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Simon Nixon Italy's Banks: The Weak Link **EUROPE FILE | A2**

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Two of Abu Dhabi's top lenders agreed on a merger that will create a Mideast banking giant with \$175 billion in assets and emerging-market ambitions. B1

• Rio Tinto's new boss said he will build up existing assets and buy others to boost profit. B1

♦ U.S. regulators were forced to wait until a major mishap occurred before addressing Tesla's Au-topilot technology. **B1**

◆ Mondelez faces an unusual number of legal and political hurdles if it continues its pursuit of Hershey. **B1**

• European cities are wooing banks and investors worried about London's status as a financial center. A1

• U.S. auto sales rose at the slowest pace in 13 months in June, with GM and Toyota reporting declines. **B2**

◆ A top aide to Baidu's CEO is taking a reduced role as the company seeks ways to reduce its dependence on search-related revenue. B3

Puerto Rico defaulted on its constitutionally guaranteed debt, a first. B5

World-Wide

◆ A massive car bomb exploded in one of Baghdad's busiest commercial areas, killing at least 121 people and wounding many. A1

Australia's election results remained unclear, with Trumbull's gamble on an early poll backfiring as his conservatives struggled to secure enough seats. A1

 The attack in Dhaka. Bangladesh's capital, marks

a sharp escalation by ex-

ternational ruling ex-

as part of a probe into

♦ Israel has gradually

into Gaza, while making

ade remains in place. A4

been allowing more goods

clear that its security block-

◆ Died: Elie Wiesel, 87, the

Holocaust survivor and No-

bel Peace Prize winner. A5

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pected to challenge Bei-

jing's maritime claims. A3

♦ The FBI grilled Clinton

whether any classified infor-

mation on her private email

server was compromised. A5

tremist followers of Islamic State in South Asia. A3 • China's military plans exercises in the South



DEVASTATION: Islamic State claimed responsibility for the bombing in a Baghdad commercial area packed with people breaking the Ramadan fast. The prime minister was met with jeers as he toured the site amid anger at the government's failure to uproot the terror group

IN CHINA, A NOD TO INNOCENCE

Lawyers test new ability to free those wrongly jailed, starting with an aspiring businessman

BY TE-PING CHEN

MIANZHU, China—At a grave in western China rests one of Chen Man's first lawyers, who for years had fought to free Mr. Chen from a justice system that convicts nearly all who are accused.

On a chilly November day, a handful of attorneys looking into Mr. Chen's case clambered to the mountainside tomb to pay their respects. They burned paper money, laid flowers, and one of them made a silent promise.

Attorney Wang Wanqiong had met earlier with the aging parents of Mr. Chen, an aspiring businessman who said he was tortured into confessing to a

worried that no amount of legal effort would release Mr. Chen from a lifetime in prison and finally return him home.

"We felt an incredible amount of pressure," she said.

At twilight, the lawyers headed home. The next day, they founded the Innocence Project of China to fight wrongful convictions, inspired by similar groups in the U.S. and elsewhere. The lawyers would test the limits of a 2012 law that banned from trial any confession or evidence extracted by torture.

Their mission appeared quixotic, given China's authoritarian government and a legal system known for often brutal and arbitrary enforcement. Yet the

ing wrongful convictions might also serve a broader government agenda and run hand in hand with China's recent crackdown on dissent.

"Legal reform is in some ways a substitute for political reform," said Joshua Rosenzweig, a human-rights scholar in Hong Kong. "They want to show the public that something is being done. But they also want to have control over the discourse."

Uncertain of what awaited them, the lawyers decided three years ago to test the waters, working from a modest apartment in Beijing and with the help of student volunteers.

Mr. Chen would be their first case.

Militant **Blast Kills** Scores in Baghdad

A massive car bomb exploded overnight in the heart of one of Baghdad's busiest commercial areas, killing at least 121 people and wounding many others, security officials said.

By Ghassan Adnan in Baghdad and Karen Leigh in Dubai

Islamic State claimed responsibility for the bombing, the extremist group's first major attack on the Iraqi capital since losing the nearby city of Fallujah to Iraqi forces late last month. A series of defeats in Syria and Iraq since last fall has prompted the militants to revert to more guerrilla-style tactics such as suicide attacks on civilians in urban areas.

In Bangladesh More than 20 were killed in an attack Friday, marking an escalation by Islamic State's followers in South Asia. A3

The blast in the upscale central neighborhood of Karrada occurred at around 1:30 a.m. on Sunday in front of a Shiite mosque, damaging it and setting nearby buildings ablaze, interior ministry spokesman Saad Maan said. The streets were packed with young people and families reveling breaking of the Ramadan fast, with many watching the European soccer tournament on a cafe TV at the blast site.

When Prime Minister Haider al-Abadi toured the site hours after the explosion, angry crowds jeered him, calling him a thief and throwing shoes and rocks at his convoy.

Remembering Elie Wiesel

Cities Spar for London Role

European cities are closing China Sea ahead of an inin on London's wounded financial hub.

Following the U.K.'s vote to quit the European Union, London's position as the Continent's premier financial center

By Max Colchester in London, Sam Schechner in Paris and William Wilkes in Frankfurt

is under threat, and officials in Paris, Frankfurt and Dublin aren't wasting time trying to hasten its downturn.

