THE WALL STREET JOURNAL.

Heard on the Street
Markets
Rex Tillerson's Golden Parachute; Top diplomat's time at the State Department earned him some nice tax benefits on his Exxon shares

By Spencer Jakab
361 words
13 March 2018
12:17 PM
The Wall Street Journal Online
WSJO
English

Rex Tillerson is having a bad day, but a glance at the share price of Exxon Mobil might make the day of his firing a tad better.

Mr. Tillerson, the firm's longtime chief executive, was dumped as Secretary of State just over a year after taking office. One bright spot for him is a law that makes it more financially attractive for people joining the executive branch to sell investments to comply with conflict-of-interest rules. The law allows an individual to sell his or her shares and put them into "permitted property" such as Treasury notes or a diversified mutual fund but to defer the taxes indefinitely on the sale.

This benefits people like Mr. Tillerson who had large, concentrated investments, in this case roughly $52 million in Exxon shares . His appointment proved to be an excellent time to diversify. Exxon shares have lagged behind an **S&P 500 index** fund by more than 29 percentage points since his confirmation last February. Selling when he did has left Mr. Tillerson $15 million better off than he otherwise would have been.

An even bigger benefit came from Exxon's decision to place his $180 million in deferred compensation , to be received over a decade, into a diversified trust rather than Exxon shares. If he had been forced to pay tax upfront on the compensation before joining the government, the bill would have been roughly $70 million. And if he had left it in Exxon stock rather than the diversified trust, that would have cost him on paper $50 million or so.

There were some benefits that Mr. Tillerson gave up without getting compensation. He forfeited an Exxon credit card that would have given him discounted gas for life. Even if the discount was a buck a gallon, though, and he drove a gas-guzzler worthy of a wealthy Texas oilman, his tax and diversification boon is worth about 23,000 years of cheap fill-ups.

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THE WALL STREET JOURNAL.

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

By Gerard Baker
1,362 words
29 March 2018
06:45 AM
The Wall Street Journal Online
WSJO
English

Good morning,

Tech Tremors

The clobbering of technology shares in recent days is magnifying not only how influential these companies have become in people's lives, but how much sway they now command in global markets. Investors are concerned that the rapid growth of tech giants in recent years has led to outsize influence, and that the sector's sharp reversal leaves them susceptible to greater downside. Combined, the five largest U.S. tech and internet companies account for more than 14% of the **S&P 500 index**'s weighting. The declines illustrate a rapid shift in investor confidence in the sector, which had been a reliable generator of big returns and a major driver of the market's run. It isn't yet clear whether the selloff marks a permanent shift from tech stocks' leadership of the market, or a temporary hit to the companies' reputations. Tesla shares and bonds were among those hardest hit, posing a new challenge to the electric-car maker that has relied on the faith of investors to meet pressing cash needs. The lengthy decline came amid increased scrutiny of the company's semiautonomous driving system and a credit-rating downgrade from Moody's Investors Service. The clock is ticking faster for Elon Musk's company, our Heard on the Street columnist Charley Grant writes, as Tesla's magic touch with the capital markets appears to be fading fast.

Jared's Job

The continuing shake-up of President Trump's national security team may reshape the role of Jared Kushner, a key adviser and son-in-law whose global portfolio created friction with departing Secretary of State Rex Tillerson, administration officials said. In Mr. Tillerson's absence, Mr. Kushner may feel freer to pursue his own diplomatic objectives. But with Mike Pompeo nominated as secretary of state and John Bolton appointed as national security adviser, Mr. Kushner could see his sway curbed if foreign diplomats turn more to the traditional U.S. diplomatic machinery. He is engaging in diplomacy of a more-personal sort as Messrs. Pompeo and Bolton carve out their respective roles. Mr. Kushner has been associated with a globalist, New York faction that has seen its ranks depleted with the departure of Gary Cohn, the National Economic Council director, and Dina Powell, a deputy national security adviser who stepped down in December. Veterans Affairs Secretary David Shulkin became the latest casualty of the Trump administration after the president announced he would be replaced by the White House physician, Ronny Jackson.

The Taxman Won't Cometh

Those fretting over a possible call from the taxman may catch a break. The percentage of individuals receiving tax audits declined for the sixth consecutive year in 2017 to reach the lowest level since 2002—an indication of the impact of budget cuts at the Internal Revenue Service. The IRS, which has lost nearly one-third of its enforcement staffers since the 2010 peak, audited 0.62% of individual returns in the fiscal year ended Sept. 30, according to data to be released later today. The audit of about 1 in 160 individual returns in 2017 is down from 1 in 90 in 2010, the peak year in the past decade. Funding for the IRS in 2017 was $11.2 billion, down nearly 8% from its high in 2010, despite the number of individual returns growing nearly 5% over the same period. In the past, the IRS has claimed it can generate about $4 to $6 in tax revenue for every additional dollar it receives. For fiscal year 2018, the IRS's funding rises slightly, to $11.4 billion.

Coast to Coast

Some airports used to beg airlines for nonstop flights. Now they may have too many to choose from, writes the Journal's Scott McCartney. These days, travelers in places such as Baltimore, San Diego and Seattle can bypass midcontinent hubs, thanks to the rise in direct flights linking secondary cities. There were 158 daily transcontinental nonstops 20 years ago, mostly between the New York area and Los Angeles and San Francisco. Today there are 321 daily nonstops across the country—and more are coming. Cheaper fuel, more efficient new planes and population shifts have allowed smaller airlines to play in the big leagues. Transcon flights carry high percentages of business travelers and garner loyalty from customers. The benefit is twofold: for airlines, they are high-profile and high-reward; for coastal travelers, there's greater convenience and competitive fares.

Today's Video

Can Gun Makers Be Held Liable for Mass Shootings?

Parents of the victims killed at Sandy Hook are using a 1977 lawsuit about a slingshot to help prove that Remington Outdoor is partly responsible for their children's deaths. The Journal's Spencer Macnaughton explains.

TOP STORIES

U.S.

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WORLD

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MARKETS

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Europe's Booming, but Investors Aren't Making Much

Number of the Day

40%

The portion of incoming classes at elite universities filled by early applicants. The odds of getting into Harvard and other elite universities are slimmer for students who apply in the regular pool than for those who apply in early rounds.

Today's Question

Going back to our story above, are you concerned about tech giants' outsize influence on global markets? Send your comments, which we may edit before publication, to 10point@wsj.com. Please include your name and location.

—Compiled by Phil Nobile

Reader Response

Responding to yesterday's question about whether the 2020 census should ask respondents if they are U.S. citizens, Tom Manning of New York said: "No. By far the most important purpose of the census is to determine how many people live here, with accurate data by state and locality. In the current very charged atmosphere, asking about citizenship in a questionnaire that is traceable back to specific individuals at specific addresses can only discourage participation and lead to inaccurate results." Ellen Frigo of Texas wrote: "The citizenship question is entirely appropriate and has been used in prior censuses. The first obligation of a government is to its citizens and the protection of their interests. The dilution of the interests of citizens vis-à-vis noncitizens—both legal and illegal—is promoted by those who care more about their party's political sway and less about the U.S. as a sovereign nation." Linda Stern of Illinois replied: "No. An individual's citizenship has nothing to do with the census. There is no legitimate reason to ask this question. I thought the party in power was all about the government staying out of people's business. Guess not so much when it comes to making America American." And Barry Zalma of California said: "My parents were proud that they were naturalized citizens and I am proud to proclaim to the world that I am a natural born citizen. The question should be asked so the country can know how many of us are citizens and how many are not."

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

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THE WALL STREET JOURNAL.

Markets

U.S. Government Bonds Strengthen as Stocks Fall; Confidence about the direction of U.S. inflation and the Federal Reserve's interest-rate policy supports Treasurys

By Sam Goldfarb
445 words
27 March 2018
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English

U.S. government bonds strengthened Tuesday, pushing the yield on the **10**-**year Treasury** note to its lowest level in seven weeks, amid continued jitters in the **stock market** and easing concerns about the potential for a more aggressive Federal Reserve.

The yield on the benchmark 10-year U.S. Treasury note settled at 2.790%, compared with 2.843% Monday.

Yields, which fall when **bond prices** rise, declined steadily for much of the U.S. trading session before falling more steeply near the 3 p.m. settlement as stocks took a sharp turn lower.

Though they staged a big rally Monday, stocks have been weighed down in recent weeks by broad concerns about rising trade tensions and specific worries related to technology companies such as Facebook Inc. That has helped bolster demand for safer assets such as Treasurys, which offer steady interest payments and essentially no credit risk.

Traders piled into bonds Tuesday even as the Treasury sold $35 billion of five-year notes, part of a nearly $300 billion wave of issuance this week.

Though new debt can sometimes weigh on the prices of outstanding bonds, analysts said larger forces were supporting the market, including growing confidence among investors about the direction of U.S. inflation and the Fed's interest-rate policy.

While investors started 2018 focused on the risk that inflation was poised to pick up momentum, recent data has eased some of those concerns. At the same time, investors have become more confident that Fed officials won't raise interest rates more than two more times this year following their policy meeting last week.

The yield on the 10-year note started March at around 2.80%. It briefly topped 2.9% last week but has since eased back to the bottom end of its recent trading range.

At the moment, "there's room for some short-term towards lower yields in the absence of any fundamental reason to do anything different," said John Canavan, market analyst at Stone and McCarthy Research Associates.

Tuesday's sale of five-year notes follows a $30 billion auction of two-year notes on Monday.

The amount of debt being sold by the Treasury is growing because of an expanding budget deficit. President Donald Trump signed a $1.3 trillion budget Friday that boosts spending by more than $140 billion above limits set in 2011. That came after he signed a $1.5 trillion tax-cut package in December.

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THE WALL STREET JOURNAL.

Markets

After Nine Years, How Long Can This Bull Live? Some easy assumptions are being challenged, and that could threaten the most popular stocks

By James Mackintosh
892 words
8 March 2018
02:42 PM
The Wall Street Journal Online
WSJO
English

Bull markets, market bulls always insist, don't die of old age. Nine years into an extraordinary run for U.S. stocks, it's easy to buy into the idea that the only things that can halt the market are a recession or the Federal Reserve.

The claim is only half right. Long periods of calm lead investors and companies to make silly assumptions, leaving them dangerously exposed to shifts in fundamentals. With the economy now appearing to be in the last phase of the cycle, in which the Fed starts worrying about too much growth rather than too little, some of the easy assumptions of recent years are starting to be challenged—and could threaten the most popular stocks.

For nine years U.S. investors have had easy money, higher profit margins and—mostly—rising valuations, even as the economy had its slowest recovery since World War II. Wall Street won, while Main Street suffered.

Now Main Street is finally starting to do better. Jobs are plentiful, unemployment is low, wages just might , perhaps, be picking up , and the bond market is once again priced for inflation rising to the Fed's 2% target over the next two years.

Main Street's gain could be Wall Street's pain. But the economy isn't a zero-sum game, and it could all work out well. Everything depends on the balance between the cost of money and the return on that money—in simple terms, whether corporate earnings will rise enough to offset the damage done by higher bond yields.

Higher bond yields equate to a higher discount rate, making future earnings worth less today and reducing the valuation. But if bond yields rise purely because the (global) economy is improving, future profits should go up too, offsetting the fall in valuation and keeping stock prices unchanged.

The concern last month was that bond yields were rising in part because of uncertainty about where inflation and Fed rates were going, not merely because the economy was stronger.

The selloff might have been a lot worse if it hadn't been for soaring earnings forecasts on the back of the corporate tax cut. Analyst estimates of **S&P 500** earnings over the next 12 months in January jumped 8%, for their biggest monthly gain since Thomson Reuters IBES data began in 1985. Tax cuts are nice for shareholders but only lift shares once.

If bond yields are set to keep rising, as many believe, earnings will need to be supported either by higher profit margins or higher sales.

S&P profit margins are already fat, having hit a new high at the end of last year, as Ed Yardeni of Yardeni Research points out. Higher bond yields hit margins at leveraged companies directly as they pay more to borrow, while rising wages also pressure margins.

Stronger sales look like a better bet. Main Street's decade of malaise has crimped sales growth, but unless Americans change their savings habits, higher wages mean higher spending. The consensus belief in synchronized global growth means more sales abroad, too.

Higher wages leading to more sales can more than offset tighter margins, especially if corporate investment were to ignite productivity gains.

The **stock market** isn't prepared, because it has been transformed in the past nine years. When the S&P bottomed in March 2009, the top five constituents were Exxon, Procter & Gamble, Johnson & Johnson, AT&T and Chevron, then offering an average dividend yield of 4.2%. Investors wanted boring, predictable companies giving them money back immediately, not hopes of a dividend some time in the distant future.

Those companies have been swept away, with their total value now just 6% of the market, down from 14%. Instead, the market is dominated by Apple, Microsoft, Alphabet, Amazon and Facebook, yielding 0.65% and making up the same share of market capitalization that the old-school top five did at the market trough. Investors dream of disruptive long-term growth and are willing to wait for their rewards—as should be expected when bond yields are low.

As the story switches to rising yields, the shunned higher-yielding stocks offering immediate reward should come back into favor. Technology and other high-growth, high-margin, high-capital-spending stocks should be less appealing because growth will be available from cheaper stocks, too. The assumptions many investors cling to are that money will stay easy, inflation will stay low and workers will be happy to accept what they're given—so watch out if those are proven wrong.

Of course, this economic cycle has been much slower than usual. Perhaps the extended mid-cycle of low inflation and little wage pressure will continue. Maybe supply and demand no longer applies in the job market. Maybe the days of boom and bust are behind us. But more likely is that the shift to late cycle is under way, and that the pickup in equity **volatility** is a sign of the higher uncertainty that shift brings.

Nine years on, there are ways for stocks to keep rising along with bond yields, but investors need to position themselves to profit from Main Street winning, too.

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WSJ PRO BANKRUPTCY

Markets

Investor Who Won Big Betting on Housing Collapse Falters With China Bets; Kyle Bass says ‘the subprime market was similar to what is happening in China today'

By Chelsey Dulaney
632 words
23 March 2018
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WSJ Pro Bankruptcy
RSTPROBK
English

A decade after the financial crisis, The Wall Street Journal has checked in on dozens of the bankers, government officials, chief executives, hedge-fund managers and others who left a mark on that period to find out what they are doing now. Today, we spotlight former Treasury Department administrator Neel Kashkari and hedge-fund manager Kyle Bass.

Kyle Bass made his name betting on the collapse of the U.S. housing market a decade ago. His latest attempt to profit from what he sees as a speculative bubble—this time in China's economy—has gone less smoothly.

Mr. Bass' Dallas-based hedge fund, Hayman Capital Management LP, was down 19% last year largely due to an unexpected rally by China's yuan that spoiled its bets against the currency.

The fund's worst-ever annual return since its launch in 2006 contrasted with last year's global market surge, as the **S&P 500** gained 19% and emerging-market stocks soared nearly 40%.

The former Bear Stearns executive's struggle with the timing of his bets against the Chinese currency mirrors the predicament many investors faced in the run-up to the housing crisis. While they were convinced the U.S. subprime housing market was on the verge of collapse, they couldn't predict when it would happen.

"All these things were pointing to such crazy and wretched excess that it was bound to blow up," Mr. Bass said in an interview. "The question was, when was it going to break, and what was going to break it."

Mr. Bass, who founded Hayman with $33 million and quickly began amassing bets against subprime mortgages, didn't have to wait long for his payday back then. In 2007, the firm's main fund posted a return of over 200% as the subprime mortgage market began to unravel.

Mr. Bass's subprime bets shot him into investor stardom. But in recent years, he has also been in the spotlight for playing a role in the collapse of Bear Stearns. According to documents released by the National Archives in 2016, Mr. Bass was the source behind a CNBC report that Goldman Sachs Group Inc. had refused to trade with Bear Stearns amid concerns about the firm's liquidity. The report sparked panic among Bear Stearns investors and lenders, leading to the firm's hasty marriage to JPMorgan Chase & Co. just days later.

In the interview, Mr. Bass pushed back against the idea that he helped spark Bear Stearns' downfall, saying he had warned the firm about its exposure to the subprime market in 2006.

"There are those out there who want to shoot the messenger…but I had every reason for Bear Stearns to stay alive," he said.

Hayman's performance has been mixed since then. Bets on Greek debt and the Japanese yen turned out well for the firm, while an ill-timed bet on a recovery in crude **oil prices** weighed on the firm's returns.

In addition to Hayman's bets on China, Mr. Bass said he has also been ramping up **bullish** bets on the economies of Southern Europe.

"The subprime market was similar to what is happening in China today," said Mr. Bass. "China is still a central focus of our fund, but we have also added another regional focus in Southern Europe."

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WSJ PRO PRIVATE EQUITY

Business

Energy's Favorite Corporate Structure Falls Out of Vogue; A regulator's decision could hasten the demise of many so-called master limited partnerships

By Alison Sider and Christopher M. Matthews
986 words
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RSTPROPE
English

A federal tax ruling dealt a new blow to a group of pipeline firms that had helped finance a massive build-out of energy infrastructure, intensifying questions on Wall Street about the sector's survival.

The decision Thursday by the Federal Energy Regulatory Commission to disallow certain income-tax allowances could hasten the demise of many so-called master limited partnerships, which were already on a lengthy losing streak.

The stocks of several pipeline-partnership companies plummeted after the announcement. Shares of Enbridge Energy Partners LP fell 17%, Spectra Energy Partners LP shares dropped 10%, while Williams Cos. and Energy Transfer Equity shares were down more than 10% before rebounding.

Once the darlings of the energy sector because they essentially pay no corporate tax, such pipeline companies, or MLPs, have lost their luster in recent years as they have struggled to keep up with demand for growing payouts to investors and their parent companies. In response, some pipeline companies have begun converting older partnerships into traditional corporate structures.

The regulator's decision will chip away at some of the tax benefits that made these partnerships attractive in the first place. FERC voted to reverse a longstanding policy that allowed interstate natural gas and oil pipelines configured as pass-through companies to collect corporate income-tax expenses from customers.

The FERC policy has been litigated for years because customers claim it allowed pipeline owners to essentially recover income-tax costs twice because regulators already allow partnerships to structure rates to ensure a sufficient after-tax return. A federal appeals court agreed with customers in 2016 and told FERC to examine the policy.

Some analysts said the reaction by investors was overblown. Many newer pipelines have negotiated rates with customers that won't be affected by the change and a handful companies that own pipelines but aren't structured as partnerships also will be unaffected. The majority of pipeline companies are MLPs, with a total market capitalization of about $350 billion.

Several big partnerships, including Enterprise Products Partners LP, Energy Transfer Partners LP, and Magellan Midstream Partners LP, said the change won't impact their bottom lines or the rates they charge. Analysts expect companies to appeal the decision.

Still, FERC's decision was the latest blow for a group of companies that investors had started to sour on.

"The sentiment in the group is terrible and this does not help," said Ethan Bellamy, an analyst at Robert W. Baird & Co.

The firms' tax-advantaged structure and promises of large and ever-increasing payouts helped draw billions of dollars of investment in pipelines and other energy infrastructure that was sorely needed at the height of the shale boom, when companies were racing to bring the output from newly discovered oil and gas fields to market.

But the tide has started to shift.

The partnerships were marketed as the toll roads of the energy industry, and investors expected that their payouts would be insulated from **volatile** commodity prices.

It didn't work out that way. Partnerships slashed their dividend-like payouts during the oil rout that began in 2014. Investors who owned a portfolio of MLPs in 2014 would have had their distributions cut by a third since then, said Mr. Bellamy.

Retail investors who bought MLPs in the boom times are "fed up," said Tyler Rosenlicht, who manages a portfolio of MLPs and infrastructure investments at Cohen & Steers, an investment firm.

Oil prices have stabilized at above $60 a barrel and companies are getting back to work drilling new wells, creating a need for more pipes. But the partnerships have languished. The Alerian MLP Index was one of the worst-performing assets last year—losing 6.5% on a total return basis compared with the nearly 22% that the **S&P 500** returned.

Investors have pulled more than $500 million from mutual funds and exchange-traded products that specialize in energy partnerships in recent weeks, in contrast to the heady days of the shale boom.

"It's hard for me to remember an environment when sentiment was this lousy despite the fundamental outlook improving," said Adam Karpf, managing director at CIBC Atlantic Trust Private Wealth Management.

Thursday's decision by FERC is likely to force many older natural gas and oil pipelines to lower their rates, say analysts, potentially making it even more difficult to fund the hundreds of billions in planned infrastructure projects.

Some companies, including Kinder Morgan Inc. and Oneok Inc. have done away with their partnerships converting them to traditional corporations, hoping the simplified structure will please investors and make it easier to raise cash.

In 2014, partnerships accounted for 63% of the market value of "midstream" energy infrastructure companies, according to Hinds Howard, a portfolio manager at CBRE Clarion. Now that's 54%, after some large companies converted into regular corporations.

The FERC decision will accelerate the conversion of older partnerships into traditional corporations, according to Height Securities analyst Katie Bays. "No question about it, for older MLPs you're going to see a more fast-paced transition," she said.

Others say that even if retail investors maintain their chilly stance, the MLP structure isn't going anywhere. More MLPs can now live within their means without infusions of cash from equity markets. Institutional investors and private equity backers have funneled money into the space.

"I don't think the model is going away. I still think it's an effective way to build critical infrastructure," said Rob Thummel, who manages a portfolio of MLPs and other energy investments at Tortoise Capital Advisors. "If you have more production, you need more pipelines."

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Economy

Fed Considering Revisions to Volcker Rule | New Powers Come With Pressure for ECB | BOJ Nominees Show Differing Views | SARB Nationalization Motion Withdrawn | Fairless's Take: ECB May Hesitate in Face of Market Volatility; The Wall Street Journal's central banking newsletter for Tuesday, March 6, 2018

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Fairless's Take: ECB May Hesitate in Face of Market Volatility

Fed Considering ‘Broad Revisions' to Volcker Rule Compliance

New Powers Come With Pressure for European Central Bank

BOJ Nominees Show Differing Views on Potential Side Effects of Easing

South Africa's Ruling Party Withdraws Motion to Nationalize Central Bank

ECB May Hesitate in Face of Market Volatility

How will the European Central Bank react to the recent bout of volatility in financial markets?

The Dow Jones Industrial Average hit an all-time high the day after the ECB's last policy meeting on Jan. 25, and subsequently fell more than 10% over two weeks, though it has since recovered slightly.

Market volatility remains elevated, partly reflecting investor concerns that central banks will withdraw their easy-money policies more quickly in response to robust growth in the world economy and early signs of higher inflation in the U.S.

ECB President Mario Draghi told European lawmakers last week that the bout of volatility "deserves close monitoring." ECB officials are considering how quickly to phase out their bond-buying program, known as quantitative easing, which is due to run at €30 billion a month through September, and possibly beyond.

Some policy makers have already called for a small but significant step toward ending QE, according to the minutes of their last meeting: Dropping a pledge to accelerate the purchases if the eurozone economy deteriorates.

But analysts now think the ECB might hesitate to make such a change at its policy meeting on Wednesday and Thursday, partly due to the market turbulence.

"While the macro-economic picture is broadly developing along the lines envisaged by the ECB, recent market volatility cautions against any change in tone at this point," said Dirk Schumacher, an economist with Natixis in Frankfurt.

Still, Carsten Brzeski, an analyst with ING in Frankfurt, argues that the turbulence shouldn't have affected the ECB's assessment of the eurozone economy, because it has little impact on economic confidence in the region.

Crucially, Benoît Coeuré, who sits on the ECB's six-member executive board, argued last month that the ECB can phase out QE without risking an "unwarranted" increase in eurozone interest rates because it already holds such a large quantity of bonds.

That suggests that, while policy makers might play it safe this week, the ECB will likely press ahead with plans to phase out its bond purchases soon.

Key Developments Around the World

Fed Considering ‘Broad Revisions' to Volcker Rule Compliance

By Lalita Clozel

WASHINGTON—The Federal Reserve is considering "broad revisions" to how banks comply with a rule that prevents them from engaging in certain types of trading and investing.

"I believe the regulation implementing the Volcker rule is an example of a complex regulation that is not working well," Fed Vice Chairman for Supervision Randal Quarles said in prepared remarks for a speech Monday at an annual international bankers' conference. "We would like Volcker rule compliance to be similar to compliance in other areas of our supervisory regime," he added.

The Volcker rule is implemented by five separate agencies, and changing it would require a joint effort by those regulators. In August, the Office of the Comptroller of the Currency asked for public feedback on ways to modify the rule.

Mr. Quarles said the Fed was now working in "full cooperation" with the other agencies on a new proposal "that would make material changes to the Volcker rule regulations."

The rule bars banks from investing in certain funds and says their trading activities can't outstrip their customers' demand.

Mr. Quarles specifically said regulators are re-evaluating how they measure compliance with key aspects of the rule, such as which bank-owned investment funds are covered by it and how a bank calculates the "reasonably expected near-term demand" of its customers.

Still, Mr. Quarles said the regulators are limited in how much they can lessen the burden on banks and called for legislative changes. For instance, Mr. Quarles said he would support a legislative effort to exempt community banks from the rule.

"Short of a statutory exemption, we can only do our best to mitigate burden on community banks that generally do not engage in the types of activities the Volcker rule was intended to cover," Mr. Quarles said.

"Statutory changes likely would make our work of streamlining more straightforward and complete, but we have a fair bit that we can accomplish even absent such changes," he added.

Mr. Quarles also suggested making changes that would expand an exemption from the rule to foreign banks. The Fed could, for instance, determine whether a foreign bank can benefit from an exemption to the Volcker rule based on the location of a particular transaction, rather than a set of more complicated requirements currently in place.

"We have heard from a number of foreign banks that complying with these requirements is unworkable in practice, and we are considering ways to address this impracticality," he said.

New Powers Come With Pressure for European Central Bank

By Tom Fairless

FRANKFURT—The European Central Bank is being dragged into local controversies over issues ranging from banking scandals to bribery, underlining the mounting political pressures on the world's No. 2 central bank as it takes on a vastly expanded role.

Three of the ECB's 25 policy makers, a group that includes central-bank governors from 19 eurozone countries, are currently entwined in domestic investigations—in Latvia, Slovenia and Greece—and other top officials have faced pressure to resign.

ECB President Mario Draghi is likely to be quizzed at a news conference Thursday about alleged corruption and money laundering in Latvia, issues far removed from the bank's primary task of setting interest rates.

Since 2014, the Frankfurt-based ECB has been the eurozone's top banking supervisor, with direct oversight of around 120 of the region's biggest lenders and indirect control over thousands of others. It is also among the international monitors that oversaw the bailouts of struggling eurozone countries, including Greece, Portugal and Cyprus.

New powers to oversee the region's banks have become something of a "poisoned chalice" for the ECB, creating frictions with national authorities that retain key responsibilities in their banking sectors, said Daniel Gros, a director at the Centre for European Policy Studies, a Brussels think tank.

National governments face high hurdles to firing their central-bank chiefs under EU rules that granted a high degree of independence to the ECB. But the ECB can't obstruct investigations under national law.

The threat of national investigations effectively weakens the 19 national central-bank governors who sit on the ECB's rate-setting committee, relative to the six members of the bank's executive board, said Mr. Gros. The latter could gain influence in internal debates because they "don't have the Sword of Damocles hanging over them," he said.

The situations in Latvia, Slovenia and Greece differ from one another, but each of them risk straining and distracting the ECB, which emerged strengthened from the region's recent debt crisis even as elected politicians stumbled.

Latvia's central-bank governor Ilmars Rimsevics was recently suspended by Latvian authorities from attending meetings of the ECB's rate-setting committee in Frankfurt as a result of a Latvian investigation into whether he extorted bribes. Mr. Rimsevics denies the allegations and says there is a campaign against him orchestrated by local banks.

The probe is separate from allegations of systemic money laundering leveled by the U.S. Treasury against ABLV Bank, Latvia's third-largest bank, which is being liquidated. ABLV has said it isn't guilty of money laundering and has invested heavily in compliance systems.

Slovenia's central-bank chief Bostjan Jazbec was traveling to Frankfurt in mid-2016 when Slovenian police raided his office in the capital, Ljubljana, as part of an investigation into a 2013 overhaul of the country's banks. Mr. Jazbec and the Bank of Slovenia have denied wrongdoing.

The police seized documents and hardware, including some marked with the confidential stamp of the ECB, on whose rate-setting committee Mr. Jazbec sits.

That prompted a rebuke from Mr. Draghi, who threatened legal action for violating the ECB's legal immunities and asked the European Union 's executive, the European Commission , to intervene. Slovenian authorities responded at the time that the raid was legal, and that the central bank in Slovenia had refused several requests by prosecutors to hand over documents.

Mr. Jazbec's computer was eventually returned to him, six months later, he says. But the Slovenian is frustrated at what he describes as an erosion of his authority within the central bank after his four fellow board members failed to be re-elected. He has been nominated for a new job in Brussels, with the EU's bank-resolution authority, which would entail stepping down before his term ends.

In Greece, where the ECB has a high-profile role in monitoring the country's bailouts, central-bank head Yannis Stournaras has had a running feud with members of Greece's government, led by the left-wing Syriza party, who regard him as a political enemy.

In February, the Greek parliament launched an investigation into whether Mr. Stournaras, along with senior opposition politicians, took bribes to fix drug prices. Mr. Stournaras and all the officials named in the investigation have denied wrongdoing.

In an address on Feb. 21 to the Greek parliament, Mr. Stournaras complained that anonymous witnesses had invented stories about him. Mr. Draghi has repeatedly intervened in support of Mr. Stournaras.

Central bankers in other countries have also come under pressure. Portugal's central-bank head Carlos Costa has faced fierce political attacks related to the collapse in 2014 of the lender Banco Espírito Santo , and a subsequent decision by the central bank to impose losses on bondholders. Prime Minister António Costa, who isn't related to the central-bank head, accused the central bank of irresponsibly dragging out a decision on how to compensate retail investors hurt by the collapse. The central bank has said the move was in the public interest.

"If it only takes an allegation for a governor to lose his job…inevitably [ECB governors] will be watching their backs," said Panicos Demetriades, a former governor of Cyprus' central bank.

Mr. Demetriades stepped down in 2014—two years into a five-year term—following a political firestorm of criticism over his handling of the island's banking crisis the previous year.

—Todd Buell contributed to this article.

Bank of France Urges Tighter Digital Currency Regulation

By William Horobin

PARIS—The Bank of France urged tougher regulation of digital currencies Monday, adding to a drumbeat from major central banks that are concerned assets like bitcoin threaten financial stability and facilitate criminal activity.

France's central bank said investors are exposed to a higher risk of losses as crypto-assets experience price bubbles and their use becomes widespread throughout the economy. The anonymity of crypto-assets means they are more likely to be used for terror financing and money laundering, the Bank of France added.

In its report, the bank called for regulation of services at the interface between the real economy and crypto-assets and tighter regulation of financial companies investing in crypto-assets.

The recommendations from the Bank of France are the latest attempt from global regulators to keep pace with the expansion of digital currencies.

Bank of England Gov. Mark Carney said last week crypto-asset exchanges should face the same standards as exchanges for other securities. The French government has also called for action to combat speculation in the sector and asked the Group of 20 leading economies to work on a coordinated approach.

Like other central banks, the Bank of France said crypto-assets fall short of the criteria for being considered as currencies. Their fluctuating value means they cannot be used as a unit of account and they cannot be a trusted store of value because they lack intrinsic worth, the Bank of France said. It also said crypto-assets aren't an effective means of payment because of their price **volatility**, high transaction costs and absence of a guarantee in the case of fraud.

To improve oversight of services surrounding digital currencies, the Bank of France said regulators could create a "crypto-asset services provider status." That would make it possible to "subject market actors to rules governing operational security and customer protection."

To regulate investments, the Bank of France said banks, insurers and asset managers could be banned from taking deposits or making loans in crypto-assets. The central bank also said regulators could limit proprietary investments of financial institutions by deducting the value of the crypto-assets from a bank or insurer's capital.

The bank said regulation of crypto-assets should be discussed at a global level because national rules alone can't mitigate the risks. It also said the technology behind crypto-assets shouldn't be banned because it could have numerous uses for financial and nonfinancial companies.

"This technology, among others, contributes to the welcome dissemination of innovation in the financial sphere," the Bank of France said.

BOJ Nominees Show Differing Views on Potential Side Effects of Easing

By Megumi Fujikawa

TOKYO—Two Bank of Japan deputy governor nominees pledged Monday to make a full effort to achieve 2% inflation, but had slightly different views on the potential side effects of the bank's monetary-easing campaign.

"It is impossible to consider an exit before inflation reaches 2%," Masazumi Wakatabe, an economics professor at Waseda University, said in parliamentary testimony.

"If it is judged difficult to achieve 2% inflation, the BOJ has no choice but to take additional easing action," he added. He is known as an advocate of radical easing.

Mr. Wakatabe previously said the BOJ should step up purchases of government bonds to ¥90 trillion ($851 billion) a year from the bank's current guidance of ¥80 trillion, but he refrained from talking about specific action Monday.

The other nominee, Masayoshi Amamiya , a career BOJ official who has helped Mr. Kuroda design key policies, sounded more mindful about the potential side effects of ultralow rates on financial firms.

He said the bank should pay attention to both positive and negative sides of its monetary easing. Although there have been some side effects from the easing program, its merits still outweigh its pitfalls and the banking system remains healthy, he added.

Mr. Amamiya also said the BOJ has discussed what kinds of tools it has and how to use them when the time comes for the Japanese central bank to wind down its easy-money policy.

Last week, Gov. Haruhiko Kuroda surprised markets with his comment that the bank will discuss an exit in the year starting April 2019, his first reference to a time frame for policy normalization.

Australia's Central Bank Keeps Interest Rates Unchanged on Soft Wages Outlook

By James Glynn

SYDNEY—The Reserve Bank of Australia on Tuesday kept interest rates on hold for a 17th straight policy meeting and signaled it had no plans to adjust policy settings anytime soon.

The RBA maintained the official cash rate at a record low 1.5%, and pointed to soft wage growth and prospect of benign inflation in the coming months, as reasons for sticking to its current cautious course.

"Notwithstanding the improving labor market, wage growth remains low. This is likely to continue for a while yet," RBA Gov. Philip Lowe said in a statement accompanying the decision.

"Inflation is likely to remain low for some time, reflecting low growth in labor costs and strong competition in retailing. A gradual pickup in inflation is, however, expected as the economy strengthens," he added.

In a string of speeches and official reports through February, the RBA made it clear it is waiting for signs of a pickup in wages before it can consider raising interest rates.

Despite a strong recent trend of job growth and surging business confidence, Australian household budgets are under strain with recession-like wages growth combined with record debt levels. The dangerous mix of high debt and low wage growth has led the RBA to keep interest rates on hold since mid-2016.

The RBA's guidance means it is likely to lag well behind other major central banks such as the Federal Reserve, the Bank of Canada , and the Bank of England , in pushing up rates.

The RBA has warned that reaching full employment, which is believed to be around 5%, might be difficult to achieve given high levels of underemployment. Unemployment now sits at 5.5%.

That means wages pressures are set to remain muted, keeping inflation below or near the bottom of the RBA's desired 2-3% target band.

Financial markets are pricing little risk that the RBA will raise interest rates before the end of the year.

Fourth-quarter gross domestic product figures due Wednesday are expected to show the economy is growing modestly, with weak incomes growth and falling personal savings expected to be key features.

South Africa's Ruling Party Withdraws Motion to Nationalize Central Bank

By Gabriele Steinhauser

JOHANNESBURG—The African National Congress on Tuesday withdrew a parliamentary motion on the nationalization the South African Reserve Bank , one of the few central banks that still has private shareholders.

The withdrawal of the motion, which the ANC said would allow for more consultations within the party and stakeholders, is the latest sign that South Africa's ruling party is taking a more market-friendly turn under new President Cyril Ramaphosa .

In December, the ANC resolved to nationalize the SARB's 2 million shares that are in private hands—a step that bank and party officials insist would have no impact on the bank's independence.

Going ahead with nationalization could be costly, however. Buying out shareholders at the current prices would cost around 19.6 million rand ($1.7 million). But shareholders might ask for a higher payout, following the example of the private owners of the Bank for International Settlements .

When the BIS decided to restrict its ownership to national central banks in 2001, it initially offered 16,000 Swiss francs ($17,024) a share in compensation. Following a challenge of the decision by three BIS shareholders, the bank ended up having to pay an extra 9,052.90 Swiss francs for each share.

The SARB currently has more than 660 shareholders who can own a maximum of 10,000 shares, according to its website. The shareholders have no sway over monetary policy, which is set by a six-member committee.

Malaysia's Central Bank Expected to Keep Benchmark Rate Unchanged

By Yantoultra Ngui

KUALA LUMPUR, Malaysia—Malaysia's central bank is likely to keep its benchmark interest rate unchanged Wednesday, after data released last week showed the country's inflation fell to its lowest level since December 2016.

All 11 economists surveyed by The Wall Street Journal on Monday expected Bank Negara Malaysia 's monetary policy committee to hold its overnight policy rate, or OPR, at 3.25%.

The bank raised interest rates—by 25 basis points—for the first time in 3 1/2 years in January, reducing its support for the strengthening economy and joining a global trend toward tighter monetary policy.

Bank Islam Malaysia's chief economist, Dr. Mohd Afzanizam Abdul Rashid, said that "there are no urgencies to raise the OPR again in the upcoming meeting."

Kuala Lumpur-based MIDF Research concurred, adding that the reason for not raising the rate at Wednesday's meeting was to maintain stable economic growth.

Nevertheless, the chance that Malaysia's economic growth overshoots official forecasts of 5% to 5.5% might creep up following the release of data Monday showing that January's export growth picked up faster than expected.

Although it was still early in the year, economists said if incoming data continued to suggest growth might exceed expectations, the chance of another rate increase this year could increase.

ANZ Research thinks Bank Negara Malaysia will increase its OPR by 25 basis points in September as it expects inflation to gather pace in the second half of the year with strong domestic demand filtering through to prices.

Quick Hits: Swiss National Bank Confirms Big 2017 Profit

Swiss National Bank Confirms Big 2017 Profit

The Swiss central bank said it earned a 54.4 billion-franc ($58.1 billion) profit last year, in line with its first estimate issued in January. The biggest reasons? Global equities and the weaker franc, which boosted the value of the SNB's foreign-asset holdings. Equities contributed about 21.5 billion francs to the SNB's profit. Meanwhile, exchange rates added another 21 billion francs. When the franc is weaker, as it was last year, it makes the SNB's foreign-asset holdings worth more in franc terms. But the SNB can't go spending that money. The profit is mostly on paper, making the SNB vulnerable to declines in equities, rising bond yields or a stronger franc that could cause it to give up some of that hefty profit this year.

—Brian Blackstone

San Francisco Fed : Yield Curve Retains Power to Predict Recessions

Changes in the economy have in the view of many economists lowered the overall level of interest rates in the economy from recent history. But even as that may be, researchers at the Federal Reserve Bank of San Francisco say the yield curve still has predictive value for recessions. "While the current environment appears unique compared with recent economic history, statistical evidence suggests that the signal in the term spread is not diminished," the bank says. That means inverted yield curves are still strong harbingers of recession, and should be taken seriously when the arise.

—Michael S. Derby

Turkey's Central Bank Likely to Hold Rates Steady

Turkey's central bank is expected to keep interest rates steady at its policy meeting Wednesday, according to seven economists surveyed by The Wall Street Journal. "Given the lack of major improvement in core inflation and the central bank's signal not to alter the policy line until a sustainable single-digit inflation is achieved, it is likely to maintain the current stance in the near term as long as [the Turkish lira] remains stable," says ING Bank.

—Yeliz Candemir

Greece's Economy Expands for Fourth Straight Quarter

Greece's economy expanded for a fourth straight quarter in the last three months of 2017, but at a slower pace, according to figures published Monday. Gross domestic product increased by 0.1% in the October-to-December period, compared with an upwardly revised 0.4% growth in the third quarter, according to data from Greece's statistics service Elstat . However, the first estimate of the seasonally adjusted data shows a 1.4% rise in the economy, compared with a 1.6% estimate by the European Commission and Greece's budget. On an annual basis, Greek gross domestic product expanded by 1.9% in the fourth quarter of the year. Since entering recession in 2008, Greek GDP has shrunk by more than a quarter amid austerity measures imposed by international creditors after 2010, while unemployment has reached nearly 28% of the workforce. The country is still in its third bailout program in a row, which ends this August, and the country has sought to convince its creditors that it is finally able to stand on its own feet. Discussions on the country's fourth and final review began last week in Athens, and the Greek government and its creditors will focus on final reforms the country needs to implement and the surveillance framework the country will need after the end of the bailout era. Bank of Greece Gov. Yannis Stournaras said the country would need a precautionary credit line from Europeans after August to maintain investor confidence, which the Greek government has been reluctant to request.

—Nektaria Stamouli

BOJ's Amamiya Gives More Hints on Exit Strategy

Bank of Japan official and deputy governor nominee Masayoshi Amamiya took talk of a monetary stimulus exit a little further in parliamentary testimony Monday. While he repeated Gov. Haruhiko Kuroda 's view that details of an exit will depend on economic and price conditions at the time, he added that the BOJ has been internally discussing what tools it possesses for a future exit and how it might use them—such as an operation to absorb funding. He said he is confident the BOJ can raise interest rates while maintaining stability in markets.

—Megumi Fujikawa

BOJ Nominee Wakatabe Says Will Work Within Current Framework

Bank of Japan deputy governor nominee Masazumi Wakatabe refrained from giving specific ideas on possible additional easing measures in parliamentary testimony. Instead he suggested any proposals would be made within the current easing framework. "The starting point would be an improvement or reinforcement of the menu the BOJ already has," he said. Mr. Wakatabe previously has said the bank should step up Japanese government bond purchases to ¥90 trillion ($851 billion) a year from the current ¥80 trillion guidance.

—Megumi Fujikawa

Another Hawk on RBA Rates Falls From Sky

Another firm pushed back its expectations of Australian interest-rate action this year, ahead of a Reserve Bank of Australia meeting that isn't expected to produce anything new. TD Securities , which has been hawkish for a while, says the forward-looking swap market is extremely flat, with investors increasingly of the view the RBA is highly unlikely to lift the cash rate before November. "We agree the odds of the RBA hiking before November is low," TD adds. The RBA is expected to stick to its monthly script of continuing caution at Tuesday's meeting.

—James Glynn

Tuesday

7:30 a.m. EST

New York Fed 's Dudley speaks

7 p.m. EST

Fed's Brainard speaks

8:30 p.m. EST

Dallas Fed's Kaplan speaks

10:30 p.m. EST

Reserve Bank of Australia releases policy statement

Wednesday

8 a.m. EST

Atlanta Fed 's Bostic speaks

8 a.m. EST

New York Fed 's Dudley speaks

10 a.m. EST

Bank of Canada releases policy statement

10 a.m. EST

Bank of Canada releases its decision on the benchmark interest rate

2 p.m. EST

U.S. Federal Reserve releases beige book report on U.S. economic conditions

The Convergence in Emerging Market Inflation

Emerging markets' inflation rates have moved toward developed economy rates in recent years because of two reasons, Kevin Daly and Loughlan O'Doherty find in a VoxEU column. They attribute "the improved performance to two factors: increases in monetary policy credibility following the widespread introduction of inflation targeting, and a reduction in the frequency of emerging market currency crises, reflecting a secular improvement in their balance sheets."

Unconventional Fiscal Policy

Francesco D'Acunto, Daniel Hoang and Michael Weber study the impact of unconventional fiscal policy that "uses announcements of future increases in consumption taxes to generate inflation expectations and accelerate consumption expenditure." In a National Bureau of Economic Research paper, they "provide preliminary evidence for the effectiveness of such policies using changes in value-added tax (VAT) and household survey data for Poland." Households "increased their inflation expectations and willingness to purchase durables before the increase," they write.

Inflation Clarity Eludes the Fed and Markets

Even "if the economy ‘overheats,' it's doubtful that the attendant demand-pull, cost-push factors that propel inflation will show up in the current measures of consumer prices. Indeed, the core inflation scorecard does not offer the same "inflation clarity" as it did in the past because it excludes valuable price signals from the asset markets and other areas of the economy. In other words, core consumer prices, or the ones that are targeted by policy makers, no longer show any consistent ties to the economic cycle, and the prices that matter more today are those that are not targeted, such as asset prices," Joseph G. Carson writes for Bloomberg View. Such "changes, especially those that had to with housing prices and rents, create the impression that inflation is linear and slow-moving. In reality, though, some real assets that are no longer included in inflation calculations are moving higher more quickly."

Why the U.S. Trade Deficit Is Worse Than It Seems

A "seemingly unrelated news item on Monday shows what is being ignored in the debate over Mr. Trump's tariffs: The U.S. trade balance may be much worse than it looks," Spencer Jakab writes for The Wall Street Journal.

"The reason is the boom in U.S. energy production has dramatically reduced the need for oil imports. The U.S. trade deficit in goods and services was $566 billion last year, and in December widened to its highest since 2008. The annual deficit with China alone climbed to $375.2 billion. It would have been much worse without energy. Since 2007 net trade in three major categories of petroleum and related products plus natural gas has improved by $233 billion. If anything, that improvement understates the impact of the collapse in natural gas prices since 2008, which has given a boost to industries such as petrochemicals and fertilizers that were then in steep decline."

Central Banks Caught in A Pincer Movement

Central bankers are caught in a "pincer" movement, with inflation becoming less responsive to slack in the domestic economy , and threats to financial stability high, write Claudio Borio , Piti Disyatat, Mikael Juselius and Phurichai Rungcharoenkitkul in a paper published by the Bank for International Settlements . They call for a new approach to setting policy that recognizes this balance of forces. "The approach would recognise the difficulties monetary policy has in fine-tuning inflation when the rate is already low, possibly owing to supportive real factors such as globalisation and technology," they write. "It would take into account the risks of conducting policy based on unobservables that do not consider its impact on the financial side of the economy, such as the Wicksellian or New Keynesian natural interest rate. And it would provide sufficient room for manoeuvre to respond more systematically to the financial cycle. This, too, may not be the full answer. But it may bring us closer to it."

Growth across U.S. service industries continued at a solid pace in February, despite the largest drop in an employment gauge in a decade.

A senior Chinese official said the government will soon reconvene discussions with the U.S. on trade disputes, amid concerns that Trump administration tariffs on steel and aluminum may pitch the world's largest economies toward a trade war.

Inflation in the world's largest economies was unchanged for a third straight month in January, while it fell in rich countries, according to figures released Tuesday by the Organization for Economic Cooperation and Development .

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THE WALL STREET JOURNAL.

Markets

Transport Shares Shine After Slow Start to 2018; Rebound reassures investors who feared sector's earlier underperformance hinted at broader market downturn

By Akane Otani
756 words
14 March 2018
04:25 PM
The Wall Street Journal Online
WSJO
English

Shares of airlines, railroads and truckers are catching up with the broader **stock market** after a slow start to the year, a relief to investors worried that poorly performing transport stocks often presage a broader market downturn.

The Dow Jones Transportation Average, which tracks the performance of companies ranging from railroad operator CSX Corp. to airline giant United Continental Holdings Inc ., has rallied this month, cutting its losses for the year to 0.4%. The transports are now closing in on the broader **Dow Jones Industrial Average**, which after stalling out in March is up 0.2% for the year.

The transportation sector's rebound is encouraging investors who had questioned why transports lagged behind the first two months of the year even as data showed the unemployment rate was hovering near a 17-year low, the U.S. economy was on pace to accelerate again and corporate earnings were growing. The Dow transports fell 2.2% in January and February, while the Dow industrials rose 1.7%.

The disconnect between the two indexes was a worrying sign to proponents of the roughly century-old Dow theory . They believe declines in the Dow transports often hint at broader weakness in the economy—and signal a steep market selloff could be ahead. Over the past decade, the two indexes have had a correlation of 0.98, according to the WSJ Market Data Group, meaning they tend to move in the same direction.

But some analysts and investors say that the early underperformance of transportation stocks had more to do with a string of downbeat analyst reports at the start of the year, rather than underlying weakness in the U.S. economy. And they say the recent resurgence of transport stocks underlines that the broad economic outlook remains positive.

"I'm not suggesting we ignore any macro message from the transports—they may be telling us that there are some industry-specific issues out there—but the underlying macroeconomic message is still a positive one," said Liz Ann Sonders, chief investment strategist at Charles Schwab .

Airline shares, for instance, took a tumble the first two months of the year amid rising investor concerns that expansion plans among carriers would lead to excess capacity as well as a price war. Yet as jet fuel prices have slid, lowering costs for airline operators, many shares in the industry have since rebounded.

Shares of Southwest Airlines Co ., the No. 1 U.S. budget carrier, fell 12% in the first two months of the year, while Spirit Airlines Inc . lost 11% and Delta Air Lines Inc . slipped 3.8%. All three stocks are up more than 3% so far for March.

"We expect the airlines to update 1Q18 investor guidance, and suspect the updates will be positive given relatively modest industry capacity growth in 1Q18, declining jet fuel costs, and continued global economic improvement," Helane Becker, an analyst at Cowen & Co ., said in a research note.

Another stock that has rebounded in recent weeks: freight railroad CSX , whose shares are up 5.8% for the month after losing 2.4% the first two months of the year. Analysts said the company's presentation in early March at a New York investor conference, which included outlining plans to slash capital spending and cut jobs, helped reassure them that the firm can execute its turnaround plan .

Still, even as transportation stocks have recouped some of their February losses, they remain far behind the year's top-performing shares, many of which are in the technology and consumer-discretionary sectors.

Neither the blue-chip index nor the Dow Transports has set a fresh high since January. In comparison, the tech-heavy **Nasdaq Composite** is up 8.6% for the year, well ahead of the Dow industrials' 0.2% gain. Among the standouts in the technology space: streaming service Netflix Inc ., whose shares have soared 68% since the start of the year on the back of strong subscriber growth; Amazon.com Inc ., up 36%; and Cisco Systems Inc ., which has gained 18%.

"The transportation industry has just been ignored," said Tom Stringfellow , president and chief investment officer of San Antonio-based Frost Investment Advisors. So long as economic data stay positive, the sector is poised to pick up in the coming months, he added.

Allison Prang contributed to this article.

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

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Transportation Stocks Step on the Gas

By Akane Otani
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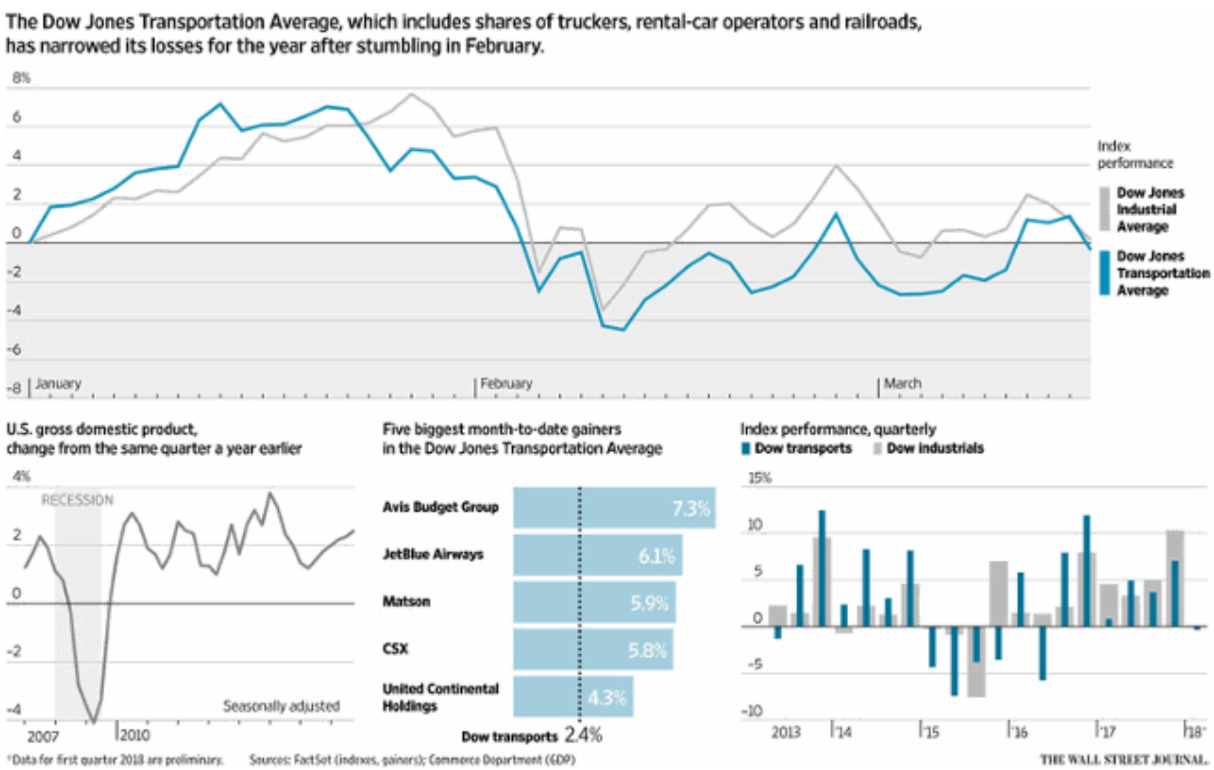
As long as economic data stay positive, the sector is poised to pick up in coming months, Mr. Stringfellow added.

Allison Prang contributed to this article.



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Pro Bankruptcy

Drug Maker Egalet Raises 'Going Concern' warning; Weak stock price could threaten Nasdaq listing, allowing convertible note holders to demand early repurchase of securities

By Becky Yerak
600 words
22 March 2018
02:21 PM
WSJ Pro Bankruptcy
RSTPROBK
English

Egalet Corp., a developer of pain-treatment drugs last week raised "substantial doubt" about its ability to "continue as a going concern," saying its financial condition could weaken if it is unable to refinance its notes or if its stock is delisted from **Nasdaq**.

In its newly published annual shareholder report, the Wayne, Pa.-based company said it has enough cash to fund the company into 2020 and was recently able to refinance more than half of $61 million in outstanding notes that mature in that year.

But Egalet warned that a possible delisting on **Nasdaq** due to a weak **stock price** could allow holders of the remaining $24.6 million in 5.5% notes to force it to repurchase for cash the remaining debt before it matures, as a delisting would constitute a "fundamental change" under the noteholders' agreement.

This would hurt Egalet's finances even as it sees sales for its products, including Sprix Nasal Spray, grow and its losses narrow. Sprix, which accounts for 75% of the drug maker's sales, is not an opioid, though some of Egalet's products are.

On midday trading Thursday, Egalet's stock was trading down 2.4% at 85 cents. In 2014 it reached roughly $18. Egalet's 5.5% bonds are currently trading at about 40 cents on the dollar, according to FactSet.

On March 8, **Nasdaq** told Egalet that since its stock had traded below $1 for 30 straight business days, the company did not meet a minimum closing price requirement. Egalet said if it loses its **Nasdaq** listing, noteholders could force the company to repurchase their securities.

To avoid a delisting, Egalet said it has until Sept. 4 to regain compliance with **Nasdaq** minimum price rules, meaning its common stock must reach at least $1 for at least 10 straight business days during the 180-day period.

"We continue to seek other sources of capital and alternatives to maintain our listing on the **Nasdaq**, but if we are unable to obtain sufficient financing to support and complete these activities, then we would, in all likelihood, experience severe liquidity problems and may have to curtail our operations," Egalet said in its annual report. "If we curtail our operations, we may be placed into bankruptcy or undergo liquidation."

A company spokeswoman had no immediate comment on Wednesday on the going-concern language.

The company had $26.1 million in revenues last year, up from $16.9 million the prior year. But it said it has never turned a profit and has high expenses related to product development.

Egalet's annual net loss was $69.4 million, or $2.05 per share in 2017. That compares with a net loss of $90.6 million, or $3.70 per share, in the previous year.

Its main product is Sprix Nasal Spray. The nasal spray is used to treat moderate to moderately severe pain. Its prescriptions more than doubled to more than 11,000 in the most recent quarter over the same period a year earlier, Chief Executive Robert Radie said in an analyst call last week. Compared with the immediately preceding quarter, Sprix sales rose 23%.

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WSJ Pro Bankruptcy also covers distressed companies. Inclusion of a company in this category is not intended to suggest that it will file for bankruptcy protection, default on its debt or suffer any other financial failure.

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THE WALL STREET JOURNAL.
U.S. EDITION

Air Is Coming Out of Inflation Wagers

By Daniel Kruger
808 words
23 March 2018
The Wall Street Journal
J
B12
English

Measures of investors' bets on a pickup in inflation are falling from recent highs, a sign that many believe tax cuts and increased government spending aren't likely to jolt the U.S. economy from its tepid postcrisis expansion for long.

The 10-year break-even rate, which tracks investors' expectations for average annual inflation over the next 10 years, settled Thursday at 2.10%, according to Thomson Reuters, after hitting 2.16% last month -- its highest level in more than three years. A measure of inflation expectations for the five-year period beginning in 2023 closed Thursday at 2.10%, down from a recent peak of 2.25% in February.

The moderation of those wagers marks a significant reversal from earlier in the year, when signs of accelerating inflation upended **financial markets**, spurring sharp selling in stocks and helping send Treasury yields to multiyear highs.

In one sign that expectations have shifted, the climb in Treasury yields has stalled, with the yield on the benchmark **10**-**year Treasury** note still below 3% -- a level it last reached at the end of 2013. Inflation poses a threat to the value of government bonds because it erodes the purchasing power of their fixed payments.

The day after the Federal Reserve raised interest rates Wednesday, noting average annual inflation is expected to "move up in coming months," the 10-year yield had its biggest drop in more than six months, settling at 2.832%, compared with its 2018 high of 2.943% reached Feb. 21.

