Commodity Futures Trading Commission in 2009, one of the most difficult moments for the U.S. economy in decades. At the CFTC, Mr. Gensler helped craft and implement a new oversight regime for the swaps market, which was largely unregulated before playing a central role in the crisis.

The slight, balding Baltimorean developed a reputation among his colleagues for bare-knuckle tactics as he drove relentlessly to create a regulatory framework for swaps. By the time he left the commission in 2014, the rule set was largely complete, years before other regulators wrapped up their postcrisis work.

Now, after serving as finance chairman for Mrs. Clinton's second failed presidential campaign, Mr. Gensler has shifted to thinking about new frontiers of potential systemic risk and financial innovation by lecturing about blockchain technology and cryptocurrencies at the Massachusetts Institute of Technology's Sloan School of Management.

In general, Mr. Gensler is **bullish** on blockchain, which he says mimics the distributed nature of society. But his years cleaning up the wreckage of the financial crisis have left an imprint, and he says he can't look at a fast-growing financial technology phenomenon without a sober assessment of its associated risks.

"In the late '90s, I was part of the broad consensus saying certain things, like derivatives markets, wouldn't undermine financial stability," Mr. Gensler said in an interview. "But guess what, it did. Eventually we addressed that as a nation and brought it into the public policy envelope."

Mr. Gensler, 60 years old, says he has no plans to get involved in the 2020 presidential campaign or the 2018 midterms, other than serving as an informal adviser to Democrats who want to pick his brain on various issues.

He has also made himself available to policy makers of both parties as they grapple with how to regulate cryptocurrencies. Earlier this month he testified before a House committee full of members who worked with him during the financial crisis, but also others who, seemingly unaware of his work in Washington, called him "professor."

Regardless of whether he re-enters the policy or political arenas again, it will be hard to top the thrill and responsibility of running a major regulator during the first half of the Obama administration.

"I don't think I'll ever get to do something as meaningful as coming in after a crisis and helping to clean it up," Mr. Gensler said.

Write to Gabriel T. Rubin at gabriel.rubin@wsj.com

Document WSJO000020180721ee7l000jh

The New York Times

Europe Edition
Briefing
Novichok, Poland, Trade War: Your Friday Briefing

By Matthew Sedacca
1,458 words
6 July 2018
12:25 AM
NYTimes.com Feed
NYTFEED
English

(Want to get this briefing by email? Here's the sign-up.)

Good morning.

Experts theorize on the latest Novichok poisoning, Polish judges rebel and the trade war begins. Here's the latest:

• In southern England, experts say that Charlie Rowley and Dawn Sturgess, the two Britons who were poisoned this week by the same class of nerve agent that poisoned Sergei and Yulia Skripal, may have been sickened accidentally as a result of the March attack. Above, the area near the residence of Ms. Sturgess.

Many suggested that the couple may have come into contact with a container or object connected to the previous attack and still contaminated with the poison, Novichok. Friends of Mr. Rowley noted his prowess as a dumpster diver.

The poisoning has revived tensions between Britain and Russia, which Britain has blamed for the attack. Moscow once again denied any involvement.

• Scott Pruitt, above, the head of the U.S. Environmental Protection Agency, resigned after months of allegations of legal and ethical violations as well as a string of federal inquiries into his spending and management practices. Mr. Pruitt played a lead role in urging President Trump to withdraw the United States from the 2015 Paris climate agreement.

The new acting E.P.A. administrator, Andrew Wheeler, is a former coal lobbyist who shares Mr. Pruitt's zeal for undoing environmental regulations.

Meanwhile, the U.S. ambassador to Russia said that the summit meeting next week in Finland between Mr. Trump and President Vladimir Putin would be one on one — which usually means alone with translators, if needed.

• It's been a momentous week for Europe's struggle over the migration crisis, and possibly its identity.

Chancellor Angela Merkel of Germany, above, met with Hungary's right-wing prime minister, Viktor Orban, in Berlin, where she discussed Europe's border dilemma. At the end of the week, Ms. Merkel and her governing coalition partners, the Social Democrats, both agreed to something they've long rejected: establishing tight controls along Germany's border with Austria and raising the possibility of deportations.

Meanwhile, we sat down with Chancellor Sebastian Kurz of Austria, who discussed free movement across E.U. borders. The bloc's founding principle may soon weaken as Mr. Kurz and other populist E.U. leaders push to control borders further after public revolt against migrants.

"A Europe without internal borders can only exist," he said, "if it has functioning external borders."

Separately, U.S. immigration officials said they were mounting a round-the-clock effort to meet the court-ordered deadlines to reunite the thousands of children and parents who were separated at the border with Mexico.

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• In Poland, nearly half of the judges on the Constitutional Tribunal, one of the nation's top courts, rebelled and declared its workings politicized and dysfunctional. Above, people protesting in front of the Supreme Court in Warsaw.

Their announcement came shortly after the governing Law and Justice party began a purge of the Supreme Court. The tribulations within Warsaw's top two courts have underlined the tensions in a nation under the grip of an increasingly authoritarian government.

Meanwhile, Prime Minister Benjamin Netanyahu of Israel and his Polish counterpart, Mateusz Morawiecki, issued a joint statement to bury the controversy surrounding Poland's now-amended Holocaust law. But Israel's Holocaust memorial center criticized the announcement, asserting that it was filled with "grave errors and deceptions."

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• The trade war is here.

U.S. tariffs have gone into force, affecting $34 billion of Chinese products. Beijing plans retaliation in kind, and American metal producers, energy companies and automakers are worried. Some businesses are bracing by halting hiring, putting off expenses and otherwise cutting costs.

The dispute is expected to ripple through global supply chains. Global stock markets have been **volatile** in anticipation of a trade fight between the U.S. and almost everyone else.

Business

• The European Parliament, above, rejected a bill backed by news outlets and music publishers to restrict the use of their content on platforms like YouTube and Facebook, a move that contrasts with recent efforts in Brussels to rein in tech giants.

• Boeingannounced plans to take over the commercial jet business of the Brazilian aerospace company Embraer, mirroring Airbus's recent partnering with the Canadian company Bombardier.

• Tagwalk, a French start-up, says it has created fashion's first search engine.

• Formula E, the electric car-racing series, has attracted support from automakers like Renault, as it provides an opportunity to work on issues unique to battery-powered vehicles.

• Credit Suisse is paying $77 million to settle charges in the U.S. that it hired the relatives of influential Chinese officials in order to win business for the bank in China.

• Here's a snapshot of global markets.

In the News

• The Romanian Parliament quickly approved changes to the criminal code, which critics say are aimed at weakening anti-corruption efforts. Above, protesters outside the government headquarters in Bucharest. [The New York Times]

• Italian parents will no longer have to provide state-run schools with a doctor's note to prove their children have been vaccinated, raising concerns that vaccination compliance will drop. [The New York Times]

• To combat anti-Semitism among children, the German government plans to send anti-bullying experts to selected schools across the country. [BBC]

• In Thailand, a former Thai Navy diver helping with the rescue of a soccer team trapped in a cave has died, running out of oxygen after a supply run, officials said.

• In Ireland, a referendum will be held on whether to remove a clause in the Constitution stating the importance of a woman's "life within the home," the government announced. [Reuters]

Smarter Living

Tips for a more fulfilling life.

• How to keep up with the World Cup if you can't watch it live.

• Clean those pesky summer stains.

• Recipe of the day: Finish the week strong with a plan to make peach raspberry pie.

Noteworthy

• "If it's in history, it's frozen": Tradition is at the heart of the Le Mans Classic, above, which features cars that have raced in previous Le Mans events, dating to 1923.