The day after the June 23 vote, Ireland's foreign-investment agency wrote to more than a thousand investors reminding them that the Emerald Isle was staying in the EU and offering help to move people over. In Frankfurt, officials set up a special hot line for banks that want to discuss shifting operations outside Britain, in preparation for thousands of potential defectors

A team from Paris Europlace, which promotes French finance, plans to travel to London to woo financial firms and professionals. French government agency Business France published leaflets outlining the joys of working—and living—in Paris.

"It's not that we're trying to take advantage of the pain of others," said Alain Pithon, Paris Europlace's secretarygeneral. "But we think we have a card to play."

Financial regulation will be a key issue in the U.K.'s exit negotiations with the EU. For

Britain, the stakes are high. The financial industry accounted for 12% of U.K. economic output in 2014. Nearly 2.2 million people work in financial and related services, more than 700,000 of them in London.

Faced with growing competition from Europe, lobbyists from the U.K.'s financial engine are scrambling to steady the ship.

"There has always been a friendly rivalry between us," Chris Cummings, chief execuof lobbying group tive TheCityUK, said during a break between fielding calls Please see RIVALS page A2

- Contenders for U.K. leader jostle for position .. Α4
- A new faith in central bank policy . B5



AUTHOR, EDUCATOR, PHILANTHROPIST: Holocaust survivor and Nobel Peace Prize winner Elie Wiesel, who educated millions in the atrocities of the Nazi concentration camps, has died at age 87. A5

In Arkansas, Two Racing Dynasties Dig In Championship rototiller race pits

Southern Pride vs. Till Billys

BY BECKIE STRUM

EMERSON, Ark.-In blistering near 100-degree heat, Wesley Houldridge rolled his hotpink racing machine onto the track to defend a family motor sport dynasty that comes with

blown engines, prize money and gut-wrenching crashes.

"My uncle's like the patriarch of it," said Mr. Houldridge, a 21-year-old apprentice electrician and a cham-

pion rototiller racer. He recalls spending hours helping his uncle tinker with these machines in his garage in tiny Three Creeks, Ark., and doing practice runs on the weekends in the nearby woods and pastures.

"He's basically been raising me to be a till racer," he said.

On June 25, Mr. Houldridge was taking on all comers in a bid to hold on to his title at the World Championship Please see TILLER page A5

In Australia, Only Certainty Is Uncertainty

BY ROB TAYLOR

SYDNEY—Australian Prime Minister Malcolm Turnbull's gamble of holding early elections appeared to have backfired, with his conservatives struggling to secure enough seats in Parliament to form a government outright.

The tight election, whose result won't be decided until at least Tuesday when votecounting resumes, spurred criticism of Mr. Turnbull's campaign effort, in which he called on voters to deliver stability in times of uncertainty.

The outcome extends a decade of volatility in Australian politics that has splintered both major political blocs and created a vacuum that inde-

pendents and smaller parties, including those from the far right, have rushed to fill.

With most votes tallied. Mr. Turnbull's Liberal-National coalition appeared likely to lose the comfortable majority it won in 2013. The coalition was on track to win at least 65 seats in the 150-seat House of Representatives, where governments are formed, according to the Australian Broadcasting Corp., against at least 67 seats for the main opposition Labor Party. Independent and minor-party candidates had secured five seats.

Seventy-six seats are needed to form government, and postal votes may determine results in some 13 constituencies where the outcome is still unclear.

The conservatives' best hope is to be returned with a sharply reduced majority. At worst, they could be out of office if they aren't able to reach an agreement with independent and minor-party lawmakers to govern with their support. That would make Mr. Turnbull's administration Australia's first single-term government since 1932.

For Mr. Turnbull, who called an early election partly to establish a new mandate for his government after ousting the unpopular Tony Abbott as party leader 10 months ago. either of those outcomes would be a setback. He had hoped Australia would back

Please see COUNT page A2

Till Billy 2

WORLD NEWS

Brexit Hits Eurozone Weak Link: Italy's Banks



EUROPE FILE SIMON NIXON

The markets may have taken Brexit in stride for now but it would be complacent to assume the worst of the shock has passed. It will take time to assess the damage from what Bank of England Gov.

Mark Carney

has dubbed

the U.K.'s

"economic

post-trau-



matic stress disorder." Meanwhile, the full extent of the Brexit shock will depend less on what happens in the U.K. than its impact on the eurozone, whose weakest link is the Italian banking system.

Brexit has made what was already a serious Italian banking crisis worse. Italian banks are sitting on a combined €360 billion (\$401 billion) of bad debts, equivalent to about a quarter of gross domestic product. This includes €200 billion of loans to borrowers now judged insolvent, which banks have on average written down to 45% of their nominal value but which the market appears to value at closer to 20% of their nominal value, which implies the system is short of around €40 billion of capital.

ow thanks to Brexit, the market fears that hole may be even larger. Lower Italian growth forecasts point to higher loan losses while falling government bond yields increases pressure on bank margins. Shares in many Italian banks slumped by more than 30% after the Brexit vote and some now trade on multiples of as little as 0.1 times net book value, according to Morgan Stanley estimates, raising doubts about their ability to raise capital from the market.