"Inflation pressures have been more expected than realized," said Matt Freund, co-chief investment officer and head of fixed-income strategies at Calamos Investments.

Much of the belief that inflation might accelerate in 2018, nine years into one of the longest expansions on record, was rooted in the recent $1.5 trillion tax cut. Investors anticipated that overhaul would spur business investment and lead companies to raise pay for their employees. A $300 billion, two-year federal funding increase also boosted expectations for growth and rising prices.

Yet recent data have suggested inflationary pressures are still relatively muted -- something that could help cap a rise in bond yields for now. A gauge of consumer prices rose less than expected in February, while wage growth slowed from the previous month and the annual wage gain in January -- one element behind the selling in stocks and bonds earlier in the year -- was revised downward.

Many investors and economists had speculated that rising worker pay would lead to an increase in consumer spending and higher prices, the kind of inflation widely regarded as healthy. Yet consumers may already have accelerated spending in anticipation of tax cuts or higher wages, Mr. Freund said. He noted a rise in personal savings in January suggested consumers earning incomes near the national median may have felt the need to improve their personal balance sheets after overspending.

The Fed noted Wednesday that economic data on spending and business investment have moderated from strong readings at the end of last year, while signaling it could raise short-term interest rates at a slightly more aggressive pace in coming years to keep the strengthening economy on an even keel. And compared with December, more officials think they will need to raise interest rates at least four times this year if the economy performs in line with their expectations.

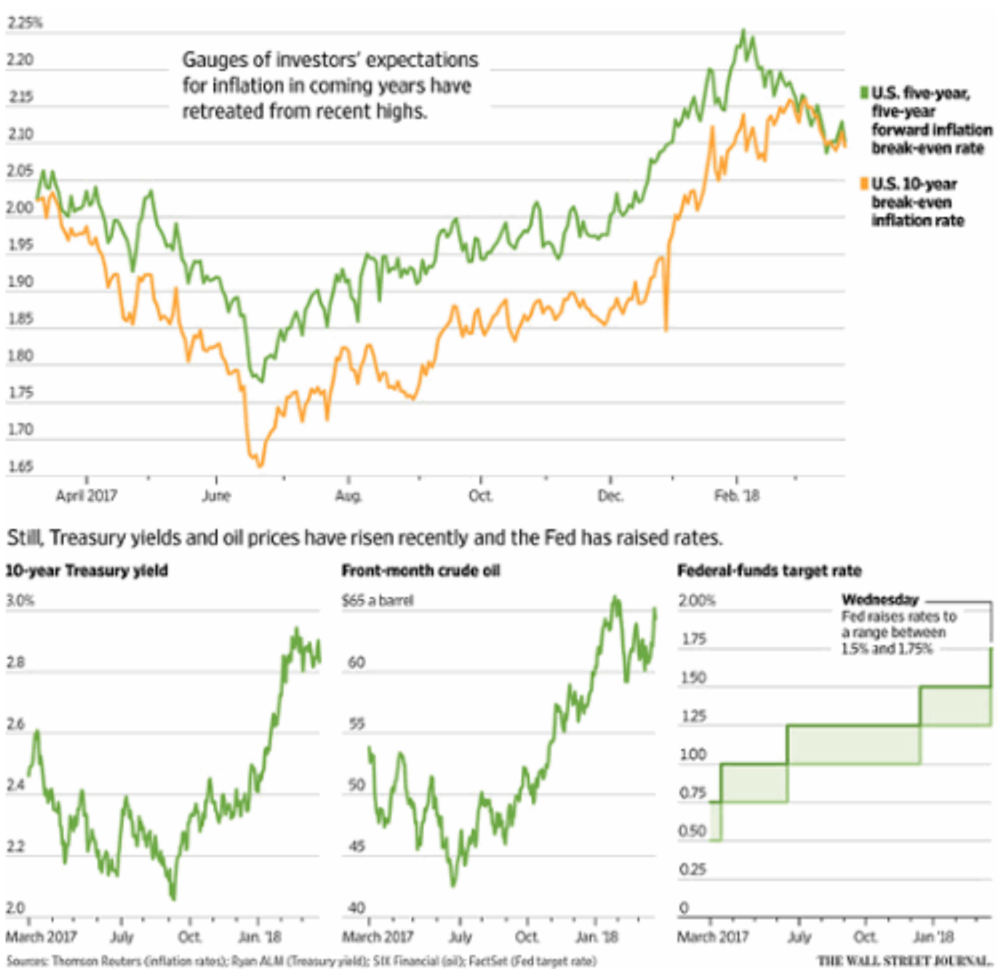
While inflation expectations appear stalled, investors submitted an above-average amount of bids at the government's $11 billion auction of Treasury inflation-protected securities, a sign that demand persists among some investors for a hedge against higher prices.

The price index for personal-consumption expenditures, the Fed's preferred inflation measure, advanced 0.4% in January from a month earlier and 1.7% from a year earlier. The annual gain was the same as recorded in December and November. The index has undershot the Fed's 2% target for annual inflation in 67 of the past 69 months.

At the same time, tighter financial conditions and rising market volatility have "increased the probability of a policy error" as the Fed continues to raise rates, said Daniela Mardarovici, who helps manage the BMO TCH Core Plus Bond Fund. Such mistakes could slow growth or tip the U.S. into recession.

Some analysts said inflation remains hindered by structural forces, such as improving technology, an aging population and the possibility of a decline in immigration, which could reduce the available workforce. That means investors would need to see higher wages, stronger demand or higher commodity prices, such as for oil, to bet on a further climb.

"The market has fully discounted all of the imminent upticks to inflation," said Gemma Wright-Casparius, who manages the Vanguard Inflation-Protected Securities Fund.



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THE WALL STREET JOURNAL.
U.S. EDITION

Stock Rally's Inevitability Fades

By Michael Wursthorn and Amrith Ramkumar
854 words
5 March 2018
The Wall Street Journal
J
B1
English

A U.S. **stock-market** rally that appeared unstoppable just six weeks ago is now at a crossroads, reflecting fears that Trump administration trade restrictions and signs of firming inflation could threaten the underpinnings of the strongest global economic expansion in years.

Investor confidence hadn't recovered from a tumultuous February when President Donald Trump pledged Thursday to impose tariffs on steel and aluminum imports. The **Dow Jones Industrial Average**, which includes several big manufacturing, machinery and chemical companies that would suffer from higher metal prices, closed 0.3% lower on Friday after a 1.7% decline the day before.

While many analysts and traders were heartened by the Dow's rebound Friday afternoon following a sharp opening decline, some worry the administration's decision may signal the start of a broader protectionist trade policy that could eventually include other commodities and products.

Any sustained trade conflict could disrupt the synchronized global economic expansion that has been a main driver for the **stock market** and other risky investments, like commodities and emerging markets, over the past several months, portfolio managers said.

Trade and growth concerns inject new uncertainty at a time when stocks are coming off their worst month in more than two years. Investors are already grappling with the threat of an economy expanding so quickly that the Federal Reserve may have to hasten its pace of interest-rate rises to tame inflation. Low interest rates have long been a justification for stocks' lofty valuations, and investors say higher rates will make equities less attractive as borrowing costs and Treasury yields rise.

Recent data have shown a pickup in consumer prices and worker wages, signaling to some that higher inflation is around the corner.

"The market was vulnerable already," said Bruce Bittles, chief investment strategist at Baird. "The problem with the rebound rally was that it never broke the downside momentum."

In addition to trade concerns that promise to linger into this week, investors will scrutinize the results of the Italian elections on Sunday to gauge risks to the eurozone's third-largest economy. Fresh data Wednesday on the U.S. trade deficit will offer a view of the state of U.S. finances.

The February U.S. jobs report, due Friday, could shed light on wage growth and inflation trends.

Demand for risky securities has waned in recent weeks, as inflation and then trade concerns percolated. The Dow hit its all-time high of 26616.71 on Jan. 26 before suffering its first 10% decline, or correction, in nearly two years early last month. The Dow dropped 3% to 24538.06 last week.

Despite the retreat, the Dow is still up 34% since its election day close in 2016. That fact offers comfort to **bullish** investors who believe the selling has been overdone, but suggests to some skeptics that the market could easily fall further.

Some investors think the fundamentals remain strong, pointing to another quarter of solid corporate earnings, fiscal stimulus from the new law that cut corporate tax rates to 21% from 35%, and inflation that remains tame despite heightened fears after the recent bump in wage growth.

Last month's CPI reading showed a 0.5% increase in prices for January, and overall prices were 2.1% higher over the last 12 months, above economists' expectations.

The price index for personal-consumption expenditures, the Fed's preferred inflation measure, advanced 1.7% in January from a year earlier, undershooting the central bank's 2% target for the 67th time in the last 69 months. The Labor Department will release its next CPI reading on March 13.

"This is all noise," said Stephen Auth, chief investment officer, equities, at Federated Investors, referring to the trade-war talk and the selling that followed it. He thinks the prospects of a trade war are very small and that when the market realizes that, stocks will bounce back again.

Still, other governments were quick to attack the tariffs Mr. Trump announced last week. European officials raised the prospect that they would challenge the tariffs at the World Trade Organization and could impose their own tariffs. Canadian officials also said they would "take responsive measures" against the U.S.

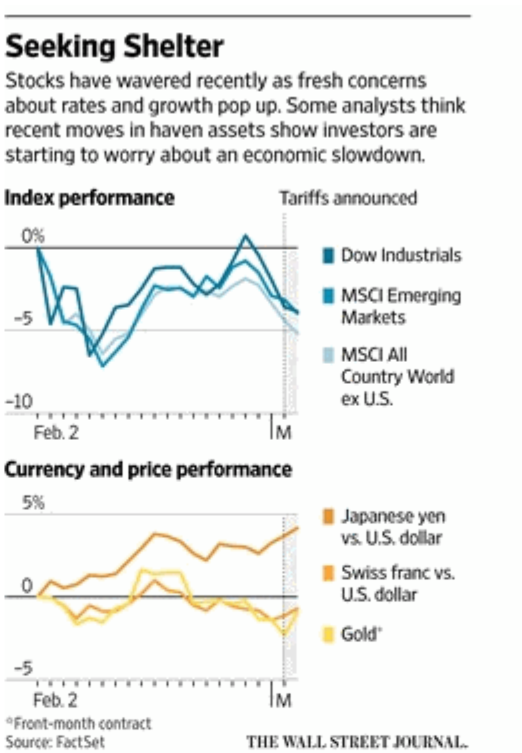
Mr. Trump seemed to welcome a fight, tweeting on Friday that "trade wars are good" and suggesting the U.S. would "win big."

Analysts and many investors disagreed. They said the economic repercussions of allies enacting similarly aggressive policies would ripple through the U.S. economy, affecting the prices of everything from cars to beverages.

Now, investors are anxiously awaiting details on the Trump administration's tariff plans, which could be announced as early as this week.

Mr. Trump plans to apply the steel and aluminum tariffs globally and won't exempt allies such as Canada and Europe, a senior White House official told The Wall Street Journal last week.

Many are also closely watching Washington's contentious talks with Canada and Mexico over the North American Free Trade Agreement for additional clues about how hard a line Mr. Trump will take on trade.



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WSJ PRO VENTURE CAPITAL

Markets

Nasdaq Sues IEX Over Stock-Exchange Technology Patents; Accuses upstart exchange of infringing seven patents

By Alexander Osipovich
501 words
1 March 2018
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WSJ Pro Venture Capital
RSTPROVC
English

Nasdaq Inc. is suing stock-exchange operator IEX Group Inc. for alleged patent infringement, punching back at an upstart that is trying to challenge larger rivals.

The lawsuit accuses IEX of infringing seven of Nasdaq's patents for electronic-trading technology after the startup was founded in 2012, according to a copy of the lawsuit provided by Nasdaq to The Wall Street Journal.

IEX hired at least four of Nasdaq's technology employees in 2012 and 2013, who then helped develop IEX's trading systems, the lawsuit states, without identifying the employees.

"The lawsuit seeks to stop, and obtain fair compensation for, IEX's unauthorized use of Nasdaq's intellectual property," Nasdaq said in a press release. It said the suit was filed Thursday in federal court in New Jersey.

"This is yet another attempt by Nasdaq to obstruct an innovative new competitor," an IEX spokesman said.

The patent dispute opens a new front in the battles between IEX—which is featured in Michael Lewis's 2014 best-selling book "Flash Boys"—and the incumbent exchanges it is challenging. IEX has long accused Nasdaq and the New York Stock Exchange of favoring high-speed traders over ordinary investors and said it is seeking to build a fairer marketplace. The NYSE and Nasdaq have rejected such accusations.

IEX, which handles less than 3% of U.S. stocks-trading volume, is now seeking to break into the NYSE and Nasdaq's effective duopoly over U.S. corporate listings, by persuading companies to switch their listing venue to IEX.

But the fledgling listings effort has suffered difficulties, including a longer-than-expected wait for regulatory approval and the downfall of casino mogul Steve Wynn. Mr. Wynn, a vocal supporter of IEX, had said he wanted Wynn Resorts Ltd. to list on the upstart exchange. Mr. Wynn last month resigned from his leadership roles at the casino company.

The Nasdaq lawsuit alleges that IEX infringed Nasdaq patents for systems and processes used to run an electronic stock exchange. One is related to a data feed that publishes information from the closing auctions that Nasdaq conducts at 4 p.m. each weekday. The auctions, a key component of the plumbing of U.S. financial markets, determine the final end-of-day price for thousands of securities and exchange-traded funds.

The lawsuit quotes IEX as having said in the past that its closing-auction data feed "is substantially similar to… the Nasdaq Net Imbalance Order Indicator." IEX has used such language in a U.S. regulatory filing.

Last year, Nasdaq filed a similar patent-infringement lawsuit against another exchange operator, Miami International Holdings Inc., which runs options exchanges that compete with Nasdaq. Miami International called the suit "frivolous" and has vowed to fight it. That suit, also filed in federal court in New Jersey, is still pending.

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THE WALL STREET JOURNAL.

Markets

European Deal Making Steamrolls Ahead; CEO confidence over M&A remains high, bankers say

By Ben Dummett
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30 March 2018
11:00 AM
The Wall Street Journal Online
WSJO
English

European deal making hit an 11-year high for the first quarter and shows no sign of slowing, even as the threat of a possible China-U.S. trade war and pressure on global technology stocks hang over equity markets.

Heading into 2018, conditions were ripe for mergers and acquisitions: European stocks finished higher last year, the region's economy grew at its fastest rate in a decade, borrowing costs remained low, and shareholder activism was on the rise to push for corporate restructuring.

Many of those factors remain in place. As a result, confidence among chief executives to pursue bigger and more complex M&A remains high as corporate chiefs seek new sources of growth, defend against technological disruption or simplify their operations to boost value, bankers say.

In the first quarter, CEOs demonstrated their confidence through transactions such as AXA SA's $15.3 billion tie-up with XL Group Ltd., a bid to create one of the world's largest property-and-casualty insurers. Comcast Corp. announced plans in February to bid £22.1 billion ($31.02 billion) for European pay TV operator Sky PLC, threatening to upend 21st Century Fox Inc.'s deal to consolidate its ownership of the U.K. broadcaster. The Wall Street Journal's parent company News Corp and Fox share common ownership.

Overall, the value of M&A transactions involving a European company totaled about $394.1 billion in the quarter, according to Dealogic. That is up about 56% from the year-earlier period and represents the highest total since the first quarter of 2007.

It is also emblematic of broader strength in deals globally as total dollar value exceeded $1 trillion—a record high for the year-to-date period, according to Dealogic. By contrast, the number of tie-ups in Europe fell almost 19%, highlighting a predominance of bigger deals in the latest period as companies accept greater integration and other types of risk to achieve their strategic goals.

"There's a lot of pressure to continue to deliver revenue growth and lower costs and the way they see they can do that is through transactions," said Alison Harding-Jones, head of M&A for Europe, the Middle East and Africa, at Citigroup Inc. "I see [the high level of M&A activity] continuing all through the end of this year and early into the next year."

Though not always aligned, historically M&A has often moved in line with **stock-market** performance as they share similar drivers such as the outlook for corporate profits and economic growth, political stability and lower interest rates. That suggests the recent selloff in global equities, if it persists, could test the favorable outlook for M&A.

Earlier in March, President Donald Trump spooked investors by signaling that his administration may impose tariffs on $60 billion of imports and tighter restrictions on acquisitions. China retaliated with its own tariff plan against $3 billion in U.S. imports. China and the U.S. have since started talks to ease the trade tensions, but worries over the health of the technology sector have weighed on stocks. Meanwhile, eurozone business activity slowed for the second straight month, a possible indication that the economy may be losing some momentum.

Bankers note that the year's strong start in M&A comes despite the backdrop of political uncertainty and the wild swings in the market, including in February when the **Dow Jones Industrial Average** posted its largest-ever single-day point decline and major indexes in the U.S., Europe and Asia gave up their gains for the year.

"If you look at the sheer size of deals between the U.S. and Europe, it's massive," Pier Luigi Colizzi, head of M&A for Europe and the Middle East at Barclays PLC, said to highlight the bias toward strategic acquisitions. Almost half of the 10 largest deals in the quarter involving a European acquirer or target were trans-Atlantic and their value totaled more than $80 billion, according to Dealogic.

Asia could also play a major role in that type of cross-border activity. Last week, Japan's Takeda Pharmaceutical Co. said it may bid for Ireland-based Shire PLC, a potential deal that would create global drug giant worth more than $80 billion.

European deal activity in the first quarter crossed industries from insurance to machinery to health care, a trend expected to continue this year. But bankers are playing close attention to the utilities sector as government policies support greater adoption of alternative energy sources and cash-rich infrastructure funds seek out new investments. Infrastructure firms had a total of $150 billion to invest as of June 2017, according to Preqin, a data provider.

"There is a belief that with the macroeconomic recovery in Europe, the infrastructure play will benefit as revenue rises with inflation," said Sophie Javary, head of EMEA corporate finance at BNP Paribas. "We expect a lot of infrastructure deals. They are easy to finance and infrastructure funds have plenty of cash to invest."

Write to Ben Dummett at ben.dummett@wsj.com

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 WSJO000020180330ee3u002e9

THE WALL STREET JOURNAL.

World

Trump Tariff Talk Is for Show, Says Japan Fund Chief; President of $1.5 trillion public pension fund sees good value in U.S. stocks, bonds after recent falls

By Kosaku Narioka
602 words
5 March 2018
06:46 AM
The Wall Street Journal Online
WSJO
English

TOKYO—U.S. stocks and bonds look like a good value after recent falls, said the head of Japan's $1.5 trillion public pension reserve fund, and the threat of a trade war is low.

In an interview Monday, Government Pension Investment Fund President Norihiro Takahashi rebutted the concerns of some Japanese and other foreign asset managers that the U.S. under President Donald Trump is looking like a less attractive place to invest. Such concerns have lifted the yen against the dollar, while Mr. Trump's plan for tariffs on steel and aluminum has pushed down U.S. stocks .

Mr. Takahashi characterized the tariffs as a "performance" or show by Mr. Trump to appeal to his supporters, and predicted that U.S. officials would ultimately water down the measures to restore harmony with trading partners—some of whom have already threatened retaliation. He said excessive protectionism contributed to world wars in the 20th century, and policy makers in the U.S., Europe and China ultimately understand the benefits of trade.

"There certainly is a considerable risk of a trade war, but it's difficult to imagine it could end up in real economies shrinking significantly or lead to a [shooting] war," Mr. Takahashi said.

The GPIF is the largest fund of its kind in the world, with assets as of Dec. 31 of ¥163 trillion ($1.5 trillion)—25% in foreign stocks and 14% in foreign bonds, making it one of the most influential investors in U.S. and other global markets.

Mr. Takahashi said the U.S. economy is in good shape and he has a favorable view of U.S. investments—bonds, stocks or alternative assets—over the medium term.

One reason: U.S. assets are on sale now after rising sharply for several years through 2017. U.S. government**bond prices** have fallen, meaning yields, which move in the opposite direction, are near multiyear highs. The 10-year U.S. Treasury bond is yielding about 2.86%, up from below 2.5% in December. The **Dow Jones Industrial Average** is nearly 8% off its peak.

Mr. Takahashi said the GPIF had taken a waiting stance on many assets "because we thought they were really expensive." After the recent market correction, "it's totally different from the situation last year," he said.

He also expressed confidence that inflation in the U.S. won't get out of hand. He said the global economy was able to recover from the 2008 financial crisis in part because of China's massive fiscal stimulus, which he said continues to create excess supply in the global economy that is likely to keep a check on inflation.

"The [U.S.] 10-year yield still hasn't risen above 3% ," he said. "It could rise above that, but no one thinks it will rise sharply higher than that."

The GPIF's caution last year has left it with a roughly $100 billion pile of short-term assets such as yen deposits—which, given Japan's low interest rates, earn essentially no return. Mr. Takahashi said he wants to put some of that to work. Any purchases of dollar assets would likely be spread out over months to mitigate the effect of currency **volatility**, he said.

Mr. Takahashi declined to say whether the fund has already bought U.S. assets this year.

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THE WALL STREET JOURNAL.
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ETF Rise Stokes Fear Of Trading Difficulty

By Mike Bird
784 words
22 March 2018
The Wall Street Journal
J
B1
English

Bets against some exchange-traded funds have hit records as investors question whether this industry could handle sudden redemptions in a downturn.

Investors are wagering against the shares of some ETFs that buy securities like high-yield debt, which may be hard to sell if markets turned suddenly, a fear stoked by increased **volatility** this year.

The number of shares being shorted on the two largest high-yield bond funds has risen to records this year, reaching 40% for the iShares iBoxx U.S. Dollar High Yield Corporate Bond ETF and 20% for the SPDR Bloomberg Barclays High Yield Bond ETF, according to FactSet.

The U.S. ETF industry is valued at about $3.6 trillion, up from just above $500 billion in 2008, according to the Investment Company Institute, raising its importance in the financial system and magnifying the risk if the funds run into difficulties. In comparison, conventional U.S. mutual funds have assets valued at more than $16 trillion, according to ICI.

Still, other analysts point to relatively recent episodes, like the rise in spreads on high-yield bonds in 2015 and 2016, as proof that ETFs can manage periods of stress well.

"It's going to get pretty interesting here with the Fed proceeding with interest-rate hikes. You have a 30-year **bull market** in fixed income and people aren't used to what happens if there's a downturn in that market," said Daniel Gallagher, a former commissioner of the Securities and Exchange Commission and currently chief legal officer at pharmaceutical company Mylan NV.

ETF shares are created by broker-dealers who buy the securities that make up an index tracked by a fund and exchange them for new ETF shares.

When investors want to redeem the shares, the process works in reverse and the ETF must sell the securities. If market liquidity tumbles -- the ability to buy and sell securities easily at or near a stated price -- some investors worry that the funds won't find buyers for those securities.

"Liquidity can be the next trigger of a crisis. Trust in the instruments of the market can be questioned, especially with so much leverage," said Vincent Mortier, deputy chief investment officer at Amundi SA, Europe's biggest asset manager by assets.

Others argue that corporate-bond ETFs already have fared well in **volatile** markets. Shelly Antoniewicz, senior economist at the Investment Company Institute, points to stresses in the high-yield market in late 2015 driven by tumbling commodity prices as an example of their resilience.

From June 2015 to February 2016, spreads, or the difference, between U.S. Treasury yields and U.S. high-yield debt almost doubled to 8.7 percentage points from about 4.5 percentage points. But even as spreads jumped, Ms. Antoniewicz notes that redemptions were limited and secondary market trading of the ETF shares rose, providing additional liquidity to the market.

Different measures of the depth of the credit market offer a mixed picture. Average daily trading volumes have risen in recent years, ticking above $30 billion in 2017, nearly double their levels before the financial crisis.

But dealer inventories of corporate bonds have fallen precipitously, from as high as $250 billion ahead of the financial crisis to less than $30 billion today.

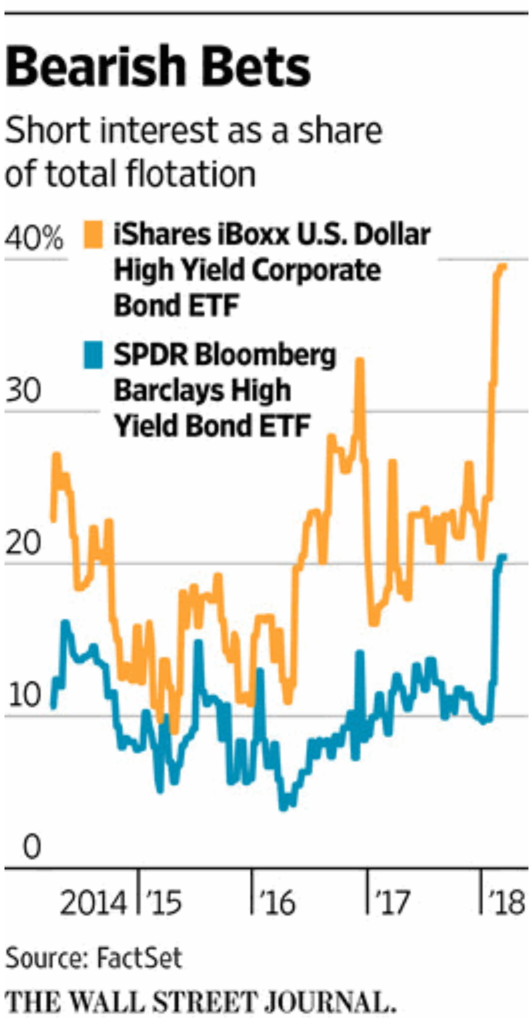
The prospect of a liquidity mismatch between an ETF and its underlying investments has also raised questions about the credit lines often extended by a syndicate of lenders to some ETF sponsors.

If the assets held by an ETF are seen as too illiquid to sell, managers could instead tap the credit lines available to cover redemptions, in the hope that **volatility** subsides and underlying assets can be sold at more reasonable, reliable prices later on. But that logic depends on the **volatility** subsiding and prices rising, otherwise existing investors are left footing the bill for the tapped credit line.

"When you have a liquidity event it's like squeezing an elephant through a keyhole," said Mike Thompson, president of S&P Investment Advisory Service. "We keep a cash reserve for precisely those events," he said.

The SEC ruled in 2016 that mutual funds must implement programs to manage and report on liquidity risk beginning in December this year, but many ETFs received exemptions.

Amundi's Mr. Mortier raised the use of credit lines as a specific risk when it came to liquidity. "There can be a snowball effect, and we refuse to do it. It's becoming a very big issue," he said. "It's a strange way to treat existing investors because you then need to reimburse the loan."



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THE WALL STREET JOURNAL.

Markets

Why Wall Street's Love Affair With Tech Hasn't Cooled; Analysts cite big tech's solid earnings outlook and its dominance across sectors from retail to social media

By Akane Otani and Michael Wursthorn
829 words
30 March 2018
04:59 PM
The Wall Street Journal Online
WSJO
English

Wall Street still isn't ready to break up with the market's technology darlings.

Stock ratings among analysts and brokerages have largely held steady for big tech firms even as their shares have slumped, a sign the tidal wave of bad news hitting the industry hasn't destroyed confidence in the popular stocks.

Analysts cite big technology companies' strong earnings outlook and dominance across industries from retail to social media, as well as the likelihood that any additional regulations imposed by lawmakers will take time to implement.

Tech shares began sliding in mid-March, following reports about Facebook Inc.'s handling of user data. Added to that at the end of the month: reports of a fatal crash involving a Tesla Inc. vehicle and the prospect of the Trump administration trying to rein inAmazon.com Inc.'s market dominance.

The New York Stock Exchange's FANG+ Index—which tracks the shares of 10 global tech giants—fell 2.3% this past week, paring losses after Tuesday's 5.6% drop, its biggest one-day loss since September 2014.

Yet as of the end of the week's trading, 91% of analysts had a "buy" or "overweight" rating for Facebook shares, according to a FactSet analysis of 45 ratings on the stock, a jump from an average of 89% for February.

"There's going to be higher regulation, and we're assuming that in how we look at these names," said Josh Olson, a technology-equity analyst at Edward Jones. "But for the long-term investor, the fundamentals remain pretty compelling, and we think this is an opportunity."

Credit Suisse added in a research note following the Facebook news that it continues to be a buyer of the stock. It reasoned that the issues facing the social network are "backwards-looking" and cited the company's announcement last year that it would double the number of employees focused on user security.

Analysts remained similarly upbeat about Amazon: 96% of 46 analysts had the equivalent of a "buy" rating for the stock, up from an average of 94% in February.

And 86% of analysts have a "buy" rating for Google parent Alphabet Inc., down slightly from 87% the month before.

The continued bullishness shows that, even as investors question the durability of the tech sector's market leadership, many analysts remain reluctant to call it quits on companies that have delivered remarkable growth throughout the past year. Shares of Facebook, Amazon and Alphabet are down 14%, 7.9% and 8.6%, respectively, since March 16, while the tech-heavy **Nasdaq Composite** has declined 5.6%.

"There's been a massive societal shift that's changed how we interact with one another and how we consume things, and technology is at the forefront of that shift," said Tony Roth, chief investment officer of Wilmington Trust, a Delaware-based asset-management firm. "When you look at the big technology companies that are leading the charge, they all have to do with the fact that human beings are living differently around the world—and that's driving revenues higher."

Short sellers have also raked in profits since the technology sector's rout began. Bets on falls in value for FAANG names—Facebook, Apple, Amazon, Netflix and Alphabet—gained roughly $2.9 billion since March 19, according to Ihor Dusaniwsky, managing director of predictive analytics at S3 Partners.

And big tech's dominance of the **stock market** is also a cause for concern. "Every time you've seen this kind of concentration of leadership, it usually ended poorly," said Vincent Deluard, global macro strategist at INTL FCStone. He cited the collapse of Japanese banks in the 1990s, the bursting of the dot-com bubble in 2000 and the slide in energy stocks around 2015.

Whether technology stocks can overcome the recent turbulence and continue their run will depend largely on their ability to continue growing revenue and earnings and reign in high-profile legal, ethical and technological problems.

Technology companies in the **S&P 500** are poised to post 22% earnings growth in the first quarter from the year-earlier period, according to FactSet. That would build on gains from the fourth quarter that helped propel revenue at Amazon and Alphabet to records.

That may help explain why some of the biggest funds tracking technology shares have continued to attract cash. The Technology Select Sector SPDR Fund pulled in $570.5 million in March, according to FactSet, even though the fund posted its worst monthly performance since April 2016.

"If big tech can show the growth, investors will forgive it all," said Mr. Deluard of INTL FCStone.

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THE WALL STREET JOURNAL.

Economy
Slow Fed Balance Sheet Unwind May Be Destabilizing Markets, Fed's George Says; Rate increases key to financial stability, Kansas City Fed chief says

By Michael S. Derby
477 words
8 March 2018
08:21 PM
The Wall Street Journal Online
WSJO
English

Federal Reserve Bank of Kansas City President Esther George warned Thursday the languid pace of the central bank's balance sheet shrinkage effort may be causing negative effects on **financial markets**, in remarks that again called for continued rate increases.

"Asset prices may have become distorted relative to the economic fundamentals" due to the now completed central bank bond buying effort that took place during and after the financial crisis, Ms. George said in the text of a speech to be presented in Lincoln, Neb.

Although the Fed has started allowing its roughly $4.5 trillion portfolio to shrink, it may not be doing it fast enough, Ms. George said.

"The very slow pace of our balance sheet normalization may still be contributing to a buildup of various financial imbalances," the official said. "While until recently, **financial markets** remained remarkably stable, it is not uncommon to see **volatility** rise when asset prices become inflated and investors struggle to find a new equilibrium."

Ms. George isn't currently a voting member of the interest-rate setting Federal Open Market Committee. She has consistently argued in favor of rate rises for some time and has worried very easy Fed policy is running the risk of creating unwanted inflation and unstable **financial markets**.

Ms. George's inflation warnings haven't come to pass, but markets have been **volatile** of late as good economic news has driven many in markets to expect a more aggressive course of rate rises from the Fed this year. Markets have also been unsettled by a Trump administration trade agenda that most economists think is wrong headed and having potential to start an international trade war.

In her speech, Ms. George again made the case for rate rises. The central bank is broadly expected to boost its overnight target rate range at its meeting later this month.

"To sustain the expansion without pushing the economy beyond its capacity limits and creating inflationary pressures, it will be important for the Federal Reserve to continue its gradual normalization of interest rates," Ms. George said. "Given the current momentum in the economy, the FOMC will need to carefully calibrate its policy to lean against a potential buildup of inflationary pressure or **financial market** imbalances."

Ms. George was upbeat on the economy, and said that price pressures should converge on the Fed's 2% inflation target this year. She said recently passed tax cuts and stimulative government spending should be a modest boost for the economy.

"The good news is that the U.S. economy is currently growing at a moderate pace, with full employment and price stability," Ms. George said. She added, "risks to the outlook appear to be predominantly to the upside."

Document WSJO000020180309ee39000b5

THE WALL STREET JOURNAL.
U.S. EDITION

Markets & Finance -- The World the Crisis Created: Star During Housing Crisis Misses on China Bets

By Chelsey Dulaney
523 words
24 March 2018
The Wall Street Journal
J
B10
English

A decade after the financial crisis, The Wall Street Journal has checked in on dozens of the bankers, government officials, chief executives, hedge-fund managers and others who left a mark on that period to find out what they are doing now. Today, we spotlight former Treasury Department administrator Neel Kashkari and hedge-fund manager Kyle Bass.

Kyle Bass made his name betting on the collapse of the U.S. housing market a decade ago. His latest attempt to profit from what he sees as a speculative bubble -- this time in China's economy -- has gone less smoothly.

Mr. Bass's Dallas-based hedge fund, Hayman Capital Management LP, fell 19% last year, largely due to an unexpected rally by China's yuan that spoiled its bets against the currency. The fund's worst-ever annual return since its launch in 2006 contrasted with last year's global market surge, as the **S&P 500** jumped 19% and emerging-market stocks rose nearly 40%.

The former Bear Stearns executive's struggle with the timing of the firm's bets against the Chinese currency mirrors the predicament many investors faced in the run-up to the housing crisis. While they were convinced the U.S. subprime housing market was on the verge of collapse, they couldn't predict when it would happen.

"All these things were pointing to such crazy and wretched excess that it was bound to blow up," Mr. Bass, 48 years old, said in an interview. "The question was, when was it going to break, and what was going to break it."

Mr. Bass, who founded Hayman with $33 million and quickly began amassing bets against subprime mortgages, didn't have to wait long for his payday back then. In 2007, the firm's main fund returned over 200% as the subprime-mortgage market began to unravel.

Documents released by the National Archives in 2016 said Mr. Bass was the source behind a CNBC report that Goldman Sachs had refused to trade with Bear Stearns amid concerns about the firm's liquidity. The report sparked panic among Bear Stearns investors and lenders, leading to the firm's marriage to JPMorgan Chase & Co. just days later.

Mr. Bass pushed back against the idea that he helped spark Bear Stearns' downfall, saying he had warned the firm about its exposure to the subprime market in 2006.

Hayman's performance has been mixed since then. Bets on Greek debt and the Japanese yen turned out well, while an ill-timed wager on an **oil-price** recovery weighed on returns.

In addition to bets against China's economy, Mr. Bass said he has been ramping up **bullish** bets on Southern Europe economies. "The subprime market was similar to what is happening in China today," he said. "China is still a central focus of our fund, but we have also added another regional focus in Southern Europe."

(See related article: "Bailout Supporter Becomes Big-Bank Critic" -- WSJ March 24, 2018)

Document J000000020180324ee3o0001s

THE WALL STREET JOURNAL.

Markets

Crude Falls on Growing Inventories; U.S. dollar rises, pressuring oil prices

By Alison Sider and Christopher Alessi
694 words
28 March 2018
03:22 PM
The Wall Street Journal Online
WSJO
English

Oil prices fell for a third straight day Wednesday after government data showed that oil inventories grew last week and investors turned their focus from the geopolitical risks that boosted prices last week.

U.S. crude futures fell 87 cents, or 1.33%, to $64.38 a barrel on the New York Mercantile Exchange. Brent, the global benchmark fell 58 cents, or 0.83%, to $69.53 a barrel on ICE Futures Europe.

Oil prices have struggled to hold on to gains from last week when they climbed nearly to their highest levels of the year, bolstered by the prospect of rising geopolitical tensions and declining crude inventories outside the U.S. Brent at the end of last week closed above $70 a barrel for the first time since late January, nearly hitting a three-year high.

The U.S. Energy Information Administration reported Wednesday that crude stockpiles increased by 1.6 million barrels last week. The American Petroleum Institute, an industry group, had released data showing a 5.3 million-barrel increase in crude supplies for the week ended March 23, and prices initially pared losses after the EIA data showing a smaller increase came out.

Fuel stockpiles also fell more than expected—a bullish signal for demand. Gasoline inventories dropped by 3.5 million barrels, compared with a 2.1 million barrel draw expected by analysts. Diesel stockpiles dropped by 2.1 million barrels, compared with the 1.6 million barrel forecasted draw. Gasoline futures edged down 0.09% to $2.0116 a gallon. Diesel futures edged down 0.59% to $2.0148 a gallon.

But U.S. production continued to rise for a fifth-straight week and now stands at 10.433 million barrels a day.

"Considering company guidance and rig counts, we see no reason for this rate of increase to change significantly," said Kyle Cooper, a consultant at ION Energy Advisors.

Production from the prolific Permian region of west Texas likely led to a 1.8 million barrel increase in oil stockpiles at the main storage hub in Cushing, Okla., analysts at Citigroup said.

The stock market's stumble, uncertainty about how the global economy will fare if trade tensions escalate, and signs of rising U.S. oil production have weighed on the oil market in recent days.

"This market's been a little corrective," said John Saucer, vice president of research and analysis at Mobius Risk Group. "We've tested highs several times and failed."

Bullish investors rushed into the market last week, betting that Iran's oil output could be at risk if the U.S. pulls out of the 2015 international agreement to curb Iran's nuclear program. Now some of those investors are likely selling after oil prices have fallen through technical levels, said Donald Morton, who oversees an energy trading desk at Herbert J. Sims & Co.

"They all jumped in on the long side, and today they're getting beat up," he said. "We broke through last week's lows and they started selling."

Meanwhile, the U.S. dollar, which tends to have an inverse relationship with dollar-denominated commodities like oil, rose Wednesday. The Wall Street Journal Dollar Index, which measures the greenback against a basket of 16 other currencies, was up 0.72%.

Still, Saudi Arabia has continued to publicly reiterate its commitment to holding back oil output, which should help see "price risks tilted to the upside" in the near future, according to Giovanni Staunovo, commodity analyst at UBS Wealth Management.

The Organization of the Petroleum Exporting Countries—of which Saudi Arabia is the de facto head—and 10 producers outside the cartel including Russia, have been holding back crude output by 1.8 million barrels a day since the start of last year. The agreement is currently set to run through the end of this year, but Saudi Arabia has indicated it is open to further cooperation on production curbs into 2019.

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Document WSJO000020180328ee3s0012x

WSJ PRO CENTRAL BANKING

Economy

U.S. Consumer Confidence Declined in March; Consumers are still optimistic about the labor market, according to Conference Board report

By Sarah Chaney
430 words
27 March 2018
01:17 PM
WSJ Pro Central Banking
RSTPROCB
English

U.S. consumer confidence fell in March, dragged down by consumers' perception of current and future economic conditions in light of recent **stock-market** gyrations.

The Conference Board said Tuesday its measure of U.S. consumer confidence decreased to 127.7 in March from an 18-year high of 130.0 in February.

"Consumers' assessment of current conditions declined slightly, with business conditions the primary reason for the moderation. Consumers' short-term expectations also declined, including their outlook for the **stock market**, but overall expectations remain quite favorable," said Lynn Franco, director of economic indicators at the Conference Board.

This month, the present situation index fell to 159.9 from 161.2 in February; the expectations index dropped to 106.2 in March from 109.2 last month.

"Both headline indexes, and the components, remain very elevated, but they probably are starting to feel the initial impact of the correction in stock prices," said Ian Shepherdson, chief economist at Pantheon Macroeconomics, in a note to clients.

The Conference Board survey ran through March 15, so it captured **financial market volatility** earlier this month. U.S. equity markets fell in early March, as investors worried that U.S. tariffs on steel and aluminum could hurt firms that use the metals to manufacture goods. Stock prices have recently risen as trade fears ease.

Tuesday's report showed consumers remained optimistic toward the state of the labor market, which has shown strength recently with the unemployment rate parked at a 17-year low and the economy adding jobs at a steady pace.

The percentage of Americans saying jobs were "plentiful" increased to 39.9% in March from 39.1% in February. Those claiming jobs are "hard to get" decreased to 14.9% from 15.1%.

Consumer confidence and sentiment figures are watched as indicators for whether shoppers will step up spending. However, they aren't always reliable gauges for predicting changes in actual outlays.

Consumer confidence trended near the highest level in two decades for much of 2017, but consumer spending increased at a similar pace last year as it had the previous three years.

The Conference Board index's March drop contrasts with the preliminary March University of Michigansentiment reading, which hit a 14-year high. Still, economists aren't worried about the moderate drop in confidence.

"Fundamentally, the consumer remains in decent shape," Mr. Shepherdson said.

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THE WALL STREET JOURNAL.
U.S. EDITION

Heard on the Street
It Is Time for Investors to Give Pipelines Another Look

By Spencer Jakab
431 words
20 March 2018
The Wall Street Journal
J
B12
English

[Financial Analysis and Commentary]

For the past two years, investors have bought and sold shares of pipeline owners for all the wrong reasons. Now there is a chance to buy them for the right ones.

The latest blow to energy master limited partnerships came last week when a decision by regulators potentially lowered the tax benefits for the industry. The benchmark Alerian MLP Index fell by 5% on Thursday. Contrarians should take note.

MLPs were flying high for the first five years of the economic expansion, benefiting from the shale revolution and from yield-hungry investors who embraced their seemingly reliable payouts. From the time that quantitative easing began through July 2014, when **oil prices** peaked, the sector had a total return double that of the **S&P 500**.

In 2015 and early 2016, though, investors were spooked by reductions in distributions to unitholders and limited instances of previously sacrosanct long-term pipeline contracts being rejected by bankruptcy courts. Retail enthusiasm for the sector continued to wane as a result of last year's tax legislation, which removed some of the appeal of entities that pass along untaxed distributions to unitholders.

But, like much else surrounding MLPs lately, investors focused on the wrong things and missed the overall attractiveness of an industry with valuable assets. By Friday, nearly every large MLP had issued a press release to give investors some sense of their exposure.

According to Matt Sallee, senior managing director at fund manager Tortoise, the average sector hit to earnings may be only around 2% and could push some partnerships to be acquired by their corporate parents. He points out that for investors in the top income-tax bracket, the net effect of corporate and personal tax changes is a wash.

Investors soured on the sector in part because the yields become less attractive as rates rise.

But the biggest factor driving future returns is valuation, and the regulatory ruling succeeded in pushing MLPs to a level that has sparked past rallies.

As of Monday, the index was trading at a 5% discount to the **S&P 500** on the basis of price to projected funds from operations over the following year, according to FactSet.

The only two occasions in the past decade that saw similar discounts, in November 2008 and February 2016, preceded rallies of 50% and 60%, respectively, in the index over the following six months.

Those assets may not stay this cheap for long.

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Document J000000020180320ee3k0001n

WSJ PRO CENTRAL BANKING

Economy

Fed Considering Revisions to Volcker Rule | New Powers Come With Pressure for ECB | BOJ Nominees Show Differing Views | SARB Nationalization Motion Withdrawn | Fairless's Take: ECB May Hesitate in Face of Market Volatility; The Wall Street Journal's central banking newsletter for Tuesday, March 6, 2018

2,189 words
6 March 2018
06:10 AM
WSJ Pro Central Banking
RSTPROCB
English

Fairless's Take: ECB May Hesitate in Face of Market **Volatility**

Fed Considering ‘Broad Revisions' to Volcker Rule Compliance

New Powers Come With Pressure for European Central Bank

BOJ Nominees Show Differing Views on Potential Side Effects of Easing

South Africa's Ruling Party Withdraws Motion to Nationalize Central Bank

ECB May Hesitate in Face of Market **Volatility**

How will the European Central Bank react to the recent bout of **volatility** in **financial markets**?

The **Dow Jones Industrial Average** hit an all-time high the day after the ECB's last policy meeting on Jan. 25, and subsequently fell more than 10% over two weeks, though it has since recovered slightly.

Market **volatility** remains elevated, partly reflecting investor concerns that central banks will withdraw their easy-money policies more quickly in response to robust growth in the world economy and early signs of higher inflation in the U.S.

ECB President Mario Draghi told European lawmakers last week that the bout of **volatility** "deserves close monitoring." ECB officials are considering how quickly to phase out their bond-buying program, known as quantitative easing, which is due to run at €30 billion a month through September, and possibly beyond.

Some policy makers have already called for a small but significant step toward ending QE, according to the minutes of their last meeting: Dropping a pledge to accelerate the purchases if the eurozone economy deteriorates.

But analysts now think the ECB might hesitate to make such a change at its policy meeting on Wednesday and Thursday, partly due to the market turbulence.

"While the macro-economic picture is broadly developing along the lines envisaged by the ECB, recent market **volatility** cautions against any change in tone at this point," said Dirk Schumacher, an economist with Natixis in Frankfurt.

Still, Carsten Brzeski, an analyst with ING in Frankfurt, argues that the turbulence shouldn't have affected the ECB's assessment of the eurozone economy, because it has little impact on economic confidence in the region.

Crucially, Benoît Coeuré, who sits on the ECB's six-member executive board, argued last month that the ECB can phase out QE without risking an "unwarranted" increase in eurozone interest rates because it already holds such a large quantity of bonds.

That suggests that, while policy makers might play it safe this week, the ECB will likely press ahead with plans to phase out its bond purchases soon.

Key Developments Around the World

Fed Considering ‘Broad Revisions' to Volcker Rule Compliance

The Federal Reserve is considering "broad revisions" to how banks comply with a rule that prevents them from engaging in certain types of trading and investing. "I believe the regulation implementing the Volcker rule is an example of a complex regulation that is not working well," Fed Vice Chairman for Supervision Randal Quarles said in a speech Monday at an annual international bankers' conference. The Volcker rule is implemented by five separate agencies, and changing it would require a joint effort by those regulators. In August, the Office of the Comptroller of the Currency asked for public feedback on ways to modify the rule. Mr. Quarles said the Fed was now working in "full cooperation" with the other agencies on a new proposal "that would make material changes to the Volcker rule regulations." He said the regulators are limited in how much they can lessen the burden on banks and called for legislative changes. For instance, Mr. Quarles said he would support a legislative effort to exempt community banks from the rule.

New Powers Come With Pressure for European Central Bank

The European Central Bankis being dragged into local controversies over issues ranging from banking scandals to bribery, underlining the mounting political pressures on the world's No. 2 central bank as it takes on a vastly expanded role. Three of the ECB's 25 policy makers, a group that includes central-bank governors from 19 eurozone countries, are currently entwined in domestic investigations—in Latvia, Slovenia and Greece—and other top officials have faced pressure to resign.

Bank of France Urges Tighter Digital Currency Regulation

The Bank of Franceurged tougher regulation of digital currencies Monday, adding to a drumbeat from major central banks that are concerned assets like bitcoin threaten financial stability and facilitate criminal activity. France's central bank said investors are exposed to a higher risk of losses as crypto-assets experience price bubbles and their use becomes widespread throughout the economy. The anonymity of crypto-assets means they are more likely to be used for terror financing and money laundering, the Bank of France added. In its report, the bank called for regulation of services at the interface between the real economy and crypto-assets and tighter regulation of financial companies investing in crypto-assets.

BOJ Nominees Show Differing Views on Potential Side Effects of Easing

Two Bank of Japan deputy governor nominees pledged Monday to make a full effort to achieve 2% inflation, but had slightly different views on the potential side effects of the bank's monetary-easing campaign. "It is impossible to consider an exit before inflation reaches 2%," Masazumi Wakatabe, an economics professor at Waseda University, said in parliamentary testimony. "If it is judged difficult to achieve 2% inflation, the BOJ has no choice but to take additional easing action," he added. He is known as an advocate of radical easing. The other nominee, Masayoshi Amamiya, a career BOJ official who has helped Mr. Kuroda design key policies, sounded more mindful about the potential side effects of ultralow rates on financial firms.

Australia's Central Bank Keeps Interest Rates Unchanged on Soft Wages Outlook

The Reserve Bank of Australia on Tuesday kept interest rates on hold for a 17th straight policy meeting and signaled it had no plans to adjust policy settings anytime soon . The RBA maintained the official cash rate at a record low 1.5%, and pointed to soft wage growth and prospect of benign inflation in the coming months, as reasons for sticking to its current cautious course.

South Africa's Ruling Party Withdraws Motion to Nationalize Central Bank

The African National Congress on Tuesday withdrew a parliamentary motion on the nationalization the South African Reserve Bank , one of the few central banks that still has private shareholders. The withdrawal of the motion, which the ANC said would allow for more consultations within the party and stakeholders, is the latest sign that South Africa's ruling party is taking a more market-friendly turn under new President Cyril Ramaphosa .

Malaysia's Central Bank Expected to Keep Benchmark Rate Unchanged

Malaysia—Malaysia's central bank is likely to keep its benchmark interest rate unchanged Wednesday, after data released last week showed the country's inflation fell to its lowest level since December 2016. All 11 economists surveyed by The Wall Street Journal on Monday expected Bank Negara Malaysia 's monetary policy committee to hold its overnight policy rate, or OPR, at 3.25%.

Quick Hits: Swiss National Bank Confirms Big 2017 Profit

The Swiss National Bank posted a $58 billion profit in 2017, Turkey's central bank is expected to keep interest rates steady at its policy meeting Wednesday, and a Bank of Japan deputy governor nominee gave hints on a possible exit strategy for monetary easing. Here are quick hits on central banking and related market views from around the world.

Tuesday

7:30 a.m. EST

New York Fed 's Dudley speaks

7 p.m. EST

Fed's Brainard speaks

8:30 p.m. EST

Dallas Fed's Kaplan speaks

10:30 p.m. EST

Reserve Bank of Australia releases policy statement

Wednesday

8 a.m. EST

Atlanta Fed 's Bostic speaks

8 a.m. EST

New York Fed 's Dudley speaks

10 a.m. EST

Bank of Canada releases policy statement

10 a.m. EST

Bank of Canada releases its decision on the benchmark interest rate

2 p.m. EST

U.S. Federal Reserve releases beige book report on U.S. economic conditions

The Convergence in Emerging Market Inflation

Emerging markets' inflation rates have moved toward developed economy rates in recent years because of two reasons, Kevin Daly and Loughlan O'Doherty find in a VoxEU column. They attribute "the improved performance to two factors: increases in monetary policy credibility following the widespread introduction of inflation targeting, and a reduction in the frequency of emerging market currency crises, reflecting a secular improvement in their balance sheets."

Unconventional Fiscal Policy

Francesco D'Acunto, Daniel Hoang and Michael Weber study the impact of unconventional fiscal policy that "uses announcements of future increases in consumption taxes to generate inflation expectations and accelerate consumption expenditure." In a National Bureau of Economic Research paper, they "provide preliminary evidence for the effectiveness of such policies using changes in value-added tax (VAT) and household survey data for Poland." Households "increased their inflation expectations and willingness to purchase durables before the increase," they write.

Inflation Clarity Eludes the Fed and Markets

Even "if the economy ‘overheats,' it's doubtful that the attendant demand-pull, cost-push factors that propel inflation will show up in the current measures of consumer prices. Indeed, the core inflation scorecard does not offer the same "inflation clarity" as it did in the past because it excludes valuable price signals from the asset markets and other areas of the economy. In other words, core consumer prices, or the ones that are targeted by policy makers, no longer show any consistent ties to the economic cycle, and the prices that matter more today are those that are not targeted, such as asset prices," Joseph G. Carson writes for Bloomberg View. Such "changes, especially those that had to with housing prices and rents, create the impression that inflation is linear and slow-moving. In reality, though, some real assets that are no longer included in inflation calculations are moving higher more quickly."

Why the U.S. Trade Deficit Is Worse Than It Seems

A "seemingly unrelated news item on Monday shows what is being ignored in the debate over Mr. Trump's tariffs: The U.S. trade balance may be much worse than it looks," Spencer Jakab writes for The Wall Street Journal. "The reason is the boom in U.S. energy production has dramatically reduced the need for oil imports. The U.S. trade deficit in goods and services was $566 billion last year, and in December widened to its highest since 2008. The annual deficit with China alone climbed to $375.2 billion. It would have been much worse without energy. Since 2007 net trade in three major categories of petroleum and related products plus natural gas has improved by $233 billion. If anything, that improvement understates the impact of the collapse in natural gas prices since 2008, which has given a boost to industries such as petrochemicals and fertilizers that were then in steep decline."

Central Banks Caught in A Pincer Movement

Central bankers are caught in a "pincer" movement, with inflation becoming less responsive to slack in the domestic economy , and threats to financial stability high, write Claudio Borio , Piti Disyatat, Mikael Juselius and Phurichai Rungcharoenkitkul in a paper published by the Bank for International Settlements . They call for a new approach to setting policy that recognizes this balance of forces. "The approach would recognise the difficulties monetary policy has in fine-tuning inflation when the rate is already low, possibly owing to supportive real factors such as globalisation and technology," they write. "It would take into account the risks of conducting policy based on unobservables that do not consider its impact on the financial side of the economy, such as the Wicksellian or New Keynesian natural interest rate. And it would provide sufficient room for manoeuvre to respond more systematically to the financial cycle. This, too, may not be the full answer. But it may bring us closer to it."

Growth across U.S. service industries continued at a solid pace in February, despite the largest drop in an employment gauge in a decade.

A senior Chinese official said the government will soon reconvene discussions with the U.S. on trade disputes, amid concerns that Trump administration tariffs on steel and aluminum may pitch the world's largest economies toward a trade war.

Inflation in the world's largest economies was unchanged for a third straight month in January, while it fell in rich countries, according to figures released Tuesday by the Organization for Economic Cooperation and Development .

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

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

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Document RSTPROCB20180306ee36000dx

WSJ PRO CENTRAL BANKING

Economy

U.S. Employers Added 313,000 Jobs in February; At 4.1%, unemployment rate held at 17-year low

By Eric Morath
1,145 words
9 March 2018
06:13 PM
WSJ Pro Central Banking
RSTPROCB
English

WASHINGTON—Companies ramped up hiring last month and people flooded back into the workforce, a potent mix suggesting the U.S. economy can run strong without overheating and forcing the Federal Reserve to slam its brakes on the expansion with aggressive interest-rate increases.

Investors, applauding the combination of robust economic growth and a restrained central bank, sent the **Dow Jones Industrial Average** up 440.53 points, or 1.77%, to 25335.74.

Nonfarm payrolls rose a seasonally adjusted 313,000 in February, the largest monthly gain since July 2016 and well above the average monthly gain in the expansion, the Labor Department said Friday.

More than 800,000 Americans joined the labor force for the month, according to the report, many bypassing unemployment and jumping straight into jobs. It was the largest one-month labor-pool increase since 1983, outside months that included temporary Census hiring.

The jobless rate held at 4.1% in February, its lowest level since December 2000, for the fifth straight month.

Low unemployment, in theory, creates wage and inflation pressure as firms compete for scarcer labor. But with people rejoining the labor force and expanding the pool of workers and job seekers, that bidding process was restrained and wage growth muted last month.

Average hourly earnings for all private sector workers rose 2.6% from a year earlier in February, a smaller increase than the prior month. The average workweek rose—meaning firms were looking for ways to get more output from the workers they had—and weekly paychecks rose.

Most people want to see worker wages move higher. But if wages and inflation were to shoot up sharply, Fed officials might be compelled to raise short-term interest rates more aggressively than planned to prevent the economy from overheating. When it raises interest rates it restrains borrowing, investing and spending.

January's initial estimated wage gain—showing the biggest increase since the recession ended—had stoked concerns in **financial markets** that bigger than expected paychecks would lead to higher inflation. Friday's report revised down the reported increase for January and calmed investor worries that Fed officials might act more aggressively than planned.

In December, the Fed projected three quarter-percentage-point interest rate increases in 2018, with the next one expected this month. Friday's jobs report gives the Fed little reason to deviate from that plan, perhaps moving rates up a fourth time before year-end but not much more aggressively.

Broad dynamics have been at play squeezing the labor force for years. Most notably, an aging population of retiring baby boomers threatens to shrink the supply of potential workers for employers to choose from. Top Fed officials are hoping the move of discouraged, part-time and other potential workers off the sidelines can help offset that trend and keep inflation pressures at bay.

"It seems increasingly plausible that the economy is still well short of full employment," said Andrew Levin, a Dartmouth College economics professor and former Fed adviser.

Full employment is the term economists use to describe a sweet spot in the economy—a point in a business cycle when unemployment is very low, but not so low that it starts stoking severe wage and price inflation. The Fed's goal is to keep the economy in that sweet spot for as long as possible.

Jaraun "Gemini" Boyd offers a window into the broad forces reshaping the jobs market as the expansion advances. As workers become scarcer, employers are looking further and wider for talent. That includes tapping a pool of former prisoners.

Mr. Boyd spent nearly two decades in federal prison on drug-related charges. After training to become a commercial-truck driver, the 43-year old rejoined the ranks of workers late last year, landing a job driving a garbage truck for the city of Charlotte, N.C.

"I was no saint," Mr. Boyd said in a telephone interview. He initially received little help finding a job. "After prison you need a second chance—but if you have a record you can't get a job, you can't get housing assistance, you see why people turn back to crime."

