WSJ PRO BANKRUPTCY

Pro Bankruptcy
Rand Logistics Emerges From Bankruptcy With New Private-Equity Owner; Great Lakes shipping company is free of chapter 11 before sailing season starts

By Katy Stech Ferek
295 words
5 March 2018
12:07 PM
WSJ Pro Bankruptcy
RSTPROBK
English

Rand Logistics Inc., one of the biggest shipping companies in the Great Lakes region, has emerged from bankruptcy protection with a new owner.

The Jersey City, N.J., company put its bankruptcy-exit plan into action on Thursday, according to documents filed in U.S. Bankruptcy Court in Wilmington, Del.

The plan called for Lightship Capital LLC, a part of $4 billion private-equity firm American Industrial Partners, to take over the company's ownership and forgive about $87 million in debt. The plan got approval from Judge Brendan Shannon on Wednesday. The company's shares were publicly traded on the **Nasdaq** market until January.

Rand Logistics officials who put the company into chapter 11 protection on Jan. 29 urged Judge Shannon to approve its reorganization plan quickly, enabling it to emerge from bankruptcy before the start of the Great Lakes sailing season in early April.

The 500-worker company's ships transport resources such as iron ore pellets, grain and salt across the chain of freshwater lakes for about 50 customers. Its aging fleet of 15 ships has cost millions of dollars to repair in recent years, Chief Financial Officer Mark Hiltwein said during a court hearing.

The company also blamed its financial woes on the weakness of the Canadian dollar versus the U.S. dollar.

Under the company's bankruptcy-exit plan, Rand Logistics said it plans to fully pay off another group of lenders organized by Bank of America N.A. who are owed $149 million. The transaction will leave no money for shareholders.

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WSJ PRO VENTURE CAPITAL

Tech
Dropbox Sets IPO Target Valuation at $7 Billion to $8 Billion; Web-storage company said it expects its shares to price between $16 and $18

By Maureen Farrell
748 words
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WSJ Pro Venture Capital
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Dropbox Inc. set a valuation target between $7 billion and nearly $8 billion ahead of its initial public offering, which is set to be one of the biggest tech IPOs in the past few years.

In a filing Monday, the web-storage and collaboration company said it expects its shares to price in a range of $16 to $18. At the midpoint of that range, based on a fully diluted share count, its valuation would be $7.4 billion, well below the $10 billion valuation where the company had raised private capital in 2014.

The Dropbox IPO will seek to raise $612 million of capital at the midpoint of its range, and the company said it would receive proceeds of $529.7 million at that midpoint.

That valuation level would make it the largest U.S. tech IPO since Snap Inc.

made its debut in March of 2017, according to Dealogic. The Wall Street Journal had previously reported the company was seeking a valuation of roughly $7 billion to $8 billion.

The company also revealed in its filing that the corporate investment group of Salesforce.com Inc., which has been an investor in the company, will serve as a so-called anchor in the IPO and will buy $100 million worth of the shares being offered when the IPO closes in a private placement.

As one of few richly valued tech startups to test the public markets in recent years, Dropbox will be closely watched as a potential barometer for the more than 100 U.S. companies valued at more than $1 billion that still remain private—particularly the larger ones.

Most of the startups with the highest valuations have put off IPOs as they still have access to ample amounts of capital from big investors.

The San Francisco-based company and its underwriters will set a final IPO price based on feedback from investors in a roadshow that is about to begin. IPOs aren't guaranteed to price within companies' expected ranges.

Dropbox is expected to start trading on **Nasdaq** under the symbol "DBX" late next week.

Investors from top venture-capital firms such as Sequoia Capital and Accel Partners as well as mutual funds including Fidelity Investments and T. Rowe Price have collectively pumped more than $600 million into Dropbox, viewing the company as having enormous potential to dominate the consumer business of file storage.

Dropbox, which lets users store, share and collaborate on documents, photos and other files online, is among the older of the so-called billion-dollar startups. The company was founded by MIT computer-science students Drew Houston and Arash Ferdowsi in 2007. It now has more than 500 million registered users, most of whom use its free, basic service with limited storage.

The 11-year-old company has never turned a yearly profit, which isn't uncommon for investment-heavy tech startups seeking to go public. It posted revenue last year of $1.11 billion and a net loss of $111.7 million.

Mr. Houston, Dropbox's CEO, and Mr. Ferdowsi are each selling 2.3 million shares in the offering, which would generate proceeds of about $39 million at the midpoint of the range.

Ahead of the IPO, in December 2017, Dropbox's board granted the co-founders stock awards that give Mr. Houston the potential to earn as much as $930 million over the next decade if Dropbox's share price reaches $60; Mr. Ferdowsi could earn as much as $396 million.

Over the past few years, Dropbox has faced intense competition from tech giants like Alphabet Inc.'s Google and Apple Inc., which have pushed into the consumer-storage space. Dropbox also has begun offering storage for businesses.

While Dropbox's losses have been shrinking, its revenue growth has also slowed. It has roughly 11 million paying users, but the vast majority of its 500 million users don't pay.

Despite a pushback against dual-class shares from index funds and the SEC in recent months, Dropbox will have a dual-class structure that gives the founders and some investors 10 votes a share, compared with one vote a share for investors buying shares in the public markets.

Write to Maureen Farrell at maureen.farrell@wsj.com

Heard on the Street

* Getting the Drop on Big Technology IPOs

Document RSTPROVC20180312ee3c0005l

WSJ PRO VENTURE CAPITAL

Markets

Dropbox Pitches Investors on Scale, Growth and Collaboration; Executives make pitch during IPO roadshow; some investors see company's valuation target as conservative

By Maureen Farrell
549 words
14 March 2018
05:26 PM
WSJ Pro Venture Capital
RSTPROVC
English

Leading up to its initial public offering, Dropbox Inc. executives have spent the past few days pitching potential investors on the company's ability to reach an expansive, 500 million-user base and its growth potential, according to people who have attended the meetings.

On Wednesday as part of the company's so-called roadshow to peddle its IPO, Dropbox's Chief Executive Drew Houston, Chief Financial Officer Ajay Vashee and Chief Operating Officer Dennis Woodside addressed about 200 investors who crowded into a ballroom at the Lotte New York Palace Hotel in Manhattan.

The executives touted Dropbox's potential for accelerating growth and its likelihood of turning a profit, seeking to portray the company as one less dependent on an active sales force and instead a service that tends to sell itself to users who become advocates, according to people who attended the meetings.

Dropbox's IPO is slated to be the largest U.S. technology debut since Snap Inc. went public in 2017, based on its expected valuation of between $7 billion and $8 billion. Dropbox's IPO price—and its early days of trading—will be closely watched for signs of whether more highly valued tech companies could be enticed to tap public markets instead of remaining in the well-capitalized private markets.

Through Tuesday, just three technology IPOs had listed in the U.S. so far this year, raising $2.7 billion, according to Dealogic. These companies' shares are trading up 27% on average, Dealogic data show.

Several potential Dropbox investors said the scarcity of technology IPOs is helping boost interest in Dropbox's debut as a rare, high-growth tech company with a sustainable business model.

Some potential investors said the company's current price target of $16 to $18 a share is conservative and they think it could be raised before the company starts trading next week on the **Nasdaq**. The Dropbox IPO will seek to raise $612 million at the midpoint of its range, and the company said it would receive proceeds of $529.7 million at that midpoint.

Still, Dropbox's current expected price range sets it far below the $10 billion valuation where the company had raised private capital in 2014.

Pricing can change up until the night before a company starts trading. Dropbox and its underwriters, which include Goldman Sachs Group Inc. and JPMorgan Chase & Co., will set a final IPO price based on feedback from investors over the next week.

Mr. Houston and others spelled out the use case for Dropbox as a collaboration tool for businesses and consumers rather than simply a web-storage company. In an investor video released ahead of the roadshow, Mr. Houston highlighted the company's evolution: "We've realized the most important thing to our users wasn't the storage. It's the sharing, the collaboration."

Whether investors are willing to accept that broader concept of Dropbox's business likely will be a key to how the company prices and trades and a key consideration for investors as they decide how to value the business.

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WSJ PRO FINANCIAL REGULATION

Markets

Meet the New Boss, Same as the Old Boss | Libor Squeezes Short-Term Borrowers | Rubin's Take: CFTC Budget Increase Fumbled at Goal Line; The Wall Street Journal's financial regulation newsletter for Wednesday, March 28, 2018.

2,192 words
28 March 2018
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WSJ Pro Financial Regulation
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Rubin's Take: CFTC Budget Increase Fumbled at Goal Line

For Wall Street, New York Fed's New Chief Could Be a Lot Like the Old Chief

Libor's Rise Accelerates, Squeezing Short-Term Borrowers

10 Years After the Crisis: What Has and Hasn't Changed

U.S. Lenders Reveal Big Gender Pay Gaps in Britain

CFTC Budget Increase Fumbled at Goal Line

Officials at the Commodity Futures Trading Commission were confident that, after three years of frozen $250 million budgets, Congress was poised to hand them an increase. But the effort fell apart at the last minute, leaving the derivatives regulator's leaders shocked at seeing their budget reduced by $1 million—and assessing possible cuts to match the $249 million appropriation.

According to three congressional and agency sources, the CFTC was poised to receive a substantial increase in funding as part of last week's omnibus spending package, with one person familiar with the matter pegging the number at $267 million, a 6.8% increase from a year earlier. That would have fallen short of the agency's request for $281.5 million, but would have substantially eased budgetary woes that led to a de facto hiring freeze in recent years.

"We are absolutely astounded by the decrease in the CFTC's budget. Chairman [J. Christopher] Giancarlo has spent his entire tenure in office as chairman meeting with members and staff on Capitol Hill to explain the global and domestic importance of the CFTC as a market regulator," said CFTC spokeswoman Erica Elliott Richardson.

During congressional negotiations, the CFTC funding increase was tied to a provision, favored by some banking lobbyists and Republican lawmakers, that would make it easier for large banks to trade swaps between their own affiliates. Democrats, many of whom were unaware that the two issues had become intertwined, pushed back on the swap rule change, causing the provision to be stripped out during an early phase of negotiations, the people said. The CFTC's budget bump appears to have been lost in the shuffle.

"This feels like a lose-lose," a House GOP aide familiar with the negotiations said.

The slight budget decrease will likely make it impossible for Mr. Giancarlo to move ahead with several of his priorities, like hiring more economists, boosting cybersecurity examinations and expanding a financial-technology initiative. Some agency employees privately worry that the funding snub could make the regulator look bad during its negotiations with the European Commission over clearinghouse supervision, weakening its bargaining power.

Key Developments in Washington, on Wall Street, and Beyond

For Wall Street, New York Fed's New Chief Could Be a Lot Like the Old Chief

The front-runner for president of the Federal Reserve Bank of New York has a regulatory record similar to its current leader, suggesting his appointment would bring continuity in the regulator's relationship to Wall Street.

John Williams, the Federal Reserve Bank of San Francisco president in line for a transfer to New York, and current New York Fed President William Dudley have both supported restrictions on banks imposed after the 2008 bailouts, criticized bank executives for risk-management failures, and sought to put distance between their staffs and the bankers they oversee.

They also have seen major bank misbehavior occur on their watch. Mr. Williams's role in overseeing Wells Fargo & Co. triggered criticism of his regulatory record because of the California-based bank's risk-management failures and customer abuses. When the Fed hit Wells Fargo with an unprecedented enforcement action this year, it was both a rebuke of the firm and an acknowledgment that regulators had allowed risk-management deficiencies to fester.

Libor's Rise Accelerates, Squeezing Short-Term Borrowers

Companies are paying the most in nearly a decade for some types of short-term borrowing, the latest threat to a long-running U.S. economic expansion and increasingly **volatile** markets.

The three-month London interbank offered rate climbed to 2.29% in the U.S. on Monday, its highest since November 2008. Libor measures the cost for banks to lend to one another and is used to set interest rates on roughly $200 trillion in dollar-based financial contracts globally, from corporate loans to home mortgages.

Libor has been rising for the last 2½ years as the Federal Reserve lifts its key policy rate, but recently the pace has picked up. It has climbed nearly a full percentage point in the last six months—outpacing the Fed—and could rise further with the approaching end of the quarter, typically a time of elevated demand for short-term funds in the banking sector, analysts say.

10 Years After the Crisis: What Has and Hasn't Changed

The financial crisis and the massive federal response reshaped the world we live in. Though the economy is in one of its longest expansions and stock indexes have hit new highs, many people across the political spectrum complain that the recovery is uneven and the markets' gains aren't fairly distributed. The Wall Street Journal takes a look at some of the most eventful aspects of the response and how we got to where we are today.

U.S. Lenders Reveal Big Gender Pay Gaps in Britain

U.S. investment banks in London have some of the biggest gender pay gaps in the country, reflecting long-established cultures of men dominating top trading and advisory roles and women working in junior posts or as administrators.

Women are paid around half as much as men in the main U.K. investment banking units of Bank of America Corp. , JPMorgan Chase & Co. and Morgan Stanley , marking the widest gaps among around 40 global financial companies that have reported pay data to the U.K. government.

WSJ Pro: Atlanta Fed's Bostic Warns Against Investing in Cryptocurrencies

Federal Reserve Bank of Atlanta President Raphael Bostic had a quick answer Tuesday when asked if cryptocurrencies, such as bitcoin, are a smart investment.

"Don't do it," he said at panel hosted by Operation Hope, an organization that promotes financial literacy among poor and underserved communities.

Cryptocurrencies "are speculative markets; they are not currency," Mr. Bostic said. "If you have money that you really need, don't put it in those markets."

Analysis: Chinese Banks Return to an Old Favorite Fundraising Tool

Old habits die hard, especially for Chinese banks.

The lenders, especially smaller ones, are turning back to a favorite but costly tool to raise money in wholesale markets, as slowing deposit growth makes it hard for them to fund new loans or honor repayments on investment products.

The resurgent popularity of short-term loans known as negotiable certificates of deposits, which banks have used to pile up bets on bonds in recent years among other uses, highlights the difficulties that Beijing faces in its battle against high debt levels and other leverage.

Deutsche Bank Examines Potential Successors to CEO John Cryan

Deutsche Bank AG's chairman has reached out externally to potential candidates to be the bank's next chief executive, gauging interest in replacing John Cryan after months of clashes, according to people briefed on the discussions.

The outreach by Chairman Paul Achleitner was described by one of the people as informal in nature, and it hasn't resulted in any immediate, definitive plans for succession at the German lender. Another person said the efforts picked up steam in the past month.

The discussions raise the possibility that Mr. Cryan, who has been CEO since summer 2015, could leave before his contract ends in 2020. Still, members of Deutsche Bank's supervisory board aren't all in agreement on CEO succession planning, according to people familiar with board deliberations.

SEC Charges Wedbush in ‘Pump-and-Dump' Scheme

The Securities and Exchange Commission on Tuesday said broker-dealer Wedbush Securities Inc. failed to properly supervise an employee who was allegedly involved in a long-running "pump-and-dump" scheme aimed at retail investors.

The SEC, in a press release, said the administrative charges represent the second action against Wedbush this year and the third against the firm since 2014. Wedbush is based in Los Angeles, but has almost 100 offices around the world.

Homeowners Ditch Refinancings

Refinancings make up a smaller portion of the mortgage business than at any time in the past two decades, posing a challenge for lenders who already fear higher interest rates and climbing house prices could eventually depress purchase activity.

Last year, 37% of mortgage-origination volume was because of refinancings, according to industry research group Inside Mortgage Finance. That is the smallest proportion since 1995, and the number of refinancings is widely expected to shrink again this year. In 2012, refinancings were 72% of originations.

While purchase activity has climbed steadily from a post-financial-crisis nadir in 2011, growth in 2017 wasn't enough to offset a $366 billion decline in refinancing activity. The result: The overall mortgage market fell around 12%, to $1.8 trillion, according to Inside Mortgage Finance.

The Mortgage Bankers Association expects mortgage-purchase volume to grow about 5% in 2018 but refinancing volume to drop 27%. Refinance applications fell 5% in the week ended March 16 from the prior one, according to the group.

Wednesday, March 28

12:15 p.m.

Thomas Hoenig, vice chairman of the Federal Deposit Insurance Corp., gives a luncheon speech to the Peterson Institute for International Economics on the increasing complexities of banking, the experience of recurring crises, short-run versus long-run choices, and trends in banking supervision.

Investment Priorities Largely the Same Across Generations

Lending marketplace LendEDU asked 1,000 Americans this month how they would invest $10,000 if given 11 options, including real estate, cryptocurrencies, debt repayment, and the option to invest none of it. Across generations, the top two answers were paying down debt (27.3%) and investing in real estate (13.5%), the survey found. More baby boomers (33%) wanted to use the money to pay down debt than millennials (22%), though the type of debt carried varied slightly by generation, the survey shows. Reducing credit-card debt was a priority across generations, but millennials expressed more interest in paying off student loans while baby boomers and Generation Xers focused more on personal loans or mortgages, according to the survey.

Low Risk as a Predictor of Financial Crises

"Reliable indicators of future financial crises are important for policy makers and practitioners. While most indicators consider an observation of high **volatility** as a warning signal, [we argue] that such an alarm comes too late, arriving only once a crisis is already under way," Jon Danielsson, Marcela Valenzuela and Ilknur Zer write in a VoxEU column. "A better warning is provided by low **volatility**, which is a reliable indication of an increased likelihood of a future crisis…A major cause of financial crises is excessive risk taking by economic agents. When they perceive a low-risk environment, they are endogenously incentivized to take more risk, which ultimately culminates in a crisis."

The New York Fed Needs a New Perspective

"It is perhaps the most important economic policy-making and regulatory position many people have never heard of: the president of the Federal Reserve Bank of New York," U.S. Sen. Cory Booker (D., N.J.) writes for Bloomberg View. Misconduct in the financial sector contributed to the 2008 financial crisis, making it important to get "an honest and independent broker in this position," he writes, adding that the regional bank should "look for an individual who will bring new perspectives to the leadership of our economy, such as a woman or a person of color.

Banco Santander is exploring blockchain's potential applications for banking transactions, including international payments for individuals and corporations.

Lennar Corp., the country's largest home builder, aims to make the mortgage-application process easier to attract younger buyers by using technology from Blend, a San Francisco-based startup, that allows consumers to apply for a mortgage online or on their phone.

Malaysia's government proposed a new law that would make spreading fake news a crime punishable by up to 10 years in prison, a move that critics say could limit reporting on the investigation around Prime Minister Najib Razak's involvement in scandals surrounding a state investment fund, 1Malaysia Development Bhd.

American International Group Inc. paid $67.3 million to its chief executive officers in 2017, with part of the payment going to a man who resigned under pressure early in the year and another portion to attract his successor.

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THE WALL STREET JOURNAL.

Economy

Powell Bullish on Economy, but Sees No Signs of Overheating; Federal Reserve chairman tells a Senate panel he isn't seeing a breakout in wage gains

By Nick Timiraos
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The Wall Street Journal Online
WSJO
English

WASHINGTON—Federal Reserve Chairman Jerome Powell offered an upbeat view of the economy over two days of testimony on Capitol Hill this week, opening the door to four quarter-point interest-rate increases this year.

Fed officials in December projected three rate increases this year . Mr. Powell's comments Tuesday and Thursday signaled they remain on track for at least that many and could consider one more if the economy picks up steam.

At the same time, Mr. Powell didn't suggest the Fed felt any urgency to plot a steeper path of rate increases in reaction to stronger economic data and recently enacted tax cuts and spending increases likely to spur growth this year.

"There's no evidence that the economy is currently overheating," Mr. Powell said at Thursday's hearing.

Markets fell in early February after increases in wages and market-based measures of inflation fanned investor fears the Fed might dial up the pace of rate increases.

Mr. Powell, however, told the Senate Banking Committee on Thursday he didn't see decisive evidence of a breakout in wage gains.

"Nothing in that suggests to me that wage inflation is at a point of acceleration," he said.

Mr. Powell said the Fed sees the potential for positive and negative economic surprises as roughly balanced. That is a shift after several years when officials saw a greater risk that sluggish growth would force them to slow their rate-rise plans than that a stronger economy would cause them to move faster.

Bonds rose and stocks seesawed during his testimony Thursday morning.

On Tuesday, stocks and bonds sold off after Mr. Powell told a House panel his own economic outlook had improved , leaving the impression he could lead Fed officials to slightly increase the pace of rate increases this year.

The Fed lifted its benchmark short-term interest rate to a range between 1.25% and 1.5% in December and is likely to raise the rate at the policy meeting March 20-21.

Officials have debated in recent years whether to raise rates more slowly than tentatively planned, but now their debate centers on whether to go a touch faster.

"It makes sense to think about three or four rate increases in 2018," San Francisco Fed President John Williams said last week.

Mr. Powell said this week the central bank remains likely to raise rates gradually. New York Fed President William Dudley said Thursday in Brazil that four rate rises this year "would still be gradual."

Inflation remains below the Fed's 2% target, but it has been firming in recent months.

Consumer prices excluding volatile food and energy categories rose 1.5% in January from a year earlier, same as in November and December, according to the Fed's preferred gauge. But on a six-month annualized basis, such so-called core prices were up 2% in January, the largest gain in 16 months and up from 1% over the same period ended in July.

Mr. Powell, who was sworn in as Fed chairman last month, has taken the helm while lawmakers and the Trump administration embark on an unusual fiscal policy experiment.

With the unemployment rate at a 17-year low of 4.1%, President Donald Trump and the GOP in recent months enacted tax cuts of at least $1.5 trillion over 10 years and spending increases worth $300 billion over two years that will swell federal budget deficits. These measures could boost household and business spending and push up inflation.

Mr. Powell's testimony acknowledged how the tailwind from fiscal stimulus could shift the Fed's focus.

Since the recession, Fed officials have kept rates very low to support hiring and nudge inflation higher. Now, they don't want to leave borrowing costs so low that asset bubbles form or price pressures surge.

Mr. Powell said the Fed is focused on striking "a balance between avoiding an overheated economy and bringing…inflation to 2% on a sustained basis."

Fed governor Lael Brainard, who has favored raising rates very cautiously, is scheduled to speak Tuesday on how policy should respond when headwinds become tailwinds.

Participants in futures markets expect the Fed to raise its benchmark rate at least three times this year, in quarter-percentage-point steps, according to CME Group. These investors also saw the probability of a fourth move in 2018 rise after Mr. Powell's testimony Tuesday.

The possibility of new trade tariffs could complicate the Fed's plans. Mr. Trump said Thursday he would enact 25% tariffs on imported steel and 10% tariffs on imported aluminum next week.

Mr. Dudley said tariffs could boost domestic inflation , forcing the Fed to re-evaluate its interest-rate forecasts, though he declined to comment specifically on any current White House plans.

While increased global trade since the turn of the century took a sharper toll on certain U.S. communities than economists had anticipated, Mr. Powell said there were better ways to support those hurt by competition from imports than to impose tariffs that could impose costs more broadly across the economy.

"The tariff approach is not the best approach," he said, while declining to comment specifically on Mr. Trump's plans.

Michael S. Derby contributed to this article.

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

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International New York Times

opinion
Is Trump About to Start a Trade War?; Contributing Op-Ed Writer

By RUCHIR SHARMA
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7 March 2018
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English

The announcement that President Trump's top economic adviser, Gary D. Cohn, plans to resign after apparently losing a battle over raising tariffs ratchets up concern that the White House is turning sharply toward protectionism. The deepest fear is that the planned steel and aluminum tariffs will echo the mistake of the infamous Smoot-Hawley tariffs of 1930, which provoked a global trade war and helped fuel the Great Depression.

The alarmists are getting a bit ahead of the story, however. Periods of deglobalization — when nations begin shuttering their borders to flows of trade, money and people — tended to be slow processes, not sudden events. They started with tectonic shifts — global wars and crises — not minor import levies. And they unfolded over decades, not years. The last era of deglobalization actually began when countries turned inward after World War I, more than a decade before Smoot-Hawley and the Great Depression.

It is important to view Mr. Trump's latest trade actions in that historical context. The suggested higher tariffs on steel and aluminum are too narrowly targeted to trigger a trade war but represent another chapter in the evolving era of deglobalization.

This era began long before Mr. Trump took office, but he is now capitalizing on the popular backlash against globalization. The mood turned decisively after the Great Recession of 2008. Trade collapsed as a share of the world economy, and despite some pickup in the past two years, trade has yet to recover to its pre-crisis level. One big reason: the barriers that countries like India and Russia have been raising to block the flow of trade, money and people at their borders.

In every year since 2010, the leading economies have instituted more discriminatory trade measures than liberalizing ones, according to data from Global Trade Alert. The difference with Mr. Trump is that he is reviving the old-school and easily detected weapon of the tariff. Many other countries have been using a wide array of non-tariff barriers. Some are stealthy, like hidden subsidies for export industries. Others are blatant, like barring foreign competitors outright.

Though the world is now a decade into this age of deglobalization — with flows of money and migrants also running well below the peaks reached before 2008 — it's an exaggeration to compare Trump's tariffs to a tipping point like Smoot-Hawley.

Steel and aluminum represent only 2 percent of United States imports, and so far Mr. Trump's proposal bears less resemblance to the sweeping Smoot-Hawley tariffs than to the more narrowly targeted Fordney-McCumber tariffs that preceded it.

In the early 1920s, European farms were recovering from World War I and emerging as a competitive threat to American farmers, who began lobbying for protection. Fordney-McCumber began as an attempt to answer the farmer's demands, but once tariff rates were opened up for discussion, other industries like pharmaceuticals demanded and received protection as well. We are at a similar point now: The deglobalization process is underway, in which pressure from other industries, voters and politicians to enact additional tariffs may grow.

The outcry for higher tariffs could really intensify if the economy takes a serious turn for the worse, as it did after the **stock market** crash of 1929. Then, factories shut down and unemployment spiked. That led to the passage of Smoot-Hawley, which triggered a sharp reaction from foreign governments. Global trade slowed sharply and did not fully recover until the 1970s.

Today, however, the world economy looks much more like it did in the 1920s than in the depressed '30s. Unemployment and inflation are low, growth is reasonably strong, inequality is back to levels last hit in the 1920s, and the mood is shifting against globalization. Still, the clamor for protection could grow significantly in intensity.

The obvious concern: If Mr. Trump is pushing tariffs during good times, just imagine what he might do if the times turn bad. That's when governments normally become even more protectionist, and this administration is already moving in that direction. The decision by Mr. Cohn, the head the National Economic Council and a staunch defender of free trade, to leave the administration is clear evidence of the trend.

The next chapter in this period of deglobalization may revolve around how Mr. Trump deals with China. If the world's two largest economies fall into a spiral of tit-for-tat retaliation, the global trend toward trade protection could pick up pace. China is a minor supplier of steel and aluminum to the United States but a major supplier of much else.

In the global **financial markets**, many observers are thus less concerned about the steel tariffs than about the Section 301 investigation launched by the Trump administration against China, which goes well beyond earlier investigations into illegal subsidies for export manufacturers and other stealth trade protection. Instead, the 301 investigation — named after the section of the Trade Act of 1974 that gives the president great leeway to address trade issues — is a broad look at Chinese practices such as investing in American companies to steal technology, penetrating American data networks and lifting technology from American companies that invest in China.

In short, the current controversy over steel and aluminum tariffs involves old industries that are shrinking as a share of the global economy and affect about 2 percent of global trade. Even if Mr. Trump's suggested new tariffs provoke Chinese retaliation in these industries, it would have a manageable impact. A broader trade conflict involving newer sectors such as technology, or that leads to restrictions on foreign investment, could be much more damaging.

Of course, this is not the first time in the postwar era that an American president has resorted to trade protectionism. Richard Nixon fought his 1968 election campaign on a mercantilist platform. Both Ronald Reagan and George W. Bush imposed trade tariffs. The difference then was that America exercised more dominance over the global economy and had greater reason to believe it could squeeze concessions from trading partners. Rising powers such as China are not likely to be as compliant now, and even allies in Europe seem to feel less obliged to placate America.

Regardless of how far Mr. Trump goes in pressing tariffs against both rivals and allies, it is important to remember that this is not the beginning of the story, or the end. We are somewhere in the middle. The seeds of discontent against globalization were sown following a period of intensive trade and migration that culminated in the financial crisis of 2008. The age of deglobalization is now a worldwide phenomenon that is larger than Mr. Trump. It was coming whether he won election or not. And it is unlikely to end until long after he is gone.

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Ruchir Sharma is the author of "The Rise and Fall of Nations: Forces of Change in the Post-Crisis World," the chief global strategist at Morgan Stanley Investment Management and a contributing opinion writer.

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* E.U. Pledges to Fight Back on Trump Tariffs as Trade War Looms

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The New York Times

CONTRIBUTING OP-ED WRITER
Editorial Desk; SECTA
Is Trump About to Start a Trade War?

By RUCHIR SHARMA
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The announcement that President Trump's top economic adviser, Gary D. Cohn, plans to resign after apparently losing a battle over raising tariffs ratchets up concern that the White House is turning sharply toward protectionism. The deepest fear is that the planned steel and aluminum tariffs will echo the mistake of the infamous Smoot-Hawley tariffs of 1930, which provoked a global trade war and helped fuel the Great Depression.

The alarmists are getting a bit ahead of the story, however. Periods of deglobalization -- when nations begin shuttering their borders to flows of trade, money and people -- tended to be slow processes, not sudden events. They started with tectonic shifts -- global wars and crises -- not minor import levies. And they unfolded over decades, not years. The last era of deglobalization actually began when countries turned inward after World War I, more than a decade before Smoot-Hawley and the Great Depression.

It is important to view Mr. Trump's latest trade actions in that historical context. The suggested higher tariffs on steel and aluminum are too narrowly targeted to trigger a trade war but represent another chapter in the evolving era of deglobalization.

This era began long before Mr. Trump took office, but he is now capitalizing on the popular backlash against globalization. The mood turned decisively after the Great Recession of 2008. Trade collapsed as a share of the world economy, and despite some pickup in the past two years, trade has yet to recover to its pre-crisis level. One big reason: the barriers that countries like India and Russia have been raising to block the flow of trade, money and people at their borders.

In every year since 2010, the leading economies have instituted more discriminatory trade measures than liberalizing ones, according to data from Global Trade Alert. The difference with Mr. Trump is that he is reviving the old-school and easily detected weapon of the tariff. Many other countries have been using a wide array of non-tariff barriers. Some are stealthy, like hidden subsidies for export industries. Others are blatant, like barring foreign competitors outright.

Though the world is now a decade into this age of deglobalization -- with flows of money and migrants also running well below the peaks reached before 2008 -- it's an exaggeration to compare Trump's tariffs to a tipping point like Smoot-Hawley.

Steel and aluminum represent only 2 percent of United States imports, and so far Mr. Trump's proposal bears less resemblance to the sweeping Smoot-Hawley tariffs than to the more narrowly targeted Fordney-McCumber tariffs that preceded it.

In the early 1920s, European farms were recovering from World War I and emerging as a competitive threat to American farmers, who began lobbying for protection. Fordney-McCumber began as an attempt to answer the farmer's demands, but once tariff rates were opened up for discussion, other industries like pharmaceuticals demanded and received protection as well. We are at a similar point now: The deglobalization process is underway, in which pressure from other industries, voters and politicians to enact additional tariffs may grow.

The outcry for higher tariffs could really intensify if the economy takes a serious turn for the worse, as it did after the **stock market** crash of 1929. Then, factories shut down and unemployment spiked. That led to the passage of

Smoot-Hawley, which triggered a sharp reaction from foreign governments. Global trade slowed sharply and did not fully recover until the 1970s.

Today, however, the world economy looks much more like it did in the 1920s than in the depressed '30s. Unemployment and inflation are low, growth is reasonably strong, inequality is back to levels last hit in the 1920s, and the mood is shifting against globalization. Still, the clamor for protection could grow significantly in intensity.

The obvious concern: If Mr. Trump is pushing tariffs during good times, just imagine what he might do if the times turn bad. That's when governments normally become even more protectionist, and this administration is already moving in that direction. The decision by Mr. Cohn, the head the National Economic Council and a staunch defender of free trade, to leave the administration is clear evidence of the trend.

The next chapter in this period of deglobalization may revolve around how Mr. Trump deals with China. If the world's two largest economies fall into a spiral of tit-for-tat retaliation, the global trend toward trade protection could pick up pace. China is a minor supplier of steel and aluminum to the United States but a major supplier of much else.

In the global **financial markets**, many observers are thus less concerned about the steel tariffs than about the Section 301 investigation launched by the Trump administration against China, which goes well beyond earlier investigations into illegal subsidies for export manufacturers and other stealth trade protection. Instead, the 301 investigation -- named after the section of the Trade Act of 1974 that gives the president great leeway to address trade issues -- is a broad look at Chinese practices such as investing in American companies to steal technology, penetrating American data networks and lifting technology from American companies that invest in China.

In short, the current controversy over steel and aluminum tariffs involves old industries that are shrinking as a share of the global economy and affect about 2 percent of global trade. Even if Mr. Trump's suggested new tariffs provoke Chinese retaliation in these industries, it would have a manageable impact. A broader trade conflict involving newer sectors such as technology, or that leads to restrictions on foreign investment, could be much more damaging.

Of course, this is not the first time in the postwar era that an American president has resorted to trade protectionism. Richard Nixon fought his 1968 election campaign on a mercantilist platform. Both Ronald Reagan and George W. Bush imposed trade tariffs. The difference then was that America exercised more dominance over the global economy and had greater reason to believe it could squeeze concessions from trading partners. Rising powers such as China are not likely to be as compliant now, and even allies in Europe seem to feel less obliged to placate America.

Regardless of how far Mr. Trump goes in pressing tariffs against both rivals and allies, it is important to remember that this is not the beginning of the story, or the end. We are somewhere in the middle. The seeds of discontent against globalization were sown following a period of intensive trade and migration that culminated in the financial crisis of 2008. The age of deglobalization is now a worldwide phenomenon that is larger than Mr. Trump. It was coming whether he won election or not. And it is unlikely to end until long after he is gone.

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The New York Times

Business Day; Economy
Europe Moves Toward Normalcy as Central Bank Shifts Guidance

By Jack Ewing
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English

FRANKFURT — Political instability in a heavily indebted eurozone country. The prospect of a trade war with the United States. **Stock market** turmoil.

None of it fazed the European Central Bank, which took another small step back from crisis mode on Thursday.

The bank's policymakers, who set monetary policy for the 19-nation euro area, held interest rates steady, but dropped language from their communiqué in which they had promised to ramp up economic stimulus measures again "if the outlook becomes less favorable."

It was a subtle but important change. By omitting the phrase, which it has repeated since December 2016, the central bank was in effect saying that the eurozone was no longer in imminent danger of going up in flames, and that it was time to begin stowing the fire hoses.

The expression of confidence came despite warnings from Mario Draghi, the central bank's president, about trade tensions with the United States.

Mr. Draghi, in an obvious reference to President Trump's plans to impose tariffs on imported steel and aluminum, said during a news conference that it was "dangerous" for countries to change the terms of trade unilaterally, rather than through negotiations.

The protectionist measures were part of a general diplomatic deterioration, Mr. Draghi added, and could damage the confidence that businesses needed before they would invest in expansion and hiring.

"If you put tariffs against your allies," Mr. Draghi said, "one wonders who the enemies are."

It was the second news conference in a row in which Mr. Draghi had expressed exasperation with the Trump administration. In January, he accused Steven Mnuchin, the U.S. treasury secretary, of violating international agreements by making comments that caused the dollar to fall against the euro, giving American products a price advantage in foreign markets.

Still, the European Central Bank's Governing Council was not alarmed enough by the potential trade war to interrupt its gradual exit from the emergency measures it has used to keep the eurozone from falling apart during a decade of financial and economic turmoil.

While Thursday's communiqué merely omitted a single sentence, and Mr. Draghi sought to downplay the importance of the change, investors appeared to find it significant.

Markets reacted swiftly, with the euro jumping as much as 0.5 percent against the dollar, and the yield on the German 10-year bond, the benchmark for the region, rising five basis points.

"It's a tacit acknowledgment that the economic outlook in Europe is rosier than it was," James Athey, a senior investment manager at Aberdeen Standard Investments, said in a statement. He added, "The reaction should not be overdone. This is an infinitesimal step forwards."

Some analysts had predicted that the central bank would make no changes in the language it uses to communicate its intentions to **financial markets**, in light of a confused election result in Italy.

On Sunday about half of Italians voted for populist candidates on the left and right, and left no party with a clear mandate to form a government. There is now very little chance that the country will make the sweeping changes needed to break its economy out of prolonged stagnation.

Its political deadlock and economic doldrums are a threat to the rest of the common currency area. Italy's government debt, measured as a percentage of economic output, is among the highest in the world and, in Europe, second only to Greece's.

But Italy also has the eurozone's third-largest economy, with output 10 times that of Greece, making it a far bigger danger to the region's financial stability if investors begin to doubt the government's solvency.

"We have to bury the hope that Italy will catch up with Germany and France with reforms," Holger Schmieding, chief economist at Berenberg, a German bank, said over lunch with reporters in Frankfurt on Tuesday. "Italy will more likely worsen its ability to carry its debt."

The European Central Bank was also unfazed by the ups and downs of global stock markets since the Governing Council last met on monetary policy. Mr. Draghi pointed out that the market turmoil was centered on the United States and "it was pretty short."

As expected, the Governing Council opted on Thursday to leave monetary policy unchanged. Interest rates will remain at a record low level.

There is a faction on the Governing Council that is worried that inflation, now dormant, could get out of hand if the central bank waits too long to stop its purchases of government and corporate bonds, a form of money printing intended to stimulate the economy.

That faction has been in the minority, but appeared to win the upper hand on Thursday.

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Mario Draghi, the president of the European Central Bank. Election results in his native Italy on Sunday raised concerns about the country's ability to break out of its prolonged economic stagnation. | Francois Lenoir/Reuters

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The New York Times

U.S.; Politics
Gary Cohn Will Resign as Trump's Top Economic Adviser

By Kate Kelly and Maggie Haberman
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Gary D. Cohn, President Trump's top economic adviser, said on Tuesday that he would resign, becoming the latest in a series of high-profile departures from the Trump administration.

White House officials insisted that there was no single factor behind the departure of Mr. Cohn, who heads the National Economic Council. But his decision to leave came as he seemed poised to lose an internal struggle over Mr. Trump's plan to impose large tariffs on steel and aluminum imports. Mr. Cohn had warned last week that he might resign if Mr. Trump followed through with the tariffs, which Mr. Cohn had lobbied against internally.

"Gary has been my chief economic adviser and did a superb job in driving our agenda, helping to deliver historic tax cuts and reforms and unleashing the American economy once again," Mr. Trump said in a statement to The New York Times. "He is a rare talent, and I thank him for his dedicated service to the American people."

Mr. Cohn is expected to leave in the coming weeks. He will join a string of recent departures by senior White House officials, including Mr. Trump's communications director and a powerful staff secretary.

Yet the departure of Mr. Cohn, a free-trade-oriented Democrat who fended off a number of nationalist-minded policies during his year in the Trump administration, could have a ripple effect on the president's economic decisions and on the financial industry.

It leaves Mr. Trump surrounded primarily by advisers with strong protectionist views who advocate the types of aggressive trade measures, like tariffs, that Mr. Trump campaigned on but that Mr. Cohn fought inside the White House. Mr. Cohn was viewed by Republican lawmakers as the steady hand who could prevent Mr. Trump from engaging in activities that could trigger a trade war.

Even the mere threat, last August, that Mr. Cohn might leave sent the **financial markets** tumbling. On Tuesday, Mr. Cohn's announcement rattled markets, and trading in futures pointed to a decline in the United States **stock market** when it opened on Wednesday.

In a statement, Mr. Cohn said he had been pleased to work on "pro-growth economic policies to benefit the American people, in particular the passage of historic tax reform." White House officials said that Mr. Cohn was leaving on cordial terms with the president and that they planned to discuss policy even after his departure.

Mr. Cohn's departure comes as the White House has been buffeted by turnover, uncertainty and internal divisions and as the president lashes out at the special counsel investigation that seems to be bearing down on his team.

A host of top aides have been streaming out the White House door or are considering a departure. Rob Porter, the White House staff secretary and a member of the inner circle, resigned after spousal abuse allegations. Hope Hicks, the president's communications director and confidante, announced that she would leave soon. In recent days, the president has lost a speechwriter, an associate attorney general and the North Korea negotiator.

Others are perpetually seen as on the way out. John F. Kelly, the chief of staff, at one point broached resigning over the handling of Mr. Porter's case. Lt. Gen. H. R. McMaster, the national security adviser, has been reported to be preparing to leave. And many officials wonder if Jared Kushner, the president's son-in-law and senior adviser, will stay now that he has lost his top-secret security clearance; the departure of Mr. Cohn further shrinks the number of allies Mr. Kushner and his wife, Ivanka Trump, have in the White House.

More than one in three top White House officials left by the end of Mr. Trump's first year and fewer than half of the 12 positions closest to the president are still occupied by the same people as when he came into office, according to a Brookings Institution study.

Mr. Cohn's departure will bring the turnover number to 43 percent, according to updated figures compiled by Kathryn Dunn Tenpas of the Brookings Institution.

For all the swings of the West Wing revolving door over the last year, Mr. Cohn's decision to leave struck a different chord for people. He is among the most senior officials to resign to date.

Mr. Trump's announcement last week that he would levy tariffs on aluminum and steel imports was the most immediate catalyst for Mr. Cohn's departure, according to people familiar with his thinking. A longtime proponent of free trade, Mr. Cohn believed the decision could jeopardize economic growth. The president, urged to consider the risks of losing Mr. Cohn by several advisers, appeared unconcerned, insisting that he could live without his economic adviser as he makes a more aggressive return to the nationalist policies that helped sweep him into office as the 2018 midterm elections approach.

Mr. Cohn was familiar with Mr. Trump's nationalist stance on trade, and the president repeatedly asked aides, "Where are my steel tariffs?" over the last eight months. Since last summer, a process for debate and information flow to the president had been in place as he made decisions. But that process has been in tatters since Mr. Porter left the White House, several aides said on Tuesday.

What's more, people close to the president said, Mr. Cohn had harmed his own ability to negotiate by telling Mr. Kelly last week that if the tariffs went forward, he might have to resign. The president was told by Cohn critics that Mr. Cohn had made the issue about himself, as opposed to Mr. Trump's policies. That led to Mr. Trump souring on Mr. Cohn by the time his resignation was submitted on Tuesday. But the president was still infuriated by Mr. Cohn's decision, according to multiple people who discussed it with the president after it was announced. In several conversations that Mr. Trump had with people on Tuesday, he denounced Mr. Cohn as a "globalist."

The resignation followed conversations Mr. Cohn held with the president in recent weeks about the possibility of replacing Mr. Kelly as chief of staff, said people who were briefed on the matter. The president never formally offered Mr. Cohn the job, those people insisted, but Mr. Trump had discussions with him about whether he would be interested.

On Tuesday, before Mr. Cohn's announcement, Mr. Trump dismissed talk of chaos in his White House while acknowledging that he deliberately fostered a fractious atmosphere. "I like conflict," he said at a news conference with the visiting prime minister of Sweden. "I like having two people with different points of view. And I certainly have that. And then I make a decision. But I like watching it. I like seeing it. And I think it's the best way to go."

But he insisted that he had no trouble recruiting or retaining people to work for him, despite widespread reluctance among Republicans to join his staff.

"Believe me, everybody wants to work in the White House," he said. "They all want a piece of the Oval Office. They want a piece of the West Wing."

People close to Mr. Cohn said that he had planned to stay for roughly a year, and that he had accomplished a number of things he cared about, including the $1.5 trillion tax cut.

A onetime silver trader who eventually became the president of Goldman Sachs, Mr. Cohn was an unlikely addition to the administration. A lifelong Democrat known for having progressive social views, he had no political expertise and barely knew Mr. Trump. But during an unconventional job interview, Mr. Trump was impressed with Mr. Cohn's knowledge of economics and the markets, say people who were briefed on the discussion.

As his chief economic adviser, Mr. Cohn quickly ingratiated himself to the president. He gave blunt, practical advice, say people familiar with their interactions, and built a team of experts on issues like infrastructure and taxes. At one point, he was part of a moderate-minded coalition of staff members — including Mr. Kushner and Ms. Trump, also an adviser — who pushed for the preservation of workplace rights for gay, lesbian, bisexual and transgender people. He also pushed Mr. Trump to remain in the Paris climate accord, a battle he ultimately lost.

He argued frequently over Mr. Trump's "America First" approach to trade, jousting most recently with the White House aide Peter Navarro and Commerce Secretary Wilbur Ross over the harm he believed nationalist economic policies would generate.

Shortly after his inauguration, Mr. Trump withdrew the United States from the Trans-Pacific Partnership, an Obama-era trade agreement with a number of Asian nations. Then, on at least three occasions last year, Mr. Cohn rebuffed Mr. Navarro's attempts to withdraw from the North American Free Trade Agreement. Mr. Cohn was also part of a group of White House aides who effectively blocked the metal tariffs on several occasions.

Some of Mr. Cohn's struggles on the job were painfully public. During an interview with CNBC, he once described working for Mr. Trump as a "dream come true." Yet as the top economic adviser to a president who is often contradictory on matters of policy, he sometimes had to finesse Mr. Trump's errors, a role that critics regarded as damaging to Mr. Cohn's reputation.

Mr. Cohn's rapport with Mr. Trump has been tenuous at times.

In August, after violent nationalist protests in Charlottesville, Va., that led to a woman's death, Mr. Cohn was so troubled by the president's response that he wrote a resignation letter, according to people briefed on the document. That time, Mr. Trump persuaded him to stay. But, loath to hide his feelings on the matter, he publicly criticized his boss, saying in a Financial Times interview that the administration "can and must do better" to condemn hate groups.

Late last year, Mr. Navarro was placed under Mr. Cohn's supervision and asked to copy him on emails, effectively neutering his effect on policy for a time. But a tumultuous period in the White House in February resulted in Mr. Navarro's re-ascendance, and with that, his protectionist policy agenda.

Mr. Cohn, who officials said has not set a firm departure date, will probably take a month or so to regroup after leaving, according to someone familiar with his thinking. Possibilities he has considered for a next step, said this person, include opening up his own investment firm or, according to two people familiar with his thinking, a more senior job in the Trump administration.

Peter Baker contributed reporting from Washington.

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THE WALL STREET JOURNAL.

Economy

U.S. GDP Growth Revised Up to 2.9% Rate in Fourth Quarter; Measure of corporate profit weakened against backdrop of tax-code changes

By Ben Leubsdorf
696 words
28 March 2018
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The Wall Street Journal Online
WSJO
English

The U.S. economy entered 2018 with stronger momentum than earlier thought, though corporate profits weakened at the end of 2017 against a backdrop of significant changes to the tax code.

Gross domestic product, a broad measure of the goods and services produced across the U.S., rose at a 2.9% annual rate in the fourth quarter, adjusted for seasonality and inflation, the Commerce Department said Wednesday.

That exceeded economists' expectations and was up from a previous estimate of 2.5% growth, and only a little slower than the third quarter's 3.2% growth and 3.1% growth in the second quarter. Consumer spending was revised higher for the fourth quarter, and private inventories exerted a smaller drag on growth than earlier thought.

Overall growth in the almost-finished first quarter is shaping up on the softer side; forecasting firm Macroeconomic Advisers on Wednesday projected a 1.8% growth rate for GDP in the first three months of the year.

Still, total output expanded 2.6% in the fourth quarter of 2017 compared with a year earlier, and many economists expect another strong year in 2018—aided by tax cuts, government spending, rising incomes, low unemployment and healthy growth overseas.

"The bottom line is that the U.S. economy remains on a solid footing," said Jim Baird, chief investment officer at Plante Moran Financial Advisors, in a note.

Wednesday's report also contained the government's first broad estimate of profits at U.S. companies in the fourth quarter. After-tax corporate profits, without inventory valuation and capital consumption adjustments, fell 9.6% from the prior quarter and were down 6.0% in the fourth quarter from a year earlier.

Corporate profits weakened in 2015 as the U.S. energy industry was squeezed by plunging **oil prices**, but earnings have picked up over the past two years.

The weak reading for the final months of 2017 may have reflected one-time effects of the wide-reaching tax legislation enacted in December. The Commerce Department said several provisions took effect in the fourth quarter—changes to the expensing of bonus depreciation and a one-time repatriation tax on foreign earnings.

"I would certainly peg it to that," said Christine Short, senior vice president at analytics firm Estimize.

Among other things, the tax legislation enacted in December slashed the corporate tax rate to 21% from 35% starting Jan. 1. It scrambled fourth-quarter earnings at some large public companies due to various one-time effects, and may have created an incentive for some firms to shift earnings and expenses between late 2017 and early 2018. It could take several quarters for tax-related noise to fade from the profits data.

Ms. Short said business earnings are benefiting from solid economic growth.

"The underlying trend for 2018 is still very good," she said.

Consumer spending accounts for more than two-thirds of total economic output. Wednesday's report said personal-consumption expenditures rose at a 4.0% annual rate in the fourth quarter, revised up from a previous estimate of 3.8% growth and the strongest quarterly reading in three years.

Year-end spending was boosted by robust outlays on durable goods as many Americans replaced motor vehicles and other items damaged by several powerful late-summer hurricanes.

Business investment remained solid in the fourth quarter, with fixed nonresidential investment rising at a 6.8% annual rate. Capital expenditures were led by 11.6% growth for spending on equipment.

The housing sector was a tailwind for growth in late 2017 as residential investment rose at a 12.8% annual pace. Government expenditures were up at a 3.0% annual rate in the fourth quarter, including a 5.5% growth rate for federal spending on national defense.

Net exports subtracted 1.16 percentage points from the quarter's 2.9% GDP growth rate, and inventories subtracted 0.53 percentage point. Both categories tend to be **volatile** from quarter to quarter.

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THE WALL STREET JOURNAL.

Economy

Fed's Bostic Says Trade Wars Aren't Easy and Winnable; Atlanta Fed chief says protectionism 'is often not helpful for the broader economy'

By Michael S. Derby
723 words
7 March 2018
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FORT LAUDERDALE, Fla.—Federal Reserve Bank of Atlanta President Raphael Bostic warned Wednesday that erecting trade barriers is unlikely to help the U.S. economy, while noting the threat of these restrictions is adding uncertainty to the central bank's interest-rate-rise outlook.

Asked if a trade war with other nations would be easy and winnable, as President Donald Trump has said, Mr. Bostic answered, "No."

Protectionism "is often not helpful for the broader economy," and while trade barriers might lift an individual sector, they will cause more problems than the policy solves, Mr. Bostic said at an event in Fort Lauderdale. Also, "it introduces a lot of uncertainty in how the economy will perform," he said. The policy maker said **financial markets** are likely to reflect that uncertainty, although he didn't say how.

Other Fed leaders, like William Dudley of the New York Fed, in recent days have cautioned against putting up new trade barriers. Mr. Trump is moving to place tariffs on steel and aluminum imports that many economists say are a bad idea, and other nations are already weighing retaliatory actions.

Mr. Bostic is a voting member of the interest-rate-setting Federal Open Market Committee.

He spoke as expectations are rising that the Fed might pursue a more aggressive path of interest-rate increases this year. The most recent central bank forecasts call for about three rate raises in 2018, but a move toward more stimulative government tax and spending policies when the economy is already performing well may drive the central bank to increase rates more.

Speaking with reporters after his speech, Mr. Bostic said that he had been expecting three rate increases this year in the wake of the change in government spending and taxation policies. But the president's trade threats are clouding the outlook and adding a negative risk.

"It's really hard to know how things will evolve" in the current climate, Mr. Bostic said.

"Some of the developments with trade policy have introduced some uncertainty on how the economy is going to perform," he said. Because of that, "I'm really taking a wait-and-see attitude about how robustly the economy responds to the stimulus, before I make a decision whether we want to revise our expectations upward or downward," Mr. Bostic said.

But he also said "everything's on the table" for monetary policy, and what happens will be driven by how the economy performs. Mr. Bostic added that he makes his decisions on rates at each meeting, and he doesn't form his view on an annual basis.

Mr. Bostic also told reporters the exit of Gary Cohn, President Trump's top economic adviser, will have an "impact" in part because his was a voice that Wall Street found "comfort" in hearing.

Speaking before the gathering, Mr. Bostic noted that most of the run up in the **stock market** that happened after the 2016 election was psychological in nature and not driven by fundamental factors like the economy's performance. He also said President Trump was good at managing the psychology of his supporters.

In a speech Tuesday night in New York, Fed Governor Lael Brainard said the current state of the economy "is the mirror image of the environment we confronted a couple of years ago." She said that "in the earlier period, strong headwinds sapped the momentum of the recovery and weighed down the path of policy. Today, with headwinds shifting to tailwinds, the reverse could be true."

While inflation remains low, officials are increasingly confident that a strong job market and the boost from the shift in fiscal policy will push inflation back up to the Fed's 2% target, and that is boosting officials' confidence that they can raise rates.

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

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* Fed's Dudley Says Trade Protectionism Is a 'Dead End' (March 1)

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THE WALL STREET JOURNAL.

Markets

U.S. Will Be the World's Largest Oil Producer by 2023, Says IEA; Influence on global oil markets is also expected to rise, with U.S. oil exports more than doubling

By Sarah Kent and Timothy Puko
922 words
5 March 2018
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The U.S. is likely to overtake Russia to become the world's largest oil producer by 2023, accounting for most of the global growth in petroleum supplies, a top industry monitor said Monday.

U.S. crude production is expected to reach a record of 12.1 million barrels a day in 2023, up from 10.6 million a day this year, said the International Energy Agency, which advises governments and corporations on industry trends. American oil output will surge past Russia, currently the world's largest crude producer at roughly 11 million barrels a day.

"The No. 1 overall message, non-OPEC supply growth is very, very strong, which could change the parameters for the oil markets in the years to come, led by the United States, but also Brazil, Canada and Norway," IEA Executive Director Fatih Birol said Monday during the CERAWeek energy conference, presented by IHS Markit Ltd. in Houston.

The IEA's closely watched five-year forecast showed the U.S. hitting new strides in its oil and natural-gas boom, helped by technological advances, improved efficiency and a fragile recovery in **oil prices** that is encouraging shale companies to ramp up their drilling.

Once heavily dependent on imports from the Middle East, the U.S. is getting closer to achieving its goal of producing enough crude to meet domestic demand for refined products such as gasoline.