Italian policy makers are to blame for allowing the

crisis to become so serious. For years, they let the situation drift in the expectation that the bad-debt problem would resolve itself through a combination of economic recovery and the substantial collateral cushion that banks claimed was underpinning the bad loans.

However, the economy never fully recovered and bank efforts to recover their collateral were frustrated by a weak judicial system. Instead, undercapitalized banks were reluctant to lend and overextended companies unwilling to borrow, leading to a prolonged slump.

Now Rome must clean up this mess under more challenging circumstances. Under new EU rules, no public money can be used to support failed banks until private-sector creditors accounting for 8% of the bank's liabilities have been bailed in. A bank-backed privatesector fund recently established to facilitate bank rescues, has already been forced to use half its capital to buy shares in two lenders after their attempts to raise



Italian Prime Minister Matteo Renzi spoke in Rome on Saturday.

equity from the markets attracted zero interest.

If Italy is forced to stick to the rules, it could face multiple bank failures, which could mean heavy losses for many ordinary retail savers, who own up to €250 billion of bank bonds. When the Bank of Italy imposed losses on €750 million of junior debt as part of the rescue of four small lenders in December, it prompted a political backlash. A similar backlash now could make it all but

impossible for Prime Minister Matteo Renzi to win a referendum promised for later this year on the constitutional overhauls.

r. Renzi last week tried to persuade fellow eurozone leaders to use the Brexit crisis as cover to suspend the bail-in rules for six months to allow his government to put in place a €40 billion rescue program. But they rebuffed this, fearing that suspending rules agreed upon only two years ago would damage the currency bloc's credibility.

Eurozone leaders did throw Rome one lifeline, allowing it to guarantee debt issued by Italy's banks if necessary. But Rome has clearly been told it will have to deal with banking-system solvency issues on its own.

The stakes for Europe could hardly be higher. The EU's legitimacy largely rests on its claim to provide common solutions to common problems. In Italy that legitimacy was already in question amid accusations that the eurozone has failed to find a solution to the common problem of growth and that it treated the common problem of irregular migration as a purely Italian problem for years until refugees started arriving in Germany.

If Italian savers conclude that they are being forced to bear substantial losses as a result of the EU's failure to recognize the common challenges posed by Brexit, the damage to the EU's legitimacy may be irreparable.

RIVALS

Continued from Page One from a plethora of concerned investors.

About two dozen bank executives gathered this past week at the British Bankers' Association's headquarters to hash out how to press governments to let the U.K. keep its right to sell financial products across the EU, according to a person familiar with the matter. That could help keep banks in London.

Whether the U.K. secures a deal for the sale of products across the EU—so-called passporting—is crucial, but could take vears to determine. The negotiating process for the U.K.'s exit isn't likely to start until fall at the earliest. But already, clients want banks' reassurance there won't be disruptions in their services, said Simon Gleeson, a partner at law firm Clifford Chance.

Taxation and labor laws, as well as cost of living, will factor into firms' decision making. Before the Brexit vote, the U.K. marketed itself as the business-friendly gateway to Europe. It benefits from lower corporate tax rates and more flexible employment laws than

Germany and France.



Following Brexit, London's position as Europe's premier financial center is under threat.

ations with the EU, which I don't think is likely, we are highly likely to set up a eurozone legal entity [in addition to the London headquarters] just because it provides us with some certainty," said Mark Hemsley, chief executive of Bats Europe.

His counterpart at exchange operator Euronext NV warned that the 30% to 45% of trading in euro-denominated assets done in London would be acceptable only while the U.K. was part of the single market. "What was normal when you share a common destiny, a common single market, a consistent regulation becomes an anomaly once London leaves the EU." said Euronext CEO Stéphane Boujnah. Few bank executives anticipated the U.K. would vote leave and even fewer have detailed plans to deal with it. according to bankers. Morgan Stanley has created a working group to look at other potential locations in Europe, according to a person familiar with the matter. Barclays PLC is getting ready to scope out Dublin as one potential European base, according to a person familiar with the matter. Some major lenders, including Citigroup Inc., will likely wait six months or so to see if the renegotiation of the passporting rules is at all feasible before

deciding how to shift jobs abroad, people familiar with the plans said.

Banks won't uproot all of their London operations, just those required to be relocated by European regulators, analvsts said.

Even before the Brexit vote, London was feeling the heat. The high living and office rental costs were pinching cash-strapped banks. R3Location, a London-based business that specializes in moving employees and works with several banks, saw demand drop 20% in the past six months as businesses held back from shifting top executives to the capital, said cofounder Marco Previero. Still, quitting London isn't painless. Few other European cities share London's time zone, English language, common law and cosmopolitan appeal. Many are a fraction of the size of the British capital so companies face a difficult call: move fast to snap up available office space and ensure their staffers' children get into schools, or wait to see if a passporting deal gets hashed out. One major weapon in the U.K.'s arsenal would be voiding an EU-wide cap on bankers' bonuses. The British govlobbied ernment unsuccessfully to remove the cap, which limits annual bonuses to twice base salary. Following a Brexit, the country could scrap the rule altogether.