He landed the truck-driving training through the Charlotte Works Workforce Development Board. That "opened a door for me," said Mr. Boyd. "It's just a first step." He wants to start a nonprofit working with at-risk youth.

Though the unemployment rate is low, broader measures of unemployment and underemployment are still elevated, suggesting there is still slack in the labor market that companies can draw from to increase worker output without very aggressively bidding up wages.

One measure that includes Americans in part-time jobs or still too discouraged to seek work held at 8.2% in February. That rate, known as U-6, remains elevated compared with the last time the headline rate touched 4%. In December 2000, the broader measure was 6.9%.

If companies convert part-time workers to full-time workers or draw in more discouraged people not currently looking for work, that broad measure of labor slack might fall further without pushing down conventional measures of unemployment.

Hiring in February was broad-based. Construction firms added 61,000 workers, the biggest increase in nearly 11 years for the sector. Hiring picked up at retailers, manufacturers and local governments, including schools.

Despite signs of a pickup in labor-force participation, certain industries are still reporting shortages in labor, including in retail, health care and manufacturers.

Becky Frankiewicz, president of ManpowerGroup North America, a staffing firm, said the demand for labor is reaching the highest levels since 2000, when unemployment last held around 4%. "Confidence is continuing to build," she said.

One problem is a lack of skilled workers, especially when technology is changing rapidly in many industries. Manpower and Rockwell Automation created a program to train veterans for advanced manufacturing jobs. The prospects don't have the skills firms need, but have shown the aptitude to learn. An increasing willingness to train employees is another factor drawing workers off the sidelines, Ms. Frankiewicz said.

"Ultimately government and education institutions will need to help with that," she said. "But we can't wait. The jobs are in demand today."

Nick Timiraos contributed to this article.

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THE WALL STREET JOURNAL.

Business

No Revenue? No Problem—Hong Kong Draws Biotech Firms Looking to List; American startups like Moderna and Grail are among the dozens considering exchange as it loosens rules

By Preetika Rana and Julie Steinberg
890 words
22 March 2018
06:11 AM
The Wall Street Journal Online
WSJO
English

Hong Kong's stock exchange is gearing up to allow biotechnology companies to sell shares before generating any revenue—and companies are preparing to rush in.

Dozens of early-stage drug makers and other biotech firms are planning to list in Hong Kong over the next two years, say executives, bankers and investors, as the exchange pushes through its biggest regulatory overhaul in decades.

U.S. companies looking to go public include Moderna Therapeutics Inc., a Cambridge, Mass.-based startup that is considering a dual listing on **Nasdaq** and Hong Kong as early as next year, according to a person familiar with the company's plans.

Moderna earlier this year raised $500 million in a private financing round that valued it at close to $7 billion. The seven-year-old company is testing vaccines and experimental drugs designed to instruct the body's cells to produce proteins that could prevent and treat a host of diseases.

Grail Inc., a Menlo Park, Calif. company whose backers include billionaire Bill Gates and Alphabet Inc.'s venture-capital arm, is also planning a Hong Kong listing, according to a person familiar with the matter.

Grail, which hopes to develop blood tests for early-stage cancer detection, last year merged with a Hong Kong-based startup that claims to have developed such a test to detect a rare head and neck cancer.

Hong Kong Exchanges & Clearing Ltd. is expected to finalize rules by late April that will allow biotech companies that have yet to generate any revenue or profit to list in the city, making it the second exchange after **Nasdaq** to do so.

The looser requirements would give early-stage biotech firms another option to raise funds to help pay for costly drug trials and research, and allow them to tap into a wider pool of investors—including those from China.

To be sure, there are significant risks for investors.

Buying into pre-revenue biotech companies can be a boom-or-bust proposition: For every company that turns out to be a success, there are many that end up failing. One concern is that Hong Kong is inviting new listings in a market that has relatively few institutional investors and brokerages specializing in biotech stocks.

Charles Li, the exchange's chief executive, acknowledged the potential pitfalls in an interview this week.

"The last thing we want to do is open up a new sector and have a big bust," he said. "Do I lose sleep? Yes, I do."

Still, he said he wants investors and companies to be in a position to reap potential outsized returns. Since 2010, the **Nasdaq** Biotech Index has returned 312%, compared with 143% for the broader **S&P 500**, excluding dividends.

Mr. Li said the Hong Kong listings won't be a free-for-all. Pre-revenue biotech companies need to have successfully completed a phase-1 drug trial in order to list, among other requirements being discussed. Drug candidates are tested on humans over three phases.

Hundreds of industry executives, investors and bankers from the U.S., China and other countries gathered Thursday in Hong Kong at a biotech event organized by the exchange, with many others tuning in via a live stream.

David Lau, head of global investment banking for Hong Kong at JPMorgan Chase & Co., said his bank has fielded inquiries from biotechs in mainland China, South Korea, Taiwan and the U.S. about listing in the city. Bankers expect offering sizes to span a few hundred million dollars on average.

The chief executive of China's Innovent Biologics Co. said the company, which is developing two experimental cancer drugs for Eli Lilly & Co., is considering listing in Hong Kong or **Nasdaq** before the end of the year. It was valued at more than $1 billion in a recent financing round.

Hong Kong's opening up is also drawing companies that have been listed in other markets.

JHL Biotech Inc., which operates in mainland China and Taiwan, is deciding between a **Nasdaq** or Hong Kong initial public offering later this year, said people familiar with the matter. The company makes copies of existing biotech drugs and has licensed one to French drugmaker Sanofi SA.

JHL last month delisted from a stock exchange in Taiwan, where it had a market capitalization of about $465 million, according to S&P Global Market Intelligence.

Nasdaq-listed Sorrento Therapeutics Inc., which is testing compounds for cancer and pain management and has a market capitalization of $708 million, last month said it's considering a Hong Kong listing. In a letter to shareholders, the company pointed to two Chinese biotech firms that delisted from **Nasdaq** in recent years and later went public in Hong Kong, where they earned significantly higher market valuations.

Brad Loncar, chief executive of Kansas-based Loncar Investments LLC, said that if companies simply want to list in Hong Kong "to take advantage of the ongoing excitement and high valuations," it could be a recipe for problems down the road if markets turn.

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WSJ PRO CENTRAL BANKING

Economy

Americans Holding Off on Spending Extra Tax Dollars; Sign that higher incomes aren't yet showing up in consumer spending

By Harriet Torry
767 words
29 March 2018
03:11 PM
WSJ Pro Central Banking
RSTPROCB
English

WASHINGTON—Americans last month saved their extra money from the recent tax overhaul rather than spent it, which likely held back economic growth in the first quarter.

Consumer spending rose at a muted pace in February for the second month in a row, despite gains in household incomes both before and after taxes.

Personal income, reflecting Americans' pretax earnings from salaries and investments, rose 0.4% in February. Meanwhile personal-consumption expenditures, a measure of household spending on everything from dishwashers to books, increased at a slower pace, rising a seasonally adjusted 0.2% in February from the prior month, the Commerce Department said Thursday.

Consumers have reined in their spending so far this year. The 0.2% increase in spending in January and February reflects pullback from a 0.5% increase in December and 0.7% in November.

"Consumers are dialing back on their spending spree of last year," said Robert Frick, corporate economist with Navy Federal Credit Union, adding "Americans may be feeling stretched by the credit they took on last year, and are putting more money into savings."

With incomes up and spending relatively weak in February, Americans saved more. The personal saving rate in February was 3.4%, up from 3.2% in January and the highest rate since August.

Consumer spending accounts for more than two-thirds of U.S. economic output and is a key driver of economic growth. Recent economic reports suggest consumers dialed back their outlays lately despite having more money in their pockets. Sales at U.S. retailers dropped in February for the third month in a row. February was also a rocky month for stocks with the **Dow Jones Industrial Average** falling about 4%, breaking a 10-month winning streak, which may have affected confidence and the willingness to spend.

The Federal Reserve Bank of Atlanta estimates economic output has expanded at a 2.4% annual rate in the first quarter, a slowdown from 2.9% in the fourth quarter and 3.2% in the third.

Economists said that lower outlays in early 2018 were payback for a bumper 4% increase in inflation-adjusted spending in the fourth quarter. That was driven by a 13.7% increase in spending on durable goods—expensive items like cars and appliances—as consumers spent lavishly for the holidays and replaced property damaged by last year's hurricanes.

Still, many economists believe households have a solid financial foundation on which to keep spending. Unemployment has been at a low 4.1% for the past five months, and many Americans recently saw the tangible impact of the $1.5 trillion tax cut that President Donald Trump signed into law late last year. Tax withholdings fell, increasing take-home pay.

Disposable personal income, or after-tax income, rose 0.4% on the month in February. That was a moderation from the revised 1% month-over-month gain in January, which reflected the impact of tax law changes that reduced tax withholding.

Dustin Hill, a 31-year-old manager at a security company in Washington, D.C., said the extra money he has received from the tax cut has gone toward "bills, normal bills that may have been put on the back burner that I'm now able to address" like student-loan obligations.

Prices also rose last month, eroding some of the income gains. The price index for personal-consumption expenditures, the Federal Reserve's preferred inflation measure, rose 0.2% from January and was up 1.8% from a year earlier. The year-over-year gain last hit 1.8% in March 2017. Inflation as measured by the index was last above the Fed's 2% annual target a year ago, when it reached 2.2% in February 2017.

Excluding **volatile** food and energy costs, prices rose 0.2% in February from January—in line with economists' expectations. Core inflation was up 1.6% in February from a year earlier.

The latest reading suggests inflation is creeping closer to the Fed's 2% annual target and offers policy makers some comfort in their battle against weak inflation.

The Fed voted earlier this month to increase its benchmark federal-funds rate by a quarter percentage point to a range between 1.50% and 1.75%. Officials have penciled in two further quarter-point rate increases for 2018.

Write to Harriet Torry at harriet.torry@wsj.com

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THE WALL STREET JOURNAL.
U.S. EDITION

Right Price for Oil Divides OPEC

By Benoit Faucon and Summer Said
813 words
12 March 2018
The Wall Street Journal
J
B2
English

OPEC is breaking down into two camps after more than a year of unity. On one side is Saudi Arabia, which wants **oil prices** at $70 a barrel or higher, and on the other is Iran, which wants them around $60.

The split is driven by differing views over whether $70 a barrel sends U.S. shale companies into a production frenzy that could cause prices to crash. At stake is the Organization of the Petroleum Exporting Countries' production limits, which are among factors helping the oil market's monthslong recovery.

Iran wants OPEC to work to keep **oil prices** around $60 a barrel to contain shale producers, Oil Minister Bijan Zanganeh told The Wall Street Journal in an interview. That is a little below Friday's prices of $65.49 a barrel for Brent crude, the international benchmark, and $62.04 in the U.S.

"If the price jumps [to] around $70. . .it will motivate more production in shale oil in the United States," Mr. Zanganeh said. Shale producers are more nimble than big OPEC producers, using techniques that allow them to increase or decrease production depending on the **oil price**.

Saudi Arabia has played down shale's ability to upset the market and has touted OPEC's alliance with the world's largest crude producer, Russia, as a bulwark against U.S. output.

Russia and nine other producers have joined OPEC's production limits, cumulatively withholding about 2% of the world's crude output.

"I don't lose sleep that shale is going to come and overwhelm us," Saudi Energy Minister Khalid al-Falih said in January at the World Economic Forum in Davos, Switzerland. The following month, Mr. Falih said OPEC would stick with its production limits this year, even if it meant oil supplies fell below demand -- remarks that caused **oil prices** to rise.

Mr. Falih has never publicly called for $70 a barrel. Privately, Saudi officials say they want that level to provide revenue for Crown Prince Mohammed bin Salman's ambitious economic and military-spending plans and to support the initial public offering of Saudi Arabian Oil Co., the state-owned energy giant known as Aramco.

The reaction of U.S. shale producers to $70 a barrel was a focal point in January, when Brent crude briefly breached that level. Shale producers have generally ramped up output since OPEC's production deal in 2016 sent **oil prices** into recovery mode, with U.S. daily output rising to over 10 million barrels in just over a year from less than nine million barrels.

If **oil prices** averaged $70 a barrel next year, it would result in an additional 600,000 barrels a day of U.S. production compared with $60, said Artem Abramov, vice president for analysis at Norwegian consultancy Rystad Energy.

The International Energy Agency said last week that shale production had already risen so much that demand for OPEC crude would remain below the cartel's current production through 2020. That could pressure the group to limit output for longer than most members anticipated.

Concerns about shale output will likely dominate OPEC's next meeting in June in Vienna, OPEC officials say.

Iran will press for carefully bringing back some of its own production, Mr. Zanganeh said, potentially putting downward pressure on **oil prices**. The country pumps about 3.8 million barrels a day and could produce about 100,000 barrels a day more.

Mr. Zanganeh said OPEC could agree in June to begin easing current production limits in 2019. The Saudis have expressed openness to that idea.

Mr. Zanganeh insisted Iran wants to have a good relationship with the kingdom.

A Shift Reflects

Change in Realities

For Iran and Saudis

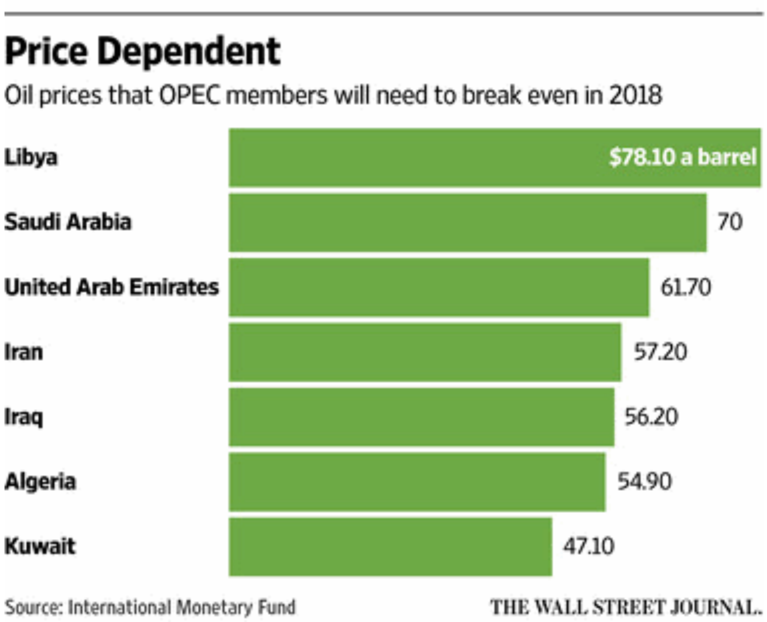
The debate over prices reflects a shift in OPEC's internal dynamics. Previously, Iran had long advocated for higher prices, while Saudi Arabia had been a voice of restraint.

The change partly reflects new dynamics in both countries' politics and economics. No longer crippled by Western sanctions, Iran needs an **oil price** of only $57.20 a barrel to balance its national budget, according to the International Monetary Fund. Saudi Arabia needs about $70 a barrel to cover record national spending this year.

Saudi Arabia and Iran are also at odds politically. They have backed different sides in the Syrian civil war, the Saudis have lobbied for tighter sanctions on Tehran, and Riyadh accuses Iran of funding and arming Yemeni rebels.

Russia is likely to be an important factor in any OPEC**oil-price** debate. Though it isn't a member of the group, Russia's production cuts have given it special influence with the cartel.

Russian Energy Minister Alexander Novak told state television last month that prices around $64 a barrel were "satisfactory." A ministry spokeswoman couldn't be reached for comment.



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WSJ PRO CENTRAL BANKING

Economy

Fed May Have to Raise Rates More Than Expected, Fed's Rosengren Says; Recent financial market volatility shows investors coming to terms with potential path of action, Boston Fed chief says

By Michael S. Derby
501 words
9 March 2018
12:40 PM
WSJ Pro Central Banking
RSTPROCB
English

Federal Reserve Bank of Boston President Eric Rosengren said Friday that the central bank may have to raise rates more than expected this year, in remarks that said recent **financial market volatility** shows investors coming to terms with this potential path of action.

"To keep the economy on a sustainable path, I expect that it will be appropriate to remove monetary policy accommodation at a regular but gradual pace—and perhaps a bit faster than the three, one-quarter point increases envisioned for this year in the assessment of appropriate policy from the December 2017 [Federal Open Market Committee] meeting," Mr. Rosengren said in the text of a speech to be delivered in Springfield, Mass.

Over recent weeks, the outlook for Fed policy has been in flux as officials and market participants are taking on board the fact that the economy may perform better than expected this year. That improved outlook has suggested that the Fed may raise rates more than three times.

Still, officials like the New York Fed leader William Dudley have cautioned there hasn't been some notable change in the path of interest rate policy. "I think that, in my own view, if you were to go to four 25-basis-point rate hikes, I think it would still be gradual," Mr. Dudley said last week in remarks in Brazil.

Mr. Rosengren isn't an FOMC voter this year. He has been a firm advocate of pressing forward with rate rises as a means to keep the economy's momentum in balance. He's sticking to that view.

"The economic data have been quite good, monetary policy remains accommodative, and fiscal policy has just become quite a bit more stimulative," Mr. Rosengren said in his speech.

"While a tight labor market provides definite advantages—such as employment opportunities for workers who have struggled to find a job—nonetheless, providing too much stimulus from either monetary or fiscal policy at this stage of the economic cycle could threaten to create a so-called 'boom and bust' economy, which policy makers certainly want to avoid," he said.

Mr. Rosengren said the swoons seen in markets recently reflect a new understanding by traders and investors. He said there has been a "healthy realization" of the risks that confront policy makers are on the up and downside, and that policy will shift depending on how the economy performs.

Mr. Rosengren said weak inflation has likely been tied to "transitory" factors. He noted tightening labor markets have brought a "gradual" increase in wages and salaries, and said "while inflation is still a bit below the FOMC's target, most forecasters expect inflation to rise to, or near, the Fed's 2% target by the end of 2018."

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THE WALL STREET JOURNAL.

Markets

Oil Slips From Seven-Week High; Prices retreated as the White House announced new tariffs aimed at China, raising fears that curtailed trade could crimp global economic growth

By Alison Sider and Sarah McFarlane
539 words
22 March 2018
03:39 PM
The Wall Street Journal Online
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English

Oil prices had their worst day in two weeks, retreating from a seven-week high Thursday as the White House announced new tariffs aimed at China, raising fears that curtailed trade could crimp global economic growth.

U.S. crude futures fell 87 cents, or 1.33%, to $64.30 on the New York Mercantile Exchange. Brent, the global oil benchmark, fell 56 cents, or 0.81% to $68.91 a barrel on ICE Futures Europe. Both benchmarks posted their biggest one day decline since March 8.

Oil has often come under the sway of broader **financial markets** in recent weeks, and escalating trade tensions with China weighed on stock and **oil prices** Thursday. President Donald Trump announced Thursday that the U.S. is planning to levy tariffs on about $60 billion worth of imports from China and to impose restrictions on the country's technology transfers and acquisitions.

"Concerns about these tariffs and what it's going to do to trade and the global economy has triggered a little softening," said Gene McGillian, research manager at Tradition Energy.

At the same time, the U.S. dollar strengthened slightly—something that often makes commodities that are priced in dollars more expensive for buyers using foreign currencies. The WSJ Dollar Index, which measures the currency against a basket of 16 others, recently rose 0.08%.

Crude prices had increased more than 5% Tuesday and Wednesday, testing recent highs amid growing concerns around U.S. relations with major oil producers Venezuela and Iran. Now, some investors are taking profits.

"It's a good area to back off. The question now is how much does it give back before finding its legs again?" said Ric Navy, senior vice president for energy futures at R.J. O'Brien & Associates.

Oil prices have been caught lately between the unexpected fall in U.S. inventories and the country's ever-rising production. U.S. oil production has reached record levels on the back of the shale boom, with steadily rising **oil prices** over the past nine months, encouraging more output. The U.S. Energy Information Administration reported Wednesday that U.S. oil output hit yet another fresh record high of 10.407 million barrels a day last week.

"People have to be aware that it's at a record high and there are expectations that it's going to hit 11 million barrels a day," Mr. McGillian said of U.S. production.

Data released Wednesday also showed that crude inventories fell 2.6 million barrels in the week ended March 16, which helped fuel strong price gains. Analysts had been expecting stocks to rise.

"The data released yesterday was very **bullish**," said Giovanni Staunovo, an analyst at UBS Wealth Management. "Maybe it was just an overshooting and there's some profit-taking."

Gasoline futures fell 0.13% to $2.0096 a gallon. Diesel futures fell 0.57% to $1.9923 a gallon.

Write to Alison Sider at alison.sider@wsj.com and Sarah McFarlane at sarah.mcfarlane@wsj.com

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WSJ PRO CENTRAL BANKING

Markets

Seoul May Disclose Rare Details on Its Foreign Exchange Operations; Government denies currency manipulation, but remains on U.S. Treasury's watch list

By Kwanwoo Jun
451 words
19 March 2018
03:37 AM
WSJ Pro Central Banking
RSTPROCB
English

SEOUL—South Korea is considering disclosing details on its foreign-exchange market operations, a major policy shift that aims to ease lingering U.S. suspicion that the country may be rigging its currency to boost exports.

The Seoul government has denied being a currency manipulator, but is wary of remaining on the U.S. Treasury's watch list, to which it was first added in 2016.

South Korean financial authorities previously opposed any disclosure of their foreign-exchange operations for fear that speculative hot money investors might abuse such information for profit and destabilize local currency markets.

The Bank of Korea and South Korea's finance ministry said in a weekend statement that they've been in discussions with the International Monetary Fund. The IMF has recommended more transparent and advanced foreign-exchange markets in the country, but hasn't elaborated.

Officials at the ministry and central bank said Monday that while no decision has been made, they were thinking of publicly releasing detailed information on how much they sell or buy of the U.S. currency in order to "smooth" **volatile** market swings and ensure stability in trading.

"We could probably disclose such ‘smoothing operation' details every three or six months to come clean on this," a bank official. "The public disclosures would help shake off the U.S.'s unfair suspicious look."

The U.S. has suspected some of its trading partners of unfairly devaluing local currencies in order to be more price-competitive and advantageous in trade.

South Korea has denied engaging in one-sided currency-market interventions to boost exports. But it does insist on stepping in to tame market **volatility**.

Despite the potential move towards transparency, it's unlikely that South Korea will be pulled off the semi-annual U.S. Treasury currency report, which is due to be updated in April. The Treasury has not designated the Asian country as a currency manipulator, but Seoul remains on its watch list.

South Korea satisfies two of the Treasury's currency-rigging criteria: a current-account surplus above 3% of its GDP, and a bilateral trade surplus with the U.S. that's above $20 billion.

The Trump administration recently turned up the heat on the country's trade surplus with the U.S.

South Korea has been eager to bolster **financial markets** from external shocks due to sudden outflows of foreign capital. The country has since kept an ample stock of foreign-currency reserves, maintaining as many currency-swap lines as possible.

Write to Kwanwoo Jun at kwanwoo.jun@wsj.com

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WSJ PRO CENTRAL BANKING

Economy

U.S. Consumer Sentiment Improved in February; University of Michigan index reaches second-highest monthly reading since January 2004

By Ben Leubsdorf
585 words
2 March 2018
11:33 AM
WSJ Pro Central Banking
RSTPROCB
English

U.S. consumers remained confident in February, with larger paychecks and a healthy labor market overshadowing any worries about **stock-market volatility** and rising borrowing costs.

The University of Michigan said Friday its consumer-sentiment index was 99.7 in February, up from 95.7 in January. It was the second-highest monthly reading since January 2004, below only October's 100.7 reading.

Economists surveyed by The Wall Street Journal had expected a final February reading of 99.5, down from a preliminary figure of 99.9.

"Consumers based their optimism on favorable assessments of jobs, wages and higher after-tax pay," said Richard Curtin, the survey's chief economist.

U.S. households have been upbeat about the economy in recent months, with growth supported by rising incomes and low unemployment. The recent package of tax cuts also has boosted most workers' take-home pay.

However, the **stock market** has moved lower since late January and borrowing costs have marched higher. The average interest rate on a 30-year fixed-rate mortgage was 4.33% in February, up from 4.03% in January and 3.81% as recently as last September, according to Freddie Mac.

"Economic news heard by consumers continued to be dominated by the tax reform legislation and net job gains, which was untarnished by the consensus view that interest rates would increase and stock prices would remain **volatile**," Mr. Curtin said.

The details of Friday's report were upbeat. A measure of confidence in current economic conditions rose to 114.9 in February from 110.5 in January. An index tracking expectations about the future was 90.0 in February, up from 86.3 in January.

A separate measure tracking U.S. consumer confidence jumped in February to its highest level since November 2000, the Conference Board said Tuesday. That report also showed Americans felt better about the current state of the economy as well as its future prospects.

Still, Americans remain deeply divided along party lines.

"Unsurprisingly, as far as expectations go, Republicans are very positive and Democrats are glum, while political independents are broadly in the middle and indicative of the overall result," MFR Inc. chief U.S. economist Joshua Shapiro said in a note to clients.

Expectations for future inflation were little changed in February. Consumers on average saw 2.7% inflation over the next year and 2.5% inflation in five to 10 years, the same as in January.

Several broad measures of U.S. prices and wages have picked up in recent months, signaling long-sluggish inflation may be stirring. Still, the Federal Reserve has long struggled to hit its 2% annual target; its preferred price gauge rose 1.7% in January from a year earlier, and prices excluding food and energy were up 1.5% on the year, according to the Commerce Department.

Fed Chairman Jerome Powell told lawmakers this week during testimony on Capitol Hill that "the economic outlook remains strong" and that "in this environment, we anticipate that inflation on a 12-month basis will move up this year and stabilize around the [Federal Open Market Committee's] 2% objective over the medium term."

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THE WALL STREET JOURNAL.

Markets

U.S. Government Bonds Edge Higher; Spurring gyrations was CVS Health's $40 billion corporate-bond offering

By Daniel Kruger
425 words
6 March 2018
07:05 PM
The Wall Street Journal Online
WSJO
English

Prices of U.S. government bonds edged higher Tuesday as the bond market absorbed one of the biggest corporate bond offerings in history.

The yield on the benchmark **10**-**year Treasury** yield fell to 2.877%, from 2.879% Monday. Yields fall as **bond prices** rise. The yield has fallen in six of the past nine sessions yet is down just 0.066 percentage point from its four-year high of 2.943% reached last month.

One factor spurring gyrations in **bond prices** was pharmacy chain CVS Health Corp.'s sale of $40 billion of bonds Tuesday to help pay for its $69 billion acquisition of health insurer Aetna Inc. In early trading, Treasurys gained on expectations that bond dealers would need to unwind hedging trades that will force them to buy government bonds. Later, they declined as other investors sold government debt to free up cash to buy the CVS deal, analysts said.

Bond dealers often sell Treasury bonds to protect themselves against the risk of moves in interest rates while they hold large corporate-bond positions on their books ahead of a big sale. The CVS deal was the largest corporate-bond sale in more than two years, creating a significant hedging need and signaling potential demand for Treasurys as the hedges are unwound.

"The resilience of the Treasury market has kind of surprised us, because a lot's been thrown at it," said Christopher Sullivan, a bond manager at the United Nations Federal Credit Union. Mr. Sullivan said he bid on three-year floating-rate CVS notes, which were an attractive hedge against the potential for an acceleration of inflation.

The rapid rise in Treasury yields from 2.409% at the end of 2017 could be one reason the deal is coming to market before regulators have signed off on the merger, some investors said. CVS's plans to raise its acquisition financing ahead of time avoids the risk that interest rates rise before then, they said.

Yields climbed briefly earlier in the session after officials in Seoul said Tuesday that North Korean leader Kim Jong Un told a visiting South Korean delegation that he was willing to hold talks with the U.S. about giving up nuclear weapons and normalizing relations with Washington. U.S. government-**bond prices** declined on the announcement as it encouraged some investors to sell the debt to buy risky assets.

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WSJ PRO CENTRAL BANKING

Economy

BOE Holds Steady | Emerging Markets Aren't Following the Fed | How One Investor Turned a Bet on the SNB Into Millions | Timiraos's Take: Fed Officials Seem OK With a Temporary Inflation Overshoot; The Wall Street Journal's central banking newsletter for Friday, March 23, 2018

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23 March 2018
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Timiraos's Take: Fed Officials Seem OK With a Temporary Inflation Overshoot

Bank of England Holds Steady as May Aims for Brexit Transition Deal

As Fed Raises Interest Rates, Emerging Markets Aren't Following Suit

How One Investor Turned a Bet on the Swiss Central Bank Into Millions

Fed Officials Seem OK With a Temporary Inflation Overshoot

Federal Reserve officials have stressed their 2% inflation target isn't a ceiling. Their economic projections released Wednesday help reinforce their claim the goal is symmetric.

The projections show all Fed officials expect annual core inflation, which excludes food and energy prices, to rise to at least 2% by 2020, using the central bank's preferred inflation gauge. At least half the meeting participants see core inflation rising to at least 2.1% next year and staying there in 2020.

This is the first time officials have projected inflation rising above 2%. In other words, officials have meaningfully illustrated a tolerance for modest and temporary overshoots of their inflation target.

Fed Chairman Jerome Powell at his press conference expanded on what, exactly, symmetry might entail. "We're trying to prevent persistent deviations from 2% in either direction," he said.

Mr. Powell indicated the Fed wouldn't be looking to make up for periods of below-target inflation by deliberately allowing an extended overshoot, an approach that would more closely resemble a price-level target. Instead, officials would always seek to nudge inflation back to target.

Mr. Powell demurred on the specifics of how high inflation might be allowed to rise during a temporary overshoot. "I can't give you an exact number. We haven't agreed on that," he said. "It just is that we're always going to be seeking 2% inflation."

Mr. Powell's comments left some commentators underwhelmed for their lack of specifics, but together with the economic projections, they show more Fed officials are on board with a temporary inflation overshoot.

Key Developments Around the World

Bank of England Holds Steady as May Aims for Brexit Transition Deal

The Bank of Englandsignaled that it remains on course to lift interest rates this year and next, as figures showed a yearlong squeeze on consumers caused by a steep fall in the pound appears to be coming to an end. The British economy is nevertheless expected to trail its peers in 2018 as uncertainty over Brexit stifles business investment. The government hopes that a deal on a key aspect of withdrawal expected to be formally agreed by European Union leaders in Brussels later Thursday will help get firms spending again.

As Fed Raises Interest Rates, Emerging Markets Aren't Following Suit

The Federal Reserve may be set on raising interest rates at least two more times this year, but many of its emerging market peers are in no rush to follow. Central banks in the Philippines, Taiwan and Indonesia held interest rates steady on Thursday following the Fed's unanimous decision overnight to lift its benchmark rate by a quarter-percentage point to a range of 1.5% to 1.75%. And while China's central bank raised its de facto benchmark interest rate, the adjustment was just 0.05 percentage point. The reluctance to follow the Fed is partly due to domestic factors. Inflation has been manageable across many emerging markets, giving central banks little spur to tighten monetary conditions. And while emerging countries have been recording healthy export-led growth, that could be under threat if the global economy moderates later this year—as some analysts forecast.

Bank Indonesia Keeps Benchmark Repo Rate Unchanged at 4.25%

Taiwan Central BankLeaves Rates Unchanged Under New Governor

Transcript: Jerome Powell's Postmeeting Press Conference

Jerome Powell held his first press conference as Federal Reserve chairman following the central bank's decision to raise short-term interest rates Wednesday, March 21, 2018. Mr. Powell answered questions about the outlook for interest rates and economic growth, the Fed's inflation target, the possible effects of U.S. fiscal and trade policies, and financial regulation. Here is a transcript of the press conference in Washington, lightly edited for length and clarity.

Some Bond Investors See Air Coming Out of the Inflation Trade

Measures of investors' bets on a pickup in inflation are falling from recent highs, a sign that many believe tax cuts and increased government spending aren't likely to jolt the U.S. economy from its tepid postcrisis expansion for long.In one sign that expectations have shifted, the climb in Treasury yields has stalled, with the yield on the benchmark **10**-**year Treasury** note still below 3%—a level it last reached at the end of 2013. Inflation poses a threat to the value of government bonds because it erodes the purchasing power of their fixed payments.

How One Investor Turned a Bet on the Swiss Central Bank Into Millions

Meet the biggest winner of one of the past year's best equity bets: a German investor who bought big into Switzerland's central bank. Theo Siegert's stake in the Swiss National Bank soared in value over the past year as the central bank's **stock price** gained over 250%. The SNB is a rarity among central banks—Japan and Belgium are others—in that it has listed shares. The SNB's shares have more than tripled since the start of last year—even though analysts struggle to explain why—and traded at 5,860 Swiss francs early Thursday.

FRIDAY

6:30 a.m. EDT

Bank of Russia releases policy statement

8:10 a.m. EDT

Atlanta Fed's Bostic speaks

10:30 a.m. EDT

Minneapolis Fed's Kashkari speaks

7 p.m. EDT

Boston Fed's Rosengren speaks

Leverage--A Broader View

Manmohan Singh and Zohair Alam of the International Monetary Fund argue that traditional leverage metrics should be augmented by considering pledged collateral, given it provides a measure of nonbank funding to banks. Taking a broader view on leverage "will enhance our understanding of global systemic risk, and complement the theoretical work in this field by providing a link from micro-level leverage data to macro aggregates such as credit to the economy," the researchers posit.

‘Rolldown' Shows Why the Bond Market Is an Unfriendly Place to Hide

The absence of a 'rolldown' is making the U.S. bond market an unfriendly place for investors, writes Richard Barley for The Wall Street Journal. "The signals sent by the Federal Reserve Wednesday suggest the yield curve could flatten further: Its rate increases will raise short-dated yields, but there is still skepticism that rates in the long term will be materially higher."

Money Markets Are Messed Up

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, writes James Mackintosh for The Wall Street Journal. "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," he writes. "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 number of Americans laid off from their jobs rose slightly last week but remained near multidecade lows, fresh evidence of the labor market's strength.

Japan's core inflation hit 1% for the first time in 3½ years in February, another small sign of progress for the Bank of Japan as it reaches the halfway point toward its 2% target.

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

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

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THE WALL STREET JOURNAL.
U.S. EDITION

U.S. News: Americans Hold Off on Spending Extra Tax Dollars

By Harriet Torry
1,047 words
30 March 2018
The Wall Street Journal
J
A2
English

WASHINGTON -- Americans last month saved their extra money from the recent tax overhaul rather than spent it, which likely held back economic growth in the first quarter.

Consumer spending rose at a muted pace in February for the second month in a row, despite gains in household incomes both before and after taxes.

Personal income, reflecting Americans' pretax earnings from salaries and investments, rose 0.4% in February. Meanwhile, personal-consumption expenditures, a measure of household spending on everything from dishwashers to books, increased at a slower pace, rising a seasonally adjusted 0.2% in February from the prior month, the Commerce Department said on Thursday.

Consumers have reined in their spending so far this year. The 0.2% increase in spending in January and February reflects a pullback from a 0.5% increase in December and 0.7% in November.

"Consumers are dialing back on their spending spree of last year," said Robert Frick, corporate economist with Navy Federal Credit Union, adding, "Americans may be feeling stretched by the credit they took on last year, and are putting more money into savings."

With incomes up and spending relatively weak in February, Americans saved more. The personal saving rate in February was 3.4%, up from 3.2% in January and the highest rate since August.

Consumer spending accounts for more than two-thirds of U.S. economic output and is a key driver of economic growth.

Sales at U.S. retailers dropped in February for the third month in a row. February was also a rocky month for stocks, with the **Dow Jones Industrial Average** falling about 4%.

The Federal Reserve Bank of Atlanta estimates economic output has expanded at a 2.4% annual rate in the first quarter, a slowdown from 2.9% in the fourth quarter and 3.2% in the third.

Economists said that lower outlays in early 2018 were payback for a bumper 4% increase in inflation-adjusted spending in the fourth quarter. That was driven by a 13.7% increase in spending on durable goods -- expensive items like cars and appliances -- as consumers spent lavishly for the holidays and replaced property damaged by last year's hurricanes.

Still, many economists believe households have a solid financial foundation on which to keep spending. Unemployment has been at a low 4.1% for the past five months, and many Americans recently saw the tangible impact of the $1.5 trillion tax cut signed into law late last year. Tax withholdings fell, increasing take-home pay.

Disposable personal income, or after-tax income, rose 0.4% on the month in February. That was a moderation from the revised 1% month-over-month gain in January, which reflected the impact of tax-law changes that reduced tax withholding.

Dustin Hill, a 31-year-old manager at a security company in Washington, D.C., said the extra money he has received from the tax cut has gone toward "bills, normal bills that may have been put on the back burner that I'm now able to address," like student-loan obligations.

(END)

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Document J000000020180330ee3u0002k

THE WALL STREET JOURNAL.

Markets

Oil Prices Fall as U.S. Production Climbs; The EIA says crude stockpiles rose 2.4 million barrels last week

By Stephanie Yang and David Hodari
424 words
7 March 2018
04:46 PM
The Wall Street Journal Online
WSJO
English

Corrections & Amplifications

The International Energy Agency lifted its forecasts for U.S. oil production Monday. An earlier version of this article incorrectly stated the name of the agency.

Oil prices declined on Wednesday as government data showed that crude stockpiles increased and U.S. production reached new heights last week.

Light, sweet crude for April delivery fell $1.45, or 2.3%, to $61.15 a barrel on the New York Mercantile Exchange . Brent, the global benchmark, lost $1.45, or 2.2%, to $64.34 a barrel.

On Wednesday, the U.S. Energy Information Administration reported that the amount of crude in storage rose by 2.4 million barrels in the week ended March 2, compared with average analyst forecasts for a 2.3 million barrel build.

Weekly U.S. production climbed to a record high last week to 10.369 million barrels a day.

"The oil market is concerned that shale oil production overwhelms global supply," said Andy Lipow, president of Lipow Oil Associates.

Fears over a resurgence in shale growth have weighed on the market this year as forecasts point to increasing supply from U.S. producers.

The EIA raised its production estimate for 2018 again late Tuesday and now expects U.S. crude-oil production to climb by 1.4 million barrels a day. That came after the International Energy Agency lifted its forecasts for U.S. oil production Monday.

From a fundamental viewpoint, market participants remained torn between growing U.S. inventories and the continued efforts of the Organization of the Petroleum Exporting Countries and other major producers like Russia to cut output.

"It could end up being a situation where we add the barrels that OPEC has taken off the market," said Bob Yawger, director of the futures division at Mizuho Securities U.S.A.

The oil market has also been strongly influenced by other markets, such as stocks and currencies, in recent weeks. Analysts said a stronger U.S. dollar helped pull down **oil prices** on Wednesday, as the WSJ Dollar Index edged higher.

Additionally, the **Dow Jones Industrial Average** slid on investor concerns over the impact of steel and aluminum tariffs on the economy, particularly following White House economic adviser Gary Cohn 's departure.

Gasoline futures fell 1.2% to $1.9103 a gallon and diesel futures fell 1.5% to $1.8746 a gallon.

Write to Stephanie Yang at stephanie.yang@wsj.com and David Hodari at David.Hodari@dowjones.com and David Hodari at

Related

* Iran's Oil Boom Hasn't Showed Up

Document WSJO000020180307ee37001md

WSJ PRO PRIVATE EQUITY

Markets

BlackRock Names Executives From Microsoft, Other Firms to Its Board; The world's largest money manager seeks to have a third of its revenue ‘enabled by technology' in the next five years

By Sarah Krouse and Joann S. Lublin
770 words
15 March 2018
04:45 PM
WSJ Pro Private Equity
RSTPROPE
English

BlackRock Inc. is adding a slate of new board members as the world's largest money manager tackles two pillars of its growth strategy: technology and international operations.

The firm has named Margaret "Peggy" Johnson, executive vice president of business development at Microsoft Corp.; William Ford, chief executive of private-equity firm General Atlantic LLC; and U.K. insurer Aviva Plc Chief Executive Mark Wilson as directors, a spokesman said.

BlackRock, which manages $6.3 trillion in assets, attracted record new investor cash last year, pulling in the equivalent of $1 billion each day. Its business now spans investing, advisory work and a risk and portfolio management technology system known as Aladdin that the firm uses internally and sells to a growing list of financial companies.

Chief Executive Laurence Fink has said the New York firm has a goal of having a third of its revenue being "enabled by technology" in the next five years, partly through Aladdin and by using technology to fuel better investment performance and fund sales. BlackRock currently spends more than $1 billion on technology and data.

The firm last year added Cisco Systems Inc. Chief Chuck Robbins as a director, making him the first technology chief on the board.

The three new members are the most BlackRock has added at one time. The additions come as several of the firm's board members have left recently thanks to the company's age policy for directors.

Microsoft's Ms. Johnson, 56, spent more than 20 years at Qualcomm, where she was a member of the executive committee, before joining the Seattle-based technology giant.

After the expected election of the new directors at BlackRock's shareholder meeting May 23, five of the total 18 board members will be female, or about 28% of the group. At that time, a third of independent directors will be women, the highest proportion ever at BlackRock.

BlackRock and other large money managers such as State Street Global Advisors have pressed the companies in which they invest, particularly in the last year, to make their boards more diverse.

Mr. Ford, 56, has led General Atlantic since 2007 and the private-equity firm counts payments company Adyen, a number of financial technology startups and China-based internet and technology companies among the firms in which it has invested. Mr. Ford sits on the boards of portfolio companies such as IHS Markit and designer brand Tory Burch.

Aviva's Mr. Wilson, a 51-year-old New Zealand native, worked for 14 years in Asia, including four years as chief of insurer AIA Group Limited before joining the U.K. firm. BlackRock has increasingly sought to provide investment management and advice to big insurers with the help of Aladdin in recent years.

It has also tried to generate more revenue overseas. The percent of its base fees and assets under management derived from the Asia Pacific region has held steady at 7% to 8% in the last five years.

The new BlackRock appointments follow a number of director departures in recent years spurred by its age policy. Under the group's governance guidelines, directors must retire at age 75—unless they reached 70 years old as of July 2013, in which case they are able to serve until age 80.

Two long-serving directors with backgrounds in finance left the board last year because of the age limit and another two have now reached that threshold.

James Grosfeld, the former chairman and chief executive of Pulte Homes Inc., and Abdlatif Al-Hamad, chairman of the board for the Arab Fund For Economic and Social Development, will not stand for re-election at this year's annual meeting. A fifth independent director at BlackRock resigned last summer.

Few big businesses have boards as big as BlackRock does. The money manager and General Electric Co. were the only companies in the **S&P 500** with 18 board members in 2017, according to a proxy statement analysis by Spencer Stuart, an executive-recruitment firm. The average **S&P 500** board had 10.8 members last year, the Spencer Stuart study reported.

Under a new management team, GE will soon shrink the size of its board. The conglomerate will have just 12 directors following this spring's annual meeting.

Write to Sarah Krouse at sarah.krouse@wsj.com and Joann S. Lublin at joann.lublin@wsj.com

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THE WALL STREET JOURNAL.
U.S. EDITION

CVS Bets Big With $40 Billion Bond Sale

By Matt Wirz
1,042 words
7 March 2018
The Wall Street Journal
J
A1
English

Corrections & Amplifications

Wells Fargo & Co. was among the investment banks that arranged CVS Health Corp.'s bond sale. A Page One article on Wednesday about the sale garbled the bank's name as yt yt& Co.

(WSJ March 10, 2018)

(END)

Pharmacy chain CVS Health Corp. sold $40 billion of bonds Tuesday to help pay for its acquisition of health insurer Aetna Inc. months before it needs the money, seeking to get ahead of an expected rise in interest rates and a flood of borrowing across the economy.

The sale, the largest in two years, showed there is still eager demand from investors for corporate bonds issued by financially strong borrowers. But investors and companies say they are bracing for a sea change in the markets caused by shifts in U.S. monetary and fiscal policy that could penalize prospective debt issuers for waiting.

Investors are anticipating a deluge of bond issuance this year. The U.S. Treasury announced it would be selling $42 billion of additional bonds in the period from February through April, and many analysts forecast that the government will announce additional increases to bond sales in May.

Greater availability of bonds could send their prices lower, which results in higher rates. Some analysts and investors expect the additional supply of debt will push borrowing costs throughout the economy higher.

Regulators aren't expected to pass judgment on the $69 billion Aetna purchase until late this year, but CVS issued the debt this week to avoid the risk that interest rates continue to rise, people familiar with the deal said. Another jump in Treasury bond yields could suppress investor appetite for new corporate debt.

Yields on corporate bonds jumped in tandem with U.S. interest rates this year, triggering a fall in **bond prices** and a decline in overall debt sales. Issuance of investment-grade corporate bonds totaled $217 billion in January and February compared with $256 billion in the same period last year, according to data from S&P Global.

Investors and other prospective borrowers were carefully watching CVS's deal to see if the move in rates had affected the market's capacity to finance outsize takeovers.

"There was a lot riding on this deal," said Drew Conrad, a bond trader for Denver Investments, which manages about $4.5 billion of fixed income. "I think if this deal had gone poorly it would have made it harder for some of these large M&A deals to price debt where they wanted."

CVS paid a slightly higher yield on the debt than is common for new bond sales, attracting hefty demand from investors who placed orders worth about $120 billion, or three times the amount of bonds on offer, people familiar with the deal said. The company will also use $4 billion of cash, a $5 billion loan and stock to pay for the buyout, the people said.

"Having a successful offering for CVS was important for paving the way for some other large borrowers," said Dan Mead, a senior banker at Bank of America Corp. who worked on the deal. "The transaction showed there is still depth for large M&A financings in the investment-grade bond market."

After a relatively slow 2017, M&A activity is heating up, with pending deals including United Technologies Corp.'s $23 billion planned purchase of Rockwell Collins and Bayer AG's $57 billion expected acquisition of Monsanto Co.

Falling interest rates around the world in recent years pushed yield-starved investors to shift from government bonds to purchases of global corporate investment-grade bonds, fueling a record $3.32 trillion of issuance in 2017 as companies rushed to take advantage of low rates, according to data from Dealogic. Foreign purchases of corporate bonds slowed this year as the yield on the benchmark **10**-**year Treasury** note rose by roughly half a percentage point. A Bloomberg Barclays index of the debt has declined 2.86% since Jan. 1.

Investors expect yields to remain higher, as the Federal Reserve raises interest rates and U.S. tax cuts combined with the recent budget agreement create more fiscal stimulus for an already-growing economy.

CVS offered buyers of the new debt a higher yield than that on its current bonds to ensure strong participation. CVS priced a new $5 billion bond due in 2025 to yield about 1.45 percentage points more than comparable U.S. Treasury bonds, roughly 0.15 percentage point more than its existing bonds of similar maturity, according to data from MarketAxess.

The company split the $40 billion financing into seven bonds with repayment dates ranging from two years to 30 years. The 30-year portion, which yields 1.95 percentage points more than underlying Treasurys, will remain outstanding even if regulators reject the Aetna purchase, which would force CVS to buy back most of the debt, investors said.

The company hired five investment banks to jointly arrange the sale: Bank of America Corp., Barclays PLC, Goldman Sachs Group Inc., JPMorgan Chase & Co. and yt yt& Co. -- a larger group than normal to manage its size.

Larger investors willing to hold the debt for an extended time received most of the bonds they ordered, but smaller investors received as little as one-quarter of the bonds they asked for, a fund manager and one of the people familiar with the deal said.

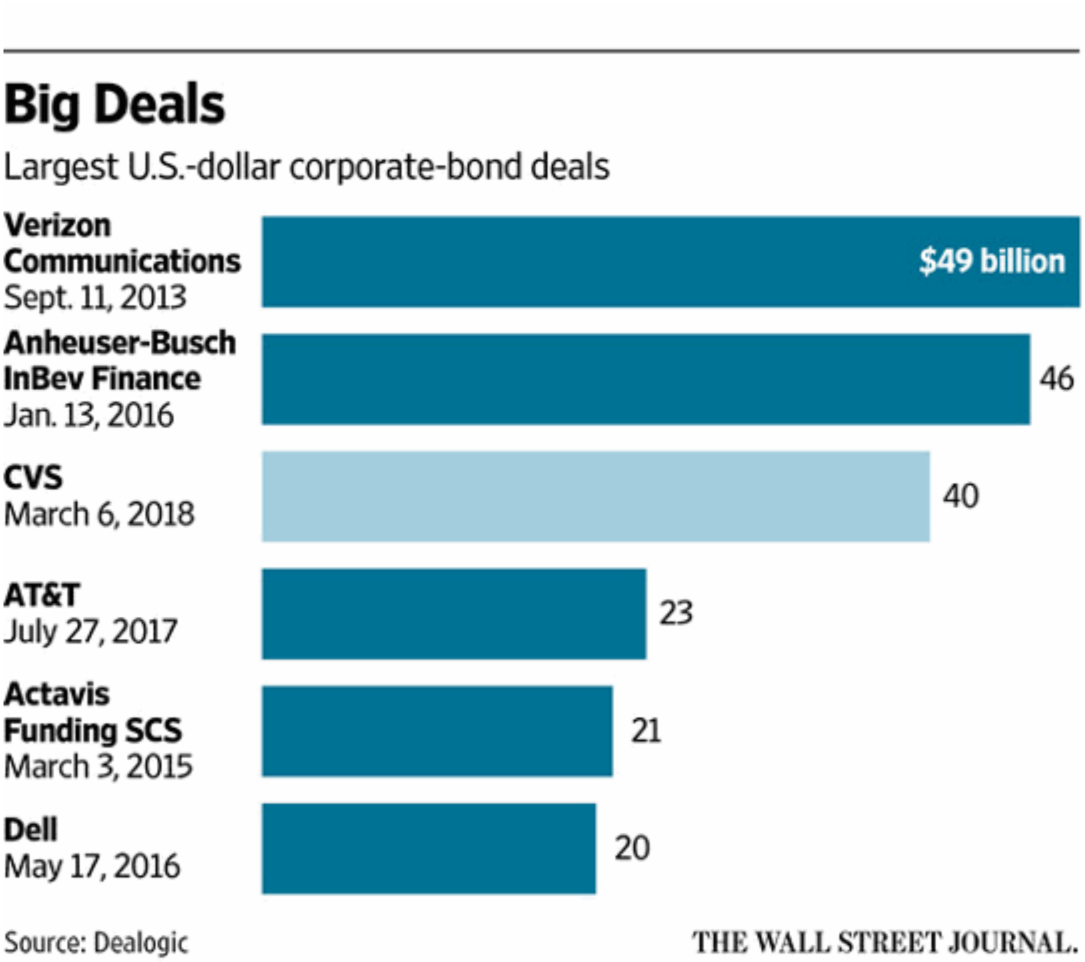
CVS's borrowing for the acquisition would increase its debt load to around 4.7 times earnings before interest, taxes, depreciation and amortization, or Ebitda, from 3.3 times in June, according to Moody's Investors Service Inc.

The company intends to reduce that ratio to around 3.6 within two years by increasing earnings and using excess cash to repay debt, Moody's said.

CVS expects to close the deal in the second half of 2018. Federal authorities reviewing the proposed merger last month asked for more information, pushing back the deadline to rule on the deal. CVS said it anticipated the move and that the process is "progressing as planned." Shareholders for both companies are set to vote on the deal March 20.

CVS shares fell sharply, while Aetna's stock jumped, when The Wall Street Journal first reported the companies were in talks in October. CVS shares are down about 15% from a year ago; Aetna's **stock price** is up nearly 50% in that time.

Sharon Terlep and Daniel Kruger contributed to this article.



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WSJ PRO CENTRAL BANKING

Markets

Yi Gang Picked to Take Helm of People's Bank of China; American-trained economist has pushed for pro-market overhauls

By Lingling Wei
985 words
20 March 2018
12:20 PM
WSJ Pro Central Banking
RSTPROCB
English

Corrections & Amplifications

Yi Gang, the newly appointed governor of the People's Bank of China, taught at Indiana University. An earlier version of this article incorrectly stated that Mr. Yi taught at the University of Indiana. (3/20/18)

BEIJING—President Xi Jinping has picked an American-trained economist known for pushing pro-market overhauls to run the central bank, adding to an economic team strong on proponents of liberalization.

Yi Gang, a long-serving vice governor at the central bank, is being slated to take over from his mentor Zhou Xiaochuan, who has run the People's Bank of China for a decade and a half. Mr. Yi's nomination was approved Monday morning by the nearly 3,000 delegates to the National People's Congress, the rubber-stamp legislature.

The changing of the guard at the central bank is part of a broad reshuffle of government positions following on from a new Communist Party leadership installed last fall. Mr. Xi has seized the opportunity to shape an economic team, which now mostly consists of his trusted allies.

Liu He, the president's top economic adviser and an advocate for making greater use of market forces in the state-directed economy, was promoted Monday to vice premier. Part of Mr. Liu's remit will include oversight of the central bank and other financial regulators, effectively becoming the nation's economic czar.

Chief among the team's priorities is untangling the financial risks that have piled up from debt binges, trying to reinvigorate a lumbering financial sector dominated by big state banks, opening up **financial markets** and preventing trade friction with the U.S. from buffeting the economy.

"Liu and Yi have a shared understanding of the need for **financial market** reforms and liberalization, coupled with more effective regulation," said Eswar Prasad, a Cornell University professor and former China head for the International Monetary Fund.

During his tenure, Mr. Zhou, often along with Mr. Yi, became a champion within the government for market-oriented changes. Even Mr. Zhou, a skilled politician who managed to put off his retirement for five years, has found himself having to reverse some liberalization efforts.

Stock market turmoil in 2015 and 2016 and a weakening yuan caused the leadership to shift course, putting a premium on stability. That necessitated tightening the more open channels for moving money in and out of the country that Mr. Zhou and Mr. Yi had charted.

Today, Chinese banks still lack full autonomy to set loan and deposit rates and the yuan is back under tight government control while businesses as well as individuals face renewed restrictions on taking money out.

When Mr. Xi delivered an ambitious development plan at the Oct. 18 opening of a twice-in-a-decade party congress, he didn't mention freeing up cross-border capital flows. Five years ago, Mr. Xi's predecessor clearly stated that as a policy goal.

Still, senior officials in recent weeks have said Beijing will take more measures to give foreign firms wider access to the nation's financial sector such as insurance. Part of the urgency comes from the Trump administration, which is pressuring China to take immediate actions to address the widening trade imbalance between the two nations.

Mr. Yi, who turns 60 this year, earned a Ph.D. in economics from the University of Illinois and taught for six years at Indiana University. In the past four years, he has been a member of President Xi's economic-advisory group, giving him important party-insider credentials.

His fluent English was also a plus, allowing him, like Mr. Zhou, to discuss policy and hobnob at meetings of the IMF and other major international financial gatherings.

David Loevinger, the U.S. Treasury Department's China coordinator during the first term of the Obama administration, recalls in key meetings with then-Treasury Secretary Timothy Geithner, his counterpart at the time, Vice Premier Wang Qishan, would insist on including Mr. Yi, sometimes in lieu of more senior Chinese officials. (Mr. Wang was named deputy head of state on Saturday.)

"It's clear Chinese leaders respect and depend on Yi's expertise," Mr. Loevinger said.

As central bank governor, Mr. Yi is getting broader powers that include setting guidelines for the banking and insurance sectors, under a government restructuring unveiled last week.

At a press conference last week, on the sidelines of the annual legislative session, Mr. Yi pledged to liberalize China's capital account and to make it easier for foreign firms to invest in China, while doing so cautiously.

"We'll need to prevent risks as we continue to open up" China's markets, Mr. Yi said.

Unlike its Western peers such as the U.S. Federal Reserve, the People's Bank isn't independent and answers to the leadership; the central-bank governor often acts as a top lobbyist of sorts helping shape the nation's financial and economic policy.

The process of replacing Mr. Zhou, now 70, has been several years in the making. In March 2013, Mr. Xi named him to a third term despite Mr. Zhou having passed the retirement age of 65 for senior officials.

A year and a half later, Mr. Xi considered removing Mr. Zhou as he was installing more of his own people in key positions, according to officials with knowledge of the plan at the time. But as China's economy lost steam and global markets questioned Beijing's commitment to market-oriented overhauls, Mr. Xi kept Mr. Zhou on.

The decision paid off: Mr. Zhou spent the following year getting the yuan into the IMF's exclusive reserve-currency club—a much-coveted status for Beijing.

"Zhou is leaving a very big shoe to fill," said Mr. Loevinger, now a managing director at TCW Group, a U.S. asset manager. But Mr. Yi's appointment "would be comforting to global markets."

Write to Lingling Wei at lingling.wei@wsj.com

Heard on the Street

* Can China's New Central Banker Restart Reforms?

Document RSTPROCB20180318ee3i00001

WSJ PRO CENTRAL BANKING

Economy
Draghi Criticizes Proposed U.S. Tariffs as ECB Signals Tighter Policy; European Central Bank drops pledge to accelerate its bond-buying program if the economy deteriorates

By Paul Hannon and Tom Fairless
950 words
8 March 2018
09:58 AM
WSJ Pro Central Banking
RSTPROCB
English

European Central Bank President Mario Draghi said tariffs proposed by President Donald Trump raise questions about the strength of the trans-Atlantic alliance, as the bank signaled a shift toward tighter monetary policy.

Speaking during a news conference Thursday, Mr. Draghi said the immediate impact of the proposed tariffs on steel and aluminum would likely be small, but could be greater if other countries retaliated.

Mr. Draghi said the proposed tariffs added to existing "worry and concern" over the state of international relations, and particularly those between the U.S. and Europe.

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

Mr. Draghi joins a chorus of European officials and U.S. lawmakers to speak out against the tariffs and warn of negative consequences for the global economy. The European Union on Wednesday urged Mr. Trump to rethink the tariffs, challenging U.S. national security claims and threatening to strike back unless the White House reverses course.

In another sign of growing tensions between Europe and the U.S., Mr. Draghi offered a critique of U.S. plans to roll back postcrisis financial rules, which would relax dozens of rules for small to medium-size banks.