• "Challenge the impossible": Our correspondents went along with a boating team composed of visually impaired paddlers as they prepared for Hong Kong's annual Dragon Boat Festival, which combines sacred rituals with serious competition.

• There's no telling what will become of a Wimbledon junior champion. Few become Grand Slam champions. In second-round matches on Thursday, the 2003 Wimbledon girls' champion Kirsten Flipkens lost to Jelena Ostapenko, while the 2011 champion Ashleigh Barty beat the 2012 champion Eugenie Bouchard.

Back Story

The boys' soccer team trapped in a flooded cave in Thailand since June 23 has prompted a sprawling rescue effort and riveted the world's attention.

But the effort is just the latest chapter in the annals of cave rescues. Above, the rescue of an injured spelunker in Germany in 2014.

The sport of caving was first developed in the late 19th century, and its popularity grew partly thanks to explorations by Édouard-Alfred Martel, a caving pioneer from France. The first caving clubs were formed in England in the 1920s and '30s.

Comprehensive data on worldwide cave rescues since then is scarce. But one study found that between 1980 and 2008, there were 1,356 documented cases of "cavers requiring rescue" in the U.S.

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Mike Ives wrote today's Back Story.

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Document NYTFEED020180706ee7600105

The New York Times

Business Day; DealBook
DealBook Briefing: Trump's Latest Trade Enemy Is Europe

959 words
16 July 2018
06:29 AM
NYTimes.com Feed
NYTFEED
English

Good Monday. Want this in your inbox every morning? Sign up here.)

Trump singles out Europe as a trade foe

When CBS Newsasked President Trump to name America's biggest foe, he talked about Russia and China. But only after citing the European Union, because of "what they do to us in trade."

Donald Tusk, president of the European Council, shot back on Twitter: "America and the E.U. are best friends. Whoever says we are foes is spreading fake news."

Mr. Trump's remarks matched his provocative behavior at last week's NATO conference. But some commentators think Europe will simply ignore the insults. The economist Michael Ivanovitch writes for CNBC that Europeans are flaunting their trading clout, and "Trump is wasting time trying to change the existing trans-Atlantic trading regime."

Those tensions could grow today as Mr. Trump meets President Vladimir Putin of Russia in Finland. Julie Hirschfeld Davis and Katie Rogers of the NYT report fears that Mr. Trump "might offer concessions behind closed doors to a Russian president who is ready to exploit any hint of fissure within the Western alliance."

And China turns to the W.T.O.

Beijing complained formally to the World Trade Organization this morning about the U.S. plan to impose tariffs on $200 billion worth of Chinese goods. That could escalate the trade war. And U.S. officials have argued that the W.T.O. isn't the right place to resolve the fight.

Beijing, looking for allies, is hosting E.U. officials this week at a conference centered on trade issues. But the European delegation is so far said to be unmoved.

More on the trade wars: Does anyone know what the U.S. would consider victory? And American stocks are holding up.

Goldman Sachs prepares to anoint a C.E.O.

The Wall Street bank could formally name David Solomon as the successor to Lloyd Blankfein as soon as today. Here's Kate Kelly of the NYT on what that would mean:

Banks' profits are booming. But how about their lending?

A lot is going right for banks, including tax cuts, deregulation and a buoyant economy. JPMorgan Chase, Citigroup and PNC all reported healthy quarterly profits on Friday. But have they increased lending to keep up with all the good news?

Our colleagues Peter Eavis and Emily Flitter found scant evidence of that in earning reports. More spare cash went to shareholder dividends, leading critics to say that lenders could do more to stimulate the economy. But the banks could argue they are staying disciplined and not chasing shaky borrowers.

Bank of Americaannounces earnings today. Will it buck the trend?

More banking news: Deutsche Bankpublished its earnings early — and they were more than double what analysts expected.

China's economic growth isn't as strong as it appears

The Chinese government said overnight that its economy was 6.7 percent bigger last quarter than a year ago. It's reported pretty much the same growth rate every quarter for the past two-and-a-half years.

Keith Bradsher of the NYT sees trouble lurking behind those numbers:

Don't expect big media deals out of Sun Valley

Allen & Company's big C.E.O. gathering drew media moguls like Les Moonves of CBS and David Zaslav of Discovery last week. They expected courtship from the visiting tech titans — Tim Cook of Apple, Jeff Bezos of Amazon and others. The WSJ says they didn't get it.

Masa Son of SoftBank told reporters: "I'm not interested in traditional media." Sheryl Sandberg of Facebook and Mr. Cook said similar things. Their attitude seems to be that it's better to build a content empire than buy one. If media companies want to compete with Netflix and Amazon, mergers may be their only option.

In other media news: Critics fear that AT&T will try to turn HBO into Netflix, but insiders at the network don't think it will happen.

The speed read

Deals

• Debt is how a Chinese businessman bought the soccer team A.C. Milan, and how a hedge fund pushed him out. (FT)

• The case for fewer rules on I.P.O.s and early-stage investing, from the chairman of the House Financial Services Committee. (WSJ)

• New exchange-traded funds and a big I.P.O. show investors' hunger for the cannabis industry. (NYT)

Politics and policy

• The Trump administration may dip into American petroleum reserves to depress **oil prices**. (WSJ)

• ZTE's stock jumped 17 percent as it was allowed to resume U.S. operations. (NYT)

• Expect economic populism as Bernie Sanders, Elizabeth Warren and others prepare to seek the 2020 Democratic nomination. (NYT)

Tech

• Uber's latest headache: Its C.O.O., Barney Harford, was accused of racial insensitivity. (NYT)

• How Russian spies hid behind Bitcoin in their 2016 U.S. election operations. (NYT)

• Netflix is trying to break India, but it won't be easy. (FT)

Best of the rest

• How the P.R. guru Sir Alan Parker bungled his own crisis as chairman of Save the Children U.K. (NYT)

• The U.S. government wants to clamp down on high-frequency agricultural trading. (WSJ)

• Why the Craig of Craigslist is backing journalism education. (Recode)

• America will soon have only one Blockbuster video store — in Oregon. (NYT)

We'd love your feedback. Please email thoughts and suggestions to bizday@nytimes.com.

President Trump at one of his golf courses in Scotland over the weekend. | Henry Nicholls/Reuters | David Solomon of Goldman Sachs | Guerin Blask for The New York Times | Les Moonves of CBS at this year's Allen & Company conference. | Drew Angerer/Getty Images

Document NYTFEED020180716ee7g00209

THE WALL STREET JOURNAL.
U.S. EDITION

U.S. News: U.S. Watch

556 words
12 July 2018
The Wall Street Journal
J
A2
English

ECONOMY

Transportation Costs

Drive Producer Prices

A gauge of U.S. business prices rose broadly in June, driven in part by an increase in transportation costs that underscores the sector's climbing labor expenses.

The producer-price index, a measure of the prices businesses receive for their goods and services, rose a seasonally adjusted 0.3% in June from a month earlier, the Labor Department said Wednesday. When excluding the often-volatile food and energy categories, prices were also up 0.3%.

Rising prices for transportation and warehousing services helped push overall costs higher, rising 0.5% from the previous month. Trucking-freight prices rose 1.3% in June, the largest monthly increase in the category for records dating back to July 2009. Economists say the tight supply of truck drivers is putting pressure on prices.

"When you think of transportation costs, there's going to be the capital costs of providing the truck, there's going to be the energy costs, and then labor costs are quite a big chunk," said Blerina Uruci, U.S. economist at Barclays.

-- Sarah Chaney and Sharon Nunn

JUSTICE DEPARTMENT

Senate Confirms

Criminal-Unit Leader

The Senate narrowly confirmed President Donald Trump's pick to lead the Justice Department's criminal division, over objections from Democrats concerned about his work for a Russian bank with ties to President Vladimir Putin.