Of the 6.4 million new barrels of oil that will be pumped every day between now and 2023, almost 60% will come from the U.S., the IEA said. "And I can tell you our expectations may well need to be revised upwards if prices are higher," Mr. Birol said.

American influence on global oil markets is also expected to rise, with U.S. oil exports more than doubling to 4.9 million barrels a day by 2023, according to the IEA. Until 2015, the U.S. didn't export any crude oil by law, but in five years it is expected to be among the world's biggest exporters.

The IEA's report also highlights the changing role of the Organization of the Petroleum Exporting Countries, a group of producers that historically dominated world oil markets.

During his own remarks at the CERAWeek conference, OPEC Secretary General Mohammad Barkindo said the producer group's long-term projections align with the IEA's report, highlighting concerns about underinvestment in the industry.

More immediately, he touted the agreement of OPEC and some non-OPEC countries such as Russia, which have voluntarily curtailed their production, as important to balancing global markets.

The cooperation that led to an agreement to "literally rescue our industry is as solid as the rock of Gibraltar," Mr. Barkindo said. Still, he said it was too early to comment on whether the group would extend its limit on production past the end of this year.

Oil production is expected to grow in Canada, Brazil and Norway—all countries outside OPEC. Together with the U.S., those three countries will add enough barrels to meet growing consumption to the end of the decade, the IEA said. Within OPEC, only the Middle East is expected to raise output, as other members such as Venezuela struggle with internal problems.

Saudi Arabia's crude-output capacity is expected to reach 12.3 million barrels a day in 2023, meaning it could rival the U.S. for the top spot as a producer. But the Saudis have historically pumped well below their capacity to maintain their importance as a so-called swing supplier that can increase or decrease output as the market needs.

Counting all liquids, including those derived from natural gas, U.S. production is likely to rise to nearly 17 million barrels a day over the next five years from about 13 million today, the IEA said, far more than Saudi Arabia or Russia.

Still, without more investment outside the U.S., growth in production would likely begin to slow after 2020, the IEA said. A dramatic slump in **oil prices** since 2014 has eviscerated investment in the sector outside U.S. hot spots. The IEA warned that companies will need to start spending again to avoid the potential for crude-oil shortages that could cause prices to surge.

Oil consumption is expected to remain robust, shrinking the gap between demand for crude and producers' capacity to pump it to the lowest level since 2007—when **oil prices** were on a run toward record levels above $140 a barrel.

The IEA sees little sign that oil demand will peak in the next five years, weighing in on a debate over whether efforts to curb the impact of climate change could eventually limit global oil consumption. Oil demand is expected to go above 100 million barrels a day for the first time next year, rising by a total of 6.9 million barrels a day to 104.7 million barrels a day by 2023.

"We see a robust oil demand growth through 2023 and China continues to be the main driver," Mr. Birol said.

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More

* Heard on the Street: Why the U.S. Trade Deficit Is Worse Than It Seems

Document WSJO000020180305ee350012x

THE WALL STREET JOURNAL.

Economy

Transcript: WSJ Interview With Atlanta Fed President Raphael Bostic; Official discusses his outlook on employment, the path of interest-rate increases and the continuing reduction of the Fed's balance sheet

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30 March 2018
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Federal Reserve Bank of Atlanta President Raphael Bostic spoke with Wall Street Journal reporter Nick Timiraos on Monday, March 26, in Atlanta. He discussed his outlook on employment, the prospect of additional interest-rate increases this year, and changes in U.S. trade and fiscal policy. He also praised San Francisco Fed President John Williams, the leading candidate to become the next president of the New York Fed. Here is a partial transcript of the interview, lightly edited for clarity and length.

WSJ: How has your view on the economy changed since the beginning of the year?

MR. BOSTIC: So I don't think it's changed all that much. I guess what I would say is that our expectation was the economy was going to perform at a fairly solid pace, continuing sort of what had happened before. The stimulus, through the tax overhaul, and the fiscal spending put a little extra juice in that. The fiscal spending—a little more direct in terms of its impact and more obvious, clear as to what is going to happen. With the tax overhaul, there's still a lot that remains to be written. So we estimated that the fiscal spending would increase (gross domestic product) by about a third of percentage point. And the tax—we have it penciled in at about the same, but there's a lot of uncertainty because the people we talk to in terms of particularly smaller businesses still haven't figured out what their optimal strategy should be, given all the changes.

And it's also unclear how much extra bump you can get with the stimulus so late in a business cycle. So we're well-into a growth cycle. We have very low unemployment. And that raises questions about how much more productive capacity. So one of the things we're looking at: to what extent are businesses investing in new technologies and new approaches to production that can increase productivity because it'll be that productivity bump that really gets us to be able to have a different level of sustained output.

WSJ: So does the fiscal boost, with the unemployment rate being historically low, change your view about the path of monetary policy right now?

MR. BOSTIC: Not immediately. If you look at my expectations around monetary policy, the risks are now to the upside now. So coming into this year, we had penciled in three moves for the year. And I think the risks are to the upside. We're going to be monitoring—I'll tell you that the business contacts that we've reached out to, they're saying they're not expecting significant changes to their capital expenditures for the first half of this year. So if you think about what it's going to look like for this year, I don't think we're going to see a huge ramp up, if what they're reporting is accurate. And so we're really looking in the out years. And a lot of what we're going to be trying to get a handle on is what does the trajectory of the economy look like in the out years—2019, 2020, 2021.

WSJ: Is it fair to say that the, particularly the federal spending deal, which is going to mostly boost aggregate demand, but also the tax changes, maybe makes 2018's policy path and the debate there a little bit easier relative to the questions around inflation that you had last year? But that it may make policy more challenging in 2019 or 2020?

MR. BOSTIC: Well more challenging is hard to say. I do think that there's more uncertainty about what 2019 is going to look like. And the range of possibilities I think has broadened, at least in my mind. It could be that 2019 is going to be where more of the action is, and even to 2020. But then we have this intersection because a number of the tax policy proposals, as well as the fiscal, they have cliffs that could end sometime in the end of 2019 and 2020. And that's additional uncertainty that we kind of will have to see how that plays out.

WSJ: In your view, would there be a level of unemployment that you would regard as almost a policy error?

MR. BOSTIC: I actually don't think of it like that. The way I've been approaching it is asking the questions of how much have we really overshot what a conception of a natural rate of unemployment would look like. Because that would be the signal that we're on the cusp of an overheat that would be hard to manage. And so I've been spending a fair amount of time trying to get my mind around how have labor market frictions changed. And what are the implications for what we should expect as a reasonable natural rate of unemployment?

Now, what we know is that over the last 20 so-odd years that natural rate has been falling. And now the question is, like, how far and to what extent. I would say there are two things that have caught my attention. One is just the basic demographics. So we know that if you have a college degree your unemployment rate is far, far lower, it's less than 3%. And so as the economy—as the population becomes more educated, that's going to drive down natural rate just on its own.

And the second thing that we heard, we had a human capital advisory council that came in a couple months ago. And they were talking about innovations in the technology that have really sped up the job search process. So it's easier for people to learn about jobs, easier for people to apply. And so that's another reduction in friction which would further push down the natural rate. So I guess where I am, given what we've seen in wages, my sense is that the natural rate is actually lower than what we see in most—in many models, and that we haven't really grossly overshot anything at this point. And so, for me, that's kind of where we're trying to get.

Some models would say that unemployment has overshot by a whole percentage point by now. If that were true, that would be a concern, because that would suggest a snapback in wages and prices. But I'm just not seeing that in the labor market dynamics, which suggests that the natural rate is much, much lower than I think many have thought it has been.

WSJ: The range in last week's Summary of Economic Projections I think was 4.2% to 4.8%. So it seems like almost everybody would at least agree that it's somewhere in the low 4s. Is that where you are?

MR. BOSTIC: Yes. I'm toward the low end of that range. And so if we're at 4.1% within that, then this is not, like, an extreme overshoot position at this point.

WSJ: But you've seen some of the forecasts. UBS, JPMorgan, Goldman all have the fiscal (policy changes) pushing this down to 3.2%. I've seen 3.2%-3.3% for the end of next year. That could be an overshoot?

MR. BOSTIC: It could be. The models that we're using here are not giving those kind of numbers. We're in the upper threes.

If we got down to that level, I would expect that we would see significant pressure on wages. And that would be a signal that something's about to turn, and that we need to be extra diligent.

WSJ: So is there a level that you might regard as too low? Low threes?

MR. BOSTIC: Low threes would definitely give me some concern, yes.

WSJ: And are there other measures that you're looking at, prime-age employment-to-population ratios?

MR. BOSTIC: Yeah, we look at all those. Our guys have told me pretty religiously—and I tend to trust them—that there's not any one number that matters. We actually spend a lot of time in the field talking to business leaders. So we have a regional executive network. And we are really trying to not just rely on aggregate numbers, but to get a sense from people who are making decisions in real time as to whether they're starting to move en masse to give us some advanced warning. So I really do value the time that we spend out in the field kind of talking to leaders, because they tell us things that you don't always see in the data. And hopefully it will help us stay ahead of things so that we don't get to such an extreme position.

WSJ: I've heard more officials who aren't necessarily worried about wage-price spirals, but they worry about financial instability, which we saw at the end of the last two business cycles. How much concern do you have that maybe we don't see inflation, but because rates have been relatively low for so long and because neutral is lower, this may feed continued asset price **volatility** and potential instability?

MR. BOSTIC: No, I worry about that. I think that my biggest concern is really the extent to which that instability spills over into the real economy. And so we talk with a lot of our banking contacts and a lot of the banks that we work with to really understand the nature of their portfolio, to see sort of where its risk exposures are and to get a sense of the extent to which businesses and their positioning in terms of asset values and the like is driving decisions.

One thing that we saw in the last crisis was—you know I did a lot of work on real estate stuff. And capital was chasing deals at prices that you had to do some gymnastics to make them half work. And to the extent we started seeing that—and that's why we use our banker community—that could be a sign that **financial markets** are trying to go for the heroic. And when we get to that stage, that when everybody needs to get nervous.

WSJ: But you don't think we're at that stage?

MR. BOSTIC: I don't think so. I don't think so. I think there are pockets in some markets where there is some of that going on. For example some of the multifamily product—say, in Miami, or even some things that I'm hearing about here in Atlanta. We're starting to see price pressures and auction stuff.

And to the extent that that happens, one thing that I'm looking for, which we didn't see enough of in the mid-2000s, is people saying: I'm not doing that deal, right? And to the extent that there are upper limits on what kind of capital is going to be deployed, that's a sign that we learned some lessons and that there's a possibility that we won't get to the same levels of extreme.

WSJ: So if more officials move to four [rate increases] as the baseline, now people are going to be looking at four or more if there's an upside risk, right? And I wonder if that would still be gradual. If you were moving more than four times a year, is that a bigger threshold to get past? Because you're now moving, potentially, at consecutive meetings.

MR. BOSTIC: I think that on one level gradual means that we're going to do it in a series of steps rather than big chunks, right? And I think that to me not going in big chunks is actually the right way to go—one, because there's new information that comes in all the time and we want to make sure that, to what we were talking about before, we're not overdoing it at some level, right, that we don't overshoot kind of where the economy actually is.

A second reason, which people don't talk about as much but I think is in my mind, is the issue of the balance sheet, right? So we're actually reducing accommodation in a second way along a dimension where we have no prior experience, right? And so I am—I am mindful of any signals that would suggest that balance-sheet movements are having a large additional impact on the marketplace.

Now, the design of the balance-sheet normalization is that it's supposed to be really small, incremental, so that it just kind of chugs along and is so marginal that it doesn't get people's attention. But that could be wrong, right?

So we can be wrong on that. And we have no idea at this point what the European Central Bank is going to do and the Bank of Japan. So being sort of more measured in our approach, I think, there is also quite important.

So whether it be three or four—well, four is steeper than three for sure. But I think as long as it's in steps and those moves can be supported by what we're seeing in the real data, I wouldn't move off the word "gradual."

WSJ: But you did say earlier that you think 2019 is when things get at least more uncertainty—more uncertain and maybe a little bit more difficult. And I want to make sure you were—you were speaking in a context of monetary policy being more difficult.

MR. BOSTIC: By extension. The uncertainty is really around broader economic performance, and then that will then have implications for what policy should be. When you have a wider range of possibilities on what the performance looks like, then necessarily there are going to be a wider range of appropriate responses that we have to consider. So that's how I think about it.

And I do think that for us, we're spending a fair amount of time trying to just get our handle on how business capital investments are likely to change in those out years. And right now I think they're figuring that out themselves.

WSJ: Trade policy is also a wild card. I know things are changing almost every day right now, it feels like, on the trade front. But directionally, how would more trade barriers with the U.S. and its major trading partners influence your thinking around the prospects for growth and the policy response?

MR. BOSTIC: Yeah, so I think I've said a couple times protectionism tends not to produce any winners. It raises prices for everyone, and it's just a question of whose prices go up more.

That said, the materiality of the protectionism depends on the size of the—and extent of the protection, right? So if you look at the steel and aluminum tariff proposal, the initial proposal was quite different than how it turned out. I guess part of the lesson for me is let's wait and see what actually happens as opposed to doing a lot of hand-wringing before all the negotiation is finished. And to the extent that we do that, I think that'll give us a better sense of where the economy will be likely to go.

Now, I will tell you we've talked to a lot of business leaders. The uncertainty around policy in and of itself makes them nervous. And that is something that I'm also mindful of, because when people are nervous and there's more uncertainty there's a lower likelihood that they're going to be willing to make the long-term investments that might put the economy on a different trajectory. So that lack of confidence that is emerging among the business community is something that we also have to keep an eye on.

WSJ: I want to ask you about (San Francisco Fed President) John Williams. What you would make of him being the New York Fed president?

MR. BOSTIC: So I've known John for a long time. We were in grad school together. He was one year ahead of me at Stanford.

WSJ: I didn't know that.

MR. BOSTIC: One or two years ahead of me. I forget exactly when he graduated. So I've known him for a long, long time, and John is great. He is smart. He's been an innovative manager, and he's been a great colleague. So I think that New York would be very lucky to have him. San Francisco would be very sad to see him leave if that's what comes to pass. But from just a capability perspective, I don't think you're going to see—find people who have more expertise and are better suited to do that kind of work.

Related Article

* Bostic Says Fiscal Policy Is Creating More Uncertainty for the Fed

Document WSJO000020180330ee3u0028l

Business Day
Nafta Talks, China Congress and the February Jobs Report

By The New York Times
956 words
4 March 2018
09:00 PM
NYTimes.com Feed
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English

Here's what to expect in the week ahead:

ECONOMY

The current round of Nafta talks concludes.

A seventh round of talks over the North American Free Trade Agreement are scheduled to wrap up on Monday in Mexico City. Negotiators from the United States, Canada and Mexico have made headway on some of the less controversial parts of the pact, such as regulatory practices. But they remain divided on more difficult issues, including rules for the auto industry. Given that impasse, the talks appear likely to drag on. The countries have discussed reconvening in early April in Washington D.C., meaning they probably will not reach a deal before March 31, as they previously discussed. Ana Swanson

MARKETS

Stocks were down on proposed tariffs. What's next?

Anxieties in the **stock market** re-emerged last week, after President Trump's promise on Thursday that he would impose tariffs on steel and aluminum imports. But at the same time, the slip in the **stock market** boosted prices for safe bonds, keeping a lid on yields. Those rising yields had spooked the **stock market** in early February, when data showed wages rising at a faster-than-expected pace. Another jobs report is coming out this week, and it may show whether those wage pressures continued to build in February. That could reignite fears of inflation and a quickening pace of rate increases by the Federal Reserve, providing another reason for stocks to fall. Matt Phillips

OIL INDUSTRY

Two big oil companies go on trial in Italy.

On Monday, two of the world's largest oil companies, Royal Dutch Shell and Eni of Italy, are expected to go on trial in Milan on corruption charges over a $1.3 billion oil deal in Nigeria. The defendants include current and former oil executives, among them Claudio Descalzi, Eni's chief executive. The case stems from a long-running investigation by Italian prosecutors into a payment the companies made to the Nigerian government in 2011 to settle a legal dispute over a potentially lucrative tract in the Atlantic Ocean known as OPL 245. Both companies deny wrongdoing, but having such senior or former top executives facing trial is unusual. The trial is expected to take months. Stanley Reed

GOVERNMENT

China's National People's Congress holds session.

China's National People's Congress, the country's legislature, will begin meeting on Monday for its annual session to review and approve a long list of government initiatives. Premier Li Keqiang, the country's second-highest official after President Xi Jinping, is expected to open the gathering by giving his annual work report. The meeting is expected to last at least through March 15 and possibly longer.

Economists expect that Mr. Li will call for continued economic growth of about 6.5 percent. Considerable uncertainty surrounds when and how the government may restructure financial regulation, and the latest hints have been that the issue may be delayed.

Under President Xi, who has been in office for five years and has consolidated enormous personal power, the nearly 3,000 members of the body have become increasingly cautious about expressing their own views. Keith Bradsher

OIL INDUSTRY

A gathering of global energy figures is held in Houston.

Global energy ministers and energy company chief executives will gather in Houston all week at IHS Markit's annual Ceraweek conference to take the pulse of an industry that has hit rocky times of low oil and gas prices in recent years. Subjects will range from the future of liquefied natural gas to the economics of renewable energy and coal. Many industry leaders are expected to meet behind closed doors to negotiate deals around the world. Clifford Krauss

ECONOMY

European Central Bank will announce monetary policy.

The European Central Bank will release its latest monetary policy decision on Thursday, to be followed by a news conference by Mario Draghi, the central bank's president. The bank's Governing Council is widely expected to keep its key interest rate steady at zero percent, where it has been since March 2016.

Inflation in the eurozone declined to 1.2 percent in February, from 1.3 percent in January, according to the latest data from Eurostat, the European Union's official statistics bureau. That is the lowest level in more than a year. But the European Central Bank is expected to remain cautious about whether it would extend a bond-buying program, known as "quantitative easing," beyond September. The bank has indicated it would extend the program if necessary and could update its guidance for the future as soon as next week. Chad Bray

February's jobs report is expected to be strong.

On Friday, at 8:30 a.m., the Labor Department is scheduled to release its report on the nation's hiring and unemployment for February. Wall Street analysts are looking for another strong month of growth with payrolls expanding by 200,000. After sitting on the 4.1 percent line for four months, the unemployment rate is expected to tick down to 4 percent, a level last reached in 2000. The consensus forecast estimates the average hourly wage will climb by 0.2 percent, which would knock down the annual year-over-year increase to 2.8 percent from 2.9 percent in January. The combination of a low jobless rate and low inflation prompted the new chairman of the Federal Reserve Bank, Jerome H. Powell, to tell Congress last week that the Fed's approach to raising interest rates would continue to be "gradual." The first increase is expected to come at the central bank's March policy meeting. Patricia Cohen

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THE WALL STREET JOURNAL.
U.S. EDITION

Spotify Chooses Citadel to Run IPO --- Electronic-trading firm gains key job in debut of music-streaming company

By Alexander Osipovich
502 words
8 March 2018
The Wall Street Journal
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B11
English

Spotify Technology SA has chosen electronic-trading firm Citadel Securities LLC to oversee its unusual debut at the New York Stock Exchange, people familiar with the situation said.

The music-streaming company settled on Citadel Securities as its designated market maker, or DMM, in recent days, the people said. Such firms, also called specialists, help ensure the orderly trading of NYSE-listed stocks. Their role is especially important during key moments such as initial public offerings.

By winning Spotify, one of the biggest technology listings of recent years, Citadel Securities has notched a high-profile victory after it failed to win Snap Inc., the biggest tech IPO of 2017.

Peter Giacchi, the head of Citadel Securities' DMM unit, will determine the opening price of Spotify shares, one of the people said. Mr. Giacchi didn't respond to requests for comment.

Spotify declined to comment. The Stockholm-based company could go public as soon as the week of March 26 through a process called a direct listing.

Unlike in a traditional IPO, no new shares will be offered when Spotify goes public. Instead, the company will simply float its existing shares and let the market find a price. There will be no Wall Street bank to act as a "stabilizing agent" and support the stock if it tumbles out of the gate.

As a result, Spotify's debut "may be more **volatile**" than a typical IPO and its shares could "decline significantly and rapidly" when they begin trading on the exchange, the company warned in a filing last week. That puts additional responsibility on Citadel Securities and Mr. Giacchi to balance incoming buy and sell orders and settle on an opening price.

Citadel Securities handles about 20% of the shares that change hands in the U.S. **stock market** each day, and is a big player in other markets such as futures and options. It was founded in 2002 by billionaire Ken Griffin, who also leads hedge fund Citadel LLC. The two are operated separately, according to the firms.

Though its roots are in computerized trading, Citadel Securities entered the old-fashioned business of NYSE floor trading in 2016, when it acquired a DMM unit previously owned by KCG Holdings Inc.

Currently, there are five specialist firms at the NYSE's flagship exchange -- down from dozens in the 1980s -- and in recent years most have been acquired by high-speed traders.

Citadel Securities is among the largest designated market makers, overseeing trading in about 1,400 securities including Walmart Inc. and Home Depot Inc.

Each new company debuting on the Big Board gets the chance to select its specialist before going public.

Global Trading Systems LLC, another designated market maker, won the five biggest IPOs at the NYSE last year, including Snap, people familiar with the matter said. It also handles technology names such as Twitter Inc. and Alibaba Group Holding Ltd.

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THE WALL STREET JOURNAL.
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U.S. News -- Capital Account: Forces That Could Revive Inflation Are Lurking

By Greg Ip
864 words
1 March 2018
The Wall Street Journal
J
A2
English

Inflation is going to head up this year -- on that there isn't much debate. The real debate is over whether it will be a nonevent or something more ominous.

The Federal Reserve and most of Wall Street think it will be a nonevent. But there is a plausible scenario in which it marks a new, dangerous trend. Even if you think it unlikely, you need to give this scenario serious thought because trillions of dollars of investments are geared to inflation being dead.

Unemployment in the last year has sunk to a 17-year low, yet inflation continues to run below the Fed's 2% target. Abroad, it is the same story: In Germany and Japan unemployment is at multidecade lows but inflation remains stuck below 2%.

This disconnect is one reason Fed officials devoted much of their late January meeting to discussing what drives inflation.

Ironically, wage and price data firmed soon after. The "core" consumer-price index excluding food and energy rose 1.8% in January from a year earlier and should soon top 2% as favorable readings from a year ago drop out of the 12-month calculation. The Fed focuses on a different gauge which is running lower, at 1.5%. But some economists think it, too, could hit 2% this year.

The consensus is that inflation will then level off, in great part because the public has come to expect 2% inflation and should set prices and wages accordingly. This is a sound and persuasive base case. But multiple forces are now at work that could, together, keep it going up. The most important is that unemployment at today's low levels has over the postwar period typically coincided with rising price pressure. Second, a big tax cut and a federal-spending boost are about to juice the economy and potentially push unemployment even lower. A falling dollar and rising **oil prices** are feeding through to other costs.

On top of these short-term factors, several structural forces are at work, as a recent report from BCA Research, a Montreal-based investment advisory, shows. One is protectionism. Global trade rose faster than global output from the early 1980s until the global financial crisis. Trade held down prices and wages by exposing American workers and firms to intense foreign competition. Globalization has since gone into reverse, and protectionist pressures are mounting: Americans can expect to pay more for washing machines and softwood lumber and perhaps soon anything containing steel or aluminum because of tariffs imposed by President Donald Trump.

Productivity growth, the usual antidote to rising costs, is tepid and could stay that way.

If inflation turns up, economists have long assumed it would do so slowly, giving the Fed plenty of time to respond. But Michael Feroli of J.P. Morgan notes this assumption is built on models in which the world behaves in a predictable, linear way. In fact, he says, the world isn't linear and inflation can change suddenly: It "is sluggish and slow-moving, until it isn't."

A case in point: In 1966, inflation, which had run below 2% for nearly a decade, suddenly accelerated to over 3%. Some of the circumstances echo the present: unemployment had slid to 4%, taxes had been cut and federal spending for the Vietnam War and Lyndon Johnson's "Great Society" programs was surging. Deutsche Bank economists note the budget deficit jumped by more than 2% of gross domestic product between 1965 and 1968, similar to what they project between 2016 and 2019. Except in recessions, stimulus of this size "is unprecedented outside of these two episodes."

The effect of an overheating economy was then compounded by policy errors. Fed Chairmen William McChesney Martin Jr. and Arthur Burns were too optimistic about how low unemployment could go without pushing prices higher, and succumbed to pressure from Mr. Johnson and then Richard Nixon to keep interest rates low. From 1966 to 1981, inflation and interest rates climbed to double digits, decimating stock and bond values.

Some on Wall Street worry Mr. Trump, who treats the **stock market** as a report card on his presidency, will similarly pressure Fed Chairman Jerome Powell. So far, this seems unlikely: Mr. Trump and his officials have asserted the Fed's independence, and no central banker, including Mr. Powell, is about to relinquish it.

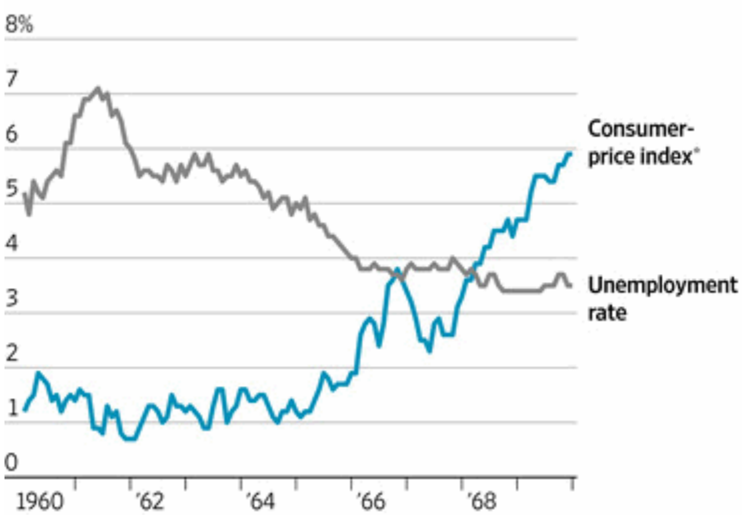
Yet even without politics, the Fed faces clamor to replace or relax its 2% inflation target. Advocates say higher inflation and thus higher interest rates provide more room to cut when the next recession hits. But inflation doesn't have to top 4%, much less 10%, to wreak havoc: a world in which inflation risks persistently point up instead of down would drive bond yields higher and kick the support out from under stock and property values.

This scenario seems remote. But if you had given inflation up for dead, it is prudent to consider the consequences if it turns out to have only been sleeping.

(See related letter: "Letters to the Editor: Excess Money Growth and Spending Drive Inflation" -- WSJ March 10, 2018)

That 1960s Show

In the 1960s, inflation reared up as unemployment stayed low.



*Annual percentage change

Sources: Bureau of Labor Statistics via Federal Reserve Bank of St. Louis

THE WALL STREET JOURNAL.

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THE WALL STREET JOURNAL.

Markets

It's Getting Harder to List Exotic ETFs; The bitcoin-fund pushback ends a long period of what seemed like 'anything goes' for ETF issuers

By Ari I. Weinberg
1,017 words
4 March 2018
10:04 PM
The Wall Street Journal Online
WSJO
English

After years of unbridled growth, the introduction of new ETFs and other exchange-traded products has run into hurdles recently from both regulators and forces within the securities industry.

The most significant line in the sand drawn recently by regulators was a Jan. 18 letter from Dalia Blass, head of investment management for the Securities and Exchange Commission, regarding applications and listings for bitcoin-linked exchange-traded products (ETPs). The letter prompted withdrawals of several applications for bitcoin ETFs.

Ms. Blass, in her letter to the Investment Company Institute and the Securities Industry and **Financial Markets** Association, the mutual-fund and brokerage trade associations, unveiled several questions that had to be answered regarding cryptocurrencies before the SEC would let them be included in fund products. (The SEC has also been critical of so-called initial coin offerings, a new method of raising capital via bitcoin.)

Among the questions: How would the funds value the cryptocurrency-related products to set daily net asset values? What steps would cryptocurrencies or cryptocurrency-related funds take to ensure that they could meet daily redemptions? And how exactly would the funds hold cryptocurrencies to satisfy custody requirements?

"Until the questions identified [above] can be addressed satisfactorily, we do not believe that it is appropriate for fund sponsors to initiate registration of funds that intend to invest substantially in cryptocurrency and related products, and we have asked sponsors that have registration statements filed for such products to withdraw them," wrote Ms. Blass.

The tough stance on esoteric ETFs comes at a time when the SEC may be looking to ease the path for more-traditional ETFs. In fact, a decade after the financial crisis shelved the SEC's plans for streamlining the offering and listing of ETFs, Chairman Jay Clayton has put consideration of such streamlining back on the regulatory agenda.

Forcing the SEC's hand

Still, in some ways, Wall Street has forced the SEC's hand with regard to issuing less-traditional products.

Last fall, bitcoin futures trading at Cboe Global Markets and CME Group was greenlighted by the Commodity Futures Trading Commission. Several ETF providers spied an opening for ETPs tied to bitcoin futures. As applications piled up at the SEC, the New York Stock Exchange's NYSE Arca and Cboe essentially brought about a forcing move by applying for rule-making approval on the listing of specific bitcoin-linked ETPs, even before the funds' own registrations had been approved.

It was a way to "engage the SEC and start the clock officially on consideration of the listing," says Adam Teufel, a partner at Dechert LLP in Washington who works on the legal aspects of new ETPs on behalf of issuers.

Other funds are held up

The caution on crypto even extended to new products investing solely in stocks that by all previous accounts might have had a clear runway for listing. In January, four ETFs tied to sectors and companies likely to benefit from blockchain technology (the innovation that underpins bitcoin but has many non-bitcoin uses) were on the cusp of listing. But the SEC intervened to stop the funds' use of "blockchain" in their names, even if their tickers, like BLCN, BLOK, KOIN, and LEGR, still hinted at blockchain connections.

The SEC declines to comment. But an SEC rule adopted in 2001 requires that an investment company with a name suggesting it focuses on a particular type of investment invest at least 80% of its assets in the type of investment suggested by the name.

"We were all ready to go to market on one name and had to make a quick change," says Christian Magoon, CEO of Amplify ETFs, whose $176 million Transformational Data Sharing ETF (BLOK) nevertheless garnered more than $180 million of inflows over the first two weeks of trading.

At the NYSE, the unit of Intercontinental Exchange Inc. that lists the most ETFs, through NYSE Arca, ETFs chief Douglas Yones says, "The pathway to launch has improved over the last decade, but any changes we make are always with due consideration of investor protections."

Market pressures

Meanwhile, it isn't just regulatory issues that are interfering with the introduction and smooth functioning of ETFs. Market forces, too, are taking a toll. What was once a robust market for new products—the seeding of a fresh fund with contributed assets from market-making brokerage firms—has shriveled.

Wall Street trading and brokerage firms used to provide initial ETF assets—the underlying positions that make up the fund—on the expectation that the market for the ETF would be liquid enough in its early days that they could trade away their exposure in the open market, while also banking on future business from the fund for rebalancing trades.

Yet trading margins are so compressed that the most significant funding for new ETFs comes from institutional investors who essentially underwrite the product or investment advisers who are simply converting an existing, separately managed account strategy into a consolidated fund.

"While it used to take almost 18 months to get the right relief to offer ETFs, there was seed capital galore," says Mr. Magoon. So-called unsponsored products now list with about $2 million in assets, and trading may never even materialize.

An additional challenge for getting a new ETF to market (or keeping one afloat) is reaching clients of brokers such as Morgan Stanley or Merrill Lynch, who have centralized approvals for trading and investing in products on their platform and through their brokers.

Mr. Weinberg is a writer in Connecticut. He can be reached at reports@wsj.com .

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* If **Volatility**'s Back, Are You Ready?

* Bear Markets Can Fly In on Their Own

* U.S.-Stock Funds Fell 3.6% February

* Just in Case You Die Young, Be Prepared

* Sallie Krawcheck's Best and Worst Bets

Document WSJO000020180305ee35000ba

THE WALL STREET JOURNAL.
U.S. EDITION

Investing in Funds & ETFs: A Monthly Analysis --- Foreign Exchange: Currency ETFs Bite Back --- Betting directly on currency moves is a tough game, but there are plainer ways to hedge your risk

By Dan Weil
942 words
5 March 2018
The Wall Street Journal
J
R4
English

The dollar's recent drop to a three-year low against other major currencies raises a natural question: How should investors in mutual funds and exchange-traded funds handle currency fluctuations?

There are many options, including funds that allow investors to speculate on currencies' short-term direction. But analysts say investors are best off with a plain-vanilla approach -- having some exposure to foreign currencies through international stock and bond funds and just leaving it at that.

"Most investors don't need any currency-specific products," says Christine Benz, director of personal finance for investment research firm Morningstar Inc. "You get exposure indirectly through unhedged international stock and bond funds, and that's probably all you need. It's a low-cost way to get currency diversification."

If such exposure disturbs you, you can reduce or eliminate it by purchasing international stock and bond funds that hedge their currency exposure. While hedged funds are generally more expensive than unhedged funds, they might be worth the price if they allow you to sleep at night.

Because foreign stocks and bonds are generally priced in foreign currencies, their dollar value rises when foreign currencies do the same, and their dollar value falls when foreign currencies do the same.

As for more-exotic strategies, Morningstar counts 35 ETFs and 13 mutual funds that offer investors a chance to profit from a rise or fall by the dollar and by other currencies. These range from fairly basic funds holding forward or futures contracts or bank deposits in a specific currency to exchange-traded notes, where you're investing in a debt security issued by a bank, with the security's movement supposed to match that of a currency.

The biggest currency ETF, PowerShares DB US Dollar **Bullish** ETF (UUP), with $519 million of assets, according to Morningstar, uses futures contracts to track the dollar against a basket of six major currencies. And the second biggest, Guggenheim CurrencyShares Euro Trust (FXE), with $329 million, uses bank deposits to track the euro against the dollar.

Perhaps the biggest problem with currency funds is that you're making a bet in the currency market, which isn't something individual investors are well-equipped to do.

"Most investors have a view that in the long run, stocks will rise and bonds will pay interest," says Michael Iachini, head of manager research at Charles Schwab Investment Advisory. "But I don't think individual investors have views on the long-term trend of the dollar versus the euro. That's probably more work than investors want to sign up for."

A major obstacle for investors is that currencies don't have a consistent long-term trend.

"Over the very long term, currency returns are mean-reverting," says Alex Bryan, director of passive-strategy research at Morningstar. "Movements aren't that big in foreign exchange, and it's tough to consistently profit from trades, because movement can be unpredictable."

That unpredictability is a substantial roadblock. For example, rising U.S. interest rates can help push the dollar higher, as global investors seek higher yields. But lower rates can boost the dollar too, as they often are conducive to rising stocks, which also can attract global investors.

"Speculating on currencies is a dangerous game," Mr. Bryan says. And it's not a cheap one, he notes, with the annual expense ratio of the 35 currency ETFs averaging 0.81 percentage point. Given the currency **volatility** and high expenses, analysts say investors would be well-advised to stay away from currency funds.

"Anytime you do a trade, there's risk," Mr. Bryan says. "It's like picking up pennies in front of a steamroller."

That leaves unhedged foreign stock and bond funds as the best way to get a foreign-currency exposure, which can help diversify a portfolio, analysts say. But the more important diversifier is the stocks and bonds themselves. "We like currency exposure as a byproduct of plain-vanilla foreign equity and bond funds," Ms. Benz says. "Do I need more foreign equity exposure? Let that be the driving determinant rather than a desire to profit from currency movements."

Foreign bonds in particular provide currency exposure. Currency moves are the biggest driver of foreign-bond returns, analysts say.

Investors uncomfortable with the thought of their entire portfolio allocation to foreign stocks and bonds going unhedged might consider having half in a hedged fund and half in an unhedged fund.

"If you truly have no opinion about currency, the neutral strategy is to be half-hedged," says Dave Nadig, CEO of research firm ETF.com, a subsidiary of Cboe Global Markets.

For example, investors could put 50% of their foreign-stock allocation into iShares MSCI EAFE ETF (EFA) and 50% into iShares Currency Hedged MSCI EAFE ETF (HEFA), says Eric Balchunas, an ETF analyst for Bloomberg Intelligence.

Todd Rosenbluth, senior director of ETF and mutual fund research at research firm CFRA, finds WisdomTree Dynamic Currency Hedged International Equity Fund (DDWM) intriguing. This ETF invests in foreign stocks and hedges its currency exposure dynamically, meaning it will adjust the amount of the exposure it hedges based on market conditions.

That's helpful because it takes hedging decisions out of investors' hands Mr. Rosenbluth says.

So, opportunities abound to get involved with currencies. But investors may be best off ignoring most of them.

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

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The New York Times

U.S.; Politics

Trump Reaffirms Commitment to Tariffs but Opens Door to Compromise

By Ana Swanson, Mark Landler and Maggie Haberman
1,673 words
5 March 2018
08:47 PM
NYTimes.com Feed
NYTFEED
English

(Update, March 6: Gary D. Cohn, President Trump's top economic adviser and a key pro-trade voice in the White House, said Tuesday that he would resign. Read more »)

WASHINGTON — President Trump, facing an angry chorus of protests from leaders of his own party, including the House speaker, Paul D. Ryan, insisted on Monday that he would not back down from his plan to impose across-the-board tariffs on steel and aluminum imports. But the White House was devising ways to potentially soften the impact of the measures on major trading partners.

The intense maneuvering, which began before Mr. Trump's unexpected announcement of the tariffs last Thursday, is likely to delay any formal rollout of the measures until next week, according to several officials who have been briefed on the deliberations.

On Monday, Mr. Ryan, the most powerful Republican in the House, broke with the president, declaring through a spokeswoman, "We are extremely worried about the consequences of a trade war and are urging the White House to not advance with this plan." The tariffs, Mr. Ryan's spokeswoman said, would "jeopardize" the economic gains from the recent Republican tax cuts.

Mr. Trump appeared little moved by the pushback. One of his all-important barometers — the **stock market** — rebounded on Monday after falling sharply immediately after the announcement of the tariffs last week as the Republican dissent fueled optimism that Mr. Trump would ultimately reverse course. Opponents of tariffs, including many economists, warn they could damage economic growth by igniting a ruinous trade war, a prospect that Mr. Trump has alternately welcomed or dismissed as unlikely.

But a person close to the White House said that the president was itching to impose tariffs, and that Monday's **stock market** rebound had reassured Mr. Trump that he was in the right.

"We're not backing down," the president said at the White House on Monday, as he reeled off a familiar litany about trade deals that he said had driven out factories and deprived American workers of jobs.

But Mr. Trump did open the door to a compromise, at least with Canada and Mexico, which are in negotiations with the United States to revise the North American Free Trade Agreement. If the two countries agree to a "new & fair" Nafta, they could be exempt from the tariffs, Mr. Trump said in a tweet on Monday morning.

The debate over tariffs has become a litmus test for Mr. Trump, putting his longstanding suspicion of free trade up against the equally fervent support for it among Republicans and members of his own administration.

Inside the White House, the debate has pitted hard-liners like Peter Navarro, the president's trade adviser, and Commerce Secretary Wilbur Ross against more pro-trade voices, like Mr. Trump's chief economic adviser, Gary D. Cohn, who argue that the measure could disrupt international alliances and global supply chains.

Republican lawmakers have criticized tariffs as undercutting the $1.5 trillion tax cut that they worked in lock step to pass last year, saying tariffs are essentially a tax increase that would slow economic growth. On Monday, they floated the idea of congressional action to try to block tariffs, should the president impose them.

Representative Kevin Brady, Republican of Texas and chairman of the House Ways and Means Committee, circulated a letter Monday expressing concern over the tariffs. Senator Dan Sullivan, Republican of Alaska, said he spent the weekend speaking with members of Congress and “senior administration officials” about his opposition to the president’s plan.

“As you know the administration is split itself,” Mr. Sullivan said from the annual CERAWeek energy conference in Houston, noting that details of the tariffs remain sparse.

Mr. Trump has heard all sides’ arguments, but his view has remained steadfast, one White House official said.

Still, the official said, the president is mindful enough of the arguments against potentially tanking the **stock market** that he has been somewhat open to a move to narrow the scope and effects of the tariffs while avoiding the perception that he was relenting. That would echo the approach the administration took to winding down the president’s promises on the Deferred Action for Childhood Arrivals, or DACA, program, which has protected young immigrants brought illegally to the United States as children.

The unsettled nature of a final policy was magnified by a conversation on Sunday between Mr. Trump and Prime Minister Theresa May of Britain.

Ms. May, a person briefed on the call said, warned Mr. Trump how dangerous the tariffs would be. Mr. Trump disagreed, but concluded the conversation by telling Ms. May that he had not made a final decision on what to do.

The president originally announced that he wanted to put new tariffs into effect this week, but a legal review has not been concluded. On Sunday, Mr. Navarro said the tariff announcement could come this week or the following week at the latest. He also reaffirmed that companies might be able to seek exemptions for certain foreign products they need for their business, a process likely to lead to months of furious lobbying.

A coalition of 25 industry associations representing farmers and companies that use steel and aluminum has started lobbying the administration and lawmakers, arguing that the tariffs are far broader than necessary and would create higher prices on American companies that buy and use metals.

The president and his advisers have repeatedly maintained that any tariffs will be imposed on imports from all countries without exception. The Commerce Department has concluded that imports of steel and aluminum pose a threat to national security, a determination that gives the president broad authority under United States law to impose tariffs.

But that legal standing will undoubtedly be challenged by other countries and companies, both in court and at the World Trade Organization, which requires that members treat all other members equally on trade. Creating exceptions for countries like Canada and Mexico for non-national security reasons like Nafta could invite challenges at the World Trade Organization, said Jennifer Hillman, a professor at Georgetown University Law Center.

“Unequivocally, I think there will be cases filed at the W.T.O., and there is plenty of ground to challenge this,” Ms. Hillman said.

On Monday, Robert Lighthizer, the United States trade representative, said Mr. Trump decided to link a tariff exemption to a revised Nafta deal “a couple of days ago” as Mr. Lighthizer prepared to travel to Mexico City to meet with his Mexican and Canadian counterparts.

“It makes sense, since this is a major irritant, to have it be considered,” Mr. Lighthizer said in Mexico City after meeting with Economy Minister Ildefonso Guajardo of Mexico and Foreign Minister Chrystia Freeland of Canada. He said the situation could be modified for Mexico and Canada given a successful Nafta renegotiation, as well as “perhaps other countries in other contexts where we have those kinds of problems.”

Even if Canada and Mexico were exempted from the tariffs of 25 percent on steel and 10 percent on aluminum, officials said the United States would impose a quota on those countries’ exports to prevent them from being used as a conduit for metals shipments from other nations.

Neither Canada nor Mexico appeared mollified by the prospect of a tariff exemption in exchange for bending to United States demands on Nafta. Ms. Freeland reiterated comments that any action that ensnared Canada would be “completely unacceptable.”

“México shouldn’t be included in steel & aluminum tariffs,” Mr. Guajardo said in a tweet. “It’s the wrong way to incentivize the creation of a new & modern #NAFTA.”

Michael Camuñez, a former Commerce Department official who advises international firms doing business in Mexico, called the proposed tariffs and the tweet a “terrible development” for the Nafta negotiations “because all parties have indicated that they will not negotiate with a gun against their head.”

The talks in Mexico City produced no meaningful progress, and ultimately would be decided by one man — Mr. Trump, Mr. Camuñez said. Negotiators have continued to clash over provisions in the pact, including rules for auto manufacturing, and the United States has continued to insist on changes that its trading partners say are nonstarters.

Mr. Camuñez said Mexico and Canada would retaliate “with good reason” if the steel and aluminum tariffs were imposed, an outcome that could lead to a breakdown in negotiations. “That would escalate tensions and that could lead the president to conclude that these negotiations aren’t going anywhere and blame the Mexicans and the Canadians,” Mr. Camuñez said.

Mr. Trump has threatened additional retaliation if other nations erect their own trade barriers, saying in a tweet over the weekend that the United States would make it harder for the European Union to sell cars in the country if it imposes tariffs on American imports.

Reporting was contributed by Ian Austen from Ottawa, Elisabeth Malkin from Mexico City, Lisa Friedman from Houston and Thomas Kaplan from Washington.

* Trade Wars Are Destructive. Of Course Trump Wants One.

* Trade War, What Is It Good For? Absolutely Nothing

* Don’t Worry About Trump’s Tariffs

* The Trump Tariffs Will Cost Americans Jobs

* Ryan Criticizes Tariff Plan as Trump Issues Nafta Threat

* Trump to Impose Sweeping Steel and Aluminum Tariffs

* Trump Calls Trade Wars ‘Good’ and ‘Easy to Win’

* Once Outspoken, Paul Ryan Wields His Speaker’s Gavel Gingerly

President Trump is eager to impose tariffs, and was reassured his decision was right by Monday’s **stock market** rebound, a person close to the White House said. | Al Drago for The New York Times | Foreign Minister Chrystia Freeland of Canada, left, Economy Secretary Ildefonso Guajardo of Mexico, center, and Robert Lighthizer, the United States trade representative, in Mexico City on Monday. Neither Canada nor Mexico appeared mollified by the prospect of a tariff exemption in exchange for bending to United States demands on Nafta. | Jorge Nunez/European Pressphoto Agency

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THE WALL STREET JOURNAL.

Markets
Fed's Dudley Says Trade Protectionism Is a 'Dead End'; New York Fed president says pursuing trade isolationism 'will fail' as a policy

By Michael S. Derby
755 words
1 March 2018
01:58 PM
The Wall Street Journal Online
WSJO
English

Federal Reserve Bank of New York President William Dudley warned Thursday that any move to erect new trade barriers in a bid to spur domestic growth is a "dead end" for those countries that try them.

"While the gains from a liberalized trade regime are not guaranteed, the alternative of trying to achieve a high standard of living by following a policy of economic isolationism will fail," Mr. Dudley said in a speech before a gathering at Brazil's central bank.

"Trade has played a key role in nearly all of the high-growth success stories since the middle of the last century," he added.

Mr. Dudley also said "countries need to compete better, not compete less." He noted "trade barriers are a very expensive way to preserve jobs in less competitive or declining industries," and protectionist policies make goods and services more costly while harming a nation's exporters. Mr. Dudley said restrictionist policies "often backfire, resulting in harm to workers and diminished growth."

Mr. Dudley, who is set to retire this summer, also noted his rising confidence that a strong economy will allow the Fed to raise interest rates multiple times this year. He spoke as new Fed Chairman Jerome Powell was engaged in a second day of testimony before Congress on economic and interest-rate policy issues. Mr. Powell delivered an upbeat outlook, one rosy enough to reignite questions about whether the Fed might deliver a more aggressive course of interest-rate increases over the course of 2018.

Mr. Dudley's strong defense of the benefits of open trade came as President Donald Trump continued to rattle the sabers of taking action to blunt what he sees as unfair trading practices. The U.S. is now weighing substantial curbs on steel and aluminum imports even as a broad array of economists say such action is likely to hurt U.S. economic performance.

In a post on Twitter on Thursday, Mr. Trump said "Our Steel and Aluminum industries (and many others) have been decimated by decades of unfair trade and bad policy with countries from around the world. We must not let our country, companies and workers be taken advantage of any longer. We want free, fair and SMART TRADE!" The White House has summoned executives for those industries to talk about potential restrictions.

Mr. Dudley noted that his comments weren't aimed at any particular development and that he was inclined to stay out of the political fray. But he noted "we are at a particularly important juncture."

"If support for liberalized trade and an integrated global economy were to suffer a significant setback, the consequence could be slower economic growth and lower living standards around the world," he said. He also said trade tariffs can increase inflation, and that could affect the monetary-policy choices officials make down the road.

Setting trade policies isn't among the Fed's official responsibilities. But Mr. Dudley noted central bankers have a natural interest in the subject because it bears directly on the health and productive capacity of the economy.

Mr. Dudley does, however, see space for an overhaul. "I have no doubt some trade agreements could be enhanced or updated," he said. Current agreements might not fully reflect the impact of the rise of the digital economy, and existing trade barriers and foreign restrictions to U.S. industries should be looked at, he said.

"Our focus should be on further strengthening an open trade regime, and, as appropriate, amending and improving these agreements," Mr. Dudley said.

The veteran policy maker also said more needs to be done to aid those who have been displaced by free trade policies. "We must do better in addressing the very large costs that can be imposed on particular communities and households," he said.

Mr. Dudley also said an important contribution the U.S. can make to the global economy is a strong financial system.

"The United States has a special responsibility to keep its own house in order, given the large size of its **financial markets** and the U.S. dollar's status as a reserve currency," Mr. Dudley said. He added, the Fed "needs to be mindful of the international effects of its actions, which can have important potential consequences for the global economy and **financial markets**."

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

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THE WALL STREET JOURNAL.

Markets
Spotify Picks Citadel Securities to Handle NYSE Debut; Electronic-trading firm Citadel will be the market maker for the unusual offering from the music-streaming company

By Alexander Osipovich
700 words
7 March 2018
12:02 PM
The Wall Street Journal Online
WSJO
English

Spotify Technology SA has chosen electronic-trading firm Citadel Securities LLC to oversee its unusual debut at the New York Stock Exchange, people familiar with the situation said.

The music-streaming company settled on Citadel Securities as its designated market maker in recent days, the people said. Such DMM firms, also called specialists, help ensure the orderly trading of NYSE-listed stocks. Their role is especially important during key moments such as initial public offerings.

By winning Spotify, one of the biggest technology listings of recent years, Citadel Securities has notched a high-profile victory after it failed to win Snap Inc., the biggest tech IPO of 2017.

Peter Giacchi, the head of Citadel Securities' DMM unit and a veteran of the NYSE's historic trading floor in lower Manhattan, is the trader who will determine the opening price of Spotify shares, one of the people said. Mr. Giacchi didn't respond to requests for comment.

Spotify declined to comment. The Stockholm-based company could go public as soon as the week of March 26 through a process called a direct listing.

Unlike in a traditional IPO, no new shares will be offered when Spotify goes public. Instead, the company will simply float its existing shares and let the market find a price. There will be no Wall Street bank to act as a "stabilizing agent" and support the stock if it tumbles out of the gate.

As a result, Spotify's debut "may be more **volatile**" than a typical IPO and its shares could "decline significantly and rapidly" when they begin trading on the exchange, the company warned in a filing last week. That puts additional responsibility on Citadel Securities and Mr. Giacchi to balance incoming buy and sell orders and settle on an opening price.

Citadel Securities handles about 20% of the shares that change hands in the U.S. **stock market** each day, and is a big player in other markets such as futures and options. It was founded in 2002 by billionaire Ken Griffin, who also leads hedge fund Citadel LLC. The two are operated separately, according to the firms.

Though its roots are in computerized trading, Citadel Securities entered the old-fashioned business of NYSE floor trading in 2016, when it acquired a DMM unit previously owned by KCG Holdings Inc.

Currently, there are five specialist firms at the NYSE's flagship exchange—down from dozens in the 1980s—and in recent years most have been acquired by high-speed traders. Citadel Securities is among the largest designated market makers, overseeing trading in about 1,400 securities including Walmart Inc. and Home Depot Inc.

Each new company debuting on the Big Board gets the chance to select its specialist before going public.

Global Trading Systems LLC, another designated market maker, won the five biggest IPOs at the NYSE last year, including Snap, people familiar with the matter said. It also handles technology names such as Twitter Inc. and Alibaba Group Holding Ltd.

Citadel Securities underwent a shake-up in the leadership of its designated market-making business last year. The previous head of the unit, Todd Abrahall, left in May and was replaced by Mr. Giacchi. Both a spokeswoman for Citadel Securities and Mr. Abrahall declined to comment on the reasons for his departure.

Firms such as Citadel Securities and GTS enjoy some perks for their role. They can receive payments from the NYSE in return for posting competitive price quotes for the stocks they handle.

Being a specialist also offers intangible benefits in branding and marketing. Floor traders with these firms often appear in the backdrops of business television shows, wearing colorful vests adorned with the logos of their employers.

Write to Alexander Osipovich at alexander.osipovich@dowjones.com

Previous Coverage

* Heard on the Street: Why Spotify Won't Be the Netflix of Music (March 6, 2018)

* Spotify Kicks Off Its Unusual IPO (Feb. 28, 2018)

* Spotify Disrupted the Music World, Now It's Doing the Same to Wall Street (Jan. 15, 2018)

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THE WALL STREET JOURNAL.
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Spotify Chooses Citadel to Run IPO --- Electronic-trading firm gains key job in debut of music-streaming company

By Alexander Osipovich
510 words
8 March 2018
The Wall Street Journal
J
B11
English

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The New York Times

Business Day; DealBook
Ackman Ends His 5-Year Fight With Herbalife

By Matthew Goldstein
581 words
28 February 2018
08:22 PM
NYTimes.com Feed
NYTFEED
English

William A. Ackman has officially hoisted the white flag in his boisterous and costly five-year campaign against Herbalife, the nutritional food supplement company, which he claimed was an outright fraud.

Mr. Ackman, one of Wall Street's most outspoken hedge fund managers, disclosed on CNBC on Wednesday that he had quietly unloaded his remaining positions in Herbalife — a bet that at one time had been valued at $1 billion by his Pershing Square Capital Management.

In the annals of Wall Street, investors have lost more on trades. But Mr. Ackman's **bearish** bet on Herbalife was a signature event given how much time, effort and money he devoted to making his case — all in the hopes that the federal authorities would take action against Herbalife.

In fact, the Federal Trade Commission did. But its enforcement action against Herbalife in July 2016 was not the death knell that Mr. Ackman had been counting on. The commission's settlement with Herbalife required the company to pay $200 million in consumer relief, hire an outside monitor and make substantial changes to its business practices, but it let the company continue to operate.

From that point on, it was clear that Mr. Ackman's wager — he once boasted that Herbalife's stock was going to zero — would never come to fruition. Yet he stubbornly stayed with it.

Mr. Ackman did not respond to a request for comment.

Early in his campaign, a number of prominent Wall Street investors lined up to take the opposite side of his **bearish** trade.

His most notable opponent was Carl Icahn, another billionaire investor, who would become Herbalife's largest shareholder. Mr. Icahn and Mr. Ackman famously squared off during a live CNBC broadcast over the merits of Herbalife. The fight transfixed Wall Street, and at one point Mr. Icahn called Mr. Ackman a "crybaby in the schoolyard."

The two traders would later publicly embrace and bury the sword. But the televised spectacle began to tarnish Mr. Ackman's reputation as one of Wall Street's more successful investors.