"I would flag this in one major risk in the years ahead," he said, adding that the rollback would "repeat the same mistake" legislators made in the years leading up to 2008.

The possibility of an international trade war and a more fragile financial system didn't prevent the ECB from signaling a shift toward tighter monetary policy.

In a policy statement, the ECB dropped a long-held pledge to accelerate its €30 billion ($37 billion) monthly bond-buying program if the region's economy deteriorates. That promise, designed to reassure investors, had been criticized by some ECB officials as excessive given the strength of the bloc's economic recovery.

The move sets the ECB firmly on course to phase out a historic stimulus program that is credited with reinvigorating growth in the 19-nation eurozone but has faced heavy criticism in the bloc's biggest economy, Germany.

Mr. Draghi played down the significance of the move, saying it reflected the pickup in growth since the pledge was introduced at the end of 2016.

"It's essentially a backward-looking decision," he said, stressing that "victory cannot be declared yet" in the central bank's battle to raise the annual rate of inflation.

The euro nudged higher after the policy announcement to trade up 0.1% against the dollar on the day, before losing ground to trade 0.3% lower after Mr. Draghi's press conference.

The decision to drop the pledge was accompanied by new forecasts from the ECB's economists, who now project growth at 2.4% this year, compared with 2.3% when they last released projections in December.

That upgrade indicates that the ECB doesn't expect the threat of a trade conflict with the U.S. to weigh heavily on the eurozone economy this year.

Mr. Trump is expected to sign a decree this week laying out his plan to impose new tariffs on steel and aluminum, sparing both Canada and Mexico. That could happen as soon as Thursday afternoon.

The direct impact of the proposed tariffs is likely to be modest. Economists at UBS calculate that sales of steel account for just 1.4% of eurozone exports to the U.S., or 0.2% of total eurozone exports. However, there is a risk of an escalation that could inflict greater damage.

Investors have been watching closely for signs as to when the Frankfurt-based central bank will phase out its quantitative-easing, or QE, program and start raising interest rates. The timing of that decision will have a large impact on market interest rates and asset prices.

The ECB said in its statement that it will continue to purchase bonds through September, "or beyond if necessary," and that its key interest rates won't rise "for an extended period of time."

The eurozone economy grew at an annualized pace of 2.4% in the fourth quarter of last year, and unemployment is expected to fall to 8% by the end of the year, the lowest level in a decade. Inflation has remained weak, however. It slid to just 1.2% last month, some way from the ECB's target of just below 2%. The ECB's economists cut their inflation forecast for next year to 1.4% from 1.5%, but still see a pickup to 1.7% in 2020.

ECB officials had signaled they could give fresh guidance on the QE program early this year, but analysts had curbed their expectations for Thursday's meeting in recent days, pointing to burgeoning risks in the world economy.

Financial markets have seesawed since the ECB's January policy meeting amid concerns over the retreat of central banks and the risk of global trade wars.

Mr. Draghi also said the ECB is closely monitoring **financial-market volatility** and a recent appreciation of the euro currency, which has risen from $1.06 a year ago.

Write to Paul Hannon at paul.hannon@wsj.com and Tom Fairless at tom.fairless@wsj.com

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THE WALL STREET JOURNAL.

Markets
Investor Who Won Big Betting on Housing Collapse Falters With China Bets; Kyle Bass says 'the subprime market was similar to what is happening in China today'

By Chelsey Dulaney
632 words
23 March 2018
07:00 AM
The Wall Street Journal Online
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English

A decade after the financial crisis, The Wall Street Journal has checked in on dozens of the bankers, government officials, chief executives, hedge-fund managers and others who left a mark on that period to find out what they are doing now. Today, we spotlight former Treasury Department administrator Neel Kashkari and hedge-fund manager Kyle Bass.

Kyle Bass made his name betting on the collapse of the U.S. housing market a decade ago. His latest attempt to profit from what he sees as a speculative bubble—this time in China's economy—has gone less smoothly.

Mr. Bass' Dallas-based hedge fund, Hayman Capital Management LP, was down 19% last year largely due to an unexpected rally by China's yuan that spoiled its bets against the currency.

The fund's worst-ever annual return since its launch in 2006 contrasted with last year's global market surge, as the **S&P 500** gained 19% and emerging-market stocks soared nearly 40%.

The former Bear Stearns executive's struggle with the timing of his bets against the Chinese currency mirrors the predicament many investors faced in the run-up to the housing crisis. While they were convinced the U.S. subprime housing market was on the verge of collapse, they couldn't predict when it would happen.

"All these things were pointing to such crazy and wretched excess that it was bound to blow up," Mr. Bass said in an interview. "The question was, when was it going to break, and what was going to break it."

Mr. Bass, who founded Hayman with $33 million and quickly began amassing bets against subprime mortgages, didn't have to wait long for his payday back then. In 2007, the firm's main fund posted a return of over 200% as the subprime mortgage market began to unravel.

Mr. Bass's subprime bets shot him into investor stardom. But in recent years, he has also been in the spotlight for playing a role in the collapse of Bear Stearns. According to documents released by the National Archives in 2016, Mr. Bass was the source behind a CNBC report that Goldman Sachs Group Inc. had refused to trade with Bear Stearns amid concerns about the firm's liquidity. The report sparked panic among Bear Stearns investors and lenders, leading to the firm's hasty marriage to JPMorgan Chase & Co. just days later.

In the interview, Mr. Bass pushed back against the idea that he helped spark Bear Stearns' downfall, saying he had warned the firm about its exposure to the subprime market in 2006.

"There are those out there who want to shoot the messenger…but I had every reason for Bear Stearns to stay alive," he said.

Hayman's performance has been mixed since then. Bets on Greek debt and the Japanese yen turned out well for the firm, while an ill-timed bet on a recovery in crude **oil prices** weighed on the firm's returns.

In addition to Hayman's bets on China, Mr. Bass said he has also been ramping up **bullish** bets on the economies of Southern Europe.

"The subprime market was similar to what is happening in China today," said Mr. Bass. "China is still a central focus of our fund, but we have also added another regional focus in Southern Europe."

Write to Chelsey Dulaney at Chelsey.Dulaney@wsj.com

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THE WALL STREET JOURNAL.

Markets
Oil Futures Settle Higher; Investors continue to weigh fall in OPEC production versus approaching surge in U.S. shale output

By Alison Sider and Neanda Salvaterra
672 words
16 March 2018
03:49 PM
The Wall Street Journal Online
WSJO
English

Oil futures rose sharply Friday to end the week higher as investors focused on escalating geopolitical risk as President Donald Trump reshuffled his cabinet.

Chatter about the fate of the nuclear deal that allowed Iran to boost its oil production ramped up this week after Mr. Trump fired Secretary of State Rex Tillerson, who had advocated for the U.S. to stick by the agreement even as Mr. Trump has attacked it. Analysts said a return in U.S. sanctions would likely curb foreign investment in Iran's oil sector and could force refineries to buy less of the country's oil.

Comments Thursday by Saudi Arabia's Crown Prince Mohammed bin Salman added fuel to the fire—he indicated that Saudi Arabia would seek to acquire a nuclear bomb if Iran did.

"It creates this geopolitical backdrop," said Mark Benigno, co-director of energy trading at INTL FCStone.

U.S. crude futures turned higher during the day to rise $1.15, or 1.88%, to $62.34 a barrel on the New York Mercantile Exchange Friday. Brent, the global benchmark, rose $1.09, or 1.67%, to $66.21 a barrel on ICE Futures Europe.

Oil prices gained steam throughout the day Friday, breaking through technical levels to lure money managers back into a market that has been rangebound recently, Mr. Benigno said. Options buying late Thursday helped kick-start the rally, he said.

"It's starting to look technically a little better," he said. "Financial players are re-entering from the long side."

The International Energy Agency also bolstered crude on Thursday with data showing that supply from OPEC flagged in February on a drop in production from Venezuela.

The agency also forecast an increase in global oil demand, sufficient to soak up any surplus crude in the market. Military confrontations in Syria also raised expectations of further outages in the Middle East.

Still, some analysts said there are looming risks for **oil prices**.

"The sentiment is still very **bullish**," said Eugen Weinberg, head of commodities research at Commerzbank. "But actually I think the environment is quite bad. It's not only the rising production in the U.S. but also the fact that Saudi Aramco is not going to be listed this year."

Oil-field services firm Baker Hughes a GE Company reported Friday that the number of drilling rigs operating in the U.S. rose by four this week.

Analysts at Bank of America Merrill Lynch said Friday that investors who have amassed massive **bullish** positions on crude prices may be ignoring potential pitfalls, including ramped up hedging by North American producers, a possibly messy unwinding of OPEC's production cut agreement, and the growing risk of a trade war. In addition, the price of crude for April delivery slipped below the price for May delivery this week, which could signal a return to **bearish** price conditions that allow oil to build up in storage.

"With spec shorts already at a 15 year low, the positioning risk to the oil market is that some of the bears wake up from winter hibernation," the analysts said. "If they do, WTI crude **oil prices** could lose $5/bbl within just a few weeks."

Earlier in the week, OPEC said it expects U.S. shale production to rise by 130,000 barrels a day this year.

OPEC and 10 producers outside the oil cartel, including Russia, have been holding back crude output by 1.8 million barrels a day since the start of last year, part of an effort to rein a supply glut and prop up prices.

Gasoline futures rose 2.11 cents, or 1.1% to $1.9459 a gallon. Diesel futures rose 2.52 cents, or 1.34%, to $1.9118 a gallon.

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WSJ PRO CENTRAL BANKING

Economy

Market Volatility, U.S. Trade Rhetoric Threaten ECB's Bond-Buying Plans; Bank needs to see further evidence of inflation improving before proceeding, says Mario Draghi

By Tom Fairless
558 words
14 March 2018
05:39 AM
WSJ Pro Central Banking
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English

FRANKFURT—European Central Bank President Mario Draghi warned Wednesday that the bank isn't yet ready to end its giant bond-buying program, pointing to new threats from a strengthening euro currency and possible trade wars.

The comments indicate that, despite a small step last week toward ending its large monetary stimulus, the ECB is concerned that recent volatility in financial markets and aggressive rhetoric on trade emanating from Washington, could upset its plans.

Speaking at Frankfurt's University, Mr. Draghi said the

ECB is increasingly confident that inflation is picking up in the currency bloc, but warned that officials still needed to see further evidence of that trend. Eurozone inflation slid in February to 1.2% on the year, a 14-month low.

"There is a very clear condition for us to bring [bond] purchases to an end: we need to see a sustained adjustment in the path of inflation towards our aim, which is a headline inflation rate of below, but close to, 2% over the medium term," Mr. Draghi said.

The euro fell about 0.3 cents against the dollar to $1.2370 after Mr. Draghi's comments were published.

Speaking at the same event, the ECB's chief economist Peter Praet struck a similarly cautious note. "It is fair to say that we are still some way short of achieving full and durable convergence of medium-term inflation towards" the ECB's target, Mr. Praet said.

Investors have been watching closely for signs that the ECB will soon phase out its €30 billion ($37.07 billion) a month bond-buying program, known as quantitative easing or QE, which is due to run at least through September. The timing of that decision is important because the ECB has said it would only start raising its key interest rates—which affect a broad range of asset prices—after QE has been phased out.

Top ECB officials have signaled recently that they are considering shifting the focus of their communications away from QE and toward interest-rate hikes, as the region's economy picks up. Economic growth in the region hit 2.5% last year, the fastest pace in a decade, and unemployment is falling, lessening the need for stimulus.

But risks to the economy have mushroomed in recent weeks. Mr. Draghi highlighted two specific concerns: Possible spillovers from import tariffs announced by the U.S. administration last week, and the recent appreciation of the euro currency, which has risen about 5% against the dollar since early December.

While the initial impact of U.S. tariffs on the eurozone economy is likely to be small, there is a risk of retaliation across other goods and an escalation of trade tensions, as well as a dampening effect on business confidence and investment, Mr. Draghi said.

The ECB chief also warned that the euro's recent appreciation reflected factors beyond the region's strengthening economy, which "might weigh on inflation down the line."

The ECB will "remain patient, persistent and prudent," Mr. Draghi said. "It is not because real growth is strong that we can declare the job done."

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Economy

Fedspeak Cheat Sheet | U.S. Trade Rhetoric Threaten ECB's Bond-Buying Plans | Kuroda: Smooth Exit Possible, But Not Just Yet | Poloz: Nafta Worries Already Hurting Investment | Douglas's Take: Benign or Malign? Either Way it Means Higher Rates; The Wall Street Journal's central banking newsletter for Wednesday, March 14, 2018

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Douglas's Take: Benign or Malign? Either Way it Means Higher Rates

Fedspeak Cheat Sheet: What U.S. Central Bank Officials Said Ahead of Their March Meeting

Market Volatility, U.S. Trade Rhetoric Threaten ECB's Bond-Buying Plans

BOJ Gov. Kuroda Says Smooth Exit Possible, But Not Just Yet

Bank of Canada's Poloz Says Nafta Worries Already Hurting Investment

Benign or Malign? Either Way it Means Higher Rates

The Bank of England has signaled it intends to raise borrowing costs in the U.K. modestly over the coming years to bring inflation back to its 2% target and keep it there. Britain's fiscal watchdog on Tuesday described two ways in which the central bank may be forced to raise rates quicker than expected.

One it called "benign" and the other "malign." In the benign scenario, stronger-than-expected growth in the global economy feeds through into faster growth in the U.K. and thereby quicker inflation, requiring a swifter central-bank response.

In the malign scenario, the economy's potential to produce more goods and services proves weaker than predicted thanks to a combination of feeble productivity growth and subdued investment and immigration as a consequence of Brexit. That would also require the BOE to tighten policy to keep inflation in check.

The BOE is expected to keep its benchmark rate on hold when officials conclude this month's policy meeting next week. But economists and investors believe officials could raise the BOE's benchmark rate to 0.75% from its current level of 0.5% as soon as May. Markets indicate that investors expect short-term rates to rise gradually thereafter, reaching around 1.5% by 2023.

To be sure, it is possible to envisage scenarios in which rates rise more slowly than expected, or are even cut again, such as a reversal in the global economy or in the immediate aftermath of a disorderly Brexit. The question for investors is which possibilities, whether benign or malign, they find most convincing.

Key Developments Around the World

Fedspeak Cheat Sheet: What U.S. Central Bank Officials Said Ahead of Their March Meeting

Federal Reserve officials in recent weeks have adopted a modestly more aggressive outlook for interest rate rises this year, indicating most expect they'll move at least three times and possibly more. Several cited recent tax cuts and an increase in federal spending as reasons to expect inflation and economic growth to pick up. They did nothing to dispel expectations they'll raise rates at their meeting March 20-21. Here's a roundup of officials' key comments since their January meeting.

Trump Says He Is ‘Very Strongly' Considering Kudlow to Replace Cohn

President Donald Trump said Tuesday he is "very strongly" considering naming CNBC commentator Lawrence Kudlow to replace Gary Cohn as director of the National Economic Council. Mr. Kudlow's candidacy for the post is notable because the former Wall Street economist has repeatedly and publicly chided Mr. Trump's position on trade. He has also voiced alarm with rising budget deficits, Mr. Trump's apparent preference for a weaker dollar, and the president's desire to use trade deficits as a report card on economic vitality.

Market **Volatility**, U.S. Trade Rhetoric Threaten ECB's Bond-Buying Plans

European Central Bank President Mario Draghi warned Wednesday that the bank isn't yet ready to end its giant bond-buying program, pointing to new threats from a strengthening euro currency and possible trade wars. The comments indicate that, despite a small step last week toward ending its large monetary stimulus, the ECB is concerned that recent **volatility** in **financial markets** and aggressive rhetoric on trade emanating from Washington, could upset its plans.

BOJ Gov. Kuroda Says Smooth Exit Possible, But Not Just Yet

Bank of Japan Gov. Haruhiko Kuroda said Wednesday the bank could unwind its massive easing program without affecting markets, although he said the bank wouldn't make such a move in the near future. "By letting our bondholdings mature or making reinvestment, depending on situations at the time [of an exit], it is possible to shrink our balance sheet, while securing the stability in the markets," Mr. Kuroda said.

BOJ Minutes Show Continued Concern Over Policy Side Effects

Some Bank of Japan policy board members see the need to keep a close eye on the side effects of ultralow interest rates, as the bank continues with its current easing framework, according to minutes from the bank's January meeting. Some members said that it was important to continue "a multifaceted monitoring and assessment of the positive impacts and side effects of the current monetary easing policy—including its effects on the functioning of financial intermediation and the financial system," the minutes released Wednesday showed.

Bank of Canada's Poloz Says Nafta Worries Already Hurting Investment

Some Canadian firms are holding back or channeling investments to their U.S. operations because of uncertainty over the future of the North American Free Trade Agreement, Bank of Canada Gov. Stephen Poloz said Tuesday. Mr. Poloz said it is impossible to know in advance how any changes to Nafta—or its termination—might affect Canada. But he said uncertainty about the trade deal's future is already having an impact on some Canadian firms, which have told the central bank they are either postponing investment plans or focusing any expansions in the U.S. rather than Canada.

Quiche in, Beer Out of U.K.'s Official Inflation Basket

Britons' growing taste for quiche and waning appetite for bottled beer on a night out have been reflected in a regular update to the shopping list used to calculate U.K. inflation. Once a year, the Office for National Statistics compiles a list of around 700 goods and services bought regularly by households to calculate the consumer-prices index, the principal measure of inflation in the U.K. The Bank of England's job is to keep annual inflation as measured by the index at 2%.

Bank Indonesia Sees Stability Returning to Rupiah

The rupiah, which has recently endured a period of depreciation, is expected to return to a place of stability this year, an Indonesian central bank official said Wednesday. "Bank Indonesia has been able to consistently keep the (U.S. dollar) below 13,800 rupiah," said Doddy Zulverdi, the head of central bank's monetary-management department. Mr. Zulverdi declined to give a target fundamental level for the currency.

Quick Hits

Tuesday's U.S. inflation data is seen keeping the Fed on track to raise U.S. interest rates next week without considering more aggressive action, and India's central bank could be more likely to stand pat after inflation there came in weaker than expected. Here are quick hits on central banking and related market views from around the world.

WEDNESDAY

6:45 a.m. EDT

ECB's Constâncio speaks

12:15 p.m. EDT

ECB's Coeuré speaks

THURSDAY

4:30 a.m. EDT

Swiss National Bank releases policy statement

5 a.m. EDT

Norges Bank releases policy statement

11:45 a.m. EDT

ECB's Lautenschläger speaks

The Mortgage Rate Conundrum

Alejandro Justiniano, Giorgio E. Primiceri and Andrea Tambalotti analyze the emergence of a disconnect between mortgage and Treasury interest rates in the summer of 2003 that resulted in easier mortgage credit conditions. The researchers, in a Federal Reserve Bank of New York paper, analyze data with millions of loan-level observations, which reveal that delinquency rates started to rise for loans originated after mid-2003. This is "exactly when mortgage rates disconnected from Treasury yields and credit became relatively cheaper," they note.

When the Fed Wishes for Inflation

"Inflation is dead, at least for now, and that is making life more difficult for the Federal Reserve," writes Justin Lahart in The Wall Street Journal. "By all rights inflation should be accelerating, driven by a tight jobs market strengthening further, a big stimulus hitting the economy and a weak dollar. But it isn't. The Labor Department on Tuesday reported that consumer prices rose 0.2% in February from a month earlier, putting them 2.2% higher than a year ago. Prices excluding food and energy—the so-called core that better reflects inflation's trend—rose 0.2%, leaving them up 1.8% on the year."

Inflation cooled slightly for American consumers last month, keeping the Fed on track to raise short-term interest rates next week, but relieving it of pressure to take more dramatic action to prevent the economy from overheating.

Chief executives of America's largest companies raised their outlook for spending, hiring and sales to the highest level in 15 years in the first quarter following the passage of the U.S. tax overhaul.

Americans over 65 years old will outnumber children in the U.S. by 2035, a first in the nation's history, according to updated projections released by the Census Bureau on Tuesday.

China's economy expanded faster than expected in the first two months of 2018, helped by strong overseas demand for Chinese goods, though economists warned trade tensions with the U.S. threaten to derail that momentum in the months ahead.

U.K. Treasury chief Philip Hammond on Tuesday presented fresh official forecasts for the U.K. economy, showing that growth in 2018 will be modestly higher than predicted late last year.

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

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

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THE WALL STREET JOURNAL.
U.S. EDITION

The Intelligent Investor: Ten Years On, Loss of Trust Still Hangs Over Wall Street

By Jason Zweig
874 words
17 March 2018
The Wall Street Journal
J
B1
English

Of all the losses triggered by the meltdown of Bear Stearns Cos. a decade ago this past week and the crisis that followed, perhaps the biggest was the public's loss of trust in markets themselves.

No wonder so many investors have cowered on the sidelines of the **bull market** for the past nine years. Their faith in the ability of stock pickers to outperform has vaporized, saving for retirement often seems like a lost cause, and speculative temptations like bitcoin and other digital currencies can feel almost irresistible.

"The banks got away a hell of a lot better than millions of Americans who lost their savings and their homes and had to find new jobs," says Lee Hiller, a 76-year-old retired retailing executive who lives in southeast Florida. "I have zero control over the financial engineering and greed that could lead to another crisis. I keep at least 10% of my money in cash because you never know what's going to happen."

In the decade since the Bear Stearns bailout, dozens of readers have emailed, called or written me, all echoing the same belief: Rash and feckless risk-takers got rescued by the government with tax dollars collected from prudent, disciplined savers. While former executives of Wall Street firms that crashed and burned are living lavishly in retirement, the people who bailed them out are earning 0.2% on a savings account.

In the wake of the financial crisis, Main Street views Wall Street as a place where good things happen to bad people and bad things to good people.

That has shattered what psychologists call "belief in a just world," the notion that, on average, we get what we deserve. It is one of several positive illusions, or intuitions including overconfidence, unrealistic optimism and the illusion of control, that give us comfort we can thrive in what would otherwise feel like an unbearably risky and capricious world.

"Evidence that others receive what they deserve confirms that this shared world is just," the psychologists Carolyn Hafer and Alicia Rubel have written. That gives people "the confidence they need to sacrifice immediate pleasures for long-term rewards."

If you can't believe honesty is rewarded and rule-breaking punished, how can you feel comfortable handing your money over to strangers?

"People need to be able to trust something or someone," says Luigi Zingales, a finance professor at the University of Chicago's Booth School of Business. "The less you trust formal institutions and experts, the more you tend to trust your family and friends, or just anybody who sounds right." Is it any surprise then that some investors have gotten wiped out playing wildly risky hunches on market **volatility**?

Experiments have shown that people are much less willing to wait for a reward, and more willing to gamble, when they believe that those who run the system can't be trusted.

And almost nobody thinks justice was served in the wake of the bailouts and failures of 2008 and 2009.

In an online survey conducted in the U.S. and a half-dozen countries in Europe, Asia and Africa during late 2009, nearly 800 people weighed in on whether the financial crisis was a "punishment" for "those who misbehaved." Only 4% strongly agreed, and 7% somewhat agreed, says David Leiser, a professor of economic psychology at Ben-Gurion University of the Negev in Beer Sheva, Israel, who worked on the study.

The latest round of the Financial Trust Index, a survey conducted by the Booth School and Northwestern University's Kellogg School of Management, shows that 31% of investors remain angry or very angry about their economic situation.

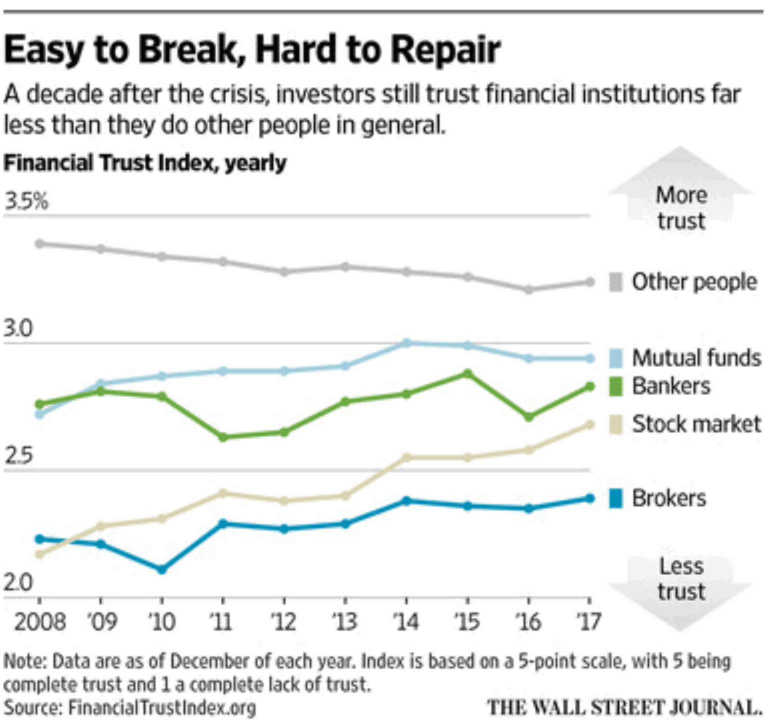
True, that's down from 63% in March 2009 and nearly as high in 2011. "But in order to fully recover trust a lot more still needs to be done," says Joachim Klement, head of investment research at Fidante Partners, an asset-management firm in London.

If financial executives looked back and sincerely took responsibility for what happened, pledged not to violate the trust of investors again, and expressed a willingness to change their conduct to reduce the chances of similar mistakes in the future, that would be a welcome step. As anyone with a spouse or a partner knows, it's never too late to apologize.

Research even suggests the **stock market** prefers companies whose executives sincerely apologize for their mistakes. Incentive pay could be retooled to include rewards for treating investors right and penalties for harming them, Mr. Klement says.

"A fairer fee structure is a very important part of making sure people can trust asset managers and the financial industry," says Inigo Fraser-Jenkins, global quantitative strategist at Sanford Bernstein in London. Fees should be tied to outcomes: Managers shouldn't collect high pay for low performance.

Like fine porcelain, trust is easy to break and hard to repair. In many ways, far too little has changed since Bear Stearns drove the first cracks through the illusion of trust. If Wall Street wanted to do the repair work, however, it could. And everybody would benefit.



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THE WALL STREET JOURNAL.
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The Meaning of Bitcoin's Volatility

By Kevin Warsh
885 words
8 March 2018
The Wall Street Journal
J
A17
English

Bitcoin, despite its name, isn't money. Its price **volatility** significantly diminishes its usefulness as a reliable unit of account or an effective means of payment. Bitcoin might, however, serve as a sustainable store of value, like gold. Even if you're not buying cryptoassets, bitcoin's boom-and-bust cycle is worth watching. It may foretell of heightened market **volatility** to come and significant imbalances across a broad swath of financial assets.

The underlying technology, blockchain, is a significant breakthrough. Bitcoin's computer code was unveiled on Jan. 3, 2009, by the pseudonymous Satoshi Nakamoto. It deftly allows participants, who may not know or trust one another, to complete transactions without having to rely on any centralized governance regime. Most of us can't read the code, but in bitcoin's "genesis block" its creator inserted a curious bit of text, a headline from a U.K. newspaper that day: "Chancellor on brink of second bailout for banks." Bitcoin's founding spirit is evident, too, in what its founder wrote shortly thereafter: "The root problem with conventional currency is all the trust that's required to make it work."

Bitcoin's earliest disciples included technologists and libertarians, along with a few doomsayers who feared catastrophe and currency debasement in the aftermath of the financial crisis. Still, the breadth of interest in cryptocurrencies -- and bitcoin's price -- increased smartly. By Election Day 2016, one bitcoin was worth about $700.

Then last year, buyer interest in bitcoin exploded. As the price kept climbing -- past $2,000, then $5,000, then $10,000 -- the innovators were followed by imitators. Everyone from Uber drivers to grandmothers wanted in on the action. So did Wall Street pros, in pursuit of new assets under management. The price finally peaked at nearly $20,000 in December.

What caused the bitcoin fever of 2017? Euphoria is a part of the human condition, but also important were the changing contours of the global economy and economic policy.

First, the election of President Trump reinvigorated animal spirits. Investors and CEOs began to expect pro-growth changes in regulatory and tax policy. The outlook for economic growth, both in the U.S. and abroad, improved markedly. The Fed raised short-term interest rates four times between Election Day and the end of 2017. But broader financial conditions -- including the all-in cost and availability of credit across **financial markets** -- were looser nonetheless.

This economic backdrop made bitcoin and other alt-currencies look like a one-way bet. If loose financial conditions continued, risk assets like stocks and newfangled cryptocurrencies would be bid up. If stronger growth brought higher inflation, causing the Fed to raise rates faster than expected, then bitcoin would be a haven from the **volatility** affecting other financial assets.

Second, investors, while decidedly upbeat overall, worried that the Trump administration's trade policy might include a sustained bout of mercantilism, including dollar devaluation aimed at bolstering American exports in the short term. Administration authorities suggested a preference for a weaker dollar. And markets obeyed: The dollar lost 12% of its value against a trade-weighted basket of foreign currencies during 2017. Investors looking for another store of value found bitcoin and other cryptocurrencies, whose prices escalated accordingly.

Third, trust in institutions plummeted amid the 2016 election. The Edelman Trust Barometer, a survey conducted in October and November, reported that in the U.S. "trust has suffered the largest-ever-recorded drop in the survey's history." The trend was driven "by a staggering lack of faith in government, which fell 14 points to 33 percent among the general population." Another boost to cryptocurrencies.

The euphoria dissipated somewhat earlier this year. Two-way **volatility** jumped. Bitcoin dropped more than half from its December peak, before recovering somewhat in the past month to about $10,000. The other largest alt-currencies traded similarly. Investors are now recalibrating their expectations of government policy. Mr. Trump's mercantilist rhetoric may prove more than a negotiating tactic, auguring new tariffs and trade restrictions the world over. Economic isolationism would do great harm to our economic growth prospects. The Treasury should understand, too, that denigrating the world's reserve currency is particularly ill-advised.

Jerome Powell, the new Fed chairman, might cause the institution to think anew about how best to conduct monetary policy. The Fed might also prudently consider introducing its own digital currency to gain the benefits of innovation without sanctioning the illicit behavior that bitcoin and its brethren have attracted. Most cryptocurrencies on the market today will turn out to be worthless. But a new generation of cryptocurrencies is on the horizon, some of which might possess more of the attributes of money, better satisfying bitcoin's founding purpose.

Bitcoin is particularly sensitive to new uncertainties in the conduct of economic policy. Bitcoin's surge in **volatility** in December and January thus presaged the past month's **volatility** in more traditional and consequential financial assets, including stocks, bonds and credit. When the tide goes out, the excesses in other financial asset classes will be more apparent. And bitcoin may well have shown the way.

Mr. Warsh, a former member of the Federal Reserve Board, is a distinguished visiting fellow in economics at Stanford University's Hoover Institution.

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The Meaning of Bitcoin's Volatility

By Kevin Warsh
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8 March 2018
The Wall Street Journal
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English

Bitcoin, despite its name, isn't money. Its price **volatility** significantly diminishes its usefulness as a reliable unit of account or an effective means of payment. Bitcoin might, however, serve as a sustainable store of value, like gold. Even if you're not buying cryptoassets, bitcoin's boom-and-bust cycle is worth watching. It may foretell of heightened market **volatility** to come and significant imbalances across a broad swath of financial assets.

The underlying technology, blockchain, is a significant breakthrough. Bitcoin's computer code was unveiled on Jan. 3, 2009, by the pseudonymous Satoshi Nakamoto. It deftly allows participants, who may not know or trust one another, to complete transactions without having to rely on any centralized governance regime. Most of us can't read the code, but in bitcoin's "genesis block" its creator inserted a curious bit of text, a headline from a U.K. newspaper that day: "Chancellor on brink of second bailout for banks." Bitcoin's founding spirit is evident, too, in what its founder wrote shortly thereafter: "The root problem with conventional currency is all the trust that's required to make it work."

Bitcoin's earliest disciples included technologists and libertarians, along with a few doomsayers who feared catastrophe and currency debasement in the aftermath of the financial crisis. Still, the breadth of interest in cryptocurrencies -- and bitcoin's price -- increased smartly. By Election Day 2016, one bitcoin was worth about $700.

Then last year, buyer interest in bitcoin exploded. As the price kept climbing -- past $2,000, then $5,000, then $10,000 -- the innovators were followed by imitators. Everyone from Uber drivers to grandmothers wanted in on the action. So did Wall Street pros, in pursuit of new assets under management. The price finally peaked at nearly $20,000 in December.

What caused the bitcoin fever of 2017? Euphoria is a part of the human condition, but also important were the changing contours of the global economy and economic policy.

First, the election of President Trump reinvigorated animal spirits. Investors and CEOs began to expect pro-growth changes in regulatory and tax policy. The outlook for economic growth, both in the U.S. and abroad, improved markedly. The Fed raised short-term interest rates four times between Election Day and the end of 2017. But broader financial conditions -- including the all-in cost and availability of credit across **financial markets** -- were looser nonetheless.

This economic backdrop made bitcoin and other alt-currencies look like a one-way bet. If loose financial conditions continued, risk assets like stocks and newfangled cryptocurrencies would be bid up. If stronger growth brought higher inflation, causing the Fed to raise rates faster than expected, then bitcoin would be a haven from the **volatility** affecting other financial assets.

Second, investors, while decidedly upbeat overall, worried that the Trump administration's trade policy might include a sustained bout of mercantilism, including dollar devaluation aimed at bolstering American exports in the short term. Administration authorities suggested a preference for a weaker dollar. And markets obeyed: The dollar lost 12% of its value against a trade-weighted basket of foreign currencies during 2017. Investors looking for another store of value found bitcoin and other cryptocurrencies, whose prices escalated accordingly.

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(See related letter: "Letters to the Editor: Cryptocurrency: Does Fed Want to Imitate Venezuela?" -- WSJ March 15, 2018)

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WSJ PRO CENTRAL BANKING

Economy

Kashkari Urges Patience | Powell Set to Testify| BOJ's Kataoka Says More Easing Needed | Bank of Mexico Keeps Outlook Unchanged | Timiraos's Take: If Powell's Outlook Has Improved, Do the Dots Matter As Much? The Wall Street Journal's central banking newsletter for Thursday, March 1, 2018

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Timiraos's Take: If Powell's Outlook Has Improved, Do the Dots Matter As Much?

Minneapolis Fed's Kashkari Urges Patience in Raising Rates

Powell Set to Testify Before Senate Panel on Interest Rates, Growth Outlook

BOJ's Kataoka Says More Easing Needed to Get Firms to Raise Prices

Bank of Mexico Keeps Growth, Inflation Outlook Unchanged

If Powell's Outlook Has Improved, Do the Dots Matter As Much?

Fed Chairman Jerome Powell returns to Capitol Hill Thursday for his second day of testimony, this time before the Senate Banking Committee.

The big question for market participants is whether he'll amplify on how much his bullishness about the U.S. economy translates into hawkishness for monetary policy this year and next.

Out of three hours of testimony Tuesday, most of the market reaction to Mr. Powell's remarks centered on these brief comments: his "personal outlook for the economy has strengthened since December," he said in response to a question about whether Fed officials might raise rates four times this year, rather than the three they projected at the December meeting.

Why did this line generate so much attention? After all, Mr. Powell went on to simply state basic facts about incoming economic data and policy changes since December.

But this was nevertheless the only tidbit that hinted at the direction of the central bank's leanings. Mr. Powell offered a frank and straightforward assessment from a Fed leader whom investors are trying to figure out.

Second, Mr. Powell proceeded to identify only positive developments to the growth outlook. There were no offsetting negatives.

Finally, in revealing his own personal outlook, he tipped his hand in a way that may make the committee's projections of interest rates, the so-called dot plot, less revealing.

It is one thing for Mr. Powell to offer up his personal outlook when he's one of several Fed governors. It means something else to offer it when you're the Fed chairman.

Fed watchers and bond investors spend an inordinate amount of time trying to guess how many rate increases the median "dot" will project in these quarterly economic projections.

Mr. Powell said Tuesday he didn't want to prejudge what those submissions might look like. But if investors know what the new Fed chair thinks about the economy—and he just told them his personal outlook had strengthened—it could moot the whole exercise around the dots.

The Fed chairman often gets his or her way. Whether the dot projections show four rate increases in March or June may be more of a formality if the chair has revised up his outlook.

Key Developments Around the World

Minneapolis Fed's Kashkari Urges Patience in Raising Rates

Minneapolis Fed President Neel Kashkari said Wednesday the central bank can afford to be patient before raising short-term interest rates again. The U.S. central bank is likely to raise its benchmark federal-funds rate at its next meeting in March, but Mr. Kashkari said the central bank doesn't need to rush in the absence of clearer evidence of stronger inflation. "We should allow the wage growth to build, the inflation to build, and then we can respond, and we will," he said at an event hosted by the Brookings Institution's Hamilton Project.

WSJ Pro Transcript: Jerome Powell Fields Questions at House Panel Hearing

Federal Reserve Chairman Jerome Powell testified before the House Financial Services Committee on Tuesday, Feb. 27, 2018, his first appearance on Capitol Hill since becoming the U.S. central bank chief. He spoke for more than three hours, fielding questions on the economy, monetary policy and financial regulations. Here is a transcript of the hearing, lightly edited for clarity and length. It begins after Mr. Powell read his prepared remarks, which are posted on the Fed's website.

Powell Set to Testify Before Senate Panel on Interest Rates, Growth Outlook

Federal Reserve Chairman Jerome Powell returns to Capitol Hill on Thursday for a second day of testimony, with investors eager for more on whether his **bullish** view of the U.S. economy might translate into a more aggressive approach to raising interest rates this year and beyond. Stocks and bonds sold off Tuesday after he told the House Financial Services Committee the Fed remains on track to gradually lift rates this year and hinted it might pick up the pace as the economy gains momentum.

Senate Readies Rollback of Bank Rules

The Senate is expected this month to approve the most significant rollback of postcrisis financial rules since Republicans took control of Washington last year. The bipartisan legislation, supported by the Trump administration and top Federal Reserve officials, would relax dozens of rules for small to medium-size banks, shaking up the banking sector with policy changes that could encourage deal-making and make it easier for banks to expand.

BOJ's Kataoka Says More Easing Needed to Get Firms to Raise Prices

Bank of Japan policy board member Goushi Kataoka said Thursday the bank's current easing program isn't powerful enough to encourage companies to raise prices, calling for further cuts in longer-term yields. "I believe that further monetary easing is necessary to achieve the price stability target at an early stage," said Mr. Kataoka, who joined the nine-member board last July and has become its most prominent dove. Mr. Kataoka said the possibility of achieving 2% inflation by March 2020—as the bank forecasts—is low.

Bank of Mexico Keeps Growth, Inflation Outlook Unchanged

The Bank of Mexicostuck to its estimates for growth and inflation Wednesday in its latest update on the economy, seeing risks from the renegotiation of the North American Free Trade Agreement and Mexico's July presidential elections. The central bank expects gross domestic product to expand between 2% and 3% this year, and between 2.2% and 3.2% in 2019. "Although external demand could be favored by improved expectations for growth in U.S. industrial production and global trade, the uncertainty that prevails, especially over the terms of Mexico's trade relations with North America, could continue to have an adverse effect on investment in the country," the central bank said in its quarterly report.

Iran Grapples With a **Volatile** Currency

Volatility in Iran's currency is disrupting trade and creating new challenges for an embattled president after antigovernment protests rocked the country. The extreme swings in the Iranian rial have frustrated some investors and prompted a central-bank intervention to ward off turmoil, as economic concerns stir unrest and the nuclear pact that returned Iran to the global financial system is in jeopardy.

Quick Hits: New York Fed to Launch New Reference Rates in April

The New York Fed will start publishing new reference rates in April, a Daiwa Securities economist played down the significance of Bank of Japan Gov. Haruhiko Kuroda's comments about policy normalization, and Natixis praised the nominee to be the next Bank Indonesia leader. Here are quick hits on central banking and related market views from around the world.

Thursday

8:30 a.m. EST

U.S. Commerce Department releases January PCE inflation reading

10 a.m. EST

Fed's Powell speaks

11 a.m. EST

New York Fed's Dudley speaks

Friday

3:10 a.m. EST

ECB's Mersch speaks at finance forum in Prague

5 a.m. EST

Bank of England's Carney speaks at Scottish Economics Conference in Edinburgh

Cleveland Fed Research Sheds New Light on Post-Crisis Banking Concern

New Federal Reserve Bank of Cleveland research from economists Edward Simpson Prescott and Douglas Davis studies the impact of different triggers for the conversion of debt-to-equity in contingent convertible capital bonds. "Our findings suggest that the mechanism to be preferred depends on the extent to which conversion dilutes equity, information that should be useful to those who design these securities," the authors report.

Greg Ip: Why an Unpleasant Inflation Surprise Could Be Coming

"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," writes Greg Ip in The Wall Street Journal."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."

Powell Brings His Own Style in Capitol Hill Debut

The new Fed chairman didn't stand on formality like his predecessors. The question is whether that signals something about policy, writes Daniel Moss in Bloomberg View. "It is possible to over-emphasize seemingly little things. In all, it was a polished performance. If opening-night nerves were there, Powell kept them hidden. Here's hoping his aplomb reflects the confidence of the Fed, and it isn't really all about him."

U.S. economic growth was slightly weaker than initially thought during the fourth quarter and may be cooling a bit in the first quarter as well.

Colorado and Utah led the nation in the rate of job growth last year, according to new Labor Department data. And they did it by bringing in workers from out of state and outside the labor force.

Activity in China's factories expanded at a slightly faster rate in February, according to a private gauge, in contrast with official data that showed a sharp cooling of growth in manufacturing activity.

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WSJ PRO FINANCIAL REGULATION

Markets

New Chief for Equifax | CME Offers to Buy NEX | Deng's Take: China's Financial Regulatory Troika; The Wall Street Journal's financial regulation newsletter for Thursday, March 29, 2018.

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WSJ Pro Financial Regulation
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English

Deng's Take: China's Financial Regulatory Troika

Equifax Taps Former GE Executive Begor as CEO

CME Makes an Offer to Buy NEX for $5.4 Billion

Analysis: Banking System Alarm Bell That Doesn't Signal Danger

Oregon's Retirement-Savings Plan Settles Legal Challenge on Employer Certification

China's Financial Regulatory Troika

China's newly appointed financial regulatory leaders face a host of challenges, from reining in risky financial practices to coordinating a plan to slow debt growth in the broader economy.

Beijing envisions the officials tackling the multitude of tasks together. At least, that's the plan.

In recent days, China picked reform-minded Guo Shuqing to be party secretary of the People's Bank of China, working alongside Yi Gang, the central bank's new governor. Liu He, the president's top economic adviser, was promoted to vice premier, in charge of coordinating the work of the central bank and other financial regulators.

Mr. Guo's appointment to head the newly combined banking and insurance regulatory commission was expected, but his elevation to the central bank was not. In Chinese organizations, the role of party secretary is regarded as the most powerful. Some China watchers are concerned that Mr. Guo's role at the bank could hamper Mr. Yi's ability to direct monetary and exchange-rate policy.

Still, there is logic to the unusual arrangement. While Mr. Guo will effectively outrank Mr. Yi, many analysts believe he was put at the PBOC to coordinate regulation and reform. Beijing recently put the central bank in charge of writing banking and insurance regulation, a role previously held by two entities that have now been merged.

Andrew Polk, an economist at Trivium, says China has "a powerful team to lead the financial derisking." He says "Liu He is the strategist, Yi Gang is the implementer, and Guo is the enforcer."

Mr. Yi is expected to take on a bigger role on the global stage than his predecessor as more foreign investors scrutinize the Chinese economy. He is fluent in English and has experience engaging with Western institutions.

His first public speech as governor was at an annual weekend forum in Beijing attended by foreign executives. Mr. Yi said the main three tasks for China's financial system are implementing sound monetary policy, promoting reform and preventing financial risks.

By contrast, Mr. Guo's career has been domestically focused: He worked his way up through stints at the financial regulators and local government.

With China's financial leadership in place and key legislative meetings wrapped up in Beijing, analysts are expecting further cues on the direction of regulation soon.

China watchers have high hopes. Among the officials' first tasks: implementing new regulations for asset-management products aimed at addressing hidden debt across the financial sector.

A report Wednesday by the official Xinhua News Agency said President Xi Jinping had given the green-light, leaving the task of implementation up to his underlings.

Key Developments in Washington, on Wall Street, and Beyond

Equifax Taps Former GE Executive Begor as CEO

Equifax Inc. has appointed former General Electric Co. executive Mark Begor as chief executive, the second change to the position since the credit-reporting company disclosed a massive cyberattack in September.

Mr. Begor will succeed Paulino do Rego Barros Jr. on April 16, ending the tenure of the interim chief who took over several weeks after the hack was disclosed last year. The move comes after a monthslong search process that began shortly after Mr. Barros took over from Richard Smith, the company's longtime chief, who retired in the wake of the breach.

Mr. Begor, 59, touted his experience turning around two embattled GE divisions as preparing him for the new role. The executive is currently a managing director in the industrial and business-services group at private-equity firm Warburg Pincus LLC. He is also a board member at Fair Isaac Corp., the creator of the credit scores used in most U.S. consumer lending decisions.

CME Makes an Offer to Buy NEX for $5.4 Billion

CME Group Inc. offered to buy U.K. financial-technology company NEX Group PLC, a deal that would put the Chicago futures-exchange giant in a commanding position in the vast market for U.S. government debt.

NEX said Wednesday that it had received a nonbinding takeover offer of £10 a share, the equivalent of $14.08. That would value the London-based company at about $5.4 billion.

NEX said discussions were at an "advanced stage." There is no certainty as to whether an offer will be made, or what the terms of an offer would be, NEX said.

Analysis: Banking System Alarm Bell That Doesn't Signal Danger

A crisis-era red light is flashing and provoking old fears about banks. But the world has changed a lot since 2008: this signal no longer means banks are struggling to find cash.

Libor, a measure of how much banks charge to lend to each other, has seen a sharp rise over recent week. It is the rate that shot-up during the crisis when a complete failure of trust between banks froze the money markets. It is the rate that found infamy when banks were shown to have been manipulating it too.

However, there are several prongs to Libor's recent rise: one is underlying interest rate raises; another is an expected flood of U.S. treasury-bill selling.

Oregon's Retirement-Savings Plan Settles Legal Challenge on Employer Certification

An employee-benefits trade group has settled a lawsuit against OregonSaves, the nation's first state-sponsored retirement-savings plan, in an agreement that could make big companies less likely to oppose such plans.

The settlement provides a way for some large employers to prove that their employees are already covered under a retirement-savings plan without having to file with the state. The group that brought the suit says it hopes that, with many other states moving to enact retirement-savings plans of their own, the settlement may serve as a model.

U.S. Faces Fight in Efforts to Seize $250 Million Yacht tied to 1MDB Scandal

A potentially prolonged custody battle is unfolding over a $250 million yacht allegedly connected to the 1MDB global scandal, with lawyers moving on multiple fronts to block the U.S. from seizing the boat.

The moves could upend a U.S. win against a Malaysian financier the Justice Department alleges is a central player in a $4.5 billion scandal that has spawned investigations in several nations.

Last month, Indonesian police seized the 300-foot Equanimity, acting on the request of the Federal Bureau of Investigation, who had sought the vessel for months. The U.S. has asserted in court filings that U.S. laws were broken in the larger 1MDB case, and that gives it rights to seize assets. The Justice Department had hoped to quickly transport the boat to the U.S. to sell, but a legal challenge to invalidate the seizure has been launched by Indonesian lawyers representing a claimant to the Equanimity in the Indonesian court system.

WSJ Pro: China Approves Asset Management Regulations

Beijing is adopting asset management rules to tackle banks' off-the-books lending, part of a broader campaign to address the nation's debt woes.

President Xi Jinping approved draft regulations that increase the capital financial institutions must set aside for issuing asset management products, according to official Xinhua News Agency Wednesday,

A draft released last year aimed to untangle the relationship between banks and nonbank lenders known as shadow banks that the government sees as laden with risk. Its approval had been anticipated, although commercial banks had been pushing back, asking for longer grace periods.

Trial Begins for Anbang Insurance's Once-Highflying Founder

Anbang Insurance Group Co. founder Wu Xiaohui went on trial Wednesday, a month after Chinese authorities formally seized the once highly-acquisitive insurer.

The Shanghai No. 1 Intermediate People's Court said proceedings had opened against Mr. Wu, on allegations of over $10 billion worth of fraudulent fundraising and abusing his power. Those charges were handed up in February, the same day the insurance industry's regulatory body said it had seized control of Anbang.

Former Anbang Chairman Expresses Remorse at Fraud Trial

Is the **Bear Market** Here Yet?

While investors remain eager to squeeze every last dollar out of the **bull market**, increasingly they are worried that they will stay in too long.

That has left many investors watching for signs of a larger pullback. The potential signals include everything from stocks' price/earnings ratios to the gap between short- and long-term bond yields. One measure of those indicators suggests investors' jitters may still be a bit premature.

Late last year, analysts at Bank of America Merrill Lynch compiled a set of 19 indicators that have preceded past bear markets, which are unofficially defined as a 20% retreat from the most recent peak. Right now, those signposts suggest that the risk of a downturn is rising but that a reversal isn't imminent.

In the past, bear markets were on the horizon when 80% of those signals—which include rising interest rates, growing consumer confidence, tightening credit conditions and surging market **volatility**—have been triggered. Right now, 13 of the 19 indicators have been tripped. Several others, such as a narrowing gap between short-term and long-term bond yields, a condition known as a flattening of the yield curve, are inching closer.

Wednesday, April 4

2 p.m.

Georgetown University and Banco Santander, the eurozone's largest bank, host a panel discussion on the global challenges associated with bringing underserved populations into the financial system.

Thursday, April 5

10 a.m.

The Commodity Futures Trading Commission's Agricultural Advisory Committee holds a public meeting in Overland Park, Kansas, ahead of a two-day agricultural commodity futures conference.

Adjustable-Rate Mortgages Better Than Fixed-Rate During a Crisis

Adjustable-rate mortgages are more beneficial for borrowers and the housing market during a financial crisis than fixed-rate mortgages, according to a paper by Adam Guren of Boston University and Timothy McQuade and

Arvind Krishnamurthy of Stanford University. Comparing the two types of mortgages in a market scenario similar to the 2008 crisis, the researchers found that with adjustable-rate mortgages, house prices fell less and fewer households defaulted. The lower default rate "short-circuits the equilibrium price-default spiral and leads to a less-severe housing crisis," they write.

Warren: GOP Silent as Mulvaney Overhauls CFPB

The Consumer Financial Protection Bureau's acting director, Mick Mulvaney, has turned the CFPB "into the politicized rogue agency he accused it of being before"—and Republican lawmakers have remained silent, Sen. Elizabeth Warren (D., Mass.) writes in a Wall Street Journal opinion column. "This turnabout shows Republicans never really cared about accountability. They only wanted the agency to be less effective at stopping financial firms from cheating people," Ms. Warren writes. Other than its director, a political appointee, CFPB employees are supposed to be hired on merit, but Mr. Mulvaney has "sought special authority to hire political allies to oversee the bureau's divisions," she says. He also killed the CFPB's payday rule, she writes, "even though he was legally required to provide a detailed justification for his decision." Ms. Warren vows to "use every tool available to me to make sure the CFPB follows the law and stands up for consumers."

Blockchain Could Help Streamline the Mortgage Process

Blockchain technology has been increasingly used for land registration, a move that could help speed the delivery and ensure the accuracy of documents needed for mortgage financing, Michael Reyen of the Hodgson Russ law firm writes in an opinion piece for American Banker. Distributed-ledger technology could allow government officials to transfer property records more quickly and securely, he says. "The process could also decrease reliance on title insurance by offering a more easily accessible title record that combines information from multiple government offices—and it would allow for less localized record keeping," he writes.

Deutsche Bank AG's chief executive, John Cryan, told employees he is "absolutely committed" to serving the bank, in a memo posted to the lender's public website a day after reports that its chairman has sounded out potential CEO candidates from outside the bank.

Buyout shop Silver Lake is purchasing a roughly $500 million stake in Credit Karma Inc. in a deal that makes the company behind the popular personal-finance portal one of the most highly valued in the financial-technology sector.

The U.K. will re-evaluate hundreds of visas granted to Russian millionaires under a program for wealthy foreign investors, as the government faces pressure to crack down on Russian money after the poisoning of an ex-double agent.

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THE WALL STREET JOURNAL.

Markets

Confused? You Should Be, and the Fed Too; The economy might be less strong than central bankers think, or it might be strong but create less inflation

By James Mackintosh
845 words
19 March 2018
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The Wall Street Journal Online
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English

It is time to think about Fed mistakes.

New Federal Reserve Chairman Jerome Powellset out his thinking to Congress at the start of this month: a tight jobs market, strong economic data, expansion around the world and President Donald Trump's tax cuts all supported the idea that, as fellow Fed governor Lael Brainardput it, headwinds have shifted to tailwinds.

The first three reasons have all been questioned since Mr. Powell and Ms. Brainard spoke. Could the Fed's turn to higher rates be a miscalculation?

I continue to think the Fed would be right to tighten, and raise rates more this year than the three times priced as most likely by futures markets. But I'm less sure than I was, and investors are right to be a bit more cautious. A mistaken extra rate rise or two probably wouldn't register as the kind of epic Fed error that causes a recession, but if the Fed gets it wrong and has to reverse course, a lot of investors who have bet on rising rates would lose out.

The Fed could be mistaken in two ways. The economy might be less strong than central bankers think, or it might be strong but create less inflation. Evidence for both views has been coming through this month.

Start with the latest payroll figures, published a week after Mr. Powell's testimony. The data were robust, with 313,000 new jobs created. But they also showed that the strong jobs market was encouraging more people to look for jobs—with the civilian labor force increasing by 806,000. More people trying to find a job should damp wage pressures and mean less need for rate increases. If this pattern is a mark of things to come, it means the "Goldilocks" economy—not too hot, not too cold—can continue, putting a lid on bond yields.

The U.S. economy is sending mixed messages, though. Lots of jobs were created, but surprisingly weak retail sales and housing reports have prompted economists to downgrade forecasts for first-quarter GDP growth. When Mr. Powell gave his optimistic outlook to Congress, the Atlanta Fed's "nowcast" of first-quarter GDP was running above 3% annualized. It is now just 1.8%, having briefly been above 5% in January.

A broader model run by the New York Fed is more positive, at 2.73%, but also the weakest it has been this year, down from 3.45% in January.

Jan Hatzius, chief economist at Goldman Sachs, says a weak first-quarter GDP number wouldn't be too troubling. There are longstanding issues with seasonal adjustment in the first quarter, and he thinks recent efforts haven't fully resolved the tendency of the figures to be depressed compared with the rest of the year. More important, other measures that aren't used in GDP calculations, such as industrial and small-business surveys and job figures, have been far stronger.

"People put a lot of weight on GDP, and often too much," he says. "I don't think it's the be-all-and-end-all of economic indicators."

Still, the synchronized global growth that made everyone so positive earlier this year is showing signs of strain. Economic data have been coming in well below forecasts in the eurozone, with industrial production and inflation disappointing, and the "soft" survey data also worse than expected. It is no catastrophe, but forecasters were too optimistic about the pace of improvement.

A similar message is coming from the commodity markets. Industrial metals prices have fallen this year, after a big run-up last year, supporting the idea that investors were overoptimistic about economic growth and global demand.

None of this is likely to bother the Fed too much, especially with tax cuts in place and bigger budget deficits on the way. Traders are pricing a 94% chance of a 0.25 percentage-point rate rise at its meeting on Wednesday. The core prediction remains three rises this year, but traders see the Fed's hawkish tilt and the probability of four or more increases reached 36% on Friday for the first time, according to CME Group.

Bond investors are more cautious, with the 10-year **U**.**S**. **Treasuryyield** briefly dipping below 2.8% on Wednesday, down from 2.96% in February. The big bets on rising yields would go badly awry if the U.S. and global economies are indeed slowing, and the Fed has to reverse course, or if a bigger workforce brings less wage pressure.

These issues are probably just temporary. But at a time when investors are trying to decide whether the economy is shifting to a phase of faster growth and whether it could be sustained or lead to recession in a year or two, they add unwelcome confusion.

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THE WALL STREET JOURNAL.

Business World
Opinion
Reagan Protectionism vs. Trump Protectionism; In every way, the Gipper saw a bigger picture even when he pursued unseemly trade policies.

By Holman W. Jenkins, Jr.
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Ronald Reagan was the protectionist Donald Trump might want to be, yet didn't provoke market panic or a trade war.

Reagan slapped import quotas on cars, motorcycles, forklifts, memory chips, color TVs, machine tools, textiles, steel, Canadian lumber and mushrooms. There was no market meltdown. Donald Trump hit foreign steel and aluminum, and the **Dow Jones Industrial Average** fell more than 600 points on Thursday and Friday.

Reagan was no genius administrator (Herbert Hoover was) so that's not the difference. Though he promised Michigan auto workers help with Japanese imports and was grateful when they voted for him, he never kidded himself that America's problems were somebody else's fault rather than homegrown.

Trade was less important in those days, before China's rise and the globalization of the world's assembly line, but that wasn't the reason either. The 1987 crash proved soon enough that investors were ready to panic if trade partners (Germany and the U.S.) got into a serious tiff.

The real difference is that Reagan's protectionist devices were negotiated. They were acts of cartel creation, not unlike the cartels that have been known to spring up illegally when industries under strain seek to preserve capacity while avoiding price wars. Mr. Reagan used quotas, not tariffs. He kept the peace by inviting America's trade partners to share in excess profits at the expense of American consumers. (Recall that one upshot was a nationwide bribery-and-kickback scandal when Honda Accords were in short supply.)