The Senate's 51-48 vote for Brian Benczkowski came one year after he was nominated to the post and as the Justice Department continues to struggle with a lack of permanent, politically appointed leaders to oversee many of its most important units. Department officials say the high-profile vacancies have strained resources and made it difficult to set and execute long-term priorities.

Mr. Benczkowski, 48, was a Justice Department official during the George W. Bush administration and later served as Republican staff director of the Senate Judiciary Committee under then-Sen. Jeff Sessions. He also helped manage Mr. Trump's transition team for the Justice Department.

Mr. Sessions, now attorney general, on Wednesday praised Mr. Benczkowski's "diverse public-service and criminal-law background."

The criminal division handles specialized prosecutions around the country and is at the helm of some of the highest-profile federal cases.

-- Sadie Gurman

CONSUMER PROTECTION

White House Says It

Will Focus on Fraud

Trump administration officials promised Wednesday to maintain a focus on fraud against consumers, particularly the elderly and service members, using the resources of several regulatory and law-enforcement agencies.

President Donald Trump signed an executive order to form a task force to strengthen the efforts of regulators to investigate and prosecute fraudulent schemes and recover proceeds for consumers, the White House said.

"By working together, we can achieve more effective and more efficient deterrents," Deputy Attorney General Rod Rosenstein said.

Participating in the initiative are the Justice Department, the Consumer Financial Protection Bureau, the Securities and Exchange Commission and the Federal Trade Commission, as well as state and local enforcement offices.

The effort comes amid criticism that the administration's move to ease financial-industry regulations threatens to harm consumers, particularly its overhaul of the CFPB, created under the Obama administration after the financial crisis to beef up protection for homeowners and bank customers.

-- Yuka Hayashi

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THE WALL STREET JOURNAL.

Economy

U.S. Economy Grew at 4.1% Rate in Second Quarter; Consumer spending, exports and business investment power strongest growth pace in nearly four years

By Harriet Torry
1,232 words
27 July 2018
05:24 PM
The Wall Street Journal Online
WSJO
English

WASHINGTON—The U.S. economy grew at the fastest pace in nearly four years this spring, reflecting broad-based momentum that suggests the second-longest expansion on record isn't yet running out of fuel.

Robust consumer spending, solid business investment, surging exports and increased government outlays were among the factors that boosted gross domestic product—the value of all goods and services produced across the economy—at a seasonally and inflation-adjusted annual rate of 4.1% in the second quarter, the Commerce Department said Friday.

That was up from the first quarter's revised growth rate of 2.2% and the strongest growth since the third quarter of 2014.

While some of the growth came from a burst of exports that some analysts warned could be a temporary response to looming trade tariffs, the details of the report suggest underlying strength that could tee up one of the best years in the current expansion, which began in 2009.

After stripping out the **volatile** categories of trade, inventories and government spending, sales to private domestic buyers rose at an annual rate of 4.3%—even better than the overall GDP number.

"The outlook for the industrial economy remains solid," United Parcel Service Inc. Chief Executive David Abney said during a call with investors on Wednesday.

Friday's report makes it highly likely the Federal Reserve will continue gradually raising short-term interest rates to prevent the economy from overheating. Central bank officials have raised rates twice this year, and penciled in two more increases in 2018 and three in 2019.

The Fed is widely expected to leave its benchmark rate unchanged at its policy meeting next week and then increase it in September by a quarter of a percentage point, to a range between 2% and 2.25%.

Consumers—buoyed by low unemployment, steady job growth and recent tax cuts—ramped up their spending at a robust 4% annual pace in the second quarter.

Isaac Gary, 22, who works full time as a telecommunications project administrator in Chicago, said he recently bought himself a used car and is planning to go on a cruise to Cozumel, Mexico, for his birthday in September.

Mr. Gary said he also works for a private security firm on weekends and has a small online shoe reselling business, "so I was pretty comfortable shopping for a new car." Referring to his multiple income sources, he added, "I do feel confident because I have different networks coming in."

As Americans spent more, however, they saved less. The personal saving rate was 6.8% in the period, down from 7.2% in the first three months of the year.

In a potential warning signal for future spending, consumer sentiment cooled in July, continuing to moderate from a 14-year high the index of consumer sentiment touched earlier this year, the University of Michigan said Friday. "Concerns about tariffs greatly accelerated in the July survey," said Richard Curtin, the survey's chief economist.

Trade contributed strongly to the economy's performance. Net exports added 1.06 percentage point to the second quarter's 4.1% GDP growth rate, which likely reflected a surge in soybean exports as buyers abroad rushed to get their supplies before China's 25% retaliatory tariffs on the U.S. crop hit in July.

"Some giveback in this unusual spike should be expected," JPMorgan Chase economist Michael Feroli said in a note, adding "ongoing dollar strength is another reason to believe that last quarter's big net export addition to GDP growth won't be repeated soon."

According to Mastercard Inc. CEO Ajay Banga, however, recent trade tensions hadn't yet caused widespread economic damage.

"There are geopolitical and trade-related risks that we are keeping a close eye on," Mr. Banga told investors on a call Thursday. "But as of now, they had limited impact to date and global economic trends remained generally positive."

For some Americans, trade barriers are causing anxiety. Terry Schultz, president of Madison, S.D.-based seed producer Mustang Seeds, said tariffs on U.S. soybean exports have "ramped up pressure on profitability" for the farming sector, which has already been under pressure from lower commodity prices in recent years.

"Our sales numbers are good. What's always a concern is the profitability of our customers and their ability to pay us," Mr. Schultz said.

A key measure of business spending moderated from the first quarter but remained robust. Nonresidential fixed investment—reflecting spending on commercial construction, equipment and intellectual property products such as software—rose at a 7.3% rate after rising 11.5% in the first quarter.

The 2017 tax overhaul was designed to encourage such investments by lowering the corporate tax rate and by letting companies immediately deduct certain capital expenditures instead of depreciating them over time.

Tax cuts were part of President Donald Trump's plan to boost economic growth to the above-3% annual growth rate that marked the robust expansions of the 20th century.

He hailed the GDP report Friday, saying the economy is growing at a "very sustainable" pace and predicting it will expand at least 3% this year.

Economic forecasters largely agreed the tax legislation would boost growth in the near term, but were split over whether the legislation would increase the economy's growth rate over the long term in the face of an aging population and meager productivity growth.

Output rose 2.8% in the second quarter from the same period of 2017. Fed officials expect to see growth hit the same pace in the fourth quarter of this year from a year earlier, which would mark the best calendar year since 2005. However, they forecast growth to ebb to 1.8% a year in the long run.

"Enjoy it while it lasts," Ian Shepherdson, chief economist at Pantheon Macroeconomics, said of the strong second quarter. He expects consumer spending to slow in the third quarter as the boost from the tax cuts fades.

The GDP report included two main soft spots—housing and inventories.

Residential fixed investment fell at a 1.1% rate in the second quarter. That could reflect higher mortgage rates, low housing inventory and tax-code changes that diminished decades-old perks that encouraged homeownership.

A drop in inventories subtracted 1 percentage point from the second-quarter growth rate, largely offsetting the gain from exports.

Some analysts said, however, that could help boost third-quarter growth if businesses restock their shelves in anticipation of continued strong demand.

Growth has been lackluster during the current expansion compared with its recent predecessors: From the second quarter of 2009 through the second quarter, GDP increased at an average annual rate of 2.3%, below the 2.9% rate during the 2001-07 expansion and the 3.6% rate from 1991 to 2001.