Since then, his firm has posted steep losses because of money-losing bets on Herbalife and other stocks, most notably Valeant Pharmaceuticals. His main fund posted losses in each of the past three years.

The end of Mr. Ackman's Herbalife wager had been in the works for several months. Last fall, he told investors that he had restructured the investment to cap it from incurring further losses. He did that by closing out the hedge fund's short bets and replacing them with options.

A short is a bet that a stock will fall in price, but it can leave an investor exposed to massive losses if a stock rises sharply. And that was a big problem with Mr. Ackman's campaign against Herbalife.

The stock plunged to just under $34 a share on Dec. 20, 2012, after Mr. Ackman unveiled his campaign during a three-hour presentation he called "Who Wants to Be a Millionaire?" Over the ensuing years, Herbalife's stock went up and down, but mostly up.

On Wednesday, shares of Herbalife closed at just over $92. By the judgment of traders, Mr. Ackman's campaign was an outright failure.

William A. Ackman, the head of Pershing Square Capital Management, had attacked the practices of Herbalife, the nutritional supplement company, in the hope that federal action would sink its stock. | Mike Blake/Reuters

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THE WALL STREET JOURNAL.
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Business World
Your Pickup Truck Takes You for a Ride

By Holman W. Jenkins, Jr.
828 words
31 March 2018
The Wall Street Journal
J
A15
English

Important things are often the least discussed precisely because so many individuals have a stake in not calling attention to them.

When LBJ sought to retaliate against European import restrictions on U.S. frozen chicken, a United Auto Workers chief caught his ear with complaints about a Volkswagen pickup truck (based on the VW microbus) then arriving on U.S. shores. Voila. Fifty-five years later, the 25% "chicken tax" is why the Big Three have morphed into lucrative pickup-truck companies attached to semi-embarrassing sedan businesses that barely break even. And now we know Donald Trump's trade policy intends to keep it that way.

Over the years, Detroit's bizarre business model has been steadily cemented into place with numerous acts of congressional and regulatory opportunism. The chicken tax is a kludge that helped the Big Three survive their weird obligation to patronize a UAW labor monopoly while foreign-born auto makers are free to tap a competitive U.S. labor market. The chicken tax helped Detroit endure fuel-economy rules that required it to build money-losing small cars in high-cost domestic factories.

Today, the chicken tax goes a long way toward explaining U.S. pickup-truck culture -- why millions of American males clog up suburbia with overbuilt, inefficient, single-person transportation vehicles disguised as "work" vehicles.

Detroit has even coined the term "never-never trucks" for the millions of pickups that will never haul a trailer or be taken off-road or carry anything much heavier than the owner's fishing gear. These trucks are sturdy enough for the work they seldom do, but are also the most ungainly, ill-handling vehicles on the road for the purposes to which they are actually put. And for the privilege, their buyers pay markups in excess of $10,000 a truck, keeping the manufacturers swimming in profits even while the Big Three dole out sedans to the public practically at cost.

The chicken tax explains why interesting, diverse, drivable pickups that sell by the millions in the rest of the world are unavailable in the U.S. market, like the Toyota Hilux, VW Amarok and the Mercedes X class.

It explains why, even though trucks are the most profitable and largest-selling vehicle category, Americans have only six brands to choose from -- and 30-plus brands of sedan.

It explains why the VW Tanoak, a prototype pickup that wowed visitors at the New York Auto Show this week, won't be coming to the U.S., ever.

It explains why the trans-Pacific trade deal, opposed by both presidential candidates in 2016, perhaps never stood a chance. From the get-go, negotiators stirred up a hornet's nest by trying to lure Japan and Thailand (a global capital of light-truck production) into the deal by promising to phase out the U.S. chicken tax on pickups.

It explains the modified, limited trade warfare of the Trump administration. This week the White House announced its latest triumph, an agreement with South Korea to extend the tax until 2041.

This "victory" will cost Americans thousands of dollars each on future pickup-truck purchases. And so much for the tantalizing promise of a Hyundai pickup anytime soon.

The sophisticated media's tone is already shifting on Trumpian trade policy. Two weeks ago, Mr. Trump was leading the world into a cataclysmic trade war. Now, especially on the left, he's a paper tiger on trade.

The Trump trade agenda is a "shadow play. . . . The concessions wrung out of the participating countries turn out to be negligible at best," complains a New Republic writer.

This at least gets the nature of Donald Trump's trade policy right. He, like most politicians, is not really so focused on expanding or freeing up trade. He likes dispensing goodies from the favor factory. The pockets of U.S. consumers are picked for the benefit of specific U.S. companies and industries.

Trade economists love retelling the chicken-tax story, but the tax's quirky historical antecedents actually couldn't matter less today. A lot more relevant are the Japanese arrival in the U.S. car market, the **volatility** of **oil prices** that began in the 1970s, and the U.S. political class's growing reliance on the auto sector to serve as regulatory whipping boy for everything from climate change to the Iraq war.

No recent Congress or administration (including Texan George W. Bush's) has been able to pass up the opportunity to score points by loading the auto industry with new burdens. The chicken tax -- and the excessive domestic pickup profits it fosters -- has been and apparently will remain the industry's payback for putting up with such treatment.

(See related letters: "Letters to the Editor: 'Chicken Tax' Promoted U.S.-Made Pickups" -- WSJ April 7, 2018)

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THE WALL STREET JOURNAL.

Business

The Savviest Tech Investor You've Never Heard of Is Selling Down Tencent; Move by little-known Naspers to sell 2% of Chinese giant set to land it about $10 billion

By Steven Russolillo and Alexandra Wexler
935 words
22 March 2018
09:35 PM
The Wall Street Journal Online
WSJO
English

One of the oldest and largest investors in Tencent Holdings Ltd. is selling close to $10 billion of shares in the Chinese internet giant, reducing one of the world's most lucrative tech bets at a time of turbulence for the sector.

Naspers Ltd., a South African media and internet firm, said Thursday it will sell 190 million shares of Tencent, cutting its stake in the company to 31.2% from 33.2%. The stock was priced at 405 Hong Kong dollars (US$52) a share on Friday morning in Hong Kong, a 7.8% discount to Tencent's closing price the previous day.

The sale represents a windfall for Naspers, which paid just $34 million for its Tencent stake in 2001—before it went public—a position that is now valued at roughly $175 billion. It hadn't sold any of its Tencent stock before and said it won't sell any more of its shares for at least three years.

Tencent, best known in China for its WeChat messaging app and being the world's largest videogame publisher by revenue, has surged to become one of the world's most valuable technology companies. Its shares have nearly doubled over the past year, catapulting the company's market capitalization to about $532 billion, putting it ahead of Facebook Inc. and Berkshire Hathaway Inc.

Tencent's shares fell 5% on Thursday in Hong Kong after the company's quarterly results, reported a day earlier, showed slowing revenue growth from mobile and PC games, one of its main profit drivers.

A Tencent representative said the company was aware of Naspers's intention to sell a stake and said the company's company's commitment to not sell any more shares for several years "indicates confidence in our long-term growth and management."

Naspers, which has become Africa's most valuable company in large part because of its Tencent stake, said it would use the proceeds from the share sale to invest in its classifieds, online food delivery and financial-technology businesses, as well as to pursue other growth opportunities. Naspers shares dropped about 8% in response to the news and another 4.6% on Thursday in South Africa trading.

The sale comes at a sensitive time for global technology stocks, which have been on a tear for much of the past year.

Facebook shares have tumbled this week, with the company losing about $46 billion of its market value after criticism over its handling of user information. The controversy has prompted renewed calls for governments around the world to better regulate giant technology companies that have amassed large volumes of user data. The tech-heavy **Nasdaq Composite** has fallen in six of the past eight trading days, and is down 5.6% from its record earlier this month.

The sale of Tencent shares could add more pressure to global tech stocks. Tencent, along with search giant Baidu.com Inc. and e-commerce titan Alibaba Group Holding Ltd., make up the three so-called BAT stocks that, because of their size, clout and market dominance in Asia, are routinely compared with the U.S.'s closely watched FAANG stocks—Facebook, Amazon.com Inc., Apple Inc., Netflix Inc. and Alphabet Inc.-owned Google.

A survey this week by Bank of America Merrill Lynch found that the "long FAANG+BAT" trade—meaning investors who have piled into these technology giants—was the most crowded trade on Wall Street.

Nevertheless, Naspers will still be a major shareholder in Tencent and several other tech companies. The company, founded in 1915 as a newspaper publisher, also holds stakes in a host of other tech firms, including Mail.ru Group, a Russian internet company that runs two of the country's three biggest social networks; Delivery Hero, a food-delivery company based in Germany; and Flipkart, India's biggest e-commerce site.

Naspers trades at a discount to the market value of its Tencent stake in part because of a dividend-withholding tax that would kick in should it ever sell out. The tax doesn't apply to Thursday's share sale because the company isn't returning proceeds to shareholders. The company's market value was recently about $115 billion, according to FactSet, accounted for Thursday's sharp fall.

In November, Naspers, led by Chief Executive Bob van Dijk, reported a 98% rise in half-year net profit to $1.1 billion, largely driven by its Tencent holding and its digital classified businesses, which turned a profit for the first time.

Some analysts said they were surprised by the sale but cautioned against reading too much into the move.

"To keep it in context, Tencent is a great business that Naspers is sitting on huge profits from," said Richard Kramer, founder of Arete Research. "Whether they own 20% or 30%, it's still a phenomenal asset and puts them in a privileged position."

Alyssa Abkowitz and Adria Calatayud contributed to this article.

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Document WSJO000020180322ee3m00105

THE WALL STREET JOURNAL.
U.S. EDITION

Stock Buybacks Are Proof of Tax Reform's Success

By John H. Cochrane
685 words
6 March 2018
The Wall Street Journal
J
A17
English

As the Republican tax reform has gained popularity, the Democrats have had to update their messaging. To cast corporate tax cuts as a "scam" and redistribution to the wealthy, opponents have shifted their focus to the evils of stock buybacks and dividends.

"Corporations have been pouring billions of dollars into stock repurchasing programs, not significant wage increases or other meaningful investments," declared Senate Minority Leader Chuck Schumer Feb. 14. Such buybacks, he claimed, "benefit primarily the people at the top" and come at the expense of "worker training, equipment, research, new hires, or higher salaries." Other Democrats have echoed the theme, and their media friends are cheerfully passing it on.

Economic logic isn't strong in Washington these days, but this effort stands out for its incoherence.

Share buybacks and dividends are great. They get cash out of companies that don't have worthwhile ideas and into companies that do. An increase in buybacks is a sign the tax law and the economy are working.

Buybacks do not automatically make shareholders wealthier. Suppose Company A has $100 cash and a factory worth $100. It has issued two shares, each worth $100. The company's shareholders have $200 in wealth. Imagine the company uses its $100 in cash to buy back one share. Now its shareholders have one share worth $100, and $100 in cash. Their wealth remains the same.

Wouldn't it be better if the company invested the extra cash? Wasn't that the point of the tax cut? Perhaps. But maybe this company doesn't have any ideas worth investing in. Not every company needs to expand at any given moment.

Now suppose Company B has an idea for a profitable new venture that will cost $100 to get going. The most natural move for investors is to invest their $100 in Company B by buying its stock or bonds. With the infusion of cash, Company B can now fund its venture.

The frequent rise in **stock price** when companies announce buybacks proves the point. In my example, Company A's share price stays fixed at $100 when it buys back a share. But suppose before the buyback investors were nervous the company would waste $40 of the $100 cash. Imagine an overpriced merger or excessive executive bonuses. Not every investment is wise!

The $100, stuck inside Company A, would be valued by the market at $60, and the company's total value would be $160, or $80 a share. If it spent the $100 to buy back one share, the other share would rise from $80 to $100, the value of its good factory. When a company without great ideas repurchases shares, the price of the remaining shares rise. This **stock price** rise is no gift to shareholders. It is just the market's recognition that $100 has been saved from inefficient investment.

The debate over whether companies will spend higher revenues on wages or buybacks misses the whole point. The economic argument for the corporate tax cut is that companies with good ideas, projecting a better after-tax return on new capital investments, will make such investments. This new investment will let companies expand and make their workers more productive. When that happens, companies will compete for workers, leading to higher wages. Not all companies should make new investments, and some of the best investments come from new companies that don't have profits yet.

The economic logic of the tax cut is to create good incentives for profit-maximizing management teams -- not to "trickle down" cash to workers from philanthropic management. One can argue whether it will work, but echoing illogical claims is not a contribution to that debate. Granted, Republicans invited the attack by trumpeting worker bonuses. But a bad argument for the cut does not redeem a worse counterargument.

Mr. Cochrane is a senior fellow at the Hoover Institution and an adjunct scholar at the Cato Institute.

(See related letters: "Letters to the Editor: Buybacks Are a Sign of Corporate Weakness" -- WSJ March 12, 2018)

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THE WALL STREET JOURNAL.

Markets

The One Word Giving Money Managers Headaches in 2018: Liquidity; New SEC rules require mutual-fund managers to give the regulator regular snapshots of their funds' buckets, but determining liquidity is a complicated task

By Justin Baer
627 words
31 March 2018
08:00 AM
The Wall Street Journal Online
WSJO
English

U.S. regulators are willing to spare money managers from telling shareholders more details about their holdings in hard-to-sell assets. But they still want to see that information for themselves.

Mutual-fund managers are now scrambling to meet new Securities and Exchange Commission rules requiring them to classify their investments by how easily they could be sold to meet investor redemption requests.

"I've been thinking about this in stages of grief," said Kevin Ehrlich, chief compliance officer at Western Asset Management Co. "I'm now in the acceptance stage."

The industry argued that classifying all of their funds' holdings into these buckets would be an onerous and complex task, forcing them to make imprecise judgments that might be second-guessed.

Money managers won a partial victory in March, when the SEC proposed tabling the part of the rule that would have forced managers to disclose those classifications to the public. But the underlying information will still have to be turned over to regulators starting in 2019.

Some firms, particularly small ones with little or no debt holdings, will have an easier time getting ready for the new rules, Mr. Ehrlich said. But many others have concluded they need an outside firm to help with the new calculations.

Managers cited State Street Corp., Bloomberg LP and Intercontinental Exchange Inc. as among those that have emerged as top choices in providing this service to investment firms.

One sign of how the rules are affecting the industry came during a conference in January, when Nathan Greene, a partner with the law firm Shearman & Sterling, asked the audience: "Who's ready for the liquidity rule?" After a number of hands shot up, Mr. Greene posed a follow-up question: "How many of you are vendors?" Most of those same attendants raised their hands again, he said.

The collapse of Third Avenue Management's Focused Credit Fund in December 2015 trained a spotlight on how mutual funds unload hard-to-sell bonds when the credit markets seize up.

In 2016, the SEC adopted the new rules requiring funds to review liquidity risks and hold a minimum amount of liquid securities, while formalizing a cap on the amount of illiquid holding to 15% of the fund's net assets. The provision also compelled firms to give the SEC regular snapshots of their funds' buckets.

It's a complicated task, with many factors that can affect a bond's liquidity. Newer bonds tend to trade more often than older ones, and larger issues are bought and sold more than smaller bonds, said Eric Jacobson, a senior manager research analyst at Morningstar Research Services LLC. Many higher-quality bonds are also traded by more investors than riskier credits, he added.

There are other components to calculating how hard it will be to sell those securities in a pinch, such as how much of a fund's holdings they represent—or even how much sway the manager has with the Wall Street banks serving as intermediaries between sellers and buyers, managers say.

"The problem is that there are several dimensions to liquidity," Mr. Jacobson said.

Quarter-End Report

* Bumpy Quarter for Stocks

* **Volatility** Roars Back in 1Q

* Dollar Extends Last Year's Slide

* Bond Yields Jump, Then Plateau

* **Oil Prices** Seen Going Higher

* Copper's Hot Run Falters

* Merger Funds Missing Out on M&A

* Muni Bonds: Worst 1Q in 15 Years

* Risky Bond Funds Abandoned

* Investment Banks Face Growth Puzzle

* Bitcoin Falls Back to Earth

* Determining Liquidity Is Complicated

* European Deal-Making Still High

Document WSJO000020180331ee3v000xd

THE WALL STREET JOURNAL.

Markets
Gold Inches Lower as Investors Eye Next Week's Fed Meeting; U.S. central bank widely expected to raise interest rates

By Amrith Ramkumar and David Hodari
522 words
16 March 2018
02:36 PM
The Wall Street Journal Online
WSJO
English

Gold inched lower Friday, hurt by a rise in Treasury yields and a slightly stronger dollar ahead of next week's Federal Reserve meeting.

Front-month gold for March delivery declined 0.4% to $1,311.30 a troy ounce on the Comex division of the New York Mercantile Exchange. Prices have stayed between about $1,305 and $1,360 in 2018, moving within that range on swings in the dollar and worries about the impact of higher interest rates.

A stronger dollar makes gold and other commodities more expensive for overseas buyers. On Friday, the WSJ Dollar Index, which tracks the dollar against a basket of 16 other currencies, was up 0.1% after paring early losses.

The yield on the benchmark 10-year U.S. Treasury note was also rising, climbing to 2.846%, according to Tradeweb, from 2.824% Thursday. Gold struggles to compete with yield-bearing assets like Treasurys when interest rates rise, and some analysts think higher yields as the Fed raises rates this year will hurt the precious metal. Yields rise as **bond prices** fall.

The Fed is widely expected to raise rates at its meeting next week, and investors will be watching for clues about whether the central bank might raise them four times this year instead of the three it had previously projected.

Some investors expect gold to rise after the meeting, continuing a pattern of drops before central-bank rate increases then subsequent rebounds over the past few years. Some analysts use the metal to hedge against higher inflation even when rates rise.

"There are period of times when interest rates can rise and gold prices can rise too when the interest rates trail inflation," said Matt Badiali, research analyst at investment-research firm Banyan Hill Publishing.

Analysts have said political and economic uncertainty should keep gold from falling further because some investors favor the haven asset when they think markets might turn rocky.

U.S. tariffs on steel and aluminum have stoked fears about a trade slowdown and global growth disruptions, while political headlines surrounding U.S. sanctions against Russia, changes in the White House, and Special Counsel Robert Mueller 's decision to subpoena the Trump Organization have also worried some investors.

Among base metals, front-month copper for March delivery declined 0.6% to $3.0930 a pound. Prices have fallen 5.7% this year, with some analysts worried that slower global growth following protectionist trade policies could crimp demand for industrial commodities. Some have cautioned that an economic slowdown in China, the world's largest consumer of base metals, could in particular weigh on prices.

Some traders are nervous that Chinese production cuts that previously boosted the complex aren't being extended, said Edward Meir, a strategist at INTL FCStone.

"We've had a very sloppy March in base metals," Mr. Meir said.

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

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THE WALL STREET JOURNAL.

Markets

Oil Wavers as Questions Linger Over Iran Deal; U.S. inventory data from the American Petroleum Institute, an industry group, showed a 5.3 million-barrel increase in crude supplies

By Christopher Alessi
479 words
27 March 2018
04:52 PM
The Wall Street Journal Online
WSJO
English

Oil prices closed lower Tuesday as participants gauged increasing supply against geopolitical risks to producers.

Light, sweet crude settled down 30 cents, or 0.5%, at $65.25 a barrel on the New York Mercantile Exchange. Brent, the global benchmark, fell 1 cent to $70.11 a barrel.

Traders and analysts surveyed by The Wall Street Journal expect government data due Wednesday show that crude stockpiles rose by 1.4 million barrels last week.

The American Petroleum Institute, an industry group, said late Tuesday that its own data for the week showed a 5.3 million-barrel increase in crude supplies, a 5.8 million-barrel fall in gasoline stocks and a 2.2 million-barrel decrease in distillate inventories, according to a market participant.

In recent days, prices have been pulled between potential disruptions to production in Iran and steadily increasing output from U.S. shale producers.

"Newly heightened geopolitical risks of a more hawkish U.S. policy toward Iran…clearly raises the likelihood of oil trade disruptions and with it upside risks to **oil prices** in the near term," said Ehsan Khoman, head of research for the Middle East at Bank of Tokyo-Mitsubishi UFJ in a note Tuesday.

A withdrawal by the U.S. from a 2015 international agreement to curb Iran's nuclear program would result in the reimposition of economic sanctions on Iran.

In such a scenario, "at minimum, we view that 250,000 to 350,000 barrels a day of Iranian crude is at risk of being disrupted," Mr. Khoman said.

Georgi Slavov, head of research at brokerage Marex Spectron, noted that "at a time when demand is relatively strong, any news on limiting supply like sanctions on a major oil producer [such as Iran] will have a positive impact on the market."

Mr. Slavov said crude prices have also been supported by "the utilization of inventory capacity" outside the U.S., which is helping to tighten supply globally.

At the same time, strong compliance with the Organization of the Petroleum Exporting Countries' agreement to hold back crude output by 1.8 million barrels a day has supported prices. OPEC and 10 producers outside the cartel, including Russia, have been curbing production since the start of last year in an effort to rein in a supply glut.

"Despite increasing U.S. shale output, prices remain stable due to…OPEC compliance and increasing geopolitical premium," said Tamas Varga, an analyst at brokerage PVM Oil Associates Ltd.

Gasoline futures rose 0.2% to $2.0135 a gallon and diesel futures rose 0.4% to $2.0224 a gallon.

Stephanie Yang contributed to this article

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

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THE WALL STREET JOURNAL.
U.S. EDITION

Investing in Funds & ETFs: A Monthly Analysis --- Spotlight / VelocityShares Daily Inverse VIX: VIX-Related Fund Did Go 'Poof'

By Simon Constable
478 words
5 March 2018
The Wall Street Journal
J
R9
English

They were warned.

February's burst of market **volatility** was the death knell for VelocityShares Daily Inverse VIX Short-Term exchange-traded note (XIV), designed to make a high-wire bet that markets would stay calm.

The note was structured to profit from declines in the Cboe **Volatility** Index, or VIX, and it worked spectacularly for a while. But when the **volatility** index more than doubled on Feb. 5, the price evaporated and the fund was delisted on Feb. 15.

A similar fund, ProShares Short VIX Short-Term Futures (SVXY), continued operating, but its price fell more than 88% over two days.

The Wall Street Journal highlighted the potential problem with both funds in a September article, "Could Some VIX-Related Funds Go 'Poof' in a Day?" At the time, Velocity Shares LLC confirmed that the fund "has the potential to be liquidated" if its benchmark moved more than 80% in a day, but said that scenario was so unlikely that such an analysis "seems pretty weak." The firm didn't reply to a request for comment on this article.

Such blowups in leveraged investments have occurred before, says Pravit Chintawongvanich, head of derivatives strategy at Macro Risk Advisors in New York. "It is a story of a fund using too much leverage and getting too large relative to the underlying market," he says.

By leverage, Mr. Chintawongvanich means that because there is no limit to how high the VIX can go, losses could far exceed the initial investment made by the VelocityShares ETN. Leverage often refers to investments made using borrowed money, which isn't the case here. And both funds had grown large relative to the size of the VIX futures market because of the initial success of their strategies.

Just before the VIX spike, the ProShares fund had "42% of the open interest of the March contract," says a Feb. 2 report from Academy Securities.

When the VIX jumped Feb 5, both funds needed to unwind massive positions by buying VIX futures contracts of the type they had originally sold. The more the market moved against the funds, the more futures both needed to buy. "They moved the market against themselves," says Mr. Chintawongvanich.

The ProShares fund has announced plans to use less leverage. As of Feb. 27, it no longer tracks inverse moves in the VIX one to one, but instead reduce the tracking by half, meaning when the VIX moves down 1% the fund's goal is to gain 0.5%.

That makes the possibility of the fund getting wiped out "less likely going forward," says Peter Tchir, macro strategy director at Academy Securities. But it doesn't make such a thing impossible. ProShares didn't respond to a request for comment.

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THE WALL STREET JOURNAL.

Markets

Big Banks Get a Big Win in Senate Rollback Bill; Nation's largest banks would gain incentive to buy more municipal bonds in legislation targeting smaller banks

By Andrew Ackerman
840 words
6 March 2018
02:49 PM
The Wall Street Journal Online
WSJO
English

WASHINGTON— Bipartisan legislation expected to clear the Senate as early as this week has just one provision that is set to directly benefit the nation's megabanks: a section aimed at making it easier for them to buy state and local bonds.

The provision, championed by Citigroup Inc. and other large banks, would ease a new rule aimed at ensuring banks can raise enough cash during a **financial-market** meltdown to fund their operations for 30 days, requiring them to hold more cash or securities that are easily salable.

Under federal banking rules approved in 2014, those "high quality liquid assets" included cash, Treasury bonds and corporate debt—but not municipal debt. Banks historically like to hold municipal bonds because of their safety and tax advantages.

The Senate on Tuesday voted 67-32 to formally begin debate on the bill, which primarily benefits small and medium-size banks , easily reaching the 60 votes needed and signaling that the measure has enough support from Democrats to pass by a comfortable margin. The legislation was backed by 16 Democrats and one independent, Maine Sen. Angus King, bucking Massachusetts Sen. Elizabeth Warren and 31 other Democrats who opposed the procedural vote.

Including the municipal-bond provision in the deregulatory bill was a priority for the nation's biggest banks that buy a lot of municipal securities as investments. A Citi lobbyist recently told a Senate staffer that the firm would be pleased if easing the treatment of municipal debt under the bank-funding rule was the one thing it could accomplish during the current Congress, according to a person familiar with the conversation.

State and local officials have praised the move, saying their securities could suffer if banks begin to shun them.

A Citi spokesman said the bond provision "is supported by a wide array of groups focused on helping cities and states address critical infrastructure needs."

While the provision is a victory for Citi, the biggest U.S. banks haven't lobbied extensively on the Senate bill, according to congressional aides. Big firms have spent billions to comply with a gamut of postcrisis rules and generally aren't eager to tear them down.

Analysts have said changing the rule for municipal products would be a mistake because it would erode the core of a bank-safety rule put in place after the 2010 Dodd-Frank law . While municipal securities have relatively low default rates, they are traded thinly and shouldn't count as liquid assets, critics say.

"It's an outrageously bad idea," said Phillip Swagel, a professor at the University of Maryland who served in the George W. Bush Treasury, characterizing the provision as an implicit federal guarantee of the municipal market. In the next crisis, banks will have trouble selling their municipal securities, freezing up the market for them and requiring the government to step in to backstop it, he predicted.

While lawmakers agreed to include the municipal debt measure, they rebuffed Citi and JPMorgan Chase & Co. efforts to water down a separate postcrisis capital requirement known as the supplementary leverage ratio. That regulation effectively restricts banks from making too many loans without adding new capital, forcing firms to maintain a proportion of capital to fund their assets—including loans, investments and even the collateral clients post on derivatives transactions.

The legislation includes a provision to diminish the leverage ratio in a way that lawmakers say would only benefit financial institutions primarily engaged in "custody services," in which they hold assets on behalf of other banks. Citi and JPMorgan, global banks that don't fit the definition but still offer custody services, have argued it is unfair to carve out certain banks from the provision and not others.

"As Congress has sought to make a common sense change to the way capital rules treat custody assets, we have asked that they apply that change to all custody banks to maintain a level playing field in this important business," a Citi spokesman said.

Senate aides said lawmakers crafted a delicate compromise that can pass the chamber and don't want to broaden the bill with more provisions helping big banks—which became a target of criticism during the crisis—and risk having the bill fail. "That is not happening," said one Senate Democratic aide.

Federal Reserve Chairman Jerome Powell said on Feb. 27 that the Fed would prefer that Congress allow regulators to rewrite the leverage ratio rule . Instead, the bill directs regulators to exclude certain assets from the calculation of the leverage ratio for custody banks such as Bank of New York Mellon Corp. and State Street Corp.

Ryan Tracy contributed to this article.

Write to Andrew Ackerman at andrew.ackerman@wsj.com

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THE WALL STREET JOURNAL.

Markets

Another Exchange Jumps on Bitcoin Bandwagon; Startup trueEX says it plans to offer derivatives on bitcoin

By Alexander Osipovich
672 words
12 March 2018
11:35 AM
The Wall Street Journal Online
WSJO
English

A startup exchange active in the derivatives market is expanding into bitcoin, the latest sign that market operators remain excited about cryptocurrencies despite bitcoin's recent price slump.

New York-based trueEX LLC on Monday announced plans to offer derivatives on bitcoin and other "digital assets." That makes it at least the sixth U.S. trading venue to jump into cryptocurrency derivatives in recent months.

Bitcoin's price has fallen in half since hitting a high of nearly $20,000 in December, when investor mania for the digital currency hit a recent peak. But even with bitcoin's value bobbing around $10,000, more financial firms have been eager to offer new products tied to the **volatile** digital currency.

Chicago-based exchange giants CME Group Inc. and Cboe Global Markets Inc. launched bitcoin futures in December . Their contracts let traders bet on the price of bitcoin without directly holding the digital currency, all on a regulated marketplace.

Some lesser-known players have also launched or planned to launch bitcoin derivatives, including LedgerX, a startup bitcoin-options exchange; Cantor Exchange, a small trading venue owned by broker Cantor Fitzgerald LP; and Nadex, owned by London-based IG Group.

Nasdaq Inc. has also said it is exploring the idea of introducing bitcoin futures .

Like its predecessors, trueEX is betting that Wall Street banks and money managers want to be able to trade bitcoin on a regulated market, without the risks that often come with cryptocurrency exchanges , such as theft.

The move is the latest gambit by trueEX co-founder and Chief Executive Sunil Hirani, a serial entrepreneur who helped bring derivatives trading from the phone to the screen over the past two decades and has more recently been eyeing opportunities in cryptocurrencies.

TrueEX initially plans to offer a type of contract called a "non-deliverable forward" linked to bitcoin prices. Such contracts are popular in foreign-exchange trading. They allow two parties to agree to pay each other in the future an amount based on the value of two currencies, such as the dollar and the euro.

The plan is under review by the Commodity Futures Trading Commission, which regulates trueEX, the company said in a statement.

Despite the budding interest in bitcoin, many on Wall Street are still wary of trading the cryptocurrency because of its uncertain legal status, as well as the risk that their holdings could be stolen by hackers. Investors have lost more than $700 million worth of digital currencies this year in hacks of cryptocurrency exchanges in Japan and Italy .

The bitcoin-futures market remains small compared with that for bitcoin itself. In February, about $75 million worth of CME's futures changed hands each day, on average, while the comparable number at Cboe was around $62 million. Meanwhile, an average of over $1 billion worth of bitcoin changed hands daily on major cryptocurrency exchanges last month, according to blockchain.info, a bitcoin data and services provider.

Founded in 2010, trueEX isn't the first exchange to try to launch non-deliverable forwards on bitcoin. TeraExchange LLC, a startup trading platform, introduced a similar product in 2014 but it never gained traction.

Mr. Hirani has a history of building successful ventures. In 1999 he co-founded Creditex, one of the first electronic-trading venues for credit-default swaps—a type of derivative that can used to be bet on whether a company or group of companies defaults on its debt. Nine years later, he sold Creditex to Intercontinental Exchange Inc. for $513 million.

He returned to his entrepreneurial roots with trueEX, which sought to take advantage of postcrisis regulations that pushed more derivatives trading onto electronic platforms.

The company is now the sixth-largest venue for the trading of interest-rate swaps in the U.S., having traded $9 trillion of them last year, according to industry group FIA.

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WSJ PRO BANKRUPTCY

Markets

Ten Years After the Bear Stearns Bailout, Nobody Thinks It Would Happen Again; Key players have spent the last decade arguing about what was done, defending past decisions and wondering how such a crisis would play out today

By Justin Baer and Ryan Tracy
1,990 words
13 March 2018
07:22 PM
WSJ Pro Bankruptcy
RSTPROBK
English

A major investment bank careens toward bankruptcy. It has $400 billion in assets, 85 years of history and deep ties to every major bank on Wall Street. As word of its troubles spreads, a run begins, sending its stock plummeting.

Ten years ago Wednesday, that was Bear Stearns Cos., a once-storied firm whose excessive leverage had helped put it on the brink. The Federal Reserve tried to limit the damage with extraordinary actions, first extending the firm credit before forcing it into a hasty weekend shotgun marriage to JPMorgan Chase & Co., with $29 billion in assistance.

It was the first time the Fed had intervened with a noncommercial bank since the Great Depression. "Industry participants didn't want to see Bear Stearns go down, and they didn't want to see others go down," says Alan Schwartz, then Bear's chief executive.

Today, those involved with the unprecedented Bear bailout agree it only temporarily staved off a broader meltdown. Its fall was one of the first dominoes in a downturn that months later engulfed all of Wall Street, causing stocks to shed nearly half their value, Lehman Brothers Holdings Inc. to go bankrupt, Merrill Lynch & Co. to sell itself to Bank of America Corp. for $50 billion and American International Group Inc. to take a $182 billion bailout.

The debates endure—on everything from the causes of the crisis to the government's response. Key players in the bailout, many of whom remain in finance, have spent the last decade arguing about what was done, defending decisions made then and wondering whether it could happen again. The consensus: It would be unlikely for another big firm to get into such trouble, or for the government to orchestrate such a bailout.

Bear, like its rivals across Wall Street, had been struggling with losses from securities tied to mortgages. In the end, though, Bear, which relished its reputation as a scrappy band of outsiders, collapsed because clients and lenders had lost confidence.

Vast amounts of regulatory scaffolding have been erected to try to make sure a firm couldn't ever get into such a situation. There are elaborate crisis-communication plans, tougher capital requirements and "living will" playbooks that are supposed to be followed if a big bank approaches collapse.

The Wall Street Journal spoke with many of the central players that week a decade ago, including then New York Fed President Timothy Geithner and Treasury Secretary Henry Paulson, JPMorgan deal maker Steve Black and Bear's Mr. Schwartz.

Veteran Wall Street lawyer Rodgin Cohen, who helped shape the deal for Bear Stearns, says that if a crippled firm were on the brink today, none of its peers would arrive with a rescue. "Nobody will ever again buy a severely troubled institution," he says. "Period."

Many officials in Washington feel another bailout is just as unlikely. In November, a U.S. senator pressed future Fed Chairman Jerome Powell on whether big banks are still "too big to fail."

"I would say no," Mr. Powell answered.

Yet the new policies for dealing with such crises are untested. Moreover, anger over the public cost of bailing out banks has meant tying the hands of Washington in ways that reduce the sort of improvisation that took place in 2008.

If a large institution got into dire straits, "I believe they would try to allow it to fail," says Mr. Black, the former JPMorgan executive who helped broker the Bear deal. "But if, all of a sudden, the entire dam burst, they might be forced to take a different path."

Risk hasn't vanished from finance. There has been a boom in private credit markets, cryptocurrency exchanges and leveraged-**volatility** exchange-traded products. At the same time, American consumer debt continues to surge: credit cards, car loans and student debt. Much of the mortgage market—the culprit in the crisis a decade ago—has moved outside the banking system altogether.

Today, Mr. Geithner serves as president of New York private-equity firm Warburg Pincus. At the New York Fed and later as Treasury secretary, Mr. Geithner shaped defenses he says now make the financial system better able to absorb shocks. But he says he regrets he was unable to persuade others to preserve the government's authority to backstop the financial system.

"In the extreme case, the defenses fail," he says. "At that point, you are going to lament the weaker firefighting tools."

Federal Deposit Insurance Corp. Chairman Martin Gruenberg says the government's new tools make "the probability of orderly failure today significantly higher than it was during the crisis." He won't guarantee that they would work. "Until we actually do it, I would be cautious about making heroic statements," he says.

Ten years ago, Bear's crisis week began with rumors of liquidity problems following steep losses from mortgage bonds. Mr. Schwartz, the CEO, phoned JPMorgan Chief Executive James Dimon to ask for a simple overnight loan. By that Thursday, Bear's lenders and clients had backed away, and the firm was running out of cash. Mr. Schwartz called Mr. Geithner for more help.

Fearing a Bear-induced panic could spread throughout the banking system, the Fed arranged a $12.9 billion emergency loan routed through JPMorgan. It ultimately agreed to purchase $29.97 billion in toxic Bear assets.

Fed help like that would be illegal today. The 2010 Dodd-Frank financial-regulation law stipulates that emergency Fed lending must be "broad-based" and cannot be "established for the purpose of assisting a single and specific company." Financial firms, like other corporations, are supposed to go bankrupt, not get bailed out.

If regulators and the Treasury secretary assert a bankruptcy would destabilize the financial system, Dodd-Frank provides a new backstop called the Orderly Liquidation Authority. The government would take over the failing firm, wiping out shareholders. After a weekend of work by federal officials, a new company, owned by creditors of the old firm, would open Monday morning. The government would be able lend money to the new company to keep the lights on while the government sells it off in pieces.

That is supposed to prevent a panic because people who had been doing business with the failing firm would know they could continue to do so, at least for a while.

What if orderly liquidation doesn't prevent a panic? In a crisis, problems at one firm can lead investors to "run" to cut their exposures everywhere. Even healthy companies can't get credit, damaging Main Street as badly as Wall Street. In that scenario, there may be little U.S. regulators can do on their own. Congress might be asked to reinstate the bailout authority it took away after 2008.

There is another risk that no amount of legislation can eradicate. In 2008, then-President George W. Bush deferred to leaders at the Fed and Treasury throughout the crisis.

"We would not have gotten through the crisis if I had a president and a boss who cared about the polls or what Congress thought," says Mr. Paulson, the Treasury secretary at the time.

Whether such a hands-off approach would be likely in the current political climate and with the current administration is anyone's guess.

Government improvisation, at least in principle, has been replaced by a playbook. Regulators now practice handling a big firm's collapse and force bankers to prepare.

On Wall Street, some bankers have doubts about whether any government plan written on paper is fast enough in a live crisis. "Drafting big books, massive documents, having big teams—that's all a good idea," says Gary Parr, a longtime deal maker who advised Bear on its sale to JPMorgan. "But when you have a company get into a liquidity crunch, if things are going really fast, you don't have time to study a book."

On the Friday of Bear's crisis week a decade ago, the company's stock tumbled. Mr. Schwartz, the CEO, got a call from Messrs. Geithner and Paulson. They told him to make a deal to sell Bear by Sunday evening.

Mr. Schwartz heard JPMorgan might be interested, so he set up meetings. As JPMorgan bankers pored over Bear's books, they kept finding new assets that would need to be written down in value. By Saturday, the bankers believed they couldn't bid anywhere close to Bear's Friday closing price of $30 a share, according to people familiar with the matter. Mr. Black called Mr. Schwartz. "This is not a negotiating ploy," he told the Bear CEO. "We're out."

Messrs. Geithner and Paulson, however, persuaded Mr. Dimon to get a deal done by offering government support. Sunday evening, Bear's investment bankers got a call with JPMorgan's final bid: $2 per share. Bear's directors reluctantly approved the deal, which was announced to the world at 7:05 that night. (Later, JPMorgan raised its bid to $10 a share to help win shareholders' support.)

Nearly everyone in charge on Wall Street today, including JPMorgan's Mr. Dimon, says they would never buy a collapsing firm like Bear.

"No, we would not do something like Bear Stearns again—in fact, I don't think our board would let me take the call," Mr. Dimon wrote in his 2014 letter to shareholders. "These are expensive lessons I will not forget."

In addition to the cost of bringing the two firms together, JPMorgan was saddled with billions of dollars in legal bills and regulatory penalties. Months after the Bear deal, JPMorgan made a similar last-minute agreement to buy Washington Mutual Inc. Of JPMorgan's nearly $19 billion in legal costs from the mortgage crisis, some 70% stemmed from Bear and WaMu, Mr. Dimon wrote.

There were many other such deals in 2008. Wells Fargo & Co. bought Wachovia Corp., Bank of America Corp. acquired Merrill Lynch & Co. and Countrywide Financial Corp., and Toronto-Dominion Bank bought Commerce Bancorp. Today, many of these Wall Street executives say they feel betrayed by the government for hitting them with penalties tied to actions by firms they were pressured to acquire.

These days, a big financial firm rescuing another would also have to consider new restrictions on risk-taking. Banks today must pass regulatory tests before paying out profits to shareholders. In that environment, executives may be more reluctant to buy assets from a desperate seller.

Major changes over the past decade might give a failing firm even less time to survive than Bear had.

Today's **stock market** is far more driven by computer algorithms than by deal-making traders. That means the reaction to any company's struggles is likely to be quicker and more severe. Wall Street executives say that a firm like Bear might have even less time to solve its problems. MF Global Holdings Ltd., a brokerage run by former New Jersey Gov. Jon Corzine, filed for bankruptcy in October 2011 a week after a drop in its debt rating. In August 2012, a group of financial firms came to Knight Capital Group Inc.'s rescue within days of a software glitch that cost the market maker $440 million.

As the last CEO of Bear Stearns, Mr. Schwartz spent his 2½-month tenure in the top job scrambling the save the firm. He now works at asset-management firm Guggenheim Partners LLC, where was hired to jump-start the firm's nascent investment-banking business. He has found success recruiting senior Wall Street executives whose firms, like Bear, didn't survive the crisis.

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THE WALL STREET JOURNAL.
U.S. EDITION

Puerto Rico Bonds Bounce Back --- Brighter economic outlook, prospects for bankruptcy pact lift value of island's debt

By Matt Wirz
956 words
16 March 2018
The Wall Street Journal
J
A1
English

Debt from Puerto Rico is the top-performing bond investment of 2018, reflecting an unexpected improvement in the island's economy and budding hopes for a settlement with creditors to resolve its bankruptcy.

Most U.S. bonds have lost value this year because of rising interest rates, but an index of Puerto Rico municipal bonds has returned 13.8%, making it the top performer out of 323 bond indexes maintained by S&P Dow Jones Indices. Some Puerto Rico bonds have more than doubled in price since the end of December.

The rally began in January, when Puerto Rico's government disclosed economic data showing previous estimates of the financial impact of Hurricane Maria were overly pessimistic. More recently, investors have been buying bonds in anticipation of substantive talks with bondholders to reach a consensual restructuring, bondholders and people involved in the negotiations said.

Despite signs of progress, living conditions remain difficult in Puerto Rico. The U.S. territory was contending with economic decay, government mismanagement and excessive debt even before two hurricanes struck the island last year. About 60% of children on the island lived below the poverty line in 2015, according to data from the Pew Research Center.

The bond rebound this year rewards fund managers who stuck with Puerto Rico even when prices fell as much as 60% after the September storms damaged much of the island's infrastructure and real estate.

With roughly $70 billion of debt outstanding, Puerto Rico is one of only a few large trades available to hedge funds seeking investments that don't move in lockstep with the broader markets.

GoldenTree Asset Management LP owns nearly $600 million in face amount -- the amount to be paid the holder at maturity -- of Puerto Rico's subordinated bonds backed by sales-tax receipts, some of which jumped about 133% in value this year, according to data from the Municipal Securities Rulemaking Board.

That gain comes as Treasury bonds have lost 1.4% since Jan. 1 and the below-investment-grade loans GoldenTree specializes in have returned about 1.38%, according to S&P Dow Jones Indices.

Not all Puerto Rico bondholders benefited equally from the reversal. Some **bond prices** rose more than others as traders bet that the island's various debt categories would recover different amounts in the restructuring. Senior bonds backed by Puerto Rico's sales-tax collections rose by about 63% this year to 57 cents on the dollar, while bonds issued through the commonwealth's general account climbed about 40% to around 31 cents on the dollar.

Hedge funds Baupost Group LLC, GoldenTree and Tilden Park Capital Management LP own about $3 billion in face value of the sales-tax bonds and are arguing in bankruptcy court that their bond documents give them repayment priority in the restructuring. Hedge funds Autonomy Capital, Aurelius Capital Management LP and Fundamental Advisors LP own about $2 billion of the general-obligation debt combined and are suing to establish their own primacy. A hearing in these factions' legal battle is scheduled for April 10.

The recovery in Puerto Rico bonds contrasts with an even sharper decline last fall, when Hurricane Maria struck and President Donald Trump suggested the island's debts should be wiped out to help it rebuild. Baupost's owner, Seth Klarman, publicly opposed Mr. Trump's idea, drawing criticism from nonprofit groups that support debt forgiveness for Puerto Rico and have pushed Baupost clients to divest themselves from the firm.

Investor sentiment started to improve in late December, when Puerto Rico announced $6.8 billion in previously undisclosed government bank accounts. Sentiment strengthened further as economic activity recovered more quickly than expected and Congress in February approved $12.8 billion in federal rescue funds. In February, the island's government revised its maximum debt capacity forecast to $27 billion from about $14.5 billion.

"The construction boom after the hurricane is fueling an increase in **bond prices**, but that's going to be short-lived," said Eric LeCompte, executive director of Jubilee USA Network, one of the activist groups seeking debt forgiveness for Puerto Rico. "We should be focused on long-term economic growth for Puerto Rico and that includes debt relief."

Bondholders say Puerto Rico is still being too conservative in its economic forecasts to maximize debt forgiveness in coming restructuring talks.

"The reality diverged greatly from the cataclysmic economic contraction that was being projected by the commonwealth," said Hector Negroni, co-founder of Fundamental Advisors.

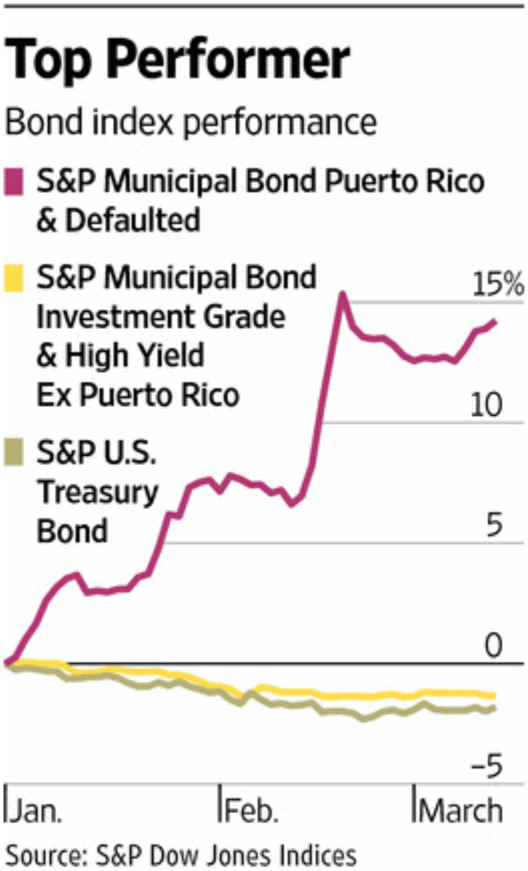
A representative for the Puerto Rico Fiscal Agency and Financial Advisory Authority didn't return a call seeking comment.

Puerto Rico and the federal oversight board supervising it held mediation talks with creditors in New York this month, people involved in the process said. Formal restructuring negotiations are expected to start in April after the board certifies the commonwealth's long-awaited fiscal plan for the next five years, the people said.

A hearing is also scheduled to start April 10 in the lawsuit between general-obligation bondholders and sales-tax bondholders, possibly spurring the parties toward settlement. The oversight board hopes to reach a restructuring plan in less than a year, one of the people said.

Some remain pessimistic about the likelihood of a rapidly negotiated resolution, in part because of the many different types of bonds Puerto Rico must reach deals on, ranging from highway and electric utility-related debt to the sales-tax and general-obligation bonds.

"We think the litigation will go on and on," said Joe Rosenblum, head of municipal bond research at AllianceBernstein Holding LP.



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THE WALL STREET JOURNAL.
U.S. EDITION

Heard on the Street
Foreigners Love Russia's Bond Market

By Richard Barley
377 words
16 March 2018
The Wall Street Journal
J
B12
English

[Financial Analysis and Commentary]

The political waves being generated by Vladimir Putin's Russia are hard to ignore, with the U.K. expelling 23 diplomats after the poisoning of former spy Sergei Skripal and the U.S. row over Russian interference in the 2016 election continuing. Except, of course, in Russia, where Mr. Putin is all but certain to win a fourth term as president this weekend.

That has presented a counterintuitive opportunity for investors, which has drawn them into Russian bonds.

From one perspective, investors face no test of nerves over Sunday's vote, unlike recent Western European elections. Mr. Putin is supported by around 70% of voters, according to state pollster VTsIOM.

For Russia's economy, sanctions and the **oil-price** meltdown forced changes in policy that have benefited investors. Mr. Putin gave free hand to the Central Bank of Russia, which has crushed inflation, stabilized the ruble and encouraged foreign investors. Nonresidents now hold one-third of domestic government bonds, compared with barely any six years ago.

Russian bonds still look good, with a 10-year yield of just under 7%, while inflation has fallen well below the central bank's 4% target. Conservative economic policy was part of the reason for Standard & Poor's to upgrade Russia to investment-grade status in February.

But Russia needs change, too. The economy has emerged from recession and grew 1.5% in 2017, but much faster growth may be tricky: The central bank says structural reform is needed to lift growth beyond 1.5% to 2%. Russia's population is shrinking and aging. Productivity is poor and state involvement in the economy is high.

Russian equities have done well this year, but the poor growth outlook makes it hard to get excited even though stocks trade at optically cheap valuation.

More severe sanctions are a risk to this stability; the U.S. on Thursday announced measures against intelligence agencies and individuals, which weakened the ruble a little. And even the attraction of stability bears the risk that Russia simply stagnates economically. For as long as that is the case, Russian bonds, not stocks, will be the draw.

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THE WALL STREET JOURNAL.

Pro Private Markets

Clearlake Raises Over $3.6 Billion for Its Latest Fund; The firm's fifth fund more than doubles the size of its last fund and gives Clearlake capital for more buyout and distressed deals.

By Laura Cooper
460 words
16 March 2018
06:00 AM
The Wall Street Journal Online
WSJO
English

Clearlake Capital Group is armed with cash to do deals in good times and in bad.

The Santa Monica, Calif., firm is expected to announce it has raised more than $3.6 billion for its latest fund, Clearlake Capital Partners V LP.

Clearlake makes investments in the technology, industrial and consumer sectors. The firm executes both growth and buyout deals in the middle market. It also invests in restructuring and turnaround deals.

The fifth fund was oversubscribed, coming in significantly over its target of $2.5 billion, said José E. Feliciano, a co-founder and managing partner at the firm. He said this fund differed from the firm's previous vehicle in that it drew more commitments from limited partners outside the U.S., in Europe, Asia and the Middle East.

The latest fund is more than double the size of Clearlake's fourth fund, which closed on $1.38 billion in 2015. The firm has invested more than $1 billion of capital out of the fund and has returned nearly 70% to investors, Mr. Feliciano said.

According to fund marketing materials viewed by The Wall Street Journal, Clearlake's third and fourth funds had net internal rate of returns of 39% and 33%, respectively, as of December 31.

Mr. Feliciano said Clearlake began marketing Fund V around September and October. The firm expects to back about 15 to 20 core transactions from the new fund, said Mr. Feliciano. Clearlake generally makes investments in companies with enterprise values of $100 million to $1.5 billion, he said.

Institutional investors that have approved commitments to the fund include: The California Public Employees' Retirement System, Los Angeles Fire and Police Pensions, Pennsylvania Public School Employees' Retirement System, New York State Teachers' Retirement System and Pennsylvania State Employees' Retirement System.

Mr. Feliciano said Clearlake has made five investments financed from its fifth fund. The firm has another new investment and one more under exclusivity. This month, the firm acquired Provation Medical Inc., which develops software for medical documentation and order management, from Wolters Kluwer NV.

The firm in February completed its reverse merger of portfolio company ConvergeOne with special-purpose acquisition company, Forum Merger Corp. The newly combined company listed on the **Nasdaq Stock Market**. Clearlake remains the largest stockholder in the now publicly-traded provider of information-technology services.

Credit Suisse Securities LLC acted as the placement agent and adviser for Fund V. Simpson Thacher & Bartlett LLP advised Clearlake on the vehicle..

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THE WALL STREET JOURNAL.

Markets

Exchanges' Fees and Rebates Could Get a Cut; SEC proposes test on trading without system of incentives that have been criticized

By Dave Michaels
793 words
14 March 2018
05:19 PM
The Wall Street Journal Online
WSJO
English

WASHINGTON—A system of fees and rebates that promotes trading in stocks would be reduced under a pilot program proposed by regulators on Wednesday.

Critics of the system, known as "maker taker," say it can distort brokers' decisions about where to send orders and attracts high-speed traders whose strategies sometimes focus on capturing rebates.

The two-year experiment, now open for public comment, would allow the Securities and Exchange Commission to analyze whether reducing the incentives affects where brokers send orders or curtails the appetite of speedy traders for some stocks.

Maker taker has been a feature of pricing on stock trading venues for 20 years. The system rewards entities that "make" trades happen by providing standing orders, known as limit orders. Exchanges charge a fee to brokers and investors who "take" those quotes.

A primary criticism of the system is that fees pose a conflict of interest for brokers, who might prefer to direct orders to exchanges where rebates are available, instead of picking venues based on factors such as the probability an order will be filled. There are also concerns that investors pay artificially high trading fees—particularly for the most actively traded shares—to offset the rebates that exchanges offer traders who provide them with limit orders.

Used by exchange operators such as Intercontinental Exchange Inc. and **Nasdaq** Inc., maker taker also gets blame for making the **stock market** more complex. Brokers seeking to avoid paying fees have an incentive to route orders to bank-owned alternative trading venues known as "dark pools," which unlike exchanges don't publish their quotes.

In theory, exchanges could benefit from lowering the fees they charge brokers to access their quotations. That might prompt brokers to send more orders to public exchanges, instead of less transparent dark pools.

ICE Chief Executive Jeffrey Sprecher has promoted plans to get rid of the incentives. But exchanges resisted the pilot program in recent months, saying it shouldn't take the place of a broader examination of how all trading venues work, including whether dark pools should be subject to more regulation. Cboe Global Markets Inc. President Chris Concannon has said no one in government has "proven" that "maker-taker" harms investors, while there is evidence that it promotes liquidity on exchanges, the most transparent trading venues.

"The current proposal would thus merely favor the intermediaries whose fees would be reduced at the expense of issuers, investors, liquidity providers and exchanges," Mr. Concannon and two other exchange executives told the SEC in a letter in October.

The SEC's pilot program would require all exchanges to test how lower fees and rebates affect trading in three different groups of stocks.

"While there may not be consensus of some of the elements of the pilot, this is one of the few areas where there is significant consensus among market participants that something needs to be done," said Brett Redfearn, the SEC's director of trading and markets.

Exchanges maintain complex pricing schedules, with bigger traders capturing higher rebates and retail participants sometimes paying less to trade. Trading fees generally cost 30 cents per 100 shares.