This was unattractive but it wasn't a disaster, and Reagan's protectionism quickly fell away when a global upswing began.

Mr. Trump, who had no experience in public office, seemed to strike a plausible bargain with his appointees. You advance a conventional pro-business agenda. Leave the show to me. That's actually worked, sort of. Mr. Trump is the worst president ever, except by the results. The economy is strong. Wages are finally up. Business and consumer confidence is high. The **stock market** boomed for his first 12 months in office. The GOP tax law represented real progress on a self-defeating problem recognized by both parties, even by President Obama.

The U.S. auto sector is a microcosm, freer to make rational decisions about which cars to build and how to price them without extreme Obama fuel-economy targets hanging overhead. These cars, in turn, can be economically built in U.S. factories with U.S. labor. Witness Fiat Chrysler's decision to shift its supersize Ram pickups from Mexico to Michigan.

Months after it became commonplace in the rest of the country, even the New York Times was obliged to note a resurgence of business confidence on its front page.

There are many ways to characterize what went wrong in America during the Obama years. We would highlight the phrase "last hired, first fired." The Obama recovery never gave us those successive quarters of booming growth that make employers desperate enough to hire the low-skilled and uncredentialed, and invest to train them or suffer while they learn on the job. The former factory worker who never managed a restaurant before wasn't put in charge of a bunch of teenagers and told to do the best he can.

A decade of that not happening is the difference between the Obama recovery and the recoveries that went before.

Alas, even a president who can't do much can still start a trade war, thanks to so-called delegated unilateral powers that since the 1970s have allowed presidents an ill-advised freedom to punish selected imports by claiming some overarching national interest.

Investors fear Thursday's tariffs are just the start, with Nafta and other trade deals to be ripped up next. Especially hard hit were share prices of U.S. auto makers, sandbagged by Mr. Trump after his efforts to lure them to shift production back to the U.S. Nor do his tweets fill anyone with confidence.

Yet the weeks ahead may show the markets overreacting. Mr. Trump wants a spectacle with himself at the center. He doesn't want consequences. A skeptic of the tariffs was reportedly White House trade guru Robert Lighthizer, one of Reagan's trade negotiators in the 1980s.

He knows how to re-close Pandora's box. Look for a quick paring back in one-on-one negotiations with countries that will leave the tariffs only applied to China.

Mr. Trump's presidency, from the point of view of history, is an experiment in outsider disruption, whether it can restore movement in our politics. That other countries see the president as a wild card is a feature, not a bug—for instance that his administration is full of anti-Putin hard-liners even as he craves rapprochement.

Yes, he has been talking about trade as a rip-off for 30 years. His confused and misguided ideas about trade are one of his few long and deeply held policy commitments. But all such adjectives must be qualified when talking about Mr. Trump.

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THE WALL STREET JOURNAL.

Markets

Hot Cocoa: Chocolate Ingredient Soars—and Could Go Higher; Cocoa prices have risen sharply amid signs of tighter supply and an increase in demand

By David Hodari
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Investors scrambling to cover short positions in cocoa have sent its U.S. price surging 31% this year, making the chocolate ingredient one of this year's best-performing assets.

Cocoa futures prices fell to 10-year lows in New York in December 2017, after a year of pressure from record supply out of Ivory Coast, the world's biggest producer. But signs of tighter supply and rising demand have spooked investors into slashing long-held bets on falling prices, called short positions, sending cocoa to its highest level in 16 months.

The price of cocoa settled at £1,756 ($2,463) a metric ton in London and at $2,480 a metric ton in New York on Tuesday, up 27% and 31%, respectively, since the start of the year, while the S&P GSCI commodity index is roughly flat.

Given that the price of cocoa had been beaten down for so long, many analysts believe a rally that has outperformed almost all other markets so far this year still has steam left.

Still, ahead of the Easter holidays, the price of chocolate is unlikely to shoot up with cocoa. The bean is just one of the major ingredients in chocolate and confectioners buy their stocks months in advance to protect against **volatility**.

"What has really changed since February is the switch of noncommercial speculative investors from net-short positions into net-long ones," said Tracey Allen, agricultural commodities strategist at JPMorgan.

London-based funds in the week to March 13 moved into net-**bullish** territory, or a bet that prices will increase, for the first time since early November 2016, according to data released by Intercontinental Exchange on Monday. As recently as early January, these investors held record **bearish** positions, or bets that prices will decline.

This market can be a **volatile** one. In late 2016, cocoa futures plunged 27% in a six-week period as the expectations of a bumper Ivorian crop began to jump. Increased automated trading in the market is fueling the momentum, according to Jonathan Parkman, head agricultural broker at Marex Spectron.

But the recent change in sentiment came as market participants cut expectations for a big oversupply of cocoa.

In late January, the International Cocoa Organization, the industry's global trade body, revealed that global stocks of the commodity had increased by 144,000 tons in the 2016/17 season. That figure fell far short of its forecast of 335,000 tons.

"Until the release of this survey, there was no reason to question a large global surplus," Carlos Mera, senior commodities analyst at Rabobank, said in a note.

That drop in stocks comes amid falling production expectations in the world's two largest producers: the Ivory Coast and Ghana.

"What we've seen is quite a sharp slowdown in the Ivory Coast that's raised concerns about the main crop," said Edward George, head of group research at African lender Ecobank.

Warm, seasonal winds have dried out the soil in Ivory Coast and weakened the quality of cocoa beans, meaning more are being rejected at ports. At the same time, the Ivorian Coffee and Cocoa Council has said it will suspend programs aimed at increasing production.

Concerns about the weather also pushed Ghana at the end of February to lower its 2017/18 forecast for cocoa production to 700,000 tons from 900,000 tons.

"We could have a season which started well but fizzled, and it's fizzling at the same time as we're seeing a step-up in demand," Mr. George said.

Quarterly European grinding figures released in January showed that demand for cocoa grew at its fastest yearly pace in Europe for four years during the 2016-17 season. Grindings reflect the amount of raw cocoa processed into butter and powder for the manufacturing of confectionery and chocolate, and are often seen as a proxy for demand.

Last month, the ICCO lowered its 2017/18 supply forecast by 12% on a significant slowdown in inventory growth and rising demand.

Analysts are also starting to re-examine their forecasts for next season.

"We're looking likely to have a relatively insignificant surplus this season and all of the indicators are suggesting that demand is reasonably good and returning to long-term growth trends," said Marex Spectron's Mr. Parkman.

The direction of cocoa-futures prices will likely be set by the next grinding figures, usually published in April. But looking at historical average prices, some analysts say the rally has further to go.

Mr. George said London futures prices could still gain 10% and remain within their historical average range.

"New York prices aren't yet at their five-year average levels, and inventories are still comfortable right now," said JPMorgan's Ms. Allen. "There's certainly a case to push through those average levels and extend the rally."

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THE WALL STREET JOURNAL.
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Cohn Quits After Split With Trump --- Top economic adviser lost effort to stop planned tariffs; exit could rattle investors

By Nick Timiraos, Peter Nicholas and Liz Hoffman
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English

Gary Cohn will resign from the White House after 14 months serving as President Donald Trump's top economic adviser, he said Tuesday, days after Mr. Trump surprised his senior staff by announcing steel and aluminum tariffs Mr. Cohn opposed.

During his time at the White House, Mr. Cohn oversaw a major revamp of the U.S. tax code and pushed a significant rewrite of financial rules. But the former Goldman Sachs Group Inc. executive stumbled in an uphill and monthslong fight to sway Mr. Trump against the tariffs.

He was also on the losing side of an effort to prevent the U.S. withdrawal last year from the Paris climate accord, and will leave having made little progress advancing a $1 trillion infrastructure program.

Financial markets have seesawed in recent weeks, first on the prospect that higher federal budget deficits approved by Mr. Trump might boost inflation and interest rates and more recently because of his desire to start a "trade war."

Mr. Cohn's departure could further rattle investors. Though not universally well liked on Wall Street, Mr. Cohn was widely respected for his market savvy and his pro-trade world view. The dollar slumped, and futures in the **Dow Jones Industrial Average** were down about 300 points, or 1.2%, late Tuesday.

Mr. Cohn said it had been an honor to serve in the administration as director of the National Economic Council and thanked the president in a statement. Mr. Trump praised Mr. Cohn's "superb job" as his economics adviser and called him a "rare talent."

The White House has seen numerous departures over the past year. A study by the Brookings Institution in January showed turnover 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.

Mr. Cohn was part of a globalist wing of the White House that lately has been in retreat. Peter Navarro, another adviser who helped craft the president's protectionist stance in the campaign, prevailed in a high-profile fight over tariffs on aluminum and steel imports. Mr. Cohn had fought internally to stave off the move and told aides last week he might resign if the president followed through and imposed the tariffs.

"I don't think he suddenly lost an argument. He just never won it," said Joshua Bolten, who served as chief of staff to President George W. Bush from 2006 to 2009 and now heads the Business Roundtable, a trade group that opposes broad tariffs.

As recently as early this week, Mr. Cohn still seemed to be fighting the 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 after Mr. Cohn's resignation, a White House official said.

Another White House official said in an interview Tuesday that Mr. Cohn had always intended to stay for about a year. This person said that Mr. Cohn wasn't resigning because of frustration or disappointment over Mr. Trump's decision to impose tariffs.

Mr. Cohn wound up staying two months longer than he had anticipated because the president asked him to help with the State of the Union speech and a trip to the global economic conference in Davos, Switzerland, the official said.

Mr. Cohn, though, was unhappy about the "process" by which Mr. Trump last week announced that he would be imposing steel and aluminum tariffs, the official said.

This person said White House proponents of the tariffs, on their own, slipped into the president's office "at 6 o'clock at night" last Wednesday, then called steel and aluminum CEOs two hours later and invited them to a meeting the next morning, telling them the president would sign an executive order imposing the taxes even though no such order was ready.

"There is extreme frustration when the process breaks down," the official said. In this instance, the official said, the White House "nationalists hijacked the process."

One Wall Street executive who kept in contact with Mr. Cohn said a rotating group of colleagues and friends took turns urging him to stay. Some of these people said Mr. Cohn's departure hinted at the limits of trying to hem in Mr. Trump's desire to take more dramatic actions on trade.

On Tuesday, Treasury Secretary Steven Mnuchin told lawmakers that the administration wasn't looking to get into a trade war. Later in the afternoon, Mr. Trump said, "trade wars aren't so bad."

The departure will put pressure on other advisers, especially Mr. Mnuchin, to make the case for preserving the post-World War II trade architecture the U.S. helped construct and for speaking credibly to **financial markets**.

"More than anyone else in the White House, Cohn had credibility with the markets," said Ian Katz, a financial policy analyst at Capital Alpha Partners in Washington. "If we go several days without news of a replacement, investors could get edgy."

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.

With Mr. Cohn's departure, several Goldman alumni who joined the administration last year will have departed.

"Gary Cohn deserves credit for serving his country in a first class way," Goldman CEO Lloyd Blankfein tweeted Tuesday afternoon. "I'm sure I join many others who are disappointed to see him leave." Mr. Cohn had spent 26 years at Goldman and was once seen as the likely successor to Mr. Blankfein.

Early on, Mr. Trump enjoyed introducing Mr. Cohn as a former Goldman executive who gave up a lucrative career to work for him. In a Wall Street Journal interview in July, Mr. Trump mused about installing Mr. Cohn as the next chairman of the Federal Reserve.

But that nomination never happened. Mr. Cohn criticized Mr. Trump's response to the racially charged violence in Charlottesville, Va., in August and found himself isolated.

Mr. Cohn found his way back into Mr. Trump's good graces last fall by helping pass the president's tax cut package in Congress, delivering the president his signature legislative accomplishment.

Mr. Cohn performed so favorably that the president discussed with friends as recently as last month whether to install him as chief of staff, even though Mr. Cohn is a registered Democrat.

Rebecca Ballhaus contributed to this article.

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WSJ PRO CENTRAL BANKING

Economy

Kashkari Urges Patience | Powell Set to Testify| BOJ's Kataoka Says More Easing Needed | Bank of Mexico Keeps Outlook Unchanged | Timiraos's Take: If Powell's Outlook Has Improved, Do the Dots Matter As Much? The Wall Street Journal's central banking newsletter for Thursday, March 1, 2018

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Timiraos's Take: If Powell's Outlook Has Improved, Do the Dots Matter As Much?

Minneapolis Fed's Kashkari Urges Patience in Raising Rates

Powell Set to Testify Before Senate Panel on Interest Rates, Growth Outlook

BOJ's Kataoka Says More Easing Needed to Get Firms to Raise Prices

Bank of Mexico Keeps Growth, Inflation Outlook Unchanged

If Powell's Outlook Has Improved, Do the Dots Matter As Much?

Fed Chairman Jerome Powell returns to Capitol Hill Thursday for his second day of testimony, this time before the Senate Banking Committee.

The big question for market participants is whether he'll amplify on how much his bullishness about the U.S. economy translates into hawkishness for monetary policy this year and next.

Out of three hours of testimony Tuesday, most of the market reaction to Mr. Powell's remarks centered on these brief comments: his "personal outlook for the economy has strengthened since December," he said in response to a question about whether Fed officials might raise rates four times this year, rather than the three they projected at the December meeting.

Why did this line generate so much attention? After all, Mr. Powell went on to simply state basic facts about incoming economic data and policy changes since December.

But this was nevertheless the only tidbit that hinted at the direction of the central bank's leanings. Mr. Powell offered a frank and straightforward assessment from a Fed leader whom investors are trying to figure out.

Second, Mr. Powell proceeded to identify only positive developments to the growth outlook. There were no offsetting negatives.

Finally, in revealing his own personal outlook, he tipped his hand in a way that may make the committee's projections of interest rates, the so-called dot plot, less revealing.

It is one thing for Mr. Powell to offer up his personal outlook when he's one of several Fed governors. It means something else to offer it when you're the Fed chairman.

Fed watchers and bond investors spend an inordinate amount of time trying to guess how many rate increases the median "dot" will project in these quarterly economic projections.

Mr. Powell said Tuesday he didn't want to prejudge what those submissions might look like. But if investors know what the new Fed chair thinks about the economy—and he just told them his personal outlook had strengthened—it could moot the whole exercise around the dots.

The Fed chairman often gets his or her way. Whether the dot projections show four rate increases in March or June may be more of a formality if the chair has revised up his outlook.

Key Developments Around the World

Minneapolis Fed's Kashkari Urges Patience in Raising Rates

By Eric Morath

WASHINGTON—Federal Reserve Bank of Minneapolis President Neel Kashkari said Wednesday the central bank can afford to be patient before raising short-term interest rates again.

The U.S. central bank is expected to raise its benchmark federal-funds rate at its next meeting in March, but Mr. Kashkari said the central bank doesn't need to rush in the absence of clearer evidence of stronger inflation.

"We should allow the wage growth to build, the inflation to build, and then we can respond, and we will," he said at an event hosted by the Brookings Institution's Hamilton Project.

He said the Fed should be able to tolerate inflation a half percentage point above the central bank's 2% annual target for the next several years. He said that would allow the unemployment rate to fall further and for more workers to see larger wage increases.

"The Fed has very powerful tools to keep inflation anchored; we can always raise rates," he said. "We have very limited tools to boost inflation expectations."

When he meets with businesses in his region, they often say they can't find enough workers, Mr. Kashkari said. He then asks if they have raised wages, and most say they haven't.

"I say that is just whining," he said. "If you want more of something, and you're not willing to pay for it, you're whining."

In some cases, he said businesses say they can't raise wages because they don't believe they will be able to raise prices. Mr. Kashkari said that is evidence that inflation expectations are still very well anchored.

Mr. Kashkari was one of two Fed officials who voted against the central bank's decision to raise the fed-funds rate in December to a range between 1.25% and 1.5%. Officials have penciled in around three quarter-percentage-point rate increases in 2018, but Chairman Jerome Powell's upbeat assessment of the economy at a congressional hearing Tuesday raised market expectations that the Fed could raise rates four times this year.

Policy makers will next meet March 20-21. Mr. Kashkari isn't a voting member of the Fed's policy-setting Federal Open Market Committee this year.

Powell Set to Testify Before Senate Panel on Interest Rates, Growth Outlook

By Nick Timiraos

Federal Reserve Chairman Jerome Powell returns to Capitol Hill on Thursday for a second day of testimony, with investors eager for more on whether his **bullish** view of the U.S. economy might translate into a more aggressive approach to raising interest rates this year and beyond.

Stocks and bonds sold off Tuesday after he told the House Financial Services Committee the Fed remains on track to gradually lift rates this year and hinted it might pick up the pace as the economy gains momentum.

He is scheduled to begin addressing the Senate Banking Committee at 10 a.m. EST, first delivering the same prepared remarks he presented Tuesday and then taking lawmakers' questions.

Participants in futures markets have indicated they expect the Fed to raise its benchmark short-term rate at least three times this year, in quarter-percentage-point steps, including at its meeting March 20-21, according to CME. These investors also saw the probability of a fourth move in 2018 rise after Mr. Powell's testimony Tuesday, but they haven't priced in many increases beyond this year.

During Mr. Powell's three hours of testimony Tuesday, most of the market reaction centered on an exchange in which he said his "personal outlook for the economy has strengthened since December."

Mr. Powell had been asked what could cause the Fed to raise rates more this year than the three times projected by officials in December. He replied by listing strong job-market gains, firming price pressures, improved global growth prospects, and a boost to economic growth from tax cuts and increased government spending as reasons to believe the economy is picking up steam.

Mr. Powell was simply stating facts about how conditions have changed since Fed officials delivered growth and interest-rate projections in December. But stocks and bonds sold off after the remarks, a sign of how sensitive investors are to clues the Fed might be inclined to raise rates more aggressively.

Mr. Powell said he didn't want to prejudge whether officials would pencil in three or four quarter-point rate rises this year when they meet in March, but in offering his personal view, he provided insight into how he might shape any consensus at that meeting.

His testimony also hinted at how the Fed's focus has shifted. Since the 2007-09 recession, officials resisted calls to raise rates more aggressively in order to support stronger hiring. Mr. Powell said the Fed is now focused on striking "a balance between avoiding an overheated economy and bringing…inflation to 2% on a sustained basis."

The focus on the risk of the economy expanding too quickly is relatively new. It illustrates how the Fed's job could become more difficult now that the unemployment has fallen to 4.1%, a 17-year low, and is likely to fall further due to new fiscal stimulus enacted in recent months.

President Donald Trump signed into law a bill to cut taxes by $1.5 trillion over a decade in December, and in February approved a $300 billion, two-year increase in government spending.

Senate Readies Rollback of Bank Rules

By Andrew Ackerman and Christina Rexrode

WASHINGTON—The Senate is expected this month to approve the most significant rollback of postcrisis financial rules since Republicans took control of Washington last year.

The bipartisan legislation, supported by the Trump administration and top Federal Reserve officials, would relax dozens of rules for small to medium-size banks, shaking up the banking sector with policy changes that could encourage deal-making and make it easier for banks to expand.

A central piece of the bill could relieve about two dozen regional banks from stricter rules put in place by the 2010 Dodd-Frank financial law, which sought to prevent another financial crisis with restrictions across the industry. The bill will raise the threshold at which banks face tighter oversight to $250 billion in assets from the current $50 billion—a victory for midsize banks, which have long said they shouldn't be lumped in with the largest banks.

Supporters say the plan would boost lending by relieving all but the largest U.S. banks from the law's toughest aspects. One result: banks that have stayed under the $50 billion line to avoid enhanced oversight would be in play for mergers or acquisitions with other firms, possibly creating larger regional banks.

While the bill will affect the entire industry, smaller banks will see the biggest changes, benefiting from eased compliance and paperwork requirements, particularly around mortgages.

Bank stocks have soared since the 2016 election, thanks to deregulatory expectations. But banking executives have started to wonder if the promises would materialize, prompting them to hold off on some investments.

"There was a wait-and-see approach over whether there would be more deregulation," said Vincent Caintic, an analyst at Stephens Inc.

The Senate is expected to take up the bill in the first half of this month, and it has the Democratic support needed to clear the chamber. The House would take up the plan next, possibly adding more deregulatory measures that have already cleared the chamber by a wide, bipartisan margin. Supporters aim to enact the bill before November's midterm election.

The Trump administration came to office vowing to take a friendlier tone toward the financial-services industry after years of tough Obama-era regulations. Legislative efforts have advanced slowly, particularly in the Senate, where Democrats retain enough seats to block most deregulatory efforts. Still, Congress has repealed some rules using the Congressional Review Act, which allows lawmakers to nullify specific regulations with a simple majority vote. In a victory for the industry, Congress last year overturned a rule by an Obama-appointed financial regulator that would have made it easier for consumers to sue banks in groups. But broader efforts to ease financial rules have failed to gain traction.

The latest bill's opponents, who include liberal Democrats and former Obama administration policy makers, say it will inject more risk into the financial system at a time when the markets are **volatile** and banks are enjoying strong profits.

"A decade after the financial crisis, working families are still recovering, while Wall Street is making record profits and benefiting from a massive tax giveaway," said Sen. Sherrod Brown of Ohio, a leading opponent of the bill. "I'm not willing to risk a taxpayer bailout in order to juice the payouts to executives and shareholders of the biggest banks."

The legislation could lighten the regulatory burden for banks such as Zions Bancorp in Utah and M&T Bank Corp. in Buffalo, N.Y. Those banks in recent years have had to submit to detailed financial and risk exams, known as stress tests, to be able to pay dividends to shareholders. The Fed has already eased stress tests for midsize banks, but Dodd-Frank limits the Fed's reach because it spells out that all banks above $50 billion in assets must face stricter rules. By effectively raising that threshold to $250 billion, the new legislation would give regulators more space to lighten the load.

Still, midsize banks have already spent years rejiggering their risk practices and other systems to conform to postcrisis rules—systems they are unlikely to dismantle, even if Dodd-Frank were to be replaced with a new financial law.

"We're not going to stop stress testing our portfolio," said Greg Carmichael, chief executive of Fifth Third Bancorp, a Cincinnati-based bank that has roughly $142 billion in assets. "But we will welcome the opportunity to not submit 20,000 pages every year."

Shares in New York Community Bancorp, with assets of about $49 billion, rose more than 5% on the day the Senate released its original proposal in November and have continued to edge upward. The bank has said it hopes that lawmakers change the $50 billion line so that it can more easily do deals.

"This is the answer to New York Community Bank's prayers," said Abbott Cooper, a portfolio manager at Hilton Capital Management who invests in regional banks.

First Horizon National Corp. in Memphis, Tenn., last year bought a smaller bank that pushed its total assets up to about $41 billion. In an interview, CEO Bryan Jordan said that changing the threshold would make another merger "a whole lot more palatable."

Darren King, chief financial officer of M&T Bank, which has assets of about $119 billion, said he supports the $250 billion threshold change but would prefer that it be based on riskiness.

"Selfishly, is $250 [billion] a good number for us? Yes. But is that fundamentally how we believe the regulations should work? No," he said.

The bill will give the Fed some discretion to keep a closer eye on banks in the $100 billion to $250 billion range, depending on their perceived risk levels.

Some large regional firms above the $250 billion threshold, such as U.S. Bancorp and PNC Financial Services Group Inc.—with about $462 billion and $381 billion in assets, respectively—have long said they would prefer a bill that considers not just asset size but qualitative factors such as a firm's exposure to financial instruments known as derivatives or the size of its international business.

"Absolute thresholds are just a mistake," said William Demchak, chief executive of PNC.

—Ryan Tracy contributed to this article.

BOJ's Kataoka Says More Easing Needed to Get Firms to Raise Prices

By Megumi Fujikawa

TOKYO—Bank of Japan policy board member Goushi Kataoka said Thursday the bank's current easing program isn't powerful enough to encourage companies to raise prices, calling for further cuts in longer-term yields.

"I believe that further monetary easing is necessary to achieve the price stability target at an early stage," said Mr. Kataoka, who joined the nine-member board last July and has become its most prominent dove.

Mr. Kataoka said the possibility of achieving 2% inflation by March 2020—as the bank forecasts—is low. Targeting even lower government bond yields with maturities of 10 years and longer would promote business and housing investment and would have synergy effects with the government's fiscal policy, helping accelerate progress toward the goal, he said.

The BOJ currently targets a 10-year yield around zero and short-term interest rates at minus 0.1%.

Since his debut policy-setting meeting in September, Mr. Kataoka has been arguing that the central bank isn't doing enough to spark 2% inflation. He has voted against the decision to keep policy unchanged at every meeting he has attended.

"Under the current monetary policy framework, supply-demand conditions are tightening further, but this hasn't yet affected firms' overall price-setting stance toward raising prices," Mr. Kataoka said.

Gov. Haruhiko Kuroda has said companies' price-setting behavior was a key to 2% inflation. Mr. Kuroda told parliament Thursday that companies remain cautious due to deep-rooted deflationary mind-set, but added that it will change by continuing the BOJ's current powerful easing.

In January, core inflation, which excludes fresh food prices, was 0.9%.

Bank of Mexico Keeps Growth, Inflation Outlook Unchanged

By Anthony Harrup

MEXICO CITY—The Bank of Mexico stuck to its estimates for growth and inflation Wednesday in its latest update on the economy, seeing risks from the renegotiation of the North American Free Trade Agreement and Mexico's July presidential elections.

The central bank expects gross domestic product to expand between 2% and 3% this year, and between 2.2% and 3.2% in 2019.

"Although external demand could be favored by improved expectations for growth in U.S. industrial production and global trade, the uncertainty that prevails, especially over the terms of Mexico's trade relations with North America, could continue to have an adverse effect on investment in the country," the central bank said in its quarterly report.

A seventh round of trade talks with the U.S. and Canada is under way this week in Mexico City.

Volatility associated with Mexico's July presidential elections is also among the downside risks to the growth outlook, the bank added.

GDP expanded 2% in 2017, or 2.3% adjusted for calendar effects, the slowest rate of growth in three years as lower oil output and lower government construction spending led to a decline in industrial production.

The Bank of Mexico, led by Gov. Alejandro Díaz de León, still expects inflation to ease gradually this year and return to its 3% target in the first quarter of 2019. Annual inflation slowed to 5.45% in mid-February from 6.77% at the end of December, thanks to smaller increases in gasoline prices this year and lower prices for agricultural products.

The central bank resumed its cycle of interest-rate increases late last year because of the unexpectedly high inflation. Earlier this month, the bank raised the overnight interest-rate target by a quarter of a percentage point to 7.5%, and left the door open for further increases as it seeks to keep inflation expectations anchored.

Mr. Díaz de León, who took over the helm at the central bank on Dec. 1, defended the most recent interest-rate increases against criticism that they were an overreaction to the inflation spike in November and December.

"We're in an especially atypical cycle, facing shocks that have been particularly adverse for the economy," he said at a press conference. The interest-rate increases were aimed at keeping those shocks from contaminating price formation and inflation expectations, he added.

Deputy Gov. Manuel Ramos Francia said policy makers need to be more risk-averse than market participants. "We have a complicated scenario…so the prudence that has characterized monetary policy should be maintained while these sources of uncertainty remain," he said.

Iran Grapples With a Volatile Currency

By Asa Fitch in Dubai and Benoit Faucon in London

Volatility in Iran's currency is disrupting trade and creating new challenges for an embattled president after antigovernment protests rocked the country.

The extreme swings in the Iranian rial have frustrated some investors and prompted a central-bank intervention to ward off turmoil, as economic concerns stir unrest and the nuclear pact that returned Iran to the global financial system is in jeopardy.

The rial hit a record low of more than 50,000 to the dollar at some exchanges in February before a government-orchestrated recovery brought it back to where it was trading before the protests, which began in late December and were focused on rising prices and a dearth of jobs.

The recent loss in confidence in the rial—and the flight to safer assets such as gold and the dollar—reflects the pressures that helped touch off the demonstrations.

President Hassan Rouhani, in winning a second four-year term last year, promised to tackle deep economic problems by presenting a more open face to the world and rooting out corruption. Double-digit inflation and an unemployment rate of about 12% have given his hard-line opponents ammunition for political attacks.

At stake is whether Iran continues with policies preferred by Mr. Rouhani's camp—including market liberalization, scaling back subsidies and an opening of Iran to trade and investment—or revert to his opponents' ideals of economic self-reliance and suspicion of the West.

The central bank has moved to restore order. It said in early February it would issue foreign-currency sovereign bonds, aiming to sate appetite for stabler currency alternatives to the rial without weakening it.

To drive up demand for Iran's currency, the bank temporarily raised bank deposit rates on the rial to 20% after they had been lowered to 15% in September. Authorities also arrested 90 unauthorized currency traders, accusing them of catering to speculators who undermined the rial.

With those moves, the currency has strengthened back to pre-protest levels after a fall of about 14%.

Volatility has long been a feature of Iran's business environment, as it struggled under years of Western sanctions and dealt with sporadic upheaval from within. But the February dip was especially deep, bringing more political risk for Mr. Rouhani and his policies.

A government crackdown suppressed large-scale demonstrations in January, but scattered labor strikes have continued. A movement has also gained steam in which women remove Islamic headscarves in public, highlighting differences between hard-liners and Mr. Rouhani, a relative moderate who has courted women's support.

The potential collapse of the nuclear deal, which Mr. Rouhani championed, could heighten strains.

President Donald Trump has indicated he could pull the U.S. out as early as May from the deal, an Obama-era pact between Iran and six world powers that gave Iran relief from international sanctions in exchange for curbs on its nuclear program. The deal allowed Iran to reconnect to the global financial system, though with heavy limitations.

Should the deal fall apart, "with continued strain on all sectors of the economy, Rouhani's administration could continue to lose popular support, which could create an opening for hard-liners to intervene and assert control," said Garbis Iradian, an economist at the Institute of International Finance.

Iran says Mr. Trump's threat of a pullout is already weighing on the economy. "The U.S. has created an atmosphere of uncertainty which is a poison for the business community to work in Iran," Abbas Araghchi, Iran's deputy foreign-affairs minister, said recently.

For investors who have stayed in Iran, the rial's plunge—the latest blip in a yearslong slide—is hard to swallow.

Mazdak Rafaty, a Dubai-based developer and consultant who built apartment buildings near Tehran backed by foreign investment, said the currency's slide forced him to put sales on hold. His investors want returns in dollars and euros, he said, but a weaker rial means real-estate prices have to rise sharply to deliver them.

"If you have investments in Iran and you're bound to pay back your investors in foreign currencies, you're deeply troubled," he said.

There are upsides, for some. A weaker currency can be beneficial for Iranian exporters and for investors whose dollars or euros can buy more rial-based assets.

But the swings breed uncertainty. "For the few firms investing in Iran now, any boon to investment caused by the devaluation is outweighed by the overall issue of **volatility**," said Esfandyar Batmanghelidj, the founder of Bourse & Bazaar, a business-analysis website focused on Iran.

Some investors have faced problems in simply moving money out of the country. "Suddenly, repatriation has become a nightmare," said Mostafa Pakzad, a Tehran-based consultant who specializes in financial transactions with the West.

Declines in the rial can also hurt the oil sector, the country's most strategic industry. During the recent currency dip, the cost of importing foreign equipment was 8% higher than it was six months earlier, said Reza Padidar, chairman of the Energy Commission of the Tehran Chamber of Commerce.

A French exporter of spare parts to the petrochemical and automotive industries said Iranian buyers had paused orders on €100,000 ($122,000) in goods since November.

"Everything is on standby," said the executive.

—Aresu Eqbali in Tehran contributed to this article.

Quick Hits: New York Fed to Launch New Reference Rates in April

New York Fed Announces Launch Date for New Reference Rates

The Federal Reserve Bank of New York says it will start publishing on April 3 new repo market reference rates as part of its effort to improve the quality of reference rates and help move the market away from the scandal-plagued Libor curve. These repo rates will reflect inputs from the Secured Overnight Financing Rate, the Broad General Collateral Rate and the Tri-Party General Collateral Rate. Tuesday, Federal Reserve Chairman Jerome Powell told Congress markets need to start adapting this looming change, given that a failure to transition could prove costly.

—Michael S. Derby

Don't Read Too Much Into Kuroda's Comments

Daiwa Securities chief market economist Mari Iwashita says Bank of Japan Gov. Haruhiko Kuroda's comments Wednesday about future policy normalization were unavoidable because he was responding to an opposition lawmaker's question. The BOJ chief told a parliamentary committee that any tweaks would be gradual. Meanwhile, Ms. Iwashita says closer attention should be paid to Mr. Kuroda's parliamentary testimony slated for later this week as part of his reappointment to lead the central bank. "If he uses a slightly different word on the possibility of comprehensive assessment of its policy, markets could react," she says.

—Megumi Fujikawa

Bank Indonesia Nominee Praised at Natixis

The possible appointment of Deputy Gov. Perry Warjiyo to head Indonesia's central bank is a great choice as he is a highly qualified technocrat who not only has experience at the institution but at organizations such as the International Monetary Fund, says Natixis economist Trinh Nguyen. "He will be able to understand the culture of BI [Bank Indonesia] and steer the central bank towards its goal of maintaining inflation stability," she adds. Mr. Widodo said Tuesday he has proposed Mr. Warjiyo's nomination to parliament. Agus Martowardojo's five-year term ends in May. Lawmakers will quiz Mr. Warjiyo before they vote on the proposal by April.

—I Made Sentana

ANZ, Nomura Split on Timing of Malaysia Rate Increase

Muted inflation last month in Malaysia isn't likely to last, says ANZ. It sees price growth reaccelerating in the second half as strong domestic demand gives product and service providers some pricing power. As such, it predicts the country's central bank will do another quarter-point interest-rate increase in September. But Nomura sees inflation slowing further through March on strong year-earlier gains and doesn't anticipate another rate rise before 2019.

—Yantoultra Ngui

French Inflation Dips in February

French inflation was weaker than expected in February on declines in services and food prices, statistics showed Wednesday. France's consumer-price index in February declined 0.1% on month and rose 1.2% on year, statistics agency Insee said. Economists polled by The Wall Street Journal had expected a 0.3% rise on month and a 1.5% rise on year. France's HICP—a measure of prices used by the European Central Bank to gauge inflation—rose 1.3% on year in February, marking a slowdown from the 1.5% increase recorded in January.

—William Horobin

Brazil Budget Shortfall Narrows in January

Brazil's budget shortfall narrowed in January, the central bank said Wednesday, as the country struggles to overcome a historic recession. The 12-month deficit was 7.49% of gross domestic product, narrower than the 7.80% of GDP shortfall recorded in December. The so-called primary budget result, which excludes interest payments, was a deficit of 1.53% of GDP in the 12-month period through January, compared with a deficit of 1.69% of GDP in the year ended in December. Brazil's gross debt was at 74.5% of GDP in January, up from 74% of GDP in December.

Thursday

8:30 a.m. EST

U.S. Commerce Department releases January PCE inflation reading

10 a.m. EST

Fed's Powell speaks

11 a.m. EST

New York Fed's Dudley speaks

Friday

3:10 a.m. EST

ECB's Mersch speaks at finance forum in Prague

5 a.m. EST

Bank of England's Carney speaks at Scottish Economics Conference in Edinburgh

Cleveland Fed Research Sheds New Light on Post-Crisis Banking Concern

New Federal Reserve Bank of Cleveland research from economists Edward Simpson Prescott and Douglas Davis studies the impact of different triggers for the conversion of debt-to-equity in contingent convertible capital bonds. "Our findings suggest that the mechanism to be preferred depends on the extent to which conversion dilutes equity, information that should be useful to those who design these securities," the authors report.

Greg Ip: Why an Unpleasant Inflation Surprise Could Be Coming

"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," writes Greg Ip in The Wall Street Journal."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."

Powell Brings His Own Style in Capitol Hill Debut

The new Fed chairman didn't stand on formality like his predecessors. The question is whether that signals something about policy, writes Daniel Moss in Bloomberg View. "It is possible to over-emphasize seemingly little things. In all, it was a polished performance. If opening-night nerves were there, Powell kept them hidden. Here's hoping his aplomb reflects the confidence of the Fed, and it isn't really all about him."

U.S. economic growth was slightly weaker than initially thought during the fourth quarter and may be cooling a bit in the first quarter as well.

Colorado and Utah led the nation in the rate of job growth last year, according to new Labor Department data. And they did it by bringing in workers from out of state and outside the labor force.

Activity in China's factories expanded at a slightly faster rate in February, according to a private gauge, in contrast with official data that showed a sharp cooling of growth in manufacturing activity.

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THE WALL STREET JOURNAL.

Markets
Kroll Bond Rating Agency Pushes Into Sovereign Debt; First such move gives top grade to U.S. credit

By Gunjan Banerji
639 words
28 March 2018
04:06 PM
The Wall Street Journal Online
WSJO
English

Kroll Bond Rating Agency conferred its highest rating on the U.S. government, marking the firm's new push into sovereign credit.

Kroll's grade on the U.S. on Wednesday is its first public sovereign rating, with the New York-based firm planning to issue more ratings on governments worldwide in coming months, a spokeswoman said.

Kroll pegged its AAA rating on the U.S. government's status as a reserve currency country and its strong economy, the largest in the world. The rating is on par with those given by Moody's Investors Service and Fitch Ratings to the U.S., and means that the country's credit is ironclad, with default risk basically nonexistent.

The only big firm that hasn't bestowed the highest rating on U.S. government debt is S&P Global Ratings, which dropped the debt one notch in 2011, grading it AA+.

But America's interest costs actually went down after the downgrade, not rising as is usual when a credit rating is lowered. The result highlighted the U.S. government's status within the world economy and the sheer number of parties willing to lend money to it.

Kroll's rating on the U.S. is unsolicited, meaning that the firm wasn't hired for the credit analysis.

A U.S. debt rating is "a benchmark for everything else," said Chris Whalen, chairman of Whalen Global Advisors LLC. He added that the ratings tend not to be on an absolute level, but relative to the creditworthiness of other entities.

Founded after the financial crisis in 2010, Kroll is one of 10 firms that the Securities and Exchange Commission recognizes as a national rating organization. It has gained influence in commercial mortgage-backed securities, capturing almost half of market share, according to a December SEC report. It also rates corporations, insurance companies and U.S. public finance entities, among other assets.

Still, the credit rating industry remains highly concentrated, despite calls for change after top grades awarded by the biggest firms proved to understate the risk in assets, such as mortgage-backed securities, before the financial crisis.

The largest ratings firms—S&P, Moody's and Fitch—constitute 96% of all ratings outstanding as of 2016, according to the SEC report.

Those three enjoy similar dominance in revenues, and are often paid by the government entities or corporations that they rate, creating what some analysts describe as a potential conflict of interest that has not abated over the past decade, despite heightened scrutiny.

The Kroll rating comes as some analysts question the U.S.'s fiscal position. Mr. Whalen said that he doesn't think the U.S. continues to be worthy of the top rating, given its recent lack of fiscal discipline. Recent tax cuts will likely lead to a widening of the fiscal deficit and an influx of Treasury market supply, analysts say.

Additionally, a recent report from Moody's shows that the U.S. is whittling its tax base just as its interest expenses surge. Meanwhile, the U.S. population is aging and a reduction in trade and immigration, Moody's warned, could affect long-term growth.

Kroll analysts also showed concern over the government's widening deficit and its large debt load as seen as a percentage of gross domestic product. But they said Wednesday that greater political polarization as seen in "brinkmanship over the debt ceiling and budget" don't change the firm's view of the U.S. government's pristine credit quality.

The yield on the **10**-**year Treasury** note fell 2.777% on Wednesday from 2.790% on Tuesday. Yields fall as **bond prices** rise.

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WSJ PRO PRIVATE EQUITY

Pro Private Markets
As Market Fears Grow, Offbeat Fund Strategies Bloom

By Chris Cumming
1,422 words
15 March 2018
07:00 AM
WSJ Pro Private Equity
RSTPROPE
English

With investment yields pinched and the markets becoming choppy, investors have been pushing into unusual investment vehicles that aren't correlated to the rest of the economy—though not without apprehension about what other risks may be hidden under the hood.

Investors are committing more capital than ever to strategies such as litigation financing, entertainment and pharmaceutical royalties, and secondhand life-insurance policies.

These strategies are far from new, but investors are now taking a second look as they leave no stone unturned in their search for yield.

"The demand is due to nervousness in the public markets," said Fraser Van Rensburg, a managing partner at placement agent Asante Capital Group, which has raised money for noncorrelated funds. "A lot of anxious investors are trying to avoid correlation with the public markets through things like life settlements, litigation finance or royalty finance."

Although such investment strategies are virtually immune from dips in the **Dow Jones Industrial Average**, each comes with its own dangers, and can be a challenging fit for some investors. Noncorrelated funds generally have a lower-risk, lower-return profile than private equity, but sometimes are paired with higher nonfinancial dangers—for example, reputational concerns over the perception of these strategies.

Most institutions are instinctually nervous about backing such offbeat strategies, said Tod Trabocco, a managing director at consultant Cambridge Associates LLC.

"There are limbic responses that need to be overcome," he said.

Although private-equity advisers and industry players say that investment in noncorrelated strategies is booming, the rate at which the sector is growing is less clear. Some strategies are too small for fundraising trackers to collect data on them, while others are reticent about making information public.

In addition, the types of investors looking at noncorrelated funds are expanding, advisers and sponsors say. Formerly, backers of these strategies were mostly endowments and family offices, which can more easily invest in offbeat funds, but now a greater number of pension funds and other more traditionally minded institutions are starting to take a look.

Litigation finance, the business of funding commercial lawsuits in hopes of a payout, has been one of the fastest-growing noncorrelated strategies, attracting a range of investor types. It also is the most transparent, since the two largest players by capital deployed, Burford Capital and IMF Bentham, are public.

Burford deployed $1.3 billion in new commitments last year, more than triple the amount in the year before, said Christopher Bogart, the New York firm's chief executive officer. The firm last year closed a $500 million private fund, and since 2013, the firm's private-fund assets under management have gone from zero to about $1.7 billion, he said.

IMF Bentham, of Sydney, the second-biggest firm in litigation finance by total investments, in February announced that its first U.S. fund, backed by Fortress Investment Group, was increased in size to $166.3 million. Another litigation-finance firm, New York-based Lake Whillans, in early 2018 announced the closing of its first fund at $125 million, anchored by a $50 million commitment from the University of Michigan endowment.

Music-royalty funds also have seen a big increase in fundraising over the past year or so, with firms announcing fund closings totaling at least around $1 billion in equity since late 2016: Round Hill Music's $263 million second fund, Kobalt Capital's $345 million second fund and Primary Wave Entertainment's $300 million financing agreement with BlackRock Alternative Investors.

Although the music royalty space is far from new—it stretches back to the "Bowie Bonds" of the 1990s, when pop star David Bowie sold the royalty stream for some of his works—this bumper crop of new funds represents a major change from just a few years ago, said Joshua Gruss, Round Hill's CEO. Back when Round Hill was raising its first fund, which closed in 2014, "in 99% of our investor meetings, we were giving the 101 and explaining this business for the first time," Mr. Gruss said. But now both knowledge and competition are increasing.

"It's only natural as the hunger for yield grows that more esoteric ways to earn that yield come into play," he said.

The field of life settlements—buying pools of life-insurance policies, paying the upkeep and getting the payout when the policyholder dies—is notoriously opaque, but players in the field say that it is indeed receiving much more capital recently. Private funds that have returned to market in the past year or two almost without exception have gotten bigger, as have multiasset funds with some allocation to life settlements, said Jeffrey Bollerman, a managing director in Houlihan Lokey Inc.'s illiquid financial assets group.

"We have seen a tremendous increase in the amount of sophisticated institutional capital coming into the space," he said.

About $12.8 billion was committed to life settlements between 2002 and 2015, according to estimates from asset manager Conning Holdings Ltd., and significant recent closes would push that number up further. Apollo Global Management LLC closed its third and largest life-settlement fund at $1.9 billion last year, while BroadRiver Asset Management LP announced the closing of its second fund with $366 million in late 2016. Corry Capital Advisors and Vida Capital also have been raising money to invest in life settlements over the past year, according to pension documents.

There is a give-and-take with the returns of noncorrelated investment strategies, advisers say. Although they can provide a reliable cash stream, they generally are less likely than buyout funds to score huge multiples. Their fee structures tend to be similar to private-credit funds because many of them aim for stable credit-like returns, generally from the high single digits to the high teens, said Sean Gill, director of private-market research for consultancy NEPC LLC.

Meanwhile, the major litigation-finance players have boasted of strong returns, with IMF Bentham recording a 1.6-times return on all investments as of June 30, 2017, while Burford in December said its three litigation-finance funds so far have produced a gross internal rate of return of 52%. However, litigation finance also is relatively risky for noncorrelated strategies, since the value of investments often is binary—winning a case produces a huge internal rate of return, while a loss means a return of zero.

Returns on life-settlement funds are rarely made public, but a 2011 academic study showed that the total return of life-settlement funds was behind only hedge funds and government bonds among all asset classes between 2003 and 2010. However, industry experts say targeted returns are generally in the midteens. Apollo's first two life-settlement funds—among the few such vehicles whose returns are public—recorded a net IRR of 9% and 11%, the firm said.

Those involved with the life-settlement industry generally agree that the increasing amount of capital being committed to the sector in recent years has reduced returns across the board. Other factors limited partners often consider when looking at life settlements include the headline risk of backing a strategy that some may see as unsavory—a strategy that, in theory, produces higher returns when policyholders die faster—and the risk that actuarial estimates used to value the policies could be mistaken.

Entertainment royalties generally lack the headline risk of life settlements or litigation finance, but they still can be hard for investors to diligence because the types of royalty streams are so diverse, and few limited partners have the expertise to assess the risk. There are many different types of copyrights and varied ways of structuring investments, each with their own risk profile—plus, of course, there is the challenge of choosing the creative properties.

"If you can find the music people will be listening to for the rest of their lives, then it's a very low-risk situation," said Mr. Gruss. "The risk is in choosing content."

The difficulty in diligencing such esoteric funds is one reason that despite the increased interest in noncorrelated strategies, there are still more limited partners browsing these strategies than committing, said Kelly DePonte, a managing director with placement agent Probitas Partners.

"It's a lot harder to diligence these uncorrelated strategies," he said. "You don't have a lot of people with long track records, and you have a lot of first-time fundraisers."

Write to Chris Cumming at chris.cumming@wsj.com

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The New York Times

Business Day
Trump Picks CNBC's Larry Kudlow as Top Economic Adviser

By Maggie Haberman, Kate Kelly and Jim Tankersley
1,521 words
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English

WASHINGTON — President Trump loves big personalities, live television, the **stock market** and loyalty. In choosing Larry Kudlow, a CNBC television commentator, to serve as the next director of the National Economic Council, he has checked all those boxes.

Mr. Kudlow, often clad in a pinstripe suit and colorful tie, is a frequent pundit on the financial news channel where he opines about everything from the economy to the **stock market** to tax cuts and free trade. He is an unabashed prognosticator who relishes making the kinds of provocative statements that Mr. Trump has turned into an art form. He has lamented "growing government dependency," touted tax cuts for the wealthy and lavished praise on high-flying corporate executives.

Mr. Kudlow will assume the role of Mr. Trump's top economic adviser, replacing Gary D. Cohn, who said he would resign after losing a battle over the president's longstanding desire to impose large tariffs on steel and aluminum imports. Sarah Huckabee Sanders, the White House press secretary, said in a statement that Mr. Kudlow had been offered the job and that the administration would "work to have an orderly transition."

The decision to pick Mr. Kudlow, a longtime cheerleader of the president, is the latest move by Mr. Trump to surround himself with loyalists in high administrative posts.

On Monday, Mr. Trump ousted Rex W. Tillerson as secretary of state and said he would nominate the C.I.A. director, Mike Pompeo, to take his place. As with the Pompeo announcement, which took Mr. Tillerson and some others in the administration by surprise, Mr. Kudlow's selection startled some in the West Wing, who were unaware it was happening.

In an interview on Wednesday afternoon, Mr. Kudlow said Mr. Trump had called him Tuesday night and offered the job, which he had immediately agreed to take.

"I knew I was the guy because he offered it last night and I accepted," Mr. Kudlow said.

The White House had not expected to announce his hiring until Thursday or Friday, Mr. Kudlow said, but by Wednesday morning, news of his likely naming was widespread, and then "the deluge came."

Mr. Kudlow, who has publicly criticized the president's recently announced tariff plans, said Mr. Trump had a more nuanced view on trade than many people understood.

"He regards himself as a free trader," Mr. Kudlow said. "He does not like to create obstacles, like tariffs. But he also has to protect the U.S. And he feels that many countries" have engaged in unfair trade practices. Mr. Kudlow cited China as a prominent example, expressing a view that is widely held within the administration. The White House has taken a series of steps to curb China and is expected to announce tariffs on certain Chinese products in the coming weeks.

Mr. Kudlow has long espoused a traditional conservative embrace of free trade, but it remains to be seen how vocally he will push back on the growing ascendance of West Wing advisers who are trade skeptics and have urged Mr. Trump to adopt protectionist measures to protect American industry.

Stock markets, which have been rattled by the White House tariffs, did not react positively to news of Mr. Kudlow's appointment on Wednesday. The **Dow Jonesindustrial average** was down more than 200 points for most of the afternoon, once news media outlets began reporting Mr. Kudlow was the pick.

Mr. Kudlow is a radio and television commentator and an economics consultant. He was a zealous convert to the supply-side economic policies that swept the Republican Party in the late 1970s. He is a protégé of the supply-side economist Arthur Laffer, with whom Mr. Kudlow worked on Ronald Reagan's 1980 presidential campaign. Mr. Kudlow went on to serve in Mr. Reagan's Office of Management and Budget.

Like many past National Economic Council directors, he is not an academically trained economist — he studied for a master's degree at Princeton University but did not earn one — but he served as chief economist for Bear Stearns and made a name advising prominent conservative politicians. In the early 1990s, Mr. Kudlow took a leave from the firm to enter treatment for drug and alcohol addiction; his colleagues said he abused cocaine.

Mr. Kudlow has spoken frequently about his addiction and ensuing sobriety in the ensuing years.

He said Thursday that staying clean and sober for nearly 23 years "is the center of my life" and "my No. 1 job."

Asked whether he thought the substance abuse could prove problematic for him as a White House staff nominee, he said, "We'll see how that plays out."

Mr. Kudlow was an early and enthusiastic supporter of Mr. Trump's run for the presidency, advising the neophyte candidate on economic issues and pushing him to go big on cutting taxes. The men agreed on their desire for growth-goosing tax cuts but disagreed on trade, on which Mr. Trump ran as a populist and Mr. Kudlow preached free-market principles.

Mr. Kudlow criticized the president after the emergence of the "Access Hollywood" tape in October 2016. He later re-endorsed him, but Mr. Trump, who nurses grudges, was angry for some time, according to people close to him.

The trade critique carried into Mr. Trump's tenure in the White House. Like Mr. Cohn, Mr. Kudlow had been publicly critical of Mr. Trump's push for stiff and sweeping tariffs on steel and aluminum imports. He jointly wrote a critical column urging the president to reconsider his plan to impose tariffs. "Trump should also examine the historical record on tariffs," he and his co-authors wrote, "because they have almost never worked as intended and almost always deliver an unhappy ending."

Mr. Kudlow said Wednesday that although he had little stomach for blanket tariffs, he was "absolutely delighted" that Mr. Trump had softened his stance since first announcing global tariffs on steel and aluminum. "We talked a lot about that," Mr. Kudlow said, adding that Mr. Trump "regards tariffs as a negotiating tool. And I think that's fair."

Mr. Trump indicated on Tuesday that he saw little disagreement with Mr. Kudlow on the issue of tariffs.

"I want to have a divergent opinion," Mr. Trump told reporters. "We agree on most. He now has come around to believing in tariffs as also a negotiating point. I'm renegotiating trade deals and without tariffs we wouldn't do nearly as well. But Larry has been a friend of mine for a long time. He backed me very early in the campaign; I think the earliest; I think he was one of my original backers. He's a very, very talented man, a good man."

It remains to be seen whether Mr. Kudlow can navigate the chaos that has surrounded the White House and often clouded its message or if he can convince Mr. Trump to follow his advice. Mr. Kudlow said he plans to try.

"I expect to have a very disciplined process," he said, one that "provides the best policy advice possible to the president."

Stephen Moore, a longtime friend of Mr. Kudlow's and an informal adviser to Mr. Trump, said Mr. Kudlow would help with a pressing challenge: How to convince voters to credit the president, and his policies, for an improving economy. Surveys of businesses and voters show economic confidence is strong, but Mr. Trump's approval ratings are still hovering around 40 percent.

"The communication of all these triumphs has not been fully communicated," said Mr. Moore, whom many expect to ultimately go to work with Mr. Kudlow at the N.E.C.

After Republicans pushed a $1.5 trillion cut through Congress late last year, Mr. Kudlow praised it effusively, predicting it would usher in long-term annual growth of 3 percent to 4 percent — a more optimistic assessment than most independent economists have offered — and would help Republicans in this year's midterm elections.

Gene Sperling, a former N.E.C. director under President Bill Clinton and again under President Barack Obama, said Mr. Kudlow would have a difficult job — and that communicating happy economic news was the least of his tasks.

“The fundamental job of the N.E.C. director is to ensure that the president is getting, in a fair way, the diverse advice of his economic cabinet, and to be the top economic person in the West Wing in advising the president on day by day and long term matters,” Mr. Sperling said. “However good Larry may be on TV, it would be very, very sad if the president looked at this job as fundamentally promoting with the media whatever the president’s political interests are.”

Maggie Haberman and Jim Tankersley reported from Washington, and Kate Kelly from New York.

* Gary Cohn Says He Will Resign as Trump’s Top Economic Adviser

* As White House’s Revolving Door Whirls, Chaos Is the Only Constant

* Cohn’s Departure Widens Policy Rift Between Party and President

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THE WALL STREET JOURNAL.

Heard on the Street
Markets

Why 2018's Profits May Disappoint; First-quarter earnings will look great, but analysts are too optimistic about strong growth for remainder of the year

By Justin Lahart
507 words
30 March 2018
05:30 AM
The Wall Street Journal Online
WSJO
English

Thanks to the U.S. tax overhaul, first-quarter earnings are going to be very good. But analysts are too optimistic that the goodness will persist through the following quarters.

With the domestic economy performing well and the global economy on solid footing, 2018 looked set to be a strong year for profits growth even before the big corporate tax cuts were approved in December.

With earnings season around the corner, analysts polled by Thomson Reuters I/B/E/S estimate first-quarter profits for companies in the **S&P 500** will be up an estimated 18.5% above the year-earlier level. Back in October, when the tax cut's prospects seemed dicey, analysts had expected first-quarter earnings to grow 10.6%. At the start of the quarter, when many analysts had yet to incorporate the tax cut in their models, they expected 12.2% earnings growth.

Analysts project that gains related to the tax cut will persist through the year. Current estimates put second-quarter earnings growth at 19.8%. For the year, analysts now forecast earnings growth of 19.8%. But these expectations may be too optimistic about how much of the tax cut will effectively flow into investors' pockets as opposed to heading elsewhere.

The issue is how much of the tax cut goes to investors, how much goes to buildings and equipment, and how much goes to workers. Industry analysts at Morgan Stanley, who were surveyed by the firm's economists, expect 13.2% of the gains from the tax cut will be spent on compensation at the companies they cover, with an additional 17.3% going to capital spending. The rest they expect will effectively go toward investors through buybacks and dividends, mergers and acquisitions, and balance sheet repair.

This makes sense for the first part of the year because it takes time to put spending and hiring plans into place. But as the year goes on, that is likely to change. A group of chief financial officers surveyed recently by Duke's Fuqua School of Business expect that capital spending will be up 11% over the next year, as compared with the previous 12 months. Back in December, they had predicted a 3.2% increase in spending. In the most recent survey, they said attracting and retaining qualified employees is their top concern.

Analysts are an optimistic bunch and typically they lower their estimates as reality sets in. Earnings will still get a boost, but there are too many variables including more capital spending, higher labor costs, a weaker economy or a trade war, to bank on double-digit growth for the whole year. Skepticism regarding these rosy predictions may be one reason behind the **stock market**'s recent stumbles, and may increasingly drive the market in the coming months.

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Economy

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Buell's Take: Latvia Case Reopens Questions on ECB Emergency Lending

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Powell **Bullish** on Economy, but Sees No Signs of Overheating

Fed's Dudley Says Four Rate Rises in 2018 Would Still Be Gradual

Kuroda Jolts Markets With First Reference to Exit Timing

Latvia Case Reopens Questions on ECB Emergency Lending

There was a time among European Central Bank watchers when its Emergency Liquidity Assistance program was like the film "Fight Club." The first rule of ELA was that nobody talked about ELA.

That started to change in the wake of the latest incarnation of the Greek crisis in 2015 when reporters aggressively chased the lending volume Greek banks were getting from their national central bank under ELA. In September of that year, the ECB decided that national central banks could communicate the provision of ELA to banks in their countries, lifting somewhat the veil of secrecy over the program.

Eurozone rules allow national central banks to provide emergency funding to banks in their country outside of the realm of regular ECB loans, though the Governing Council can reject ELA if it concludes that the emergency liquidity provisions undermine the ECB's monetary policy.

The topic of emergency central bank lending arose again just last week in the scandal surrounding Latvian bank ABLV, which the U.S. Treasury Department accused of money laundering, a charge the bank denies. Last Friday, Latvian officials said the bank was in line to get nearly EUR500 million in emergency loans from its national central bank. Ultimately, however, the ECB declared the bank "failing or likely to fail" on Saturday.

Sven Giegold, a German member of the Green Party in the European Parliament, confronted ECB President Mario Draghi about this in a hearing on Monday. He asked if the ECB President felt that "doubtful use of ELA" could "harm the credibility of the system as a whole and therefore the ELA policies should be changed."