Theo Francis, Eric Morath and Vivian Salama contributed to this article.

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

More on the Economy

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THE WALL STREET JOURNAL.

Markets

How Investors Make Money When Companies Take Longer to Pay Their Bills; Small suppliers get cash to keep their operations running by selling their invoices to businesses that collect on the bills when they come due

By Vipal Monga
1,047 words
25 July 2018
06:57 AM
The Wall Street Journal Online
WSJO
English

Investors are profiting from an age-old tension between companies and their suppliers—the length of time it takes for bills to get paid.

U.S. pension funds, private-equity firms and other investors are plowing capital into a short-term financing business that was historically dominated by large banks, helping to transform a market that greases the wheels of cross-border trade.

The business is known as trade finance, or factoring. In recent years a group of independent financing platforms have sprung up to provide cash advances to small businesses around the world that supply goods to multinational companies. With funding from private investors and other sources, these platforms buy customer invoices from those businesses and collect on the bills when they come due, reaping a profit in the process.

"Banks are pulling out and private capital is moving in," said Carlos Mendez, co-founder of Crayhill Capital Management LP, a New York asset-management firm whose investors include pension funds, insurance firms and sovereign-wealth funds. Crayhill helps provide funding to a trade-finance company called Stenn International Ltd., which purchases invoices from businesses in Asia and South America that supply apparel, electronic goods and other products to U.S. retailers and other multinational firms.

Many large companies have payment terms that allow them to take months to pay their invoices. The 1,000 largest public companies in the U.S. took an average of 56.7 days to pay their bills last year, according to a study from consulting firm the Hackett Group Inc., up from 53.3 in 2016. That was the longest average payment term in the past decade, according to the study. In recent years, companies from consumer-products giantProcter & Gamble Co. to underwear maker Hanesbrands Inc., and tools manufacturer Stanley Black & Decker Inc. have increased the time they take to pay their global vendors.

Paying their bills later allows companies to hold on to their cash for longer and use it to help fund things like capital investments or stock buybacks. But it means suppliers—many of which are small companies that don't have much leverage to demand faster payment from big customers—have to wait a long time to get paid for their goods. Large companies have little interest in seeing their suppliers struggle financially, so both sides are increasingly turning to trade-financing arrangements.

By selling their invoices to factoring companies, small businesses that banks often view as riskier borrowers can get cash to keep their operations running. The firms are in turn exposed to the lower credit risk of big companies, who are responsible for paying the invoices.

The global market for trade finance is estimated at about $10 trillion, according to the International Chamber of Commerce, a Paris-based business organization. This type of financing was once the exclusive purview of banks like Citibank, HSBC and Standard Chartered Bank, who regarded the activity as a way to build deeper relationships with their large corporate clients and earn small but steady returns.

Over the past decade, however, stricter banking regulations world-wide have forced banks to set aside more regulatory capital against these types of loans, making them less lucrative. Some global banks have retreated from the trade-financing business, and institutional investors are increasingly stepping in to fill the void.

John Ahearn, global head of trade finance at Citibank, said higher capital charges are encouraging Citi to look for ways to distribute more of its receivables business to institutional investors who want to reap higher returns. "We'd like to diversify the investor base," he said, noting that roughly 5% of its loans now go to such investors.

Last week, another London-based financing firm, Greensill, received a $250 million minority investment from private-equity firm General Atlantic and plans to expand its business globally.

The firm, which was founded in 2011 by Lex Greensill, a former Citibank and Morgan Stanley banker, finances businesses that supply parts and products to multinationals like Airbus SE, Vodafone Group PLC and General Mills Inc.

Stenn, which is also based in the U.K., on Wednesday said it is getting a $500 million credit facility from French corporate and investment bank Natixis SA that comes with insurance from American International Group Inc. The funds will be used to expand Stenn's business of providing cash to mostly smaller suppliers, who have average outstanding invoices of $70,000 to $100,000. Crayhill, the New York investment firm, earlier provided a $300 million financing facility to Stenn and helped the firm secure the additional credit line.

Stenn pays an average of 99 cents on the dollar for receipts due within 30 to 60 days, meaning it is charging the suppliers between 6% to 12% annual percentage rates, said Crayhill's Mr. Mendez. Much of that return ends up going to investors, who earn yields that are higher than other types of short-term debt investments. According to Federal Reserve data, nonfinancial corporate debt maturing in 60 days carried annualized rates of 2.02% as of July 23.

In the latest deal, AIG will insure Natixis against nonpayment of the invoices purchased by the firm in exchange for a fee. That reduces the lending risk for Natixis and the amount of capital the French bank needs to set aside for its credit line to Stenn, said people familiar with the transaction.

Investors, for their part, are exposing themselves to a global trade environment that is growing more **volatile**. But Kerstin Braun, Stenn's president, said increasing protectionism won't shrink the market even if it changes trade flows. "Trade will not stop," she said. "The goods are there, the suppliers are there. [Protectionism] may redirect global trade, but not stop it."

Jon Emont contributed to this article.

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THE WALL STREET JOURNAL.

Business

Two Family Businesses: One Wins, One Loses in U.S. Tariff Fight; Small businesses in Midwest grapple with the effects of an escalating global trade conflict

By Ruth Simon
1,023 words
1 July 2018
08:00 AM
The Wall Street Journal Online
WSJO
English

A family-owned Ohio steelmaker recently handed out its first pay raises in nearly two years, but a family-run maker of steel chains in St. Louis just laid off 25 workers.

The diverging fortunes of these two small companies show how escalating trade conflicts are rippling through the U.S. economy. They also show how, in a global market, policies aimed at helping some businesses hurt others.

The trade battle is also hitting large corporations, such as Harley-Davidson Inc., which drew President Donald Trump's ire this week after it said it would shift some production overseas. But the challenges are particularly severe for small companies, which typically have more-limited supply chains and smaller cash cushions, and they are less able to pass along higher costs to their customers.

The Trump administration's decision to impose new tariffs on imported steel in March has been a boon to Byer Steel Corp.

Tariffs "have given us the opportunity to return to the volume level and the margin level we were accustomed to," said Burke Byer, chief executive of the Cincinnati company founded by his great-grandfather 115 years ago. Before the shift in trade policy, he said, rebar from China "was coming in below our cost of raw material."

The 110-person company has boosted prices by more than one-third this year, putting an end to three years of losses. Mr. Byer said the company raised prices because tariffs increased demand for domestic steel.

"Demand came on so fast that we had to raise our prices or we would not have had one pound of steel for anybody," he said. "We raised prices to the point where the market said it is enough."

With business improving, Byer Steel has handed out its first pay raises in roughly two years. The company, which at its peak had 180 workers, has hired 15 employees and plans to add another 20. "The biggest problem is that demand came on quicker than we were able to ramp up production," Mr. Byer said.

But the price increases that help Byer Steel are taking a toll on companies such as 164-year-old Laclede Chain Manufacturing Co., which bends and shapes steel rod into chains used for hoisting, tie-downs and tire traction.

The St. Louis-based company, which has 200 employees, imposed a steel surcharge in May after its raw material costs rose an average of 25% as U.S. steelmakers boosted their prices in response to the new tariffs. That move followed a January price increase, triggered by rising scrap prices.

Many of Laclede's customers prefer to buy U.S.-made products, but most have said they will shop around—and consider purchasing imported chains—if hit with another price increase, said Timothy Riley, vice president of operations for the family-run company. The company said it has already lost some orders because of the price increases.

"If these customers accept an import, it's very unlikely that the business will come back domestically," said Mr. Riley, who is frustrated the tariffs apply to steel but not "downstream" products that are imported and use steel in manufacturing.