Under the pilot program approved Wednesday, all exchanges would be required to test trading on three groups of stocks with trading fees set lower than current rates. The program would also use a control group, with fees set at the level under existing rules.

For one sample of stocks, the maximum trading fee would be 15 cents per 100 shares. A third group would have trading fees set to 5 cents per 100 shares.

SEC commissioners voted unanimously Wednesday to approve the proposal.

The SEC believes that lowering the trading fee would prompt exchanges to reduce the rebate they offer as well, since market centers make money on the difference between the fee and the rebate. In a fourth group, exchanges wouldn't be allowed to offer any rebate or offer participants a discount on trading fees in exchange for providing the market with a large volume of limit orders.

The proposal spells out a system of measures that regulators would use to determine if market quality has improved after lowering fees and rebates. The metrics could change based upon feedback from investors, brokers, exchange operators, and other interested parties.

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

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* Mutual Funds Win as SEC Proposes to Keep Lid on Liquidity Disclosures

* Stock Exchanges Question SEC's Plan to Revamp Trading (Oct. 17, 2017)

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* SEC to Consider Trading Test Without 'Maker-Taker' Pricing System (Aug. 2, 2016)

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THE WALL STREET JOURNAL.

Markets
Gold Edges Lower as Stocks Rise, Rate Concerns Remain; Copper declines 0.4%, and have fallen 5.4% this year on concerns about weaker demand from China

By Amrith Ramkumar and David Hodari
480 words
12 March 2018
02:27 PM
The Wall Street Journal Online
WSJO
English

Gold prices inched lower Monday, with stocks rising, as focus shifted away from the geopolitical and economic risks that had worried investors in recent sessions.

Front-month gold for March delivery fell 0.2% to $1,319.40 a troy ounce on the Comex division of the New York Mercantile Exchange. Prices have stayed between roughly $1,305 and $1,360 this year, swinging based on investors' risk appetites, moves in the dollar and concerns about higher interest rates.

Because gold is a haven asset that some money managers favor when they think markets might turn rocky, some analysts said President Donald Trump's surprise decision last week to agree to meet with North Korean leader Kim Jong Un was a **bearish** development.

Concerns about the economic impact of protectionist trade policies have also waned in recent days as more countries seek exemptions from recently-announced U.S. tariffs on steel and aluminum.

Many investors remain focused on interest rates as well, with the Federal Reserve expected to raise them after its two-day meeting next week. Gold struggles to compete with yield-bearing assets like Treasurys as borrowing costs rise and has tended to fall before Fed rate increases over the past few years.

"I would expect a little bit of further weakness in the first half of this year," said Maxwell Gold, director of investment strategy at ETF Securities. Still, Mr. Gold said he thinks gold prices could rise in the second half of the year, boosted by a weaker dollar and inflation expectations.

Some investors use gold to hedge against a rise in consumer prices, while a weaker dollar makes dollar-denominated commodities such as gold cheaper for overseas buyers. On Monday, the WSJ Dollar Index, which tracks the U.S. currency against a basket of 16 other currencies, was down 0.2%.

Investors will be closely watching Tuesday's consumer-price data for the latest reading on the U.S. economy.

Among base metals, front-month copper for March delivery fell 0.4% to $3.1040 a pound. Prices have fallen 5.4% this year after their year since 2010, hurt by concerns about weaker demand from China, the world's largest consumer. Still, some analysts think supply disruptions could buoy prices, with several mining labor contracts up for renegotiation.

Reports over the weekend said the largest union at Antofagasta PLC's Los Pelambres mine in Chile has rejected the company's latest offer for a labor contract, and unsuccessful talks this week could lead to a strike later this month, analysts said.

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Document WSJO000020180312ee3c002jp

THE WALL STREET JOURNAL.

Markets

Dollar Down Against Emerging-Market Currencies; Higher oil prices, lessening in global political tensions boost currencies relative to dollar

By Ira Iosebashvili
212 words
29 March 2018
02:07 PM
The Wall Street Journal Online
WSJO
English

Emerging-market currencies rose Thursday amid higher **oil prices** and an ebb in global political uncertainty.

The dollar fell 0.5% against the Mexican peso to 18.21, its lowest level since October. It lost 1.7% against the Turkish lira, while falling against the Russian ruble, Brazilian real and other currencies.

Prices for U.S. oil were recently up 1% at $65 a barrel, benefiting the currencies of Russia, Brazil and other commodity exporters.

Investors were also encouraged by further signs of progress in relations between the U.S., its allies and North Korea. North and South Korea set a date for a meeting between leaders of the two countries, although they failed to finalize an agenda for the summit.

Trade-war fears have faded of late on news that the U.S. and China are negotiating to improve U.S. access to Chinese markets.

The euro was down 0.1% at $1.2299. The WSJ Dollar Index, which measures the U.S. currencies against a basket of 16 others, was recently down 0.1% at 83.84.

Write to Ira Iosebashvili at ira.iosebashvili@wsj.com

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The New York Times

Business Day

Why the Tax Law Might Make Your Car Payments Go Up

By Matt Phillips
990 words
16 March 2018
05:00 AM
NYTimes.com Feed
NYTFEED
English

As the economy slowly recovered from the Great Recession over the past decade, the United States government borrowed trillions of dollars at some of the lowest interest rates on record.

Thanks in part to the recently enacted tax cuts, another borrowing binge is getting underway: This fiscal year, the Treasury Department is expected to bring in $955 billion in bond sales, an 84 percent increase from last year.

The price this time around will probably be steeper — both for the government, and quite possibly for you.

Economists and analysts warn that, as the economy has improved — unemployment is low, wages are rising — the government's need for more money is likely to push interest rates higher. That will make it more expensive for companies and consumers to get loans and potentially will hurt the economy.

It is a phenomenon that economists call "crowding out." Large-scale government borrowing sucks up the supply of available funds, driving up financing costs for just about everyone else.

And there are signs it's already playing out.

The United States, already a giant borrower, will need more money

The tax cuts that President Trump signed into law in December will decrease the amount of money the federal government brings in by an estimated $1.5 trillion by 2027. There are no plans to reduce government spending by that much. In fact, the budget passed last month increases spending by hundreds of billions of dollars.

That means that deficits — the difference between how much money the government collects and how much money it spends — will inevitably grow.

In 2018 alone, the conventional estimates show that the new tax law is expected to expand the deficit by roughly $136 billion. (Some tax-cut supporters argue the deficit won't be quite so large because lower taxes will stimulate the economy and eventually increase revenues.)

The government has to borrow that money from somebody

During and after the Great Recession, borrowing was easy for the United States government.

Its bonds were considered one of the safest places in the world to stash your money. They were exactly what organizations with cash to safeguard — jittery governments, insurance companies, retirees, hedge funds, banks, mutual funds, pension funds — were looking for.

And because these groups were desperate for safety, they were generally willing to accept low rates of return on their investment. That's why interest rates were low.

It wasn't only savers who were buying government bonds. So was the Federal Reserve, as part of its effort to resuscitate the moribund economy. The Fed's bond buying also helped keep interest rates low.

Now all that is changing.

Because the economy has largely recovered, the Fed is reducing the amount of government bonds that it holds. Corporations, banks and households are spending their money or investing it in riskier assets — with bigger potential payoffs — rather than stockpiling it. And, amid optimism about the economy's prospects, more consumers and institutions are looking to borrow money themselves, rather than park their cash in safe havens like government bonds.

So the government has fewer places from which to borrow money. In essence, the government is competing with individuals and companies to borrow money from a limited source of lenders.

As a result, interest rates rise on government debt

Intensifying competition for investment funds is good news for savers and other lenders who can demand higher interest rates.

But it's bad news for borrowers who have to pay those higher rates.

The process is now playing out in some normally sleepy corners of the world's **financial markets**, such as those for short-term debt, known as the money markets.

This year, the Treasury is expected to borrow more than $490 billion in the short-term debt markets. That's more than three times the amount it borrowed last year, according to estimates from Deutsche Bank.

But there is only so much appetite to buy this short-term debt. As a result, interest rates are rising. The yield on the benchmark three-month Treasury bill, for example, has more than doubled over the past year to over 1.7 percent, according to Bloomberg data.

That has led to higher interest rates for corporate borrowers — and ultimately for people financing purchases

You probably don't give much thought to the yield on the three-month Treasury bill. But it serves as the basis for a range of other interest rates, including rates on a type of short-term corporate debt called commercial paper.

Companies — including the finance arms of carmakers like Toyota and Ford — can borrow billions of dollars by issuing such debt, which are part of a mix of funds they use for loans to customers and car dealerships.

It now costs a relatively low-risk company about 1.9 percent to borrow money using commercial paper that matures in 90 days, up from less than 1.6 percent at the start of the year, according to Bloomberg data.

That increase makes it more expensive for the companies to operate. And it's at least part of the reason interest rates for new cars, trucks and S.U.V.s have been ticking higher. In February, they rose above 5 percent, their highest level in eight years.

Granted, a car loan with a 5 percent rate isn't terribly expensive by historical standards. But rising rates make it harder for people to afford cars.

Roughly 80 percent of all new vehicles are financed with loans or leases in the United States. As a result, the higher interest rates could put a damper on auto sales — and thus on the broader economy.

"A lot of consumers are having to eat the cost in the form of higher down payments or higher monthly payments," said Jessica Caldwell, an analyst at Edmunds.com, an automotive research firm.

Document NYTFEED020180316ee3g001v6

THE WALL STREET JOURNAL.

Markets

Frackers, OPEC Size Each Other Up at CERAWeek Energy Confab in Texas; New technologies, revival of U.S. fossil-fuel production, oil prices to dominate the agenda

By Christopher M. Matthews
733 words
2 March 2018
08:51 PM
The Wall Street Journal Online
WSJO
English

A rapidly shifting energy landscape being reshaped by new technologies and a revival of U.S. fossil-fuel production will dominate the agenda as the world's leading energy executives, government ministers and financiers gather in Houston next week.

Thousands of energy leaders, including the heads of Royal Dutch Shell PLC, BP PLC and Saudi Arabian Oil Co., will descend on Texas starting Monday for CERAWeek, the annual conference put on by IHS Markit Ltd. that has become a bellwether for the health of the global energy industry.

They will be joined by many of the world's top energy policy makers, notably OPEC Secretary General Mohammad Barkindo and several Trump administration officials, Energy Secretary Rick Perry and Interior Secretary Ryan Zinke.

Leaders of many other energy-related industries are also set to speak, including the chief executives of General Motors Co. and Siemens AG.

This year's gathering takes place amid a continuing recovery for **oil prices**, which passed $70 a barrel earlier this year for the first time since 2014, and have been over $60 for most of the year.

But concerns linger about whether the oil market is truly overcoming a glut as U.S. production continues to surge, thanks to shale drilling. For the second year running, Mr. Barkindo and U.S. shale producers are set to meet privately for dinner as they seek to learn about one another.

"The exporters, OPEC and non-OPEC, are trying to understand how this different kind of U.S. oil industry works," said Daniel Yergin, vice chairman of energy research at IHS Markit. "They're there to learn, because it's changed the nature of the oil market."

If the U.S. surges past Saudi Arabia to become the world's second-biggest oil producer behind Russia, as some forecasters predict, it could signal a fundamental change in a global pecking order that has been a basis for international energy policy for decades.

"The role of the U.S. in global energy markets has changed more dramatically than the public realizes," said Mr. Yergin, who serves as the event's master of ceremonies, co-hosting dozens of sessions on oil, natural gas, electric power and geopolitics. "It's a new form of influence for the United States in the world."

The conference will be packed with ministers from large oil and gas producers, including Norway, Kuwait, Nigeria, Canada, Mexico and the United Arab Emirates, as well as executives from Gazprom, Russia's largest gas company, and Saudi Aramco, which is in the middle of planning for an initial public offering .

A likely topic of discussion: whether top U.S. shale companies will abide by investor demands that they instill capital discipline and emphasize returns, or succumb to the allure of even more drilling at current prices. The heads of many top U.S. producers are set to speak, including Occidental Petroleum Corp., XTO Energy Inc., Pioneer Natural Resources Co. and ConocoPhillips.

Another major topic: how huge reserves of U.S. natural gas are also upending energy markets. The U.S. became a net exporter of natural gas in 2017, according to the U.S. Energy Information Administration, a trend fueled by exports to South America and Asia. Top executives from the companies at the heart of the gas export boom—Cheniere Energy Inc., Freeport LNG Development LP, Tellurian Inc. and Venture Global LNG—will discuss their plans.

A host of electric-power executives are set to speak as the utility industry experiences rapid changes, with coal and nuclear generation losing ground to gas, solar and wind. They include the heads of Duke Energy Corp., PG&E Corp., Exelon Corp. and Edison International.

The conference will also examine longer-term questions looming over the industry, including how digital technologies are fast changing the way companies produce oil and gas, and the differing outlooks for when electric vehicles and renewable energy will start to take a serious bite out of demand for oil and gas.

Bradley Olson contributed to this article.

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THE WALL STREET JOURNAL.

Markets

Why the Canadian Dollar and Mexican Peso Have Diverged Recently; Trade worries, central bank policy and domestic politics have all played a role in the currencies' trajectories

By Ira Iosebashvili
838 words
21 March 2018
06:37 PM
The Wall Street Journal Online
WSJO
English

The currencies of Mexico and Canada have gone their separate ways this year, an unexpected outcome for two countries whose economies may be hurt by trade tensions with the U.S.

The Mexican peso is up 6.7% against the dollar this year, making it the best performing currency of the 16 tracked by the WSJ Dollar Index. The Canadian dollar, meanwhile, has fallen 2.6% against its U.S. counterpart, finishing below all currencies in the index save the Turkish lira.

Both countries' economies lean heavily on the North American Free Trade Agreement, which is now being renegotiated as part of President Donald Trump's push to gain more favorable trade terms for the U.S.

While worries over trade have sharpened in recent weeks, investor timing, central bank policy and domestic politics have all played a role in determining the currencies' trajectories this year.

Investors often use currencies to bet on political and economic outcomes, and many sold the peso in recent years as Mr. Trump's political fortunes improved during the U.S. presidential election, analysts said. This year's rally recoups some of the decline that has pushed the peso more than 9% lower against the dollar since the start of 2016. Some investors believe the selloff has left the peso with little room to fall and expect the currency to bounce.

"Many of the negative scenarios are already priced in," said Momtchil Pojarliev, deputy head of currencies at BNP Paribas Asset Management. "You can be pretty sure that a big part of the move is already over."

Mr. Pojarliev owns the peso as part of a basket of emerging-market currencies and believes it will appreciate further against the dollar in coming months.

Many **bullish** investors also are drawn to the yields of peso-denominated assets, which are much higher than those found in developed countries. Uncertainty over politics and trade may push Mexico's central bank to raise interest rates again, analysts at UBS Wealth Management said, further increasing the payout for yield-hungry investors.

In Canada, meanwhile, trade worries have coincided with uneven economic data. January's trade statistics, released this month, disclosed a sharp drop in both exports and imports, after a cut in U.S. corporate tax rates that may have tipped the scale in favor of making business investments in the U.S. instead of Canada. Foreign direct investment in Canada last year hit its lowest level in seven years.

The Bank of Canada left its benchmark interest rate unchanged this month and ramped up its warnings over trade. Economic growth in the fourth quarter also came in weaker than anticipated.

"Data momentum has lost a lot of steam," said Mark McCormick, North American head of foreign-exchange strategy at TD Securities. His firm believes the U.S. dollar will rise to 1.35 Canadian dollars, from C$1.2902 late Wednesday in New York.

The U.S. dollar fell 1.8% against the peso Wednesday, as the Mexican currency received a boost from progress on Nafta talks. The dollar lost 1.3% against the Canadian dollar.

Investors in both currencies run the risk of swift reversals. The peso is vulnerable to political uncertainty stemming from Mexico's presidential vote, slated for July. Some investors fear that the front-runner, left-wing populist Andrés Manuel López Obrador, will stall economic overhauls and complicate renegotiation of Nafta if he is elected.

Jim Barrineau, co-head of emerging-market debt at Schroders PLC, is betting the peso will decline in coming months. He believes that Mr. López Obrador, who is prone to fiery rhetoric, may clash with Mr. Trump, worsening relations between the two countries.

The two leaders "are relatively inexperienced and hold very strong views," Mr. Barrineau said. "How can you render a guess as to what will happen?"

Since 1994, the peso has declined an average of nearly 6% against the dollar in the months leading up to a presidential election, research from Natixis shows.

Some investors in the Canadian dollar say a rally in oil, a key Canadian export, will eventually lift the country's currency. Improvement in Canada's economic data—the unemployment rate edged down in February to a 10-year low, and the economy added jobs after a steep decline in the previous month—could also spark a recovery in the Canadian dollar.

A turn for the worse in trade talks would likely dent both currencies, analysts said.

Both countries avoided disruption this month, when the Trump administration said Canada and Mexico would be initially spared from its plan to slap tariffs on imported steel and aluminum. That exemption, however, is contingent on a successful renegotiation of Nafta.

"If Trump walks away from Nafta, the Canadian dollar will get crushed," Mr. McCormick said.

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Document WSJO000020180321ee3l00232

THE WALL STREET JOURNAL.

Heard on the Street
Markets

The Trade Deficit Trump Wants to Fix May Only Worsen; Despite protectionist measures, the net result of the Trump administration's economic policies will be higher trade deficits

By Justin Lahart
448 words
7 March 2018
12:28 PM
The Wall Street Journal Online
WSJO
English

President Donald Trump hates the trade deficit. He will probably have an even bigger one to hate in the year ahead.

The news that Gary Cohn will resign as Mr. Trump's top economic adviser, just days after Mr. Trump announced plans to impose steel and aluminum tariffs, rattled **financial markets** Wednesday. Stocks fell as investors took the departure of the pro-trade aide as a sign that Mr. Trump will impose more tariffs and be more likely to pull out of the North American Free Trade Agreement.

"Cohn's departure should be read as an indication additional and more aggressive protectionist trade policies are likely in the coming months," wrote Cornerstone Macro strategist Andy Laperriere in a note to clients.

Investors generally view tariffs and other trade barriers as the equivalent of a tax, with increased import costs raising company costs. To the extent that companies are able to pass those higher costs on to consumers, tariffs are also inflationary, making the Federal Reserve more likely to raise interest rates more aggressively. Trade disputes also can sow uncertainty, making companies less willing to invest both in the U.S. and abroad.

Trade data released Wednesday did nothing to alleviate investors' unease. The Commerce Department reported that the seasonally adjusted trade deficit rose to $56.6 billion in January from $53.9 billion in December, marking its highest level since October 2008. If not for America's reduced dependence on foreign oil since the shale revolution, the deficit would have been even larger .

The trade deficit will likely continue to grow, and both Mr. Trump and Mr. Cohn have something to do with that. The tax cut and spending plans they helped usher in are likely to raise demand for goods and services among both consumers and companies this year. Some of those goods and services are going to come from abroad, so imports will rise. Exports should rise, too, since more U.S. imports should help out overseas economies, but the effect won't be as pronounced.

The tariffs Mr. Trump announced last week are unlikely to move the needle by much on trade, especially with U.S. trading partners threatening retaliatory measures if the tariffs are enacted. So the trade deficit, which Mr. Trump has long argued the U.S. should reduce, will likely continue to expand instead. How his administration might respond to that is yet another thing for investors to fret about.

Write to Justin Lahart at justin.lahart@wsj.com

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THE WALL STREET JOURNAL.
U.S. EDITION

China Tries to Lift Yuan With Oil Futures

By Mike Bird
980 words
27 March 2018
The Wall Street Journal
J
B12
English

Corrections & Amplifications

A chart with a March 27 Markets article about yuan-denominated oil futures showed oil imports to the U.S. and China in billions of dollars a month. The chart incorrectly was labeled in thousands of dollars.

(WSJ April 12, 2018)

(END)

The world's first yuan-denominated oil contracts launched Monday, as part of China's drive to turn its currency into a global forcein markets.

The history of international currency markets suggests that may be a difficult task, though not impossible if Beijing eases the capital controls that make it hard for foreigners to buy domestic assets, economists say.

Those capital controls and investors' concerns over the opaqueness of Chinese government and central-bank policy mean that the yuan remains a minnow in international finance, despite China being the world's largest exporter.

The dollar and euro are global currencies because central banks hold them in their reserves and they are used to buy services and goods both in and outside their home markets.

In launching new yuan-denominated crude-oil futures, Beijing hopes to create an oil benchmark to rival those in New York and London and challenge the dollar's role as the dominant commodity-pricing currency by making it possible for crude exporters to sell oil in another currency.

Professor Barry Eichengreen of the University of California, Berkeley, who writes about the history of currencies in the international financial system, believes the dollar's grip on oil pricing isn't guaranteed.

"As **financial markets** continue to develop -- as there are liquid markets in more currencies, and currency trading becomes cheaper -- traditional arguments for why one currency should monopolize this function become even weaker than before," Mr. Eichengreen said.

Still, "I don't think the renminbi will displace the dollar from the global oil market anytime soon. Lack of liquidity and accessibility continue to limit its usage," he added.

The yuan is also known as the renminbi.

China's currency has some way to go. The yuan's share of global foreign-exchange reserves is just 1.1% of the global total, behind currencies such as the Australian and Canadian dollars. The U.S. dollar's share is 63.5%.

The yuan makes up only a 1.1% share of international payments, placing it behind seven others, according to payments firm SWIFT. That share has slipped in recent years, from as high as 2.8% in August 2015. Currently, almost all oil and most commodities are bought and sold in dollars.

However, even in modern history, it hasn't always been this way. Economists point to the demise of the British pound's dominance in world trade as showing that the tide can turn quickly against one currency in favor of another, especially during a crisis.

The London Metal Exchange's benchmark copper contract was denominated in sterling until 1993. Even today, cocoa trading is priced in sterling.

Though crude has a longer history of being denominated in dollars, due to the U.S.'s status as a major producer, as late as the 1970s oil-producing countries received around a fifth of their royalty payments in sterling, according to economic historian Prof. Catherine Schenk.

Before the outbreak of World War I, dollar-denominated international trade credit was almost nonexistent and British banks dominated the sector. By the mid-1920s, the dollar and sterling-denominated trade credit occupied similar market shares.

The economic impact of World War I and II left London's influence in international finance and trade drastically weakened, leaving the dollar firmly in the driving seat by the second half of the 20th century.

Sheer economic heft isn't enough to guarantee a currency international primacy. The U.S. economy supplanted the U.K.'s as the world's largest in the 1870s, around half a century before the dollar began to replace sterling as the world's dominant currency.

That is a lesson to China, as its economy catches up with the U.S. and by some measures has already taken over.

One factor currently limiting the adoption of the yuan as a global currency is Beijing's capital controls, which place limits on investment in China. Beijing keeps a tight grip of money coming in and out of the country to maintain control of the country's economy and prevent sudden outflows of capital.

Currently, selling a yuan-denominated futures contract means investors must either exchange the currency back into dollars -- partly defeating the purpose of the contract -- or find assets denominated in the Chinese currency to invest in.

There is no shortage of Chinese assets. The IHS Markit iBoxx Asia China index, a broad index of Chinese bonds, has more than doubled in size in the past 4 1/2 years, to more than $11 trillion.

Some of the government controls have already been loosened. In 2017, China launched a "bond-connect program" to allow global investors with trading accounts in Hong Kong to access China's interbank bond market.

Just because more foreigners can now buy Chinese bonds, it doesn't mean they will. Some investors say Beijing will have to open up its economy more for that to happen.

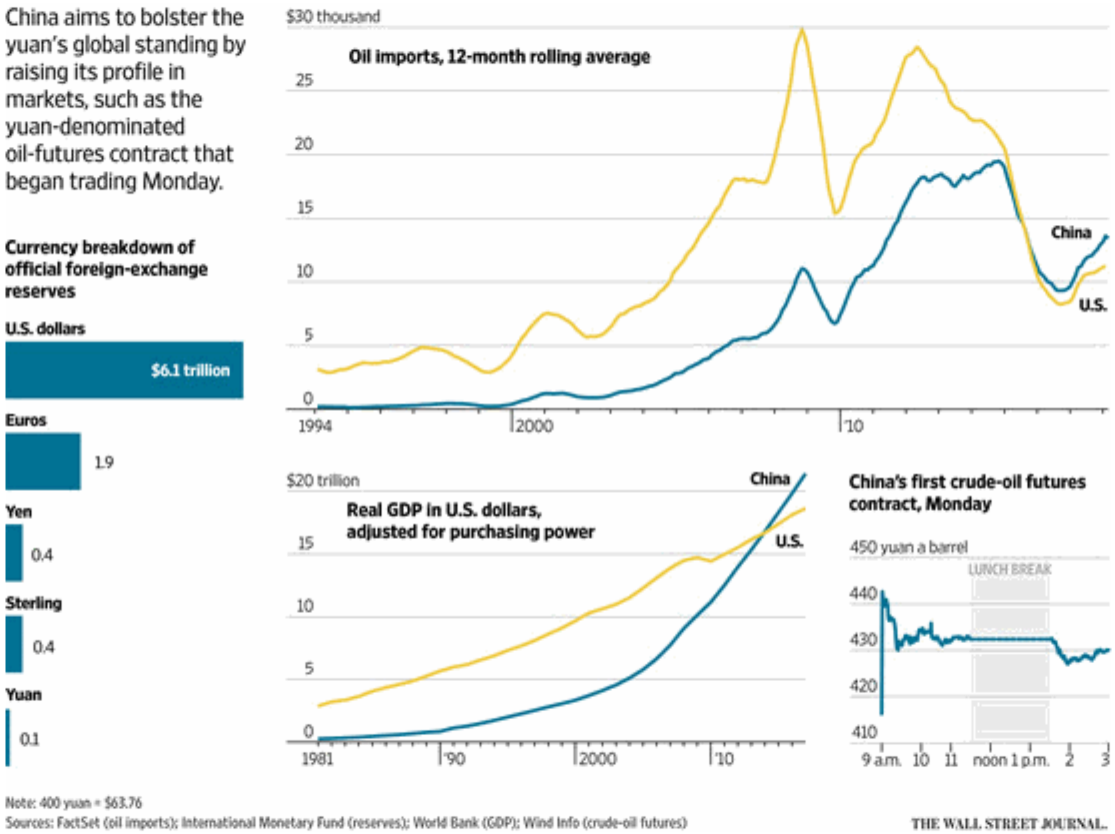
"Firstly, China will have to remove, or substantially reduce, capital controls for [yuan] priced oil trading to take off," said Hayden Briscoe, head of fixed income Asia Pacific at UBS Asset Management.

Mr. Briscoe added that the inclusion of Chinese bonds in major indexes would boost outside investment in the country's debt, given investors and passive funds track such benchmarks.

"When that happens, we're expecting a major reallocation of capital into China's onshore bond markets," Mr. Briscoe said.

Bloomberg LP said Friday it would add Chinese bonds to its Bloomberg Barclays Global Aggregate Index in 2019.

However, the country's controls on capital flows aren't the only concerns. The Chinese government's propensity to intervene in domestic commodities markets and the lack of transparency about the country's monetary policy are also unlikely to find favor among investors.



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THE WALL STREET JOURNAL.

Markets

Reports of Problems at Crypto Exchange Send Bitcoin Tumbling; Binance cites 'irregularities in trading activity'; SEC warns of risks surrounding such exchanges

By Paul Vigna
658 words
7 March 2018
11:25 PM
The Wall Street Journal Online
WSJO
English

Prices for bitcoin and other cryptocurrencies fell sharply on Wednesday after reports emerged about a major bitcoin exchange having problems executing orders.

Bitcoin fell from about $10,700 to $9,500 in about an hour, beginning around 12 p.m. ET. Later in the afternoon, it recovered to around $9,790, down about 9% on the day. Earlier, the Securities and Exchange Commission released an investor alert about the risks of using crypto exchanges .

The drop came as concerns mounted about Binance, a major cryptocurrency exchange based in Hong Kong. Around 12 p.m. ET, a Reddit account associated with the exchange announced on the social media platform it had temporarily disabled withdrawals and was "investigating reports of some users having issues with their funds. Our team is aware and investigating the issue as we speak."

A couple of hours later, Binance CEO Changpeng Zhao wrote on Twitter that "all funds are safe. There were irregularities in trading activity, automatic alarms triggered. Some accounts may have been compromised by phishing from before. We are still investigating."

While Binance officials couldn't be reached for comment, users on some social media sites alleged that their accounts had been directed, without advance notice, to sell their holdings of various digital currencies and buy holdings of a minor one called viacoin.

Viacoin was trading at one point about 60% higher on the Binance platform and was up about 43% on coinmarketcap. In **volatile** trading, viacoin surged as high as $6.93 and fell as low as $2.41. By volume, Binance is one of largest crypto exchanges, according to coinmarketcap data.

Samshan Samhekhar, a trader outside Philadelphia, said his bitcoin and other virtual currencies were quickly switched to viacoin without his consent and at an unfavorable exchange rate. He said he is confident Binance would fix the issue but added "I never thought this could happen on Binance."

Mr. Zhao said on Twitter later Wednesday afternoon that the irregular trades would be reversed. On Telegram, an account claiming to represent the exchange said it is looking into the issues and that it doesn't appear the exchange itself was hacked.

Binance, in a statement on its website Thursday morning in Hong Kong, said it halted withdrawals after experiencing what it called "a large scale phishing and stealing attempt" and said no funds were stolen.

The company claimed that hackers "accumulated user account credentials over a long period of time" and that there were phishing attacks going back to January and February. It said "many users fell for these traps and phishing attempts."

The statement said that over a two-minute period on Wednesday, the hackers placed a large number of buy orders on viacoin, pushing up its price. Some accounts sold the cryptocurrency at its highs and attempted to withdraw funds, which Binance said it prevented.

The incident is the latest in a string of stories about cryptocurrency exchanges that highlight the risks to users . A large Japanese exchange, Coincheck, was hacked in January, losing about $530 million in customer funds, and a small Italian exchange, BitGrail, was hacked in February, with the attacker stealing about $170 million worth of a little-known cryptocurrency called nano. Since 2014, exchange hacks have cost investors about $1.4 billion.

Hours before the Binance news surfaced on Wednesday, the SECissued an investor alert about digital-currency exchanges. "The SEC does not review the trading protocols used by these platforms, which determine how orders interact and execute, and access to a platform's trading services may not be the same for all users," the commission wrote. "Investors should not assume the trading protocols meet the standards of an SEC-registered national securities exchange."

Steven Russolillo contributed to this article.

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THE WALL STREET JOURNAL.
U.S. EDITION

U.S. News: Fed's Harker Lifts Outlook for Rates

By Nick Timiraos
410 words
30 March 2018
The Wall Street Journal
J
A2
English

PHILADELPHIA -- Federal Reserve Bank of Philadelphia President Patrick Harker said he expects officials will need to raise short-term interest rates a total of three times this year, up from his earlier projection of two because of stronger inflation.

Fed officials voted unanimously last week to raise their benchmark federal-funds rate by a quarter percentage point to a range between 1.5% and 1.75%, and they penciled in two more such increases for this year.

"We saw some firming of inflation," Mr. Harker said in an interview with The Wall Street Journal, explaining his new projection.

Updated forecasts released last week showed Fed officials project faster economic growth, higher inflation and lower unemployment in coming years than they anticipated in December. Some Fed officials have cited potentially stronger economic growth from tax-policy changes and increased federal spending.

Mr. Harker said he placed greater emphasis on inflation data than on fiscal policy in revising his outlook.

Inflation has firmed in recent months after a downtick last year that defied the Fed's forecasts. Consumer prices rose 1.8% in February from a year earlier, according to the central bank's preferred inflation gauge. So-called core prices, which exclude **volatile** food and energy categories, rose 1.6%.

"It's more the firming of inflation that has moved me from two to three" projected rate increases this year, he said. Mr. Harker said he had penciled in three rate increases for 2019, in line with the median projection released last week.

Mr. Harker said he expects inflation to rise slightly above the Fed's 2% target in coming years. Inflation has run below that level for most of the past six years.

Mr. Harker said the risk of increased trade tariffs and other barriers presented one source of uncertainty about current projections of the interest-rate path. "Trade tariffs increase costs," he said.

Mr. Harker said it was too early to judge the effect of potential trade actions. An escalation in tariffs between the U.S. and its trade partners "is a risk" that could require higher interest rates, he said, though it isn't his current expectation.

Mr. Harker isn't a voting member of the Fed's rate-setting committee this year, but, like other nonvoting regional Fed bank leaders, participates fully in its policy meetings.

Document J000000020180330ee3u0001p

THE WALL STREET JOURNAL.

Markets

IQiyi, Baidu's Netflix of China, Falls in U.S. Market Debut; Company was most heavily traded stock Thursday on Nasdaq

By Austen Hufford
265 words
29 March 2018
07:14 PM
The Wall Street Journal Online
WSJO
English

The Netflix-like video-streaming unit of Chinese search-engine giant Baidu Inc. closed 13.6% below its offering price in its market debut Thursday.

The decline came despite American depositary shares of iQiyi Inc. opening trading Thursday at $18.20, slightly higher than the $18 offering price. The Initial public offering, which sold 125 million shares and raised $2.25 billion, priced at the midpoint of its $17 to $19 marketed range.

IQiyi shares, trading on the **Nasdaq** Global Market under the ticker IQ, closed at $15.55. IQiyi was the most heavily traded stock by share volume Thursday on the **Nasdaq**.

The unprofitable company has been looking to raise money to stay ahead in the competitive Chinese video-streaming sector where tech titans Tencent Holdings Ltd. and Alibaba Group Holding Ltd. also have offerings. It plans to spend half of the proceeds raised from the IPO to "expand and enhance" its content offerings, according to a securities filing.

Robin Li, Baidu co-founder and chief executive, is retaining more than 93% of voting control in iQiyi, the filing said.

IQiyi, founded in 2010, said it is China's largest video-streaming service by amount of time spent watching. IQiyi reported 60.1 million subscribers as of Feb. 28, roughly 59 million of whom pay for the service.

Underwriters of the offering could also purchase up to 18.8 million iQiyi shares.

Write to Austen Hufford at austen.hufford@wsj.com

Document WSJO000020180329ee3t002ut

THE WALL STREET JOURNAL.

World

Trump's Tariffs Rile Allies and Threaten Global Cooperation; Invocation of national-security rules as a basis for the levies drew rebuke from Japan and South Korea—nations cooperating with the U.S. on threats from North Korea, Iran and Russia

By Julian E. Barnes in Brussels, Kwanwoo Jun in Seoul and Zeke Turner in Berlin
1,244 words
2 March 2018
04:38 PM
The Wall Street Journal Online
WSJO
English

President Donald Trump's pledge to slap stiff tariffs on imported steel and aluminum targets rivals China and Russia but could also hit many close U.S. allies, potentially disrupting Washington's geopolitical agenda.

Mr. Trump's invocation of national-security rules on Thursday to propose the controversial levies drew rebuke from fellow members of the North Atlantic Treaty Organization, Japan and South Korea—countries cooperating with U.S. policies over threats from North Korea, Iran and Russia.

Canadian Prime Minister Justin Trudeau warned Friday of "significant and serious" disruption to the North American economy should Mr. Trump proceed with the planned tariffs. "It is entirely inappropriate to view any trade with Canada as a national security threat to the United States," said Canadian Foreign Minister Chrystia Freeland.

It remains unclear which countries may be hit by the tariffs Mr. Trump said on Thursday would be set next week of 25% on steel imports and 10% on aluminum. The president said he would provide more details next week.

Allies urged the U.S. to treat them differently from adversaries but also attacked the logic of labeling friendly nations as national threats.

Japanese Trade Minister Hiroshige Seko said he saw "absolutely no impact on America's national security" from Japanese steel and aluminum imports. German Foreign Minister Sigmar Gabriel said NATO allies would find it "impossible to understand" the reasoning that protecting American steelmakers is a matter of national security.

If tariffs are imposed globally, as Mr. Trump suggested, they could hurt allies more than adversaries. Russia is the fifth-largest source of U.S. steel imports and China is the eleventh-largest, according to Commerce Department data.

But Canada is the top foreign steel supplier to the U.S., accounting for roughly 17% of all American steel imports, followed closely by Brazil and South Korea, according to Commerce Department figures.

Trade experts say the figures fail to catch Chinese re-exports through third countries and that overproduction in China is depressing global steel prices.

The timing of Mr. Trump's announcement was particularly disturbing, diplomats said, because unity among U.S. allies was crucial to address Russian President Vladimir Putin's threats against the West with new missiles he said can penetrate allied defenses.

Germany's Mr. Gabriel alluded to the strategic danger of a trade war among allies. "If two quarrel, the third will be happy," he said, a comment diplomats said was referring to Russia.

Mr. Trump, who has championed an "America First" trade policy that would turn the U.S. away from globalization, dismissed such warnings.

"When a country (USA) is losing many billions of dollars on trade with virtually every country it does business with, trade wars are good , and easy to win," he tweeted early Friday.

Stocks in Europe and Asia fell sharply, including the shares of steelmakers and industrial giants such as Luxembourg-based ArcelorMittal, Germany's Thyssenkrupp, Italian-American car maker Fiat Chrysler and South Korea's Posco.

Business groups also weighed in on the geopolitical significance of the threatened tariffs. "With this decision President Trump is disregarding the importance of key strategic allies of the U.S. like the EU," said Markus Beyrer, director general of BusinessEurope, a trade group.

Tomas Valasek, the former Slovak ambassador to NATO and director of the Carnegie Europe think tank in Brussels, said American allies didn't believe that national security was the true motivation for the tariffs.

"Everyone understands it to be an excuse, not an actual expression of mistrust," Mr. Valasek said.

Still, allies unashamedly cited their security cooperation with Washington, including Norad, the joint U.S.-Canadian air-defense command and NATO. Ms. Freeland's statement began by noting that Canada is "a key Norad and NATO ally" and that under U.S. law, Canada is considered part of the U.S. industrial base.

Canada has found itself in the Trump administration's crosshairs on trade, ranging from disagreements on a revamped the North American Free Trade Agreement to Canada's move to launch a complaint against Washington at the World Trade Organization over U.S. tariffs on Canadian lumber.

The steel move hasn't affected talks to revamp Nafta but Mexico "feels that through Nafta, and as strategic partners of the U.S., we should be excluded from this kind of measures," said Mexico's chief Nafta negotiator Kenneth Smith Ramos.

The Mexican steel industry chamber said it receives no government subsidies and called for "immediate and reciprocal measures" if the country isn't excluded from the tariffs.

Brazil's government said that plans for tariffs caused "enormous preoccupation." The government said steel production inboth countries are complementary, with Brazil buying U.S. coal for its steel industry and selling back a type of unfinished steel product that is in short supplyin the U.S.

The metals tariffs could also ratchet up economic tensions with South Korea and Japan while they are working to counter the threat from North Korea developing nuclear-tipped ballistic missiles capable of hitting the continental U.S.

South Korean President Moon Jae-in told deputies last week that they should actively complain to the U.S. if they perceive unfairness on the U.S. side. He said they should see whether proposed curbs on steel and aluminum imports violated a U.S.-South Korea two-way free-trade pact or WTO rules.

Under Mr. Trump, the U.S. is already at loggerheads with South Korea in several trade disputes. The U.S. has placed anti-dumping duties on South Korean steel and transformers, while placing tariffs in a separate case that affect South Korean washing machines and solar panels. Seoul has taken initial steps to challenge those moves at the WTO.

Allies have been threatened before by U.S. sanctions based on national security. In 2001, then-President George W. Bush's administration probed the impact of European iron ore and semifinished steel imports. The Commerce Department ultimately recommended against action.

In 1981 then-President Ronald Reagan imposed sanctions on a pipeline planned to deliver Russian natural gas to Western Europe, infuriating European allies and U.S. companies that wanted to sell equipment. Under pressure from allies, Mr. Reagan the next year lifted the sanctions.

Emre Peker in Brussels, Andrea Thomas in Berlin, Paul Vieira in Canada, Anthony Harrup in Mexico City, Paolo Trevisano in Brasília and Kosaku Narioka and Chieko Tsuneoka in Tokyo contributed to this article.

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THE WALL STREET JOURNAL.

Business

How Century Aluminum Won a Lonely Fight for Tariffs; The little-known aluminum maker lobbied for years for trade protections, despite opposition from rival companies

By Bob Tita
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In an industry hollowed out by decades of foreign competition and plant closings, a little-known aluminum maker became the leading advocate for tariffs that most of its competitors didn't want.

Century Aluminum Co. emerged as the de facto face of the U.S. aluminum industry when President Donald Trump invited Chief Executive Michael Bless to the White House earlier this month to discuss his tariff plans, rather than leaders of larger firms with plants in the U.S.

The president's 10% tariff on imported aluminum, which takes effect Friday, validated the years that Century executives spent lobbying for trade protections despite opposition from larger rival Alcoa Corp. and other companies that import some aluminum from Canada, the Middle East and Asia.

"Our industry has been devastated for years, and nobody was talking about it," said Jesse Gary, Chicago-based vice president and general counsel of Century. "We had to stand up for it."

Century's shares fell nearly 18% on Thursday amid a broad selloff as the Trump administration began handing out exemptions to the tariffs for metal makers in countries such as Brazil and South Korea. Investors took that as evidence the White House may be willing to bargain the tariffs away for other trade concessions.

Century cobbled together support for the tariffs from the United Steelworkers union and small, private companies that make aluminum components. Century executives founded a trade group, the China Trade Task Force, to argue that rising aluminum production in Asia and the Middle East was to blame for falling employment at aluminum plants in the U.S.

Mr. Trump has said protecting U.S. jobs is a main goal of the tariffs, along with ensuring a domestic supply of the metal for defense and national security infrastructure.

Century and Alcoa are the only companies that operate aluminum smelters in the U.S. Century, which was spun off from Swiss mining and commodities conglomerate Glencore PLC in the mid-1990s, generated about two-thirds of its $1.5 billion in sales last year from its U.S. operations. The company also makes aluminum in Iceland.

Mr. Gary said Century executives decided to lobby for tariffs in 2015 as plunging **oil prices** touched off a broader commodity bust. The price of aluminum dropped 40% that year, and Century idled nearly all of the lines at its three U.S. smelters.

Century and other companies blamed the drop on a glut of aluminum production in China that they said was flooding the world with cheap sheet, plate and extruded shapes. Century said it needed tariffs to keep that government-backed production from undercutting prices in the U.S. or entering the U.S. duty-free through other countries.

"They became the most visible advocate for the tariff," said Lloyd O'Carroll, an industry analyst in Virginia. "Even though it's a small company, it was quite vociferous."

Alcoa, which made just about 14% of the aluminum it produced globally last year in the U.S., opposed the blanket tariff. The Pittsburgh-based company has been critical of companies in China overproducing aluminum, but supports reining them in through negotiated reductions instead of the Trump administration's strategy of a sweeping tariff on all the world's aluminum.

The industry's trade group, the Aluminum Association, also is opposed to the tariff. Many of the association's members make finished goods like parts for cars and airplanes with imported aluminum that will be subject to tariffs. They say there isn't enough production capacity in the U.S. to meet aluminum demand without imports. There are already U.S. tariffs on specific aluminum products from China, such as foil.

U.S. manufacturers and aluminum processors consumed 11 million metric tons of aluminum last year, while Century and Alcoa produced just 748,000 metric tons of raw aluminum here. Imports made up more than half of the difference, alongside aluminum from recycled scrap.

A spokesman said Alcoa is pleased that imports from Canada and Mexico will be exempted from the tariffs and wants additional exemptions granted for other countries that trade aluminum fairly. Alcoa and the Aluminum Association say the tariff will discourage other countries from working with the U.S. to discourage overproduction in China.

"You'll end up penalizing countries that agree with us," said Aluminum Association spokesman Matt Meenan.

Rising electricity costs in the U.S. and the construction of lower-cost smelters abroad contributed to the closure of nearly 20 U.S. smelters since 2000. Most have been demolished, including Century's smelter in Ravenswood, W.Va.

Century's Mr. Gary predicted the tariff and rising demand could lead companies to restart up to 1 million metric tons of annual U.S. production capacity. He said electricity costs are no longer the liability they once were. An abundance of cheap natural gas used to generate electricity has brought down power costs in the U.S. Electricity accounts for almost half the cost of producing aluminum in a smelter.

The new owner of an idle aluminum smelter in southeast Missouri plans to restart about 60% of the plant's production capacity this year after securing an electricity contract. The plant has been closed for two years.

After Mr. Trump committed to the tariff this month, Century said it would double both its production and workforce at a Kentucky smelter. Alcoa was already planning to partially restart a smelter in southern Indiana this year before the tariffs were announced.

"You're seeing production come back on," said Mr. Gary. "We think the right remedy was reached."

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THE WALL STREET JOURNAL.

Markets

Foreign Trade Houses Grab Dominant Share of U.S. Crude Exports; Fragmented nature of shale industry makes it easier for nimble independent traders to thrive

By Sarah McFarlane
768 words
24 March 2018
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A handful of international trade houses are dominating the buying and selling of U.S. crude exports, two years after Washington lifted its ban on sending oil abroad.

The fragmented nature of the U.S. shale industry has made it easier for more nimble independent traders to grab market share. But some analysts believe they will lose their grip as oil giants like Exxon Mobil Corp. consolidate the sector.

Shipments by three of the world's top five oil traders, Vitol Group, Trafigura Group Pte. Ltd. and Mercuria Energy Group Ltd., accounted for 22% of U.S. crude exports in the 12 months to February, according to ClipperData, a New York oil-data provider. These mainly Europe-based trade houses buy and sell physical oil and ship it around the world.

"Small to medium-sized producers don't have the same logistical expertise, particularly for export sales, that a trading firm does," said Craig Pirrong, a professor of finance at the University of Houston.

In addition, major oil producers such as Exxon and Chevron Corp. are less oriented to trading, focusing more on meeting the needs of their own refineries. Traders tend to be more flexible, focusing on managing pipelines, shipping and blending crudes for their customers around the world, Mr. Pirrong said.

The U.S. lifted a crude-export ban in 2016 amid a shale oil-and-gas boom, which is expected to turn the country into a net exporter of energy by 2022, according to the U.S. Energy Information Administration.

The pace of the increase in U.S. output has caught many by surprise, causing repeated revisions higher to forecasts from top official data providers like the International Energy Agency and the EIA.

Improved technologies and efficiencies, along with a 50% increase in **oil prices** in the past nine months, have helped drive U.S. oil production to record levels, enabling the country to surpass output from Saudi Arabia.

The EIA forecasts U.S. crude production will rise 8% on the year to average 10.7 million barrels a day in 2018.

Shale-oil production has contributed to much of the increased output, which producers funnel through pipelines and storage facilities that were set up for importing rather than exporting oil.

The world's big trading houses have done many deals to position themselves for U.S. exports. Vitol purchased Noble Group Ltd.'s U.S. oil liquids business last year, Trafigura sealed a long-term deal for pipeline capacity from the Permian Basin to the port of Corpus Christi in January, while Mercuria is part of a consortium building export terminals in Louisiana and Texas.

"We're constantly looking at pipeline projects or investing more into the upstream sector in the U.S.," said Marco Dunand, chief executive of Mercuria Group.

The privately held firm benefits from being 12% owned by China National Chemical Corp., or ChemChina, which helps it access the Chinese market, the world's largest oil importer. About 20% of U.S. exports went to China in 2017, according to the EIA.

The top five trade houses—Vitol, Trafigura, Glencore PLC, Mercuria and Gunvor Group Ltd.—account for about one-fifth of the world's traded oil volumes. The rest of the crude market is mostly bought and sold by international oil majors and national oil companies.

Some of the traders' edge in U.S. exports is expected to diminish over time as logistical issues are ironed out and oil majors such as Exxon and Royal Dutch Shell PLC follow through on plans to buy up shale acreage, eliminating some of the smaller producers.

"The consolidation in the Permian will impede the trading companies' opportunities to some degree," said Mr. Pirrong, the finance professor.

But the traders say they are in it for the long haul.

"We spend a lot of time focusing on U.S. exports particularly to Asia, it started out as a European thing, it's become much more of an Asian thing, and there's very little chance of that changing because we've got a good foothold," said Ben Luckock, co-head of group market risk at Trafigura.

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THE WALL STREET JOURNAL.

Opinion

Stock Buybacks Are Proof of Tax Reform's Success; Companies help workers not by being philanthropic but by investing capital in profitable ideas.

By John H. Cochrane
682 words
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The Wall Street Journal Online
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English

As the Republican tax reform has gained popularity, the Democrats have had to update their messaging. To cast corporate tax cuts as a "scam" and redistribution to the wealthy, opponents have shifted their focus to the evils of stock buybacks and dividends.

"Corporations have been pouring billions of dollars into stock repurchasing programs, not significant wage increases or other meaningful investments," declared Senate Minority Leader Chuck Schumer Feb. 14. Such buybacks, he claimed, "benefit primarily the people at the top" and come at the expense of "worker training, equipment, research, new hires, or higher salaries." Other Democrats have echoed the theme, and their media friends are cheerfully passing it on.

Economic logic isn't strong in Washington these days, but this effort stands out for its incoherence.

Share buybacks and dividends are great. They get cash out of companies that don't have worthwhile ideas and into companies that do. An increase in buybacks is a sign the tax law and the economy are working.

Buybacks do not automatically make shareholders wealthier. Suppose Company A has $100 cash and a factory worth $100. It has issued two shares, each worth $100. The company's shareholders have $200 in wealth. Imagine the company uses its $100 in cash to buy back one share. Now its shareholders have one share worth $100, and $100 in cash. Their wealth remains the same.

Wouldn't it be better if the company invested the extra cash? Wasn't that the point of the tax cut? Perhaps. But maybe this company doesn't have any ideas worth investing in. Not every company needs to expand at any given moment.

Now suppose Company B has an idea for a profitable new venture that will cost $100 to get going. The most natural move for investors is to invest their $100 in Company B by buying its stock or bonds. With the infusion of cash, Company B can now fund its venture.

The frequent rise in **stock price** when companies announce buybacks proves the point. In my example, Company A's share price stays fixed at $100 when it buys back a share. But suppose before the buyback investors were nervous the company would waste $40 of the $100 cash. Imagine an overpriced merger or excessive executive bonuses. Not every investment is wise!

The $100, stuck inside Company A, would be valued by the market at $60, and the company's total value would be $160, or $80 a share. If it spent the $100 to buy back one share, the other share would rise from $80 to $100, the value of its good factory. When a company without great ideas repurchases shares, the price of the remaining shares rise. This **stock price** rise is no gift to shareholders. It is just the market's recognition that $100 has been saved from inefficient investment.

The debate over whether companies will spend higher revenues on wages or buybacks misses the whole point. The economic argument for the corporate tax cut is that companies with good ideas, projecting a better after-tax return on new capital investments, will make such investments. This new investment will let companies expand and make their workers more productive. When that happens, companies will compete for workers, leading to higher wages. Not all companies should make new investments, and some of the best investments come from new companies that don't have profits yet.

The economic logic of the tax cut is to create good incentives for profit-maximizing management teams—not to "trickle down" cash to workers from philanthropic management. One can argue whether it will work, but echoing illogical claims is not a contribution to that debate. Granted, Republicans invited the attack by trumpeting worker bonuses. But a bad argument for the cut does not redeem a worse counterargument.

Mr. Cochrane is a senior fellow at the Hoover Institution and an adjunct scholar at the Cato Institute.

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THE WALL STREET JOURNAL.

Markets

Market Panic Measure Hits Eurozone Crisis Heights—But Alarms Aren't Ringing; Borrowing costs have jumped because the U.S. Treasury is issuing more bills, rather than fears about banks' health

By Jon Sindreu
768 words
19 March 2018
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The Wall Street Journal Online
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English

In short-term lending markets, a key measure of distress is at its highest level since the eurozone debt crisis. But there is no sign of panic.

Until recently, turmoil in these markets signaled that banks had stopped trusting each other, clogging much-needed funding for investors and leading to large selloffs. It happened after Lehman Brothers collapsed a decade ago, and in 2012 after Greece teetered on the brink of insolvency.

This time, there is a more benign reason, analysts and investors say: The U.S. Treasury is issuing more short-term bills.

That and the Federal Reserve's selling some of the bonds it bought through quantitative easing means the global dollar money market may simply be readapting after a period of unprecedented central-bank influence.

The cost at which banks can get unsecured loans from one another is the London interbank offered rate, or Libor. Because it broadly tracks interest rates set by the U.S. central bank, an increase in Libor much above that level is often a sign of stress for the banks and others that rely on short-term borrowing.

Now, a closely watched gauge of funding distress, the three-month spread between U.S. dollar Libor and market expectations of U.S. rates, has widened by the most since the eurozone debt crisis, to above 0.5 percentage point from 0.1 percentage point at the start of the year.

This surpasses a previous surge in 2016, when new U.S. regulations came into place that give advantages to money-market funds that invest only in government debt. Those rules are also in part responsible for Libor creeping higher now, as they continue to encourage buying of government bills over corporate debt, fund managers say.

And investors will now have more Treasurys to buy: After the signing of the U.S. budget deal in February, the Treasury has issued more than $100 billion in new bills.

The Libor spread widened because "market participants started to expect the U.S. Treasury to increase issuance of Treasury bills to meet its short-term needs," said Xavier Gandon, a money-market investment specialist at BNP Paribas Asset Management.

There is no sign that this has affected other markets. Corporate-bond markets remain unruffled. Banks have outperformed in the **stock market** this year and credit derivatives indicate no change in lenders' creditworthiness.

"I can't see a major market funding issue," said Bhanu Baweja, a strategist at Swiss bank UBS. "When credit gets jammed, you don't see one symptom, you see several."

Increased supply of Treasurys might actually be a welcome change for many investors, who for years complained they couldn't find enough government paper to safely store their cash as central banks cleaned up the market.

Now that the Fed is selling bonds back and the Treasury is issuing more bills, the market may simply be returning to the "old" normal.

Treasury bills are seen by investors as interchangeable for money issued by the central bank. But they can be bought—and used as collateral to borrow—by banks and investors outside the U.S. who don't have access to the Fed, which created extra demand and pushed their yield increasingly below the interest rate on money.

Now, expectations of more supply have pushed the yield on three-month bills above rates set by the Fed for the first time since 2014. This, rather than fears about lenders' health, is what has pushed Libor up, analysts and traders say, because banks usually set the price of unsecured borrowing as a ceiling above secured borrowing in the market.

Gaps will likely narrow as banks and investors seek to profit from them, analysts said.