Mr. Draghi said he agreed and that he has argued "several times" for a centralization of ELA, calling it a "remnant of a past time." But he said to change it "we ought to have the agreement of all the members of the Governing Council, namely all countries in fact. They have to decide that they would abandon this remnant of national sovereignty in monetary policy."

Mr. Draghi said last September in the European Parliament that the ECB "had one discussion, about a year ago I think, about that, but we do not have any change in the agreement, as far as I can see, coming in the near future on that."

A person familiar with the Governing Council's thinking said there currently is no discussion in the Council about changes to ELA.

Key Developments Around the World

Trump Likely to Nominate Clarida for Fed Vice Chair

By Nick Timiraos and Harriet Torry

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.

Powell **Bullish** on Economy, but Sees No Signs of Overheating

By Nick Timiraos

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.

Fed's Dudley Says Four Rate Rises in 2018 Would Still Be Gradual

By Michael S. Derby

Federal Reserve Bank of New York leader William Dudley said Thursday a slightly more aggressive course of interest-rate rises this year wouldn't upend the central bank's desire to boost the cost of borrowing slowly and steadily.

"If you were to go to four 25 basis-point rate hikes [in 2018], I think it would still be gradual," Mr. Dudley said at an event in Brazil when asked whether an improving economy could push the Fed to raise rates more than the three times it has penciled in for this year.

"If you look at the hiking process in the last cycle, it was a quarter point at every meeting," Mr. Dudley said at a gathering held by Brazil's central bank. That pace is essentially double what the Fed now seeks.

Mr. Dudley, who serves as vice chairman of the interest-rate-setting Federal Open Market Committee, has suggested that the case for raising rates at the Fed's next meeting this month is strong, although he didn't reiterate that view Thursday. Fed officials are expected to raise their benchmark federal-funds rate at the March 20-21 meeting. The central bank in December raised the rate to a range between 1.25% and 1.5%.

Mr. Dudley's formal remarks Thursday were on the benefits of free trade, wrapped in a plea not to adopt protectionist actions that could damage an economy.

Mr. Dudley said that before the government passed tax cuts and a stimulative spending deal recently, the Fed already was looking at above-trend growth and steady rate rises.

With those fiscal policy changes, "I have greater confidence the economy is going to grow above trend, I have greater confidence that the Fed is going to have to continue to gradually remove monetary accommodation," Mr. Dudley said. "Whether that necessitates a faster pace of tightening, I think that still remains to be seen."

The fact that inflation remains below the Fed's 2% annual target argues against more aggressive rate moves, Mr. Dudley said. He also said he is OK with inflation moving modestly above 2% for a spell.

Fed's Dudley Says Trade Protectionism Is a ‘Dead End'

By Michael S. Derby

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**."

Kuroda Jolts Markets With First Reference to Exit Timing

By Mayumi Negishi and Megumi Fujikawa

TOKYO—The Bank of Japan will likely start considering an exit from its aggressive monetary easing beginning as early as next year, Gov. Haruhiko Kuroda said Friday, his first reference to a time frame for winding down Japan's massive monetary stimulus program.

The remark surprised markets, nearly doubling the yield on 10-year Japanese government debt and sending the yen higher against the U.S. dollar.

In parliamentary testimony that is part of his nomination process for a second term as governor, Mr. Kuroda refused to talk about specific measures needed to make the shift in policy, saying that such a discussion was premature given inflation was still far from the bank's 2% goal.

But after repeated questioning by lawmakers, he then said when those discussions might take place.

"It would not be a mistake to say that an exit will be under consideration around fiscal year 2019," Mr. Kuroda said, referring to the year starting in April 2019 when the BOJ projects inflation will reach 2%.

Mr. Kuroda has taken a very cautious line on talk of the central bank's exit strategy, which is likely to be one of the thorniest issues of his second term.

Prime Minister Shinzo Abe nominated him for a second term in February. Mr. Abe originally handpicked Mr. Kuroda to helm the BOJ in 2013 to lead one of the main pillars of his Abenomics revival plan: a massive monetary easing program to generate inflation.

Earlier this week, Mr. Kuroda spoke of the need for a very gradual exit policy to avoid shocking Japan's economy, in what had been his most extensive comment to date on winding down stimulus.

His latest remark briefly propelled the yield on Japanese 10-year government bonds to 0.080% from 0.045% and pushed the dollar below ¥106 to a fresh two-week low of ¥105.71.

"Neither monetary easing nor tightening lasts forever," Mr. Kuroda said. Earlier in the session, he said the bank was still willing to take additional easing action if it was deemed necessary to sustain momentum toward 2% inflation and suggested some reluctance toward raising interest rates.

Asked if the BOJ would consider raising the rate targets if inflation reached 1%, Mr. Kuroda said he was "cautious and negative" about such an option because premature rate increases could delay a recovery from a deflationary mind-set that has gripped companies and consumers.

February core inflation data for Tokyo, released earlier Friday, showed the fastest pace of increase in nearly three years, prompting some analysts to predict that nationwide price growth, excluding fresh food prices, will hit 1% when the more-full figures are released in around three weeks.

Some analysts have cited a need for underlying inflation to reach 1% and a government declaration that deflation is over as preconditions for any move by the BOJ to raise rates. Underlying inflation, as defined by the consumer-price index excluding fresh food and energy, is still only 0.4%, according to January data.

Earlier Friday, Mr. Abe said Japan was no longer in a deflationary situation thanks to Mr. Kuroda's easing program, clearing one of the hurdles envisaged by economists. Mr. Abe also praised him for bringing an end to deflation in a fairly short amount of time, given that the nation had struggled with limp and falling prices for nearly two decades.

Cryptocurrencies Are Failing as Money, Says BOE's Carney

By Jason Douglas

Cryptocurrencies are failing as money and should face tighter regulation, Bank of England Gov. Mark Carney said Friday.

Mr. Carney said "the time has come" to hold digital currencies and the exchanges on which they trade to the same standards as the rest of the financial sector.

"Being part of the financial system brings enormous privileges, but with them, great responsibilities," Mr. Carney said, according to a text of his speech prepared for a student conference in Edinburgh.

"In my view, holding crypto-asset exchanges to the same rigorous standards as those that trade securities would address a major underlap in the regulatory approach," he added.

His remarks come as regulators world-wide step up scrutiny and oversight of digital currencies. The U.S. Securities and Exchange Commission issued dozens of subpoenas and information requests to technology companies and advisers involved in the red-hot market for cryptocurrencies this week, The Wall Street Journal reported.

Mr. Carney, who also heads the Financial Stability Board, a global regulatory task force, said regulation of digital currencies is needed to combat money laundering and other illegal activities, as well as protect retail investors.

The FSB is due to publish a report on cryptocurrencies for the leaders of the world's largest economies later in March.

Mr. Carney said cryptocurrencies use interesting technology, including the much-vaunted distributed ledger technology that records transactions across users. But he said they are failing as money, given their wild swings in value and limited exchangeability for goods and services.

He said calls for central banks to borrow the technology and issue their own digital currencies to supplant cash and bank deposits are premature.

"A true, widely-available central bank digital currency does not appear to be a near-term prospect," Mr. Carney said.

The blockchain technology that underpins bitcoin still has shortcomings and it remains questionable whether central banks should play an even bigger role in the financial system, he said.

"A CBDC [central bank digital currency] shouldn't be a solution in search of a problem or an effort to of central bankers to be down with the kids," Mr. Carney added.

Quick Hits

Bank of Canada's Poloz: Traders Learn to Embrace BOC Risk

Bank of Canada Gov. Stephen Poloz says it appears traders have finally embraced the central bank's preference of avoiding forward guidance on rate policy. Back in 2014 and early in his term as BOC governor, Mr. Poloz stopped offering forward guidance, saying it can become "addictive" to markets. In remarks in London on Thursday, he said the central bank "took some grief" for its decision. However, he said traders have come to accept the bank's preference to treat rate policy as an exercise in risk management, "as opposed to the precision engineering many believe the practice of monetary policy to be." He added that the BOC's approach "leaves market participants to interpret the data and make their own forecasts."

—Paul Vieira

Brazil's Low Growth Leading to Further Rate Cut, Says UBS

Disappointing economic growth in the last quarter of 2017 will lead Brazil's central bank to cut rates to 6.5% from 6.75%, UBS said. The economy expanded 2.1% from the same period a year ago, the government said Thursday. That was below UBS's 2.3% forecast and "does not represent a recovery," the bank said. As most pundits, UBS was expecting interest rates to remain at the current record-low level, but it is now calling for another cut when the central bank decides on monetary policy March 21.

—Paulo Trevisani

Bank of Mexico Charts Path for Expected Inflation

The Bank of Mexico's decision to publish specific average inflation forecasts for each quarter—versus previously more general outlines—should help anchor inflation expectations while decreasing the bank's flexibility in future policy actions, says Nomura. "Should inflation start to increase above the forecast path, the market would likely immediately expect a more hawkish stance," the firm says. The path along which the central bank expects inflation to move in 2018 is: 5.5% in the first quarter, 4.8% in the second, 4.3% in the third and 3.8% in the fourth, reaching the 3% target in the first quarter of 2019. The central bank raised interest rates in December and again in February after inflation accelerated unexpectedly at the end of last year.

—Anthony Harrup

Peru's Central Bank Seen Cutting Rate as Inflation Eases

Peru's central bank will likely cut its reference interest rate by 25 basis points to 2.75% in March amid low inflation and weak economic growth, brokerage Inteligo SAB says. In February, Peru's consumer-price index increased 0.25%, bringing the annual rate to 1.18%, the lowest since May 2010. The central bank aims to keep inflation within a range of 1% to 3%. Inteligo says inflation will likely continue to ease in the coming months, prompting the central bank to reduce its policy rate. Further rate cuts "could only be triggered if political tensions emerge or if important delays at fiscal implementation take place," it says.

—Ryan Dube

Friday

10 a.m. EST

University of Michigan releases final February U.S. consumer sentiment

A Skeptical View of the Impact of the Fed's Balance Sheet

David Greenlaw, James D. Hamilton, Ethan S. Harris and Kenneth D. West argue that the consensus overstates the effect of large scale asset purchases on 10-year yields. The researchers find that the Fed announcements weren't a primary factor determining 10-year yields and that any effects tended not to persist. "Our conclusion is that the most important and reliable instrument of monetary policy is the short term interest rate, and we discuss the implications of this finding for Fed policy going forward."

Maybe Powell Really Isn't an Inflation Hawk

A lot of people think the new Fed chairman is signaling faster interest-rate increases. Karl W. Smith offers a different interpretation in Bloomberg View: "It would be wise to hold off raising rates because there is no way to know whether the discouraged workers can be enticed back unless spending remains strong, even at some risk of higher inflation. That's why Powell's remarks make me think he is inclined to let the economy continue to strengthen without speeding up the pace of interest-rate increases."

The number of Americans filing new applications for unemployment benefits fell last week to the lowest level since December 1969, offering fresh evidence of health in the labor market.

A key measure of U.S. factory-sector activity surged to the highest level since 2004 and raw-materials prices rose quickly, signs of an economy heating up.

The incomes of U.S. households jumped in January , reflecting tax law changes that are reducing tax withholding and led to one-time bonuses for some households.

ICYMI: Former Fed Chairwoman Janet Yellen was interviewed Tuesday at the Brookings Institution. Here are selected video clips from the event.https://www.brookings.edu/blog/brookings-now/2018/03/01/janet-yellen/

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

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WSJ PRO CENTRAL BANKING

Economy
Inflation Cooled in February; A decline in gasoline and fuel oil costs helped keep consumer price index capped at 0.2% growth

By Harriet Torry
581 words
13 March 2018
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English

WASHINGTON—Inflation cooled slightly for American consumers last month, keeping the Federal Reserve on track to raise short-term interest rates next week, but relieving it of pressure to take more dramatic action to prevent the economy from overheating.

A decline in gasoline and fuel-oil costs kept a lid on price pressures in February, along with a muted rise in the cost of rent and a drop in car prices. The consumer-price index, which measures what Americans pay for everything from shampoo to hotel stays, increased 0.2% in February after rising a seasonally adjusted 0.5% in January, the Labor Department said Tuesday.

Unrounded, the CPI showed an even smaller increase: by 0.150% in February from 0.539% in January. Excluding the **volatile** food and energy categories, so-called core inflation slowed to a rate of 0.182% in February from January's 0.349%, the biggest increase since March 2005.

Tuesday's report tempered signals from last month of a pickup in inflation that had sent shock waves through **financial markets**. Nonetheless, economists cautioned that annual measures of price increases could snap back next month, when exceptionally low readings for a handful of items last year, such as wireless cellphone services, wash out of the data.

Overall prices rose 2.2%, while core prices were up 1.8% in the year to February.

"Together, these figures should satisfy Fed policy makers that inflation is not too cold—as last spring's numbers hinted at—or too hot, as might have been inferred from the January print," JPMorgan Chase economist Michael Feroli said in a note to clients.

Recent data now show the economy in a sweet spot with moderate inflation in February, together with bumper job creation, a 4.1% unemployment rate and strong consumer sentiment readings.

Fed-funds futures tracked by CME Group showed investors priced in an 86% probability of a quarter-percentage-point rate increase by the Fed next week.

Fed policy makers held their benchmark short-term interest rate steady in January, in a range between 1.25% and 1.5%, and signaled greater confidence that inflation would rise to their 2% target. Core inflation was only 1.5% in January, according to the Fed's preferred measure, the Commerce Department's personal-consumption expenditures index. Yet Tuesday's consumer-price index marked the third straight month in which core prices increased at an annual rate of 1.8%, suggesting inflation is rising at a moderate pace.

Swings in some goods prices drew attention from financial analysts. Prices of both new and used vehicles declined in February for the second straight month, which economists attributed to a pullback in demand after consumers hit by late-summer hurricanes last year replaced damaged cars and trucks.

Apparel prices increased for the second straight month, rising 1.5% after January's 1.7% gain; a surprise since the category has experienced deflation for most of the past two decades.

"Moves of this order are outsized, and are unlikely to be sustained for very long," said Barclays economist Pooja Sriram.

Write to Harriet Torry at harriet.torry@wsj.com

More

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Document RSTPROCB20180313ee3d000gp

The New York Times

U.S.; Politics
In Larry Kudlow, Trump Finds His Economic Evangelist

By Jim Tankersley
1,470 words
15 March 2018
06:12 PM
NYTimes.com Feed
NYTFEED
English

WASHINGTON — Long before Donald J. Trump decided to run for president, Larry Kudlow was selling his future tax plan.

Mr. Kudlow spent the years leading up to the 2016 election trying to convince every potential Republican candidate that by slashing corporate tax rates, America's rate of economic growth could double. His arguments foreshadowed Mr. Trump's pitch for the tax cuts he would sign as president in late 2017.

"The single group that benefits the most from a lower corporate tax is the middle-class wage earner," Mr. Kudlow said in a February 2015 interview, "and every study shows that."

Several studies dispute that, but they do not deter Mr. Kudlow, whom Mr. Trump picked this week to head the National Economic Council. Mr. Kudlow is not an academic economist. He is a Wall Street economist, a polished television host and, most of all, an evangelist for supply-side economics, which espouses that cutting taxes on businesses and the rich will rain down benefits on everyone else in the country.

Mr. Kudlow believes that limiting the federal government will unleash Reagan-level economic growth, and he derides the "highly flawed econometric models" of economists whose forecasts do not share his optimism, including those at the Joint Committee on Taxation, Congress's economic scorekeeper.

His zeal has led him to issue some predictions that beat consensus and others that were wildly wrong, including twice denying the existence of recessions while they were already underway during President George W. Bush's administration. ("Despite all the doom and gloom from the economic pessimistas," he wrote in December 2007, right as the worst recession in a generation was beginning, "the resilient U.S. economy continues moving ahead.")

But his preaching is consistent, effective and entertaining. Mr. Kudlow's admirers say it might be just what Mr. Trump needs right now, at a time when the economy is humming but Americans aren't giving the president or his party much credit for it.

"He's a great guy to have in a **bull market**, freewheeling economy," said James Pethokoukis, a columnist for the conservative American Enterprise Institute in Washington and a regular guest on Mr. Kudlow's syndicated radio show. "He was made to be a spokesman for an administration in that kind of economy."

Mr. Trump is confident that the economy is roaring and that he deserves credit for it, as evidenced by his announcement of Mr. Kudlow's appointment Thursday on Twitter.

Americans are similarly confident in the economy's performance, but that is not translating into widespread approval for Mr. Trump or his signature economic policies. A survey of 10,089 adults conducted this month for The New York Times by the online polling firm SurveyMonkey found that consumer confidence was strong, and remained at its highest point since Mr. Trump took office.

But only 44 percent of respondents approved of Mr. Trump's performance in office, compared with 54 percent who disapproved.

The poll found support dipping slightly for Mr. Trump's signature tax law: 49 percent of respondents approved of the bill, down from 51 percent in February, while 46 percent disapproved. That drop signals a potential ceiling of support for the new law, which had gained popularity after Mr. Trump signed it. In a worrying sign for conservatives, “strong” approval of the bill among Republicans and Republican-leaning respondents fell to 46 percent from 52 percent.

Promoting the tax law did not prove to be an effective strategy for Republicans in a special congressional election this week in Pennsylvania.

After flooding the airwaves of a district that Mr. Trump won by 20 percentage points in 2016 with tax-themed advertisements, Republicans shifted strategy for their closing argument, apparently judging the message to be ineffective. Their nominee, Rick Saccone, lost the race narrowly to Conor Lamb, a Democrat.

Mr. Kudlow, though, sees the tax law as a boon for the country and a powerful messaging weapon in the midterm elections this fall. He told his longtime colleagues at CNBC in an interview on Wednesday that one of his roles in the administration will be helping Mr. Trump persuade more Americans to see the law similarly.

“The president likes me as a media communicator,” Mr. Kudlow said, “so I will be more than happy to oblige.”

Most recent directors of the National Economic Council have not been academic economists, but the role has traditionally demanded more policy advice than salesmanship. The director is in effect the point person in the White House for economic issues, coordinating advice from across the cabinet and the West Wing. Mr. Trump’s advisers generally agree on tax issues, but they often diverge on trade, with warring factions between the traditional free-market group and a more populist group that reinforces Mr. Trump’s own inclinations and campaign talk.

Mr. Kudlow is a longtime advocate of free trade, seeing it as critical to America’s economic growth. He criticized Mr. Trump’s recent plan to levy global tariffs on aluminum and steel, but has since endorsed a slightly more tailored version of the tariffs that Mr. Trump announced this month. His predecessor, Gary D. Cohn, announced that he would step down after losing the battle over those tariffs.

Wall Street researchers were skeptical that Mr. Kudlow could persuade Mr. Trump to back away from his anti-trade agenda.

“We expect that the president and Mr. Kudlow will be at odds over trade policy,” analysts at Keefe, Bruyette & Woods wrote on Wednesday, “but that the president’s view will prevail.”

In the CNBC interview, Mr. Kudlow distilled the economic philosophy — including his love of tax cuts — that has animated him for four decades.

“I believe, first of all, the greatest and most important thing for this or any other country is rapid prosperity for everyone,” Mr. Kudlow said. “If you keep tax rates minimal, if you keep regulations and government spending minimal, if you keep the dollar sound and steady, you are going to have a terrific economy.”

He also emphasized how he, like Mr. Trump, viewed the **stock market** as a barometer for economic success. “Look, I love the **stock market**,” he said. “I love wealth. I think rising stocks help everybody.”

Faith in those principles has at times led Mr. Kudlow to better his peers in economic forecasting, most notably in the late 1970s, when he bet against Wall Street’s consensus predictions that inflation would remain low. Mr. Kudlow also cites economic growth during the Reagan administration in the 1980s, and what he calls the five-year “boom” that followed the permanent tax cuts Mr. Bush signed into law in 2003, as evidence of the power of the supply side policies he preaches.

But Mr. Kudlow has been off on other predictions.

Like many conservatives, he warned in 2010 that the Federal Reserve, which invested trillions of dollars to help prop up the economy, risked stoking rapid inflation, which did not happen.

He said in 1993 that President Bill Clinton’s “across-the-board tax increases on labor, capital and energy will throw a wet blanket over the recovery and depress the economy’s long-run potential to grow.” Several booming years later, in 1998, he was telling conservatives to cut taxes and expect a surge of new federal revenue to follow for years to come. It did surge, briefly, but large budget deficits returned in the mid-2000s and have hung around.

Critics worry that Mr. Kudlow could miss the warning signs of another recession, or advise against government action to help pull the country out of any economic dip that might occur.

Liberal groups criticized Mr. Kudlow this week for dismissing concerns about inequality and the pay gap between women and men, and for his critiques of expanded safety net programs — which he has said discourage work and contributed to slow growth under Mr. Bush and President Barack Obama. He has also expressed opposition to the federal minimum wage.

Those critics who have jousted with him on air for years also say that Mr. Kudlow is, almost uniquely in the spirited world of economic debate, an engaging and curious adversary.

“There’s probably nobody I disagree with more, and like as much,” said Jared Bernstein, a liberal economist who advised Mr. Obama.

* Trump Picks CNBC’s Larry Kudlow as Top Economic Adviser

* Larry Kudlow Is the New Favorite to Replace Gary Cohn

* Cohn’s Departure Widens Policy Rift Between Party and President

“The president likes me as a media communicator, so I will be more than happy to oblige,” Larry Kudlow, President Trump’s choice to lead the National Economic Council, told his longtime colleagues at CNBC in an interview this week. | Richard Drew/Associated Press

Document NYTFEED020180315ee3f008c1

THE WALL STREET JOURNAL.

Markets

Municipal Bonds Were Supposed to Get More Expensive in 2018. Why Didn't That Happen? A widely followed municipal-bond index had its worst first quarter in 15 years

By Heather Gillers
636 words
31 March 2018
08:00 AM
The Wall Street Journal Online
WSJO
English

The first quarter is normally one of the best times of year to be a municipal bond holder. Not in 2018.

A widely followed municipal-bond index fell more in the first three months—1.11%—than any first quarter of the past 15 years. That is because new tax rules and concerns about rising interest rates are pushing down demand for new debt from state and local governments.

"We haven't seen prices drop this much in a long time," said Howard Cure, director of municipal bond research at Evercore Wealth Management.

The last time the Bloomberg Barclays Municipal Bond Total Return Index dropped for the entire first quarter was in 2008.

Bond values usually jump in the first few months of the year as investors look to reinvest cash from stock gains and maturing bonds. Prices were expected to again follow that pattern this year due to limited supply.

But this time, demand turned scarce early in the year, partly because Congress late last year passed new legislation lowering tax rates, making tax-exempt bonds less appealing for banks and insurance companies that traditionally hold a large chunk of the nation's municipal debt. The tax rates paid by these institutions fell to 21% from 35%.

"With the lower corporate tax rate, there is less incentive for banks and property and casualty companies to buy munis," said Vikram Rai, Head of Municipal Strategy at Citigroup.

At the same time, individual investors became wary about the prospects for inflation and higher interest rates. Inflation undermines the value of outstanding bonds in part by reducing the purchasing power of their fixed payments, and rising rates make newly issued bonds more appealing than outstanding bonds with lower coupons, driving down their prices. Federal officials in March raised interest rates and are forecasting two more rate increases in 2018.

The low **bond prices** have driven up borrowing costs for state and local governments that have issued debt in recent months. The state of Maryland, for example, is paying yields of 2.54% on 10-year general-obligation debt issued in March. That is up from 2.49% on 10-year general-obligation debt sold in March 2017. These bonds typically pay for schools, hospitals and other public projects.

To be sure, mutual-fund investors did buy bonds in January as nearly $6 billion flowed into municipal-bond funds, an uptick analysts attributed to efforts to rebalance portfolios following stock gains. That is 58% above the average for the past five first quarters.

But in February and March, investors put $268 million into municipal-bond mutual funds, according to Lipper data. It was the lowest inflow for the period in the past five years and a 92% drop from the five-year average for the first quarter.

"Investors may want to sell but most buyers would rather wait and see what happens," said Patrick Luby, senior municipal strategist at CreditSights.

Some bonds bucked the pricing trend: Municipal debt tied to Puerto Rico increased in value during the first quarter because of investor hopes that the island would recover more quickly from Hurricane Maria than previously expected.

Write to Heather Gillers at heather.gillers@wsj.com

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 WSJO000020180331ee3v000xh

THE WALL STREET JOURNAL.
U.S. EDITION

South Korean Market Gets Lift From Proposed Talks

By Gregor Stuart Hunter
811 words
10 March 2018
The Wall Street Journal
J
B12
English

South Korea's currency and **stock market** rallied Friday after the White House said President Donald Trump was prepared to meet North Korean leader Kim Jong Un, helping the local market recover from a selloff sparked by fears of a looming trade war.

The diplomatic detente followed confirmation overnight that the U.S. will levy tariffs on steel and aluminum. A selloff was sparked when the stiff tariffs were first revealed by the U.S. president about a week earlier.

The Kospi Composite Index, which rose 1.1% Friday, tied with Hong Kong's **stock index** for the biggest gain among major Asian markets, while the Korean won strengthened 0.4% to 1,068.73 against the U.S. dollar in Asian trading. Late in New York, the won was up 0.8% from Thursday to 1,065.38 against the dollar.

The flurry of announcements left investors and analysts scratching their heads as they tried to reconcile conflicting news for markets in Korea, arguably the country most exposed to two of the biggest geopolitical developments this year.

South Korean markets have long operated in the shadow of tensions with its neighbor to the north. But the country could be one of the biggest victims of any escalation in global trade tensions, given its reliance on exports as a driver of economic growth.

The fortunes of the Korean won are often seen in markets as a proxy for world trade conditions.

South Korea is one of the countries most susceptible to higher steel tariffs. It is the third-biggest source of U.S. steel-product imports after the European Union and Canada, according to data from the U.S. Census Bureau.

Posco, the country's leading steelmaker and one of the biggest stocks in the Kospi index by market value, dropped 3.6% Friday.

South Korea isn't a major producer of aluminum.

Some market participants cautioned that investors should avoid a knee-jerk reaction to the latest developments in U.S.-North Korea relations. Mark Tinker, head of AXA Framlington Equities Asia, likened the White House's negotiating position on North Korea to the process one goes through when buying a carpet.

"The statements are always an opening to a negotiation," he said. "Unless you're a very short-term trader, the best thing to do is count to 10 before you react to this."

The tariffs may well be a tactical measure related to renegotiations of the North American Free Trade Agreement, Mr. Tinker added.

Still, the easing geopolitical tensions should reduce some of the discount that investors demand to invest in Korean securities, helping to lift prices in the short-term, said You Seung-min, chief strategist at Samsung Securities in Seoul.

"The news effect is reflected, but there's a long way to go," he said.

Fund flows into Korean stocks and bonds accelerated in December and January, but have been more **volatile** in the past month.

Investors have yanked $529.08 million out of Korean equity funds in the past four weeks, though the three-week streak of outflows snapped in the week ended March 7, according to data from EPFR Global.

"Despite fears that U.S. protectionism may kindle a trade war, EPFR-tracked emerging-markets equity funds posted solid, if unspectacular, inflows during the first week of March," the research firm wrote in a note to clients.

To be sure, the fate of Korean markets is likely to remain heavily influenced by the fortunes of technology giant Samsung Electronics Co., which accounts for about a quarter of the Kospi index.

Samsung's stock has fallen by more than 10% since hitting an all-time high in early November, largely on concerns about declining global prices for its chips, although the shares gained 1.1% Friday.

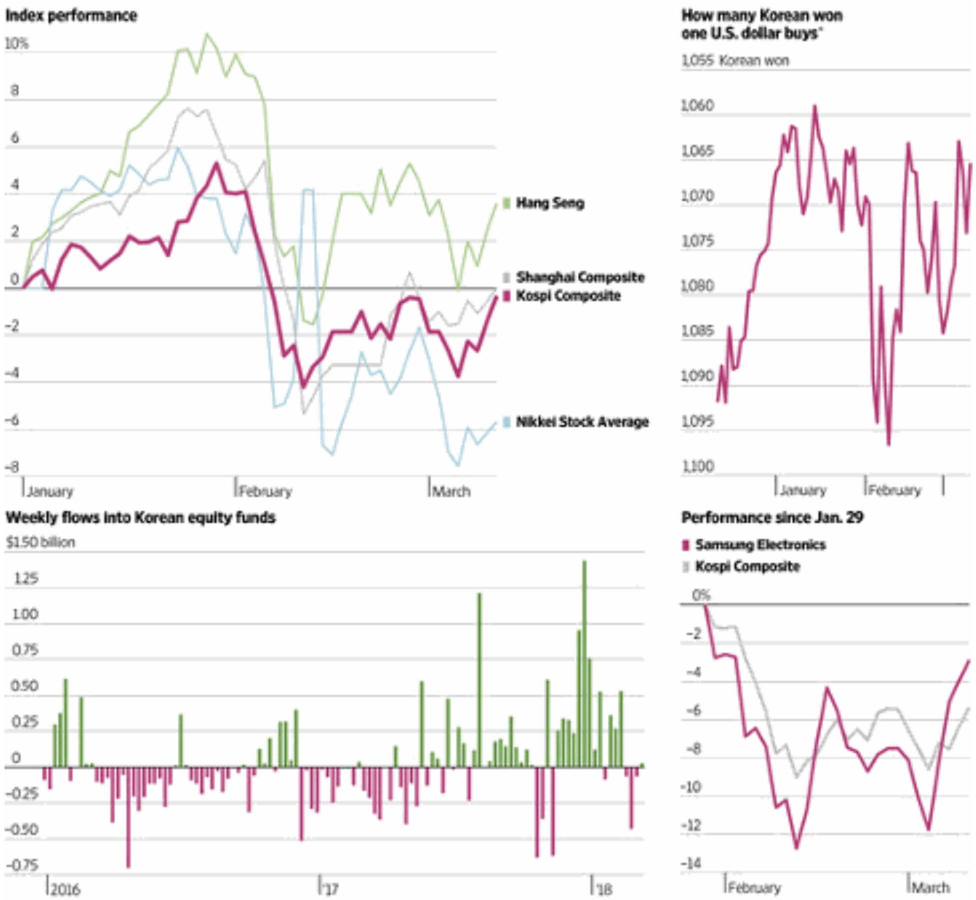
The Kospi index rose 2.4% for the week, although it is down 0.3% for the year so far.

Korean equities were often a leading indicator for the rest of emerging markets, said Jonathan Garner, chief Asian and emerging-markets equity strategist at Morgan Stanley. The firm is advising clients to hold fewer Korean equities than suggested by their benchmark.

"When I started doing this in the 1990s, people used to refer to Dr. Kospi, the market with a Ph.D.," Mr. Garner said. "That does still work in terms of anticipating overall trends for broader Asian and emerging markets. We take that seriously."

Recent indications aren't good. With more than half of emerging-market companies having reported earnings for the quarter ended in December, about two-thirds of Korean corporations have fallen short of earnings expectations, according to Morgan Stanley's research. As a whole, Korean companies have reported the biggest miss on earnings among emerging markets.

Min Sun Lee contributed to this article.



*Scale inverted to show rising Korean won

Sources: WSJ Market Data Group (Hang Seng, Shanghai, Nikkei); Six Financial (Kospi); Thomson Reuters, Tullett Prebon (won); EPFR Global (flows); FactSet (Samsung)

THE WALL STREET JOURNAL.

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THE WALL STREET JOURNAL.

Heard on the Street
Markets

Banking on Deregulation Is Still a Good Bet; Despite some last-minute jitters in Washington, regulatory relief looks to be coming for small and medium-size banks

By Aaron Back
476 words
20 March 2018
02:14 PM
The Wall Street Journal Online
WSJO
English

Corrections & Amplifications

The U.S. elections were in 2016. An earlier version of this article incorrectly stated that it was last year. (March 20, 2018)

Ever since the 2016 election, investors in small and midsize banks have been eagerly anticipating some regulatory relief out of Washington. Now, some are suddenly fearing they will disappointed by last-minute snags in Congress. The chances of substantial deregulation this year remain good, though.

The Senate last week passed a bill that would raise the threshold for stricter Federal Reserve oversight to $250 billion of assets from $50 billion currently and streamline regulations for small community banks. Sailing through on a 67-31 vote, it had support from many Democrats.

But final passage in both houses isn't certain. House Financial Services Committee Chairman Jeb Hensarling, who has long sought a broader revamp of the Dodd-Frank postcrisis regulatory system, seems to be digging in his heels.

Mr. Hensarling says the House won't vote on the bill as is and wants to negotiate with the Senate. This has raised fears in the industry that he could push for too much deregulation, jeopardizing the bill's Democratic support in the Senate and putting its eventual passage at risk.

That would be a disappointment to many investors. The KBW **Nasdaq** Regional Banking Index has risen 6% this year, outperforming both the **S&P 500** and KBW **Nasdaq** Bank Index of large-cap banks on expectations for deregulation. If the Senate bill is thwarted, those shares will be vulnerable.

There is a viable path forward. Mr. Hensarling is advocating for the final legislation to incorporate as provisions the content of dozens of bills that have advanced in the House or his committee with some bipartisan support.

Some of these are fairly anodyne and passed the House with wide margins. This includes a bill making it easier for startups to pitch groups of angel investors, and one that would make the process for banks to submit their "living wills" less burdensome.

But other bills on Mr. Hensarling's list are more contentious. One would exempt banks with less than $50 billion of assets from direct examination by the Consumer Financial Protection Bureau. Pushing too hard for this kind of measure is the kind of thing that could cause Senate Democrats to walk.

In the end, a deal should be possible. Mr. Hensarling has already said that he won't seek re-election in November. This means he has as much incentive as anyone to make something happen now. It is unlikely that he wants to leave a legacy of strong free-market rhetoric but little actual deregulation. The bottom line is that regional banks are likely to get their deregulatory prize by the end of this Congress.

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Hiring Boom Draws Workers Back --- Employers added jobs at strongest pace since mid-2016, but Fed gets breathing room on rates

By Eric Morath
1,017 words
10 March 2018
The Wall Street Journal
J
A1
English

WASHINGTON -- Companies ramped up hiring last month and people flooded back into the workforce, a potent mix suggesting the U.S. economy can run strong without overheating and forcing the Federal Reserve to slam its brakes on the expansion with aggressive interest-rate increases.

Investors, applauding the combination of robust economic growth and a restrained central bank, sent the **Dow Jones Industrial Average** up 440.53 points, or 1.77%, to 25335.74.

Nonfarm payrolls rose a seasonally adjusted 313,000 in February, the largest monthly gain since July 2016 and well above the average monthly gain in the expansion, the Labor Department said Friday.

More than 800,000 Americans joined the labor force for the month, according to the report, many bypassing unemployment and jumping straight into jobs. It was the largest one-month labor-pool rise since 1983, outside months that had temporary Census hiring.

The jobless rate held at 4.1% in February, its lowest level since December 2000, for the fifth straight month.

Low unemployment, in theory, creates wage and inflation pressure as firms compete for scarcer labor. But with people rejoining the labor force and expanding the pool of workers and job seekers, that bidding process was restrained and wage growth muted last month.

Average hourly earnings for all private sector workers rose 2.6% from a year earlier in February, a smaller increase than the prior month. The average workweek rose -- meaning firms were looking for ways to get more output from the workers they had -- and weekly paychecks rose.

Most people want to see worker wages move higher. But if wages and inflation were to shoot up sharply, Fed officials might be compelled to raise short-term interest rates more aggressively than planned to prevent the economy from overheating. When it raises interest rates it restrains borrowing, investing and spending.

January's initial estimated wage gain -- showing the biggest increase since the recession ended -- had stoked concerns in **financial markets** that bigger than expected paychecks would lead to higher inflation. Friday's report revised down the reported increase for January and calmed investor worries that Fed officials might act more aggressively than planned.

In December, the Fed projected three quarter-percentage-point interest rate increases in 2018, with the next one expected this month. Friday's jobs report gives the Fed little reason to deviate from that plan, perhaps moving rates up a fourth time before year-end but not much more aggressively.

Broad dynamics have been at play squeezing the labor force for years. Most notably, an aging population of retiring baby boomers threatens to shrink the supply of potential workers for employers to choose from. Top Fed officials are hoping the move of discouraged, part-time and other potential workers off the sidelines can help offset that trend and keep inflation pressures at bay.

"It seems increasingly plausible that the economy is still well short of full employment," said Andrew Levin, a Dartmouth College economics professor and former Fed adviser.

Full employment is the term economists use to describe a sweet spot in the economy -- a point in a business cycle when unemployment is very low, but not so low that it starts stoking severe wage and price inflation. The Fed's goal is to keep the economy in that sweet spot for as long as possible.

Jaraun "Gemini" Boyd offers a window into the broad forces reshaping the jobs market as the expansion advances. As workers become scarcer, employers are looking further and wider for talent. That includes tapping a pool of former prisoners.

Mr. Boyd spent nearly two decades in federal prison on drug-related charges. After training to become a commercial-truck driver, the 43-year old rejoined the ranks of workers late last year, landing a job driving a garbage truck for the city of Charlotte, N.C.

"I was no saint," Mr. Boyd said in a telephone interview. He initially received little help finding a job. "After prison you need a second chance -- but if you have a record you can't get a job, you can't get housing assistance, you see why people turn back to crime."

He landed the truck-driving training through the Charlotte Works Workforce Development Board. That "opened a door for me," said Mr. Boyd. "It's just a first step." He wants to start a nonprofit working with at-risk youth.

Though the unemployment rate is low, broader measures of unemployment and underemployment are still elevated, suggesting there is still slack in the labor market that companies can draw from to increase worker output without very aggressively bidding up wages.

One measure that includes Americans in part-time jobs or still too discouraged to seek work held at 8.2% in February. That rate, known as U-6, remains elevated compared with the last time the headline rate touched 4%. In December 2000, the broader measure was 6.9%.

If companies convert part-time workers to full-time workers or draw in more discouraged people not currently looking for work, that broad measure of labor slack might fall further without pushing down conventional measures of unemployment.

Hiring in February was broad-based. Construction firms added 61,000 workers, the biggest increase in nearly 11 years for the sector. Hiring picked up at retailers, manufacturers and local governments, including schools.

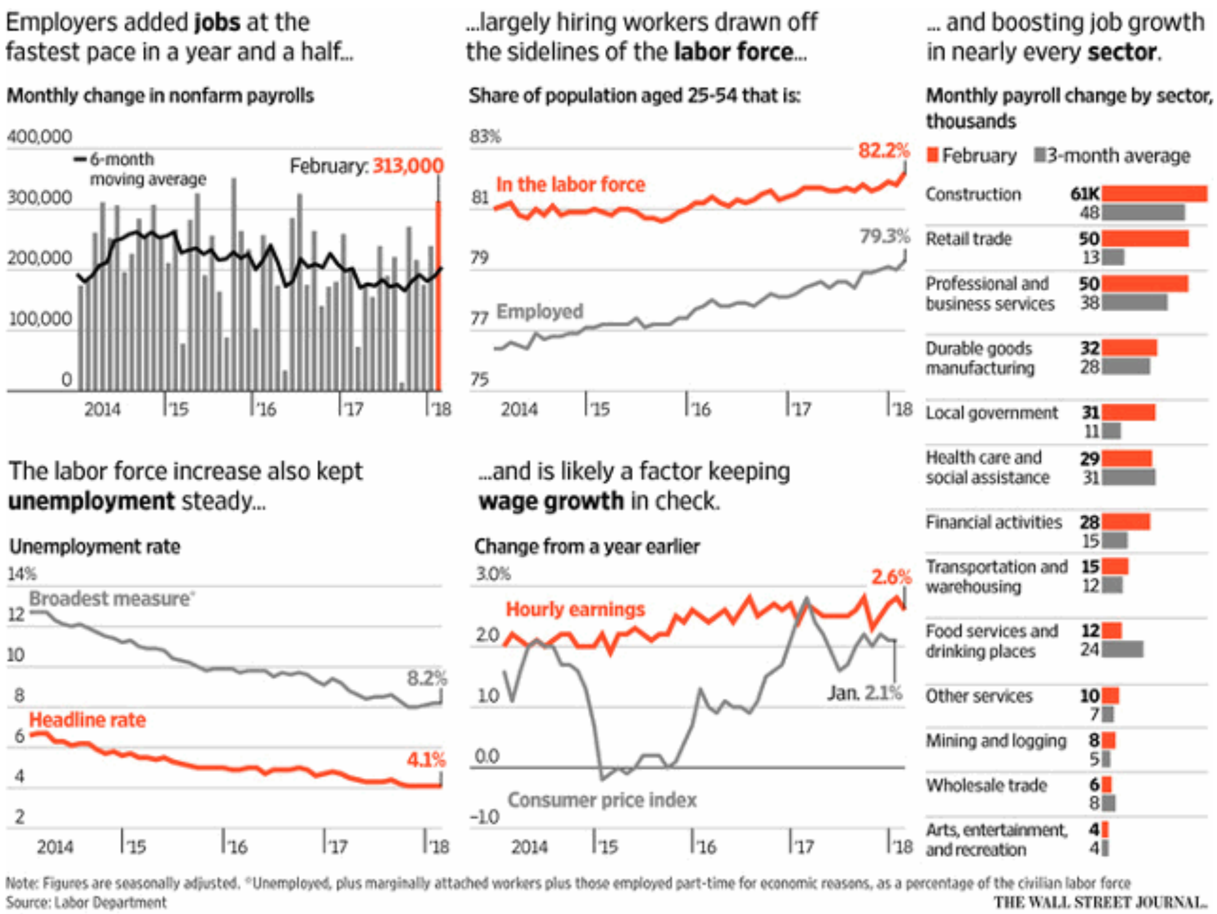
Despite signs of a pickup in labor-force participation, certain industries are still reporting shortages in labor, including in retail, health care and manufacturers.

Becky Frankiewicz, president of ManpowerGroup North America, a staffing firm, said the demand for labor is reaching the highest levels since 2000, when unemployment last held around 4%. "Confidence is continuing to build," she said.

One problem is a lack of skilled workers, especially when technology is changing rapidly.

"Ultimately government and education institutions will need to help with that," she said. "But we can't wait. The jobs are in demand today."

Nick Timiraos contributed to this article.



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WSJ PRO BANKRUPTCY

Markets

Why Puerto Rico Is Proving to Be 2018's Top Bond Investment; Rally prompted by data showing earlier estimates of hurricane's financial impact were too pessimistic

By Matt Wirz
962 words
15 March 2018
08:00 AM
WSJ Pro Bankruptcy
RSTPROBK
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 continuing 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 14% year to date, the top performer out of 323 bond indexes maintained by S&P Dow Jones Indices. Prices of certain Puerto Rico bonds have more than doubled since the end of December.

The rally began in January, when Puerto Rico's government revealed 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 owns nearly $600 million in face amount 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 windfall comes as Treasury bonds have lost 1.8% since Jan. 1 and the below-investment-grade loans GoldenTree specializes in have returned about 1.3%, 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 own about $2 billion of the general obligation debt combined and are suing to establish their own primacy. A crucial 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 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 in order to maximize debt forgiveness in upcoming 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 spokesperson for the Puerto Rico Fiscal Agency and Financial Advisory Authority didn't immediately 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 crucial 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," says Joe Rosenblum, head of municipal bond research at AllianceBernstein Holding LP.

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THE WALL STREET JOURNAL.

Heard on the Street
Markets
'Rolldown' Shows Why the Bond Market Is an Unfriendly Place to Hide; The absence of a 'rolldown' is making the U.S. bond market an unfriendly place for investors

By Richard Barley
470 words
22 March 2018
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The Wall Street Journal Online
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For bond investors, a concept called "rolldown" is like a virtuous form of financial gravity, a force that generates returns without doing much work. A flattening yield curve, however, is threatening the physics that investors rely upon.

The signals sent by the Federal Reserve Wednesday suggests the yield curve could flatten further: Its rate increases will raise short-dated yields, but there is still skepticism that rates in the long term will be materially higher.

When the yield curve is steep, investors benefit from the yield on a long-term bond "rolling down" the curve. As a 10-year bond over time becomes a nine-year bond, all else being equal, its yield falls and its price rises, producing a gain above the initial yield when the bond is purchased. That offers protection for bond investors in a rising-rate environment, notes TwentyFour Asset Management.

The U.S. yield curve still slopes upwards, with 10-year Treasurys yielding 0.57 percentage point more than two-year securities. But the further out you go, the flatter the curve gets. There is now only a 0.07 percentage-point gap between seven- and **10-year Treasury** yields, a gap that has more than halved from a year ago. The potential for rolldown gains is small.

A similar phenomenon is showing up in U.S. corporate bond markets too, with the gap between short- and long-maturity bonds shrinking in both yield and spread terms. A number of forces are potentially at play here, as with the rise in Libor rates.

Higher U.S. Treasury bill issuance is competing for investors' cash. And the pool of funding for short-dated debt may also have shrunk due to corporate cash repatriation, Citigroup suggests: if dollars can be repatriated and spent, they don't need to be tied up in bond investments.

By contrast, steeper curves in eurozone government and corporate bond markets may make them attractive to investors. The European Central Bank's negative-rate policy, which it is in no rush to change, is acting as an anchor for yields, reassuring bond investors. Coupled with the cost for foreign investors to hedge dollar-denominated bonds, U.S. bonds lose out despite their higher yields. All of that may lead to tighter U.S. financial conditions.

The absence of rolldown is just one factor in the investment equation, of course. But piled on top of a Fed that looks set to carry on raising rates and concerns about inflation, it makes the U.S. bond market an unfriendly place for investors.

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

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THE WALL STREET JOURNAL.

Politics

U.S. to Apply Tariffs on Chinese Imports, Restrict Tech Deals; 'It's out of control,' President Donald Trump says of U.S. trade deficit with China

By Bob Davis
1,609 words
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Corrections & Amplifications

Mr. Trump gave the U.S. Treasury 60 days to come up with a specific plan to restrict Chinese investment. An earlier version of this article incorrectly aid he gave the Treasury 60 days to come up with a specific plan for tariffs on Chinese imports. (March 22, 2018)

WASHINGTON—President Donald Trump sought to rewrite the rules of global trade on Thursday with a long-pledged trade offensive against China.

The administration's actions, including a threat of tariffs on $60 billion of imports and tighter restrictions on acquisitions and technology transfers, came in response to what it said were Chinese efforts to obtain U.S. technology through intimidation, state-financed acquisition and subterfuge.

The move followed previously announced tariffs on global imports of steel and aluminum, which will take effect on Friday, although the administration is negotiating exemptions on those duties for many of its closest allies.

At a White House ceremony, the president signed a memorandum, citing Section 301 of the Trade Act of 1974, instructing the government to respond to Chinese practices. Specific actions won't occur for at least one month, which the administration hopes will push China to make concessions as it contemplates a substantial cutoff in trade.

In a warning shot, China on Friday unveiled plans for tariffs against $3 billion in U.S. imports, from fruit to pork and recycled aluminum and steel pipes. The country's Commerce Ministry said the penalties are being imposed in response to U.S. tariffs on Chinese steel and aluminum products, which it said violate global trade rules.

The ministry warned of additional action against the U.S.'s latest proposed penalties on Chinese goods.

The Trump administration also released a report accusing Beijing of undermining U.S. companies operating in China through unfair licensing deals and other improper practices.

"It's out of control," said Mr. Trump, adding that past efforts to negotiate with China had failed and that the World Trade Organization was a "disaster" and "very unfair" to the U.S. Mr. Trump sees confrontation as the way to get results, feeling that past administrations haven't been tough enough, senior White House officials said.

The White House is putting together a package of 25% tariffs on Chinese imports, and Mr. Trump's advisers said they had targeted 1,300 product categories. The president said that action could affect imports of "about $60 billion," but his advisers, speaking earlier, said that it was more likely to be $50 billion, or roughly 10% of the more than $500 billion the U.S. imported from China last year.

The administration says it will publish a formal list of proposed tariffs in 15 days. U.S. industry would get 30 days to comment on which products should be selected for tariffs, said the office of the U.S. Trade Representative. The goal, according to USTR officials, is to keep the pressure on China to make changes in its practices, while giving U.S. industry a chance to make its case about which tariffs would be especially harmful to U.S. industry.

Mr. Trump has said he wants Beijing to come up with a plan to slash the U.S. $375 billion merchandise trade deficit with China by $100 billion.

Many trade economists say changing trade policies won't have much of an impact. Rather, trade deficits are controlled by macroeconomic measures, such as changing national spending and saving patterns. The U.S. **stock market** reacted negatively Thursday, with the **Dow Jones Industrial Average** falling 724.42 points, or 2.9%, to close at 23957.89.

The White House's actions did win praise from some Democrats who rarely line up with the president. "I don't agree with President Trump on a whole lot, but today I want to give him a big pat on the back," said Senate Minority Leader Chuck Schumer (D., N.Y.). "He is doing the right thing when it comes to China."

The aim of the administration's steel and aluminum tariffs was to get allies to pressure China to reduce its excess capacity—and exports—in those commodities. Those tariffs, though, have split the U.S. and its allies and made Washington the target of criticism, rather than Beijing.

So, as the Trump administrations raises tensions with China, it is now softening its trade stance with other trading partners. It is negotiating exemptions to the metal tariffs for such allies as the European Union, Australia and South Korea. Canada and Mexico are also getting exemptions while the two neighbors renegotiate the North American Free Trade Agreement with Washington.

The Trump administration is "now trying to form a common front in the dispute against China," said Eswar Prasad, a China expert at Cornell University. So doing, "the administration seems to be attempting a midair pivot in its relationship with other U.S. trading partners."

Chinese officials complain that the U.S. has suspended formal trade talks and hasn't given them a clear idea of what the U.S. wants Beijing to do. "We don't want a trade war," said Chinese Ambassador to the U.S. Cui Tiankai. "But we are not afraid of it. If somebody tries to impose a trade war on us, we will certainly fight back and retaliate."

Beijing contends that it has improved its protection of intellectual property and that it is moving fast to further liberalize its economy. It also is putting together an additional package of retaliatory measures against the latest U.S. tariffs that include its own tariffs on soy, sorghum and live hogs—some of which are exported from states that were big supporters of Mr. Trump in the 2016 presidential election. Chinese officials have also said that if the U.S. wants to narrow the trade deficit, it should ease restrictions on exports of U.S. high-technology goods to China—precisely the opposite of what the U.S. is planning to do.

Mr. Trump, while promising to further stem the flow of technology to China, criticized what he said was a "tremendous intellectual property theft situation" by China, which he valued at "hundreds of billions of dollars" a year.

The scope and substance of the Chinese imports that will be targeted by the tariffs has been a moving target. Earlier in the week, White House officials were signaling $30 billion, though others said $60 billion. A White House official said that the harm to the U.S. from forced technology transfer, once estimated at $30 billion, had been updated to $48 billion. They said that was why the U.S. was targeting around $50 billion in Chinese goods.

It's "$50 billion and may be as high as $60 billion once [the U.S. Trade Representative] completes the process," a White House official said.

At the White House ceremony, Lockheed Martin Corp. CEO Marillyn Hewson praised the U.S. initiative. "This is a very important moment for our country in that we are addressing what is a critical area for the aerospace and defense industry and that is protecting our intellectual property," said Ms. Hewson, whose firm is a top U.S. military contractor.

U.S. Trade Representative Robert Lighthizer said Thursday in Senate hearings that the tariffs would probably target high-technology industries that China has singled out for development. Those could include new-energy vehicles technology and agricultural machinery. Later, USTR also said that aerospace, information and communications technology, and machinery could be subject to tariffs.

Yet the target list raises several difficult questions, critics said. For one, many in the U.S. technology industry worry they will face higher costs through tariffs, and even face retaliation against their companies doing business in China.

Tariffs on communications products, "would make it more expensive to expand and upgrade American communication networks," said Cinnamon Rogers, a senior vice president of the Telecommunications Industry Association, which represents makers of technology used in communications networks.

The tariffs also would be levied without first bringing a case to the WTO, which adjudicates trade claims. Trade lawyers are split on whether the U.S. has the authority to do so. But even if it is permitted under WTO rules, it would upend the practice of bringing disputes first to the Geneva trade body.

The U.S. also is planning to bring a case to the WTO arguing that China is favoring domestic companies when it comes to licensing. The WTO adjudicates trade cases and can authorize countries to assess tariffs when a country doesn't comply with international trade rules.

China has been a big target for cases brought by the U.S., Japan and the European Union, and the U.S. hopes to sign up allies for its planned WTO action.

Mr. Trump gave the U.S. Treasury 60 days to come up with a specific plan to restrict Chinese investment. The U.S. already has made it tough for Chinese firms to invest in the U.S., blocking the purchase of a number of U.S. semiconductor firms. The Committee on Foreign Investment in the U.S., an interagency group, screens proposed bids for national-security concerns.

While Congress is debating whether to broaden the jurisdiction of CFIUS to include the acquisition of U.S. technology through joint ventures in the U.S. and abroad, the Trump administration wants to go further. CFIUS currently wields its veto power on foreign acquisitions based on national security concerns, but the administration wants to consider economic harm, too.

William Mauldin and Rebecca Ballhaus contributed to this article.

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

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THE WALL STREET JOURNAL.

Opinion
Trump's Tariff Folly; His tax on aluminum and steel will hurt the economy and his voters.

By The Editorial Board
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Donald Trump made the biggest policy blunder of his Presidency Thursday by announcing that next week he'll impose tariffs of 25% on imported steel and 10% on aluminum. This tax increase will punish American workers, invite retaliation that will harm U.S. exports, divide his political coalition at home, anger allies abroad, and undermine his tax and regulatory reforms. The **Dow Jones Industrial Average** fell 1.7% on the news, as investors absorbed the self-inflicted folly.

Mr. Trump has spent a year trying to lift the economy from its Obama doldrums, with considerable success. Annual GDP growth has averaged 3% in the past nine months if you adjust for temporary factors, and on Tuesday the ISM manufacturing index for February came in at a gaudy 60.8. American factories are humming, and consumer and business confidence are soaring.

Apparently Mr. Trump can't stand all this winning. His tariffs will benefit a handful of companies, at least for a while, but they will harm many more. "We have with us the biggest steel companies in the United States. They used to be a lot bigger, but they're going to be a lot bigger again," Mr. Trump declared in a meeting Thursday at the White House with steel and aluminum executives.

No, they won't. The immediate impact will be to make the U.S. an island of high-priced steel and aluminum. The U.S. companies will raise their prices to nearly match the tariffs while snatching some market share. The additional profits will flow to executives in higher bonuses and shareholders, at least until the higher prices hurt their steel- and aluminum-using customers. Then U.S. steel and aluminum makers will be hurt as well.

Mr. Trump seems not to understand that steel-using industries in the U.S. employ some 6.5 million Americans, while steel makers employ about 140,000. Transportation industries, including aircraft and autos, account for about 40% of domestic steel consumption, followed by packaging with 20% and building construction with 15%. All will have to pay higher prices, making them less competitive globally and in the U.S.

Instead of importing steel to make goods in America, many companies will simply import the finished product made from cheaper steel or aluminum abroad. Mr. Trump fancies himself the savior of the U.S. auto industry, but he might note that Ford Motor shares fell 3% Thursday and GM's fell 4%. U.S. Steel gained 5.8%. Mr. Trump has handed a giant gift to foreign car makers, which will now have a cost advantage over Detroit. How do you think that will play in Michigan in 2020?

The National Retail Federation called the tariffs a "tax on American families," who will pay higher prices for canned goods and even beer in aluminum cans. Another name for this is the Trump voter tax.

The economic damage will quickly compound because other countries can and will retaliate against U.S. exports. Not steel, but against farm goods, Harley-Davidson motorcycles, Cummins engines, John Deere tractors, and much more.

Foreign countries are canny enough to know how to impose maximum political pain on Republican Senators and Congressmen in an election year by targeting exports from their states and districts. Has anyone at the White House political shop thought this through?

Then there's the diplomatic damage, made worse by Mr. Trump's use of Section 232 to claim a threat to national security. In the process Mr. Trump is declaring a unilateral exception to U.S. trade agreements that other countries won't forget and will surely emulate.

The national security threat from foreign steel is preposterous because China supplies only 2.2% of U.S. imports and Russia 8.7%. But the tariffs will whack that menace to world peace known as Canada, which supplies 16%. South Korea, which Mr. Trump needs for his strategy against North Korea, supplies 10%, Brazil 13% and Mexico 9%.

Oh, and Canada buys more American steel than any other country, accounting for 50% of U.S. steel exports. Mr. Trump is punishing our most important trading partner in the middle of a Nafta renegotiation that he claims will result in a much better deal. Instead he is taking a machete to America's trade credibility. Why should Canada believe a word he says?

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Mr. Trump announced his intentions Thursday, so there's still time to reconsider. GOP Senators Orrin Hatch (Utah) and Ben Sasse (Nebraska) spoke up loudly against the tariffs, but a larger business and labor chorus is required. Mr. Trump is a bona fide protectionist so he won't be dissuaded by arguments about comparative advantage. But perhaps he will heed the message from the falling **stock market**, and from the harm he will do to the economy, his voters, and his Presidency.

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REVIEW & OUTLOOK (Editorial)
Trump's Tariff Folly

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(See related letters: "Letters to the Editor: Tariffs, Jobs and Unintended Consequences" -- WSJ March 8, 2018)

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WSJ PRO CENTRAL BANKING

Economy

China Regulators Encourage Banks to Issue More Bonds | China Merges Regulators | BIS: Central Bank Digital Money Would Pose Risks | OECD Sees Better Outlook | Blackstone's Take: Switzerland's Negative Rates Out of Sync With Economy; The Wall Street Journal's central banking newsletter for Tuesday, March 13, 2018

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Blackstone's Take: Switzerland's Negative Rates Out of Sync With Improving Economy

China Regulators Encourage Banks to Issue More Bonds

China Unveils Overhaul of Government Bureaucracy

Digital Money From Central Banks Would Pose Risks, BIS Panel Finds

OECD Sees Better Outlook, if Trade Escalation Avoided

Switzerland's Negative Rates Out of Sync With Improving Economy

Things are looking a lot better in Switzerland these days versus three years ago when the "franc shock" rattled markets and threatened to plunge the export-dependent economy into recession.