The vote has also triggered other worries. Several banks are conducting audits of employees' immigration papers. The fear is that non-U.K. citizens could lose the right to work in Britain-or U.K. citizens could lose the right to work in the rest of the EU, said Maarten Poels, a regional director at Santa Fe Relocation Services, a firm that specializes in moving employees for global lenders. "That will give us a sense of who might be able to stay or need to relocate back," said Mr. Poels.

COUNT

Continued from Page One his call for continuity and resist the lure of antiestablishment sentiment seen in the U.S. presidential race and recent Brexit vote in the U.K.

"There's no clear winner but there's one clear loser from all of this, and it's Malcolm Turnbull," said Nick Economou, a political scientist at Monash University.

Business leaders and economists said the lack of a clear mandate for either the Liberal-National coalition or Labor risked complicating the country's economic transition away from a reliance on mining investment to drive growth. Some questioned whether it could lead credit-ratings firms to strip Australia of its AAA sovereign rating. "This election result is the worst possible outcome for Australia," said John Brogden, chief executive of the Australian Institute of Company Directors.

Mr. Turnbull said he had 'every confidence that we will form a coalition majority government in the Parliament" based on internal party modeling. Still, he has begun talking to independent and minorparty lawmakers to gauge mist with fund manager AMP Capital, said Australia's election was the latest example of a global shift "away from the economic rationalist policies of deregulation, smaller government and globalization."

Mr. Turnbull's gamble that he could break a legislative gridlock in the upper house, the Senate, by calling elections in both houses at once—a rare "double dissolution"—also appeared to have backfired. Early results indicate the new upper house will be even less predictable than the current one.

The outcome of the U.K.'s June 23 vote to leave the European Union dominated the final week of campaigning and highlighted the threat posed to the political mainstream globally by the recent upsurge in populist sentiment. This was felt most strongly in elections for the Senate, where many voters bypassed both major parties.

Mr. Turnbull had gambled that he could break a legislative gridlock.

"People are sick of this toxic politics where the major parties throw mud at each other, where they don't sit down and solve the nation's problems," said Nick Xenophon, a former independent who formed the centrist NXT party in this election. His party won a lower-house seat and several Senate seats.

France in particular has strict rules; firing permanent employees usually requires negotiating large severance packages, and efforts to loosen labor laws have fallen short.

But French officials point to tax breaks they offer for moving employees to France, and financial-sector groups say they are increasing their lobbying for broader tax cuts to attract banks

And Ireland is increasingly giving the U.K. a run for its money, luring companies with a corporate tax rate of 12.5%.

Financial-industry players are exploring their options. On Thursday, several British bank chairmen urged authorities not to force them to shift businesses out of the U.K. But operators stock-exchange sounded a more pessimistic note. The chief executive of Europe's largest stock exchange said it is "highly likely" to establish a presence in the eurozone.

"Unless we get an early and clear view on the U.K.'s negoti-

Lifestyle will also be a factor. For instance, Frankfurt is home to the European Central Bank and boasts a lower cost of living than London, but it also has a reputation for being a boring city.

"Good luck trying to convince U.S. investment bankers to move there," said one London-based consultant.

Frankfurt Main Finance denied people find the city boring once they know it.

"Thev sav Frankfurt makes you cry twice," said Hubertus Väth, managing director of the group promoting the city. "You cry when you get sent there, and then you cry when you have to leave."

whether they would support his coalition if it wasn't able to secure an outright majority.

chief who now leads the center-left Labor Party, told supporters that Mr. Turnbull had lost his mandate. "He will never again be able to promise the stability which he has completely failed to deliver tonight," Mr. Shorten said after

Mr. Turnbull had sought to make the vote about which party was best placed to steer an economy roiled by voter angst at the end of the resources boom.

Mr. Shorten pointed to Labor's record of steering Australia through the global financial crisis without a recession. He also sought to tap into voter concerns about possible cuts to public spending on schools and hospitals under the conservatives, including a warning that Australia was headed down the U.S. path of private health care.

Shane Oliver, chief econo-

IRAQ

Continued from Page One

"Leave, leave, don't let him stav here." they said.

Civil defense teams worked through the night in Karrada, pulling bodies from the debris as families of the missing gathered in the street. looking for their relatives and shouting and cursing at security forces they said had failed to keep the area safe.

Islamic State said in a statement distributed online that it had targeted a gathering of Shiites. The Sunni militant group and other Sunni extremists reject Shiism, calling it polytheism.

Minutes after the Karrada bombing an improvised explosive device detonated in the

crowded east Baghdad neighborhood of al-Shaab, killing four people and wounding 16, the interior ministry said. The blast targeted young Iraqis who were out shopping at night for the Muslim holiday Eid al-Fitr, which marks the end of Ramadan and begins this week. No group has claimed responsibility for the second attack.

Mr. Abadi has presided over months of political uncertainty, partly caused by frequent attacks on Baghdad and other cities that have exposed gaps in Iraq's security infrastructure.

"Despite repeated promises made by security forces, the slaughtering of Iragis continues on a daily basis by the terrorists," former Prime Minister Ayad Allawi said.

arose earlier this has questioned Mr. Abadi's leadership and called for immediate government reform.

Mr. Maan said measures would be taken against the security personnel in charge of the area where the explosion took place.