To be sure, some investors fear a funding squeeze from U.S. corporations repatriating their retained earnings abroad to profit from the new tax code. Others underscore that the Fed's selling of bonds could make it more expensive to borrow using currency derivatives.

"Funding pressures should ease in April as the Treasury temporarily cuts bill supply," Mark Cabana and Olivia Lima, strategists at Bank of America Merrill Lynch, told clients in a research note this week. "But we believe uncertainties in money markets may not allow for a rapid retracement or a return to levels that prevailed over most of the fall last year," they said.

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THE WALL STREET JOURNAL.

Business

Optimism for Manufacturers Upended With Trump's Tariff Pledge; Steep tariffs on imported steel and aluminum raise the specter of price spikes, shortages and retaliatory trade barriers on U.S. exports

By Andrew Tangel and Mike Colias
1,153 words
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President Donald Trump's pledge to impose steep tariffs on steel and aluminum imports dimmed more than a year of growing optimism for many U.S. manufacturers.

Mr. Trump's plan for 25% tariffs on imported steel and 10% on aluminum raised the specter of price spikes, shortages and retaliatory trade barriers on U.S. exports.

Most of all, the lack of details about Mr. Trump's tariff plan injected major unknowns into business planning, executives and trade groups say.

"It's the uncertainty that has many people concerned," said John Hayes, chief executive of Ball Corp., a major producer of beverage cans and metal food packaging that employs about 9,000 workers in the U.S. "We don't know what products it's on. We don't know from which countries it's on. We don't know how it's going to be implemented."

A senior White House official said Friday that the president won't exempt allies such Canada and Europe from the global tariffs, but officials are finalizing many details ahead of the planned rollout of the policies next week. Crucial questions remained unanswered, such as whether the duties would apply to all steel products or would exempt semifinished products. The European Union has threatened to respond with tariffs on American products.

Many U.S. parts-makers fret that the plans could send business to overseas competitors, if tariffs drive up domestic prices and fuel inflation on top of what manufacturers have already been paying. They also fear tariffs could have unintended consequences, eventually diverting business away from U.S. steel makers and shifting manufacturing abroad.

"It's just a terribly disruptive move," said P.J. Thompson, president of Trans-Matic Manufacturing Inc. in Holland, Mich., which fashions steel into parts sold to auto makers and other manufacturers.

"I don't think he's trying to hurt us," Mr. Thompson said, referring to the president. "He's pursuing something other than what economic reality is."

Businesses and their trade groups didn't know which types of steel or aluminum, and from which countries, would be included in the trade barriers, which would be broad and potentially without a time limit.

"No one knows yet—I don't think the president knows," said one Washington, D.C., lobbyist for manufacturers. Among unanswered questions was how businesses could angle for exemptions through a formal process. "Everybody is alarmed," the lobbyist said.

Some small manufacturers wondered whether the tariffs could help them, depending on how they are applied.

Brian Pelke, president of Kay Manufacturing Co., an auto supplier near Chicago, is eager to see whether the tariffs apply to steel forgings as well as to raw steel. The company uses forgings to make parts for vehicle engines.

Mr. Pelke believes tariffs could help level the playing field between his company and overseas competitors, who he says sometimes ship lower-cost forgings into the U.S. to be made into parts, giving them a price advantage.

"It's a challenge winning new business when we're going up against someone from Korea or China," said Mr. Pelke, whose company has about 180 employees. "In my small world, this could help."

U.S. manufacturers for more than a year have ramped up hiring and production as they cheered Mr. Trump's moves to roll back regulations and overhaul a tax code they saw as onerous.

"This is going to unfortunately throw some cold water on that momentum," said Jason Andringa, chief executive of Vermeer Corp., an Iowa maker of construction and agricultural equipment. "It's going to bring a dynamic of risk and **volatility** that we haven't had to deal with in a while."

As some business groups, executives and lobbyists scrambled to register their opposition with the White House and the American public, the European Union threatened to impose tariffs on U.S. products including jeans, bourbon and motorcycles if Mr. Trump follows through with his plans. Mr. Trump on Saturday said the U.S. would respond with what he called a tax on European cars that "freely pour into the U.S."

A Levi Strauss & Co. spokeswoman said Friday, "These measures will not only hurt American brands and workers but also have reverberations across the global economy."

Following the tariff announcement, home-appliance maker Electrolux AB, of Sweden, said it was putting on hold a planned $250 million investment to modernize and expand a plant in Springfield, Tenn. It said it won't make a decision on the Tennessee investment until it hears more details about the tariffs.

Auto-supplier executives were concerned their costs could rise sharply if tariffs prompt domestic steel producers to boost prices, said Detroit-area attorney Dan Sharkey, who counts some of them as clients. Mr. Sharkey said the supplier executives wanted to know whether they could expect customers such as General Motors Co. or Ford Motor Co. to revise their purchase contracts to absorb some of the increased cost.

"I tell them, 'Mostly the answer is no, because you're stuck in a fixed contract,' " Mr. Sharkey said. "You're going to have to beg for their mercy to get a price increase."

Domestic steel companies will likely expand production to alleviate supply shortages caused by the tariffs, analysts said.

"I'm convinced there will be a great deal of investment in the industry," said Nucor Corp. Chief Executive John Ferriola in an interview last week after the president announced the tariffs.

"If we had the assurity that there was going to be a meaningful and comprehensive trade remedy, it would create a willingness to invest in our facilities," Mr. Ferriola said.

Wes Smith, owner of E&E Mfg. Co., a 700-employee Plymouth, Mich., supplier of metal stampings used in the auto industry, monitored the tariff news Thursday with concern and drank a half-bottle of wine when he got home.

Mr. Smith worries about a repeat of 2002, when steel tariffs sent his costs spiking 30% within weeks. His customers—auto makers and other large auto suppliers—were reluctant to absorb any of the cost increase or pass it on to customers, and he worries some could look to Canada or Mexico for cheaper options. "Until we see the particulars, nobody knows," he said.

Bob Tita contributed to this article.

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THE WALL STREET JOURNAL.

Markets
Trump's Tariff Plans Spook Emerging-Market Investors; Export-dependent currencies dropped after president pledges duties on aluminum and steel; emerging markets' 'time in the sun is coming to an end'

By Ira Iosebashvili
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4 March 2018
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English

The re-emergence of global trade fears is confronting investors in once-buoyant emerging markets with a sharp increase in uncertainty over the outlook for growth and investment around the world.

President Donald Trump's pledge to impose tariffs on foreign aluminum and steel hit the currencies of export-dependent countries such as Mexico and Russia and contributed to a 2.8% decline in the MSCI Emerging Markets Index, which measures stock performance, for the week ended Friday.

Many emerging markets rely on raw materials and other exports to sustain their economies, making them particularly vulnerable to changes in commodity markets, especially if the U.S. adopts protectionist measures. Asset values across emerging markets have stalled this year after a long rally was interrupted by a rise in U.S. interest rates, which reduced demand for risky securities and made safer U.S.-issued securities relatively more appealing.

Many are concerned that an extended period of uncertainty could hamper further gains in emerging markets, where returns in recent years have dwarfed those found in developed markets.

Emerging markets' "time in the sun is coming to an end," said Alan Robinson, global portfolio adviser at RBC Wealth Management. "Clearly, the uncertainty on trade doesn't help matters."

Investors pulled a net $4.5 billion out of emerging-market funds in February, ending a 14-month streak of net inflows, data from the Institute of International Finance showed. Emerging-market stocks are down 7.1% from multiyear highs hit in January. The MSCI Emerging Markets Currencies Index has lost 1% from the start of the year through Thursday, after hitting an all-time high earlier this year.

The losses stand in contrast to a rally that has rewarded investors in recent years. Emerging-market stocks have risen nearly 49% since the beginning of 2016, beating out gains in U.S. and European averages. The MSCI Emerging Market Currencies Index is up 17% in the same period, fueled by investors seeking to buy the bonds of developing countries, some of which are denominated in the local currency and offer comparatively high yields.

Part of the week's selling came after Federal Reserve Chairman Jerome Powell told Congress on Tuesday that the U.S. economic outlook remained bright amid stronger growth and inflation. Some investors believe the comments suggested the central bank may begin raising rates at a faster pace this year, a move that could drive up U.S. yields, making emerging markets seem less attractive by comparison.

Currencies that have notched big gains this year may be most vulnerable if markets stay rocky, said Kit Juckes, a strategist at Société Générale. Many of those also belong to countries that have benefited most from trade and a reinvigorated global economy and are heavily dependent on exports.

"If Donald Trump does bad things for global growth, I don't want to be anywhere near currencies like the Mexican peso and South African rand," Mr. Juckes said.

The peso is down 1.4% against the dollar last week, after climbing 6.1% from the beginning of the year until Feb. 23. The rand has lost 3.1%, after a nearly 7% gain in that period. The Russian ruble is off 1.1%, after a 2.7% gain.

A further rise in U.S. bond yields, meanwhile, could hurt countries like South Korea, where rates are low compared with other emerging markets. The Korean won is down 1.2% this year, after rising more than 13% in 2017.

Another worry is China, the world's second-largest economy and the top consumer of many raw materials. Officials there face the task of deflating potentially dangerous bubbles in economic sectors such as real estate, a move that could hurt growth. China's official manufacturing purchasing managers index, a gauge of factory activity, dropped to its lowest level in 19 months in February.

Many investors remain optimistic for the long term, noting that equity valuations in the sector are still more attractive than those in developed markets. Many developing countries have also built up reserves, tamed inflation and scrapped currency pegs, making them more able to withstand periods of global **volatility**.

Markets have also become deeper and more liquid. Emerging markets accounted for nearly 25% of global fixed income in 2017, compared with 2% in 2000, data from Insight Investment showed.

"The macroeconomic picture is totally different," said Gaurav Mallik a portfolio strategist with State Street Global Advisors.

Key countries are doing much better today than they did earlier in the decade, or during the Asian Crisis of the late 1990s, Mr. Malik said.

Still, many are preparing for a bumpier ride.

"The trade where you buy everything and don't worry about anything is over," said Federico Kaune, head of emerging markets fixed income at UBS Asset Management.

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THE WALL STREET JOURNAL.

Heard on the Street
Markets

Why Global Markets Are Still Far From Normal; The widening gap in a key bond trade is one piece of evidence, which also highlights the puzzle of the weaker dollar

By Richard Barley
441 words
19 March 2018
08:22 AM
The Wall Street Journal Online
WSJO
English

The world has felt more normal in recent months, in economic terms at least, with global growth robust and inflation, not deflation, the worry. But things are still far from settled. The widening gap in a key bond trade is one piece of evidence, which also highlights the puzzle of the weaker dollar.

At 2.28 percentage points, the spread between U.S. and German bond 10-year yields is close to the 2.32-point peak of 2016, itself a level not seen since before the Berlin Wall fell in 1989. Before the global financial crisis, the spread was narrower as the U.S. and European economies—and hence monetary policy—tended to move more in tandem. This has been replaced by a vast gulf.

Lately, Treasury yields have

opened the gap again; German yields look puzzlingly low for a world where the outlook is brighter.

One explanation may be that the U.S. economic cycle is more advanced, meaning inflation is more of a concern than in Europe. It also means some are concerned the U.S. might tip into recession sooner rather than later: A U.S. slowdown will hurt everywhere. Global bond yields, like the bund, should remain low if growth is a concern.

Another factor is that the European Central Bank is still in the earliest stages of removing stimulus, having yet to stop bond purchases. Its deposit rate is still negative and a first increase is only expected in 2019. ECB policy ensures short-term yields don't move too much, which limits the ability of long-end rates to rise. That, plus a steeper yield curve, may make bunds relatively attractive for conservative investors, since the ECB is reducing **volatility**.

The renewed widening in the rate differential across the Atlantic also raises anew the question about why the dollar has weakened against the euro. A factor worth considering lies in fiscal rather than monetary policy. A higher U.S. budget deficit needs an offset: both higher yields and a weaker dollar are part of that. The eurozone, meanwhile, isn't about to go on a budget splurge.

What are investors to do? In the longer term there is clearly room for German yields to rise given their low level. But for now, the focus is on the U.S. where rates are moving faster. The gap could get wider still.

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THE WALL STREET JOURNAL.
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Monetary Reform Would Rebalance Trade

By Sean Rushton
890 words
29 March 2018
The Wall Street Journal
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A17
English

Contrary to claims coming from some trade hawks, America's large and persistent trade deficit is not caused primarily by bad trade deals. The U.S. dollar's status as the global reserve currency is at least as responsible as any free-trade agreement or unfair practices. High demand for dollars has tilted the playing field against American exporters and workers. Those arguing against tariffs -- including Republicans courting blue-collar voters in the industrial Midwest -- should be leading the charge for international monetary reform.

Before World War I the international gold standard amounted to an independent, relatively stable and universally accepted global currency. That system broke down during the interwar years. Then, at the Bretton Woods conference after World War II, the victorious Allies decided that the U.S. dollar, backed by gold, would be the international reserve currency to which exchange rates would be fixed. But this "gold exchange standard" was fatally flawed: The world's need for dollar reserves soon outstripped America's gold supply.

In the 1950s and '60s, the U.S. ran big trade deficits with its Cold War allies Japan and Germany, as they rebuilt their manufacturing bases and stockpiled dollars. By the early 1970s, American policy makers were fed up. They severed the dollar's link to gold and allowed the greenback's value to float relative to other currencies, in the hope that it would depreciate and smoothly reduce the trade deficit.

The opposite happened. No longer bound by fixed exchange rates and dollar convertibility, the U.S. government's fiscal discipline broke down. Federal debt as a percentage of gross domestic product, which had been falling since the end of World War II, soon began rising steadily. As a matter of national income accounting, Johns Hopkins economist Steve Hanke has explained, a rising fiscal deficit means a rising trade deficit.

In the bedlam of floating exchange rates, demand for dollars soared. Many nations abhorred having their currencies -- and thus their economies -- jerked up and down because of decisions made by central bankers in the U.S. and other large economies. To defend against crises, especially at times of major U.S. monetary easing or depreciation, foreign governments stockpiled dollars. In 1973 the world held $500 billion in foreign-exchange reserves (in 2017 dollars); last year it was $11 trillion, a 22-fold increase. About two-thirds of total reserves are now denominated in dollars. Because of high global demand, the dollar's international position is always stronger and U.S. interest rates are lower than they would be otherwise. This, in turn, means that America's budget and trade deficits swell in tandem, while U.S. exports are costlier and imports are cheaper, regardless of trade practices.

Such a dynamic has made it difficult for American companies to add manufacturing jobs inside the U.S. Meantime, the finance industry -- driven by profits from trading currencies and hedging the associated risk -- has grown from about 2% of GDP to more than 9%.

Leveling the playing field will require reducing global demand for dollars, first by stabilizing the dollar and other major currencies, then by establishing a new international reserve currency. Here's how to do that:

First, to guide monetary policy, Federal Reserve appointees should commit to targeting the real-time prices of an index of commodities, plus foreign currencies and bonds. Such an approach would have prevented the Fed's biggest recent errors. Easy money in the 1970s and 2000s led to large increases in world dollar holdings, price bubbles and crashes.

Second, the U.S. should invite other major currencies -- starting with the second-largest, the euro -- to stay steady with the dollar. A dollar-euro stability pact, later including Japan and other democracies, would stabilize demand for dollars. A recent International Monetary Fund communique expressed positive sentiments on this front: "We recognize that excessive **volatility** or disorderly movements in exchange rates can have adverse implications for economic and financial stability. We will refrain from competitive devaluations, and will not target our exchange rates for competitive purposes."

Third and most controversial, the U.S. and other leading economies should establish a new international currency for pricing global commodities and settling trade accounts. Nations would keep their own currencies for domestic use, exchanging them for the international currency at fixed rates.

The Nobel laureate Robert Mundell suggested such an international currency, to be backed 50% by gold and 50% by the world's five leading currencies. Rep. Jack Kemp once proposed solving the "reserve currency curse" with a return to the full international gold standard. Other ideas, such as expanded use of the IMF's reserve asset, the Special Drawing Right, are also worth considering.

If the U.S. has reached the end of its rope and is unwilling to feed the world's demand for dollars through its trade deficit, then international monetary reform is the answer. It would put U.S. trade on a more level playing field, enforce fiscal discipline in Washington, and help millions of American workers.

Mr. Rushton is director of the Project on Exchange Rates and the Dollar at the Jack Kemp Foundation.

(See related letters: "Letters to the Editor: Friedman vs. Mundell on Monetary Reform" -- WSJ April 7, 2018)

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THE WALL STREET JOURNAL.

Markets

Money Markets Are Messed Up, With Real Consequences; Banks are paying more to borrow money now than during the 2012 euro crisis, a sign of trouble ahead

By James Mackintosh
834 words
22 March 2018
01:34 PM
The Wall Street Journal Online
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English

The Federal Reserve raised rates just 0.25 percentage point this week, but distortions in the money markets mean many borrowers are seeing their interest rates rise far faster.

The good news is that what look like flashing red alerts about imminent trouble for the banks are nothing of the sort. The bad news is that blockages in the plumbing of the financial system could lead to unpredictable ruptures as the markets adapt to a new monetary regime. The danger signals at the moment are coming from the money markets, where banks are having to pay a bigger premium to borrow than during the 2012 euro crisis. Savers are directing their money to the U.S. Treasury rather than the banks, just as they did in the past two major crises.

The cause this time isn't a panicked flight to safety. Yet, the money-market stress comes amid a transition to a new phase of the financial and economic cycle. It is a time when those who fail to prepare can be exposed—and in the past such shifts have led to the collapse of hedge funds and banks, and even sovereign defaults.

Today's insistent warning is coming from the extra cost that banks pay to borrow dollars from each other—the London interbank offered rate—above where Federal Reserve rates are expected to be over the next three months, measured using the almost risk-free overnight indexed swaps. In the 2007 credit crunch and 2012 euro crisis, the rising Libor-OIS spread was a sign that banks were wobbling.

Something else is going on, though. Other measures of bank credit risk such as credit-default swaps are tranquil, and there is no global shortage of dollars. Instead, the money markets are being distorted by a combination of vast U.S. government borrowing needed for the deficit-financed tax cut and companies shifting offshore money from corporate bonds into cash ready to spend. Regulatory restrictions on balance sheets limit banks' ability to step in and even out the distortions.

The trouble is that distorted money markets have real-world effects. The U.S. Treasury is crowding out short-term financing for the private sector, while the huge cash piles that companies built up are no longer available to finance other companies' bonds.

The result is that the trillions of dollars of loans tied to Libor cost more than they otherwise would, while high-quality, short-term corporate bond yields are up, albeit from low levels. The effect is similar to the Fed having raised rates twice this week, rather than once. The government is paying more on its short-term borrowing, too. The one-year Treasury bill previously tracked the bottom of the interest-rate range set by the Fed, but since the Trump tax cut it has moved up toward the top of the range, 0.25 percentage point higher even before the Fed increase.

None of this is catastrophic, but investors should be ready for hidden nasties to emerge. When markets shift regime, those who gambled everything on the old model get crushed. The first symptom of change came last month, when structured products designed to bet on **volatility** were cleaned out. What else is lurking?

The first to face problems from higher dollar costs are usually offshore dollar borrowers. Speculators have piled into the biggest-ever futures bets on rising cash yields for offshore dollars, known as eurodollars. But so far, there are few signs of stress for dollar borrowers outside the U.S., with cross-currency basis swaps—a way to borrow dollars using foreign currency as security—the least stressed they have been in years.

A bigger danger is what we don't know. Back in 2007, the turning of the financial cycle showed up first in subprime mortgages, then money markets, and finally troubles at British banks. Stock markets carried on up until the autumn, assuming each was an isolated event, before the true crisis arrived in 2008.

The regime shift in 1994 may be a better parallel, because banks are stronger and structured finance is less prevalent than a decade ago. The Fed's surprise rate increases in early 1994 humbled some of the biggest names in finance, with hedge-fund legend Michael Steinhardt shutting up shop the following year. But Mexico was bailed out, and U.S. stocks came through without a serious selloff.

History won't repeat precisely. But tighter financial conditions expose those who have been, as Warren Buffett puts it, swimming naked. The change in the regime is big: from dovish to hawkish, midcycle to late cycle, fearing deflation to fearing inflation. Hopefully the victims of the shift this time won't be big enough to shake the entire system.

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THE WALL STREET JOURNAL.

Politics

Trump Administration Beats Back Warnings on Tariffs; Trading partners, U.S. companies voice concerns over proposal on steel and aluminum

By Andrew Tangel,Harriet Torry and Mike Colias
1,280 words
4 March 2018
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The Wall Street Journal Online
WSJO
English

Corrections & Amplifications

Peterson Institute for International Economics was incorrectly called Peterson Institute of International Economics in an earlier version of this article. (March 8, 2018)

Trump administration officials are pushing back against overseas officials opposed to planned steel and aluminum tariffs and U.S. executives who warn the move could undermine a strengthening American economy.

Manufacturing executives who use the metals to make beer cans, cars, refrigerators and other goods warn of price surges, shortages and retaliatory trade barriers on U.S. exports if the administration follows through on the plan, announced Thursday, to impose 25% tariffs on imported steel and 10% duties on aluminum imports. They also complain that a lack of detail about President Donald Trump's plan has injected unknowns into their business planning.

"It's the uncertainty that has many people concerned," said John Hayes, chief executive of Ball Corp., a major producer of beverage cans and metal food packaging with about 9,000 U.S. workers. "We don't know what products it's on. We don't know from which countries it's on. We don't know how it's going to be implemented."

The administration's most prominent trade hawks took to the airwaves Sunday to play down concerns. They said the U.S. would apply steel and aluminum barriers expansively, leaving no country exempt.

"The notion that it would destroy a lot of jobs, raise prices, disrupt things, is wrong," Commerce Secretary Wilbur Ross said on ABC. He said the tariffs would be valued at $9 billion, a fraction of overall U.S. economic output, which is $19 trillion a year.

The TV appearances capped a weekend of sparring between the U.S. and its trading partners. Mr. Ross dismissed a European Union threat to impose penalties on $3.5 billion of U.S. exports including Harley-Davidson motorcycles , bourbon and denim as a "rounding error." Mr. Trump took to Twitter to say he might push for a tax against European-built cars if the EU retaliates against the steel duties.

Hans Jürgen Kerkhoff, president of the German Steel Federation, said that if the EU doesn't act to head off what he sees as a potential steel glut, "our steel industry is going to be left footing the bill for American protectionism."

The administration is expected to release details of the plan this week, or possibly next. While Mr. Ross and White House trade adviser Peter Navarro said no country would be exempt from the duties, they weren't definitive on the point. Mr. Navarro also suggested some companies might be able to apply for exemptions on some products scarcely made in the U.S.

"There will be an exemption procedure for particular cases where we need to have exemptions so that business can move forward," Mr. Navarro said on CNN.

Many U.S. parts makers fret that the plans could send their business overseas if tariffs drive up domestic prices and fuel inflation for the raw materials they need. They also fear tariffs could have unintended consequences, eventually diverting business away from U.S. steelmakers and shifting manufacturing abroad.

"It's just a terribly disruptive move," said P.J. Thompson, president of Trans-Matic Mfg. Co. in Holland, Mich., which fashions steel into parts sold to auto makers and other manufacturers. "I don't think he's trying to hurt us," Mr. Thompson said, referring to the president. "He's pursuing something other than what economic reality is."

The sheer size of the U.S. economy means the tariffs, by themselves, would have a modest impact on major indicators like growth or the inflation rate, said Seth Carpenter, chief U.S. economist at UBS. Steel and aluminum account for about 1.6% of imports and 0.2% of gross domestic product.

But discrete sectors could be affected, and fallout could reverberate if U.S. trade partners retaliate and Washington responds in turn.

A study last year by NERA Economic Consulting found that a tariff on aluminum imports of 7%, slightly below the 10% tariff Mr. Trump has proposed, would increase aluminum-sector employment by 1,000 jobs annually and boost aluminum output by $850 million a year. But the dent to supply and higher cost to consumers and industries would cause employment in other industries to decline by 22,600 jobs, and total output to decline by $5 billion a year, the study found.

The U.S. has run the experiment on steel tariffs before. In March 2002, President George W. Bush imposed sweeping tariffs and quotas on a range of steel imports before dropping them in late 2003 . The tariffs were responsible for a 3% increase in steel prices and were "extremely disruptive to U.S. firms that rely on steel imports to make consumer goods," concluded a 2003 review of Mr. Bush's move by the Peterson Institute for International Economics.

A 2003 study by research firm Trade Partnership Worldwide estimated that higher steel prices cost 200,000 steel-consuming jobs that year, largely in manufacturing. The entire steel industry employed only 187,500 workers at the time, the report said. Laura M. Baughman, the firm's president and a co-author of the 2003 study, said of Mr. Trump's new tariffs: "steel consumers will get hit again."

Wes Smith, owner of E&E Mfg. Co., a 700-employee Plymouth, Mich., supplier of metal stampings used in the auto industry, worries about a repeat of 2002. His customers—car makers and other large auto suppliers—were reluctant to absorb any of the cost increase or pass it on to customers, and he worries some could look to Canada or Mexico for cheaper options. "Until we see the particulars, nobody knows," he said.

U.S. manufacturers for more than a year have ramped up hiring and production as they cheered Mr. Trump's moves to roll back regulations and overhaul the tax code.

"This is going to unfortunately throw some cold water on that momentum," said Jason Andringa, chief executive of Vermeer Corp., an Iowa maker of construction and agricultural equipment. "It's going to bring a dynamic of risk and **volatility** that we haven't had to deal with in a while."

Following the tariff announcement, Swedish home-appliance maker Electrolux AB said it was putting on hold a planned $250 million investment to modernize and expand a plant in Springfield, Tenn. It said it wouldn't make a decision on the Tennessee investment until it hears more details about the tariffs.

Domestic steel companies, on the other hand, would likely expand production to alleviate supply shortages caused by the tariffs, analysts said.

"I'm convinced there will be a great deal of investment in the industry," said Nucor Corp. Chief Executive John Ferriola. "If we had the assurity that there was going to be a meaningful and comprehensive trade remedy, it would create a willingness to invest in our facilities."

Rebecca Ballhaus, Josh Zumbrun and Bob Tita contributed to this article.

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THE WALL STREET JOURNAL.
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Banking & Finance: As Libor Rises, Borrowers Feel Sting

By Chelsey Dulaney
446 words
3 March 2018
The Wall Street Journal
J
B10
English

A benchmark used to set borrowing costs on trillions of dollars of loans is on the rise, stirring concerns about the effect of higher U.S. interest rates on consumers and businesses.

The three-month U.S. dollar London interbank offered rate, or Libor, surpassed 2% this week for the first time since 2008. That will lift rates on more than $100 trillion in debt and derivative contracts that are linked to the U.S. benchmark, from business and student loans to home mortgages.

Libor has been rising for the past two years as the Federal Reserve has tightened interest rates. But gains have accelerated in recent months, according to RBC Capital Markets strategist Michael Cloherty, because of changes to the U.S. tax code that have encouraged companies to reshuffle bondholdings.

One recent source of worry among strategists and investors has been the widening gap between Libor, which is set among banks, and the overnight index swap, or OIS, rate, which is determined by central bank rates.

That spread has widened sharply recently and this week was at its highest level since 2009.

Back then, the sudden widening in the Libor-OIS spread signaled mounting stress within the financial system, as a liquidity crunch made it more expensive for banks to lend to each other.

Many analysts are playing down the rise in Libor. The Libor-OIS spread remains modest in comparison to its financial-crisis levels, while overall borrowing costs remain historically low and debt levels don't appear troubling.

Still, some consumers and borrowers are likely to feel the sting of rising borrowing costs. Many types of debt pay interest that floats based on the level of Libor, which means a higher rate increases borrowing costs. Higher rates also act as an implicit form of monetary tightening, which could complicate the Fed's plans to raise rates this year without fueling market **volatility** or hampering economic growth and inflation.

"It does increase some people's borrowing costs, but the difference is that back in 2007, you had a lot of wildly overlevered consumers and businesses," said Mr. Cloherty. "At this point, we don't have the same overlevered problem. The increase we've seen in Libor isn't going to meaningfully change the economic outlook."

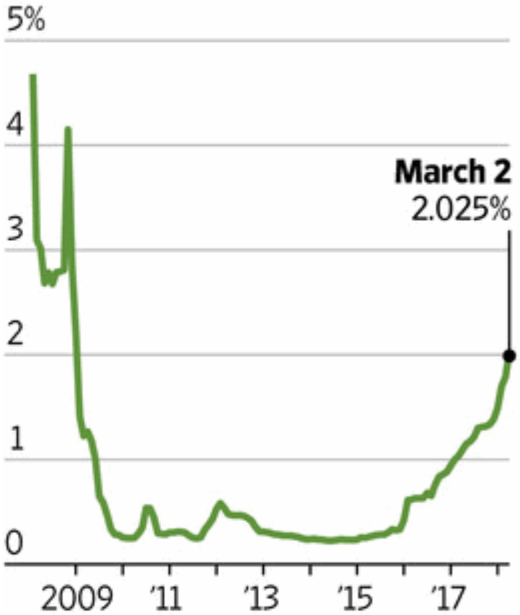
Rising rates can be particularly painful for heavily indebted companies. UBS Group AG this week estimated that there are more than $2 trillion in junk-rated loans that are likely to be hurt by higher rates.

"We are primarily concerned with the estimated $1.1 trillion of loans . . . extended to issuers rated below BB," UBS analysts wrote.

Up and Away

A key rate for short-term lending is on the rise.

Three-month U.S. dollar London interbank offered rate, monthly



Source: WSJ Market Data Group

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THE WALL STREET JOURNAL.

Economy

New York Fed Eyes John Williams as Its Next Leader; San Francisco Fed president would succeed William Dudley, pending approval

By Nick Timiraos
1,243 words
25 March 2018
06:54 PM
The Wall Street Journal Online
WSJO
English

The Federal Reserve system is set to elevate San Francisco Fed President John Williams to the presidency of the New York Fed, one of the central bank's most important positions, just as it faces a potential turning point for setting interest-rate policy.

The New York Fed's board of directors has recommended Mr. Williams for the job, according to people familiar with the matter, to succeed the retiring William Dudley. Mr. Williams would need approval by the Fed's Washington-based board of governors; a final decision could be announced next month.

Mr. Williams, who has done leading economic research that has shaped top Fed officials' thinking on monetary policy, would fill a second leg of a leadership troika now being formed, alongside new Fed Chairman Jerome Powell and the vice chair of the board, a post currently vacant. The Wall Street Journal has reported that President Donald Trump is likely to nominate Columbia University economist Richard Clarida for Fed vice chairman, a job for which Mr. Williams interviewed.

Mr. Williams's background would be unusual for a New York Fed president, who traditionally has had more experience in markets or international affairs. The role involves helping to craft monetary policy and implement it through the **financial markets**, while serving as the Fed's main contact with Wall Street.

But Mr. Williams, a 55-year-old who holds a Ph.D. in economics from Stanford University, could complement Mr. Powell, whose background is in finance and is the first noneconomist in more than 30 years to lead the Fed.

Mr. Powell has been especially keen on having someone in the job with extensive monetary-policy experience, people familiar with the matter said. The desire to give the new chairman a lieutenant with a strong background in monetary policy was shared by the selection committee in New York, these people said.

These people said that emphasis, together with uncertainty over who would be picked as Mr. Powell's No. 2 in Washington, which the White House hasn't moved to fill, helped to boost Mr. Williams's candidacy over other finalists: Raymond McGuire, a longtime official at Citigroup Inc., and Mary Miller, a bond-market veteran who served in top Treasury Department posts earlier this decade.

"John Williams would be a very good choice," said Torsten Slok, chief international economist at Deutsche Bank in New York. "He understands the financial system, he is an outstanding researcher, and he is pragmatic and not bound by a particular dovish or hawkish view—all characteristics that are very important in a Powell-led Fed."

Prioritizing monetary-policy expertise over **financial markets** "would reflect an assessment that New York Fed president is first and foremost a policy job and that the new president will be able to rely on the institutional strength of the New York Fed to support effective market outreach and analysis," said Krishna Guha, vice chairman of research firm Evercore ISI and a former communications executive at the New York Fed.

As New York Fed chief, Mr. Williams also would play a critical role in making technical determinations to manage the paring down of the Fed's $4.4 trillion portfolio of bonds and other assets. Some would prefer a candidate with more markets experience than Mr. Williams has.

"Having someone really immersed in market functioning is going to be really important in all of that," said Julia Coronado, a former Fed economist who is on an advisory panel at the New York Fed.

The selection would disappoint lawmakers and outside groups that have pressed the Fed to diversify its predominantly white, male leadership.

Mr. Williams has been a reliable ally of Fed leadership since becoming the San Francisco Fed's president in 2011, and voted with other central-bank officials to raise interest rates last week. He and other officials signaled that a burst of stimulus from recent government-spending increases and tax cuts could require them to raise rates gradually in the coming years to keep the expansion on an even keel.

As New York Fed president, Mr. Williams would play a formative role shaping how the Fed would judge the balance of risks between keeping rates too low—which could allow the economy to overheat—and raising rates too quickly, which could prevent inflation from rising to the Fed's 2% target. Central bankers believe 2% inflation is good for the economy because it reflects healthy demand and enables businesses to raise prices and wages.

While the unemployment rate, at 4.1%, is at a 17-year low, annual inflation remains below the Fed's 2% goal.

Mr. Williams has noted the risks of holding rates too low for too long, and he has said repeatedly he believes the economy is at full employment, meaning inflation might accelerate if joblessness drops lower.

Mr. Williams has worked in the Fed system since 1994, first as an economist in Washington and after 2002 in San Francisco, where he rose to become the bank's research director under then-President Janet Yellen, who just completed a term as Fed chairwoman.

His influential research at the Fed includes his work with Thomas Laubach, a top Fed economist, on identifying the neutral rate of interest: the inflation-adjusted rate that neither spurs nor curbs growth. Understanding how to glean this unobservable rate is critical to setting Fed interest-rate policy.

Mr. Williams has argued, and many other officials have come to agree, that the neutral rate fell very low during the financial crisis and recession and hasn't recovered much since. This conclusion became a key factor behind the Fed's thinking in keeping its own benchmark federal-funds rate very low in recent years and then raising it slowly and cautiously.

More recently, Mr. Williams has been outspoken in calling on Fed officials to rethink their 2% inflation target, and allow periods where inflation might run higher to make up for times where it runs lower.

More economists say the current target might not work as well in an environment where interest rates are likely to remain lower for longer.

As a Fed researcher in the 1990s, Mr. Williams collaborated with David Reifschneider, another senior Fed economist, to evaluate how interest-rate policy should be managed in an environment of low inflation. The research examined Japan's experience at the time with deflation, with wages and prices chasing each other down. It proved prescient after the 2008 financial crisis when U.S. policy makers had to rewrite their own playbook on how to stimulate growth after slashing interest rates to near zero.

Permanently lower rates would give the Fed less room to cut rates to combat a downturn. "I think we need to think seriously about how we would do one or a combination of these to prepare ourselves better for that next storm," Mr. Williams said in November.

The members of the Fed board of governors are nominated by the U.S. president and subject to Senate confirmation. The 12 Fed reserve bank presidents aren't. Instead, the members of each reserve bank's board of directors who don't represent private banks regulated by the Fed select the leader of the bank, subject to approval by the Fed's board in Washington.

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THE WALL STREET JOURNAL.

Markets

AXA to Buy Insurer XL Group for $15.3 Billion; Deal is latest step by French giant to cut exposure to financial markets and focus more on insurance

By Matthew Dalton and Ben Dummett
918 words
5 March 2018
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The Wall Street Journal Online
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English

French financial giant AXA SA said Monday it would buy XL Group Ltd. for $15.3 billion to create one of the world's largest property and casualty insurers, drawing a sharp rebuke from investors who pushed AXA's shares down nearly 10% in Paris.

Analysts said AXA likely overpaid for a company still struggling after a calamitous hurricane season that has cost the insurance industry tens of billions of dollars. The proposed deal also put AXA into conflict with investors as it prepares to spin off its U.S. life insurance and money-management business to the public later this year.

"From my calls with investors so far, they all point to three things: wrong asset, wrong timing and wrong price," said Gianluca Ferrari, an analyst at Mediobanca. "This is probably adding more institutional investor risk to the U.S. IPO."

AXA said the transaction would cut its exposure to **financial markets** and refocus its business on insurance products that aren't sensitive to swings in interest rates and stock prices. XL, however, presents AXA with a different kind of risk: It is heavily exposed to the business of insuring against natural disasters. The Bermuda-based company lost $560 million last year mainly because of the string of powerful hurricanes that slammed the U.S. and the Caribbean.

AXA Chief Executive Thomas Buberl said he would unload some of that risk when the French giant takes control of XL.

"We will not run the business with the same natural-catastrophe exposure," Mr. Buberl said in an interview.

In light of the XL deal, Paris-based AXA said it would accelerate existing plans to split off its large U.S. life-insurance business in a public offering. That division owns a majority stake in AllianceBernstein, a money manager struggling against competition from cheaper index funds.

XL's shares are trading near a 10-year high, rallying since the beginning of the year after rumors swirled that the company was a takeover target. AXA is offering to pay $57.60 a share, which represents a 33% premium to Friday's closing price. Mr. Buberl said that price is justified by the benefits that will come with the scale of the new business.

"We have significant synergies on the cost side and on the capital side," he said.

The offer for XL dashes the near-term investor hopes that AXA would use the IPO proceeds to buy back shares and for modest acquisitions. The offer also departs from AXA's historical strategy of focusing on bite-size deals and seeking growth in Asia over the U.S. reinsurance market. "Strategically, we think this is not an obvious fit for AXA," UBS said.

Mr. Buberl said that buybacks are still a possibility once the combined business is generating more cash.

AXA's management doesn't face a single large shareholder that could block the transaction. BlackRock Inc. is AXA's largest investor, with a little more than 5% of shares. A BlackRock spokesman declined to comment.

XL generated revenue of $11 billion last year, but hurricanes, California wildfires, two Mexican earthquakes and other catastrophes forced the company to pay out $2.1 billion in damage claims.

Reinsurers such as XL are struggling to raise premiums despite these disasters—which would typically allow the industry to raise rates—amid competition from catastrophe bonds. Such bonds, which essentially package insurance risk as debt, have attracted investments from pension funds and other investors seeking higher returns.

Although global property catastrophe policy rates were up just under 5% at the start of 2018, policy prices were still below those of 2016 even though 2017 marked the "most expensive catastrophe loss year on record," according to a study by reinsurance broker JLT Re.

That is pushing companies with reinsurance businesses to seek greater scale through deals. The purchase of XL represents the second acquisition of a Bermuda-based insurer and reinsurer this year after American International Group Inc. agreed in January to buy Validus Holdings Ltd for $5.56 billion.

The XL deal also highlights a broader consolidation trend in the insurance sector. In February, reinsurance giant Swiss Re AG confirmed a Wall Street Journal report that it was in talks to sell a minority stake to Japan'sSoftBank Group Corp.

To finance the deal, AXA said it would use €6 billion ($7.4 billion) in proceeds from the coming IPO of its U.S. business, €3 billion in cash and issue €3 billion in debt. AXA filed for the offering of the U.S. business, AXA Equitable Holdings, in November with U.S. regulators, though shares have yet to be sold to the public.

"This means we intend to progressively sell down the AXA Group's stake in AXA Equitable Holdings over the next couple of years, subject, of course, to market conditions," Mr. Buberl said.

He cautioned, however, that the IPO wasn't necessary to buy XL.

AXA and XL's boards have both approved the deal but the transaction remains subject to approval from XL's shareholders and regulators.

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Related

* Heard on the Street: Insurer AXA Testing Investor Nerves With Big Price to Get XL

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THE WALL STREET JOURNAL.

Markets
How the Market Might React to Italy's Election; One-party or coalition populist government seen by investors as least likely—but most dangerous—outcome

By Mike Bird
856 words
2 March 2018
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Italy goes to the polls on Sunday, voting in the country's first parliamentary election in five years, and global **financial markets** are sanguine about the vote.

Most analysts say a hung parliament is the most likely outcome , with no party holding a majority.

Nonetheless, investors and analysts have begun to war-game a variety of scenarios—what coalitions might be formed , and how high the risk of a euro-skeptic populist government is to investors.

The most common measure of risk, spreads between German and Italian government bond yields, has actually tightened since the beginning of the year. The FTSE MIB index of Italian stocks has outperformed the broad Stoxx Europe 600 by six percentage points in the same period.

But Italy has been regarded as a weak link in the eurozone in recent years, marred by low productivity and slow growth, and any upset in the polls could ripple through European markets.

A Center-Right Coalition

Aside from a hung parliament, a victory by a four-party coalition of the right and center-right is one of the more likely outcomes, but leaves investors with unanswered questions.

Two of the four parties in the bloc—former Prime Minister Silvio Berlusconi's Forza Italia and the League—are roughly neck and neck in polls. How investors react may rest on which of the two comes out on top, and therefore is able to choose the prime minister.

"We might be a negative, rather than a positive, initial market reaction," if that decision comes down to the anti-European League, according to HSBC economist Fabio Balboni.

What's more, though regarded by many as most likely, such a government may not last the course.

"It is quite possible that the rift between the moderate and populist factions of the center-right becomes unmanageable," said Marco Protopapa, an economist at JPMorgan.

A Grand Coalition

A grand coalition, which could emerge if no group wins an outright majority, is seen by some investors as perhaps the least disruptive outcome, with some continuation of the slow reform process of recent years.

Such a scenario—a coalition of center-right and center-left parties with a majority in parliament—is seen as the most market-positive outcome by Lorenzo Codogno, chief economist at LC Macro Advisors.

"A centrist coalition in the future would be—somewhat paradoxically—a better outcome for markets than an outright majority of the center-right, we believe," said analysts at Credit Suisse in a research note this week.

JPMorgan's forecast for the spread between 10-year German and Italian government bonds suggests a grand coalition could reduce the gap, from 1.4 percentage points to around one percentage point.

However, polling has suggested that former Prime Minister Matteo Renzi's Democratic Party and Mr. Berlusconi's Forza Italia would still fail to reach a majority of seats between them.

A Populist Government

A one-party or coalition populist government is seen by investors as the least likely—but most dangerous—outcome for the vote.

That outcome would either require a surprisingly strong performance by the 5 Star Movement, or an unlikely coalition forming with anti-euro parties like the League. The 5 Star Movement had previously advocated a referendum on Italy's membership in the euro, but has backed away from that pledge in recent months.

"Such a government would be viewed as a worst-case scenario by European partners and **financial markets**," said Mauro Baragiola, an analyst at Citi. "Nevertheless, while possible on paper, we believe it unlikely to happen and impossible to last."

JPMorgan analysts suggest a "non-mainstream government" could see 10-year spreads on Italian government debt surge to three percentage points.

Analysts at research house Eurasia Group suggest such an outcome has a 25% probability, as does Eric Lascelles, chief economist at RBC Global Asset Management.

But most are closer to Holger Schmieding, chief economist at Berenberg, who pegs the chance of the election of a populist government at just 2%.

"Markets have focused correctly on fundamentals," said Silvia Dall'Angelo, a senior economist at Hermes Investment Management. "There's been a realization that an antiestablishment populist government is a distant tail risk."

Gridlock

Of course, there is no absolute guarantee that a coalition able to govern will be established. It is possible that no grouping has the seats or the will to form a coalition government.

The country's new electoral law, a blend of first-past-the-post and proportional representation, has made victories on the part of a single party more difficult.

"Ultimately, would it be such a great surprise if Italy, which has had 62 governments since the end of World War II, does not have a proper government in place for a few months?" said Fabrizio Quirighetti, co-head of multiasset at SYZ Asset Management. "Maybe sometimes it's better to be ungoverned than badly governed."

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THE WALL STREET JOURNAL.

Markets

Crude Prices Higher as Saudi Prince Visits U.S. Rising tensions between Saudi Arabia and Iran seen gelling with President Trump's aggressive stance toward Tehran

By Alison Sider and Christopher Alessi
626 words
20 March 2018
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The Wall Street Journal Online
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Corrections & Amplifications

An earlier version of this article misspelled North Korean leader Kim Jong Un's name as Kim Jon-Un. (March 20, 2018)

Oil prices climbed more than 2% to three-week highs Tuesday as Crown Prince Mohammed bin Salman's visit to Washington raised the prospect of a more aggressive stance toward Iran.

U.S. crude futures rose $1.34, or 2.16%, to $63.40 a barrel on the New York Mercantile Exchange. Brent, the global benchmark, rose $1.37, or 2.07%, to $67.42 a barrel on ICE Futures Europe. Both benchmarks settled at their highest level since Feb. 26.

A closely watched meeting between President Donald Trump and the Saudi crown prince helped shift the oil market's focus to Middle East tensions on Tuesday.

Prince Mohammed has taken a more confrontational approach with Iran, and the Saudi foreign minister, Adel al-Jubeir, on Monday called the multinational deal for Iran to freeze its nuclear program in exchange for easing sanctions a "flawed agreement."

"This rally is greatly aided by comments from the Saudi foreign minister," said Tamas Varga, an analyst at brokerage PVM Oil Associates Ltd.

Mr. Trump has threatened to scrap the Iran nuclear deal, and there have been fresh signals that the administration could pull out of the agreement and move to reimpose economic sanctions, frustrating the Islamic Republic's oil output.

The replacement of Rex Tillerson with Central Intelligence Agency Director Mike Pompeo as secretary of state is expected to boost those in the administration looking to confront Iran more forcefully.

GZC Investment Management said in a monthly letter to clients that renewed sanctions against Iran would take some 600,000 barrels of oil a day off the market.

"Recent developments in North Korea suggest that the U.S. administration could feel empowered by news that Kim Jong Un might seemingly be willing to come back to the negotiation table. So will the U.S. president be tempted to follow suit with Iran and even possibly Venezuela?"

Until there is more clarity on how global events will play out, "it will not be attractive to retain short positions in the oil market," the firm said.

But the crown prince's visit to the U.S. comes as Saudi Arabia is scaling back its ambitions for a public offering for the country's state-owned oil giant, known as Aramco, according to government officials and others close to the process.

The listing, which had been expected to raise as much as $100 billion this year, has been shelved until 2019.

"Without the pressure of the IPO, Saudi Arabia may have less incentive to continue restricting its oil output by more than the required amount, as it has been doing so far," analysts at Commerzbank wrote in a note Tuesday.

OPEC—of which Saudi Arabia is the de facto head—and 10 producers outside the oil cartel, including Russia, have been holding back output by 1.8 million barrels a day since the start of 2017, part of an effort to rein in a global supply glut and boost **oil prices**.

The American Petroleum Institute, an industry group, said late Tuesday that its own data for the week showed a 2.7 million-barrel decrease in crude supplies, a 1.1 million-barrel fall in gasoline stocks and a 1.9 million-barrel decrease in distillate inventories, according to a market participant.

Gasoline futures rose 4.1 cents, or 2.13%, to $1.9659 a gallon. Diesel futures rose 4.25 cents, or 2.23%, to $1.9495 a gallon.

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THE WALL STREET JOURNAL.

Markets
Trump's Tariff Plan Hits Japanese Stocks Hardest; Japan's Nikkei Stock Average Drops 2.5% Friday

By Saumya Vaishampayan, Steven Russolillo and Ese Erheriene
735 words
2 March 2018
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The Wall Street Journal Online
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English

Japan's **stock market** was Asia's worst performer on Friday, as President Donald Trump's pledge to impose stiff tariffs on steel and aluminum imports reverberated through global markets.

The export-heavy Nikkei Stock Average dropped 2.5%. Friday's declines were broad-based, with just three of the index's 225 stocks rising.

Japan's declines stood out even as every major Asian market fell , with declines of more than 1% in Hong Kong and South Korea.

"Japan is bearing the brunt of the antitrade rhetoric ," said Vasu Menon, senior investment strategist in wealth management at OCBC Bank in Singapore. He noted that foreign investors are more exposed to Japanese stocks than other Asian markets.

"If big institutional investors are going to react to this antitrade sentiment coming out of the U.S., the initial reaction is to reduce exposure to Japanese sectors that would be most impacted," he said. They include Japanese steel and auto makers.

Japan giant Nippon Steel & Sumitomo Metal Corp. slid 3.8% Friday while shares of aluminum company Nippon Light Metal Holdings fell 4.5%.

The proposed tariffs have resurfaced concerns about a trade war that could hinder the global economic recovery. Strong trade has fueled economic growth around the world in recent months, underpinning **stock-market** rallies in many trade-reliant Asian nations. That makes markets there especially vulnerable to any shift in sentiment on trade.

"Trade is the biggest risk for me to the global economy," said Rob Carnell, chief economist and head of research for Asia Pacific at ING in Singapore.

The Nikkei rose 19% last year, with the bulk of the gains coming in the second half of the year. But it has been one of the hardest-hit markets in the past month's global pullback, declining 12% from its high on Jan. 23.

Meanwhile, the yen has been strengthening. A stronger yen has historically sparked declines in stocks of Japanese exporters, as it makes their products less competitive globally. That relationship, however, had weakened in recent months .

"You look at how the Japanese yen has been strengthening but the Nikkei has also been resilient," said Tai Hui, chief market strategist for Asia Pacific at J.P. Morgan Asset Management. "A lot of that has been on the view of a better global economy and stronger export performance."

"If protectionism throws that assumption into doubt, then investors might need to reconsider that relationship between stocks and the yen," Mr. Hui said.

The yen recently hit 15-month highs against the dollar and a six-month best against the euro.

The Nikkei was additionally hurt Friday by its exposure to the automobile sector, since car producers will likely have to absorb higher material costs associated with Mr. Trump's proposed tariffs, according to Woon Tian Yong, an analyst at Informa Global Markets. Auto maker Honda Motor Co. dropped 3.2%. Some of Japan's heavyweight vehicle producers also have operations in the U.S.

Some of the broader stock selling could have also been driven by short-term traders motivated by technical analysis. The Nikkei on Friday fell below its 200-day moving average, which is often interpreted as a sign that the market's upward momentum is losing steam.

Ultimately, though, analysts say they are closing following the political and economic environment, and what impact Trump's views will have on the U.S.'s biggest trade partners.

Meanwhile, the Shanghai Composite Index—China was specifically targeted by Mr. Trump's tariffs—quickly bounced back from an early 1% drop before fading in afternoon trading to end down 0.6%. Chinese equities have shown more resilience than other regional markets this week, ahead of a key Communist Party gathering next week.

One reason is that Canada, not China, is the biggest steel exporter to the U.S. With U.S. companies' cost of production likely to increase as a result of the tariffs, firms may question whether to keep production in the U.S. If they don't, a likely destination would be China, said Iris Pang, greater China economist at ING.

"So, is it really bad for China?" said Ms. Pang. "Overall, it may not be."

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U.S. EDITION

Big Banks Score a Win on Munis

By Andrew Ackerman
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7 March 2018
The Wall Street Journal
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B1
English

WASHINGTON -- Bipartisan legislation expected to clear the Senate as early as this week has just one provision that is set to directly benefit the nation's megabanks: a section aimed at making it easier for them to buy state and local bonds.

The provision, championed by Citigroup Inc. and other large banks, would ease a new rule aimed at ensuring banks can raise enough cash during a **financial-market** meltdown to fund their operations for 30 days, requiring them to hold more cash or securities that are easily salable.

Under federal banking rules approved in 2014, those "high quality liquid assets" included cash, Treasury bonds and corporate debt but not municipal debt. Banks like to hold municipal bonds because of their safety and tax advantages.

The Senate on Tuesday voted, 67-32, to formally begin debate on the bill, which primarily benefits small and medium-size banks, easily reaching the 60 votes needed and signaling that the measure has enough support from Democrats to pass by a comfortable margin. The legislation was backed by 16 Democrats and one independent, Maine Sen. Angus King, bucking Massachusetts Sen. Elizabeth Warren and 31 other Democrats who opposed the procedural vote.

Including the municipal-bond provision in the deregulatory bill was a priority for the nation's biggest banks that buy a lot of municipal securities as investments. A Citigroup lobbyist recently told a Senate staffer that the firm would be pleased if easing the treatment of municipal debt under the bank-funding rule was the one thing it could accomplish during the current Congress, said a person familiar with the conversation.

State and local officials have praised the move, saying their securities could suffer if banks begin to shun them.

A Citigroup spokesman said the bond provision "is supported by a wide array of groups focused on helping cities and states address critical infrastructure needs."

While the provision is a victory for Citigroup, the biggest U.S. banks haven't lobbied extensively on the Senate bill, congressional aides said. Big firms have spent billions of dollars to comply with postcrisis rules and generally aren't eager to tear them down.

Analysts have said changing the rule for municipal products would be a mistake because it would erode the core of a bank-safety rule put in place after the 2010 Dodd-Frank law. While municipal securities have relatively low default rates, they are traded thinly and shouldn't count as liquid assets, critics say.

"It's an outrageously bad idea," said Phillip Swagel, a professor at the University of Maryland who served in the George W. Bush Treasury, characterizing the provision as an implicit federal guarantee of the municipal market. In the next crisis, banks will have trouble selling their municipal securities, freezing up the market for them and requiring the government to step in to backstop it, he predicted.

While lawmakers agreed to include the municipal-debt measure, they rebuffed Citigroup and JPMorgan Chase & Co. efforts to water down a separate postcrisis capital requirement known as the supplementary leverage ratio.

That regulation effectively restricts banks from making too many loans without adding new capital, forcing firms to maintain a proportion of capital to fund their assets.

The legislation includes a provision to diminish the leverage ratio in a way that lawmakers say would only benefit financial institutions primarily engaged in "custody services," in which they hold assets on behalf of other banks. Citigroup and JPMorgan, global banks that don't fit the definition but still offer custody services, have argued it is unfair to carve out certain banks from the provision and not others.

"As Congress has sought to make a common sense change to the way capital rules treat custody assets, we have asked that they apply that change to all custody banks to maintain a level playing field in this important business," a Citigroup spokesman said.

Senate aides said lawmakers crafted a delicate compromise that can pass the chamber and don't want to broaden the bill with more provisions helping big banks and risk having the bill fail.

Federal Reserve Chairman Jerome Powell has said that the Fed would prefer that Congress allow regulators to rewrite the leverage ratio rule. Instead, the bill directs regulators to exclude certain assets from the calculation of the leverage ratio for custody banks.

Ryan Tracy contributed to this article.