But you wouldn't know it by looking at its central bank's deeply negative policy rate, which is expected to remain steady when the Swiss National Bank announces its policy decision Thursday.

The Swiss economy has slowly regained momentum since the SNB stunned **financial markets** in January 2015 by scrapping a floor on the euro-franc exchange rate that kept the Swiss currency from strengthening too much and damaging exporters.

Swiss gross domestic product has grown in the 2% range in recent months, the unemployment rate is near 3%, inflation is back—albeit still super low—after years of deflation, and the trade surplus is high.

Meanwhile, the euro has strengthened against the franc in the past year and, at around 1.17 francs, is inching closer to the 1.20 level that the SNB targeted from 2011 to early 2015. The SNB doesn't appear to have intervened in currency markets in nearly one year, based on weekly sight deposits data that analysts use to track intervention.

Despite Switzerland's brighter outlook, one thing hasn't changed: its deposit rate; which has been stuck at minus 0.75% since Jan. 15, 2015, the day it dropped the exchange-rate floor. Economists generally think the deposit rate will stay where it is until at least well into 2019, if not 2020.

Switzerland's 0.6% annual inflation rate gives the SNB flexibility, though unlike many other central banks it doesn't target 2% inflation. It wants inflation below 2%. And in its last round of forecasts, issued in December, the SNB said it expected inflation to reach 2.1% by the end of 2020.

So why not start moving the policy rate closer to zero? In short: exchange rates. Despite the franc's weakening last year, it remains strong historically against the euro, the currency of its main trading partners in the eurozone. Other non-euro central banks in Europe such as Denmark and Sweden—which also have negative rates—face a similar dilemma.

For now, the SNB can rest easy. Negative rates haven't damaged banks as much as feared, and while Swiss housing prices have risen sharply in recent years, there doesn't appear to be a broad-based bubble yet.

But this might change. And if other central banks like the Federal Reserve and European Central Bank continue to normalize policy, the SNB may have to follow suit sooner rather than later.

Key Developments Around the World

China Regulators Encourage Banks to Issue More Bonds

BEIJING—Chinese authorities are encouraging banks to boost their capital bases by issuing more bonds, the latest move by Beijing to rein in financial risks and ensure stability.

China's banking regulator, central bank and other financial regulators proposed that lenders broaden their fundraising instruments in domestic and overseas markets, to improve the industry's ability to deal with "external shocks" and "support the real economy to provide necessarily protections," according to a statement Monday.

Among the instruments the regulators suggested banks issue were Tier 2 bonds, which offer higher returns but greater risk for investors. The statement didn't explain why regulators were encouraging for risky instruments, except for to say that it was supporting the "innovation of capital instruments."

The move comes as analysts and economists, including the International Monetary Fund, have long warned about rising risks in the Chinese banking sector, as slower economic growth could lead to defaults and funding pressures. The IMF said last year that banks, especially small to medium sized banks, should hold more capital.

China is among global economies most at risk of a banking crisis, based a comparison of credit-to-GDP gaps and debt service ratios, according to a review released by the Bank for International Settlements on Sunday. The credit-to-GDP gap is the difference between the credit-to-GDP ratio and its long-term trend, according to the bank, and if especially high—as in China's case—can indicate a looming financial crisis.

For more than a year, Beijing has been trying to rein in risky investment and lending activities by banks. Analysts say while they have made progress, further inroads require coordinated action by the country's various financial regulators. They expect announcements to shake up the financial regulatory agencies in the coming days.

The BIS report noted that China's credit-to-GDP gap fell to 16.7% in the third quarter of 2017, down from a high of 28.9% in March 2016. Without commenting specifically on China, the bank said that "the much more active use of macroprudential measures should have strengthened the resilience of the financial system to a financial bust, even if it may not have prevented the buildup of the usual signs of vulnerabilities."

—Grace Zhu and Chao Deng

China Unveils Overhaul of Government Bureaucracy

By Chun Han Wong

BEIJING—China unveiled plans for overhauling its government bureaucracy, combining some **financial, markets** and business regulators, as part of President Xi Jinping's efforts to strengthen Communist Party control over levers of power.

Presented Tuesday to China's legislature, the proposal calls for merging the banking and insurance regulatory commissions, consolidating bureaus that regulate business and pricing into a new market supervision agency and creating a new ministry to manage land, ocean and other resources.

Broad-ranging changes in the plan include a powerful supervisory commission to further press Mr. Xi's anticorruption crackdown and a new ministry to handle veterans affairs, following years of sporadic protests by demobilized soldiers over welfare. A new office of international development cooperation is being set up to oversee the country's rising financial aid programs like Mr. Xi's Belt-and-Road initiative to build infrastructure across much of the world.

The overhaul comes on the heels of constitutional amendments that in effect boost Mr. Xi's power, and fits with his broader plans to install himself and the 89 million-member party at the center of China's political landscape.

A party directive issued last month said the reorganization aimed to "strengthen the Communist Party's leadership in every sector." Key to that is eliminating the bureaucratic inertia that Mr. Xi and other senior leaders say has hampered efforts to shift the economy away from wasteful investment toward more sustainable growth and make China a global power.

In a commentary published Monday in the party's flagship newspaper People's Daily, a top political aide to Mr. Xi, Ding Xuexiang, said the reforms would help "combat various efforts to deny, weaken and dilute the party's leadership."

Though Beijing tweaks its bureaucratic structure every few years, the current plan is the most sweeping in a decade and a half. It is all but certain to be approved by the party-controlled congress on Saturday, since the reorganization was finalized at a closed-door, high-level party conclave late last month. Separate reforms have also been planned for the party's internal agencies.

Given the plan's emphasis on control, foreign businesses—which have complained about unfair and selective regulation—are likely to face more formidable government agencies. The new national market regulatory administration in particular brings under one roof separate bureaus that handled pricing regulation and antimonopoly enforcement, which have in the past pursued high-profile cases against foreign companies.

Overall, the restructuring aims to reverse a trend started four decades ago when Beijing started free-market reforms to invigorate the sluggish command economy. China's leadership under the reformer Deng Xiaoping sought to separate powers, giving the party a guiding role while the government directly managed the economy. A result has been to weaken the party's dominance over society—a process Mr. Xi now wants to change.

"Xi is telling everyone that not only is the party in charge (it always has been) but also now that the party must be seen as running the government," said Ryan Manuel, an expert on Chinese politics at the University of Hong Kong. "He wants to use more party methods to rule the government, as opposed to the traditional method of having two separate trains running in parallel, with cadres forced to leap back and forth across the tracks."

Squabbling between agencies and uncoordinated responses from bureaucracies in recent years have hampered the government's ability to respond to turmoil in **financial markets** and to entice more private capital into public projects.

To get a better hand on China's economy, the overhaul creates a national market regulatory administration by merging bureaus that handle price regulation, business licensing, antimonopoly enforcement, quality control and food and drug safety.

Merged into one agency will be the currently separate commissions that regulate the banks and the insurers—a move to better manage the institutions that are a major source of funds for **financial markets** and the economy. In addition to the pricing and antimonopoly powers, the market supervision agency will also oversee business licensing, quality control and food and drug safety.

Other changes also reflect new government priorities. With Mr. Xi vowing to end rural poverty, a new ministry will subsume the Agriculture Ministry and take on authority for rural development that are currently shared with the Finance Ministry and three other agencies.

The national police, the Public Security Ministry, will get a new immigration bureau to better manage the increasing numbers of foreigners living and working in China.

Animating the reorganization is an attempt to further centralize control. Since becoming party chief in late 2012, Mr. Xi has concentrated decision-making powers in party committees that he chairs, assuming much of the government's traditional influence over policy.

Mr. Xi has demanded state-owned enterprises pledge allegiance to the party's leadership, called for a more muscular party presence in private businesses and imposed political controls over universities and schools. On Sunday, lawmakers repealed term limits on Mr. Xi's presidency, bringing the tenure for the state post in line with those of his more powerful party posts, and allowing him to rule indefinitely.

SUPER STRUCTURE

A look at China's restructuring of government agencies.

COMBINED: Separate banking and insurance regulators will be merged into a single agency to better fend off risks in the country's financial system.

SETUP: A national market regulatory administration with sweeping responsibilities will incorporate functions of a half-dozen offices to oversee business competition and practices, from corporate and antitrust regulation to pricing and food safety.

RETOOLED: A National Health Commission, with responsibilities over public health issues, is replacing the National Health and Family Planning Commission, de-emphasizing government-set birth limits and refocusing policy for an aging society.

REVAMPED: A beefed-up environment ministry will add to its environmental-protection mission, taking on antipollution and conservation functions currently spread across six other agencies.

MERGED: Merging the Culture Ministry with the national tourism administration, in a push to develop and promote Chinese culture, and enhance China's soft power.

Digital Money From Central Banks Would Pose Risks, BIS Panel Finds

By Brian Blackstone

Digital currencies issued by central banks could provide certain benefits, but officials should tread carefully before upending the current monetary system, according to a committee of central bankers studying the issue.

A report released Monday by the Bank for International Settlements panel said digital central-bank currencies could help in settling financial transactions and expanding public access to money where cash is scarce.

But a general-purpose central-bank digital currency "could give rise to higher instability of commercial bank deposit funding," said the report from the Committee on Payments and Market Infrastructures, chaired by European Central Bank board member Benoît Coeuré. "Even if designed primarily with payment purposes in mind, in periods of stress a flight towards the central bank may occur on a fast and large scale, challenging commercial banks and the central bank to manage such situations."

The report warned that the accessibility of cash sets "a high bar for changing the current monetary and financial structure."

The Bank for International Settlements is a Swiss-based consortium of central banks.

The report examined two possibilities for digital central-bank money: one to be used by financial institutions to settle certain transactions between each other and another that would be widely available to the public for retail payments. Of the two, using digital money for wholesale banking is less of a cause for concern, Mr. Coeuré said in a conference call with reporters, because it is "the future toward which we are heading."

Digital central-bank money also could help in regions where cash is on the decline, but these benefits "may be limited if fast (even instant) and efficient private retail payment products are already in place or in development," the report said. In addition, "it could move central banks into uncharted territory and could also lead to greater political interference," it said.

The report, prepared for next week's meetings of finance officials from the Group of 20 industrialized and developing countries, comes amid heightened interest in digital currencies.

In December, New York Fed President William Dudley said that while it was "very premature" to talk about the Fed offering digital currencies, "it is something we are thinking about." Sweden's central bank has examined the possibility of issuing a digital currency as a complement to cash.

"Further research on the possible effects on interest rates, the structure of intermediation, financial stability and financial supervision is warranted," Monday's report said.

"The effects on movements in exchange rates and other asset prices remain largely unknown and also deserve further exploration," it said.

OECD Sees Better Outlook, if Trade Escalation Avoided

By Paul Hannon

U.S. tax cuts and government spending increases will likely deliver a boost to the global economy this year and next, but that could be offset by an escalation of tensions over trade, the Organization for Economic Cooperation and Development said Tuesday.

Global economic growth accelerated last year as higher investment and falling unemployment drove pickups in most major economies. In its quarterly report, the Paris-based research body said it expects growth to ease off in some of those economies this year, but not by as much as it did when it last released projections in November.

It sees continued pickups in a number of other large economies including "significant" accelerations in the U.S., Germany, France, Mexico, Turkey and South Africa.

The big difference between then and now is the combination of tax cuts and government spending increases passed by Congress in December and February respectively. According to the OECD, these measures will boost U.S. economic growth to 2.9% this year and 2.8% next, compared with the 2.5% and 2.1% expansions it forecast previously.

With the assistance of a more modest budget stimulus from Germany, that package should help global economic growth pick up to 3.9% in both this year and next, compared with previous forecasts of 3.7% and 3.6%.

"That's fairly close to the historic average," said Alvaro Pereira, the OECD's acting chief economist. "The world economy is a lot stronger than it used to be."

But there are clouds on the horizon, as the OECD warned the global pickup could be weakened by a series of tit-for-tat tariff increases initiated by proposed U.S. charges on steel and aluminum imports.

Citing the negative impact of previous trade conflicts on growth and jobs, the OECD appealed to U.S. trade partners not to rush into retaliatory action.

"Escalation would not be the road we would want to go down because we know from history what will happen," said Mr. Pereira, a former minister of economy in Portugal. "Escalation usually goes down fairly badly for everybody. It's important to rely on global solutions to excess capacity in the steel industry."

The OECD didn't give figures for the losses in output that would likely follow an escalation, but the Dutch ING Bank Tuesday published a separate analysis which estimated the scale of the damage from a broad, 10% charge on European Union exports to the U.S., and U.S. exports to the EU. It calculated that the EU economy would be 0.3% smaller after two years, and the U.S. economy 0.4% smaller.

The OECD welcomed the steps being taking by leading central banks to reduce the stimulus they have provided to support economic growth.

"We are finally getting out of the legacy of the financial crisis, in terms of macroeconomic policy," Mr. Pereira said, in an interview with The Wall Street Journal.

With growth in the U.S. set to strengthen, the OECD now expects the Federal Reserve to raise its key interest rate four times this year, and the same in 2019, having previously reckoned on three moves. It also expects the European Central Bank to wind down its bond-buying program later this year, and start to raise its key interest rate thereafter.

However, it said there are some risks to the "normalization" of interest rates given the high levels of debt and asset prices.

"The prolonged period of low-interest rates and **volatility** has encouraged greater risk-taking, making the financial system more exposed to shifts in market sentiment as monetary policy normalizes," the OECD said. "New tensions are particularly likely if policy rates were to be changed abruptly in event of an upside inflation surprise."

The research body said it is therefore "essential" that central banks provide "clear communication about the path to normalization."

Analysis: Switzerland's Money-Creation Experiment

By Brian Blackstone

Switzerland's central bank usually shies away from politics.

But a referendum slated for June that would drastically enlarge its role in the Swiss economy has stirred its interest—and its swift opposition.

The proposal represents a radical experiment. It is unlikely to pass, but it might set a trend for other countries to look into.

Here's how the system works now in Switzerland and elsewhere. If someone borrows from a Swiss bank, the bank doesn't go take the money out of a vault. It creates deposits to finance the loan, setting aside a certain amount for its own risk-management and compliance purposes. Every time a bank makes a loan, the money supply expands.

Under the Sovereign Money Initiative, only the Swiss National Bank could create money, and banks would need to have the funds to fully back their loans. Supporters of the idea think it would limit the risk of speculative bubbles and costly bank bailouts.

The central bank's argument against the initiative essentially boils down to: If the financial system isn't broken, don't fix it. "There is no fundamental problem that needs fixing. A radical overhaul of Switzerland's financial system is inadvisable and would entail major risks," it said in a series of documents outlining its position.

The proposal would also put the SNB in the business of deciding how credit should be distributed within the economy, a vast expansion of its powers that would stretch its expertise.

This is only the third time in the past dozen years that the SNB has weighed in so explicitly on a public referendum, the others being a 2006 referendum that would have sent SNB profits to the country's social security system and a 2014 proposal requiring the SNB to hold at least 20% of its assets in gold. The central bank opposed both initiatives and both of them failed.

That's the likely fate of the latest referendum, which is opposed by the country's executive branch and Parliament. Switzerland isn't a hotbed of populism and voters often follow the government's recommendations.

Another factor is timing. The signature-collecting process for the referendum started when memories of the global financial crisis were fresh. Switzerland has seen modest growth since then despite the strong Swiss franc, making it less likely voters will want to take chances.

In that sense, the vote will be like the 2016 referendum on universal basic income, the idea that each resident should get a minimum monthly allowance. That referendum failed but the idea got a thorough airing and, if anything, has gained steam outside Switzerland.

That means a ‘no' vote on June 10 might add to the debate over how money should be created, not mark its end.

Quick Hits: New York Fed Finds Uptick in Inflation Expectations

New York Fed Finds Uptick In Inflation Expectations Last Month

Inflation expectations ticked a touch higher last month, according to the Federal Reserve Bank of New York's latest Survey of Consumer Expectations. Inflation expectations moved 0.1 percentage point higher at both the one- and three-year-ahead horizons, to readings of 2.8% and 2.9%, respectively. This closely watched survey has shown expectations moving in a fairly steady range for some time. Meanwhile, the survey found that the median expectation for growth in government debt a year from now increased "sharply" to 7.5% last month, from 5.9% expected in January and a 2017 average of 5.6%.

—Michael S. Derby

It's Easier to Go Short U.S. Dollar Before Fed Meeting

Dollar shorts were reduced further last week, according to Commodity Futures Trading Commission data, suggesting that the "hurdle" for rebuilding "USD-**bearish** sentiment" has been "lowered significantly," says UniCredit. Investors' focus is on U.S. consumer prices data, due Tuesday, given that U.S. nonfarm payrolls on Friday "have taken the sting out of Federal Reserve turning more hawkish," says Kenneth Broux, head of corporate research and forex at Société Générale. The number of jobs in the U.S. rose by more than expected, but salaries haven't, which may make the Fed less keen on increasing rates by more than currently forecast.

—Olga Cotaga

China's CPI Gains Could Turn Up Heat on Investors

The February gains in China's consumer-price index disclosed Friday raises the probability that aggressive moves from the People's Bank of China will dent market returns this year, posits Jonathan Garner, chief Asian and emerging markets equity strategist at Morgan Stanley. "One of the reasons we've been calling for a rougher ride in markets this year was the idea that the US and China were both showing some signs of inflationary pressures and both were going to have to tighten monetary policy at the same time. That's also probably going to introduce downside risks longer-term to earnings expectations."

—Gregor Hunter

Analysts See Norges Bank Holding Rates, Before Raising in Fall

Norway's central bank is widely expected to keep its benchmark interest rate at 0.50% on Thursday, but economists argue that the recent reduction of the bank's inflation target to 2% from 2.5% and robust economic activity support the case for a rate rise this fall. "We expect the bank to slightly lift the short end of the rate path, to signal with a 100% certainty that rates will be hiked before year-end, with September being the most likely outcome," says Erica Blomgren, a strategist at SEB, pointing to upside risks to Norges Bank's forecast for mainland gross domestic product and the output gap.

—Nina Adam

TUESDAY

8:30 a.m. EDT

U.S. Labor Department releases February CPI

10:30 a.m. EDT

Bank of Canada's Poloz speaks

7:50 p.m. EDT

Bank of Japan releases Jan. 22-23 meeting minutes

WEDNESDAY

4 a.m. EDT

ECB's Draghi speaks

4:45 a.m. EDT

ECB's Praet speaks

6:45 a.m. EDT

ECB's Constâncio speaks

12:15 p.m. EDT

ECB's Coeuré speaks

Keynes on the Sequencing of Economic Policy

Sebastian Edwards analyzes John Keynes' letter to President Franklin D. Roosevelt, in which he argued that "recovery" policies should precede "reform" measures. Mr. Edwards, in a National Bureau of Economic Research paper argues that "for Keynes exchange rate stability was a key component of what he considered to be the appropriate order of policy." In the paper, Mr. Edwards also provides a comparison between Keynes's views on sequencing and those developed in the 1980s and 1990s.

Fed Research Suggests Buildup in Manufacturing Labor Shortage

A FEDS Notes post looks at labor shortages in the manufacturing sector. Maria Tito uses data from the Quarterly Survey of Plant Capacity, which collects data on production and respondents' estimates of full capacity, to detect labor supply constraints. This QSPC-based measure of labor shortage suggests that labor constraints in manufacturing are continuing to rise, "and it may be useful to continue monitoring its behavior in the quarters ahead," the post notes.

The Costs and Benefits of Cooperation in Bank Supervision

Cross-border cooperation in bank supervision is rare, even in the aftermath of the global financial crisis, in part because it can come with costs if countries differ in preferences and institutional structures, write Thorsten Beck, Consuelo Silva-Buston and Wolf Wagner in a posting on VoxEU. The economists analyze country-pair data on supervisory cooperation among a global sample of countries between 1995 and 2013, and find that only about 10% of country pairs have any form of supervisory cooperation agreement among them. "Country pairs with higher cross-border externalities and lower heterogeneity are more likely to cooperate, and in more intense ways, but for some country pairs the costs of cooperation outweigh the benefits," they write.

The Fed Must Teach Markets a Lesson on Inflation

Officials keep saying they will let inflation veer above 2 percent. Investors don't believe them, writes Conor Sen in Bloomberg View. "For years, the Fed's main task was supporting economic growth to get the labor market back to full employment. Finally, it has a choice to make, one that comes around only late in an economic cycle: let the economy run hot enough to keep businesses from gaming the system, or slam the brakes on the expansion and reward inflation skeptics once again," Mr. Sen writes.

The Conference Board Employment Trends Index rose in February as most of the indicators the index factors in made positive contributions.

Analysts estimate that new tariffs on steel and aluminum could raise car prices by $300.

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.

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WSJ PRO CENTRAL BANKING

Economy
Torry's Take: There's No Place Like Economic Equilibrium; The Wall Street Journal's central banking newsletter for Tuesday, March 27, 2018

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Torry's Take: There's No Place Like Economic Equilibrium

Sen. Warren Says New York Fed Pick Should Testify Before Senate Ahead of Appointment

Fed's Bostic Cites Upside Risks to the Economy

Draghi Under Pressure to Raise ECB Interest Rates in Middle of Next Year

China's Central Bank Sends Yuan Surging

There's No Place Like Economic Equilibrium

Minneapolis Fed President Neel Kashkari recently remarked that "the Fed had historically been like the Wizard of Oz—no one understood it."

"When the financial crisis hit, we needed to do extraordinary things, and we needed people to trust us," he told The Wall Street Journal.

Right now, the U.S. economy appears by several measures to be well out of the financial-crisis woods. Consumer confidence is at a 14-year high, the unemployment rate has held at a 17-year low for five months in a row, and consumers and businesses are spending.

Do we still need to worry about low inflation? Not desperately. It has been creeping higher in recent months, and the New York Fed's underlying inflation gauge—designed to capture "sustained" movements in inflation from price, real activity and financial data—hit its highest reading since the summer of 2006 in February, at 3.06%.

Is it time to pop the champagne? Perhaps not. Having spent the best part of a decade battling to recover from the 2007-09 recession, central bankers now face a different set of risk factors.

Fed officials met last week and, according to Chairman Jerome Powell, "a number of participants" said business leaders around the country are concerned about trade policy.

Mr. Powell didn't think changes in trade policy would affect the outlook. But he conceded that business executives have a different perspective, and view "more widespread retaliation and more widespread actions back and forth" as an economic risk.

A central bank's wizardry derives in part from its ability to steer people's expectations. For years, it has been fighting straightforward macroeconomic fires, like pushing unemployment down and inflation and interest rates up. Today—with the economy humming, stock markets buzzing, but geopolitical developments **volatile**—central bankers are not in Kansas anymore.

Key Developments Around the World

Sen. Warren Says New York Fed Pick Should Testify Before Senate Ahead of Appointment

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. 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 recent sales practice scandals at Wells Fargo & Co., which is overseen by the San Francisco Fed, among other regulators.

Fed's Bostic Cites Upside Risks to the Economy

Atlanta Fed President Raphael Bostic said he supports plans to gradually raise interest rates but uncertainty over how the economy would respond next year to tax cuts and increased government spending could complicate monetary policy. The Federal Reserve could soon face rising chances that the economy grows faster than forecast and leads to a slightly faster pace of rate rises, Mr. Bostic said Monday in an interview with The Wall Street Journal. This marks a reversal after several years when the greater risk was that growth would disappoint, forcing the Fed dial down its rate-increase projections, he said. "The risks are more to the upside now," he said.

Regulators Split Over How to Keep Banks Out of Trouble

Should bank examiners work every day inside the offices of banks they oversee, or not? Two federal banking regulators--the Fed and the Office of the Comptroller of the Currency--have opposite answers, showing how 10 years after the 2008 bailouts, regulators are still trying to figure out the best way to stop bankers and other firms from causing trouble.

Draghi Under Pressure to Raise ECB Interest Rates in Middle of Next Year

European Central Bank President Mario Draghi is coming under pressure from a growing faction of ECB officials to start raising interest rates in the middle of 2019, opening up the prospect of a tug of war within the world's number two central bank ahead of Mr. Draghi's departure later next year. The heads of the German and Estonian central banks have indicated in recent days that the central bank might raise interest rates in mid-2019 for the first time since the financial crisis. The comments, which contrast with a more cautious tone of late from Mr. Draghi, represent the most detailed public discussion yet of the likely time-frame for ECB rate increases.

China's Central Bank Sends Yuan Surging

China's central bank guided the yuan to its strongest level against the U.S. dollar since its surprise devaluation more than 2½ years ago on Tuesday, and market participants can't agree why it has appreciated. The People's Bank of China set the dollar's reference rate at 6.2816 yuan on Tuesday, putting the yuan at its strongest since August 11, 2015. The yuan's stronger so-called "fix," which is partly based on the previous day's close, followed a surge in its value on Monday afternoon. China's central bank allows the currency pair to trade 2% above and below its reference rate each day.

China Tries to Lift Yuan's Profile With Oil Futures

How $9 Trillion Bond Market Adds Up to Zero for Japanese Traders

It is the world's second-largest government bond market after the U.S., with some $9 trillion in outstanding debt. Yet in Japan, the daily volume of government-bond trading is often measured these days not in trillions or billions, but in millions of dollars—and sometimes just with a single digit, zero. The central bank is swallowing up so much of the new bond issuance that traders say there is just not much to do.

Quick Hits

China's central bank made another step in its effort to boost global use of the yuan, and Thailand's central bank may not see the need to change its policy stance when it meets this week. Here are quick hits on central banking and related market views from around the world.

How a Tiny Latvian Bank Became a Haven for the World's Dirty Money

A few years ago, U.S. Treasury officials noticed a troubling undertow in the world's financial currents. Shell companies were shifting billions of dollars through a little-known bank in Latvia, a former Soviet state of two million people. Treasury officials say they concluded the institution, ABLV Bank, was laundering money for corrupt clients in Russia, Azerbaijan and Ukraine. Late last year, the officials say they found more: North Korea's nuclear missile program was using front companies to move money through the bank.

TUESDAY

11 a.m. EDT

Atlanta Fed's Bostic speaks

WEDNESDAY

11:30 a.m. EDT

Atlanta Fed's Bostic speaks

How Parents' Disability Insurance Use May Spillover to Children

In the Netherlands, participation "in a social assistance program by parents" impacted their children's social safety net use and labor market earnings, Gordon B. Dahl and Anne C. Gielen find in a National Bureau of Economic Research paper. "We find that children of parents who were pushed out of [disability insurance] or had their benefits reduced are 11% less likely to participate in [disability insurance] themselves, do not alter their use of other government safety net programs, and earn 2% more in the labor market as adults," they write.

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, 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...Although there are 12 regional Fed presidents across the country, the president of the New York Fed is first among equals... She, or he -- although it has always been a "he" -- shapes the conditions of our prosperity as well as our poverty," New Jersey Sen. Cory Booker writes for Bloomberg View. "Over the 100-plus year history of the New York Fed, each of its 10 presidents has worked at a bank or financial institution either immediately before or after his tenure. It was official neglect of misconduct in the financial sector that helped produce the 2008 crisis, so Americans should intuitively understand the importance of getting an honest and independent broker in this position. We should also insist that the New York Fed look for an individual who will bring new perspectives to the leadership of our economy. The New York Fed has never had a woman or a person of color at its helm, and the Federal Reserve Bank only just last year added its first black regional bank president... [The New York Fed's] next president shouldn't be another white, male Wall Street insider."

Economic growth in the U.S. rose in February from the previous month, helped by an increase in production-related indicators. The National Activity Index from the Federal Reserve Bank of Chicago in February rose to 0.88 from 0.02 the month before. The index takes into account four main factors including employment; production and income; sales, orders and inventories; and housing and personal consumption. All four of those categories contributed positive results to the index, the Chicago Fed said.

Businesses across the eurozone were less upbeat about their prospects in March, while bank lending to companies slowed in February, the latest signs that economic growth may have passed its peak.

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THE WALL STREET JOURNAL.
U.S. EDITION

Rise in Inventory Pressures Crude

By Alison Sider
250 words
1 March 2018
The Wall Street Journal
J
B11
English

Crude prices slid in **volatile** trading after federal data showed that oil and gasoline are building up in storage as U.S. production climbs.

Prices tumbled 4.8% in February, ending a five-month streak of gains, as oil came under pressure at times from a rising dollar and a **stock-market** selloff, in addition to a steady stream of data showing that U.S. output is relentlessly rising.

On Wednesday, crude for April delivery fell $1.37, or 2.2%, to $61.64 a barrel on the New York Mercantile Exchange. Brent, the global benchmark, dropped 85 cents, or 1.3%, to $65.78, on ICE Futures Europe.

Prices fell after data showed larger-than-expected increases in storage levels. Oil climbed back throughout the day before selling off sharply again as the U.S. dollar rose and investors who have amassed **bullish** positions on crude-oil futures seized on an opportunity to sell.

Crude inventories rose by three million barrels last week, and gasoline increased by 2.5 million barrels, according to the U.S. Energy Information Administration. Distillate inventories fell by one million barrels. Altogether, total petroleum stockpiles increased by 3.7 million barrels.

Refiners continued to churn out large amounts of fuel for this time of year, and the increase in gasoline inventories weighed on prices.

Gasoline futures fell 4.57 cents, or 2.5%, to $1.7577 a gallon.

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THE WALL STREET JOURNAL.

Markets

Libor's Rise Accelerates, Squeezing Short-Term Borrowers; Benchmark used in short-term loans is climbing faster than the Fed's rate increases, hitting companies and banks

By Ben Eisen and Chelsey Dulaney
982 words
27 March 2018
08:00 AM
The Wall Street Journal Online
WSJO
English

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 Reservelifts 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.

Libor's recent surge appears to have been driven by technical factors, and even at its elevated recent levels the rate remains low enough that it doesn't appear to pose an imminent threat to the health of many borrowers.

Even so, the increase threatens to amplify the impact of the Federal Reserve's policy tightening and stifle the flow of money throughout the financial system faster than policy makers intended, analysts say. Such an outcome could slow growth and intensify concerns about the valuations of stocks and other assets. The Dow industrials surged 2.8% Monday to their largest point-gain in almost a decade.

"Higher short-term interest-rate costs could potentially throw a monkey wrench into corporations' plans to borrow for the future, to build factories, to buy equipment and help make the economy run," said Chris Rupkey, chief financial economist at MUFG Union Bank. "If Libor continues to go up at this pace…that's going to really shock people."

Some real-estate investment trusts, which hold property such as offices and other commercial buildings that generate income, are starting to feel the impact. They tend to borrow more, and about 15% of their borrowing is floating-rate debt typically tied to Libor, according to Deutsche Bank estimates. Floating-rate debt can be cheaper when rates are particularly low but subject to sudden increases as they rise.

Executives at REITs including UDR Inc. and Ventas Inc. projected last month that Libor would dent earnings in 2018. UDR said higher Libor and other noncore items shaved 1 cent per share from this year's expected funds from operations, a measure of income, which is forecast to have a midpoint of $1.93 per share. Across the industry, executives are tallying the costs.

A quarter-point increase in Libor amounts to "a $10 million to $15 million interest-cost lift for us," James Taiclet Jr., chief executive of American Tower Corp, a wireless and broadcast communications real-estate firm, said at an industry conference earlier this month.

The average cost for nonfinancial corporations to borrow in the commercial paper market for 90 days has more than doubled over the last year. It is now at 1.94%, according to Federal Reserve data. Commercial paper issuance has leveled off in recent weeks, but the overall level outstanding remains up 10% from a year earlier, Fed data show.

Holders of roughly $1.2 trillion in consumer mortgages that are pegged to a form of Libor stand to pay more, too, while rates on some other types of consumer debt, such as private student loans, are also likely to move higher.

"It's starting to squeeze people who took on too much debt during this long economic expansion," said Mr. Rupkey of MUFG.

Financial conditions were recently at their tightest levels in nearly a year, according to an index kept by the Federal Reserve Bank of Chicago, due to factors such as **stock-market** declines and the rise in Libor.

Investors say Libor's rise is contributing to nervousness in **financial markets**. The Dow industrials sank 5.7% last week, pushing the index to its lowest level since November, before rebounding Monday.

Demand for dollars at the end of the first quarter could send Libor up an additional 0.2 percentage point in the coming days, market analysts say, as investors rebalance their portfolios and banks rein in their balance sheets. The end of March also marks the finish of Japan's fiscal year, potentially compounding the moves as big investors bring money back to Japan.

Libor has already sprinted ahead of the rates indicated by central bank policies, an acceleration that has baffled economists and traders. That widening gap has alarmed those who watch it as a signal of stress in the financial system. Others have pinned it on a series of technical factors, such as rising short-term debt sales by the U.S. government and new corporate tax policies.

Other markets that can be tapped for dollars—including through the swaps market and liquidity lines maintained by global central banks—aren't yet showing a big dollar squeeze.

"This indicates that the world that we've been living in for the past nine years, where there was no focus on fixed income, is gone," said Robert Savage, chief executive of hedge fund CCTrack Solutions. "I think the market is underestimating the squeezing of money out of the world, particularly in dollar terms."

Write to Ben Eisen at ben.eisen@wsj.com and Chelsey Dulaney at Chelsey.Dulaney@wsj.com

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THE WALL STREET JOURNAL.

Markets

Gold Inches Higher After Inflation Data, Tillerson Departure; News that another White House official is departing was boosting gold by adding to political uncertainty

By Amrith Ramkumar and Christopher Alessi
559 words
13 March 2018
02:53 PM
The Wall Street Journal Online
WSJO
English

Gold prices rose Tuesday, boosted by a weaker dollar and lower Treasury yields after data showed U.S. consumer prices rose moderately in February and President Donald Trump said he would nominate Mike Pompeo, director of the Central Intelligence Agency, to replace Secretary of State Rex Tillerson.

Front-month gold for March delivery climbed 0.5% to $1,325.90 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, moving based on swings in the dollar, interest-rate worries and investors' risk appetite.

Data Tuesday showed the consumer-price index, which measures what Americans pay for everything from shampoo to hotel stays, rose 0.2% in February after rising a seasonally adjusted 0.5% in January. In the year to February, overall prices rose 2.2%, the largest annual increase since November but slightly below expectations. Excluding the **volatile** food and energy categories, core prices were up 1.8% on the year.

Some investors had feared recently that the Federal Reservewould raise interest rates four times this year as inflation picked up, after previously projecting three increases.

The central bank is widely expected to raise rates at its meeting next week, but any sign that there is hesitation to raise rates four times could support gold and other assets that struggle to compete with yield-bearing assets like Treasurys as borrowing costs rise, said Bob Haberkorn, senior market strategist at RJO Futures.

"Anything less than that would be very **bullish** for gold if we get any indication that's the case," Mr. Haberkorn said.

Still, Mr. Haberkorn said he doesn't expect Tuesday's report to change the outlook for the Fed or gold market. Gold has tended to fall before the Fed has raised rates over the past few years.

The news that another White House official is departing was boosting gold by adding to political uncertainty, Mr. Haberkorn said. Many investors buy the precious metal to protect themselves against a downturn in markets.

A weaker dollar was supporting gold by making it cheaper for overseas buyers. The WSJ Dollar index, which tracks the U.S. currency against a basket of 16 others, was down 0.2%.

Although gold is only up 1.5% this year coming off its best year since 2010, some investors think a weaker dollar, higher market **volatility** and broader economic concerns if protectionist trade policies disrupt growth could lift prices more moving forward.

"When you put these together, can you go through 2018 without some of this coming the gold trade's way? I don't think so," said Trey Reik, senior portfolio manager at Sprott Asset Management.

Among base metals, front-month copper for March delivery edged up 0.5% to $3.1190 a pound. Prices have fallen 4.9% this year on worries that demand from China, the world's largest consumer, might slow, but some analysts expect steady economic data and supply disruptions to boost the industrial metal as the year goes on.

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Document WSJO000020180313ee3d0025v

THE WALL STREET JOURNAL.

Markets

How $9 Trillion Bond Market Adds Up to Zero for Japanese Traders; As the Bank of Japan buys up billions of dollars of government bonds, traders say there is just not much to do

By Suryatapa Bhattacharya and Kosaku Narioka
1,017 words
25 March 2018
09:00 AM
The Wall Street Journal Online
WSJO
English

TOKYO—It is the world's second-largest government bond market after the U.S., with some $9 trillion in outstanding debt.

Yet in Japan, the daily volume of government-bond trading is often measured these days not in trillions or billions, but in millions of dollars—and sometimes just with a single digit, zero. The central bank is swallowing up so much of the new bond issuance that traders say there is just not much to do.

"It's becoming like a deserted village. All that's left is for us to fade away and die," said Jun Fukashiro, who oversees bond investments for Sumitomo Mitsui Asset Management Co. The 53-year-old asset manager, who has been involved in government bond investing or trading since 1990, says that when he goes out with people in the business, he just sees the old faces, "the ones who are headed for retirement pretty soon."

Activity has especially shrunk since September 2016, when the Bank of Japan, the nation's central bank, said it would seek to keep the yield on the benchmark 10-year government bond around zero. The move is part of the bank's push to bring about steady inflation of 2%, as it tries to boost the country's economy.

On March 13, the newest 10-year bond didn't trade at all on the main system for the trading, operated by Japan Bond Trading Co. That has happened only seven times in the 24 years of data available from Japanese market-data provider Quick Corp., and six of those were in the last four years.

This past week, the near-comatose state continued, with daily trading volume in the benchmark 10-year bond at ¥18 billion ($172 million) or less each day, according to Quick. Trading volume this year is down 22% compared with year-earlier levels.

Direct comparison to the U.S. is difficult, but average daily trading volume in U.S. Treasury bonds with maturities between six and 11 years was $112 billion in 2017, according to the Securities Industry and **Financial Markets** Association.

The Bank of Japan already owns 41% of the Japanese government bond market and is buying hundreds of billions of dollars more each year to pump cash into the financial system and ensure that plenty of low-interest funds are available for borrowers. The 10-year bonds aren't attractive to private investors because the yield—0.02% as of Friday—falls below the core inflation rate of around 1%, eroding the value of the bonds over time.

Tadashi Matsukawa, who heads the bond-trading unit at the Tokyo office of New York-based asset manager PineBridge Investments, said he used to trade Japanese government bonds every day before the Bank of Japan pinned the yield near zero. Now it is every other day, he said.

Mr. Matsukawa said he misses the excitement of a more active market. "There is limited space for us to move around, less opportunity for us to make money."

Views are divided on whether it matters that so little trading happens in the instrument, the 10-year bond, seen as the interest-rate benchmark for the world's third-largest economy.

Japan's economy is growing steadily, and the **stock market**, despite some jolts this year when sharp U.S. stock falls spread across the Pacific, has generally prospered under the central bank's extreme monetary easing.

Bank of Japan Gov. Haruhiko Kuroda, asked in Parliament recently about the downsides of his policies, said he believed the pluses outweigh the minuses for now and pointed to positive economic indicators such as a tight job market, rising wages and a rising inflation rate that has made it halfway to his 2% target. He has pointed to trading data that suggest people who want to buy and sell government bonds aren't having any trouble doing so.

Still, some market watchers are worried the central bank's iron grip means that any concerns about government finances no longer get reflected in bond-market trading. In the U.S., government bond yields rose this year after Congress passed tax cuts that analysts said were likely to raise the U.S. budget deficit. In Japan—for now, at least—the benchmark yield is staying around zero regardless of market views about deficits.

The only trade that sees more activity is when brokerages that have purchased bonds at Ministry of Finance auctions resell the bonds to the Bank of Japan, which isn't allowed to buy them directly from the government.

Between December and February, the Ministry of Finance issued bonds worth ¥7.4 trillion maturing on Dec. 20, 2027. As of March 9, the Bank of Japan already owned 71% of those bonds.

"There is only one trade in town now that makes money," says Naka Matsuzawa, rates specialist with Nomura Securities.

Mr. Fukashiro, the asset manager at Sumitomo Mitsui Asset Management, said he was worried about what would happen if the specialized skills of government bond investors and traders fade away as they move to more vibrant markets or retire. At some point, he said, pressure for bond yields to rise may build up, and there won't be many people left who know how to handle such **volatility**.

"A big change will probably take place once everyone's gone," he said. "That's always the case in markets."

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THE WALL STREET JOURNAL.

Markets
Banks Forecast Gains for Crude Oil; Analysts raise their forecast amid draining crude inventories and rising geopolitical risks

By Christopher Alessi
693 words
31 March 2018
08:00 AM
The Wall Street Journal Online
WSJO
English

LONDON—Banks raised their forecasts for **oil prices** for the sixth month in a row in March, in a sign they expect draining crude inventories and rising geopolitical risks to global supply to further balance the market in the coming months.

Brent crude—the global benchmark—is now expected to average $63 a barrel this year, while West Texas Intermediate, the U.S. standard, should average close to $59 a barrel, according to a poll of 15 investment banks surveyed by The Wall Street Journal toward the end of March. Both estimates are about $1 higher than the February survey's forecast.

The banks in the Journal survey predict that, on average, Brent will fall to around $61 a barrel next year, before averaging close to $62 a barrel by 2020.

On Thursday, Brent closed up 1% at $70.27 a barrel on London's Intercontinental Exchange, and WTI closed up 0.9% at $64.94 a barrel on the New York Mercantile Exchange.

But in the longer term, the crude prices should plateau before falling again, said Christyan Malek, an analyst at JPMorgan. "$70 is as good as its going to get," he added.

Crude prices, which had risen above $70 a barrel to three-year highs in January before falling back on fresh indications of burgeoning U.S. shale oil production, have in recent weeks been bolstered by declining crude stocks outside the U.S. and rising tensions between the U.S. and Iran.

President Donald Trump recently moved to shuffle his national security team, bringing in more hawkish officials opposed to the 2015 U.S.-led international agreement to curb Iran's nuclear program. Analysts now widely expect the Trump administration to withdraw from the deal, triggering a reimposition of some economic sanctions on the Islamic Republic that would ultimately hinder the country's oil exports and reduce the world's crude supply. Up to 350,000 barrels a day of crude are at risk of disruption, according to analysts.

"Low inventories increase the oil market's sensitivity to disruptive events," according to Martijn Rats, an equity analyst at Morgan Stanley. As a result, "with the inventory cushion largely gone, **oil prices** will likely be more sensitive to geopolitical risk factors again," Mr. Rats wrote in a note.

Global petroleum inventories have been falling largely as a result of strong demand for refined products such as diesel fuel, according JP Morgan's Mr. Malek. "That's raising the prospect of supply and demand tightening" further in the near term, he said.

At the same time, prices have continued to be supported by the Organization of the Petroleum Exporting Countries' commitment to crude production cuts. OPEC and 10 producers outside the cartel, including Russia, have been holding back crude output by around 1.8 million barrels a day, or nearly 2% of global supply, since the start of last year.

The agreement, which was meant to help mop up a global supply glut that has weighed on the market since late 2014, helped crude prices jump more than 50% in the second half of last year. The deal is set to expire at the end of 2018, but Saudi Arabia—the de facto head of OPEC—has suggested it could continue coordinating with Russia and other producers on production curbs into 2019.

OPEC's efforts, combined with supply outages in Venezuela and mounting geopolitical uncertainty, mean in the near term, price risks should be "tilted to the upside," according to Giovanni Staunovo, a commodity analyst at UBS Wealth Management.

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

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

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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
978 words
1 March 2018
06:12 PM
WSJ Pro Central Banking
RSTPROCB
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.

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WSJ PRO CENTRAL BANKING

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
11:18 AM
WSJ Pro Central Banking
RSTPROCB
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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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
11:25 AM
WSJ Pro Central Banking
RSTPROCB
English

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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* 'Trade Wars Are Good,' Trump Tweets (March 2)

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

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THE WALL STREET JOURNAL.

Markets

U.S. Government Bonds Rise as Investors Look to Fed Meeting; Fed officials this week are expected to raise interest rates for a sixth time since December 2015

By Daniel Kruger
375 words
19 March 2018
03:42 PM
The Wall Street Journal Online
WSJO
English

U.S government bonds edged higher Monday with investors anticipating Federal Reserve officials will share a more optimistic outlook on the economy later in the week.

The yield on the benchmark **10-year Treasury** note fell to 2.844%, snapping a two-day streak of higher yields, from 2.848% Friday. Bond yields fall as prices rise. The yield has declined by almost 0.1 percentage point since reaching a four-year high of 2.943% on Feb. 21.

Fed officials are expected to raise interest rates for the sixth time since December 2015 at their meeting this week, which concludes Wednesday. Investors say they also expect them to raise their projections for economic growth, with some looking for policy makers to add a fourth rate increase to their 2018 forecasts.

Fed-funds futures, which investors use to bet on central-bank policy, early Monday showed the chances that the Fed will boost rates four times this year at 35%, up from 34% a week ago, according to the CME Group.

Many investors and analysts said they don't expect the Fed to raise its forecasts for inflation, as recent data suggests pressure for consumer prices to rise has waned. The 10-year yield fell after the Labor Department said last week that U.S. consumer prices rose moderately in February, although at a slightly slower pace than in the month before.

Low inflation helps lift the value of government bonds by preserving the purchasing power of their fixed payments.

The "choppy" movement of yields and low trading volume suggest the market is gearing up for "policy continuity, a rate hike, and muted changes to the Fed projections," said Ian Lyngen, head of U.S. government bond strategy at BMO Capital Markets.

While the growth outlook has improved since the Fed last announced economic and policy forecasts at the December meeting, "the bar is high" for that shift to be sufficient to lead to a prediction of a fourth rate increase in 2018, Mr. Lyngen said.

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

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WSJ PRO CENTRAL BANKING

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

2,902 words
30 March 2018
10:43 AM
WSJ Pro Central Banking
RSTPROCB
English

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

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WSJ PRO CENTRAL BANKING

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
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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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WSJ PRO CENTRAL BANKING

Economy

Quick Hits: Philadelphia Fed Report Finds Skilled-Labor Shortages; Swiss Central Bank is seen keeping rates steady until 2020

By WSJ Staff
1,048 words
15 March 2018
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WSJ Pro Central Banking
RSTPROCB
English

A Philadelphia Fed report showed manufacturers are having difficulty finding enough skilled labor, the Swiss National Bank appears likely to keep rates steady until after the European Central Bank makes a move, and the Bank of France raised its growth and inflation forecasts. Here are quick hits on central banking and related market views from around the world.

Manufacturers Find It Harder to Get Skilled Labor, Philadelphia Fed Report Says

Manufacturing firms are reporting increased skilled-labor shortages as the economy improves and unemployment declines, the Federal Reserve Bank of Philadelphia said in a report Thursday. Nearly 64% of firms reported labor shortages, while 70% said there were skills mismatches between job requirements and available labor. Both levels were higher than when asked in March 2017. In response, more companies have been increasing wages and benefits as well as joining with schools to teach needed skills and using phased retirement programs to retain older workers.

Austen Hufford

Inflation, Growth Don't Warrant SNB Policy Tightening: Nomura

The inflation and growth outlooks don't yet warrant policy tightening by the Swiss National Bank before the European Central Bank embarks on its own normalization of policy, say Nomura analysts Jordan Rochester and Yujiro Goto. They add that "stronger language" on real-estate market imbalances stand out, but a rate increase is unlikely to be used to tackle such a problem. The lack of any rhetoric pointing to tighter monetary policy from the SNB means that EUR/CHF rising to 1.20 remains a core trading view, the two strategists add.

Emese Bartha

Swiss Central Bank Seen on Hold Until 2020: Capital Economics

The Swiss National Bank gave an upbeat economic assessment Thursday and forecast that inflation would top its 2% ceiling in late 2020. So when will its policy rate finally move up from minus 0.75%? Not until 2020, say analysts at Capital Economics. The reason: the European Central Bank, whose policies have a big impact on neighboring Switzerland. "We think that the SNB will be unwilling to raise interest rates until after the ECB has begun its process of policy normalization," the analysts write. They don't expect the ECB to raise rates until September 2019, meaning the SNB won't follow suit before 2020.

Brian Blackstone

TD Securities Changes View on Norges Bank, Sees Earlier Rate Raise

TD Securities has changed its mind about the timing of the Norges Bank's first rate increase, and now sees it happening this December rather than in the second quarter of 2019. Earlier in the day, the bank kept its key policy rate on hold at 0.5% and pushed its policy rate forecasts higher. TD Securities believes the Norges Bank "will be anxious" to raise rates and may do so as early as September, but worries about the risk of a sharp bout of krone appreciation spurred by Norges's increasingly apparent divergence from other key European central banks.

Emese Bartha

Draghi Saves Credit Cycle in Europe: BAML

The European Central Bank's policy meeting last Thursday and this week's "The ECB and its Watchers" conference have delivered an upbeat message to euro credit markets, says Bank of America Merrill Lynch. At the ECB's March meeting last week, President Mario Draghi "saved the credit cycle in Europe," BAML credit strategists say. The ECB's decision to drop its easing bias pointed to tighter monetary policy, but by the end of Mr. Draghi's press conference the market had focused on the message that the ECB won't act quickly. Meanwhile, the message at Wednesday's conference was clear: Expect predictable policy adjustments, BAML says. "All this has big—and **bullish**—implications for the euro credit markets, we think," BAML says.

Emese Bartha

Bank of France Raises Growth Forecasts

The Bank of France raised its growth and inflation forecasts Thursday, saying it expects a strong rebound in French exports this year, combined with expansions in business investment and consumer spending. In its March forecasts, France's central bank raised its 2018 economic growth forecast to 1.9%, from 1.7% in December. It expects inflation—boosted by energy and tobacco prices—to reach 1.6% in 2018, compared with 1.4% in its December forecast. The Bank of France's **bullish** economic forecasts underscore a recent strengthening of the French economy that has taken many economists by surprise. Strong business investment at the end of last year helped drive 2017 economic growth to 2% and business surveys at the start of this year indicate activity is firmer than expected. The Bank of France also cut its 2018 unemployment forecast to 8.9%, from 9.6% in December, after a sharper-than-expected drop in the rate at the end of 2017. Still, the central bank sounded a note of caution for the longer term. It cut its 2019 growth forecast slightly to 1.7%, from 1.8%, as the central bank expects a stronger euro to weaken demand for French exports. The Bank of France said the growth outlook beyond 2018 could improve, depending on the impact of overhauls of the French economy, such as President Emmanuel Macron's corporate tax cuts and changes to labor laws. Speaking on French radio, Bank of France Gov. François Villeroy de Galhau urged the government to continue with economic overhauls even as the economy shows signs of strength.

William Horobin

Argentina's Inflation Likely Peaked in February

Argentina's inflation rose 2.4% in February from the previous month, leading the annual inflation rate to accelerate to 25.4% due to a rise in food, transportation, communication, and housing and utilities costs. Goldman Sachs says inflation likely peaked in February, but it is unlikely to converge to the government's 15% target range by year-end. "Hence, we are of the view that monetary policy needs to remain tight," the firm says. It adds that "tight liquidity management will be critical to guarantee that inflation continues to moderate."

Ryan Dube

(Most of the items in this column come from Market Talk, a feature of Dow Jones Newswires that provides real-time analysis of news developments and market activity.)

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WSJ PRO VENTURE CAPITAL

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
WSJ Pro Venture Capital
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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.

Politics

Trump to Impose Steep Aluminum and Steel Tariffs; President plans next week to approve 25% duties on steel imports and 10% on aluminum over the objection of allies and some advisers

By Jacob M. Schlesinger, Peter Nicholas and Louise Radnofsky
1,439 words
1 March 2018
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The Wall Street Journal Online
WSJO
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WASHINGTON—President Donald Trump's pledge Thursday to impose stiff tariffs on steel and aluminum imports sparked worries of a looming global trade war, sending stocks tumbling, drawing protests from a broad swath of American industries dependent on the metals, and prompting threats of retaliation across Asia, Europe, and North America.

The move fulfills a Trump campaign promise that helped fuel his surprise 2016 campaign victory in the industrial Midwest, and he told a White House meeting of industry executives that his coming measures—25% tariffs on steel imports, 10% on aluminum—would revive domestic manufacturing. "You're going to see a lot of good things happen. You're going to see expansion of the companies," the president said.

But the impact on companies that use steel was swift and sharp. The **Dow Jones Industrial Average** tumbled more than 500 points, or 2%, after the announcement, as shares of big steel users, including auto makers Ford Motor Co. and General Motors Co., dropped even further.

A cascade of industry trade groups moved quickly to denounce the moves, including beer and boat makers worried about costlier aluminum, and manufacturers of chemicals, air conditioners, and oil pipelines all concerned about pricier steel inputs.

"It's going to be expensive," said Ed Bolas, chief financial officer at DyCast Specialties Corp., a Minnesota maker of parts for products including cutting tools and engines. "All of it will impact the consumer."

Mr. Trump's announcement marks his biggest move to date to carry out his "America First" trade policy aimed at upending decades of U.S. leadership fostering globalization. The swift backlash underscores the dramatic ways that system may now be changing.

The decision was controversial inside his own administration, coming over the objections of some top advisers, and surprising many in the White House who first learned of the plans from news reports Wednesday night. Mr. Trump's Defense Department had weighed in against the move, with a memo cautioning against harm to "our key allies" like Canada and Japan.

"These U.S. measures will have a negative impact on trans-Atlantic relations and on global markets," warned Europe's trade commissioner, Cecilia Malmstrom.

Mr. Trump portrays those markets fostered by his predecessors in alliance with Europe and other nations as having destroyed American industry, telling the steel and aluminum representatives that they had "been horribly treated by other countries."

The president justified the tariffs by invoking a little-used Cold War era law that gives presidents broad discretion to curb imports deemed a threat to "national security." The announcement was based on studies conducted by the Commerce Department, made public last month, which concluded metals imports had eroded the country's ability to make its own weapons, tanks, and aircraft.

As a sign of how eager the president was to take big action, he chose the toughest of the three options presented to him by Commerce, which had also outlined a more targeted approach aimed only at certain countries.

Mr. Trump also felt such urgency to announce the decision that he did so providing no further details beyond the broad numbers, saying the concrete policies wouldn't be announced until next week.

The new tariffs underscore Mr. Trump's pivot in his second year in office to reorient decades of American policies aimed at expanding free trade and globalization. Thursday's move comes about a month after the White House unveiled similar tariffs and quotas on solar panels and washing machines, invoking a different little-used 1974 trade law allowing U.S. industries to seek sweeping protection if they can show significant injury from a sudden surge in foreign competition.

Trump aides are also weighing a broad package of trade and investment penalties against China, as they complete a detailed study accusing Beijing of widespread theft and expropriation of American intellectual property. Thursday's decision is aimed in particular at China, whose steel overcapacity has fueled a global glut hampering American producers.

Mr. Trump's announcement appeared to be a diplomatic jab at Chinese President Xi Jinping, coming the same day his top economic adviser was meeting at the White House with the Trump economic team to try to ease trade tensions.

The new tariffs seem to reflect rising power inside the Trump administration of his economic nationalist aides, who have tangled over the past year with his more globalist free-trade oriented advisers. The infighting was evident Wednesday night, with some officials insisting a decision was imminent and others saying it was still being deliberated.

Peter Navarro, an economist who crafted much of Mr. Trump's protectionist 2016 campaign platform, is slated for a promotion that would give him a greater voice in internal debates, after staff secretary Rob Porter, a free-trade Republican aide tasked with overseeing coordination of trade policy, was forced out in a spousal abuse scandal.

Mr. Trump has repeatedly said that his campaign pledge for greater steel protection won him the presidency, and his U.S. trade representative, Robert Lighthizer, talks of tougher trade policies creating a "new coalition" in support of trade, by winning over Democrats who have grown increasingly hostile to globalization over the past quarter-century. Mr. Trump is hoping to solidify his political base in advance of midterm congressional elections this year, and the announcement comes ahead of a March 13 special House contest in Pennsylvania steel country.

Indeed, many congressional Democrats and labor unions joined the metals executives in cheering new policy, which they had long advocated.

"This welcome action is long overdue for closed steel plants across Ohio," said Ohio Democratic Sen. Sherrod Brown, who has been working closely with Mr. Trump and his trade team to craft such new policies. AFL-CIO President Richard Trumka issued rare praise for Mr. Trump, calling the move "a great first step" and pledging to "continue to work with the administration on rewriting trade rules to benefit working people."

But the decision also is likely to open a rift between the White House and traditional free-trade Republicans in Congress, who have become increasingly vocal in recent weeks urging Mr. Trump to avoid taking such action.

Even Sen. Pat Toomey, a Republican representing Pennsylvania, blasted the move, saying that "invoking national security as a means of imposing new, huge tariffs on all kinds of imported steel is a big mistake that will increase costs on American consumers, cost our country jobs, and invite retaliation from other countries."

The move also drew complaints from allies and trading partners, who have repeatedly warned that such action could prompt them to retaliate.

"We will not sit idly while our industry is hit with unfair measures that put thousands of European jobs at risk," said Jean-Claude Juncker, president of the European Commission, vowing "countermeasures against the U.S. to balance the situation."

Canadian Foreign Minister Chrystia Freeland said that "should restrictions be imposed on Canadian steel and aluminum products, Canada will take responsive measures to defend its trade interests and workers."

A Chinese foreign ministry spokeswoman said "The U.S. has overused trade remedies" adding that "China will take proper measures to safeguard its interests."