"We are making efforts to arrest the criminals who [carried out] this crime. Such crimes will not stop us from defeating the terrorism of Daesh," he said, using an Arabic acronym for Islamic State.

The Iraqi army reclaimed full control of Fallujah from Islamic State on June 26. The city, in Anbar province some 40 miles west of Baghdad, served as a command center for the terror group, and was one of its last major strongholds in Iraq following its loss A protest movement that of Ramadi and the northern city of Sinjar.

Islamic State retains control of Mosul, Iraq's second-largest city, which it has held since blitzing the country in 2014 and seizing about one-third of its territory. An offensive to reclaim the city has been discussed for two years but not launched.

The group's ability to stage major attacks in what are supposed to be well-secured parts of Baghdad underlines its resilience and the government's failure to uproot it.

"Daesh is trying to prove its existence by [carrying out] attacks in Karrada, specially after being defeated in Fallujah," said Saad Al Mutalibi, deputy head of the Baghdad provincial council's security committee.

In May, Islamic State claimed a series of bombings Mr. Shorten, a former union

Saturday's vote.

over three days that left more than 100 people dead across Baghdad, in some of the deadliest insurgent violence in recent years.

–Ali A. Nabhan in Baghdad contributed to this article.

CORRECTIONS ヴ AMPLIFICATIONS

Potato Island in Connecticut's coastal Thimble Islands is roughly 1 acre and is currently listed for sale with a price of \$6.5 million. A Private Properties item in the Friday-Sunday edition of Mansion incorrectly said it is 11 acres and gave the price as \$7.35 million.

Readers can alert The Wall Street Journal to any errors in news articles by emailing wsjcontact@wsj.com.

Another party outside the mainstream, anti-immigration firebrand Pauline Hanson's One Nation, looked set to win at least one Senate seat in Queensland state.

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WORLD NEWS

Bangladesh Attack Marks Tactical Shift

Assault on cafe is a significant escalation by extremist group's South Asia adherents

By Syed Zain Al-Mahmood

DHAKA, Bangladesh-When assailants armed with guns and explosives stormed an upscale cafe in the Bangladeshi capital Friday, shouting "Allahu akbar," it represented a sharp escalation by extremist followers of Islamic State in South Asia, a region where the terror group had previously gained little traction.

By the time security forces retook the restaurant after an assault backed by armored vehicles early Saturday, 20 civilians, two police officers and six militants had been killed. Brig. Gen. Nayeem Ashfaq Chowdhury, the army's director of military operations, said 13 people held hostage were freed.

Among the dead were two students from Emory University, which is based in Atlanta. Abinta Kabir, a U.S. citizen who was an undergraduate student at the school's Oxford College campus in Georgia, was killed, along with another student, Faraaz Hossain, spokesmen for their families said Saturday. Mr. Hossain's nationality hasn't been confirmed.

Tarushi Jain, an 18-year-old Indian national who attended the University of California-Berkeley, also perished in the attack, the Associated Press reported.

Italy's Foreign Ministry said Italians were among nine those killed.

In Japan, which said seven of its citizens were killed in the attack, Prime Minister Shinzo Abe called the attack

Policemen inspected inside and around the Holey Artisan Bakery, the site of the militant attack in the Bangladeshi capital, Dhaka.

"cruel and inhumane."

India said one Indian died. Islamic State claimed responsibility for the attack. Its news service, Amaq, posted grisly photos that it said were taken during the siege, appearing to show dead bodies. blood-smeared walls and overturned chairs.

Those pictures were the latest sign that South Asian militants are communicating with Islamic State fighters in the group's strongholds in Syria and Iraq, and that the organization's calls for jihad have found at least some sympathizers in a part of the Muslim world where radicalization has

been relatively uncommon.

Earlier this week, Indian authorities detained 11 men they said had been receiving instructions from an Islamic State handler abroad. India's National Investigation Agency said they were planning to attack Hindu religious sites with mprovised explosive devices.

Animesh Roul, executive director of the New Delhi-based Society for the Study of Peace and Conflict, said Bangladesh's Islamist groups now "appear to be in regular contact" with Islamic State, but he said there was still no evidence the group was providing "direct, material support" to militants

in South Asia.

Islamic State, which was behind recent attacks in Europe and elsewhere, has sought to ramp up recruiting in South Asia, reaching out to prospective recruits online. A video purportedly released by the group in May showed fighters saying they would avenge "atrocities" against Muslims in India, which has one of the world's largest Muslim populations. Gunwielding men urged Indian Muslims to join and mocked those who live among Hindus.

In neighboring Muslim-majority Bangladesh, police have arrested alleged Islamic State

recruiters. A video on a website linked to one of them showed masked men posing with handguns against a backdrop of the black flag of Islamic State. "Remove atheists and apostates from the face of the earth," one of the men said in Bengali.

Bangladesh's government has denied that Islamic State or al Qaeda have footholds in the country and blamed violence on political opponents and an "international conspiracy" to destabilize the country. The government hasn't said who it believes was responsible for Friday's assault.

In a televised speech, Prime

Minister Sheikh Hasina said her administration had successfully handled what was an unprecedented terrorist attack in Dhaka. "Terrorists have no religion," she said. "Our security forces conducted a successful operation and killed almost all of the terrorists. None escaped."