Laclede has laid off 25 employees, including 20 hired in the past 12 months, eliminated overtime and put off plans to add a third shift at its Vicksburg, Miss., plant. It has also delayed a $1 million investment in new equipment.

"Spending money on a large capital project when things are **volatile** is not a safe plan," Mr. Riley said. Sales had been growing 25% year-over-year until the tariffs hit, he said.

Other small companies are postponing capital investments and hiring, rethinking manufacturing processes and rejiggering plans. Here's a look at how four other businesses are coping:

• Graymills Corp., a Broadview, Ill., maker of industrial pumps, ink pumps and parts washers, has shifted to a production process that is focused on reducing steel scrap and material costs, even though it drives up labor costs. The 55-person company can't change prices or specifications because those are all set out in annual contracts with its customers, said President Craig Shields. "We are gritting our teeth and trying to hold on until the tariffs end," he said.

• Weld Wire Co., a wholesale supplier of welding wire based in King of Prussia, Pa., now requires customers to take immediate delivery of material. In addition, most must now pay within 30 days after receipt, instead of installments over 90 days. "We are managing that risk a lot closer than in the past," said its vice president, Brent Saul. The company, which has roughly 30 employees, has shifted its focus to alloys such as copper and nickel that aren't subject to tariffs. It has also stepped up investment in a welding supply delivery service. "I want to make sure we are positioned for growth regardless of how our government handles imposing those tariffs," Mr. Saul said.

• FormPak Inc., a St. Louis-based maker of packaging and processing equipment for sugar, fertilizer and other dry materials, has put off plans to hire a welder, assembly person, production manager and sales manager. "Our strategy is to stay with our current employment and outsource in the short-term anything we can," said Mike Owens, president of the 32-person company, which has raised prices twice in two months.

• Taco Metals Inc., which designs and manufactures parts for recreational boats, has put off the purchase of about $500,000 in automated metalworking equipment because of worries that higher steel and aluminum prices and retaliatory tariffs could hurt boat sales. "We are having a good year, but are very concerned about where things are headed," said Bill Kushner, a vice president at the Miami-based company, which has about 160 employees. "It's a global supply chain, and you can't just start playing with it and not have ripple effects."

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Document WSJO000020180701ee71000gr

THE WALL STREET JOURNAL.

Politics

Trump Shifts Trade Tactics With an Olive Branch; Agreement with EU's Jean-Claude Juncker suggests more a shift in strategy than an end to global hostilities

By Jacob M. Schlesinger
687 words
25 July 2018
09:44 PM
The Wall Street Journal Online
WSJO
English

WASHINGTON—Donald Trump, free trader?

For months, the president has insisted that his escalating tariff campaign was a hardball negotiating tactic in pursuit of expanding global commerce, not a plan to restrict it.

That message got lost amid his harsh rhetoric blasting allies and declaring "trade wars are good." But the surprise truce announced Wednesday with the European Union was the first major sign that Mr. Trump is actually open to launching ambitious market-opening negotiations that his aides have so far talked about, yet failed to deliver.

The new trans-Atlantic talks come as Trump aides are scrambling to strike a deal as soon as next month with Canada and Mexico to modernize the quarter-century-old North American Free Trade Agreement—a pact Mr. Trump had tried to kill at the outset of his presidency. Mexico's chief negotiator will arrive in Washington Thursday to accelerate those talks.

And Trump aides believe such discussions will ramp up pressure on Japan to come to the negotiating table as well, so Tokyo can find its own way to avoid Mr. Trump's threats for global auto tariffs that he has, at least for now, suspended for Europe.

It is way too soon to declare an end to the global trade hostilities touched off by Mr. Trump's actions. By far the biggest tariffs he has imposed—and threatened to impose—are aimed at China, and there is scant evidence of any attempt to reach a deal with Beijing. Indeed, the agreement that Mr. Trump announced alongside European Commission President Jean-Claude Juncker suggested more a shift in battle tactics than an end to global hostilities—a desire by Mr. Trump to line up allies in the fight to keep up the pressure on China.

The joint statement from the two presidents included a pledge to cooperate on overhauling world trading rules "to address unfair trading practices, including intellectual-property theft, forced technology transfer, industrial subsidies, distortions created by state-owned enterprises, and overcapacity"—all transgressions the Trump administration has accused China of committing.

The agreement reached with the EU was also longer on rhetoric than action. The two sides agreed to discuss lifting tariffs they have imposed on each other over the past three months, but haven't fixed a timetable for doing so. They essentially agreed to reopen talks on ambitious bilateral free-trade pact launched under President Barack Obama.

The same political sensitivities on both sides that stalled those discussions in the previous administration will re-emerge if negotiations get serious. And Mr. Trump's own trade-policy making has proven so unpredictable and **volatile** that it is hard to forecast just how long the peace will last. His advisers are divided between hard-liners who want to impose tariffs and roll back global supply chains, and free-traders fighting to soften the president's tone.

Wednesday's announcement was a victory for the free-traders. But trade-policy direction can shift by the day, depending on which faction is ascendant.

Still, Mr. Trump's decision to stand down Wednesday is a significant moment. After months when Mr. Trump's words and actions were largely oriented to taking an ever-harder trade line, oblivious to consequences and criticism, he showed a susceptibility to intense pressure from American business and Republican lawmakers and an openness to an alternative approach.

The president's remarks with Mr. Juncker were striking, both for what he said and what he didn't. A politician who has hammered regularly on the American trade deficit with Europe didn't mention it at all, instead focusing on the $1 trillion in bilateral trade that flows in both directions.

Mr. Trump, who for decades has frustrated economists by portraying trade as a zero-sum game with only "winners" and "losers," and by calling the EU "a foe," instead hailed a new "phase of close friendship; of strong trade relations in which both of us will win."

Document WSJO000020180726ee7q000b5

THE WALL STREET JOURNAL.

Economy

Stronger Economy Brings More Fed Officials on Board With Rate-Rise Plans; As economy picks up steam, businesses and consumers 'can live with' higher rates, Chicago Fed president says

By Nick Timiraos
822 words
11 July 2018
06:02 AM
The Wall Street Journal Online
WSJO
English

CHICAGO—The boost to U.S. economic growth from recent tax cuts and spending increases, together with more-stable price pressures, has made Federal Reserve officials comfortable with raising interest rates more than they anticipated earlier this year.

Among them is Federal Reserve Bank of Chicago President Charles Evans, who dissented when his colleagues voted to raise rates last December because he worried then about weak inflation. In an interview Monday, he said he is now comfortable with one or two more Fed rate increases this year, following on the central bank's two moves so far this year.

"The economy seems so strong it seems natural that businesses and consumers can live with" slightly higher interest rates, he said, citing the effects of the fiscal measures approved by Congress and the White House.

"Whether or not you think we should [raise rates] three times in 2018 or four times in 2018, it's really not going to make a big difference," he said.

Mr. Evans's comments echo those of Fed governor Lael Brainard, another once-prominent advocate for a slow pace of rate increases who has recently shifted toward warning against the dangers of letting the economy overheat.

Together, they show how fiscal stimulus hitting the economy during a period of low unemployment has created new challenges for the Fed in preventing excessive inflation or asset bubbles.

The bright economic outlook explains the Fed's solid consensus in favor of raising rates. At the June meeting, eight out of 15 central bank officials said they expected at least four rate increases would be necessary this year, up from four out of 16 in December.

Others who began the year anticipating just two rate increases in 2018, including Philadelphia Fed President Patrick Harker and Atlanta Fed President Raphael Bostic, now say they think the economy will warrant three rate increases.