Opponents warn that the moves could undermine the global free-trading system, as the U.S. imposes broad trade restrictions unilaterally without first going through the World Trade Organization. U.S. presidents have generally avoided such actions since the WTO's 1995 creation as a way of encouraging other nations to take their trade disputes to the Geneva-based arbiter.

Free-traders worry also about the Trump administration invoking "security" as a justification for a new trade policy. Global commercial rules do little to regulate such moves out of deference to national sovereignty, and many trade lawyers consider it a loophole that, if used widely, could undermine the force of the international system. That fear has for years discouraged most countries from using "national security" trade protections.

But Mr. Trump and his aides have been openly skeptical about the effectiveness and fairness of the WTO, and have regularly signaled a willingness to challenge its authority.

As the president told the executives Thursday: "The WTO has been a disaster for this country."

Bob Tita, William Mauldin and Andrew Tangel contributed to this article.

Write to Jacob M. Schlesinger at jacob.schlesinger@wsj.com

Heard on the Street

* Market's Message: U.S. Allies and Consumers Will Pay Steel-Tariff Bill

Document WSJO000020180301ee31004h7

The New York Times

Sketch Guy
Your Money
Jittery From Stock Market Volatility? Don't Run. Just Hug.

By Carl Richards
300 words
8 March 2018
09:17 AM
NYTimes.com Feed
NYTFEED
English

If you're worried about the **stock market**, find someone to give you a hug.

Let me explain. Humans are wired to want more of what gives us security and pleasure and to run away from things that cause us pain. This behavior has likely kept us alive as a species, but it creates havoc when we invest.

When the markets go down, and the financial pornography networks start yelling that you should save yourself before you end up living under a bridge, it feels like a wild animal is chasing you. The only thing to do is run!

Feeling scared is normal at that moment, and the last thing you need is a lecture from me on the history of long-term **stock market** returns. You don't need facts and figures; you need a hug! You need someone to listen to you. You need empathy, kind murmurings, physical affection. An embrace.

After the hugging is over and everyone is feeling reasonable again, we can review the careful analytical work that went into designing your portfolio. We can revisit the goals and values that we baked into that analysis. We can even consider the weighty evidence of history and talk about how the best thing we can do is stay invested. All of that is important.

But first, a big bear hug. Feel better now?

Carl Richards is a certified financial planner and author of "The Behavior Gap". His sketches and essay appear weekly. You can follow him on Twitter: @behaviorgap

* The **Stock Market** Has Turned Nasty. It Was Long Overdue.

* So It's Your First Market Hiccup. What Should You Do Now?

* 9 Points to Guide Your Investments in 2018

Carl Richards

Document NYTFEED020180308ee38004ed

THE WALL STREET JOURNAL.
U.S. EDITION

U.S. News: Home Sales Show Signs Of Softening

By Laura Kusisto
658 words
8 March 2018
The Wall Street Journal
J
A3
English

The economy is booming, take-home pay is rising and millennials are getting married and having children. Despite all those homebuying catalysts, real-estate agents said this could be one of the weakest spring selling seasons in recent years.

The culprits: rising mortgage rates, a new tax law that reduces the incentives for homeownership and a growing weariness among first-time buyers being priced out of the market -- all of which are expected to damp demand for homes this year.

The next few months are a critical test of the housing market, as buyers look to get into contract before summer vacations and the new school year. About 40% of the year's sales take place from March through June, according to the National Association of Realtors.

With sales volumes expected to be lackluster this year, the relentless price increases of the past few years could lose some steam. That could present opportunities for hardy buyers willing to brave rising interest rates, but make it slightly more difficult for sellers in some pricey markets.

"It's still going to be a tight market, but we're moving from an extremely tight market to one that has some wiggle room around the edges for buyers," said Daren Blomquist, a senior vice president at the housing-research firm Attom Data Solutions.

Lawrence Yun, chief economist at the National Association of Realtors, said he expects sales to be flat this spring from a year earlier. About 2.06 million homes were sold between March and June 2017, up from about 2 million in the same period a year earlier, according to the National Association of Realtors.

Mr. Yun has predicted sales will remain flat for all of 2018 due to inventory shortages and eroding affordability, as both prices and mortgage rates rise.

Consumer confidence in the housing market fell in February, according to data released Wednesday by mortgage company Fannie Mae. The share of respondents who said now is a good time to buy a home decreased 5 percentage points from January, due to concerns about **stock market volatility** and rising mortgage rates.

In January, existing home sales suffered their sharpest annual drop in three years, falling 4.8% from a year earlier to a seasonally adjusted annual rate of 5.38 million, according to the National Association of Realtors.

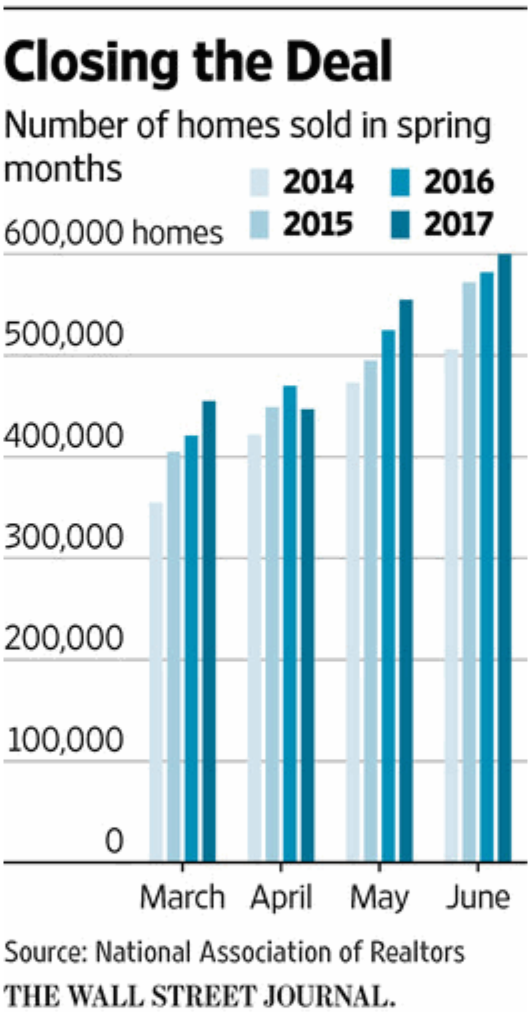
Pending home sales, an indicator of activity in the months to come, dipped 4.7% in January to their lowest level in more than three years, according to the Realtors. The median price, meanwhile, rose 5.8% from a year ago -- the 71st straight month of annual gains.

The top end of the market is slowing across the U.S., in part because of the tax overhaul, which capped the mortgage-interest deduction as well as state and local tax deductions, disproportionately affecting higher-priced homes.

A homeowner with a median-priced home in the San Francisco area will receive $4,500 less in housing-related tax benefits in the first year of a 30-year mortgage this year, according to real-estate data company Apartment List. A homeowner in the same position in the New York metro area would receive $1,500 less annually. Chicago broker Bruce Glazer said both the high and low ends of the market are softening there.

Weakness at the high end is being driven by stock-market volatility and the $10,000 cap the tax law placed on deducting state and local property taxes.

On the low end, buyers are being priced out of the market by rising interest rates, Mr. Glazer said. The rate for a 30-year mortgage has risen about half a percentage point this year to 4.43% from 3.95% in early January. For the median-priced U.S. home that translates to about $55 more a month, but in higher-cost markets the difference can be steeper.



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WSJ PRO CENTRAL BANKING

Economy

Trump Likely to Nominate Clarida | Powell Bullish on Economy | Dudley: Four Rate Rises Still Gradual | Kuroda Jolts Markets | Buell's Take: Latvia Case Reopens Questions on ECB Emergency Lending; The Wall Street Journal's central banking newsletter for Friday, March 2, 2018

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Buell's Take: Latvia Case Reopens Questions on ECB Emergency Lending

Trump Likely to Nominate Clarida for Fed Vice Chair

Powell **Bullish** on Economy, but Sees No Signs of Overheating

Fed's Dudley Says Four Rate Rises in 2018 Would Still Be Gradual

Kuroda Jolts Markets With First Reference to Exit Timing

Latvia Case Reopens Questions on ECB Emergency Lending

There was a time among European Central Bank watchers when its Emergency Liquidity Assistance program was like the film "Fight Club." The first rule of ELA was that nobody talked about ELA.

That started to change in the wake of the latest incarnation of the Greek crisis in 2015 when reporters aggressively chased the lending volume Greek banks were getting from their national central bank under ELA. In September of that year, the ECB decided that national central banks could communicate the provision of ELA to banks in their countries, lifting somewhat the veil of secrecy over the program.

Eurozone rules allow national central banks to provide emergency funding to banks in their country outside of the realm of regular ECB loans, though the Governing Council can reject ELA if it concludes that the emergency liquidity provisions undermine the ECB's monetary policy.

The topic of emergency central bank lending arose again just last week in the scandal surrounding Latvian bank ABLV, which the U.S. Treasury Department accused of money laundering, a charge the bank denies. Last Friday, Latvian officials said the bank was in line to get nearly EUR500 million in emergency loans from its national central bank. Ultimately, however, the ECB declared the bank "failing or likely to fail" on Saturday.

Sven Giegold, a German member of the Green Party in the European Parliament, confronted ECB President Mario Draghi about this in a hearing on Monday. He asked if the ECB President felt that "doubtful use of ELA" could "harm the credibility of the system as a whole and therefore the ELA policies should be changed."

Mr. Draghi said he agreed and that he has argued "several times" for a centralization of ELA, calling it a "remnant of a past time." But he said to change it "we ought to have the agreement of all the members of the Governing Council, namely all countries in fact. They have to decide that they would abandon this remnant of national sovereignty in monetary policy."

Mr. Draghi said last September in the European Parliament that the ECB "had one discussion, about a year ago I think, about that, but we do not have any change in the agreement, as far as I can see, coming in the near future on that."

A person familiar with the Governing Council's thinking said there currently is no discussion in the Council about changes to ELA.

Key Developments Around the World

Trump Likely to Nominate Clarida for Fed Vice Chair

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 earlier this month. Mr. Powell is the first Fed chair in more than three decades without a Ph.D. in economics. The White House has been keen 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.

Powell **Bullish** on Economy, but Sees No Signs of Overheating

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-percentage-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.

Inflation Isn't Running Away Quite Yet

Fed's Dudley Says Four Rate Rises in 2018 Would Still Be Gradual

New York Fed President William Dudley said Thursday a slightly more aggressive course of interest-rate rises this year wouldn't upend the central bank's desire to boost the cost of borrowing slowly and steadily. "If you were to go to four 25 basis-point rate hikes [in 2018], I think it would still be gradual," Mr. Dudley said at an event in Brazil when asked whether an improving economy could push the Fed to raise rates more than the three times it has penciled in for this year. "If you look at the hiking process in the last cycle, it was a quarter point at every meeting," Mr. Dudley said at a gathering held by Brazil's central bank. That pace is essentially double what the Fed now seeks.

Fed's Dudley Says Trade Protectionism Is a ‘Dead End'

Mr. Dudley warned Thursday that any move to erect new trade barriers in a bid to spur domestic economic 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.

Kuroda Jolts Markets With First Reference to Exit Timing

The Bank of Japan will likely start considering an exit from its aggressive monetary easing beginning as early as next year, Gov. Haruhiko Kuroda said Friday, his first reference to a time frame for winding down Japan's massive monetary stimulus program. The remark surprised markets, nearly doubling the yield on 10-year Japanese government debt and sending the yen higher against the U.S. dollar.

Japan's Jobless Rate at Quarter-Century Low

Cryptocurrencies Are Failing as Money, Says BOE's Carney

Central banks shouldn't rush to issue their own cryptocurrencies in an effort to be "down with the kids," Bank of England Gov. Mark Carney said Friday. Mr. Carney said cryptocurrencies such as bitcoin use interesting technology, but are failing as money, given their wild swings in value and limited exchangeability for goods and services. He said calls for central banks to borrow the technology and issue their own digital currencies to supplant cash and bank deposits were premature.

Quick Hits

Bank of Canada Gov. Stephen Poloz said traders have accepted the central bank's preference of avoiding forward guidance, and disappointing economic growth in the last quarter of 2017 could lead Brazil's central bank to cut rates again. Here are quick hits on central banking and related market views from around the world.

Friday

10 a.m. EST

University of Michigan releases final February U.S. consumer sentiment

A Skeptical View of the Impact of the Fed's Balance Sheet

David Greenlaw, James D. Hamilton, Ethan S. Harris and Kenneth D. West argue that the consensus overstates the effect of large scale asset purchases on 10-year yields. The researchers find that the Fed announcements weren't a primary factor determining 10-year yields and that any effects tended not to persist. "Our conclusion is that the most important and reliable instrument of monetary policy is the short term interest rate, and we discuss the implications of this finding for Fed policy going forward."

Maybe Powell Really Isn't an Inflation Hawk

A lot of people think the new Fed chairman is signaling faster interest-rate increases. Karl W. Smith offers a different interpretation in Bloomberg View: "It would be wise to hold off raising rates because there is no way to know whether the discouraged workers can be enticed back unless spending remains strong, even at some risk of higher inflation. That's why Powell's remarks make me think he is inclined to let the economy continue to strengthen without speeding up the pace of interest-rate increases."

The number of Americans filing new applications for unemployment benefits fell last week to the lowest level since December 1969, offering fresh evidence of health in the labor market.

A key measure of U.S. factory-sector activity surged to the highest level since 2004 and raw-materials prices rose quickly, signs of an economy heating up.

The incomes of U.S. households jumped in January , reflecting tax law changes that are reducing tax withholding and led to one-time bonuses for some households.

ICYMI: Former Fed Chairwoman Janet Yellen was interviewed Tuesday at the Brookings Institution. Here are selected video clips from the event.https://www.brookings.edu/blog/brookings-now/2018/03/01/janet-yellen/

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

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WSJ PRO FINANCIAL REGULATION

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
WSJ Pro Financial Regulation
RSTPROFR
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

Related

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

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

* Massachusetts Probes Retail Brokers Over Exchange Payments (Aug. 15, 2017)

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

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WSJ PRO PRIVATE EQUITY

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
WSJ Pro Private Equity
RSTPROPE
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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WSJ PRO PRIVATE EQUITY

Pro Private Markets
Carlyle Executive Says Irish PE Fears U.K. Recession, Not Hard Border

By Jessica Davies
742 words
2 March 2018
12:47 PM
WSJ Pro Private Equity
RSTPROPE
English

European Union and U.K. regulators continue to duel over the need for a hard border in Northern Ireland after Brexit. But Irish investors are more concerned about Brexit's potential to tip the U.K. into recession, said Jonathan Cosgrave, managing director and co-head of Carlyle Group LP's Ireland fund.

An economic slump in the U.K. would be highly damaging for Irish businesses, many of which rely on exports to the mainland, according to Mr. Cosgrave.

"If you are supplying into the U.K. and the U.K. goes into recession: that causes recession [in Ireland]," he said, adding that "the hard border has been a very low priority".

Annual gross domestic product growth in the U.K. fell to 1.7% in 2017, its lowest annual growth rate since 2012, the Office for National Statistics said in February. The U.K. is the second-biggest consumer of Irish goods in the world, so Irish companies' potential market share relies to a significant extent on the health of the British economy.

Private-equity portfolio companies that export to the U.K. face an extra cost burden, however, if rules and tariffs set by the World Trade Organization kick in upon Brexit. If Ireland fails to secure separate trade agreements, more than one in 10 of the country's exports would incur charges of over 35%, according to trade and business development body InterTradeIreland.

Irish businesses have only recently begun to attract capital from private-equity firms as they regain ground lost during the financial crisis. The country's private-**equity market** has since emerged from a period of contraction in 2013. But firms' bets on Ireland may suffer if trade with one of its biggest export markets is jeopardized.

Chemicals and pharmaceutical businesses in Ireland could be worst hit, as they comprise more than a fifth of the country's U.K. exports.

Ireland's exports to the U.K. totaled €14.5 billion ($17.37 billion) in 2017, but exports to the country are rising at a faster rate than they are to the U.S., Ireland's biggest export market, according to its Central Statistics Office. The nation also relies heavily on U.K. imports, which rose 10% year over year in 2017 to €17.3 billion, though they remain less than half the size of its €45.3 billion of exports to the EU, according to the statistics.

Ireland's private-**equity market** has benefited from this free flow of trade. The nation's rapid economic growth in recent years, which outpaced the U.K. in 2017, has attracted some of the world's largest private-equity firms to invest in the region.

Carlyle, for one, raised $292 million in 2014 for the Carlyle Cardinal Ireland Fund, a tie-up with Irish alternative capital provider Cardinal Capital Group. Since then, other international managers have followed suit, including KKR & Co., which launched a $500 million home-building finance platform there in July.

Fundraising by private-equity firms based in Ireland has declined in the past two years, however, from the $330 million raised in 2015, the highest level since 2006, according to LP Source, a data provider also owned by Dow Jones & Co.

The nation has attracted investment managers looking to domicile funds in Ireland, as Irish-regulated structures are exempt from VAT and local tax on income, gains and net asset value. Ireland also has access to the European marketing passport, which allows managers outside of the European Union to market their funds to EU investors using Irish fund structures. But unlike Luxembourg, Ireland hasn't experienced a surge in firms establishing investment management capabilities there to access the marketing passport.

Nevertheless, Mr. Cosgrave said Carlyle remains committed to all parts of the Irish market, including the north and south, despite the potential challenges. The firm has nine people in Dublin and hired an associate in September, he said.

Carlyle will potentially raise another Irish fund, given its maiden vehicle is largely invested, he indicated. He expects to do three or four more deals from the fund this year.

"We'd love to do more in Ireland and potentially doing more funds after this one," he said. "At the moment our focus remains getting that fund invested."

Write to Jessica Davies at jessica.davies@wsj.com

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WSJ PRO CENTRAL BANKING

Economy
Quick Hits: New York Fed Finds Uptick in Inflation Expectations; In China, CPI gains could turn up the heat on investors

By WSJ Staff
572 words
12 March 2018
12:59 PM
WSJ Pro Central Banking
RSTPROCB
English

A New York Fed survey showed higher inflation expectations among consumers, the People's Bank of China could move aggressively this year to curb inflationary pressures, and Norway's central bank is seen raising rates in the fall. Here are quick hits on central banking and related market views from around the world.

New York Fed Finds Uptick In Inflation Expectations Last Month

Inflation expectations ticked a touch higher last month, according to the Federal Reserve Bank of New York's latest Survey of Consumer Expectations. Inflation expectations moved 0.1 percentage point higher at both the one- and three-year-ahead horizons, to readings of 2.8% and 2.9%, respectively. This closely watched survey has shown expectations moving in a fairly steady range for some time. Meanwhile, the survey found that the median expectation for growth in government debt a year from now increased "sharply" to 7.5% last month, from 5.9% expected in January and a 2017 average of 5.6%.

Michael S. Derby

It's Easier to Go Short U.S. Dollar Before Fed Meeting

Dollar shorts were reduced further last week, according to Commodity Futures Trading Commission data, suggesting that the "hurdle" for rebuilding "USD-**bearish** sentiment" has been "lowered significantly," says UniCredit. Investors' focus is on U.S. consumer prices data, due Tuesday, given that U.S. nonfarm payrolls on Friday "have taken the sting out of Federal Reserve turning more hawkish," says Kenneth Broux, head of corporate research and forex at Société Générale. The number of jobs in the U.S. rose by more than expected, but salaries haven't, which may make the Fed less keen on increasing rates by more than currently forecast.

Olga Cotaga

China's CPI Gains Could Turn Up Heat on Investors

The February gains in China's consumer-price index disclosed Friday raises the probability that aggressive moves from the People's Bank of China will dent market returns this year, posits Jonathan Garner, chief Asian and emerging markets equity strategist at Morgan Stanley. "One of the reasons we've been calling for a rougher ride in markets this year was the idea that the US and China were both showing some signs of inflationary pressures and both were going to have to tighten monetary policy at the same time. That's also probably going to introduce downside risks longer-term to earnings expectations."

Gregor Hunter

Analysts See Norges Bank Holding Rates, Before Raising in Fall

Norway's central bank is widely expected to keep its benchmark interest rate at 0.50% on Thursday, but economists argue that the recent reduction of the bank's inflation target to 2% from 2.5% and robust economic activity support the case for a rate rise this fall. "We expect the bank to slightly lift the short end of the rate path, to signal with a 100% certainty that rates will be hiked before year-end, with September being the most likely outcome," says Erica Blomgren, a strategist at SEB, pointing to upside risks to Norges Bank's forecast for mainland gross domestic product and the output gap.

Nina Adam

(The items in this column come from Market Talk, a feature of Dow Jones Newswires that provides real-time analysis of news developments and market activity.)

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Business Day; Economy
Are Wage Gains Picking Up? Stalling? Questionable Data Makes It Hard to Say

By Ben Casselman
1,341 words
12 March 2018
02:55 PM
NYTimes.com Feed
NYTFEED
English

When the Labor Department reported last month that average hourly earnings had jumped 2.9 percent in January, it looked as though the long, steady recovery in the American job market might at last be translating into faster wage gains for the nation's workers.

Then came Friday and the latest jobs report, which showed that wage growth was weaker in January than initially reported and that the gains in February were weaker still, up just 2.6 percent from a year earlier.

The muddled data on wages was a potent reminder that even the strongest job market in a generation has not been robust enough to reverse a longstanding pattern of lagging pay.

But the mixed messages also highlight the challenge of trying to figure out where wages are headed: Not only are the sources of the data **volatile**, but economists say they may also be declining in quality.

In recent months, different sources have told sharply diverging stories about how quickly companies are raising employees' pay. Wage growth may be slowing drastically after a period of strong gains, or it may be picking up after an extended slump. Or it may be stuck at more or less the same plodding pace that workers have become accustomed to for much of the economic recovery.

"We have trouble measuring any of these things," said Tara Sinclair, an economist at George Washington University and for the job-search site Indeed. "This is definitely one of those situations where you can feed in the data and get out whatever response you're looking for."

The problem is not new. It has, however, risen in importance as wage growth — why it has been slow, and when that might change — has emerged as a pre-eminent issue in Washington and on Wall Street. Congressional Republicans, their eyes on the fall elections, are seeking evidence that their recently passed tax cuts are making an impact on paychecks. Federal Reserve policymakers are looking for signs that the tightening labor market is causing inflation.

Financial markets tumbled a month ago after the data showing strong wage gains heightened fears that inflation would pick up, forcing the Fed to hasten interest-rate increases. The report released on Friday had the opposite effect: Stocks rallied on the prospect that strong job growth could continue without causing the economy to overheat.

Robin Brooks, chief economist for the Institute of International Finance, an industry group, said the market **volatility** over wages a month ago was "way premature."

"Markets are completely overreacting," he said. "We basically have steady-as-she-goes mediocre wage inflation."

All economic figures come with significant uncertainty. It is common for different measures to disagree about the pace of job growth, consumer spending and other key indicators. But wages pose a particular measurement challenge. Surveys, the source of much economic data, can be unreliable because people often err in recalling the details of their income, or they may decline to answer questions about it. Companies, for their part, track how much they pay their employees but not necessarily how many hours they work, at least for those who are salaried.

The measure that tends to get the most attention from investors and the media is average hourly earnings, a figure released by the Bureau of Labor Statistics as part of each month's jobs report. The figure, based on a survey of employers, is timely and easily understood: simply the total amount that companies paid workers in a given period, divided by the hours those employees worked.

Despite the familiarity of the average hourly earnings figure, however, economists say that it is among the least reliable indicators, especially in the short run. The monthly data is prone to distortions because of bad weather or quirks of the calendar (even an oddly timed holiday can skew the numbers). The measure is also affected by trends like the retirement of the baby boom generation, rising health care costs and the spread of contract work — long-run shifts that affect average earnings in subtle but significant ways.

Other measures try to account for at least some of these issues by, for example, factoring in the cost of benefits or by controlling for the changing mix of industries in the American economy. But these indicators have their own problems, including smaller sample sizes. And almost all are released at a significant delay.

“The problem is that there is no perfect measure of wage growth,” said Ian Shepherdson, chief economist at Pantheon Macroeconomics, a research firm. “There is no right answer; there never will be a right answer.”

The best way to deal with the conflicting signals, economists say, is to look at a range of indicators — or to average them together — and to ignore short-term fluctuations in favor of longer-term trends. Taken together, the various measures suggest that wage growth has been weak but has crept upward gradually as the economy has improved.

Focusing on the long run, however, does not solve another problem that increasingly concerns economists: signs that data about Americans’ earnings and income is getting less reliable. Most government statistics, for instance, have failed to adapt to the rise of the so-called gig economy and other trends that are changing the relationship between companies and workers. The hourly earnings measure in the monthly jobs report excludes Uber drivers and similar contractors.

“I don’t think any of these measures do very well with nonstandard work arrangements,” said Katharine Abraham, a University of Maryland economist who recently led a [government commission] that studied how data might inform public policy.

Moreover, Americans are increasingly refusing to respond to government surveys. The response rate to the monthly Current Population Survey, the data source that underlies the unemployment rate and many other key statistics, has eroded in recent years. Of the households that do respond, about a third refuse to provide information about their earnings, a rate much higher than for most other questions. Similar problems have affected other government and private-sector surveys.

“Every measure of data quality that we look at seems to have declined over time,” said Bruce D. Meyer, a University of Chicago economist who has studied falling response rates.

Economists who have studied the issue say that aggregate statistics, like the overall median hourly wage, remain reliable. But falling response rates are a bigger problem when it comes to studying high or low earners, or specific demographic groups. And the shrinking sample sizes make it harder to distinguish between true patterns and statistical noise.

Government statisticians are trying to find ways to improve the data, perhaps by supplementing surveys with records from Social Security records, tax filings or other sources. But such records pose logistical and potentially legal hurdles, and often are not available on a monthly or even quarterly basis.

The private sector, too, is looking for solutions. The payroll processing firm ADP recently began releasing a [quarterly report] on earnings based on data it collects from 330,000 American employers.

“To really get down to the details with surveys is hard,” said Ahu Yildirmaz, who heads the ADP research group that produces the report. “This is where the private data comes into the picture.”

Independent economists said that data from private sources like ADP showed promise, but could not replace government statistics. And because they are relatively new, it is not clear how they will respond when a recession hits or the economy changes in other ways.

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* [U.S. Added 313,000 Jobs in February. Here’s What That Means.]

* [The Economy Is Looking Awfully Strong]

* [Where Did Your Pay Raise Go? It May Have Become a Bonus]

* [Paychecks Are Getting Bigger. Don’t Get Too Used to It.]

A Walmart fulfillment center in Bethlehem, Pa. Conflicting data has clouded the effort to measure pay gains in a strong labor market. | Sam Hodgson for The New York Times

Document NYTFEED020180312ee3c006em

WSJ PRO CENTRAL BANKING

Economy

What to Watch at the Fed Meeting | Consumer Borrowing Costs Edge Higher | BOJ Amamiya: Rate Increase Possible Before 2% Inflation | Trade Consensus Eludes G-20 | Timiraos's Take: On the Dot Plot, Watch the Mean; The Wall Street Journal's central banking newsletter for Wednesday, March 21, 2018

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Timiraos's Take: On the Dot Plot, Watch the Mean and Not Just the Median

What to Watch at the Fed Meeting

Consumer Borrowing Costs Edge Higher as Fed Keeps Raising Rates

BOJ's Amamiya Says Rate Increase Possible Before 2% Inflation

Trade Consensus Eludes G-20 Meeting, As Ministers Focus on U.S. Tariffs

On the Dot Plot, Watch the Mean and Not Just the Median

With an interest-rate increase extremely likely Wednesday, the big question about the Federal Reserve's policy meeting is how will officials' interest rate projections will move.

Specifically, does their median projection rise to four rate increases in 2018 instead of the three penciled in last December?

The median dot in the central bank's scatterplot chart is used by investors as shorthand for the Fed's tentative plan. A move up would be read as a hawkish turn.

But the average rate projection could end up revealing as much as the median on Wednesday—especially if the median dot doesn't move up. In other words, watch the mean, not just the median.

Economists and other Fed watchers are roughly divided on the question of whether the median dot moves higher.

Indeed many analysts already expect the Fed to raise rates four times this year, even if officials' new median projection is for just three.

Even if the median dot remains at three rate increases this year, it looks likely that one or two participants who penciled in three rate increases in December could move up to four, and a few who had penciled in fewer than three look likely to move up to three.

If that happens, the mean projection would rise, signaling central bank officials are more confident about their policy path, even if their median projection doesn't indicate four rate increases yet.

It is easier for the median 2019 and 2020 dots to move higher because those projections were already more widely dispersed in December, and it takes less upward drift in the dots to change the median.

Key Developments Around the World

What to Watch at the Fed Meeting

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 the economy 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. E.D.T., and Mr. Powell will take questions at 2:30 p.m. Here's what to watch:

Potential Snowstorm Won't Affect Fed Meeting Plans

The Fed will conclude its two-day meeting Wednesday in Washington despite the threat of a snowstorm that could close the federal government, the central bank said Tuesday.

Consumer Borrowing Costs Edge Higher as Fed Keeps Raising Rates

More than two years after the Fed began raising short-term interest rates, consumers are starting to see the effects in their borrowing costs. Rates on credits cards, mortgages and car loans are among those that have edged higher, though the increases have been minimal and the new levels are still well below where they were before the recession.

New York Fed Director Helping to Oversee Leadership Search Steps Down

One of the people overseeing the search for a new New York Fed 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."

BOJ's Amamiya Says Rate Increase Possible Before 2% Inflation

New Bank of Japan Deputy Gov. Masayoshi Amamiya said Tuesday it was possible the central bank might raise interest rates before inflation reaches 2%, though he said it wasn't an option to consider at this point. Despite immediately qualifying his remark by saying such a move wouldn't be considered at this stage, the comment pushed up the yen, an indication of investors' sensitivity to any hint of a policy move.

Bank Indonesia Expected to Stand Pat on Rates

Bank Indonesia is widely expected to keep interest rates unchanged on Thursday, even as expectation of the U.S. Federal Reserve's rate increase has depreciated the local currency by about 2% to the greenback so far this year.All of the 11 economists surveyed by The Wall Street Journal expect Bank Indonesia to keep the benchmark 7-day reverse repo unchanged at 4.25% for the sixth consecutive month.

Quick Hits

Bank of Korea meeting minutes show growing concern about sluggish inflation, and Morgan Stanley's president said the coming bank stress test is "very hard." Here are quick hits on central banking and related market views from around the world.

Trade Consensus Eludes G-20 Meeting, As Ministers Focus on U.S. Tariffs

Finance ministers and central bankers from the Group of 20 countries failed to reach a new agreement on trade, amid a deepening split between the U.S. and other major economies over Washington's plans to impose tariffs on steel and aluminum. G-20 summits revolve around writing a communiqué of shared principles on major economic policies. But after two days of negotiations, the closing statement released here Tuesday said G-20 officials "recognize the need for further dialogue and actions" on trade and they reaffirmed a set of principles that had been adopted last year at a G-20 summit in Hamburg.

WEDNESDAY

Time N/A

Central Bank of Brazil releases policy statement

2 p.m. EDT

Federal Reserve releases policy statement and economic projections

2:30 p.m. EDT

Fed's Powell holds press conference in Washington

4 p.m. EDT

Reserve Bank of New Zealand releases policy statement

THURSDAY

Time N/A

Bank Indonesia releases policy statement

Time N/A

Bangko Sentral ng Pilipinas releases policy statement

4:30 a.m. EDT

ECB's Lautenschläger speaks

5 a.m. EDT

ECB's Nouy speaks

8 a.m. EDT

Bank of England releases policy statement and minutes

3 p.m. EDT

Bank of Canada's Wilkins speaks

Innovation, Productivity Dispersion and Productivity Growth

Lucia Foster, Cheryl Grim, John C. Haltiwanger and Zoltan Wolf explore in a National Bureau of Economic Research paper whether innovation is an important driver behind the large dispersion of productivity across firms. Their findings suggest that a surge of entry within an industry results in an increase in productivity dispersion and a rise in productivity growth within industries. "These patterns change over time suggesting other forces are at work during the post-2000 slowdown in aggregate productivity," the authors note.

Oil Prices and Inflation Expectations

Weaker long-term inflation expectations in the eurozone haven't been driven by low **oil prices**, but instead by the worry that monetary policy has become less effective, according to Cristina Conflitti and Riccardo Cristadoro in a posting on VoxEU. "Going forward, the doubling of **oil prices** from the lows reached in 2016 has helped inflation recover somewhat in the euro area, but will not per se result in a sustained adjustment in price dynamics, nor will it lift long-term inflation expectations," the bank of Italy economists write. "Our results suggest that, in order to achieve a sustained adjustment of both actual and expected inflation, a firming of the recovery is needed. In turn, this arguably requires that monetary policy be perceived as strongly and credibly committed to this aim."

The Fed Is Signaling More Than 3 Rate Increases This Year

Stronger global growth, a weaker dollar, tax reform and rebounding business investment could make the economy overheat, writes Tim Duy for Bloomberg View. "Is the Fed more likely to raise rate expectations further as the year progresses, or will policy makers back down to the three rate hikes projected last December? In recent weeks, the Fed has signaled that the former is more likely than the latter."

Governors across the U.S. are racing to make complicated decisions about which struggling areas in their states will qualify for a new federal tax benefit designed to spur investment in low-income communities.

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

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

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The New York Times

Business/Financial Desk; SECTB
Are Wage Gains Speeding Up or Stalling? Both, Apparently

By BEN CASSELMAN
1,329 words
13 March 2018
The New York Times
NYTF
Late Edition - Final
1
English

When the Labor Department reported last month that average hourly earnings had jumped 2.9 percent in January, it looked as though the long, steady recovery in the American job market might at last be translating into faster wage gains for the nation's workers.

Then came Friday and the latest jobs report, which showed that wage growth was weaker in January than initially reported and that the gains in February were weaker still, up just 2.6 percent from a year earlier.

The muddled data on wages was a potent reminder that even the strongest job market in a generation has not been robust enough to reverse a longstanding pattern of lagging pay.

But the mixed messages also highlight the challenge of trying to figure out where wages are headed: Not only are the sources of the data **volatile**, but economists say they may also be declining in quality.

In recent months, different sources have told sharply diverging stories about how quickly companies are raising employees' pay. Wage growth may be slowing drastically after a period of strong gains, or it may be picking up after an extended slump. Or it may be stuck at more or less the same plodding pace that workers have become accustomed to for much of the economic recovery.

"We have trouble measuring any of these things," said Tara Sinclair, an economist at George Washington University and for the job-search site Indeed. "This is definitely one of those situations where you can feed in the data and get out whatever response you're looking for."

The problem is not new. It has, however, risen in importance as wage growth -- why it has been slow, and when that might change -- has emerged as a pre-eminent issue in Washington and on Wall Street. Congressional Republicans, their eyes on the fall elections, are seeking evidence that their recently passed tax cuts are making an impact on paychecks. Federal Reserve policymakers are looking for signs that the tightening labor market is causing inflation.

Financial markets tumbled a month ago after the data showing strong wage gains heightened fears that inflation would pick up, forcing the Fed to hasten interest-rate increases. The report released on Friday had the opposite effect: Stocks rallied on the prospect that strong job growth could continue without causing the economy to overheat.

Robin Brooks, chief economist for the Institute of International Finance, an industry group, said the market **volatility** over wages a month ago was "way premature."

"Markets are completely overreacting," he said. "We basically have steady-as-she-goes mediocre wage inflation."

All economic figures come with significant uncertainty. It is common for different measures to disagree about the pace of job growth, consumer spending and other key indicators. But wages pose a particular measurement challenge. Surveys, the source of much economic data, can be unreliable because people often err in recalling the details of their income, or they may decline to answer questions about it. Companies, for their part, track how much they pay their employees but not necessarily how many hours they work, at least for those who are salaried.

The measure that tends to get the most attention from investors and the media is average hourly earnings, a figure released by the Bureau of Labor Statistics as part of each month's jobs report. The figure, based on a survey of employers, is timely and easily understood: simply the total amount that companies paid workers in a given period, divided by the hours those employees worked.

Despite the familiarity of the average hourly earnings figure, however, economists say that it is among the least reliable indicators, especially in the short run. The monthly data is prone to distortions because of bad weather or quirks of the calendar (even an oddly timed holiday can skew the numbers). The measure is also affected by trends like the retirement of the baby boom generation, rising health care costs and the spread of contract work -- long-run shifts that affect average earnings in subtle but significant ways.

Other measures try to account for at least some of these issues by, for example, factoring in the cost of benefits or by controlling for the changing mix of industries in the American economy. But these indicators have their own problems, including smaller sample sizes. And almost all are released at a significant delay.

''The problem is that there is no perfect measure of wage growth,'' said Ian Shepherdson, chief economist at Pantheon Macroeconomics, a research firm. ''There is no right answer; there never will be a right answer.''

The best way to deal with the conflicting signals, economists say, is to look at a range of indicators -- or to average them together -- and to ignore short-term fluctuations in favor of longer-term trends. Taken together, the various measures suggest that wage growth has been weak but has crept upward gradually as the economy has improved.

Focusing on the long run, however, does not solve another problem that increasingly concerns economists: signs that data about Americans' earnings and income is getting less reliable. Most government statistics, for instance, have failed to adapt to the rise of the so-called gig economy and other trends that are changing the relationship between companies and workers. The hourly earnings measure in the monthly jobs report excludes Uber drivers and similar contractors.

''I don't think any of these measures do very well with nonstandard work arrangements,'' said Katharine Abraham, a University of Maryland economist who recently led a government commission that studied how data might inform public policy.

Moreover, Americans are increasingly refusing to respond to government surveys. The response rate to the monthly Current Population Survey, the data source that underlies the unemployment rate and many other key statistics, has eroded in recent years. Of the households that do respond, about a third refuse to provide information about their earnings, a rate much higher than for most other questions. Similar problems have affected other government and private-sector surveys.

''Every measure of data quality that we look at seems to have declined over time,'' said Bruce D. Meyer, a University of Chicago economist who has studied falling response rates.

Economists who have studied the issue say that aggregate statistics, like the overall median hourly wage, remain reliable. But falling response rates are a bigger problem when it comes to studying high or low earners, or specific demographic groups. And the shrinking sample sizes make it harder to distinguish between true patterns and statistical noise.

Government statisticians are trying to find ways to improve the data, perhaps by supplementing surveys with records from Social Security records, tax filings or other sources. But such records pose logistical and potentially legal hurdles, and often are not available on a monthly or even quarterly basis.

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''To really get down to the details with surveys is hard,'' said Ahu Yildirmaz, who heads the ADP research group that produces the report. ''This is where the private data comes into the picture.''

Independent economists said that data from private sources like ADP showed promise, but could not replace government statistics. And because they are relatively new, it is not clear how they will respond when a recession hits or the economy changes in other ways.

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Hourly jobs like those at a Walmart fulfillment center in Pennsylvania may skew wage measures as gig economy jobs proliferate. (PHOTOGRAPH BY SAM HODGSON FOR THE NEW YORK TIMES) (B2) CHART: Measures of wage growth have diverged sharply in recent years, making it hard to know how pay is responding amid a tightening labor market. (Source: Federal Reserve Bank of St. Louis.)

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WSJ PRO CENTRAL BANKING

Economy

Transcript: Atlanta Fed's Bostic Speaks With Reporters in Florida; Atlanta Fed president discussed the path of interest-rate increases, fiscal stimulus and equity markets

2,610 words
7 March 2018
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English

Atlanta Fed President Raphael Bostic took reporters' questions Wednesday, March 7, 2018, on the sidelines of an event in Fort Lauderdale, Fla. He discussed the path of interest-rate increases, fiscal stimulus and equity markets, among other topics. Here is a transcript of the exchange, lightly edited for length and clarity.

Q: It seems there is this sense out there that with changes in fiscal policy and things like that, that maybe the Federal Reserve might need to be more aggressive with interest-rate rises over the course of the year. Do you have any shift in your own outlook? And what kind of outlook do you now have for interest-rate rises over 2018?

RAPHAEL W. BOSTIC: So my initial model going into this year was for two moves. With the stimulus that we're expecting from the tax changes and the fiscal policy, we adjusted to three, recognizing that there was some potential upside risk on that. I think some of the developments with trade policy have introduced some uncertainty as to how the economy's going to perform. And so I'm really taking a wait-and-see attitude as to how robustly the economy responds to the stimulus to make a decision—before I'll make a decision as to whether we want to revise our expectations upward—or downward, frankly; it's really hard to know how things are going to evolve.

Q: So just a lot of uncertainty's come into the picture now?

MR. BOSTIC: There's a lot of uncertainty. Well, I mean, you guys have been reporting on this minute to minute these days. And so, with that uncertainty, I think for us we've got to be more diligent in terms of seeing what the statistics are telling us the economy is doing, and also what sort of the business context that we have across the Sixth District are telling us as to whether there are emerging challenges or some opportunities that they're able to pursue that they haven't in the past.

Q: Mr. President, regarding trade — (inaudible)—is one of the few that actually has a trade surplus. What's the risk?

MR. BOSTIC: Well, I think in this environment a risk is we don't know which products are going to be pulled into this tariff regime, right? So the U.S. in this latest round has identified aluminum and steel as issues, and then Europe has signaled that they would hit a whole host of other products that are not aluminum or steel. And so there's just no real certainty as to which products are going to get pulled into this, and so anyone who's engaged in any kind of international trade space has got to have some concern that they could become part of the story here and be at risk for a changing cost reality.

Q: So it sounds like you feel on one hand you've got the stimulus pulling one way, potentially, but then you've got this uncertainty on the other side that could—that could pull you to a lower rate path. Is that—is that a fair summary of what you said just a minute ago?

MR. BOSTIC: So I would—I would say it like this. The stimulus is definitely upward pressure. There was already uncertainty as to how much upward pressure there would be with that stimulus because the extent to which we would get larger growth really depends on how the windfall gets spent. And we didn't really know a lot about—we don't have a lot of details about how that money is going to be used. So there was uncertainty there. That uncertainty was largely on the upside, and so that would be forcing us to sort of a more aggressive policy in terms of moving up rates.

The trade stuff, I think, is uncertainty in the other direction. And what I don't have a good sense of right now is, if you did an accounting, how much the upside uncertainty is fully offset by the trade uncertainty, the downward uncertainty, or does it overshoot such that we might want to revise our forecast downward. I don't really know right now.

And, you know, in terms of the trade stuff, there's still a lot to be written. I don't think our policy has been formally articulated. And so until we know what actually is on the books, it's going to be very difficult for us to adjust our forecast. I'm recommending to our staff we just sit tight and wait and see what happens, and then at that point start to make some calculations to figure out how our models should adapt.

Q: We've had a pretty healthy economy in South Florida of late, especially in Broward, lots of building construction. How would you see the regional economy being affected, depending which way things go with the national?

MR. BOSTIC: Yeah, so I think that there is—there is some potential for the local region to do well. As you noted, Broward County has performed extremely well. Unemployment in the county is lower than the national average. Job creation continues to be robust. And the sectors of growth—you know, the health care sector, some of the service, tourism and trade—those are growth sectors in jobs, you know, with the aging demographic. So the prospect is pretty positive.

But when you have increasing uncertainty, that changes people's willingness to make long-term investments. It changes businesses' willingness to make those sorts of investments. And so part of what we need to do and what the folks here need to do is try to figure out how to navigate through that uncertainty.

And one reason I come down to places like Broward is to talk about the economy, tell people what we see, try to give some signals as to what areas they should be looking at to try to get some more clarity. And, you know, trade policy is definitely one of those areas, and then how businesses use their funds is going to be another one.

Q: So I understood you to say you were at two rate hikes in December and then moved that up at some point in terms of your view?

MR. BOSTIC: Yes.

Q: Why were you at two then? And what caused you to move it up?

MR. BOSTIC: So, for me, I was still unclear as to the extent to which we were at full employment or close to full employment. We had seen really slow upward pressure in wages, which would suggest that there was still room to grow and that we weren't really on the cusp of overheating.

To the extent that we start to see stimulus, the likelihood that that growth and that wage pressure was going to emerge kind of grows, and so we expect it to move up. Now, I expected, with the help of my staff, to see that stimulus accelerate the wage pressures such that the pace at which we get to a more neutral stance needed to be accelerated as well.

Q: And in terms of where you are in terms of March, is the decision two versus three, or is it three versus four, or are all three of them open?

MR. BOSTIC: I would say everything's on the table. And, you know, as a general—as a general approach, I would say I don't really think about it. And from a calendar-year perspective, I think about it meeting to meeting, you know, what does the—what does the—what are the—what's the market telling us in terms of its performance. And then if it turns out at the end of 2018 we've done it four times because that's kind of what the market said was prudent, then that's kind of where we wind up.

You know, one thing that—but I do think that the projections that we give about our future expectations about our pathway for our policy (are) useful because it does provide signals for how we expect the economy is going to perform. And it can give, I think, the market a sense of what sorts of trajectories they should expect from a (gross domestic product) perspective, from an unemployment perspective, and from inflation. And if they start to see deviations from that, I think the market can start to internalize kind of how our policy's going to evolve.

And actually, we've seen that already. So, you know, we have not said we're moving four times, and yet the narrative in the marketplace has been, well, you know, some of the fundamentals, the inputs to policy have changed, and so we're going to try to use that information to process how the—how the Fed is thinking about it. And so I think our communication and transparency in this space has actually been quite helpful.

Q: So back to the markets. You said a moment ago that the election had led to this—I think "through the roof" was the phrase—run up in equity markets that was psychological and that reality would eventually intervene. That implies you see some potential for a reality-based correction. I'm wondering how much of a correction you think that might be, and how that might affect your thinking on policy.

MR. BOSTIC: Yeah, so what is—what is true is that from the moment of the election, the **stock market** has increased considerably and has basically gone in one direction. And the increase has not been commensurate with, you know, an increase in profits or any of those sorts of things.

And so what does a correction look like? I don't really know. And part of it is that there's a circumstance to a rate reaction. So the response happens because there is change, disruption, and profitability for a whole host of sectors changes. Then we can see a pretty significant move, I think, in terms of people's perceptions of the future and the value of companies and their prospects.

If it happens because, you know, the tax reform—well, actually, we have tax reform. One thing we're trying to get a sense of is, you know, did the tax reform happen to the level of people's expectations? And are the plans that companies might have changing in ways that are, you know, less productive or more productive than we might have expected? And that will also shape. So, you know, I don't—one thing I don't try to do is forecast to a level where the **stock market**'s going to be at any point in time. There's a bit of momentum in the **stock market** that makes that a challenge. But I do really try to pay attention and ask the question: Are the valuations that we're seeing in the marketplace commensurate with profitability and future prospects? Because that's what—that's what the market is really supposed to represent. So we try to stay—keep our sights grounded in the real economy.

Q: There's some concern here in south Florida that the housing market is overheating, and that, you know, we're already starting to see condos sell at a loss, and homes are starting to sell at lower prices. I mean, are you—is that a concern for you, that the housing market here is overheated?

MR. BOSTIC: Well, given that the real-estate market was a key factor in shaping the crisis of the 2000s, yeah, we definitely pay attention to that, and two dimensions, at least. One is to what extent does that lead to exposures in our banking sector, right? And so we talk to our banks on a pretty regular basis about what kind of concentrations do they have in certain types of products and certain geographies. So we're very mindful in that space. Second is really around sort of how is capital deployed regionally and to what extent are neighborhoods going to be adversely impacted.

One thing that's always a challenge in real-estate markets is, depending on sort of capital flows, people will build to a price point. And the question is, are there enough families that have income to meet that price point? So the affordability challenge here is really a question of can we find ways to build—to lower the price point so that the population of all those potential consumers grows? And that is—that is something that many hot markets are grappling with. And if not, then you do wind up with a competitive race—almost race to the bottom for high-cost, high-income residents.

So I came here from Los Angeles. They built a lot of housing that was targeted to the top of the marketplace. And now those buildings are all giving concessions. They give them two months' rent, three months' rent, because they've got to compete. Those are not long-run sustainable strategies. And so thinking about how to build such that you don't have to put yourself in that position is something that I think all developers need to be mindful of. And that communities need to help them, right? So if this means you got to build at higher densities in some corridors, higher densities will mean lower average prices, right? And so there are some strategies, but they've got to be embraced by the broader community.

Q: President Bostic, you wrote about the Orlando shooting. Do you want to say anything about mass shootings?

MR. BOSTIC: Nothing more than I said before. I don't—they're bad, right? And we need to find ways to make sure that they don't happen with the frequency that they happen in this country. And as Mike said, I think communities need to get—come together and figure out solutions—figure out strategies that really provide real solutions to make these things harder to happen.

Q: You were talking inside a lot about perception playing a role in the economy. And I was wondering, the resignation of (National Economic Council Director) Gary Cohn, does that have an impact perception on the economy? Is there going to be, like, an impact of some sort because of that, do you think?

MR. BOSTIC: So I would fully expect it to have an impact. So as you look at—to the economic team, Cohn played a particular role and connected with a segment of the marketplace that is quite important, and quite visible. So the market opened, what, 10 minutes ago? I don't know where it is right now, but I'm guessing that it's in a negative space. I think a lot of this is a reaction to even more uncertainty as to what economic policy is going to look like in the months to come. With Cohn, I think there was a comfort in Wall Street, with him being there giving them a voice and influence in the shape of policy. With him not being there, I think there's a lot of uncertainty. And that uncertainty will play itself out in the next weeks and months.

Related Article

* Bostic Says Trade Wars Aren't Easy and Winnable

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The New York Times

The Upshot
The Trump Steel Tariffs Are Economically Small and Symbolically Huge

By Neil Irwin
923 words
2 March 2018
01:00 PM
NYTimes.com Feed
NYTFEED
English

To understand why the worry about President Trump's planned steel and aluminum tariffs goes so deep on Wall Street and in corporate America, don't think of Thursday's news as being about a new tariff on steel and aluminum.

Rather, think of it as a signal about the willingness of the president to ignore his most sober-minded advisers and put the global economy at risk to achieve his goal of better terms for American trade.

Much of the rhetoric from business and conservative groups has focused narrowly on the potential cost of the tariffs. "Make no mistake, this is a tax on American families," the National Retail Federationsaid. It is a "huge job-killing tax hike on American consumers," said Senator Mike Lee, a Utah Republican.

In terms of direction, this assessment is doubtless correct. The new tariffs will tend, over time, to make automobiles and beer cans and lots of other items more expensive. But in terms of magnitude, it is misleading.

As Commerce Secretary Wilbur Ross argued in a CNBC interview on Friday, for most consumer items we're discussing trivial amounts of "tax" — an extra fraction of a penny for the can that contains Campbell's Soup, a few tenths of a percent on the price of a new car.

Steel imports were worth about $30 billion in 2017, and aluminum imports around $17 billion, according to government data. Even in the simplest possible way of thinking of the potential cost of the new tariffs — just applying the 25 percent tax on steel and 10 percent tax on aluminum the president plans — we're talking about only $9 billion. And that's before accounting for the resulting shift toward domestic production that is the entire point of the policy.

More complex modeling would be needed to produce a reliable estimate of the cost of the tariffs, but the point is about the order of magnitude. These are not numbers that are enough to cause much damage to a $20 trillion economy, or to justify the $460 billion decline in the value of the **stock market** that took place between Thursday's open and Friday midday.

This market drop makes more sense if you look at the president's announcement not in terms of what it means for imported steel and aluminum, but rather what it says about the president himself.

The most consistent economic idea running through President Trump's decades in public life has been a conviction that the United States is being duped in the global trade arena. He has denounced China, called for ripping apart the North American Free Trade Agreement, and accused generations of American trade negotiators of being incompetent.

Yet in the first 13 months of the Trump administration, even as the president kept using bombastic language about trade, any formal action was restrained.

An incident from April is instructive. After leaks indicating that Mr. Trump planned to withdraw the United States from Nafta, there was an onslaught of phone calls to the White House from C.E.O.'s and international leaders. And pro-trade advisers worked to get the president's ear.

He backed off, saying the next day that he would give Nafta renegotiation a try.

When the administration has acted on trade — with tariffs on solar panels and washing machines, most notably — the moves have been relatively narrow, fitting comfortably with precedent and unlikely to spark global blowback.

Lately, there has even been talk that the administration might reverse course and move to rejoin the Trans-Pacific Partnership, the trade deal that the United States pulled out of at the start of the Trump administration.

More broadly, **financial markets** spent the first year of the Trump presidency gaining comfort that investors could count on the administration to deliver business-friendly economic policy, regardless of presidential bombast. That came through in such areas as the tax law (which cut the corporate income tax rate substantially) and appointments to key economic posts (like the former private equity executive Jerome Powell as chairman of the Federal Reserve).

Then came Thursday.

Mr. Trump not only overruled his more pro-trade advisers, but he also did so in an impromptu way, seemingly setting policy before the details had been worked out and without buy-in from across his own administration.

And by invoking national security concerns as the rationale for the action, the president was setting a precedent that could give other countries more wiggle room to use security as a reason for imposing tariffs on American goods.

Moreover, on Friday, rather than try to tamp down fears of an all-out trade war, President Trump appeared to relish the idea. In a Twitter message, he said that for a large country like the United States, trade wars are “good” and “easy to win.”

Financial markets tend to extrapolate, looking at small pieces of information today to project what the future will look like. That’s why when a company reports disappointing financial results for a single quarter — missing an earnings target by a few million dollars, for example — markets sometime lop billions from the company’s value.

The United States economy, in the aftermath of the tariff announcement, is the equivalent. The steel and aluminum tariffs are manageable. But if the president is so gung-ho about a trade war, and is now willing to ignore his more cautious advisers, what comes next might not be.

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WSJ PRO CENTRAL BANKING

Economy

Torry's Take: There's No Place Like Economic Equilibrium; Having spent the best part of a decade battling to recover from the 2007-09 recession, central bankers now face a different set of risk factors.

By Harriet Torry
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Minneapolis Fed President Neel Kashkari recently remarked that "the Fed had historically been like the Wizard of Oz—no one understood it."

"When the financial crisis hit, we needed to do extraordinary things, and we needed people to trust us," he told The Wall Street Journal.

Right now, the U.S. economy appears by several measures to be well out of the financial-crisis woods. Consumer confidence is at a 14-year high, the unemployment rate has held at a 17-year low for five months in a row, and consumers and businesses

are spending.

Do we still need to worry about low inflation? Not desperately. It has been creeping higher in recent months, and the New York Fed's underlying inflation gauge—designed to capture "sustained" movements in inflation from price, real activity and financial data—hit its highest reading since the summer of 2006 in February, at 3.06%.

Is it time to pop the champagne? Perhaps not. Having spent the best part of a decade battling to recover from the 2007-09 recession, central bankers now face a different set of risk factors.

Fed officials met last week and, according to Chairman Jerome Powell, "a number of participants" said business leaders around the country are concerned about trade policy.

Mr. Powell didn't think changes in trade policy would affect the outlook. But he conceded that business executives have a different perspective, and view "more widespread retaliation and more widespread actions back and forth" as an economic risk.

A central bank's wizardry derives in part from its ability to steer people's expectations. For years, it has been fighting straightforward macroeconomic fires, like pushing unemployment down and inflation and interest rates up. Today—with the economy humming, stock markets buzzing, but geopolitical developments **volatile**—central bankers aren't in Kansas anymore.

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WSJ PRO CYBERSECURITY

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
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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 SEC issued 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."

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SEC Prods Exchanges on Database

By Dave Michaels
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The chairman of the Securities and Exchange Commission pressed exchanges to end a standoff that has delayed the launch of a massive database meant to track all activity in the stock and options markets.

"I'm not happy," SEC Chairman Jay Clayton told a conference on Monday in Orlando, Fla., sponsored by the principal trade association for stockbrokers. "We can't dilly around. The main markets regulator should have access to a forensic trail that enables us to assess what happened if a market event occurred."

The SEC ordered the creation of the Consolidated Audit Trail in 2012, after regulators found they didn't have enough data to explain a wild trading session in May 2010 known as the flash crash.

The project has been managed by a committee made up mainly of stock and options exchanges, not the SEC itself. The exchanges missed a November 2017 deadline to report trades to the database, meaning they have violated rules requiring them to send data to the CAT.

Exchanges have said they need more time to make sure investors' information provided to the CAT will be safe from hackers. But Mr. Clayton on Monday said there are ways to reduce that risk, and it shouldn't stand in the way of exchanges and eventually brokers reporting information to the database.

A spokesman for the committee of exchanges didn't respond to a request to comment.

Mr. Clayton didn't address consequences for the exchanges. Generally, the SEC can issue "deficiency letters" to firms that don't comply with rules. It also has the authority to start enforcement investigations that can lead to financial penalties or other forms of reprimand.

The CAT, which is expected to ultimately ingest about 58 billion daily trading records, holds the promise of helping regulators spot market manipulation and probe the causes of extreme **volatility**.

The SEC still lacks a complete inventory of all orders in the **stock market**, and regulators' current view into the options market is even patchier. Commissioner Kara Stein has called the CAT the "Hubble telescope of securities markets."

The data will be nonpublic, with only regulators and exchange surveillance officials able to access it. Under current plans, the repository is supposed to be fully operational by 2019.

The standoff over launching the CAT has, at least in public, turned on the risk of data being hacked. While the vast majority of quotes and trades are submitted by sophisticated trading firms, the SEC's blueprint called for collecting the personal information of all traders. That means the repository would store the Social Security numbers and dates of birth of individual investors who place only the occasional trade.

Mr. Clayton has taken a cautious stance on the SEC's receipt and storage of sensitive information. He said on Monday he was "confident" that risk can be solved, adding it shouldn't stand in the way of regulators getting data they need to monitor trading.

"I am confident we can get, pick a percentage, 98%, of what we need without taking any [personally identifiable information] into the SEC on a regular basis," Mr. Clayton told the Securities Industry and **Financial Markets** Association conference.

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