The last time Bangladesh faced a large-scale terrorist attack was in 2005, when a banned militant group called Jamaatul Mujahideen Bangladesh, or JMB, set off a series of bombs in all but one of Bangladesh's 64 districts in the space of an hour, killing more than 30 people.

The government at the time captured and hanged JMB leaders. But the organization has regrouped recently and claimed responsibility for dozens of assassinations of religious minorities, secular thinkers and foreigners over the past year.

Last year, Islamic State's propaganda magazine, Dabiq, endorsed the JMB and said it was the only jihadist group in Bangladesh "with the correct beliefs." The issue devoted an entire chapter on "the revival of Jihad in Bengal."

In an effort to suppress domestic jihadist groups, police last month arrested more than 11,000 people. Critics said the mass arrests would do little to pressure extremist groups and that security forces had rounded up petty criminals and many innocent people.

The government has denied innocent people were arrested and pointed to several successes, including the arrest of an Islamist suspected of attacking and injuring a publisher in Dhaka last year.

—Niharika Mandhana in New Delhi

contributed to this article.

Soft China | Beijing to Hold Military Drills in Disputed Sea Data Point BY JEREMY PAGE efforts to improve relations. The tribunal in The Hague **To Slowing** BEIJING-China's military is expected to rule against plans to hold exercises in the China on several counts in a disputed South China Sea this case brought by the Philip-Growth week, adding to tensions pines challenging the legality of Beijing's claims to almost ahead of an international tribunal's ruling that is expected all of the South China Sea. to challenge Beijing's mari-China's claims overlap with BY MARK MAGNIER time claims in the area. those of Malaysia, Brunei and BEIJING—In a first look at The drills, announced in a Taiwan, as well as those of Vietnam and the Philippines— China's economic performance brief online statement Suna U.S. treaty ally. Analysts in June, two gauges of manuday, are to stretch over seven

facturing activity weakened as factories continued to battle

days starting Tuesday and ending July 11, the day before the United Nations-backed tribunal in The Hague is expected to issue its ruling. Beijing has said it would ignore the verdict despite pressure from the U.S. and its allies to comply.



have said that among Beijing's concerns are that the tribu-

overcapacity, slower growth and rising debt.

The figures released Friday, combined with other recent soft data, suggest secondquarter growth to be announced later this month was slower than the first quarter's 6.7%, economists said. The first-quarter figure was already the slowest since the global financial crisis.

China's National Bureau of Statistics reported Friday that the official manufacturing purchasing managers index edged down to 50.0 in June, the level that separates expansion from contraction, from 50.1 in May.

Separately, Caixin Media Co. and research firm Markit Economics reported Fridaythat the Caixin manufacturing PMI, a competing private measure, came in at 48.6 in June, down from May's 49.2 level. This was the fastest decline in four months and the 16th consecutive month the index has languished in contraction. Economists say the Caixin PMI tends to better reflect the outlook of smaller private companies, while the official PMI more closely tracks larger state-owned companies.

Official subindexes measuring new orders and raw material inventory both declined in June from May, while the official production subindex improved slightly, the statistics bureau said. China's official nonmanufacturing PMI, which measures activity in the service sector and which was also released Friday, rose to 53.7 in June from 53.1 in May.

"The sentiment and outlook for the economy are still quite gloomy," said Commerzbank AG economist Zhou Hao, adding that Britain's vote to leave the European Union has added to the uncertainty. "I expect a little more stimulus, not a big one, but maybe a bit more fiscal spending."

-Liyan Qi

U.S. Navy ships have conducted exercises around the South China Sea in recent weeks. On Friday, the Navy said an aircraft-carrier strike group was operating in the sea, without saying precisely where or how long it would stav.

China's Maritime Safety Administration, in announcing the exercises, gave geographic coordinates for the drills in an area running east of China's Hainan Island down to and including the Paracel Islands.



An aerial view of the disputed Woody Island in the Paracels chain in the South China Sea.

said in English. The Paracels are controlled by China but claimed by Vietnam, where officials didn't respond to requests for comment.

Chinese Defense Ministry officials couldn't be reached for comment Sunday. In a "Entering prohibited," it speech on Friday to mark the

95th anniversary of the Communist Party's founding, President Xi Jinping said that China would never compromise on its sovereignty and was "not afraid of trouble."

China normally issues public notices in advance of military exercises, which it conducts regularly in the South China Sea and elsewhere.

The timing and location of the latest drills seem particularly provocative. They coincide with U.S.-led joint naval exercises off Hawaii which Chinese navy ships are joining for the second time as part of

nal's verdict will trigger copy cat suits.

One possible Chinese response, U.S. officials say, would be to declare an air-defense identification zone in the area, like the one Beijing established over the East China Sea in 2013, which requires all foreign aircraft to identify themselves.

Another is for China, which has already built seven artificial islands in the South China Sea in the past two years, to begin land reclamation at another disputed outcrop, known as the Scarborough Shoal, which Beijing seized control of from the Philippines in 2012.

China says it has the right to do both, but hasn't declared any specific plans for either.