Mr. Evans said strong economic growth for now also makes the risks of a drag on investment from tariffs and other trade disruptions less critical. "There are definitely downside risks, but the strength of the economy is really pretty important at the moment," he said. "The fundamentals for the U.S. economy are very strong."

Mr. Evans has long viewed cautiously the need to raise rates given the Fed's yearslong struggle to raise inflation to its 2% target. As recently as January, Mr. Evans said he would prefer the central bank to hold off on rate increases until this summer to take stock of inflation.

Since then, Congress approved a sizable two-year federal spending increase on the heels of the $1.5 trillion tax cut enacted at the end of last year. The unemployment rate has fallen to 4% and is expected to drop lower as fiscal policy stimulates demand and investment.

Meanwhile, inflation has firmed. Consumer prices rose 2.3% in May from a year before, and excluding **volatile** food and energy categories, were up 2%, according to the Fed's preferred inflation gauge. It is the first time both measures have reached the Fed's 2% target since 2012.

Mr. Evans said Monday he would prefer to see expectations of future inflation increase slightly but was otherwise optimistic about inflation's recent rebound. "We'll see about the sustainability, but it looks quite good," he said.

The job of policy makers is "really just making sure that the [rate] increases, whether it's three this year or four this year, don't get out of step with the way inflation is proceeding," Mr. Evans said.

Like Mr. Evans, Ms. Brainard has placed special emphasis on ensuring that inflation expectations move higher. "After seven years of below-target inflation, it will be important to see inflation coming in around target on a sustained basis," she said in a May speech.

Still, her remarks this spring focused more attention on the difficulty policy makers face in setting rates "while adjusting to sizable stimulus" at a time of low unemployment. "I would not underestimate the challenge," she said.

Mr. Evans, too, said he sees the debate over the Fed's policy path growing more perplexing next spring, when it is possible the Fed will have raised its benchmark federal-funds rate to a neutral level that seeks to neither stimulate nor slow growth. Mr. Evans estimated that neutral rate would be around 2.75%.

"The economy is in a pretty good position for that," he said. "Then it becomes more important to take stock of…how much inflationary pressures do we see building up, if any? We'll have a lot of talking to do at that point."

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

Transcript

* WSJ Interview With Chicago Fed President Charles Evans

Document WSJO000020180711ee7b001bb

THE WALL STREET JOURNAL.
U.S. EDITION

Banking & Finance: SEC Rejects Bitcoin ETF Pitch

By Dave Michaels
152 words
27 July 2018
The Wall Street Journal
J
B10
English

The Securities and Exchange Commission on Thursday denied an application for an exchange-traded fund that would track the price of bitcoin, the latest indication that regulators are still uneasy with the **volatile** and largely unpoliced cryptocurrency market.

The commission's vote affirms an earlier decision in 2017 by the SEC's staff to reject the proposal, for which Cameron and Tyler Winklevoss first sought approval years ago.

Cryptocurrency traders and exchanges have hoped that an exchange-traded product would make the currency attractive to Wall Street and retail investors.

The SEC's decision, posted in an order on the regulator's website, marks the end, for now, of a long and drawn-out odyssey to package bitcoin into an exchange-traded product that could create a broader investor base for the virtual currency.

Document J000000020180727ee7r0001k

THE WALL STREET JOURNAL.

Business

Parcel, Trucking Companies Boosted Hiring in June; Growing payrolls in logistics sector come as truckers, warehouse operators are stepping up recruiting efforts in a tight labor market

By Jennifer Smith
485 words
6 July 2018
01:51 PM
The Wall Street Journal Online
WSJO
English

Logistics payrolls swelled in June as employers grappling with a tight labor market hustled to meet surging U.S. freight demand.

Parcel-delivery firms and trucking fleets added a total of 6,660 jobs last month, while warehouse operators added 800 positions, according to preliminary figures the Labor Department released Friday. But the overall pace of logistics hiring slowed compared with May's hiring spree, as low unemployment and increased competition for workers complicated efforts to staff up.

Trucking companies, which are raising pay in what they say is a tough market for attracting drivers, kept up a strong hiring pace with 2,500 new jobs in June after adding 3,600 hires in May, ahead of the busy months in late summer and early fall when shipping volumes typically peak. Trucking employment has grown by 25,000 jobs in the past 12 months.

Courier and messenger companies that deliver e-commerce orders and other packages added 4,100 jobs in June, the 17th straight month of expansion in the sector.

Big delivery firms and the retail fulfillment operations that handle online shipments are already preparing for the coming holiday peak, with the supply of workers "the biggest question at hand," said Michael Stull, a senior vice president with Manpower North America, a division of staffing firm ManpowerGroup.

He said companies are looking at raising pay and using incentives such as free lunches and bonuses to keep workers throughout the holidays.

Overall, U.S. nonfarm payrolls grew by 213,000 in June, the 93rd straight month of job expansion and the longest such stretch on record. The unemployment rate rose to 4%, from 3.8% in May as more people entered the labor force.

The manufacturing sector added 36,000 positions last month, capping a six-month gain of 285,000 jobs despite deepening trade tensions between the U.S. and China. The retail sector has been more **volatile**, and cut payrolls by 21,600 jobs last month. Big brick-and-mortar store owners have been cutting back space, and Toys "R" Us recently became the latest high-profile retailer to fold.

Trucking companies, meantime, say the increased hiring isn't keeping pace with shipping demand or the need to replace workers who are leaving the business.

"The net increase in the driver pool is not matching the exodus of the drivers," John Vesco, an executive vice president at Hub Group Inc., a large U.S. freight broker, said at an industry conference in Atlanta last month. "We're going to have to create an environment [where] it is attractive to become a truck driver. And there's a lot of competition out there."

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Document WSJO000020180706ee760058x

THE WALL STREET JOURNAL.

Economy

Cleveland Fed President: Strong Economy Justifies Two More Interest Rate Increases This Year; Mester expects officials would need to raise fed-funds rate to 3% to reach a neutral level that neither stimulates nor slows economic activity

By Nick Timiraos
856 words
12 July 2018
06:00 AM
The Wall Street Journal Online
WSJO
English

CLEVELAND—Loretta Mester, president of the Federal Reserve Bank of Cleveland, said solid U.S. economic growth, low unemployment and stable inflation justify continued interest rate increases.

"The economy can certainly handle two more increases this year," Ms. Mester said in an interview on Wednesday. "We could end up getting behind if we don't keep moving things up, so I'm very comfortable, if the economy stays on the path it's going that we move rates up as appropriate this year."

The Fed voted last month to raise its benchmark federal-funds rate for the second time this year, to a range between 1.75% and 2%, and officials penciled in two more increases this year. Ms. Mester is currently a voting member of the rate-setting Federal Open Market Committee.

The Fed's mandate from Congress is to maximize sustainable employment and ensure prices are stable, which the central bank defines as meeting a 2% inflation target.

The Fed is closer to meeting those goals than at any point in the past decade. Consumer prices in May rose 2.3% from a year earlier, and excluding **volatile** food and energy categories, rose 2%, according to the Fed's preferred inflation gauge. The unemployment rate, at 4% in June, has for the past few months been below the level all Fed officials believe is likely to prevail over the long run.

The question facing policy makers now is how long should they continue raising rates, which officials say are still low enough to spur growth.

Ms. Mester said she expects officials would need to raise the fed-funds rate to 3% to reach a neutral level that neither stimulates nor slows economic activity.

"We are still in an accommodative stance on monetary policy, and yet we have a very strong economy. And we're very near our goals," she said. "To me, that's a compelling case that we want to keep on this path" of gradually raising rates.

Fed officials are raising rates to prevent the expanding economy from fueling excessive inflation or asset bubbles.