Lenders Could Get

Help From Senate

The Senate is voting on a bill as early as this week that would make the largest changes to financial regulatory law since 2010, when the Dodd-Frank Act passed. Supporters say it will help small lenders without undoing Dodd-Frank's core tenets. Opponents say the bill cuts protections against consumer abuses and financial crises. Here's what's in Senate Bill 2155.

Help for Regional Banks

-- Dodd-Frank said larger banks must follow stricter rules than smaller ones. It drew the line at $50 billion in assets, leaving about 40 of the roughly 5,670 U.S. banks above it. The bill would effectively raise that threshold to $250 billion in assets, leaving 12 banks facing mandatory annual "stress tests" and other hurdles.

Help for Big Banks

-- The bill would make it easier for big banks to buy bonds from state and local governments.

-- It would lower a capital requirement called the leverage ratio for State Street Corp. and Bank of New York Mellon Corp., two large "custody" banks that predominantly hold clients' assets for safekeeping, rather than lending out client money like traditional banks. Some observers say other big banks in the custody business, including JPMorgan Chase & Co. and Citigroup Inc., may end up qualifying for this help.

Help for Small Lenders

-- Small banks would be exempt from the Volcker rule, which bans banks from making speculative bets.

-- Small banks would file shorter financial reports with regulators, be examined less often and be released from some capital rules as long as they maintain a relatively high ratio of equity to assets.

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THE WALL STREET JOURNAL.

Markets

Gold Extends Winning Streak With Dollar Falling; Despite stocks' gains, some analysts expect market volatility to persist and boost gold

By Amrith Ramkumar
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26 March 2018
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The Wall Street Journal Online
WSJO
English

Gold swung between small gains and losses Monday before closing higher, lifted by a falling dollar despite stocks bouncing back on reports that the U.S. and China have quietly started negotiating to improve U.S. access to Chinese markets.

Front-month gold for March delivery closed up 0.4% at $1,354.40 on the Comex division of the New York Mercantile Exchange in a fourth straight session of gains. Prices have stayed between roughly $1,305 and $1,360 this year and have risen recently with stocks tumbling and some investors seeking safer assets like gold amid worries that protectionist trade rhetoric between the U.S. and China could spark a global trade war.

On Monday, stocks recovered, with some investors interpreting the news of recent negotiations as a sign tariffs and other trade measures might not have a meaningful economic impact. Some analysts had feared higher input costs for manufacturers could lead to less corporate spending and slower global growth.

Although stocks were rising Monday, some analysts expect market **volatility** to persist and boost gold. A weaker dollar was supporting prices by making gold and other dollar-denominated commodities cheaper for overseas buyers. The WSJ Dollar Index, which tracks the dollar against a basket of 16 other currencies, was down 0.4%.

"Choppy equity markets, a subdued dollar and investors buying into safe havens should all help bullion," said Jonathan Butler, a precious metals strategist at Mitsubishi, in a note to clients.

News last week that the Federal Reserve plans to remain on its gradual path of interest-rate increases and is still targeting three total in 2018 also supported gold, which struggles to compete with yield-bearing assets such as Treasurys as interest rates rise.

Still, the Fed signaled it could pick up the pace of rate increases after next year, and some investors think the prospect of higher borrowing costs could limit gold's gains moving forward.

Among base metals, front-month copper for March delivery edged down 0.8% to $2.9605 a pound. Recent trade worries and lukewarm economic data out of China, the world's largest copper consumer, have sent prices down 9.7% this year after they hit a roughly four-year high in late December.

Write to Amrith Ramkumar at amrith.ramkumar@wsj.com

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International New York Times

us

The Facts Behind Trump's Tweet on Amazon, Taxes and the Postal Service; Fact Check

By MICHAEL GOLD
883 words
29 March 2018
International New York Times
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English

President Trump assailed Amazon on Thursday, accusing the online retail giant of paying "little or no taxes to state & local governments," while taking advantage of the United States Postal Service and "causing tremendous loss to the U.S."

The remarks, made in a Twitter post, followed reports that Mr. Trump had expressed an interest in reining in the company. But it was not the first time Mr. Trump has criticized Amazon or its chief executive, Jeff Bezos.

Amazon's **stock price** dropped in early trading Thursday after the president's comments. But his Twitter post lacked important context about the Postal Service and relied on outdated and incorrect facts regarding Amazon's taxes. Here is an assessment of the president's claims.

Amazon Does Pay Taxes

Mr. Trump has made similar claims before about Amazon's tax payments, both as president and a private citizen. After he mentioned it in August 2017, The New York Timesreported:

How outdated? In 2012, Amazon began collecting and paying state taxes in California. Since April 2017, Amazon has collected sales taxes in all states that levy one.

Additionally, in its latest annual report to the Securities and Exchange Commission, Amazon said it paid $957 million in income taxes in 2017. The company previously reported paying $412 million in income taxes in 2016, $273 million in 2015 and $177 million in 2014, according to the commission.

Those totals can include taxes that are paid on state, federal and foreign income — although the filing does not specifically break down the amounts for each.

An analysis published in February by the Institute on Taxation and Economic Policy concluded that Amazon did not pay any federal taxes in 2017. It cited the company's S.E.C. filing in concluding that Amazon took advantage of a variety of tax breaks and credits to avoid paying federal taxes.

Amazon and the Postal Service

Mr. Trump has also previously criticized the relationship between Amazon and the Postal Service. In December, the president denounced the agency on Twitter for losing billions of dollars when it could be "charging MUCH MORE" to Amazon and other shippers.

It is true the Postal Service has consistently reported net losses for a decade; the last time it reported net income from its operations was the 2006 fiscal year. In the 2017 fiscal year, the agency reported a net loss of $2.7 billion; the previous three years, it incurred losses of nearly twice that amount.

The beginning of the 2018 fiscal year suggested the organization was not turning its fortunes around. In the first quarter, which included the December holiday season that typically brings its strongest earnings of the year, the Postal Service had a net loss of $540 million.

Those losses cannot be attributed to Amazon shipments alone, however, and the president's Twitter posts have lacked context. Notably, packages and shipping are areas of growth for the Postal Service that have offset its general shortfalls in revenue.

The Postal Service attributes much of its financial woe to a prolonged decline in the volume of marketing mail and first-class mail — bills, birthday cards and, for example, bridal shower invitations. Its mail business is still its "main source of revenue and contribution," the postmaster general, Megan J. Brennan, said in a statement in February.

In large part because of the internet — online bill pay, Facebook birthday posts and e-vites — the volume of first-class mail being sent through the Postal Service has decreased 43 percent since 2001, when it last peaked.

Still, Mr. Trump's assertion that the Postal Service is leaving money on the table may have some truth to it. A 2017 analysis by Citigroup concluded that the agency was charging below market rates for package delivery.

If that is the case, Amazon, widely believed to be one of the Postal Service's biggest customers, certainly benefits.

The report estimated that if the agency increased its parcel rates, Amazon's shipping costs would rise by about $2.6 billion. Some of that money would presumably go to the Postal Service, which in 2014 handled 40 percent of Amazon's packages, according to one 2015 estimate.

The report also suggested that Amazon's high shipment volume gives it a greater opportunity to negotiate rates with shippers. Amazon has acknowledged in the past that it has an arrangement with the Postal Service, but it has rejected the idea that its shipments are being subsidized by the agency.

In a 2017 statement, Amazon said that its partnership with the Postal Service was "reviewed annually by the Postal Regulatory Commission," which found its contracts to be profitable.

The Postal Service's chief financial officer, Joseph Corbett, has also defended the agency's shipping rates. In a letter in July to The Wall Street Journal, Mr. Corbett wrote that the Postal Service's "competitive package products, including those that we deliver for Amazon," are legally required to cover the costs incurred.

Jim Tankersley, Alan Rappeport and Linda Qiu contributed reporting.

* Trump Attacks Amazon, Saying It Does Not Pay Enough Taxes

* Does Amazon Pay Taxes? Contrary to Trump Tweet, Yes

* As Amazon Steps Up Tax Collections, Some Cities Are Left Out

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THE WALL STREET JOURNAL.

Heard on the Street
Markets

Why Facebook Isn't So Easily Deleted; Social network's huge and highly profitable business makes it difficult to hurt

By Dan Gallagher
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26 March 2018
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Lots of people are angry at Facebook these days. It will likely take many more to make a real difference.

The social network's latest crisis certainly has been a costly one. Regulators in the U.S. and U.K. are now looking into how data on the company's users eventually ended up in the hands of an analytics firm that did some allegedly shady work on political campaigns. In a round of media interviews late last week, Chief Executive Mark Zuckerbergfinally apologized for the fiasco and promised a deeper look into the problem.

But even that didn't arrest the stock's downhill slide. Facebook's share price fell a total of 14% for the week, making for the stock's worst weekly performance since the choppy period following its initial public offering in 2012.

Beyond the punishing decline in market cap, the loss of user trust makes the social networking titan look vulnerable. Facebook's rapid growth over the last five years has been driven by its ability to keep growing its user base at a consistent—and impressive—pace. Average daily active users have grown an average of 43 million a quarter over the past three years. That is the equivalent of adding the population of Argentina to the company's most active group of users every three months. In that light, a campaign to #DeleteFacebook would appear to hit the social network right where it counts.

But it is precisely that sort of scale that also makes it difficult to cause the company real pain. User defections would need to reach some awfully high numbers to make a difference, and it is unclear if public outrage alone will do so. Last year's #DeleteUber campaign resulted in about 200,000 people canceling their accounts with the ride-sharing service, according to the New York Times. Uber at the time also had amassed a long list of public grievances. Yet the damage amounted to less than half of the number of daily active users Facebook accrues every day.

Another difference is that irate Uber riders had other options. Facebook, meanwhile, has no competitors that can come near its scale. Nor does the service seem that disposable for its more devoted users. Active use of Facebook actually has grown rather than declined as the service has become more mainstream. About two-thirds of the company's monthly active users now are checking in at least once a day. That number was 54% in 2010, when Facebook's user base was about one-fifth its current size.

This is why Wall Street has remained sanguine about Facebook despite the stock's meltdown. About 90% of analysts rate the stock as a buy, and that number hasn't changed over the last year as controversies have grown around the company. Facebook isn't just one of the most profitable companies among large-cap techs—it is the most profitable, with operating margins of 50% for 2017. If total costs were to jump 70% this year (more than the company has projected) and revenues grew only 30% (lower than Wall Street has forecast), Facebook still would have an operating margin of 35%, which is higher than any of its U.S.-based big tech peers.

Facebook certainly isn't immune to pain. A tarnished image with a weakened **stock price** is still humbling for a company that could once do no wrong in Wall Street's eyes. But the masses have made Facebook what it is today, and it will take a critical mass of people to actually change it.

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THE WALL STREET JOURNAL.

Markets

Former Equifax Executive Charged With Insider Trading; SEC says Jun Ying sold shares in the company after learning about its data breach last year

By Michael Rapoport and Dave Michaels
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A former technology executive at Equifax Inc . was indicted on criminal insider-trading charges over claims he sold shares in the company after finding out about its large data breach last year , days before it was made public.

Jun Ying, who had been chief information officer of Equifax's U.S. Information Solutions unit, also faces civil charges from the Securities and Exchange Commission .

The charges against Mr. Ying are the first to be filed related to the Equifax breach, in which the personal information of 147.9 million U.S. consumers was compromised, including names, dates of birth, addresses and Social Security numbers.

The charges aren't related to earlier concerns that some top Equifax executives had sold shares soon after Equifax first discovered suspicious activity in its systems in late July. Mr. Ying isn't as senior as those executives, who have been exonerated by an Equifax internal investigation .

Mr. Ying deduced in late August that Equifax had suffered a breach before he was actually informed of it, the SEC said, based on confidential information the company had provided to him. He then exercised all of his vested Equifax stock options and sold the resulting shares, authorities said, garnering more than $950,000 in proceeds 10 days before Equifax publicly disclosed the breach.

"Corporate insiders who learn inside information, including information about material cyber intrusions, cannot betray shareholders for their own financial benefit," said Richard Best, director of the SEC's Atlanta regional office.

Mr. Ying "took advantage of his position," said Byung J. Pak, the U.S. attorney in Atlanta.

Attorneys for Mr. Ying declined to comment. A warrant was issued for his arrest on Wednesday, according to court records. Equifax said it informed authorities of Mr. Ying's trading once the company became aware of it and has cooperated with the government's investigation. "We take corporate governance and compliance very seriously, and will not tolerate violations of our policies," Equifax said.

Equifax had offered Mr. Ying a promotion as companywide CIO just days after the breach was publicly announced in September and the previous CIO had left the company, according to the SEC. The company later rescinded its offer after Equifax senior executives learned of Mr. Ying's trading, the SEC said, and Mr. Ying resigned from Equifax in mid-October.

Mr. Ying, 42 years old, wasn't among the Equifax executives who were told of the breach after the company first learned of it, but he figured out what happened, according to the charges. He was asked to help in responding to what the company then told him was a data breach at a potential Equifax client. When he questioned the move, he was told he had to comply and didn't need to know why.

Immediately after that, according to the charges, Mr. Ying texted one of his subordinates, "Sounds bad. We may be the one breached…Starting to put 2 and 2 together."

Mr. Ying later searched online for information on a past data breach at Equifax rival Experian PLC and how it affected the company's **stock price**, according to the charges. Less than an hour after that, he exercised all of his

6,815 stock options and sold the resulting shares, the charges said. He avoided losses of more than $117,000 that he would have suffered had he not sold until after the breach became public on Sept. 7, the SEC said.

Mr. Ying had worked at Equifax since 2013 and was the company's international CIO before becoming CIO of the U.S. Information Solutions unit. Before Equifax , he worked for Coca-Cola Co . and ING Insurance and founded Meritsoft, a technology consulting firm. He has a degree in physics from the Georgia Institute of Technology and an M.B.A. from Northwestern University's Kellogg School of Management.

A 2016 online profile of Mr. Ying indicated the best advice he had ever received was "speak up more." His current LinkedIn page doesn't mention Equifax by name and said that since last November he has been working on "a little bit of everything. Stay tuned."

Some other Equifax executives, including Chief Financial Officer John Gamble , had previously faced questions about their sale of about $1.8 million in Equifax shares in early August, not long after Equifax first detected suspicious activity in its systems. But in November, an investigation by a special committee of Equifax 's board found Mr. Gamble and the others hadn't known about the breach when they sold their stock. That investigation covered only senior executives and didn't look at Mr. Ying's trading.

Equifax 's handling of the data breach itself remains under investigation by federal regulators and state attorneys general and other regulators.

The company said in its annual report this month that it continues to cooperate with authorities "regarding investigations into the trading activities by certain of our employees" in relation to the data breach.

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THE WALL STREET JOURNAL.

Heard on the Street
Markets

Trump Takes Qualcomm Off the Market; U.S. chipmaker, saved from Broadcom's hostile takeover, now needs to convince investors of its own plan

By Dan Gallagher
535 words
12 March 2018
11:34 PM
The Wall Street Journal Online
WSJO
English

Very few companies can count on the direct protection of the President of the United States. For Qualcomm—which can—that protection may have a price down the road.

In an surprise move, President Donald Trump late Monday ordered Singapore-based Broadcom to call off its unsolicited attempt to acquire Qualcomm for $117 billion in cash and stock. The order cited "credible evidence" that Broadcom "might take action that threatens to impair the national security of the United States" if it came into control of Qualcomm.

This came just a week after the Committee on Foreign Investment in the United States, or CFIUS, decided to look into the matter, citing Qualcomm's role in developing 5G technology—in which the Trump Administration has taken a keen interest.

The order effectively ends a four-month saga that saw Qualcomm, the world's fourth-largest chip company by annual revenue, targeted by a smaller company with greater momentum.

Broadcom's market value is about 16% higher than Qualcomm's despite an annual revenue base that's about 20% smaller. That's thanks to a relentless pace of successful acquisitions that has boosted sales, earnings and cash flow while also endearing the company to Wall Street. About 96% of analysts covering Broadcom rate the stock as a buy.

By contrast, some 44% of analysts felt that way about Qualcomm before Broadcom made its first bid for the company in November. Qualcomm gets most of its revenue from chips used to connect wireless devices to networks. But most of its profits come from the royalties it charges on nearly every wireless device sold today.

That business model has enmeshed Qualcomm in countless lawsuits over the years—including a bruising battle currently raging with Apple Inc.

The fight with the tech giant has weighed on Qualcomm's market value and created the opening for Broadcom. Qualcomm's **stock price** had fallen 15% between the filing of Apple's first suit in early 2017 and Broadcom's first unsolicited offer later that year. The PHLX Semiconductor Index rose nearly 40% over that time.

Mr. Trump's intervention may have thus saved Qualcomm from getting picked off in a time of weakness. But it may also limit options for the future, as the order appears to make it harder for any company to buy or merge with Qualcomm.

That means Qualcomm is on its own, and it will need to make a credible case to investors why it's better to stay that way. Closing its pending acquisition of chipmaker NXP is vital, as well as eventually reaching a settlement with Apple and Huawei – which is also withholding licensing payments.

Longer term, Qualcomm may also need to figure out how to run its licensing business in a way that involves less courtroom warfare. Mr. Trump solved one of the company's problems. It's on Qualcomm to solve the rest.

Write to Dan Gallagher at dan.gallagher@wsj.com

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THE WALL STREET JOURNAL.

Markets

Bill Ackman Surrenders in His Five-Year War Against Herbalife; Activist investor has exited his $1 billion bet against the company, the stock price of which he predicted would fall to zero

By David Benoit
827 words
1 March 2018
The Wall Street Journal Online
WSJO
English

William Ackman is ending his crusade against Herbalife Ltd., in what amounts to a bruising defeat in one of Wall Street's longest-running, most expensive and acrimonious fights.

The activist investor has largely exited his $1 billion, five-year bet against the nutritional products company, sources familiar with the matter said.

It isn't clear how much Mr. Ackman's Pershing Square Capital Management LP lost, but it is likely in the hundreds of millions. Herbalife stock, which Mr. Ackman contended would go to zero, hit a new high of nearly $96 Wednesday on the news, earlier reported by CNBC. The shares closed up 6.3% at $92.10.

Mr. Ackman first alleged in December 2012 that Herbalife, which sells through a network of distributors, was an illegal pyramid scheme and would be shut down by the government. He had personally pledged to take his campaign "to the end of the earth," though he added that Pershing Square would abandon the bet if it got too risky. The company says it is a legal multi-level-marketing organization and fought him at every turn, accusing the investor of market manipulation, which Mr. Ackman denied.

Mr. Ackman's campaign did lead to some major changes and spurred the Federal Trade Commission to investigate Herbalife. The climax of the drama came when Herbalifesettled the probe in July 2016, agreeing to a $200 million penalty over claims it misrepresented earnings prospects for distributors. While the government was critical, it didn't declare the company a pyramid scheme. The government forced changes in how the company operates to prove customers actually buy its products, but allowed Herbalife to continue operating.

Mr. Ackman contended that the government validated many of his claims and that Herbalife would collapse under the weight of new sales rules. He has pointed to changes the company has made and a drop in earnings as further evidence his campaign was on target.

The stock, however, continued to march higher and Herbalife said its problems were in the past and began buying back shares heavily. The buybacks led Mr. Ackman to restructure his bet last year.

Herbalife, from a relatively obscure company, rose to become Wall Street's favorite soap opera.

There was a live television shouting match between Mr. Ackman and Carl Icahn, the activist who became Herbalife's biggest investor in 2013; Netflix aired a full-length documentary that supported Mr. Ackman; and there were star turns by soccer star Cristiano Ronaldo and former Secretary of State Madeleine Albright in support of Herbalife.

Mr. Ackman gave hours of presentations to investors on minutia of Herbalife's operations, speaking so long he had to pause for bathroom breaks. Herbalife built its own website to lambaste Mr. Ackman and showcase negative stories about him.

Mr. Ackman drew both praise and ire from fellow investors, some of whom deliberately piled into the stock to hurt his investment and others who joined him in betting against Herbalife. He tried to take the fight to Washington, urging regulators and Congress to act.

In the end, investors sided with Herbalife and the company—and Mr. Icahn—won. Mr. Icahn now owns 26% of Herbalife and has made over $1 billion, according to filings.

"Bill Ackman put up a great fight and while I really enjoy a great fight, especially when I believe I'm 100% in the right, and I'm certainly happy we won, much more importantly the company is much better off without this distraction," Mr. Icahn said in an interview on Wednesday. "I wish Bill well."

Pershing Square first shorted Herbalife at around $47; factoring in the cost of the bet and lobbying expenses, he originally needed it to fall closer to the $30 range to make a profit. His ultimate losses depend on how much he paid for securities and borrowing costs, which funds don't have to disclose, and the bet was restructured several times.

The Herbalife loss exacerbated a dramatic turn at Pershing Square, which peaked above $20 billion in assets in 2015 only to plunge to $8.9 billion now, partly on a $4 billion loss on Valeant Pharmaceuticals International Inc.

Over the past 12 months, Herbalife stock rose 65%, surging Wednesday after the company announced a new share-repurchase plan and renamed itself Herbalife Nutrition Ltd.

"For those who aren't familiar with us, or may misunderstand us, don't be afraid to get to know us," Chief Executive Rich Goudis said.

Write to David Benoit at david.benoit@wsj.com

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THE WALL STREET JOURNAL.

Heard on the Street
Markets

Broadcom Should Take the Hint; Surprise early review of Qualcomm proposal gives Broadcom another chance to walk away

By Dan Gallagher
471 words
5 March 2018
02:09 PM
The Wall Street Journal Online
WSJO
English

U.S. regulators may have given Qualcomm's investors the gift of time. But Broadcom might be the one to make better use of it.

The gift of time came over the weekend, in the form of a surprise move by the Committee on Foreign Investment in the U.S.—or CFIUS—to review Broadcom's proposed takeover of Qualcomm just two days before Qualcomm's shareholders were due to vote on the matter. That vote, between re-electing Qualcomm's board of directors and an alternative slate proposed by Broadcom, will now be put off for at least a month, per the order from CFIUS.

A review is relatively unprecedented before the two sides even come to an agreement on a merger. But this isn't a normal deal. The merger of Qualcomm and Broadcom would be the largest M&A deal in history and would create one of the world's largest semiconductor businesses. As such, the proposal has always faced a significant risk that regulators could say no—or demand concessions that would make the combination unappealing.

The early review from CFIUS serves as the best indicator yet that this deal won't easily pass muster. Granted, Broadcom has plenty of experience in global acquisitions and has dealt with CFIUS before—most recently in its acquisition of Brocade . The company was also already working to redomicile in the U.S. and out of Singapore, which was a flag of convenience anyway. Hock Tan, Broadcom's Malaysian-born CEO , is a U.S. citizen who graduated from Harvard and currently lives and works in Silicon Valley.

But even a favorable review from CFIUS wouldn't fully remove the significant regulatory risk the deal faces. The combined company would have enormous market power over key components used in wireless devices. That will make other regulators across the globe eye this deal closely. Those could include the Federal Trade Commission as well as regulators in Europe and China—the latter of which is home to fast-growing wireless device manufacturers who have already voiced opposition to the deal.

If the deal comes to a vote, Qualcomm's investors should still tread cautiously. Broadcom, meanwhile, should use the extra time reassess its pursuit of Qualcomm. Broadcom has shed about $11 billion in market value since it first announced its bid. Its **stock price** is also about 23% below the median target set by Wall Street's analysts—nearly all of whom believe the company will do just fine without Qualcomm . U.S. regulators may or may not be intending to show Broadcom the exit door. The company should consider taking it regardless.

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THE WALL STREET JOURNAL.

Markets
Lloyd Blankfein Prepares to Exit Goldman Sachs as Soon as Year's End; Firm's co-presidents, Harvey Schwartz and David Solomon, are leading candidates to replace the 63-year-old CEO

By Liz Hoffman and Joann S. Lublin
1,273 words
9 March 2018
05:15 PM
The Wall Street Journal Online
WSJO
English

Lloyd Blankfein is preparing to step down as Goldman Sachs Group Inc.'s chief executive as soon as the end of the year, capping a more than 12-year run that has made him one of the longest-serving bosses on Wall Street.

Goldman is likely to follow an announcement of Mr. Blankfein's departure with a quick transfer of power and isn't looking beyond Goldman's two co-presidents, Harvey Schwartz and David Solomon, to replace him, people familiar with the matter said.

The timing of any moves could still change, and the 63-year-old Mr. Blankfein is firmly in control of his exit, the people said. The current thinking, though, is that he will retire ahead of or early in Goldman's 150th anniversary year in 2019, a fitting send-off for the history buff .

Mr. Blankfein has often joked he will die at his desk, and his enthusiasm for the job has led many within the firm to believe he might outlast another set of would-be successors. Gary Cohn joined the Trump administration after tiring of life as Mr. Blankfein's understudy. That set off the promotions of Messrs. Solomon and Schwartz and a new chapter in Goldman's succession planning.

That planning effort has intensified of late, people familiar with the matter said, as expectations have risen among top executives and board members that the clock has started ticking on Mr. Blankfein's tenure.

At a Goldman board meeting in February, Mr. Blankfein briefed the bank's fellow directors on what he considers the strengths and weaknesses of his two likely successors, but he hasn't shared his preference, the people said.

The departure would conclude a 36-year Goldman career for Mr. Blankfein, the son of a Brooklyn postal worker who rose to the pinnacle of Wall Street. In 1982, he quit his job as a tax lawyer and joined Goldman's commodities arm as a gold salesman. He rose through the ranks of the firm's trading business and was named CEO in 2006 when Hank Paulson became Treasury secretary.

After this story was posted, Mr. Blankfein tweeted: "It's the WSJ's announcement...not mine. I feel like Huck Finn listening to his own eulogy."

It isn't clear what Mr. Blankfein will do after he steps down or whether he will retain his position as chairman of Goldman's board. His three immediate predecessors left for government service, a path that appears less open to Mr. Blankfein.

Mr. Blankfein has run Goldman longer than anyone since Sidney Weinberg, who died in 1969. Among current Wall Street CEOs, only JPMorgan Chase & Co.'s James Dimon has been in the top seat longer.

Mr. Blankfein steered Goldman through the financial crisis, intact but browbeaten. The firm was publicly vilified, and Mr. Blankfein personally chastised in Washington, for its role in the mortgage meltdown. On his watch, Goldman paid $550 million to the government to settle allegations it had lied to investors about a mortgage bond that later blew up.

The financial crisis humbled Goldman in other ways. Its traders can no longer rely on big sums of borrowed money to juice returns. The resulting stretch of calm markets and simpler investor preferences hasn't favored Goldman, the onetime whiz kid of Wall Street.

Mr. Blankfein has acknowledged that he failed to appreciate how lasting the effects of the crisis would be. He has fielded criticism for being slow to reposition Goldman's trading business, which he ran from 2002 to 2004. Goldman's return on equity, a measure of how profitably it invests shareholders' money, fell from more than 30% before the crisis to 10.8% last year.

Yet the bank's **stock price** has set all-time highs in recent weeks. It closed Friday at $270.77. A shareholder who bought on Mr. Blankfein's first day in June 2006 would have doubled their money, although that performance lagged behind the broader market over that time.

And the firm is on stronger footing in other ways. It has adopted safer ways of funding its operations and has more capital to protect it in the event of another crisis.

As the crisis receded from view, Mr. Blankfein worked to rehabilitate Goldman's reputation and rewrite his own legacy. The bank has dropped some of its trademark secrecy, declared itself a technology company and launched initiatives to support entrepreneurs and women-owned businesses. Goldman is pushing into retail banking, introducing itself— or, rather, Marcus —to millions of consumers.

Along the way, Mr. Blankfein survived a bout with cancer , grew a beard and assumed a role as senior industry statesman . He joined Twitter , where he has espoused socially liberal, pro-business views on issues such as immigration , infrastructure spending and global warming .

Mr. Blankfein said during a television interview last year that he wanted to leave Goldman "stronger than it was when I found it."

The race to succeed Mr. Blankfein currently has two contenders.

Mr. Schwartz, 53, is a karate black belt who ran Goldman's trading division before becoming chief financial officer. Mr. Solomon, 56, is a hard-nosed investment banker who DJs on the side. Their promotions 15 months ago reignited the race for one of Wall Street's most-coveted jobs.

Mr. Schwartz joined Goldman as a derivatives salesman in 1997, working for Mr. Blankfein. Years later, running the trading division as the crisis unfolded, he pushed the firm to stay aggressive as competitors pulled back. The gambit worked: Goldman's traders made $33 billion in 2009, a record unmatched before or since on Wall Street.

In 2013, he was named chief financial officer, where he navigated the political and market forces that reshaped banking after the crisis. He is well-known in Washington and is seen as strongest in the areas of risk and regulation.

Mr. Solomon came to Wall Street in the mid-1980s, selling commercial paper at Drexel Burnham Lambert. He joined Goldman as a rare outside partner in 1999 and for a decade ran its investment-banking arm, which is the firm's most-profitable division.

He is known less as a superstar deal maker than a strong manager, able to marshal Goldman's resources behind big initiatives. He has spearheaded the firm's efforts to lighten the workload for junior bankers and helped drive Goldman's push into lending, which is now the central pillar of its $5 billion growth plan .

When Goldman's CEO job last turned over, in 2006, there was little suspense. Mr. Blankfein was sole successor-in-waiting to Mr. Paulson. This time around, even senior Goldman executives say they can't tell which of the two heirs apparent holds an edge.

Mr. Blankfein isn't giving any hints. At an annual gathering of Goldman alumni in December, when he introduced Messrs. Solomon and Schwartz for a fireside chat, he pretended to forget their names, fumbling in his jacket pocket for his notes.

Write to Liz Hoffman at liz.hoffman@wsj.com and Joann S. Lublin at joann.lublin@wsj.com and Joann S. Lublin at

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The New York Times

The Upshot
A Trade Skirmish Is Underway. That Doesn't Mean a Trade War Is Near.

By Neil Irwin
1,011 words
8 March 2018
03:00 AM
NYTimes.com Feed
NYTFEED
English

Many events of the last week have had the ominous undertones of a destructive global trade war. There was President Trump's seemingly spontaneous announcement of steel and aluminum tariffs, as well as retaliatory threats from close allies, and the president's tweets predicting that a trade war would be easy to win.

It has all felt a little too much as if we're in the early chapters of a history book about a calamitous event.

But there is nothing inevitable about a trade war. In fact, the rebound in the **financial markets** in the last week suggests that the chances of a complete breakdown in the global trade system remain remote, if a little less remote than a week ago.

That's because the Trump administration has mostly paired the president's bellicose language with signals that it will act within the rules of the global trade game. That is especially true if you follow formal documents issued by the relevant government agencies instead of the president's tweets.

This approach was evident Wednesday when Sarah Huckabee Sanders, the White House press secretary, said, "There are potential carveouts for Mexico and Canada based on national security and possibly other countries as well," regarding the steel and aluminum tariffs announced last week.

This implies the administration is seeking to use the tariffs more as a negotiating chit with two of the nation's biggest trading partners.

It was also evident in the relative quiet from the just-finished round of negotiations over the North American Free Trade Agreement in Mexico City. A rule of thumb is that the less the participants are airing in public, the more productive negotiations are behind the scenes.

That's not to say that the steel and aluminum tariffs don't risk economic and diplomatic damage. They are likely to harm industries that use the metals as an input, like makers of automobiles and aircraft. And by invoking national security grounds as cause for the action, the Trump administration may be giving other countries more license to do the same to protect their favored industries.

But for the years ahead, the smart money is on "no trade war, but also no trade peace," as Terry Haines, managing director and head of political analysis at Evercore ISI, put it. The United States could launch a steady stream of actions against trading partners, especially China, and some of them may even prove costly. But Mr. Haines argues it is unlikely that the administration will escalate things in ways that might launch a 1930s-style cycle of rising tariffs and all-out economic warfare, even as the administration turns its focus to China.

"You're going to see tit-for-tat actions, but our view of this is that you're going to get two countries who understand that it is fundamentally more in their interest to cooperate than compete," Mr. Haines said. "They're going to figure out ways to cooperate even in the midst of things that sound like they're escalating."

Scholars who have studied trade disputes have found that trade skirmishes canend with more mutually satisfactory arrangements. One key is for countries to retaliate carefully against what they consider to be unfair practices, targeting politically sensitive industries in the country with which they are clashing. It is a safe bet that negotiators in the United States, China and elsewhere are well aware of this.

The implication of this view is not that an all-out trade war is impossible, just that some of the loose talk about the idea in the last week — including by the president — is getting far ahead of the facts.

Joe Brusuelas, the chief economist at the accounting firm RSM, sketched out what a true trade war would look like.

“The first indicator that a trade war has begun would be the announced intention to withdraw from, or abrogate, current trade treaty arrangements,” Mr. Brusuelas wrote recently.

He contrasts that with “trade spats,” which take place continually, and tariff actions that are rarer but have been used many times without setting off a major economic dislocation. A recent example was the Obama administration’s 2009 tariff on Chinese tires, which did coincide with a rebound in domestic tire production (though it was costly relative to the number of jobs created).

If the United States ignored rulings of the World Trade Organization, or pulled out of Nafta, it could trigger a series of steps including not just tariffs but other restrictions on international commerce, and perhaps limits on the flow of capital across borders and even the expropriation of foreign-owned assets. He does not see that dark scenario as imminent.

“While the U.S. rests on the edge of a trade friction spilling over into a period of trading tariffs, it is not yet on the brink of a trade war,” he said.

What should people who are worried of dangerous escalation watch for?

An early one will be whom Mr. Trump appoints to succeed Gary Cohn as director of the National Economic Council. Mr. Cohn, a Wall Street veteran who announced his resignation after the tariff plan was announced, was a voice for restraint in trade policy. It’s an open question whether his successor will be as well.

Beyond that, an important question is whether the Trump administration continues along with negotiations and measured, narrowly focused tariffs aimed at specific policy goals — or tries to withdraw from or ignore Nafta or the trade agreement with South Korea.

The biggest question of all will be whether the administration will reject the authority of the W.T.O. in the event of an unfavorable ruling, which would undermine a mainstay of global trade governance.

Those risks are out there, and it’s clear that the president’s personal instincts are to run toward risk rather than away from it. But that doesn’t mean a trade war is upon us.

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International New York Times

business

Trump's Tariffs Keep Allies, Markets and Industry Guessing

By JIM TANKERSLEY
1,272 words
24 March 2018
International New York Times
INHT
English

WASHINGTON — President Trump's flurry of trade moves this past week raised uncertainty and confusion among **financial markets**, trading partners, lawmakers and American industry, prompting many to ask what, exactly, his endgame might be.

Just one day before stiff steel and aluminum tariffs were set to go into effect, Mr. Trump offered a temporary 11th-hour reprieve to several allies, including some of the biggest foreign suppliers of steel. Many of them had spent the previous two weeks frantically lobbying the administration for a permanent exemption, but the White House said late Thursday that those nations would have until May 1 to negotiate "satisfactory alternative means" to address the national security threat that America faced from a reliance on foreign metals.

In addition to the metals tariffs, the White House announced levies on up to $60 billion worth of Chinese imports, a move that provoked immediate promises of retaliation by China and sent stock markets into a tailspin.

On Friday, Mr. Trump boasted that his approach would produce better trade deals for the United States, including what he said was a breakthrough in negotiations with South Korea. "Some tremendous trade deals are being made with various countries," he said. "We're negotiating very long, very hard, but very quickly."

But it is far from clear that such agreements will be completed and, if they are, who will be on the winning end.

What is increasingly clear to many on Capitol Hill and in the business community is that the White House is seizing on trade as a negotiating tool, trying to use the nation's economic dominance as leverage to pressure other countries to bend to its will.

"Trump prefers to negotiate at the point of a gun," said Robert E. Scott, a senior economist at the liberal Economic Policy Institute in Washington. But he questioned the wisdom of not outlining the goals of the negotiation at the outset, particularly with allies.

"I think it would have been better to make this explicit when they laid out the tariffs," Mr. Scott said.

The approach is rattling some of Mr. Trump's otherwise ardent supporters, who worry that his unpredictable trade actions could hurt many of the industries and workers he has pledged to protect.

"While serious problems persist in the global steel market, President Trump's steel and aluminum tariffs were a blunt and misaimed response," J. D. Foster, the chief economist for the U.S. Chamber of Commerce, wrote on Friday morning.

Administration officials seem to see the chaos and fallout from blunt trade moves as a cost of doing business in a global economy.

Robert E. Lighthizer, the United States trade representative, struggled on Thursday to soothe farm-state senators on the Finance Committee who worried about Chinese retaliation against their constituents' products.

"Every time we take a trade action, agriculture is in the cross hairs," Mr. Lighthizer said. "It's something we're very sympathetic to," he added, though he did not detail how the administration might try to mitigate that impact.

Commerce Secretary Wilbur Ross was similarly pressed on Thursday by House Republicans and Democrats who, after American companies were forced to apply for steel and aluminum tariff exemptions, called it a chaotic process.

Representative Peter Roskam, Republican of Illinois, described the “ashen” faces he had seen at a company that was being forced to apply for individual exclusions for a large number of the imported products it needed.

Mr. Ross offered him little comfort. “It’s the best we could do, sir,” he said, referring to the department’s process for evaluation those applications.

He later rattled free-trade Republicans when, on CNBC, he agreed that the Chinese tariffs would produce “some ultimate retaliation, but I don’t think it’s going to be the end of the earth.”

Nervous Republicans on Capitol Hill say the administration’s frequently and hastily altered plans to impose the tariffs suggest that Mr. Trump and his aides are devising trade policy on the fly. Even some supporters of the tariffs say it is unclear from the outside how Mr. Trump plans to leverage them to bring about a broader global offensive against the overproduction of the metals by countries such as China.

Other supporters remain optimistic that Mr. Trump will succeed in using the threat of tariffs to win concessions from trading partners that benefit America.

Mr. Trump has long argued that China is cheating under the global rules of trade and has vowed to reduce the United States’ trade deficit with China and other countries. The administration has accused China of flooding the world market with cheap steel, which can make its way to the United States after landing in another country. That argument is what motivated Mr. Trump’s initial declaration last month that he would impose what is effectively a tax of 25 percent on imported steel and 10 percent on imported aluminum from every country in the world.

He has since backtracked, in a series of decisions that have stirred chaos in Washington and abroad. On Thursday, the United States temporarily exempted the European Union, Canada, Mexico, South Korea, Australia, Argentina and Brazil from the tariffs. And the White House raised the specter of another showdown, saying that the tariffs would be lifted only until May 1, pending negotiations, and that it could impose quotas on metal imports from those countries at any point.

Inside and outside Congress, trade experts have found themselves guessing at what is coming next on trade, and whether Mr. Trump has a broader strategy.

A theory in trade policy circles is that Mr. Trump may have announced the tariffs — and set the window for negotiating with allies who are initially exempted — to pressure those allies to impose their own tariffs on steel and aluminum on countries like China and South Korea. Those countries have been identified by the Commerce Department as the worst offenders in global overproduction of those metals.

“Clearly, those are the countries that are the source of most excess capacity,” Mr. Scott said. “So the best thing to do would be to find a way to circle the wagons, and wall off the rest of the world from those bad actors.”

If that is the administration’s goal, it has chosen a curious route to it. For one, it has thus far denied an exemption to Japan, a prominent ally and now America’s largest source of steel that still faces the tariffs. And it temporarily exempted South Korea, which most trade hawks consider a major source of the steel overcapacity problem.

The Korean inclusion points to a second possible strategy, one that is less about walling off excess steel in China and more about using the metals tariffs as a weapon to win trade concessions from individual partners. Mr. Ross seemed to offer some clues on Friday that this was the strategy, when he said a new trade agreement with South Korea would address the tariffs — known in trade jargon as Section 232 — and other issues.

“We believe we are relatively close to a pretty comprehensive resolution with the South Korean government,” Mr. Ross said. “It will encompass, if it goes through, both the 232s and broader trade issues. And we hope by sometime next week to be able to have a real announcement.”

Natalie Kitroeff contributed reporting from New York.

* U.S. Exempts Some Allies From Tariffs, but May Opt for Quotas

* Wall St. Closes Lower, as a U.S.-China Trade War Looms

* Misreading Trump: Ally Japan Is Spurned on Tariff Exemptions

Document INHT000020180325ee3o0000s

International
New York Times

upshot
A Trade Skirmish Is Underway. That Doesn't Mean a Trade War Is Near.

By NEIL IRWIN
1,043 words
8 March 2018
International New York Times
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English

Many events of the last week have had the ominous undertones of a destructive global trade war. There was President Trump's seemingly spontaneous announcement of steel and aluminum tariffs, as well as retaliatory threats from close allies, and the president's tweets predicting that a trade war would be easy to win.

It has all felt a little too much as if we're in the early chapters of a history book about a calamitous event.

But there is nothing inevitable about a trade war. In fact, the rebound in the **financial markets** in the last week suggests that the chances of a complete breakdown in the global trade system remain remote, if a little less remote than a week ago.

That's because the Trump administration has mostly paired the president's bellicose language with signals that it will act within the rules of the global trade game. That is especially true if you follow formal documents issued by the relevant government agencies instead of the president's tweets.

This approach was evident Wednesday when Sarah Huckabee Sanders, the White House press secretary, said, "There are potential carveouts for Mexico and Canada based on national security and possibly other countries as well," regarding the steel and aluminum tariffs announced last week.

This implies the administration is seeking to use the tariffs more as a negotiating chit with two of the nation's biggest trading partners.

It was also evident in the relative quiet from the just-finished round of negotiations over the North American Free Trade Agreement in Mexico City. A rule of thumb is that the less the participants are airing in public, the more productive negotiations are behind the scenes.

That's not to say that the steel and aluminum tariffs don't risk economic and diplomatic damage. They are likely to harm industries that use the metals as an input, like makers of automobiles and aircraft. And by invoking national security grounds as cause for the action, the Trump administration may be giving other countries more license to do the same to protect their favored industries.

But for the years ahead, the smart money is on "no trade war, but also no trade peace," as Terry Haines, managing director and head of political analysis at Evercore ISI, put it. The United States could launch a steady stream of actions against trading partners, especially China, and some of them may even prove costly. But Mr. Haines argues it is unlikely that the administration will escalate things in ways that might launch a 1930s-style cycle of rising tariffs and all-out economic warfare, even as the administration turns its focus to China.

"You're going to see tit-for-tat actions, but our view of this is that you're going to get two countries who understand that it is fundamentally more in their interest to cooperate than compete," Mr. Haines said. "They're going to figure out ways to cooperate even in the midst of things that sound like they're escalating."

Scholars who have studied trade disputes have found that trade skirmishes canend with more mutually satisfactory arrangements. One key is for countries to retaliate carefully against what they consider to be unfair practices, targeting politically sensitive industries in the country with which they are clashing. It is a safe bet that negotiators in the United States, China and elsewhere are well aware of this.

The implication of this view is not that an all-out trade war is impossible, just that some of the loose talk about the idea in the last week — including by the president — is getting far ahead of the facts.

Joe Brusuelas, the chief economist at the accounting firm RSM, sketched out what a true trade war would look like.

“The first indicator that a trade war has begun would be the announced intention to withdraw from, or abrogate, current trade treaty arrangements,” Mr. Brusuelas wrote recently.

He contrasts that with “trade spats,” which take place continually, and tariff actions that are rarer but have been used many times without setting off a major economic dislocation. A recent example was the Obama administration’s 2009 tariff on Chinese tires, which did coincide with a rebound in domestic tire production (though it was costly relative to the number of jobs created).

If the United States ignored rulings of the World Trade Organization, or pulled out of Nafta, it could trigger a series of steps including not just tariffs but other restrictions on international commerce, and perhaps limits on the flow of capital across borders and even the expropriation of foreign-owned assets. He does not see that dark scenario as imminent.

“While the U.S. rests on the edge of a trade friction spilling over into a period of trading tariffs, it is not yet on the brink of a trade war,” he said.

What should people who are worried of dangerous escalation watch for?

An early one will be whom Mr. Trump appoints to succeed Gary Cohn as director of the National Economic Council. Mr. Cohn, a Wall Street veteran who announced his resignation after the tariff plan was announced, was a voice for restraint in trade policy. It’s an open question whether his successor will be as well.

Beyond that, an important question is whether the Trump administration continues along with negotiations and measured, narrowly focused tariffs aimed at specific policy goals — or tries to withdraw from or ignore Nafta or the trade agreement with South Korea.

The biggest question of all will be whether the administration will reject the authority of the W.T.O. in the event of an unfavorable ruling, which would undermine a mainstay of global trade governance.

Those risks are out there, and it’s clear that the president’s personal instincts are to run toward risk rather than away from it. But that doesn’t mean a trade war is upon us.

PHOTO: The Trump administration hasn’t moved the trade goal posts as much as critics think. Aluminum uprights being painted in Delhi, N.Y. (PHOTOGRAPH BY NATHANIEL BROOKS FOR THE NEW YORK TIMES)

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The New York Times

The Upshot
Can the Fed Engineer the Best Economy Since the 1960s? Chairman Powell Is Going to Try

By Neil Irwin
1,001 words
21 March 2018
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NYTimes.com Feed
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English

When Jerome Powell presided over his first policy move as chairman of the Federal Reserve on Wednesday, it was against a backdrop of very good economic news: Unemployment is low and falling; inflation is low and stable; **financial markets** remain buoyant.

That is also the bad news.

That's because there are a lot more ways for the economy to get worse than to get better. Mr. Powell faces the tricky task of trying to keep growth going, and his success as the nation's most powerful economic policymaker will depend on his ability to judge the various risks to the current expansion.

Within the announcement that the Fed will raise its interest rate target a quarter of a percentage point to a range of between 1.5 percent and 1.75 percent, there are signs that Mr. Powell and his colleagues think they can lead the nation to even greater prosperity while keeping the inevitable risks created by that growth — inflation and financial bubbles — under control.

If all goes according to plan, this would imply that the United States economy in 2019 and 2020 will be the healthiest it has been in half a century. Fed officials project the lowest unemployment rate since 1969, paired with more modest inflation than was experienced that year.

To use a common monetary policy metaphor in which a central banker is the driver of a car that represents the economy, Mr. Powell expects to be able to keep going at high speed, even as he taps the brakes harder, and all without the engine overheating.

Mr. Powell delivered crisp answers in his first news conference, which at about 45 minutes was 15 minutes shorter than the sessions typically held by his Ph.D. economist predecessors Janet Yellen and Ben Bernanke (Mr. Powell has a law degree). He said at one point he seeks to take a "middle ground" on policy.

"One risk is we wait too long" on interest rate increases "and have to raise rates quickly and that foreshortens the expansion," Mr. Powell said. "We believe that the middle ground consists of continued gradual increases in the federal funds rate," which is the short-term rate the Fed targets.

The written materials published Wednesday about the rate increase — which signal the views of Mr. Powell and the entire policymaking committee he leads — included new language that "the economic outlook has strengthened in recent months."

And, consistent with that view, the policymakers' economic projections represent meaningful upgrades from those officials' expectations in December. The median Fed official now expects gross domestic product to rise 2.7 percent this year and 2.4 percent next year, up from the previous projections of 2.5 percent and 2.1 percent.

They now expect the jobless rate to decline to 3.6 percent from the current 4.1 percent, and stay there through the end of 2020. Even in the boom of the late 1990s, the jobless rate reached 3.8 percent for only a single month and never fell below that level.

In the Fed's projections, this would be accompanied by inflation that rises to — and just temporarily above — the 2 percent target the central bank has set. The Fed has long asserted that it is just as dissatisfied when inflation comes in below the number as above it. But investors have been skeptical; with the median forecast of 2.1 percent inflation in 2020, Fed officials have put their projections where their mouths are.

Those economic projections signal that Mr. Powell and his colleagues believe they can keep running the economy a little hot with mainly good results.

But they seem to believe that a more aggressive shift toward higher interest rates will be needed to keep that benign future intact. This very rosy vision for the economy in 2020 depends, if you take their projections and comments at face value, on the Fed's stepping up its rate increases.

Just focusing on the median of Fed officials' forecasts for interest rates, as Mr. Powell emphasized in his news conference, can mask the degree of the shift.

In December, the "central tendency" of Fed officials' projections was for an interest rate target of between 2.4 and 3.1 percent at the end of 2019; that range has now shifted up to 2.8 percent and 3.4 percent.

In effect, Mr. Powell seems to be rejecting ideas recently put forward by various economic pessimists.

For those who argue that the economy is hurtling toward overheating caused by a tax-cut-induced sugar high, the Fed's message is that rapid growth is more sustainable than pessimists suggest. For those who argue that rate increases will choke off an expansion that is only now starting to provide broad benefits to Americans, the Fed is signaling confidence that the labor market will keep improving despite faster rate increases. For worriers about financial bubbles, the Fed is signaling that it believes the risk is low and manageable.

There's another old metaphor that compares being a central banker to the driver of an automobile: The job that Mr. Powell and his fellow policymakers face is like driving a car by looking only in the rearview mirror.

That is, you can really know only what happened in the past, while making decisions about what will happen in the future. And by the time the data gives you definitive evidence of what is happening, it will probably be too late to act on that knowledge. He's barely a month into the job, but we'll soon find out just how skilled a driver Mr. Powell really is.

Jerome Powell, the Fed chairman, at a news conference on Wednesday. "One risk is we wait too long" on interest rate increases "and have to raise rates quickly and that foreshortens the expansion," he said. | Alex Wong/Getty Images

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The New York Times

Business/Financial Desk; SECT
Fed Raises Interest Rates for Sixth Time Since Financial Crisis

By JIM TANKERSLEY
1,184 words
22 March 2018
The New York Times
NYTF
The New York Times on the Web
English

The Federal Reserve raised interest rates on Wednesday by a quarter of a percentage point and signaled that the central bank is on track to raise rates twice more in 2018.

â– The Fed said it would raise its benchmark interest rate to a range of 1.5 percent to 1.75 percent, marking the sixth time since the financial crisis that it has raised rates.

â– The Fed said at the conclusion of a two-day policy meeting that the economy continues to strengthen and that it expects to increase rates another two times this year as it pursues a return to more normal interest rate levels. Officials also increased their expectations for economic growth this year in the United States, declaring that ''the economic outlook has strengthened in recent months.'' They said they expect to raise interest rates three times next year, an increase from the two increases in 2019 that they forecast in December.

â– Jerome H. Powell, the new Fed chairman, expressed optimism about the current economic picture and said officials were trying to strike a balance between raising rates too slowly or too quickly. ''We're trying to take that middle ground,'' he said in a news conference following his first policy meeting as head of the central bank. Mr. Powell, a former Fed governor, succeeded Janet L. Yellen last month.

Slow and Steady

The Fed, under Ms. Yellen, pursued gradual rate increases and a highly choreographed sell-off of the portfolio of bonds it bought to help prop up the economy after the 2008 financial crisis. Mr. Powell was among the governors who voted for that approach, and the announcement on Wednesday signaled he will maintain it, particularly if economic growth continues to accelerate and unemployment remains at or below the 4.1 percent level it reached in February.

The announcement underscores the Fed's gathering confidence in the economy as well as its focus on the potential for inflation, which has remained persistently muted throughout the expansion. Officials raised their median estimates for economic growth this year to 2.7 percent, up from 2.5 percent in December. They raised their estimate for growth in 2019 to 2.4 percent, up from 2.1 percent. They now expect the unemployment rate to fall to 3.8 percent this year and 3.6 percent in 2019, a low level by historical standards. In December, officials said they expected unemployment to be 3.9 percent both this year and next.

Officials' growing optimism tracks with the expectations of many Wall Street analysts. ''We think Fed officials will view the growth and inflation data in recent months as encouraging,'' analysts at Goldman Sachs wrote in a research note ahead of the meeting, ''particularly with tax cuts now implemented and with an additional fiscal boost from federal spending arriving this year.''

Three Increases

Fed officials indicated they are likely to raise rates a total of three times in 2018, in keeping with their projections in December. But officials were divided, with slightly less than half indicating they expect to raise rates at least four times this year. By a slim margin, officials said they expect an additional rate increase to come in 2019, for a total of three increases that year.

In his news conference, Mr. Powell left the door open to more or fewer than three increases this year, depending on economic conditions. ''Like any set of forecasts, those forecasts will change over time,'' he said. ''It could change up. It could change down''

Some analysts say a short-term economic stimulus from Congress -- in the form of a $1.5 trillion tax cut and federal spending increases -- could eventually push the Fed to add a fourth rate move.

A portion of the voting membership of the committee rotates every year among the Fed's regional bank presidents. The new members tend to worry more about inflation than those they replaced. Even some members who have fretted more about growth than inflation appear to be shifting their calculus.

Lael Brainard, a Fed governor who has been less hawkish than many of her colleagues, said in a speech this month that in many ways, "today is the mirror image of the environment we confronted a couple of years ago."

"In the earlier period, strong headwinds sapped the momentum of the recovery and weighed down the path of policy," she added. "Today, with headwinds shifting to tailwinds, the reverse could hold true."

Bullish on growth

Fed officials signaled in several ways that they see the economy strengthening. Along with raising their growth forecasts, they declared in a statement that "economic activity has been rising at a moderate rate" and that "job gains have been strong in recent months." In January, officials described both economic activity and job growth as "solid."

The statement also declared, in a change from January, that "the economic outlook has strengthened in recent months." It said officials expect the inflation rate to move up "in coming months." In January, officials said they expected inflation to increase "this year."

That increased optimism appears to downplay lingering uncertainties in the recovery, including structural issues like a ballooning debt load and trade barriers that could turn the economy's tailwinds back into headwinds. Recent data suggest that economic growth is falling short of expectations for the first quarter. Wage growth appears to be improving, but the signs are mixed. Markets have been rattled in recent weeks by Mr. Trump's tariff plans and embrace of a potential trade war.

Powell's Big Performance

Mr. Powell emphasized the strength of the economy in the opening remarks of his news conference, while largely steering clear of topics such as President Trump's pending tariffs and tax cuts.

The new chairman highlighted strong recent monthly jobs gains, the low unemployment rate, improving labor-force participation and a fiscal boost from federal tax cuts and spending increases. He said "there's no sense in the data that we're on the cusp of a sudden acceleration in inflation."

He was asked repeatedly about trade, including about Mr. Trump's coming tariffs on imported steel and aluminum and a pending administration decision to target China with a new set of tariffs and other trade actions. He said trade policy was emerging as an point of concern among business leaders who speak to Fed officials, but he downplayed the administration's actions as an immediate threat to growth.

"There's no thought that changes in trade policy should have an effect on the current outlook," Mr. Powell said, though he later added that officials could grow more concerned if the dispute escalates and other countries retaliate with tariffs of their own.