Sputtering Prices Seen Spurring Bank of Japan

BY ELEANOR WARNOCK AND TAKASHI NAKAMICHI

TOKYO-Weak prices and lukewarm business sentiment are raising expectations that the Bank of Japan will have to act again to shore up inflation in the world's third-largest economy.

released Data Friday showed that the central bank's 2% inflation goal has become increasingly elusive. Prime Minister Shinzo Abe and the Bank of Japan blame nearly two decades of on-andoff deflation for low growth.

Core consumer prices, which exclude fresh food, fell 0.4% from a year earlier in May. It was the biggest drop since April 2013, when the BOJ under Gov. Haruhiko Kuroda kicked off a large program of monetary easing.

According to another release Friday, household *contributed to this article.* | spending fell for the third

month in a row in May. Meanwhile, a BOJ business survey showed that while sentiment at big manufacturers was unchanged, Japanese bank sentiment hit its lowest point in $3\frac{1}{2}$ years.

"The economy continues to stagnate," said Yuichi Kodama, chief economist at Meiji Yasuda Life Insurance. "Policy effects are running out of steam."

Mr. Kodama said the BOJ would likely have to act at its July 28-29 meeting as markets have priced in more easing.

Economists are concerned Japan's economic outlook could worsen, which would be another reason for BOJ action. The new data didn't reflect the effects of the U.K. vote last month to leave the European Union.

The yen has strengthened 3.2% against the dollar since the U.K. vote. A stronger yen



Bank of Japan Gov. Haruhiko Kuroda in Tokyo last month.

makes Japanese exports less competitive abroad and makes items imported to Japan less expensive, potentially pulling down inflation. Between 2013 and 2015, a weaker yen helped push Japanese corporate profits to record highs.

"A stronger yen won't bring anything good," said Mari Iwashita, chief market Group of Seven industrialized economist at SMBC Friend Securities. "It's clear this will hit corporate confidencesomething BOJ Gov. Kuroda is so concerned about."

The dollar was changing hands at around 102.90 yen late last week. Japanese firms had expected the dollar would be traded at more than ¥111 in the current fiscal year, which ends March 2017, according to the BOJ business survey, suggesting that companies relying on exports will likely need to downgrade profit forecasts.

The one bright spot in Japan's uneven economic recovery remains the job market. There were 136 jobs for every 100 job seekers in May, the highest level in nearly a quarter-century, according to labor ministry data released Friday. The unemployment rate was unchanged at 3.2%, the lowest among the

nations.

The continued tightness in the job market could encourage some policy makers.

"As long as the labor market is tight, it means that monetary policy is working," Koichi Hamada, an adviser to Mr. Abe, said in an interview last week.

Mr. Abe has cited the jobs improvement in campaigning for elections in parliament's upper house which take place July 10. Polls suggest his ruling Liberal Democratic Party is likely to turn in a solid performance.

Yet the unemployment rate will have to fall near 2.5% for the BOJ to achieve its 2% inflation target, said Société Générale chief economist Takuji Aida.

He added that a deterioration in corporate sentiment could prevent further improvement in the jobs market.

WORLD NEWS

Israel Eases Restrictions on Gaza Strip

Flow of goods into coastal enclave increases as ties with Turkey improve

By RORY JONES

GAZA CITY, Gaza Strip-Israel's mending of ties with Turkey last month paved the way for an injection of humanitarian aid into Gaza, the latest step to ease restrictions on the Palestinian territory since the 50-day war in 2014.

Israel has gradually been allowing more goods into the coastal enclave, ruled by the Islamist Hamas movement, and has supported the development of infrastructure and housing, according to officials from Israel and international aid agencies.

But Israeli Prime Minister Benjamin Netanyahu made clear this past week that his government's security and naval blockade of Gaza remains in place. Palestinians and aid officials say the limited easing is far short of what is needed to wean Gaza from its dependence on handouts.

"The economic situation continues to be dire despite



A ship bearing aid from Turkey docked Sunday at an Israeli port.

the recent progress," said Nikolay Mladenov, United Nations special coordinator for

the Middle East peace process. Israel and Turkey broke off diplomatic ties six years ago after Israeli commandos raided a Turkish ship carrying activists trying to break Israel's naval blockade of Gaza. Nine Turkish citizens and a Turkish-American died.

As part of a deal to mend the six-year rift, Israel agreed to let Turkey ship 10,000 tons of food, sweets and toys to Gaza for children ahead of the Muslim holiday of Eid al-Fitr.

Turkey also announced it would build a hospital and residential buildings in Gaza, projects Turkish aid officials here said were already under way. The details of longerterm projects still need to be ironed out, said Mohammed Mortaja, the assistant project manager for the state-run **Border Crossings**

Since the 2014 war, Israel has gradually allowed more goods into the Gaza Strip and allowed more Palestinians from there into Israel, mainly to work.



Turkish Cooperation and Coordination Agency.

Israel has fought three wars with Hamas since the movement wrested power in Gaza from the Palestinian faction Fatah in 2007.

Hamas doesn't recognize Israel and is considered a terrorist organization by most Western nations. Fatah is the dominant party in the more moderate Palestinian Authority, which runs the West Bank and is recognized by Israel as the governing body for the Palestinian population. Fatahled negotiating teams have engaged in peace talks with Israel in the past.