While Fed officials have succeeded in preventing high inflation in recent decades, "what we have seen is that when the economy overheats you can get financial imbalances," said Ms. Mester. "Those are the kinds of risks policy makers have to" monitor now at a time of low unemployment, she said.

Those risks could require the Fed to eventually raise rates above a neutral level, to one that restricts growth, Ms. Mester said.

Moreover, because monetary policy operates with a lag, Ms. Mester said, she didn't believe the Fed could afford to wait to see inflation move higher before lifting rates.

"I'm always nervous about people who say…'Well, no problem if we see inflation go up, we can move interest rates up,'" she said. "I find that a risky strategy—the 'just wait until you see it.'"

Ms. Mester also said concerns about potential financial instability justified the implementation of stricter bank capital requirements to tamp down the risks of a credit crunch in the next downturn. She echoed support from other colleagues, including Fed governor Lael Brainard and Boston Fed President Eric Rosengren, for requiring banks to raise their levels of loss-absorbing capital, using a rule known as the countercyclical capital buffer.

Raising the requirement, currently set at zero by the Fed's Washington-based board of governors, would force banks to boost their capacity to absorb losses during good times so that they are less likely to pull back from lending when the economy enters a recession.

"This would be a good time to be raising that capital buffer," said Ms. Mester. "The way it's supposed to work is, in good times is when you raise it."

If policy makers are "reluctant to use that tool," the Fed could be forced to raise rates to lean against potential financial instability, she added.

Chicago Fed President Charles Evans said in an interview Monday that he, too, supports raising the buffer given the current economic conditions.

Ms. Mester said she is watching for evidence that recent tax cuts and federal spending increases will give a stronger-than-expected boost to economic growth, which could justify a steeper rate path.

On the other hand, trade tariffs that curtail business activity could prompt the Fed to slow its rate increases if those actions are particularly disruptive, she said.

A survey conducted last month by the Cleveland Fed—which oversees a district that includes all of Ohio and parts of Pennsylvania, Kentucky and West Virginia—found about one in four businesses had taken some type of action in response to the uncertainty around tariffs.

"Our district is exposed to trade. Canada's a very important trading partner for Ohio and the auto sector," said Ms. Mester.

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

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THE WALL STREET JOURNAL.

Economy

Housing Market Stumbles at the Beginning of Summer; Starts declined 12.3% from May while residential building permits fell 2.2%

By Sharon Nunn
693 words
18 July 2018
11:29 AM
The Wall Street Journal Online
WSJO
English

Nationwide home building declined sharply in June, a possible sign that construction labor shortages and rising material costs are causing more damage to the housing market than many analysts initially believed.

Housing starts declined 12.3% in June from the prior month to a seasonally adjusted annual rate of 1.173 million, the Commerce Department said Wednesday. This was the largest monthly percent drop in about a year and a half, driven by construction declines in all regions of the U.S. for almost all types of housing.

Government housing-starts data are exceptionally **volatile**. Still, the reported decline for June was much bigger than the 2.2% decline analysts expected.

Meanwhile, residential building permits, which can signal how much construction is in the pipeline, fell 2.2% from May to an annual pace of 1.273 million last month, which was a surprise, as economists had been expecting a 2.2% gain for permits in June.

The "sharp drop in starts and permits may indicate that labor constraints may be impacting builders' ability to rapidly complete homes more than we thought," said Scott Volling, principal at PricewaterhouseCoopers.

Rising material costs, such as lumber, and a shortage of qualified construction workers has pushed up input costs for home builders.

This coincides with an overall housing shortage at a time when continued job and wage growth are supporting demand for home buying, contributing to a run-up in home prices. On top of that, mortgage rates have risen in the last year, making home purchases more expensive in the aggregate.

"Even with a relatively low bar to clear, this month's report still tripped and fell…neither builders nor buyers can keep up" with the current housing-market constraints, said John Pataky, chief consumer and commercial banking executive at TIAA Bank. But with "this year's results still mixed to positive, it's too early to declare a trend."

The broader trend shows construction growing, as starts rose by 7.8% in the first six months of 2018 compared with the same period a year earlier. But the surprise drop in permits has worried some analysts.

"There's been a noticeable slowdown in [permit] activity this year," said Freddie Mac Chief Economist Sam Khater. "It's alarming that the single-family construction permit growth is decelerating at a time when home ownership is rising and millennials are reaching their peak age to really enter the market and buy their first home."

June's starts report suggests housing may have been a weaker contributor to economic growth in the second quarter than previously expected. After the report was released, Barclays revised down its estimate of how much residential investment contributed to gross domestic product in the second quarter, but its overall second-quarter growth prediction remained at 5.3%. Macroeconomic Advisers, a forecasting firm, made a similar calculation, and it continues to predict a 5.0% GDP growth rate.

"Housing market activity—sales and construction—likely has peaked for this cycle," Ian Shepherdson, chief economist at Pantheon Macroeconomics, said in a note to clients this morning.

Housing-starts data is subject to large revisions. June's 12.3% drop for starts came outside of the margin of error of 8.3 percentage points.

The report also showed starts fell for single-family and multifamily construction in June from the prior month. Permits last month were down for buildings with more than five units but up for single-family homes compared with May.

Single-family home building has held near the highest levels since before the 2007-09 recession, while construction of multifamily buildings eased as the market for new condominiums and apartments has cooled.

A gauge of U.S. home-builder confidence held steady in July from June, according to a Tuesday report released by the National Association of Home Builders. The report also showed home builders' expectations for the next six months dropped, but their overall sentiment remains elevated.

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Document WSJO000020180718ee7i00231

THE WALL STREET JOURNAL.
U.S. EDITION

Growth Revs as Economy Rolls On --- Consumer spending, business investment helped U.S. GDP grow at 4.1% clip this spring

By Harriet Torry
1,026 words
28 July 2018
The Wall Street Journal
J
A1
English

Corrections & Amplifications

Consumer spending contributed 3.1 percentage points to U.S. gross domestic product in 2014's fourth quarter, the highest amount since the beginning of the current economic expansion. A U.S. News graphic Saturday that illustrated contributions from consumer spending to GDP incorrectly said the highest contribution was 5.1 percentage points in second quarter 2014.

(WSJ July 31, 2018)

(END)

WASHINGTON -- The U.S. economy grew at the fastest pace in nearly four years this spring, reflecting broad-based momentum that suggests the second-longest expansion on record isn't yet running out of fuel.

Robust consumer spending, solid business investment, surging exports and increased government outlays were among the factors that boosted gross domestic product -- the value of all goods and services produced across the economy -- at a seasonally- and inflation-adjusted annual rate of 4.1% in the second quarter, the Commerce Department said Friday.

That was up from the first quarter's revised growth rate of 2.2% and the strongest growth since the third quarter of 2014.

While some of the growth came from a burst of exports that some analysts warned could be a temporary response to looming trade tariffs, the details of the report suggest underlying strength that could tee up one of the best years in the current expansion, which began in 2009.

After stripping out the **volatile** categories of trade, inventories and government spending, sales to private domestic buyers rose at an annual rate of 4.3% -- even better than the overall GDP number.

"The outlook for the industrial economy remains solid," United Parcel Service Inc. Chief Executive David Abney said during a call with investors this week.

Friday's report makes it highly likely the Federal Reserve will continue gradually raising short-term interest rates to prevent the economy from overheating. Central bank officials have raised rates twice this year, and penciled in two more increases in 2018 and three in 2019.

The Fed is widely expected to leave its benchmark rate unchanged at its policy meeting next week and then increase it in September by a quarter of a percentage point, to a range between 2% and 2.25%.