He declined to discuss any actions related to China, whose trade practices have come under mounting criticism from the Trump administration. "We don't do trade policy here at the Fed," Mr. Powell said, "and I would be reluctant to comment on any particular policy with any particular country."

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Business Day
Puerto Rico's Positive Business Slogans Can't Keep the Lights On

By Matthew Goldstein
1,964 words
5 March 2018
02:41 PM
NYTimes.com Feed
NYTFEED
English

SAN JUAN, P.R. — The message coming out of an investment conference here in February was simple and optimistic: "Puerto Rico is open for business." Attendees noted San Juan's crowded restaurants and traffic-choked streets. The capital city seemed to be bustling.

But more than five months after Hurricane Maria plowed through Puerto Rico, some parts of the island are still in the dark. It is a long, long way from being back in business.

The annual conference itself — designed to showcase the United States territory's business opportunities — had to be rescheduled because of the slow pace of the recovery. As it was, attendance was down. The billionaire John A. Paulson, a major hotel owner on the island and a featured speaker at previous conferences, wasn't there. Nor were other prominent hedge fund managers with investments in Puerto Rico.

Everywhere you look, there are reminders of how long it will take for the economy to get back even to the beleaguered state it was in on Sept. 20, when Maria hit as a powerful Category 4 storm.

The night before the conference started, parts of San Juan were plunged into darkness for several hours because of an explosion and the resulting fire at an electrical power station. The island's patchwork power grid remains fragile. Hundreds of thousands remain without power.

Government relief workers have installed 57,000 blue tarps as makeshift roofs on damaged homes across the island. There's no plan for installing permanent roofs.

Major intersections in San Juan still lack working traffic lights.

More than 10,000 small businesses — nearly 20 percent of the island's total — remain closed. At the upscale Mall of San Juan, two anchor stores — Saks Fifth Avenue and Nordstrom — are shut because of storm damage, although Nordstrom may reopen in a few months.

Some hotel workers, cabdrivers and bartenders in San Juan have been living without power since September.

The most optimistic estimate is that Puerto Rico faces a two-year economic recovery. That assumes it can rebuild its power grid, restructure its finances in a court-supervised process and not get hit by another devastating storm.

Before Maria, things were already bad. Some 45 percent of the island's 3.4 million residents lived in poverty, the unemployment rate was 10.5 percent, and more than 16,000 homeowners were facing foreclosure.

"This is like the perfect storm of an economic disaster," said Javier E. Zapata-Rodríguez, deputy director of economic development for PathStone Enterprise Center, which advises small businesses in Puerto Rico. "There is not enough capital flowing, and a lot of small businesses are closing up shop because they were ailing before the hurricane."

A major problem is that insurance claims are being paid too slowly and 60 percent of household requests for federal emergency grants are being denied. That means fewer dollars are churning through the local economy, when not much money is coming in from elsewhere.

Tourism, which accounts for about 6 percent of the island's economy and supports more than 60,000 jobs, is all but gone for this season.

Nearly a dozen big resorts in and around San Juan — including El Conquistador, the Caribe Hilton, the Ritz Carlton and El San Juan — are closed. Many hotels that are open are filled not with tourists but with relief workers and government contractors who are staying at discounted rates.

An electronic sign outside the Condado Plaza Hilton, owned by the Blackstone Group, the private equity firm, periodically flashes: “Rooms for relief work and government work available.” Blackstone, which also owns El Conquistador, said it had been paying salaries and providing health benefits to hundreds of furloughed workers.

Others associated with the tourism business are just scraping by.

“Right now, 90 to 95 percent of our business is down,” said Nancy Matos, who with her husband owns GSI Puerto Rico, which organizes outings for tourists. The 25-year-old business has been hurt by limited access to El Yunque National Forest, a tropical rain forest that suffered major storm damage. GSI, which normally employs up to 80 people, is down to about 30. The company hopes to get some business from relief workers.

As many as 200,000 residents have left to live on the mainland. Some companies that are trying to reopen are struggling to find people who can work on construction projects or in factories to produce steel.

A report last year by the Federal Reserve Bank of New York found that four months before Maria, 36 percent of Puerto Rico’s small businesses planned to hire more workers and 50 percent planned to invest in new equipment and technologies.

The storm laid waste to those plans.

In Ponce, a city on Puerto Rico’s southern coast, PathStone is helping 200 small businesses get financing, find workers and retrain them if necessary.

A few weeks ago, PathStone, in partnership with the New York Fed, staged a daylong event for small businesses seeking financing from banks and other lenders. Representatives from 170 businesses showed up in search of help, Mr. Zapata-Rodríguez said. About a third of the companies that PathStone works with in Puerto Rico do not have reliable electrical power, he added.

The fragility of the power grid remains particularly frustrating. On Thursday, hundreds of thousand of customers — many in San Juan and along the island’s northern coast — lost power in the middle of the workday. Generators considered optional before Maria are now a necessity. Starbucks is moving to ensure that most of its 26 stores in Puerto Rico, two of which are still closed, have generators.

The power failure interrupted a meeting that David Rodriguez was having in Caguas to discuss plans for a new business involving the sale of solar-powered generators.

Mr. Rodriguez, who was born in Puerto Rico and runs a telecommunications engineering firm in Rochester, N.Y., returned to the island in December to visit family. He was alarmed to find his uncle living with a gasoline-powered generator running inside the house — a serious health risk. His uncle said he was keeping the generator indoors because he was afraid it might be stolen if it was outside.

That experience led Mr. Rodriguez to start a company, InverSol, to make small solar generators that can be installed on roofs and provide at least some power during blackouts. The company eventually could employ up to 70 people and produce up to 7,000 generators a year for $2,000 each.

“We want to get some basic humanity back,” Mr. Rodriguez said.

One challenge, however, has been finding an undamaged location that can be quickly converted into a factory. He is working with PathStone to hire former farmworkers who have experience using heavy equipment.

The search for qualified workers is troubling a broad swath of businesses.

Frankie Vazquez Marrero runs a business that sells precast walls and structured steel. He employed 22 workers before Maria. Now he is down to three. Many of his best workers left the island or are trying to move into other industries. He is still waiting for the company’s insurer to cover some of its storm-related losses.

“We lost our very best workers, and the new hires don’t have the knowledge,” he said.

Things could be worse in Puerto Rico. Auto sales were up 21 percent in January, in part because people needed to replace damaged vehicles, said José Villamil of Estudios Técnicos, an economic research firm. Fewer people are falling behind on mortgage payments, according to the data firm Black Knight. The construction industry is growing.

At the investment conference, there was much talk about how Puerto Rico's low-tax environment will draw investors from the United States and China. Others were **bullish** about the island's growing reputation as a haven for cryptocurrency start-ups. Brokers from Sotheby's International Realty worked the hallway outside the conference room, trying to drum up interest in luxury waterfront homes in the nearby community of Dorado.

But many overseas investors are waiting to see what happens with the island's electrical grid and a moratorium on home foreclosures that a federal housing agency just extended until mid-May.

Billions of dollars from Washington are starting to flow, for rebuilding the electrical grid and for housing and urban development projects. But the package is well short of the tens of billions that experts have said are needed.

And insurance money is just trickling in. So far, 299,999 claims have been filed by homeowners and businesses but just $1.7 billion in payouts have been approved, according to the insurance department.

Much of the federal money is being dispensed as grants and loans that businesses and individuals apply for from the Federal Emergency Management Agency and the Small Business Administration, among others. The typical household FEMA grant is a few thousand dollars.

Lawyers and community groups complain that FEMA has rejected about 60 percent of the 1.1 million household applications it has received. The agency said that figure was misleading because some rejected applicants had received loans from the Small Business Administration or aid from other agencies.

One reason for the rejections is that many Puerto Ricans cannot prove that they own a home. Only 65 percent of properties in the territory are officially registered with the government. The problem is especially acute in small cities and rural areas where there's a custom of property owners not recording titles to homes.

In Loíza, an oceanfront community of 30,000, damage to homes and businesses was extensive. Many small businesses in the town were closed for months and may never reopen. Power was restored to most residences and businesses only in the first week of February.

Federal funds are only trickling into Loíza, and housing groups said one reason for the slowness was the small proportion of homes there, perhaps 20 percent, that are officially registered. In a makeshift FEMA center, agency workers allowed property owners to submit a written declaration that they owned their home. But advocates said some were still being rejected.

Nearby, stray horses ambled along the beach.

The halting pace of the economic recovery worries business leaders like Eli S. Sepúlveda Morell, an executive vice president at Banco Popular, Puerto Rico's largest lender. His biggest concern is a shortage of qualified workers, especially in construction.

Mr. Sepúlveda Morell cautioned against excessive pessimism about Puerto Rico's prospects. "But," he said, "it's too early to be extremely positive."

Follow Matthew Goldstein on Twitter: @mattgoldstein26.

* Wall Street Firms Gambled on Puerto Rico. They're Losing.

* The Next Crisis for Puerto Rico: A Crush of Foreclosures

* Four Senators Seek Longer Foreclosure Delay in Puerto Rico

More than 10,000 small businesses in Puerto Rico remain closed five months after Hurricane Maria devastated the island. | Eric Rojas for The New York Times | Blue tarps like this one, photographed in December, have been installed as makeshift roofs on tens of thousands of homes. | Mario Tama/Getty Images | The Ritz Carlton near San Juan, P.R., remains closed during reconstruction. | Eric Rojas for The New York Times | The Blackstone Group, which owns the Condado Plaza Hilton, said it had been paying salaries and providing health benefits to hundreds of furloughed workers. | Eric Rojas for The New York Times | David Rodriguez, center, returned to his native Puerto Rico to discuss plans for a new business involving the sale of solar-powered generators. | Eric Rojas for The New York Times | Businesses and homeowners have filed nearly 300,000 insurance claims, and $1.7 billion in payouts have been approved. | Eric Rojas for The New York Times

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The New York Times

Business Day
U.S. Treasury Auctions, and a Report on Inflation in February

By The New York Times
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11 March 2018
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NYTimes.com Feed
NYTFEED
English

Here's what to expect in the week ahead:

ECONOMY

Big sale week ahead for Treasury debt. .

The supply of government bonds hitting the market has been increasing this year as budget deficits rise in the wake of the Republican tax cuts. At the same time, inflation concerns could prompt investors to ask for higher interest rates from Uncle Sam, when the Treasury auctions $21 billion in 10-year notes and $13 billion in 30-year bonds on Monday and Tuesday. Weak demand for Treasury debt at auction would push government borrowing costs up and could reverberate throughout **financial markets**. Matt Phillips

AUTO INDUSTRY

Volkswagen may be pressed on diesel experiments.

Volkswagen's management board will hold its annual news conference on Tuesday in Berlin. Matthias Müller, the carmaker's chief executive, will probably want to focus on new products like the Vizzion, a roomy battery-powered sedan that Volkswagen plans to begin selling in 2022. But reporters are sure to quiz him on less pleasant topics, like experiments on monkeys that Volkswagen and other German carmakers commissioned in a botched attempt to prove that diesel fumes are benign. Jack Ewing

ECONOMY

Inflation probably slowed in February.

Last week's jobs report showed strong hiring but sluggish wage growth. That cheered investors, who have been worried that the tightening labor market could lead to faster inflation. Still, those fears haven't gone away. On Tuesday, investors will get another chance to weigh inflation risks when the Bureau of Labor Statistics releases data on consumer prices in February. Economists surveyed by Bloomberg expect the report to show that inflation cooled a bit last month after picking up unexpectedly in January. Another surprise uptick could spook markets. Federal Reserve policymakers will be watching closely, too: Tuesday's report will be one of the last major data releases before the central bank's March meeting, Jerome Powell's first as Fed chairman. Ben Casselman

Draghi may signal European bank's next steps.

Mario Draghi, the president of the European Central Bank, will be the keynote speaker at a gathering on Wednesday in Frankfurt of economists and analysts who specialize in monetary policy. In the past Mr. Draghi has used the annual conference, known as "The ECB and its Watchers," to explain and justify central bank policy. Attention on the central bank is intense because of uncertainty about when it will end the bond purchases it has been using to hold down market interest rates and stimulate the eurozone economy. Jack Ewing

RETAIL INDUSTRY

February consumer spending expected to bounce back.

The Census Bureau is scheduled to report February’s retail sales data on Wednesday. Analysts are looking for consumer spending to bounce back after an unexpected slump in January. One area of weakness, however, could come in the auto sector where car companies showed signs of a slowdown last month. Michael Corkery

Volkswagen’s new electric Vizzion at a car show in Geneva. The carmaker holds its annual news conference Tuesday. | Martial Trezzini/Epa-Efe/Rex/Shutterstock | Mario Draghi, president of the European Central Bank, is the headliner at a meeting of economists Wednesday in Frankfurt. | Ralph Orlowski/Reuters

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THE WALL STREET JOURNAL.

Business

Today's Top Supply Chain and Logistics News From WSJ; Delivering up-to-the minute news, analysis, interviews and explanatory journalism on logistics, supply-chain management, e-commerce and more

By Paul Page
1,110 words
5 March 2018
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WSJO
English

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Supply chains at the center of the U.S. industrial sector may undergo a wholesale overhaul under potential new tariffs on imported steel and aluminum. Suppliers and manufacturers from the food industry to automobile parts makers are examining their sources and orders of raw materials as well as their sales commitments as they look at the possible impact of the Trump administration's plan for 25% tariffs on imported steel and 10% on aluminum. The WSJ's Andrew Tangel and Mike Colias report the tariffs raise the specter of price spikes, supply shortages and retaliatory trade barriers, bringing new uncertainty to businesses that had been growing more confident through an industrial rebound. Many U.S. parts-makers worry that the plans could send business to overseas competitors, if tariffs drive up domestic prices. Still, some suppliers say the tariffs could help them compete with overseas companies that ship cheaper parts into the U.S. And steel makers discount the idea of shortages, saying they'll ramp up production if higher prices make the investment worthwhile.

The fallout from new U.S. trade barriers may reach far beyond steel mills. Officials from Europe, Canada and Japan were among leaders raising alarms over the Trump administration's planned import curbs, and the WSJ's Ben Leubsdorf and Rebecca Baullhaus write that goods including Harley-Davidsonmotorcycles, Kentucky bourbon and bluejeans could be targeted under retaliatory actions. President Donald Trump has upped the ante, saying the U.S. could respond with new tariffs on European car exports. That would hit even more U.S. operations that depend on U.S. trade: German's BMW AG makes vehicles in South Carolina and it exported more than 200,000 of them through the state's Port of Charleston last year. Agriculture exports may face the biggest worries in a trade war, however. The U.S. exported some $12.4 billion in soybeans to China last year, and shipments of dairy, almonds, blueberries, apples, beef and pork also could suffer if countries retaliate against the new U.S. levies.

CSX Corp. believes a streamlined freight rail network will get shipments moving faster and with more certainty. Chief Executive James Foote is putting more details to investors and shipping customers on his plans for the carrier since taking over after the death of leader Hunter Harrison in December, and he's describing a business that will be leaner, more profitable and more focused on service. The WSJ's Paul Ziobro and Jennifer Smith report that CSX plans to cut its annual capital spending by about 20% as the railroad pushes to drop real estate and streamline operations to eliminate "tens of thousands of touches" of the carloads and intermodal volumes on its network. That would keep the network flowing more smoothly, but the smaller footprint also could mean relying more on regional railroads and third-party providers to get loads in place to connect with CSX's main routes.

SUPPLY CHAIN STRATEGIES

The growth of online commerce for luxury goods is raising the stakes for high-end retailers. Neiman Marcus Group Ltd. is using visibility technology to try to take the pain out of the delivery for customers and the company, WSJ Logistics Report's Erica E. Phillips writes, as growing online sales push more big, bulky items through distribution channels. Experts say at least one in 10 "white glove" deliveries by retailers faces a delivery problem, such as an incorrect address or phone number, or a scheduling conflict. That's pressing logistics companies and shippers to come up with more tailored services outside their usual industrial networks. In this case, Neiman started using a cloud-based platform from Convey Software Inc. to flag potential delays in its bulkiest, most complex deliveries. It's one sign of a new eco-system of tech and services being built as changing consumer tastes stretch the limits of traditional delivery operations.

QUOTABLE

Number of the Day

16,047

Number of vehicles exported from South Carolina's Port of Charleston in January.

IN OTHER NEWS

Canada's economy expanded at a slower pace than expected in the fourth quarter despite growing business investment . (WSJ)

Brazil's economy grew in 2017 after two years of contraction. (WSJ)

San Francisco-based food delivery business DoorDash will use a $535 million infusion from Softbank Group Corp. and other investors to expand coverage to 1,600 U.S. cities. (WSJ)

J.C. Penney Co. is eliminating 360 jobs after the department store reported disappointing sales in its year-end quarter . (WSJ)

Siemens AG will float about 15% of its Siemens Healthineers AG medical technology unit in a stock offering potentially worth up to $5.7 billion . (WSJ)

Danish regulators approved the sale of the oil business of A.P. Moeller-Maersk A/S to Total SA. (MarketWatch)

Chinese e-commerce retailer JD.com lost $143.2 million in the fourth quarter despite a 38.7% gain in revenue . (South China Morning Post)

Walmart Inc. began using a smartphone app to analyze the freshness of perishables at its grocery distribution centers . (Supermarket News)

A coalition of shippers say they'll start diverting cargo from East and Gulf coast ports if stalled labor negotiations do not resume soon. (Journal of Commerce)

Georgia's Port of Savannah is about half done with a multi-year deepening project to allow calls by bigger container ships . (Charleston Post and Courier)

Chainalytics LLC and Drewry Shipping Consultants Ltd. will work together on a rate procurement service for small to mid-size ocean shippers. (DC Velocity)

St. Louis-region Industrial property developers remain **bullish** about the market despite a surge in speculative warehouse construction . (St. Louis Post-Dispatch)

Farmers in Western Canada want government action to relieve a severe railcar shortage that threatens to strand their harvests . (Regina Leader-Post)

Mitsubishi Aircraft has missed promised delivery targets for its new aircraft, suggesting grim prospects for the Japanese manufacturer. (Nikkei Asian Review)

Amazon.com Inc. has been expanding a program in which is sends a photo of a delivered package with its notice of delivery . (USA Today)

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Write to Paul Page at paul.page@wsj.com

Document WSJO000020180305ee35001up

THE WALL STREET JOURNAL.

Economy
New York Fed Director Helping to Oversee Leadership Search Steps Down; Bank says David Cote is considering business opportunities that could affect his eligibility to serve as a director

By Michael S. Derby
679 words
20 March 2018
03:33 PM
The Wall Street Journal Online
WSJO
English

One of the people overseeing the search for a new Federal Reserve Bank of New York president resigned from the bank's board of directors Saturday, a day after officials said they had narrowed their list of candidates for the bank's top job.

David Cote, the executive chairman of Honeywell International Inc., had served as a Class B director representing the public and not financial firms since 2014. Mr. Cote was one of four New York Fed board members managing the search for a successor to President William Dudley, who late last year said he would step down this summer.

The New York Fed said Tuesday that Mr. Cote left the board because "he is considering pursuing new business opportunities that could affect his eligibility to serve as a Class B director." Mr. Cote stepped down as chief executive of Honeywell last year. A spokesman with Honeywell said Mr. Cote wasn't taking questions.

Mr. Cote's exit comes at a difficult time for the New York Fed, as he was actively involved in conducting one-on-one interviews, according to people familiar with the matter.

The New York Fed is a quasi-public institution overseen by a board of directors composed of representatives from banks, companies and nonprofits. The chairwoman of the board is Sara Horowitz, founder and executive director of the Freelancers Union.

Legal changes after the financial crisis removed directors tied to the financial industry from the process of selecting new bank presidents, to remove the risk that firms regulated by the Fed would be involved in choosing their regulator. The candidate selected by the now three-person search committee must be approved by the New York Fed directors not tied to the finance sector, as well as by the Fed's Board of Governors in Washington.

The role of private boards in selecting regional Fed bank heads has been controversial, perhaps even more so with the New York Fed. The bank is first among equals among the 12 regional Fed branches, as it is the central bank's main point of contact with **financial markets** and is responsible for implementing monetary policy. Its leader also serves as vice chairman of the interest-rate-setting Federal Open Market Committee, making the bank president one of the most important voices on monetary policy.

Given the importance of the position, some have sought to change the selection process so congressional confirmation is required, which Fed governors currently need. Sen. Jack Reed (D., R.I.) has led an effort to make the New York Fed leader a position requiring Senate confirmation.

The New York Fed and other regional Fed banks that have faced leadership vacancies have responded to the pressure by opening up the selection process to a degree. They have laid out the qualities they are seeking in a leader, sought outside input and provided search status reports.

The New York Fed did just that on Friday, when officials said they had narrowed the list of potential candidates, although none of the names on that list were made public.

Tuesday's announcement raised concern among the activists at the left-leaning Fed Up Campaign, which has pressured the Fed to be more open about how leaders are picked.

"Mr. Cote's resignation is the latest development that raises serious questions about the credibility of the New York Federal Reserve presidential selection process," said Shawn Sebastian, the group's director. "We urge the New York Federal Reserve to heed our call to host a public forum with the finalists for the position."

Nick Timiraos contributed to this article.

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

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* New York Fed Narrows Its Search for Successor to William Dudley (March 16)

* New York Fed Announces Dudley Plans to Retire in Mid-2018 (Nov. 6, 2017)

* Honeywell CEO Cote to Step Down (June 28, 2017)

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THE WALL STREET JOURNAL.
U.S. EDITION

Heard on the Street
Trade Deficit May Only Worsen

By Justin Lahart
461 words
8 March 2018
The Wall Street Journal
J
B12
English

[Financial Analysis and Commentary]

President Donald Trump hates the trade deficit. He will probably have an even bigger one to hate in the year ahead.

The news that Gary Cohn will resign as Mr. Trump's top economic adviser, just days after Mr. Trump announced plans to impose steel and aluminum tariffs, rattled **financial markets** Wednesday. Stocks fell as investors took the departure of the pro-trade aide as a sign that protectionist trade policies will spread, with Mr. Trump more likely to impose additional tariffs and pull out of the North American Free Trade Agreement.

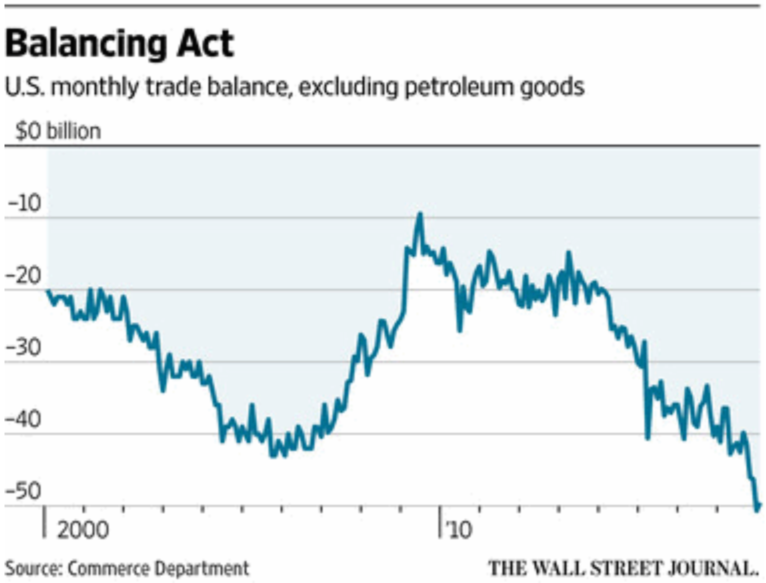
"Cohn's departure should be read as an indication additional and more aggressive protectionist trade policies are likely in the coming months," wrote Cornerstone Macro strategist Andy Laperriere in a note to clients.

Investors generally view tariffs and other trade barriers as the equivalent of a tax. To the extent that companies are able to pass those higher costs on to consumers, tariffs are also inflationary, making the Federal Reserve more likely to raise interest rates aggressively. And trade disputes can sow uncertainty. It is harder for multinationals to know what parts of their operations might face protectionist policies, while exporters don't know what retaliatory measures their products might face.

Trade data released Wednesday did nothing to alleviate investors' unease. The Commerce Department reported that the seasonally adjusted trade deficit rose to $56.6 billion in January from $53.9 billion in December, marking its highest level since October 2008. If not for America's reduced dependence on foreign oil since the shale revolution, the deficit would have been even larger. The goods deficit with China, which Mr. Trump has singled out for its trade practices, rose to $35.5 billion from $29 billion a year earlier.

The trade deficit will likely continue to grow, and Messrs. Trump and Cohn have something to do with that. The tax-cut and spending plans they helped usher in are likely to raise demand for goods and services among both consumers and companies this year. Some of those goods and services are going to come from abroad, so the increase in demand will likely translate into an increase in imports as well. Exports should rise, too, since more U.S. imports should help out overseas economies, but the effect won't be as pronounced.

The tariffs are unlikely to move the needle by much on trade, especially with U.S. trading partners threatening retaliatory measures if the tariffs are enacted. So the trade deficit, which Mr. Trump has long argued the U.S. should reduce, will likely continue to expand instead. How his administration might respond to that is yet another thing for investors to fret about.



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Document J000000020180308ee380000z

International New York Times

business
Up, Up, Up Goes the Economy. Here's What Could Knock It Down.

By BEN CASSELMAN
1,478 words
20 March 2018
International New York Times
INHT
English

Americans have spent much of the past decade wondering when the economy would recover from the crippling Great Recession. Now, they are considering another question: When, and how, will that recovery end?

This month is the 10th anniversary of the collapse of the investment bank Bear Stearns, the first stirrings of what became a global financial crisis. Next month, in another milestone, the current recovery will become the second-longest American economic expansion on record.

There is no sign that the rebound will end anytime soon. Unemployment is low, job creation is strong and the overall economy seems to be gaining momentum, not losing it. Most economists expect the expansion to continue well into next year, which would make it the longest ever. Many think it could last for years, raising the possibility that President Trump could run for re-election amid the most sustained economic growth in a generation.

Even the Federal Reserve's intention to impose three interest-rate increases this year — with the first expected on Wednesday — has done little to cloud the outlook.

But many economists also argue that the seeds of the next crisis are being sown today, even if it is several years before they poke above the surface. Good times are meant to give governments an opportunity to get their fiscal houses in order and address long-term challenges. Instead, the United States is piling on debt and adopting policies — immigration restrictions, increased trade barriers, looser financial regulation — that many economists view as counterproductive.

"We're adding to the structural issues," said Veronique de Rugy, an economist at the Mercatus Center, a libertarian think tank. "This is the thing that's the most disconcerting. We're not just not addressing it, we're adding to it."

Investors may be starting to worry about whether the recovery could be, if not ending, at least entering a riskier phase. In February, markets tumbled after a report showing unexpectedly strong wage growth revived long-dormant fears of inflation. The markets rebounded but have remained **volatile**, dropping again this month when Mr. Trump announced plans to impose tariffs on steel and aluminum that are expected to take effect this week.

Economists said that any fears investors had would not be unfounded, but might be premature. It is possible that the tightening labor market — the unemployment rate, at 4.1 percent, is the lowest since 2000 — could force companies to pay higher wages. That could lead to inflation and prompt the Fed to raise rates more quickly than planned, and the tighter credit for businesses and consumers could cause a recession.

The likelihood of such a chain of events may have increased in recent months with the Republican tax bill's passage and the adoption of a big spending package in Congress, which together could pour hundreds of billions of dollars in fiscal stimulus into the economy. Mr. Trump's tariffs could also increase consumer prices by limiting cheaper imports from abroad.

"We already had a tight economy, and then you add fiscal stimulus, and then you add on top of that trade protections," said Torsten Slok, chief international economist for Deutsche Bank. "It's close to the perfect storm coming together with these risks of overheating."

So far, the threat remains hypothetical. Inflation has crept up but remains below the Fed's 2 percent target, and wage growth remains anemic — even the surprising figure for January was later revised down. If inflation does pick up, it will not result in a recession overnight.

The impact of a potential trade war is harder to assess. The tariffs announced by Mr. Trump so far are small and unlikely to have much effect on the overall economy. But if he pursues broad-based tariffs against China — something he is reportedly considering — and prompts retaliation by the European Union or other trading partners, the consequences could be much greater.

"We know from history that's lose-lose," said Adam Posen, president of the Peterson Institute for International Economics, a pro-trade think tank. "It reverberates throughout the U.S. economy."

Beyond the issue of trade, most experts see few threats likely to derail the recovery in the short term. That is partly because it would take a fairly substantial shock to knock the economy off course. Tax cuts and spending increases may raise the specter of inflation, but they also provide extra insulation against such a shock. Economists surveyed by The Wall Street Journal recently put the odds of a recession in the next year at 14 percent.

"I think we're going to go gangbusters for the rest of this year," said Martin N. Baily, who served as chairman of the Council of Economic Advisers under President Bill Clinton and is now an economist at the Brookings Institution.

Economists are famously terrible at predicting recessions. Few saw the last one coming. And although the current expansion has been durable, it has not been particularly strong. Quarterly annualized growth in gross domestic product has averaged just 2.2 percent since the recession ended, compared with 5 percent for the typical recovery since 1950. The economy has basically experienced a long smolder rather than the kind of rapid conflagration common in the past.

"You can look at it with time as your metric and say, 'Wow, this is really long,'" said Jonathan Golub, chief United States equity strategist for Credit Suisse. "Or you can look at output and say, 'It's actually surprisingly weak.'"

Some parts of the country have experienced little recovery at all. And many families are still earning far less than they were before the recession. As a result, some economists, especially on the left, argue that policymakers should be less worried about the economy overheating than about the recovery ending too soon.

"You just see a pervasive attitude in markets that says, 'Oh, no, workers are starting to get a piece of the pie, time to take it away,'" said Jared Bernstein, a former economic adviser to Vice President Joseph R. Biden Jr. who is now with the liberal Center on Budget and Policy Priorities.

Lawrence H. Summers, the Harvard economist and former Treasury secretary, said there was evidence that the economy could keep growing without faster inflation. Even a little more inflation, Mr. Summers said, would not necessarily be a bad thing.

"A strong, fully employed economy — where firms looking for workers is a larger issue than workers looking for firms — is the best social program we know," he said. "It is shortages of labor that induce firms to figure out how to train felons, to move beyond their traditional prejudices, to figure out how to skill unskilled workers, to reach into distressed or depressed communities."

That argument puts economists like Mr. Summers and Mr. Bernstein in odd political company. Mr. Trump's economic advisers — including the incoming head of the National Economic Council, Larry Kudlow — have played down the threat of inflation, and Mr. Trump has indicated in the past that he would like the Fed to keep interest rates low. That could pay electoral dividends: If the Fed allows the economy to accelerate, it could bolster Mr. Trump's re-election chances, even if it raises the risk of a recession in his second term.

So far, the Fed does not seem inclined to cooperate. Jerome H. Powell, the newly appointed Fed chairman, has said he plans to continue the policy of gradual rate increases adopted by his predecessor, Janet L. Yellen. But Mr. Powell hinted in recent congressional testimony that the central bank could be forced to move more quickly if the economy continued to gain strength.

"Some of the headwinds the U.S. economy faced in previous years have turned into tailwinds," Mr. Powell told lawmakers last month.

In any case, research has found that economic expansions do not “die of old age.” Rather, they end because something — a policy mistake, an asset bubble, an outside shock — causes them to.

Nellie Liang, who led the Fed’s financial stability efforts after the financial crisis, said the United States had stayed out of trouble since then partly because regulators learned lessons that made banks and other financial institutions far stronger.

But Ms. Liang said that after years of low interest rates and steady gains, investors could be caught off guard when the economy hits a speed bump.

“Recessions don’t have to come every 10 years or so,” Ms. Liang said. But avoiding them, she added, requires vigilance.

Follow Ben Casselman on Twitter: @bencasselman.

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THE WALL STREET JOURNAL.

Economy

Sen. Warren Says New York Fed Pick Should Testify Before Senate Ahead of Appointment; Senator questions front-runner and San Francisco Fed chief John Williams's fitness for the job after scandals at Wells Fargo, which is regulated by his bank

By Nick Timiraos and Michael S. Derby
604 words
26 March 2018
06:14 PM
The Wall Street Journal Online
WSJO
English

U.S. Sen. Elizabeth Warren (D., Mass.) said Monday that John Williams should testify before the Senate Banking Committee before being approved as the next president of the Federal Reserve Bank of New York.

The Wall Street Journal reported Saturday that Mr. Williams, who now serves as leader of the San Francisco Fed, was the front-runner to become the New York Fed chief, one of the top jobs in the central bank system.

The selection is subject to approval by the Washington-based Fed board of governors and doesn't require Senate confirmation. But Ms. Warren called on the Fed board to withhold its assent until Mr. Williams testifies before the banking committee, on which she sits.

She questioned Mr. Williams's fitness for the job at the New York Fed, which supervises some of the nation's biggest banks, given the recent sales practice scandals at Wells Fargo & Co., which is regulated by the San Francisco Fed, among other agencies. The Fed in early February placed restrictions on Wells Fargo for failing to have proper risk controls in place that could detect such issues. In an unusual move, it barred the bank from growing past the $1.95 trillion in assets it had at the end of 2017. The Fed cited "widespread consumer abuses" in its rebuke.

Mr. Williams's "track record raises several questions, including about his fitness to supervise Wall Street banks given the San Francisco Fed's inadequate supervision of Wells Fargo during its many consumer scandals," Ms. Warren said in a statement.

"If Mr. Williams is selected, the Fed's Board of Governors should not approve his selection until Mr. Williams and the co-chairs of the New York Fed's search committee testify before the Senate Banking Committee about his qualifications and the process that led to his selection."

The Fed board, as well as the New York and San Francisco Fed banks, declined to comment.

The New York Fed's board of directors has recommended Mr. Williams for the job, according to people familiar with the matter. The search was run by directors who don't work for Fed-regulated banks.

The New York Fed president plays a key role in crafting and implementing the central bank's monetary policy and is its main point of contact with **financial markets**. This has caused some critics of the selection process to say it should be more open to public scrutiny and input, and the appointment should be subject to Senate confirmation.

Atlanta Fed President Raphael Bostic welcomed reports that Mr. Williams was the leading candidate for the New York Fed job. Messrs. Bostic and Williams were classmates while they completed their graduate course work in economics at Stanford University. Mr. Williams earned his Ph.D. degree in 1994, one year before Mr. Bostic.

"I've known him for a long, long time…He is smart. He has been an innovative manager, and he's been a great colleague," Mr. Bostic said in an interview with The Wall Street Journal. "The New York Fed would be very lucky to have him."

Write to Nick Timiraos at nick.timiraos@wsj.com and Michael S. Derby at michael.derby@wsj.com

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* Wells Fargo Rebuke Puts Bank Boards in Fed's Crosshairs (Feb. 5)

Document WSJO000020180326ee3q0053d

THE WALL STREET JOURNAL.
U.S. EDITION

Steel and Aluminum? Let's Talk About Gold

By Alex X. Mooney
651 words
26 March 2018
The Wall Street Journal
J
A19
English

I believe in free trade, but I still understand why President Trump is imposing tariffs on steel, aluminum and a range of Chinese products. America's industrial workers have suffered for a long time, and Mr. Trump is fighting to create middle-class jobs.

Achieving that will take more than righting the last administration's wrongs on taxes and regulation, a task already well under way. Blue-collar prosperity was eroded along with American manufacturing. From 2000-10, U.S. manufacturing employment shrank by a third after holding steady for 30 years.

President Trump has rightly blamed bad trade deals, particularly those with Mexico and China, for contributing to this meltdown. But the Federal Reserve deserves a share of the blame, too, since its inflationary policies priced out U.S. manufacturers from global trade. Since 2000, their prices have risen nearly 50%, compared with about 25% for German competitors -- mirroring the domestic inflation rates in each country. As a result, manufacturers fled the U.S., much the way American families have fled high-tax states.

The solution is to take control of the money supply away from the Fed and give it back to the American people -- in other words, to return to the gold standard. Gold gets a bad rap in some history books because of its misuse during the 20th century. This ignores its peacetime record of high growth and nil inflation between 1834 and 1913.

Clouding the historical picture are two fake gold standards. The Depression-era gold standard was constructed to make prices fall toward the levels that prevailed before World War I, with the disastrous result of deflation. Then, under the Bretton Woods version after World War II, only foreign central banks could convert dollars into gold. This deformity caused inflation, which skyrocketed after the Fed gained total control of the money supply in the early 1970s.

Since then the U.S. has seesawed between too much and too little money in the economy. The Fed has the impossible task of guessing the market's demand in real time. Its performance worsened in the 2000s because the Fed began to grade itself by how its money creation boosted the **financial markets**. Today many people are so disillusioned with the dollar's prospects that they have embraced cryptocurrencies like bitcoin.

My constituents in West Virginia get little of the upside from the Fed's money creation and most of the downside. They don't benefit from speculative investment returns, but they do lose their jobs and homes when the local plant decides to close because it's too expensive to compete from the U.S.

The current Federal Reserve system benefits elites. The gold standard is equitable and puts "we the people" in control of the money supply. That's why it was part of America's founding and has been a key to the country's long economic success.

On Thursday I introduced a bill that would return the dollar to the gold standard -- the first such attempt since Jack Kemp's Gold Standard Act of 1984. Under this legislation the Fed would still exist, but it would administer the money supply rather than dictate it. Instead the market would be in charge, the supply and demand for money would match up, and prices would be shaped by economics rather than the instincts of bureaucrats.

Like President Trump, I believe that success is again possible for Americans who go to work every day and build things. Mr. Trump's vision of how the American economy could and should work resonated with voters in 2016. Returning to the gold standard is a way for the president to deliver on his promise of American working-class prosperity.

Mr. Mooney, a Republican, represents West Virginia's Second Congressional District.

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THE WALL STREET JOURNAL.

Economy

White House Preparing to Nominate Richard Clarida as Fed's No. 2 Official; The economist is viewed as a pragmatist and team player, reflecting the temperament of Fed Chairman Powell

By Nick Timiraos and Harriet Torry
1,177 words
1 March 2018
08:18 PM
The Wall Street Journal Online
WSJO
English

Corrections & Amplifications

Jerome Powell began a four-year term as Federal Reserve chairman in February. An earlier version of this article incorrectly stated he started this month. (March 1, 2018)

President Donald Trump is likely to nominate Columbia University economist Richard Clarida to become vice chairman of the Federal Reserve Board, according to people familiar with the matter.

Mr. Clarida is a Republican economist whom colleagues describe as more of a pragmatist than an ideologue.

Such a temperament fits the mold of Fed Chairman Jerome Powell, a lawyer and former investment executive who began a four-year term as the central bank's leader in February.

Mr. Powell is the first Fed leader in more than three decades without a Ph.D. in economics. The White House has been eager to select a monetary policy specialist as his second-in-command.

Mr. Clarida is managing director and global strategic adviser at Pacific Investment Management Co. and since 1988 has been an economics professor at Columbia, including four years as department chair.

He served at the Treasury Department as assistant secretary for economic policy during the George W. Bush administration from 2002 to 2003, a position that required Senate confirmation.

Mr. Clarida didn't respond to a request for comment Thursday.

Mr. Clarida is well regarded by economists on both sides of the aisle. He is "in the basket of reasonable, conservative, Republican economists who are mainstream," said Princeton economist Alan Blinder, a former Fed vice chairman nominated by President Bill Clinton.

The Wall Street Journal reported in December that Mr. Clarida had interviewed with the White House for the post. The Journal reported in February that he had also met with Mr. Powell.

Mr. Clarida returned to the White House recently to meet with Mr. Trump and Vice President Mike Pence, according to a person familiar with the matter.

If nominated and confirmed by the Senate, Mr. Clarida would fill out the top of the Fed leadership with two other Trump nominees—Mr. Powell and Randal Quarles, sworn in last October as the Fed's vice chairman of bank supervision.

Mr. Quarles worked closely at the Treasury with Mr. Powell in the early 1990s and served at the Treasury with Mr. Clarida in the early 2000s.

The Obama administration looked at nominating Mr. Clarida for a seat on the Fed's seven-member board of governors in 2011 before he withdrew from consideration . President Barack Obama ultimately nominated Mr. Powell to fill the opening.

The vice chairman position has been vacant since October, when Stanley Fischer resigned for personal reasons. The Fed's board has four vacancies.

Market participants have been eager to see whom the White House picks because that person will help Mr. Powell manage decisions this year over how much the Fed should raise rates. The No. 2 official could also coordinate debates concerning long-run strategy, such as a review of the Fed's 2% inflation target.

Mr. Clarida would be Mr. Trump's fourth nominee to the Fed's board, following Mr. Powell, Mr. Quarles and Carnegie Mellon University economist Marvin Goodfriend, who is awaiting Senate confirmation.

Mr. Goodfriend, nominated last November , faces an uncertain fate in the Senate because of opposition from most Democrats and Sen. Rand Paul (R., Ky.).

Other candidates the White House has spoken to about the vice chairman job include San Francisco Fed President John Williams, Cleveland Fed President Loretta Mester and former Pimco CEO Mohamed El-Erian. Lawrence Lindsey, a former Bush administration economist, withdrew from consideration in February.

Mr. Powell began his tenure as central-bank chairman facing an unusually high number of vacancies on the Fed board. The White House has yet to submit nominees for the three other open board seats.

Mr. Trump was unusually critical of the central bank during his 2016 election campaign, but has avoided nominations that would radically reshape the Fed's policy leanings. He has mostly selected establishment Republicans with private-sector and government experience who aren't regarded as partisans.

Mr. Clarida, like Messrs. Powell and Quarles, is viewed by people who closely follow the Fed as someone who would likely maintain the central bank's collegial and consensus-oriented culture. He wouldn't be expected to advocate for major policy U-turns.

While the Trump administration has advocated a rollback of financial rules, Mr. Trump's Fed nominees have largely supported more targeted tweaks to existing regulations.

On regulation, Mr. Clarida likely would be more disposed to cutting red tape for financial institutions than former Fed Chairwoman Janet Yellen but is not as pro-deregulation as "some of the real conservatives in the Republican Party," said Mr. Blinder.

Mr. Clarida has published extensive academic research on monetary policy, inflation and macroeconomics. From his perch at Pimco, Mr. Clarida has also commented frequently on Fed policy.

Mr. Clarida has quibbled with some Fed communications in recent years but hasn't been as critical of the central bank's policy moves as other conservative economists.

Mr. Clarida was largely supportive of efforts last year by then Fed Chairwoman Yellen to gradually lift interest rates and slowly shrink the Fed's $4.5 trillion portfolio of bonds and other assets, which swelled during successive stimulus campaigns after the 2008 financial crisis. He compared the plan's slow ramp-up to a diet that calls for eating two desserts a day instead of three.

In 2015, he observed the Fed was likely to begin raising rates but could proceed extremely gradually due to dormant price pressures. "If the Fed loses confidence in the inflation forecast, this will influence the pace, and perhaps the timing, of the rate cycle," he wrote in International Finance, an academic journal.

In 2016, Mr. Clarida criticized the central bank for its communication strategy when it projected four quarter-percentage-point rate increases during the year but only moved once.

"The Fed has been all over the map, and I think markets are now in a mode to essentially ignore the Fed largely," he said on Bloomberg TV in September 2016.

After the Fed's most recent policy meeting in late January, Mr. Clarida said in a blog post the central bank had "reinforced the case for a hike in March and two more later this year, which likely suits Chair Yellen—and soon-to-be Chairman Powell—just fine."

Mr. Clarida's background includes stints as a visiting scholar at the Fed board in 1992, 1994 and 1997. He served on President Ronald Reagan's Council of Economic Advisers as a consultant and staff economist in the late 1980s. He also has worked as a consultant for the New York Fed and various Wall Street financial institutions.

Write to Nick Timiraos at nick.timiraos@wsj.com and Harriet Torry at harriet.torry@wsj.com and Harriet Torry at

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The New York Times

Foreign Desk; SECTA
How the Rise of China Is Challenging Longtime American Dominance in Asia

By MAX FISHER and AUDREY CARLSEN; represents the aggregate views of a panel of five experts: Aaron Connelly of the Lowy Institute; Bonnie S. Glaser of the Center for Strategic and International Studies; Jennifer Lind of Dartmouth College; Tanvi Madan of the Brookings Institution; and Mira Rapp-Hooper of Yale Law School.
1,474 words
16 March 2018
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8
English

As China grows more powerful, it is displacing decades-old American pre-eminence in parts of Asia. The outlines of the rivalry are defining the future of the continent.

Last week, a group of 11 nations signed a trade deal that had originally been conceived as an American-led counterweight to China -- but after President Trump pulled out, the pact went forward without the United States. It was the latest turn in Asia's gradual transition from American dominance to something much more fluid.

The stakes could hardly be higher: The two powers are seeking to reshape the economies and political systems of the world's most populous region in its own image.

The United States' military capabilities still dominate Asia. But China has started to wield growing military power and economic leverage to reorder the region, pulling longtime American allies like the Philippines and Indonesia closer.

The shift may accelerate under President Trump, whose **volatile** foreign policy and rejection of trade agreements is already forcing Asian nations to rethink their strategies.

The trade deal reached last week is a powerful signal of how countries like Australia and Japan are forging ahead without American leadership. The deal replaces the Trans-Pacific Partnership, which Mr. Trump had effectively killed.

Every Asian country now trades more with China, often by a factor of two to one, an imbalance that is only growing as China's economic growth outpaces that of United States.

Asian leaders know that their economies -- and therefore, domestic politics -- rely on Beijing, which has shown it will offer investment to friends and economic punishment to those who displease it.

But another metric of great power influence, arms sales, shows United States' enduring reach.

Countries that purchase American weapons bind their militaries and their foreign policies to the United States. The imbalance reflects the extent of American military relationships in Asia, which date back to World War II.

Many of the 20 countries caught between Beijing and Washington face an impossible choice between Chinese wealth and American security.

''These countries don't want to have to choose sides,'' said Tanvi Madan, an Asia specialist at the Brookings Institution.

So they're not. Instead, most are pursuing strategies intended to draw maximum benefit from both powers, minimize risks of angering either and preserve their independence.

The result will likely be something very different from Cold War-era Europe, which was divided cleanly between two sides. Instead, the continent will fracture along many lines at once as countries accept, reject or manage China's growing influence.

Each strategy involves hard compromises and provides a model for how others in Asia, and perhaps one day globally, will cope with a Chinese-American world.

Japan

Balancing Against China

Though the world is changing in Beijing's favor, Japan is a reminder that China remains a long way from becoming an American-style power. And it provides a template for counteracting China.

Japan is matching China's rise with its own resurgence, leveraging its economy -- the world's third-largest -- to build an independently powerful military and set of diplomatic relationships. It is attempting to reconstitute an informal and implicitly anti-Chinese alliance known as "the quad," which includes India, Australia and the United States.

The "quad" remains mostly aspirational, and its members so far exert only a fraction of China's economic and military influence in the region.

Still, Japan represents the headwinds facing Beijing. Asia's largest economies and its leading democracies, rather than bending to Chinese power, are counterbalancing against it.

Most countries lack Japan's economic power, but they can still follow its lead. Rather than meekly accepting American withdrawal, Japan shows how countries can compensate for it.

The region has more bad news for China. Even its sole ally, North Korea, is increasingly independent. Its nuclear and missile tests often appear timed to humiliate Beijing, and give China's adversaries like Japan an excuse to build up their militaries. North Korea apparently hopes to one day strike a deal with Washington, allowing it to climb out from a half-century of Chinese dominance. If Beijing cannot keep even North Korea as a client state, it will have trouble cultivating others.

Sri Lanka

Aligning With China

Sri Lanka might not seem like a geopolitical bellwether. But Asia-watchers have been glued to developments here since 2014, when a Chinese submarine sailed into a port built with Chinese investment. It marked a new era, in which China is converting its economic power into military power -- and, in poorer democracies, into political influence.

China has since developed more infrastructure projects across Asia, particularly in strategically vital ports and transit corridors. Those projects begin as joint developments but can end up in Chinese hands. In December, Sri Lanka, unable to pay debts on the port's construction, granted China a 99-year lease.

"The Chinese are using their abundance of labor, capital and work force to project their influence," said Mira Rapp-Hooper, a scholar of Asian security issues at Yale Law School. She added, "It's mostly taking place in countries where the U.S. does not have a lot of influence or give a lot of aid."

This a promising model for China, whose economic strengths naturally fit the needs of small, developing countries. It is even pushing in countries where the United States has spent heavily, such as Pakistan. And it is slowly extending this model beyond Asia, giving it the outlines of what could one day be a global network.

But small, poor allies are less powerful than rich ones, which tend pro-American, and Beijing can be clumsy when dealing with democracies.

Still, China's success in South Asia shows it can hem in a powerful adversary. It is leveraging trade and investment to build ties with every country on India's border. Beijing's unstated goal: encircle India before it can rival to Chinese power. While India is taking a harder line against China, it is less practiced in regional alliance-building and has fallen behind.

The Philippines

Mining the Middle

Many Asian leaders are eluding the great powers by hedging between them. Few have done so as creatively and brazenly as President Rodrigo Duterte of the Philippines.

Upon taking office in 2016, Mr. Duterte suggested that he might end his country's 65-year alliance with the United States. He rushed to Beijing, promised cooperation with China and -- as if to signal there was no going back -- crudely insulted President Barack Obama.

Instead, Mr. Duterte ended up collecting concessions from both powers. The Americans reduced Mr. Duterte's obligations to the alliance while continuing to guarantee his country's defense. The Chinese offered Mr. Duterte favorable terms on maritime disputes and possible investment deals.

He never did switch sides.

Such stories have played across Southeast Asia, where China has been at its most confrontational. Beijing had hoped that it could coerce smaller countries to accept its dominance. Washington thought it might galvanize an anti-Chinese bloc. Nearly every country has found a middle path.

Even Vietnam, a traditional Chinese adversary, has resisted both Chinese influence and American overtures. Almost two years after President Obama lifted his country's arms embargo on Vietnam, hoping to bring it into the American fold, it still buys most of its arms from Russia.

But China's leverage in the region can only grow, particularly if the United States continues withdrawing. Ms. Rapp-Hooper called attention to growing scandals in Australia and New Zealand over Chinese influence-buying.

''These countries could not be more aligned with our interests, but there is still a lot of discomfort about stepping away from Chinese money,'' she said. ''Those are tests of what we're up against.''

This is another possible future: countries subject to influence from both powers, with American and Chinese hands on their economies and politics. It's a future that is both American and Chinese, with nations in the middle neither fully independent nor clearly aligned.

MAP (MAP BY AUDREY CARLSEN/ THE NEW YORK TIMES); CHARTS: How Trade Has Shifted Toward China (Sources: World Bank; Ministry of Finance of Bhutan; Ministry of Finance of Taiwan and the International Monetary Fund. The most recent data for Vietnam, Thailand, Nepal and Bangladesh is from 2015.); U.S. Arms Sales Still Dominate Asian Markets (Source: Stockholm International Peace Research Institute. Figures are SIPRI estimates of total production costs from 2011 to 2016.)

Document NYTF000020180316ee3g0003x

THE WALL STREET JOURNAL.

Economy
Fed Set to Raise Rates, Issue New Economic Projections; Fed officials' forecasts could reflect recent stimulative fiscal policy moves

By Nick Timiraos
981 words
21 March 2018
05:30 AM
The Wall Street Journal Online
WSJO
English

The Federal Reserve is likely to raise short-term interest rates by a quarter percentage point after its two-day policy meeting concludes Wednesday, the sixth such move since late 2015.

The biggest questions will be answered when officials release new projections for unemployment, inflation, economic growth and interest rates in the years ahead, and when Fed Chairman Jerome Powell holds a press conference.

The central bank releases its statement and the forecasts at 2 p.m. EDT, and Mr. Powell will take questions at 2:30 p.m. Here's what to watch:

How Fiscal Policy Changes the Forecast

Since officials' December projections, Congress passed two major tax and spending bills that are likely to spur faster economic growth this year.

The $1.5 trillion tax cut was largely in the works when Fed officials met in December, but it ended up being slightly larger and with more of the boost coming in the first few years than they anticipated. Then Congress agreed in February to a $300 billion, two-year federal funding increase.

Watch Fed officials' new projections to see how they expect the resulting effects on spending and investment to raise their expectations for growth while pushing down their estimates of how low unemployment will fall.

The Dot Plot

Officials will show how much they expect to raise interest rates through their so-called dot plot. The December version showed a median projection of three rate increases this year and two next year.

Officials' recent comments indicate some of them now project more rate moves through 2019 than they did in December, in part because of the fiscal stimulus added during a period of historically low unemployment.

Markets tend to focus on the median projection as the Fed's primary signal. With 15 participants at this meeting, if at least eight of them foresee four or more rate increases this year, the median would move to four. But the chart could show upward drift in the projections without moving the median. Follow the movement in the average projection, as well as the median, to gauge the degree of shifting intent.

The End Point

Fed officials have long said they aren't going to raise rates this time as much as they did in previous series of rate increases. That means at the end of this process, when their benchmark federal-funds rate is at a point that neither stimulates nor curbs growth, it will be lower than in the past. In December, they anticipated lifting the rate to 3.1% in 2020 at its highest point, and letting it rest at 2.8% over the long term. Watch the projections to see if the recent fiscal boost nudges those levels slightly higher.

The Statement

Watch to see if Mr. Powell, in his first meeting as Fed chairman, freshens up the postmeeting policy statement by getting rid of language that could soon feel out of date.

For example, the statement has described monetary policy as "accommodative" because short-term rates are still low enough to spur economic activity. If the Fed keeps raising rates, it eventually won't be able to refer to its policy stance that way.

The Fed isn't likely to change the language in the statement around the so-called balance of risks to the economic outlook. It has said for several meetings that the risks are "roughly balanced," meaning the economy is as likely to perform better than forecast as perform worse. But Mr. Powell at his press conference could offer additional hints about whether officials now see the balance shifting at the margins so they see the economy as more likely to outperform than underperform.

Overheating

Even if the statement says the risks remain balanced, Mr. Powell could elaborate on his thinking during the press conference. He said in his recent congressional testimony the Fed needs to strike a balance between two goals. On one hand, it wants low interest rates to push inflation up to its 2% target—a level they believe consistent with healthy demand. On the other, it doesn't want to hold rates too low for too long and cause the economy to overheat, sending inflation too high or fueling dangerous asset bubbles.

Overheating is a relatively new watchword for the Fed, after years of sluggish growth and weak inflation. Pay attention to how Mr. Powell describes this risk at his press conference, which should calibrate market expectations about how the central bank is likely to react to rising inflation and strong economic data in the months ahead.

From Janet to Jay

Mr. Powell, who goes by Jay, received relatively high marks from economists and other Fed watchers for his first congressional testimony a few weeks ago. His press conference Wednesday, his first as Fed chief, will give markets another opportunity to gauge not only what Mr. Powell is thinking about policy, but how he is communicating it to the broader public.

Look to see how he navigates politically sensitive questions, such as judging the potential impact of and monetary policy response to President Donald Trump's tariffs.

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

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THE WALL STREET JOURNAL.

Politics

Congressional Republicans Lament Loss of Free-Trade Ally in White House; Gary Cohn's exit raises pressure on remaining GOP traditionalists who oppose protectionist policies

By Siobhan Hughes and Kristina Peterson
1,134 words
7 March 2018
02:14 PM
The Wall Street Journal Online
WSJO
English

WASHINGTON—Republicans in Congress who viewed Gary Cohn as their best ally in efforts to steer President Donald Trump away from a protectionist trade policy expressed concern over his departure Wednesday.

Mr. Cohn said Tuesday night he would resign after 14 months in the administration, where he served as director of the National Economic Council. A former Goldman Sachs Group Inc. executive, Mr. Cohn as top White House economic adviser had fought within the administration to stop the president from levying broad steel and aluminum tariffs, which Mr. Trump announced last week .

"I don't think it's good news," said Sen. John Cornyn (R., Texas) of Mr. Cohn's departure.

"It probably means that the people who were promoting and supporting tariffs are playing with a stronger hand than they were before at the White House," said Sen. John Thune (R., S.D.) He said he was concerned because Mr. Cohn "was a voice of reason on some of these economic issues."

Although he is a registered Democrat, Mr. Cohn had been singled out by congressional Republicans this week as their most reliable partner on trade policy in a White House where a more protectionist view has been ascendant.

"I probably share Gary Cohn's viewpoint personally more than I do the president's on this," said Sen. Ron Johnson (R., Wis.) "I'm concerned about talk about a possible trade war."

The Republican Party has traditionally favored free trade and opposed protective tariffs. Republicans in Congress weren't happy about Mr. Trump's decision to withdraw the U.S. from the Trans-Pacific Partnership, a free-trade deal among 12 Pacific Rim nations, but toned down their criticism to avoid tension with the White House. They have also registered their opposition publicly and in White House meetings to Mr. Trump's effort to renegotiate the 24-year-old Nafta free trade deal with Mexico and Canada.

Republicans including House Speaker Paul Ryan (R., Wis.) have been urging Mr. Trump to take a more targeted approach with his plan to set a 25% tariff on steel imports and 10% on aluminum. Just hours before Mr. Cohn announced his plans to leave Tuesday, Republicans had been urging him to stay.

"I don't think Gary Cohn should leave," Sen. Rob Portman (R., Ohio) said. "He's doing a great job on policy issues."

"Gary Cohn's departure is not a good signal for where we're headed," said Sen. Tim Scott (R., S.C.) "In the end, the White House is going to make the decision and we're going to look for ways to respond if necessary."

Mr. Cohn's departure will put pressure on other advisers, especially Treasury Secretary Steven Mnuchin, to make the case for preserving the post-World War II trade architecture the U.S. helped construct and to speak credibly to **financial markets**.

Mr. Mnuchin said Wednesday morning the White House would move forward with the metals tariffs.

"We are definitely going to end up with these tariffs, and we're going to roll this out very, very quickly," he said on Fox Business.

Trump administration officials Wednesday were working to play down the significance of Mr. Cohn's departure. "This is not about some sort of a palace coup," Commerce Secretary Wilbur Ross told CNBC, adding that Mr. Cohn "has been contemplating some sort of a move for some little while."

Many Republicans are wary of White House trade adviser Peter Navarro, who helped craft the president's protectionist stance in the campaign and prevailed in the fight over new metals tariffs. Mr. Cohn was seen as a force pushing for a more traditional Republican free-trade stance, warning of the economic perils of the tariffs, which many Republicans worry could spark retaliation from other countries.

"I've had concerns about the administration's trade and now tariff policy, and I'm hopeful that someone will replace Gary Cohn that will argue the side of this argument that he and I are on," said Sen. Roy Blunt (R., Mo.).

"Gary Cohn has been a strong voice for free markets and one that will be missed," House Financial Services Committee Chairman Jeb Hensarling (R., Texas) said in a statement.

As recently as early this week, Mr. Cohn still seemed to be fighting the tariffs decision, trying to put together a meeting among industry executives whose companies could be hurt by the tariffs. That meeting, which had been expected to happen later this week, was no longer being planned following Mr. Cohn's resignation, a White House official said.

Mr. Cohn is the most recent in a long list of officials who have left Mr. Trump's administration. A study by the Brookings Institution in January showed turnover in Mr. Trump's White House surpassed that of the previous five presidents' first year in office.

Since the study was published, Communications Director Hope Hicks, Staff Secretary Rob Porter and communications adviser Josh Raffel have also resigned, among others.

"Pretty soon there isn't going to be anyone left," said Rep. Adam Schiff (D., Calif.), the top Democrat on the House Intelligence Committee. Mr. Cohn's "departure may signal the beginnings of some of the more responsible voices in the White House saying enough is enough and the question is who replaces him."

The National Economic Council job post doesn't require Senate confirmation. An administration official said those being considered to succeed Mr. Cohn include Andy Puzder, a fast-food executive who withdrew his labor secretary nomination after domestic-abuse allegations from an ex-wife surfaced. Mr. Puzder has denied the claims.

The official said others who could be considered include CNBC commentator and former Trump campaign adviser Lawrence Kudlow; Council of Economic Advisers Chairman Kevin Hassett; and Mr. Navarro.

"Didn't love the guy, but he's an indisputable grown-up," Sen. Sheldon Whitehouse (D., R.I.) said of Mr. Cohn on Twitter. "His departure makes the Trump chaos all the more alarming."

Mr. Cohn said Tuesday it had been an honor to serve in the administration and thanked the president. Mr. Trump praised Mr. Cohn's "superb job" as his economics adviser and called him a "rare talent."

White House spokeswoman Sarah Huckabee Sanders said a successor to Mr. Cohn would be made "when the president is ready to make that announcement."

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Economy

New York Fed Eyes Williams | Kashkari Supports Rate Rise | Weidmann: ECB Could Raise Interest Rates in Middle of 2019 | Reformer to Become PBOC Party Secretary | Douglas's Take: Brexit Transition Deal Clears Way for BOE May Rate Rise; The Wall Street Journal's central banking newsletter for Monday, March 26, 2018

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English

Douglas's Take: Brexit Transition Deal Clears Way for BOE May Rate Rise

New York Fed Eyes John Williams as Its Next Leader

Fed's Kashkari Supports Latest Fed Rate Rise

ECB Could Raise Interest Rates in Middle of Next Year, Says Weidmann

China to Name Reformer Guo Shuqing as Party Secretary of Central Bank

Brexit Transition Deal Clears Way for BOE May Rate Rise

The most significant development in U.K. monetary policy last week happened in Brussels.

Britain and the European Union agreed to terms for a transition period that between the U.K.'s planned exit from the EU in March next year and the start of its new relationship with the bloc. The terms of the latter have yet to be negotiated, but the two sides agreed the transition deal should last until the end of 2020.

The immediate consequence of the agreement is that it lessens the risk of a messy divorce between London and Brussels by giving the two sides time to work out a deal on trade. The Bank of England had predicated its forecasts on smooth sailing on the Brexit front, so it can almost certainly proceed with an interest-rate increase in May.

The bigger question is what effect this agreement will have on the wider economy. BOE officials say uncertainty over the U.K.'s ties to the EU is weighing on business investment. There is a possibility that a corporate sigh of relief on the transition buoys expectations that a reasonable final deal will be forthcoming, too. That could unlock some extra investment.

Similarly, households might conclude that political progress means their own future incomes won't be hurt and they can spend more as well. They are already experiencing stronger real income growth.

Investors should remember that the BOE has taken a very downbeat view of the economy's growth potential for as long as the Brexit process plays out. Officials have said it may take years for the economy to reorient away from the EU. That means that even a slight uptick in economic growth prospects could fuel inflation and necessitate a monetary policy response.

Key Developments Around the World

New York Fed Eyes John Williams as Its Next Leader

The Federal Reserve system is set to elevate San Francisco Fed President John Williams to the presidency of the New York Fed, one of the central bank's most important positions, just as it faces a potential turning point for setting interest-rate policy. The New York Fed's board of directors has recommended Mr. Williams for the job, according to people familiar with the matter, to succeed the retiring William Dudley. Mr. Williams would need approval by the Fed's Washington-based board of governors; a final decision could be announced next month.

Fed Sent $80.6 Billion to Treasury in 2017

The Federal Reserve sent $80.6 billion in remittances to the Treasury Department in 2017, a $10.9 billion decrease from the previous year, primarily due to rising interest rates. The Fed's total net income declined by $11.7 billion to $80.7 billion last year, according to the audited financial statement of the U.S. central bank and its regional banks released Friday. The decline was largely due to higher interest paid to banks that park money, called reserves, at the central bank. Those payments rose $16 billion to $29.2 billion last year.

Fed's Bostic Says He Expects More Gradual Rate Rises Over Rest of 2018

Federal Reserve Bank of Atlanta President Raphael Bostic said Friday the economy is facing upside risks to activity over coming years, and that is why he's supportive of pressing forward with interest rate rises. "If the economy evolves roughly as I suspect, I will likely support further increases over the course of the year," Mr. Bostic said in the text of a speech to be presented before an event in Knoxville, Tenn. "Though I expect that a sequence of further rate hikes will be appropriate over the next couple of years, that view is based on certain assumptions about how economic conditions will evolve going forward," he said.

Fed's Kashkari Supports Latest Fed Rate Rise

Minneapolis Fed President Neel Kashkari, one of the central bank's biggest rate-rise opponents last year, said Friday he supported last week's increase in short-term interest rates. He said it came down more to defending the central bank's credibility under a new chairman, rather than a shift in his fundamental outlook. "If I had been sitting in the chairman's seat, I would have raised rates because we told the markets we were going to raise rates," Mr. Kashkari said. Boosting short-term rates "represented continuity with what the Federal Reserve said it was going to do."

Kashkari, Who Bailed Out Big Banks, Is Now One of Their Biggest Critics

A decade after the financial crisis, The Wall Street Journal has checked in on dozens of the bankers, government officials, chief executives, hedge-fund managers and others who left a mark on that period to find out what they are doing now. Here, we spotlight former Treasury Department administrator Neel Kashkari

Fed's Rosengren Warns U.S. Could Face Trouble Fighting Next Crisis

Federal Reserve Bank of Boston leader Eric Rosengren warned Friday that the U.S. may not have the tools it needs to respond to the next financial or economic crisis. "Rather than building sufficient capacity for possible downturns—which, by the way, I am not expecting or predicting—the U.S. has actually seen a reduction in the capacity of these so-called ‘buffers' across the policy tools," Mr. Rosengren said in the text of a speech to be delivered in Washington.

ECB Could Raise Interest Rates in Middle of Next Year, Says Weidmann

The European Central Bank should start to phase out its stimulus policies soon and could start raising interest rates in the middle of next year, a top ECB official said on Monday. Jens Weidmann, who sits on the ECB's rate-setting committee as head of Germany's central bank, said in Vienna that market expectations of a first ECB rate increase around the middle of 2019 are "probably not entirely unrealistic."

ECB on Track to Raise Rates Next Year, Says Top Official

The European Central Bank is on track to raise interest rates in the middle of next year for the first time since the financial crisis, despite recent concerns over an economic slowdown in the 19-nation eurozone and the prospect of global trade wars, a top ECB official said. Ardo Hansson, who sits on the ECB's rate-setting committee as governor of Estonia's central bank, said in an interview that the ECB risks falling "behind the curve" unless it gradually phases out its aggressive stimulus policies before inflation returns to its target of just below 2%. The ECB is getting closer to the self-imposed limits of its giant bond-buying program "with each month," he added.

WSJ Pro Transcript: Read our Interview with Hansson

BOJ's Kuroda Rules Out Unrealized JGB Losses Hurting Confidence in Yen

Bank of Japan Gov. Haruhiko Kuroda on Monday rejected concerns over the potential impact of future monetary tightening on the central bank's own financial health. If a move by the bank to unwind its massive easing program pushes down on Japanese government **bond prices**, creating unrealized losses, that still wouldn't harm the finances of the central bank or weaken confidence in Japan's currency, Mr. Kuroda told parliament. "There will be no damage to the credibility of the yen," he said.

BOE's Vlieghe: Expect Interest Rates to Rise in Coming Years

U.K. interest rates will need to rise over the next couple of years to keep inflation in check, a top Bank of England policy maker said Friday. Gertjan Vlieghe, a member of the central bank's rate-setting Monetary Policy Committee, said he expects inflationary pressures to intensify in Britain as diminishing slack in the labor market boosts wage growth. He expects there will need to be one or two quarter-point increases a year in the next two to three years to bring inflation back to its 2% target and keep it there.

China to Name Reformer Guo Shuqing as Party Secretary of Central Bank

China has picked a reform-minded financial regulator to be the party secretary of the central bank, according to people familiar with the matter, a move that could bolster momentum for financial overhauls. Guo Shuqing, who is also chairman of China's newly combined banking and insurance regulatory commission, is to be appointed the party secretary of the People's Bank of China, the people said Sunday.

Russia Cuts Key Interest Rate

The Bank of Russia cut its key benchmark lending rate to 7.25% from 7.50% Friday, citing expectations that inflation would remain below a 4% annual target. The central bank said in a statement that it would likely continue cutting the key rate due to the inflation outlook, but would likely end its monetary easing cycle this year.

New Zealand Introduces Job Mandate Into Monetary Policy

The New Zealand government and the country's central bank agreed Monday to introduce an employment mandate into the monetary policy while keeping inflation as the bank's top priority, in changes that reassured markets fearful of a more dramatic move. The new arrangements also created a monetary policy committee that brings the Reserve Bank of New Zealand more in line with other global central banks such as the Federal Reserve and the European Central Bank, though the RBNZ governor will remain as the bank's sole spokesperson.

MONDAY

9 a.m. EDT

ECB's Nouy speaks

12:30 p.m. EDT

New York Fed's Dudley speaks

4:30 p.m. EDT

Cleveland Fed's Mester speaks

7:10 p.m. EDT

Vice Chairman Randal Quarles speaks

TUESDAY

Time N/A

National Bank of Hungary releases policy statement

11 a.m. EDT

Atlanta Fed's Bostic speaks

Trade-off in Unemployment and Reforms in the Euro Area

Tolga Aksoy and Paolo Manasse explore how labor markets in the euro area responded differently to the recessions in a VoxEU post, focusing on the impact of output shocks on the unemployment gap and the persistence of unemployment. The researchers use data from 19 countries to show that labor and product market reforms speeded up the post-recession recovery while reducing the resilience of employment to shocks.

Tax Increases Can Narrow Budget Deficits

Attempts to reduce budget deficits that focus on tax rises have as much probability of success as those that focus on spending cuts, according to an analysis of 108 years of fiscal adjustments by Rasmus Wiese, Richard Jong-A-Pin and Jakob de Haan in a posting on VoxEU. The economists find that previous research pointing to the greater efficacy of spending cuts was based on a "methodological flaw that assumes all countries have equal variability in their budget balance." "Our results suggest that whether the fiscal adjustment is spending-based or revenue-based does not affect the probability of its success," they write. "There may be good reasons to prefer spending-based fiscal adjustments to tax-based ones, but increased likelihood of success is not one of them."

The Fed Makes a Risky Bet on Overshooting Its Inflation Target

Consumer prices rising at a 2.1 percent rate could be toxic when combined with very low unemployment, writes Tim Duy for Bloomberg View. "The projections now show that central bankers expect inflation to surpass the target, rising to a high of 2.1 percent at the end of 2019. In other words, the Fed is explicitly forecasting overshooting the inflation target. Policy makers could crank up the interest-rate forecast to eliminate that overshooting but instead have chosen a less aggressive policy path."

Something's Gotta Give in the Fed's Forecasts

A big slug of fiscal stimulus will hit the economy over the next two years, but the Federal Reserve doesn't seem all that impressed, writes Justin Lahart for The Wall Street Journal. "Fed policy makers have raised their interest-rate projections only slightly since September—they now forecast overnight rates will finish 2019 at 2.875% versus 2.625%," he writes. "They have made only modest changes to their inflation forecasts as well. It seems likely the economy will run faster, or interest rates will go higher, than Fed officials think. Maybe both."

Demand for long-lasting U.S. factory goods rose in February at the best rate in eight months, supported by an uptick in business investment.

U.S. new-home sales dropped slightly in February, continuing a trend of choppy sideways movement for a narrow segment of the housing market.

Randal Quarles, the Federal Reserve's vice chairman for supervision, will testify before the House Financial Services Committee on April 17 at 10 a.m., the committee said Friday. Mr. Quarles will testify on the Fed's oversight of financial institutions.

Headline inflation in Canada rose at its fastest pace in more than three years in February, and measures of core inflation strengthened.

Canadian retail sales rose at a slower-than-expected pace in January as a decline in the motor vehicle and parts industry weighed on overall sales.

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THE WALL STREET JOURNAL.

Markets

S&P Global Buys Startup in Artificial-Intelligence Push; Credit-rating firm will pay $550 million for Kensho Technologies, which provides analysis for financial institutions

By Gunjan Banerji
445 words
6 March 2018
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The Wall Street Journal Online
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English

S&P Global Inc. said it would buy technology startup Kensho Technologies Inc. for about $550 million, its second investment in the artificial intelligence sector this year.

The deal is the latest sign of Wall Street embracing AI. Almost one-fifth of banks and financial-services companies surveyed by Greenwich Associates have implemented AI technology into their businesses, according to an October report by the research firm. Banks have tapped machine learning for their research, trading and compliance, the report said.

Kensho, based in Cambridge, Mass., uses AI to provide data analysis for financial institutions.

"Kensho's capabilities are critical for S&P Global to be at the forefront of the technology transformation taking place within the **financial markets**," said S&P Global Chief Financial Officer Ewout Steenbergen.

The company was founded in 2013. Its staff consists of former employees of Google parent Alphabet Inc., Facebook Inc. and Twitter Inc., an S&P Global spokesman said.

While S&P Global is known for its credit-ratings business, the New York-based company has in recent years been building its indexing and data divisions. Last month, it completed the acquisition of Panjiva Inc., another machine-learning and analytics company but one that tracks global supply data.

It also invested last year in London-based Algomi, which uses AI in fixed-income trading.

In its fourth-quarter earnings presentation, S&P Global indicated that it wants to expand its index division and invest in alternative data companies.

Companies, including those outside of the technology industry, have been venturing more into AI. Machine learning, a branch of AI, is the capability of computers to learn things without programming by humans. Machine-learning computers tend to be able to parse vast quantities of data quickly.

S&P Global's stock has jumped more than 12% this year, hitting a record $193.30 a share on Feb. 26. The company's market capitalization has topped $48 billion, FactSet data show. On Tuesday, S&P Global rose 0.3%, to $190.99.

On Monday, at a conference in Orlando, S&P Global Chief Executive Douglas Peterson emphasized the company's focus on data and analytics. "About five, six years ago, we repositioned the company around the theme of essential intelligence," Mr. Peterson said at the conference.

Kensho had raised venture-capital funding from investors including Accel, Devonshire Investors, General Catalyst Partners, Goldman Sachs & Co., GV, In-Q-Tel and New Enterprise Associates.

Write to Gunjan Banerji at Gunjan.Banerji@wsj.com

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THE WALL STREET JOURNAL.
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Investing in Funds & ETFs: A Monthly Analysis --- Exchange-Traded Funds: It's Getting Harder to Bring An Exotic ETF to Market --- The bitcoin-fund pushback ends a long period of what seemed like 'anything goes' for issuers

By Ari I. Weinberg
708 words
5 March 2018
The Wall Street Journal
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English

After years of unbridled growth, the introduction of new ETFs and other exchange-traded products has run into hurdles recently from both regulators and forces within the securities industry.

A Jan. 18 letter from Dalia Blass, head of investment management for the Securities and Exchange Commission, regarding applications and listings for bitcoin-linked exchange-traded products (ETPs) prompted withdrawals of several applications for bitcoin ETFs.

Ms. Blass, in her letter to the Investment Company Institute and the Securities Industry and **Financial Markets** Association, the mutual-fund and brokerage trade associations, unveiled several questions that had to be answered regarding cryptocurrencies before the SEC would let them be included in fund products.

Among the questions: How would the funds value the cryptocurrency-related products to set daily net asset values? What steps would cryptocurrencies or cryptocurrency-related funds take to ensure that they could meet daily redemptions? And how exactly would the funds hold cryptocurrencies to satisfy custody requirements?

The tough stance on esoteric ETFs comes at a time when the SEC may be looking to ease the path for more-traditional ETFs. Chairman Jay Clayton has put consideration of such streamlining back on the regulatory agenda.

Still, in some ways, Wall Street has forced the SEC's hand with regard to issuing less-traditional products.

Last fall, bitcoin futures trading at Cboe Global Markets and CME Group was greenlighted by the Commodity Futures Trading Commission. Several ETF providers spied an opening for ETPs tied to bitcoin futures. As applications piled up at the SEC, the New York Stock Exchange's NYSE Arca and Cboe essentially brought about a forcing move by applying for rule-making approval on the listing of specific bitcoin-linked ETPs, even before the funds' own registrations had been approved.

It was a way to "engage the SEC and start the clock officially on consideration of the listing," says Adam Teufel, a partner at Dechert LLP in Washington who works on the legal aspects of new ETPs on behalf of issuers.

The caution on crypto even extended to new products investing solely in stocks that by all previous accounts might have had a clear runway for listing. In January, four ETFs tied to sectors and companies likely to benefit from blockchain technology (the innovation that underpins bitcoin but has many non-bitcoin uses) were on the cusp of listing. But the SEC intervened to stop the funds' use of "blockchain" in their names, even if their tickers, like BLCN, BLOK, KOIN, and LEGR, still hinted at blockchain connections.

The SEC declines to comment. But an SEC rule adopted in 2001 requires that an investment company with a name suggesting it focuses on a particular type of investment invest at least 80% of its assets in the type of investment suggested by the name.

"We were all ready to go to market on one name and had to make a quick change," says Christian Magoon, CEO of Amplify ETFs, whose $176 million Transformational Data Sharing ETF (BLOK) nevertheless garnered more than $180 million of inflows over the first two weeks of trading.

At the NYSE, the unit of Intercontinental Exchange Inc. that lists the most ETFs, through NYSE Arca, ETFs chief Douglas Yones says, "The pathway to launch has improved over the last decade, but any changes we make are always with due consideration of investor protections."

Meanwhile, it isn't just regulatory issues that are interfering with the introduction and smooth functioning of ETFs. Market forces, too, are taking a toll. What was once a robust market for new products -- the seeding of a fresh fund with contributed assets from market-making brokerage firms -- has shriveled.

"While it used to take almost 18 months to get the right relief to offer ETFs, there was seed capital galore," says Mr. Magoon. So-called unsponsored products now list with about $2 million in assets, and trading may never even materialize.

Mr. Weinberg is a writer in Connecticut. He can be reached at reports@wsj.com.

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The New York Times

Op-Ed Contributor
Opinion
Inflation? Bring it on. Workers Could Actually Benefit.

By Isabel V. Sawhill
969 words
9 March 2018
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NYTFEED
English

After many years of slow growth, the economy is now humming along at a healthy pace. The unemployment rate is at 4.1 percent, its lowest level since 2000, and wages are edging up.

But, as is too often the case when workers finally start to see some of the benefits of growth, economists are warning that higher wages will lead to inflation, and they're calling for the Federal Reserve Board to hit the brakes by raising interest rates.

What if we tried an experiment and waited until inflation actually began to rise substantially before raising interest rates too quickly? Even if prices did rise, my hypothesis is that the benefits, especially for those who haven't gained from economic growth in recent years, would exceed the costs of higher inflation. The only way to know this for sure is to allow labor markets to tighten until the pressure is just too much.

Granted, there are some risks to doing this. Economics textbooks tell us that when the unemployment rate falls below standard measures of full employment (4.7 percent, according to the Congressional Budget Office) the "wage-price spiral" starts to take effect: Companies start paying more to find scarce workers, those higher wages necessitate higher prices and inflation soon becomes a nasty problem.

But recent experience has shown us that the economy can operate at low levels of unemployment — even lower than "full employment" — without inflation becoming a serious problem. Inflation, according to the Fed's preferred measure, has mostly remained well below its target of 2 percent since 2008.

It's not exactly clear why prices haven't risen very much. It may be because greater international competition keeps prices down; because the decline of union contracts means that fewer companies give automatic cost-of-living adjustments; because consumers can compare prices so easily on the internet; because **oil prices** have fallen recently; or simply because, after years of low inflation, people expect price increases to be limited.

Even if inflation does creep up above 2 percent, we shouldn't be too worried. The Fed's inflation target is not a ceiling; it's a desirable average. Having operated below it for many years, the economy may not be harmed if it runs for a few years above that target.

In fact, a high-pressure economy, with wages and prices a little higher than we've become used to, might actually do a lot of good for the people who need it most. Working families need a tight labor market — and higher wages — to get ahead. It would be a costly mistake to raise rates too much or too soon.

We are in the midst of a big fiscal and monetary experiment. And as with any experiment, the consequences are unknown. What we do know is that the costs of the Great Recession were enormous — at least $4 trillion in lost income, or about $30,000 per household, according to my calculations. The biggest losses were experienced by those in the bottom and middle portions of the income distribution who lost jobs and saw much of the equity in their homes destroyed.

They are the ones who stand to gain the most if unemployment continues to fall and wages keep rising. Businesses, desperate for workers, reach deeper into the ranks of those who are still jobless, do more training to get those workers up to speed, and pay higher wages as they compete to hire or retain their work force. Discouraged workers — the millions who've left the labor force — might actually re-enter it, and workers could find their shrinking share of national income rise again.

Besides, economists are not sure when super-low unemployment will set off inflation. The Congressional Budget Office's current estimate for full-employment, 4.7 percent, is down from around 5.7 percent in 2012. And models used by the Fed and the budget office have failed to identify the point at which further total spending growth in the economy will bump up against a ceiling and bring not just a little more inflation but possibly an unsustainable spiral of ever-rising price growth.

It may be that the United States economy's "potential" — estimates for what gross domestic product could be if all of our country's resources, including unemployed labor, were utilized — is much larger than we think. A recent paper by economists at the University of Texas and the University of California, Berkeley, argues that official estimates of potential are too pessimistic.

Moreover, it's possible that letting a high-pressure economy run over a longer period will actually increase that potential by pushing firms to improve productivity and draw more workers into the labor market. The evidence is mixed but can't be dismissed.

Of course, higher growth alone may not be enough to improve the lives of those left behind over the last few years. The recent tax bill's benefits are skewed and temporary, and people do need stronger safety nets and other help to pay for the rising costs of housing, health care and college.

But a stronger economy might help the left behind as much as, if not more than, any of these specific measures. The old models don't seem to be working, and the downside risks of this experiment are limited. Let's run a truly high-pressure economy and see what happens.

Isabel V. Sawhill (@isawhill) is a senior fellow at the Brookings Institution and the author of the forthcoming book "The Forgotten Americans: An Economic Agenda for a Divided Nation."

Job seekers arrive at the Walter E. Washington Convention Center in Washington, DC, in September. | Mandel Ngan/Agence France-Presse — Getty Images

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The New York Times

U.S.
Their Pay Has Stood Still. Now Oklahoma Teachers Could Be the Next to Walk.

By Dana Goldstein
1,908 words
20 March 2018
05:00 AM
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NYTFEED
English

TULSA, Okla. — When she woke up one morning last week, Tiffany Bell, a teacher at Hamilton Elementary School here, had $35 in her bank account.

On take-home pay of $2,200 per month, she supports her husband, a veteran who went back to school, and their three children, all of whom qualify for the Children's Health Insurance Program, a federal benefit for low-income families. The couple's 4-year-old twins attend a Head Start preschool — another antipoverty program.

Money is so tight for Ms. Bell, 26, that she had to think twice before spending $15 on Oreos for a class project, in which her third graders removed differing amounts of icing to display the phases of the moon.

She knew it would be hard to support a family on a teacher's salary. "But not this hard," she said.

When West Virginia teachers mounted a statewide walkout last month, earning a modest raise, it seemed like an anomaly: a successful grass-roots labor uprising in a conservative state with weak public sector unions. But just a few weeks later, the West Virginia action looks like the potential beginning of a red-state rebellion.

In Arizona, teachers clad in red, the color of the teacher protest movement, have conducted a series of #RedforEd demonstrations demanding higher pay. In Kentucky, teachers have organized rallies to protest proposed cuts to their pensions.

And in Oklahoma, where teachers have not had a raise from the state in a decade, they have vowed to go on strike on April 2 if the Legislature does not act to increase pay and education budgets.

All three states are paragons of austerity-minded budgeting, guided by a belief that taxes should be as low as possible to encourage people to spend more and companies to move there and grow. But one result has been a cutback in education, a sector in which a large and popular work force is finding it has labor muscles to flex after all.

"We are hemorrhaging from a lack of funding," said Larry Cagle, a Tulsa teacher and organizer of one of several Facebook groups pushing for a walkout. "If I get fired, I get fired. I will absolutely not back down."

Oklahomans are not always averse to paying more for education. Local districts can use property taxes and bonds to pay for structures, and many of the school buildings are beautiful. Webster Middle and High School in Tulsa is a pristinely maintained Art Deco castle. In 2015, Tulsa voters passed a $415 million bond to invest in technology and the district's physical infrastructure.

But most instructional costs are covered by the state, where laws and politics make it difficult to raise taxes. And it is inside the classroom that students and parents have noticed the impact of depressed state budgets.

Webster, where 88 percent of students come from low-income families, has cut its advanced foreign language courses, along with classes in drama and debate. Six miles away, Carver Middle School has rationed paper and there are not enough parts to go around in robotics class, students said.

About a fifth of Oklahoma school districts, mostly in rural areas, are trying an even more drastic way to save money: a four-day week. (They cannot cut the number of instructional hours, so the school days tend to be longer.)

Across the state, teachers say they make ends meet by selling their blood plasma, or by working second jobs as luggage handlers, Uber drivers or in lawn maintenance.

When teachers here last went on strike, in 1990 for four days, they won a raise and limitations on class sizes. But that was the last time the Oklahoma Legislature raised taxes. In 1992, anti-tax activists successfully organized a ballot referendum to require a three-quarters majority in both the state House and Senate to raise new revenue and today, Oklahoma is one of 13 states that require a supermajority to impose new taxes.

Research has found little direct relationship between tax cuts and indicators like job creation. Oklahoma's economy did well between 2001 and 2014, in part because of a boom in oil and gas. More recently, the state's economy slowed along with a decrease in **oil prices**.

But ever since the referendum passed, it has become an insurmountable barrier for attempts to increase school spending. The 1990 class size reductions were scrapped for lack of funds. Since 2008, Oklahoma has cut its per-pupil instructional funding by 28 percent — the largest cut in the nation, according to an analysis by the Center on Budget and Policy Priorities, a liberal-leaning think tank.

The current budget situation is so dire that some superintendents and school boards are supporting, and even helping to organize, the proposed teacher walkout.

Deborah Gist, who as the hard-charging education commissioner in Rhode Island tried to weaken teachers' seniority protections and often clashed with their union, is now Tulsa's schools superintendent and is allied with the Oklahoma union — the Oklahoma Education Association — in a fight for more money.

Dr. Gist said she is unable to attract or retain effective educators because they can earn up to $20,000 more per year by moving to Texas or other neighboring states. Because so few licensed teachers are applying for jobs, Tulsa has relied on emergency certifications to hire more than 100 teachers who lack training in education.

"Our teachers in Oklahoma are going above and beyond every single day for an unacceptable and unsustainable salary that doesn't even provide them with a living wage," she said.

Teachers in Oklahoma earn $45,000 a year on average, the third-lowest in the country; only those in Mississippi and South Dakota earn less, according to the National Center for Education Statistics. They are doing better, though, than many workers in Oklahoma, which has the third-lowest cost of living and where the average teacher salary is about equal to the median household income.

But teachers, especially those in their 20s and 30s, say they live paycheck to paycheck, without the middle-class stability they expected when they chose teaching as a career, often taking on student debt along the way.

Becky Atherton Dukes, an art teacher at Carnegie Elementary School in Tulsa, pays $400 per month for health insurance for herself and her daughter. She and her husband, a house painter, are expecting a second child, and their day care costs will exceed Ms. Dukes's pay. "I love my job," she said. "But it would be nice to be able to afford a family vacation or have money for savings."

Most here believe there is little hope of avoiding the walkout.

In 2016, voters rejected a ballot measure that would have increased education funding through an additional one percent sales tax. More recently, a legislative proposal called Step Up Oklahoma would have funded $5,000 raises by increasing gas and tobacco taxes and modestly raising production taxes on the energy industry. It was supported by Gov. Mary Fallin, a Republican, the teachers' union and a coalition of business leaders.

On Feb. 12, 63 members of the state House of Representatives voted for it, and 35 against, short of the required 75 percent supermajority.

A quarter of Republicans and more than two-thirds of Democrats opposed the bill. The Platform Caucus, a group of Republican opponents, issued a statement saying the tax increases would have undone the benefits of President Trump's tax cuts. "It is unfortunate that lawmakers and special interests are so quick to try and grab that money," the caucus wrote.

Democratic opponents said the plan was too easy on oil and gas, while raising taxes too high on the wind industry. They also asked for an increase in income taxes on high earners.

Moderate Republicans say colleagues further to the right are wedded to an ideology that no longer makes sense.

“They just won’t raise taxes,” said Representative Earl Sears, a retired principal and the chairman of the House appropriations committee. “We’re at the point where we’ve cut so much, we now have to go in and make investments. If that means raising taxes, so be it.”

Mr. Sears also accused Democrats of wanting the schools crisis to continue, so they could run on the issue in future elections. “They really don’t want to give the Republican Party a victory,” he said.

Indeed, anger about education cuts has helped fuel something of a blue ripple in this Republican-dominated state, with Democrats flipping four legislative seats in special elections in 2017.

After the defeat of the bill, educators began to gather on Facebook and in person to share their frustration. Rank-and-file teachers pushed their union to support their demand that the state act before April 2 or face a work stoppage. The Oklahoma Education Association is now asking for a $10,000 raise for teachers, a $5,000 raise for school support staff and a $200 million increase in schools funding.

On March 12, Oklahoma teachers took their first steps toward a strike, beginning a “work to contract” protest in which teachers marched out of their schools when the last bell rang. They refused to tutor students, email with parents or grade papers after hours.

At Carver Middle School on Tuesday, students applauded as their teachers filed out of the building.

At Carnegie Elementary School, Ms. Dukes reluctantly canceled her students’ annual art show. In preparation, she had meticulously organized and labeled every pinch pot and collage in her classroom. But bringing the event to fruition would have required logging long hours after school and at home, work that she believes entitles her to a raise.

One of her colleagues, she said, had moved away from Oklahoma, and now earns the equivalent of $85,000 per year as a teacher.

Ms. Dukes laughed. “To get her American dream,” she said, “she had to move to China.”

* The West Virginia Teacher Strike Was Just the Start

* Fighting Poverty, Drugs and Even Violence, All on a Teacher’s Salary

* ‘All-In or Nothing’: West Virginia’s Teacher Strike Was Months in the Making

Students leaving Carver Middle School in Tulsa last week. Teachers in Oklahoma have not had a raise from the state in a decade and are threatening to strike on April 2. | Brandon Thibodeaux for The New York Times | Left, Tiffany Bell, a teacher at Hamilton Elementary School in Tulsa; right, Becky Atherton Dukes of Carnegie Elementary in Tulsa. Many teachers in Oklahoma believe there is little hope of avoiding the walkout. | Brandon Thibodeaux for The New York Times | Students on a school bus outside Carver Middle School in Tulsa. Across the state, teachers say they make ends meet by selling their blood plasma, or by working second jobs as luggage handlers or Uber drivers. | Brandon Thibodeaux for The New York Times | Carmen Vasquez and her son, Jorge, an eighth grader at Carver Middle School. Ms. Vasquez supports the teachers’ plan for a strike, though she is worried that her husband, a school bus driver, will be out of work. | Brandon Thibodeaux for The New York Times | Like many administrators, Tera Carr, the Hamilton Elementary School principal, has shown solidarity with the teachers’ union. | Brandon Thibodeaux for The New York Times

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THE WALL STREET JOURNAL.

Markets

China Tries to Lift Yuan's Profile With Oil Futures; Capital controls and investors' concerns over Chinese government policy mean the yuan remains a minnow in international finance

By Mike Bird
1,002 words
26 March 2018
07:20 PM
The Wall Street Journal Online
WSJO
English

The world's first yuan-denominated oil contracts launched Monday, as part of China's drive to turn its currency into a global force in markets.

The history of international currency markets suggests that may be a difficult task, though not impossible if Beijing eases the capital controls that make it hard for foreigners to buy domestic assets, economists say.

Those capital controls and investors' concerns over the opaqueness of Chinese government and central-bank policy mean that the yuan remains a minnow in international finance, despite China being the world's largest exporter.

The dollar and euro are global currencies because central banks hold them in their reserves and they are used to buy services and goods both in and outside their home markets.

In launching new yuan-denominated crude-oil futures, Beijing hopes to create an oil benchmark to rival those in New York and London and challenge the dollar's role as the dominant commodity-pricing currency by making it possible for crude exporters to sell oil in another currency.

Professor Barry Eichengreen of the University of California, Berkeley, who writes about the history of currencies in the international financial system, believes the dollar's grip on oil pricing isn't guaranteed.

"As **financial markets** continue to develop—as there are liquid markets in more currencies, and currency trading becomes cheaper—traditional arguments for why one currency should monopolize this function become even weaker than before," Mr. Eichengreen said.

Still, "I don't think the renminbi will displace the dollar from the global oil market anytime soon. Lack of liquidity and accessibility continue to limit its usage," he added.

The yuan is also known as the renminbi.

China's currency has some way to go. The yuan's share of global foreign-exchange reserves is just 1.1% of the global total, behind currencies such as the Australian and Canadian dollars. The U.S. dollar's share is 63.5%.

The yuan makes up only a 1.1% share of international payments, placing it behind seven others, according to payments firm SWIFT. That share has slipped in recent years, from as high as 2.8% in August 2015. Currently, almost all oil and most commodities are bought and sold in dollars.

However, even in modern history, it hasn't always been this way. Economists point to the demise of the British pound's dominance in world trade as showing that the tide can turn quickly against one currency in favor of another, especially during a crisis.

The London Metal Exchange's benchmark copper contract was denominated in sterling until 1993. Even today, cocoa trading is priced in sterling.

Though crude has a longer history of being denominated in dollars, due to the U.S.'s status as a major producer, as late as the 1970s oil-producing countries received around a fifth of their royalty payments in sterling, according to economic historian Prof. Catherine Schenk.

Before the outbreak of World War I, dollar-denominated international trade credit was almost nonexistent and British banks dominated the sector. By the mid-1920s, the dollar and sterling-denominated trade credit occupied similar market shares.

The economic impact of World War I and II left London's influence in international finance and trade drastically weakened, leaving the dollar firmly in the driving seat by the second half of the 20th century.

Sheer economic heft isn't enough to guarantee a currency international primacy. The U.S. economy supplanted the U.K.'s as the world's largest in the 1870s, around half a century before the dollar began to replace sterling as the world's dominant currency.

That is a lesson to China, as its economy catches up with the U.S. and by some measures has already taken over.

One factor currently limiting the adoption of the yuan as a global currency is Beijing's capital controls, which place limits on investment in China. Beijing keeps a tight grip of money coming in and out of the country to maintain control of the country's economy and prevent sudden outflows of capital.

Currently, selling a yuan-denominated futures contract means investors must either exchange the currency back into dollars—partly defeating the purpose of the contract—or find assets denominated in the Chinese currency to invest in.

There is no shortage of Chinese assets. The IHS Markit iBoxx Asia China index, a broad index of Chinese bonds, has more than doubled in size in the past 4½ years, to more than $11 trillion.

Some of the government controls have already been loosened. In 2017, China launched a "bond-connect program" to allow global investors with trading accounts in Hong Kong to access China's interbank bond market.

Just because more foreigners can now buy Chinese bonds, it doesn't mean they will. Some investors say Beijing will have to open up its economy more for that to happen.

"Firstly, China will have to remove, or substantially reduce, capital controls for [yuan] priced oil trading to take off," said Hayden Briscoe, head of fixed income Asia Pacific at UBS Asset Management.

Mr. Briscoe added that the inclusion of Chinese bonds in major indexes would boost outside investment in the country's debt, given investors and passive funds track such benchmarks.

"When that happens, we're expecting a major reallocation of capital into China's onshore bond markets," Mr. Briscoe said.

Bloomberg LP said Friday it would add Chinese bonds to its Bloomberg Barclays Global Aggregate Index in 2019.

However, the country's controls on capital flows aren't the only concerns. The Chinese government's propensity to intervene in domestic commodities markets and the lack of transparency about the country's monetary policy are also unlikely to find favor among investors.

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THE WALL STREET JOURNAL.

Markets

How Exchange Bigwig Duffy Returned to Deal Making With Cross-Atlantic Bid; Acquisition poised to strengthen CME's dominance in exchange business, which has become increasingly consolidated

By Alexander Osipovich and Philip Georgiadis
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29 March 2018
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Terrence Duffy spearheaded a series of deals that turned CME Group Inc. into the world's biggest exchange operator. On Thursday, the chairman and chief executive showed he's still in the game with a $5.4-billion agreement to acquire the U.K.'s NEX Group PLC.

The deal is poised to strengthen CME's dominance in the exchange business, which has become increasingly consolidated in recent years. The company's market capitalization is $53.7 billion, while its next-biggest rival, Intercontinental Exchange Inc., is worth $41.7 billion.

The NEX acquisition is expected to be completed in the second half of 2018, subject to approval by regulators and NEX shareholders, the two companies said.

In an interview, Mr. Duffy, 59 years old, said the deal took shape during a series of lunches and dinners with NEX Group Chief Executive Michael Spencer in New York restaurants, lubricated by French wine.

"A lot of the discussions happened over a nice glass of red," Mr. Duffy said, adding that he had let Mr. Spencer—one of Britain's richest men and a famed bon vivant who has invested in fine-wine businesses—choose the bottle. "Me being from the South Side of Chicago, I have no idea what it is and I just drink it," Mr. Duffy said.

A spokeswoman for NEX Group declined to comment.

A former floor trader, Mr. Duffy used political savvy to rise to the top of the Chicago Mercantile Exchange, which became a publicly traded company in 2002. As chairman, he oversaw tie-ups with crosstown rival the Chicago Board of Trade, the New York Mercantile Exchange and the Kansas City Board of Trade. Those deals turned CME into an exchange giant with markets ranging from energy to wheat to gold.

The firm ruffled feathers along the way. CME faces a long-running antitrust lawsuit, which was filed nearly 15 years ago and is set to go to trial in June, from a subsidiary of Germany's Eurex exchange. Eurex contends that its effort to break into U.S. Treasury futures in 2003 was foiled by collusion between CME and CBOT. CME denies the allegations.

Buying NEXwill makeCME a critical player in the trading of U.S. government debt—the world's biggest bond market, with $14.5 trillion of Treasury securities outstanding. NEX owns the largest electronic-trading platform for Treasurys, BrokerTec, where an average of $143 billion is traded daily, according to the NEX website.

That complements CME's heavily traded U.S. interest-rate futures, a market in which CME enjoys an effective monopoly. The firm cemented that position through a previous deal led by Mr. Duffy, the 2007 merger of CME and CBOT.

Mr. Spencer stands to make hundreds of millions of dollars from the sale. He told reporters on Thursday that he would become a "large and happy shareholder" in CME under the terms of the cash-and-stock deal. He will join the CME board and remain with the company as an adviser, the companies said.

The 62-year-old Mr. Spencer is one of the City of London's most high-profile financiers, and has built himself a fortune and significant political influence out of the expansion of the derivatives markets over the past 35 years.

In the 1980s, having been fired from two previous jobs in finance, he pulled together $60,000 with three partners to make a play on the growing demand for brokers to help banks trade complex derivatives products.

The company he founded, ICAP PLC, became one of the world's biggest players in the over-the-counter derivatives markets, built on a core business of brokering trades by telephone. But in 2016, faced with technological shifts in the markets, ICAPsold its voice-brokering unit to rival Tullett Prebon PLC. The remainder of ICAP rebranded itself as NEX Group and refocused on electronic trading.

Mr. Spencer was a prominent backer of the U.K.'s Conservative Party under its previous leader, former Prime Minister David Cameron, and was the party's treasurer between 2006 and 2010.

He hasn't shunned the limelight throughout his career. ICAP's charity days became an iconic feature of the City of London's calendar, with celebrities from Prince Harry to singer Rod Stewart descending on the brokers' floor to man the phones and raise money for charity, surrounded by newspaper photographers and traders in eclectic costumes.

The events have raised nearly £135 million ($190 million) to date and helped turn ICAP into one of the best-known names in the City, despite the firm's often barely understood role in the plumbing of **financial markets**.

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THE WALL STREET JOURNAL.

Politics

Senate Banking Bill Exposes Democratic Rifts; Measure to ease a Dodd-Frank rule pits centrists up for re-election against more liberal lawmakers

By Andrew Ackerman and Natalie Andrews
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WASHINGTON—Moderate and liberal Democrats are quarreling over a Senate bill that eases rules for the banking industry , illustrating ideological party splits and offering a preview of diverging priorities ahead of 2018 and 2020 elections.

The intraparty fight is dividing the caucus in a way that hasn't happened since Republicans took full control of Washington last year. It pits centrists up for re-election this year in red states, who support what they say would help smaller banks in their home states, against liberals seen as presidential contenders in 2020, who say the measure would inject more risk into the financial system overall.

Despite the objections from the more liberal Democrats, the Senate is likely to approve the bill this week.

The friction, which spilled into public view as the Senate debated the bill last week, could give red-state Democrats daylight from liberal lawmakers such as Elizabeth Warren of Massachusetts.

"Look at it from the perspective of those up for re-election: They can talk about how they were attacked by Elizabeth Warren and still stood up for community banks," said Jim Manley, a former Democratic leadership aide.

Others say support for the bill could come back to haunt centrists. "Vulnerable Democrats are deluding themselves if they think voting with Trump on a massive, deregulatory bill is going to earn them any points back home next November," said Brian Fallon, a former aide to Hillary Clinton.

Centrist lawmakers who helped author the bill—including North Dakota Sen. Heidi Heitkamp, Montana Sen. Jon Tester and Indiana Sen. Joe Donnelly—say the legislation recalibrates a series of post-financial-crisis rules that have stifled smaller banks in their home states. All three of those senators are from states Mr. Trump won in 2016 and are facing tough re-election battles this year.

"We're seeing way, way, way too many banks being eaten up by bigger banks," Mr. Tester said. "If this continues, I don't think we can expect the Wall Street banks to be serving places like Montana."

Progressive Democrats rallying against the bill say it wrongly relaxes rules for banks, injecting more risk into the financial system at a time when the markets are **volatile** and banks are enjoying strong profits.

Ms. Warren, a longtime critic of banks, attacked her centrist counterparts by name in a fundraising campaign sent by email Tuesday after 17 members of the Democratic caucus signaled support for the bill in a procedural vote, saying they had "sided with big banks." In a speech at a Democratic fundraising dinner the following night, she made a thinly veiled attack on Democrats that "help the Republicans deliver even more goodies for big banks."

The criticism from one of their own caused centrists' tempers to boil over, at least privately. At a Democratic lunch meeting at the Capitol last Tuesday, Sen. Claire McCaskill of Missouri, a co-sponsor, vented about liberals for leveling intraparty attacks, people familiar with the matter said.

Democrats have pleaded with one another to keep gripes "in the family," and none have criticized Ms. Warren publicly. Alabama Sen. Doug Jones, who was named in Ms. Warren's email, shrugged it off. "I don't really worry about things like that. I do what I think is best for me," he said. "Elizabeth Warren and I are fine. I think she's nice."

The two sides have starkly different views of the policy changes in the bill in question.

Supporters say it relaxes a sliver of the 2010 Dodd-Frank financial law, which they blame for helping to fuel a wave of consolidation among community banks. More broadly, they say the bipartisan deal is the way Congress should function, with lawmakers from both sides of the aisle forging a deal together.

"This is old-school legislating," Ms. Heitkamp said.

Other Democratic opponents include Cory Booker of New Jersey, Kamala Harris of California and Bernie Sanders of Vermont, an independent who caucuses with Democrats. They are all seen as possible presidential candidates in 2020. Senate Minority Leader Chuck Schumer of New York also opposes the bill.

Among other things, they object to a central piece of the bill that would relieve about two dozen midsize banks from stricter Dodd-Frank rules by raising a key regulatory threshold to $250 billion in assets from the current $50 billion .

"The legislation we're considering today has been portrayed as modest—as something just helping community banks, credit unions and our regional lenders," said Sen. Sherrod Brown of Ohio, a leading liberal opponent of the bill. "Unfortunately that's not what this bill is."

Mr. Brown, along with two other liberal Democrats opposed to the bill—Pennsylvania Sen. Bob Casey and Wisconsin Sen. Tammy Baldwin—face re-election this year in states won by Mr. Trump. Ms. Warren has said she is focused on her own 2018 re-election and isn't pursuing the presidency right now.

Centrists counter that any increased risks are negligible and that the bill doesn't do much for the biggest U.S. banks that played central roles in the crisis. They also say the Federal Reserve would continue to have wide latitude to tightly regulate risky banks.

"This actually puts more responsibility on the Fed to do the right thing," Ms. Heitkamp said. "And they will."

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Economy

U.S. Jobless Claims Fell Last Week; Continuing claims by workers for longer than a week rose 4,000 to 1,879,000 in the week ended March 3

By Sharon Nunn and Sarah Chaney
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WASHINGTON—The number of Americans filing applications for new unemployment benefits fell last week, signaling continued health in the labor market.

Initial jobless claims, a proxy for layoffs across the U.S., fell by 4,000 to a seasonally adjusted 226,000 in the week ended March 10, the Labor Department said Thursday. This matched expectations of economists surveyed by The Wall Street Journal.

Weekly jobless claims have held below 300,000 for about three years, the longest streak since 1970—when the U.S. population was far smaller than it is today.

Jobless claims data can be **volatile** from week to week. The four-week moving average, a steadier measure, fell by 750 to 221,500 last week.

The overall labor market remains broadly healthy. The unemployment rate has been parked at 4.1%, a 17-year low, for the past five months, and the U.S. economy added 313,000 jobs in February, the largest monthly gain since July 2016.

The number of claims workers made for longer than a week rose by 4,000 to 1,879,000 in the week ended March 3. Continuing claims are reported with a one-week lag.

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THE WALL STREET JOURNAL.

Economy

U.S. Trade Deficit Widened in January to Post-2008 High; Deficit hit its largest monthly level in more than nine years, as exports weakened

By Ben Leubsdorf
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WASHINGTON—The trade deficit widened further in early 2018, a deteriorating backdrop to President Donald Trump's ramped-up efforts to close the gap with the help of tariffs.

The U.S. trade gap in goods and services expanded 5.0% from the prior month to a seasonally adjusted $56.60 billion in January , the Commerce Department said Wednesday. It was the fifth straight month of a rising deficit, reaching its highest level in more than nine years.

The wider deficit "will only add fuel President Donald Trump's protectionist rhetoric in recent weeks," said Michael Pearce, senior U.S. economist at Capital Economics, in a note to clients.

Imports were unchanged from December, with a rise in petroleum imports offset by declines in other categories. Exports fell 1.3% in January, including reduced shipments of capital goods and industrial supplies.

The overall trade deficit in January was the largest since October 2008. Excluding services, the trade gap for goods alone was the largest since July 2008.

Ian Shepherdson, chief economist at Pantheon Macroeconomics, said the wider deficit in January was driven by moves in two noisy categories, oil and airplanes, that should fade going forward.

"The headline trade numbers are going to look much better over the next few months," he said in a note to clients.

The monthly trade deficit in goods with China widened to its highest level since September 2015, and the U.S. goods deficit with Canada hit its highest level since the end of 2014. Those figures weren't adjusted for seasonality.

In general, data on international trade can be **volatile** from month to month, and the figures weren't adjusted for inflation. Still, the broader trend also shows a widening trade deficit. Compared with a year earlier, the trade gap in January widened 16.2% as imports climbed 7.4% and exports rose a more modest 5.1%.

Mr. Trump has long argued the U.S. should reduce its trade deficit, and last week announced plans to impose a 25% tariff on imported steel and a 10% tariff on imported aluminum to bolster domestic production of those metals.

He shrugged off concerns that other nations might retaliate with duties targeting U.S. exports, tweeting Friday that when a country "is losing many billions of dollars on trade with virtually every country it does business with, trade wars are good, and easy to win."

Business groups and many economists have been critical of the proposed tariffs. Federal Reserve Bank of Atlanta President Raphael Bostic, speaking Wednesday in Fort Lauderdale, Fla., said protectionism "is often not helpful for the broader economy," and while trade barriers might lift an individual sector, they will cause more problems than the policy solves.

Imports of steel and aluminum are relatively small compared with the overall U.S. economy, totaling about 0.2% of economic output, according to JPMorgan Chase & Co. economists Michael Feroli and Jesse Edgerton. That could mute the proposed tariffs' effects on inflation and the broader economy, they said last week in a note to clients, though they cautioned that "more risks would obviously arise if this action were to initiate retaliatory action."

The data in Wednesday's report predated Mr. Trump's announcement. In January, the dollar value of imported iron and steel mill products declined from the prior month, as did the value of imported bauxite and aluminum.

The U.S. economy has run overall trade deficits for decades, during both economic expansions and recessions, which economists say reflects the fact that Americans consume more than they produce relative to the rest of the world.

The U.S. exports more services than it imports, offsetting in part its larger trade deficit in goods.

Rising incomes and low unemployment have been supporting U.S. growth and domestic demand for imports. A weaker dollar and stronger growth overseas, meanwhile, have boosted foreign demand for U.S.-made products.

"Economic activity abroad…has been solid in recent quarters, and the associated strengthening in the demand for U.S. exports has provided considerable support to our manufacturing industry," Federal Reserve Chairman Jerome Powell said last week during testimony before Congress .

Michael S. Derby contributed to this article.

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