Consumers -- buoyed by low unemployment, steady job growth and recent tax cuts -- ramped up their spending at a robust 4% annual pace in the second quarter.

Isaac Gary, 22, who works full time as a telecommunications project administrator in Chicago, said he recently bought himself a used car and is planning to go on a cruise to Cozumel, Mexico, for his birthday in September.

Mr. Gary said he also works for a private security firm on weekends and has a small online shoe reselling business, "so I was pretty comfortable shopping for a new car." Referring to his multiple income sources, he added, "I do feel confident because I have different networks coming in."

As Americans spent more, however, they saved less. The personal saving rate was 6.8% in the period, down from 7.2% in the first three months of the year.

In a potential warning signal for future spending, consumer sentiment cooled in July, continuing to moderate from a 14-year high the index of consumer sentiment touched earlier this year, the University of Michigan said Friday. "Concerns about tariffs greatly accelerated in the July survey," said Richard Curtin, the survey's chief economist.

Trade contributed strongly to the economy's performance. Net exports added 1.06 percentage points to the second quarter's 4.1% GDP growth rate, which likely reflected a surge in soybean exports as buyers abroad rushed to get their supplies before China's 25% retaliatory tariffs on the U.S. crop hit in July.

"Some giveback in this unusual spike should be expected," JPMorgan Chase economist Michael Feroli said in a note.

For some Americans, trade barriers are causing anxiety. Terry Schultz, president of Madison, S.D.-based seed producer Mustang Seeds, said tariffs on U.S. soybean exports have "ramped up pressure on profitability" for the farming sector, which has been under pressure from lower commodity prices in recent years.

"Our sales numbers are good. What's always a concern is the profitability of our customers and their ability to pay us," Mr. Schultz said.

A key measure of business spending moderated from the first quarter but remained robust. Nonresidential fixed investment -- reflecting spending on commercial construction, equipment and intellectual property products such as software -- rose at a 7.3% rate after rising 11.5% in the first quarter.

The 2017 tax overhaul was designed to encourage such investments by lowering the corporate tax rate and by letting companies immediately deduct certain capital expenditures instead of depreciating them over time.

Tax cuts were part of President Trump's plan to boost economic growth to the above-3% annual growth rate that marked the robust expansions of the 20th century.

He hailed the GDP report Friday, saying the economy is growing at a "very sustainable" pace and predicting it will expand at least 3% this year.

Economic forecasters largely agreed the tax legislation would boost growth in the near term, but were split over whether the legislation would increase the economy's growth rate over the long term in the face of an aging population and meager productivity growth.

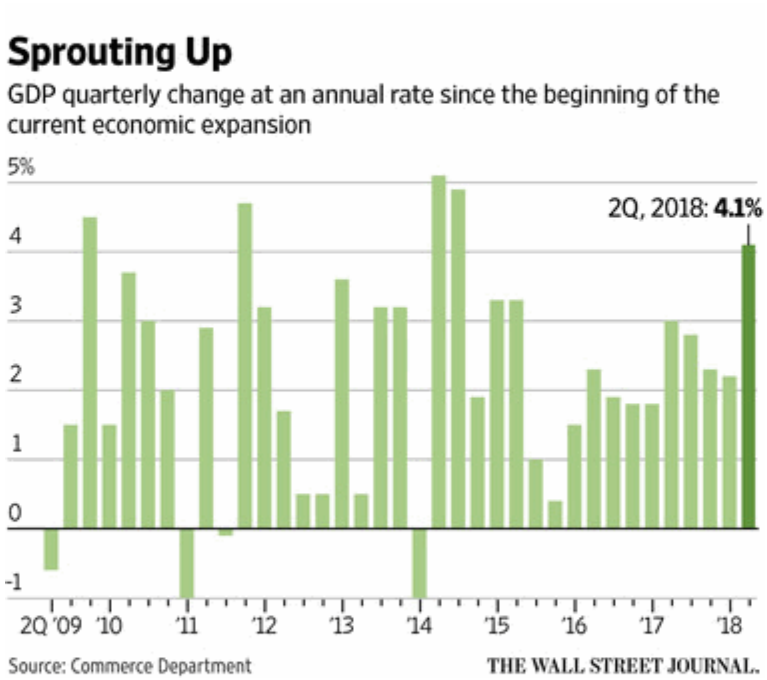
Output rose 2.8% in the second quarter from the same period of 2017. Fed officials expect to see growth hit the same pace in the fourth quarter of this year from a year earlier, which would mark the best calendar year since 2005. However, they forecast growth to ebb to 1.8% a year in the long run.

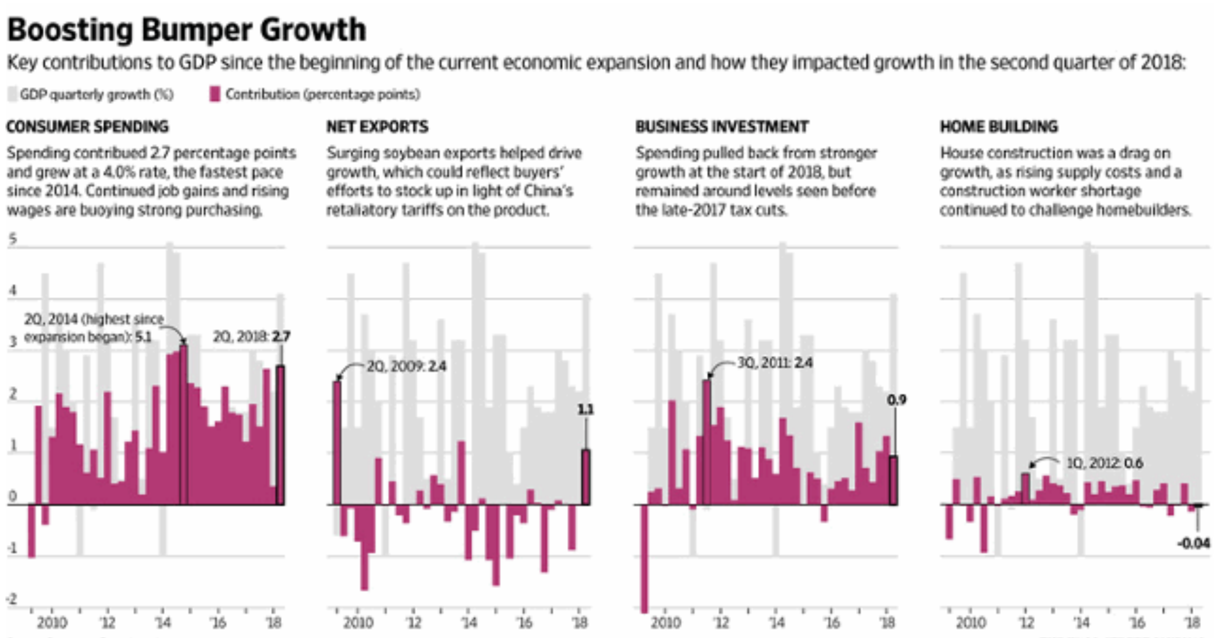
"Enjoy it while it lasts," Ian Shepherdson, chief economist at Pantheon Macroeconomics, said of the strong second quarter. He expects consumer spending to slow in the third quarter as the boost from the tax cuts fades.

The GDP report included two main soft spots -- housing and inventories. Residential fixed investment fell at a 1.1% rate in the second quarter. That could reflect higher mortgage rates, low housing inventory and tax-code changes that diminished decades-old perks that encouraged homeownership.

A drop in inventories subtracted 1 percentage point from the second-quarter growth rate. Some analysts said that could help boost third-quarter growth if businesses restock.

Theo Francis, Eric Morath and Vivian Salama contributed to this article.





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