Hamas officials welcomed Turkish support this week, but said that only development of industry and jobs in Gaza could boost the economy. "Sending assistance to people isn't the solution," said Ghazi Hamad, a senior Hamas leader.

Israeli officials have acknowledged that their policy of stifling the Gazan economy in concert with Egypt stoked tensions ahead of the 2014 war. They now advocate a softer approach to the enclave to maintain Israel's security.

Before the conflict, 350 trucks entered Gaza daily. Now more than 800 vehicles bring in bottled water and other products to stock stores, as well as concrete for construction, according to Israeli officials. A mechanism to allow building materials into Gaza to rebuild homes after the war is largely functioning efficiently, Israeli and aid agencies say.

Israel also is working with the Palestinian Authority, the U.S., the European Union, Russia and the U.N. to develop a natural-gas pipeline from Israel to Gaza in a bid to solve the strip's blackouts of more than 12 hours a day.

Some senior Israeli ministers also are pushing for the construction of an artificial island offshore from Gaza, where a port could be built to bring goods in across an Israeli-controlled bridge.

-Ned Levin and Avla Albayrak in Istanbul contributed to this article.

Ministers Vie to Gain An Edge in U.K. Race

BY NICHOLAS WINNING

LONDON—The top contenders to succeed U.K. Prime Minister David Cameron laid out differing views Sunday on when the country should begin the process of leaving the European Union and on whether the leader should be someone who campaigned for Brexit in the referendum.

Britons voted to leave the EU in a June 23 referendum by a margin of 17.4 million to 16.1 million, a decision that has thrown the country into a po-

The contenders are divided over when Britain should start talks with the EU.

litical crisis after Mr. Cameron said he would step down to make way for someone else to lead the process of leaving the bloc

Home Secretary Theresa May, who backed staying in the EU ahead of the historic plebiscite, has emerged as the early favorite among a field of five candidates. Her main challengers are Justice Secretary Michael Gove and Andrea Leadsom, a minister in the department for energy and climate change, both of whom had prominent roles in the main group which campaigned to exit the EU. Also running are Stephen Crabb, the minister responsible for work and pensions, and former defense minister Liam Fox. although they are considered long shots.

early dividing lines among the top contenders: how soon the U.K. should trigger Article 50, the formal process for leaving the EU. and whether the next prime minister should be someone who campaigned to leave the bloc.

Ms. May said Sunday that she thought the U.K. should only begin the exit process once it has worked out its negotiating strategy for a new relationship with the EU, a position also advocated by Mr. Gove, while Ms. Leadsom argued that it should begin without delay.

'What's important for us is that we get the right dealand that's a deal which is about controlling free movement but it's also about ensuring that we have got the best deal possible in trade in goods and services," Ms. May said in an interview on ITV. "We have got to be clear about what our negotiating stance is before we trigger that Article 50 because once we trigger it then

all the processes start." But speaking on BBC TV on

Ukraine—Britain's LVIV. vote to exit the European

Ukrainians went to the barricades in late 2013 to oust Viktor Yanukovych after he reagreement that would bring

was one of them. He operated on gunshot victims at a makeshift hospital in Kiev during street protests, and later treated pro-government forces wounded on the front lines fighting Russia-backed separatists in eastern Ukraine.

"We wanted to be a part of from his home in Lviv, western

Many here worry that Brexit has pushed Ukraine to the bottom of the EU's priority list and complicated the country's chances of obtaining visa-free travel to Europe for its citizens. They also fear it could jeopardize their security: a weakened and divided Europe has little political will to confront Russia, which annexed the Black Sea peninsula of Crimea in 2014 and backs separatists in eastern Ukraine. "The European Union certainly is going to be weaker," said Andriy Sadovyi, the mayor of Lviv. "No one in their worst nightmare could have imagined that Great Britain would be the first to leave the European Union." Lviv, once an administrative center in the Austro-Hungar-

Ukraine Frets Over Future With EU By NATHAN HODGE



Union has dashed the hopes of many here of greater integration in the European bloc.

former Ukrainian President fused, under pressure from Russia, to sign an association closer ties with the EU.

Dr. Kostyantyn Vasylkevych

Europe, of course," he said Ukraine's main city. "And Brexit is a serious signal that the European Union can split up."



Hundreds mourned opera singer Wassyl Slipak, killed in sniper fire last week, in Lviv on Friday.

ian empire, has long been a cradle of pro-European sentiment in Ukraine. While statecontrolled Russian media depict western Ukrainians as rabid nationalists, and streets here are named after partisan leaders reviled in Russia. many young Ukrainians here say their aspirations for the country are rooted in an idealistic vision of Europe. "When we went to Maidan, most of us went for European values," said Melaniya Podolyak, a student of British history and literature, referring to the square in Kiev that was the site of demonstrations that ultimately ousted Mr. Yanukovych. "Europe is not just about money. You don't sign up and money falls on your head. It's acceptance, it's tolerance, it's human rights, it's respect for the law."

Ukraine won independence from the Soviet Union in 1991, but it has been plagued by corruption and kleptocratic rule. Yuliya Khomchyn, a member of the Lviv city council, said Brexit has sown doubt about making Ukraine a functioning European country, deepening the pain she and her friends felt over the war in the country's east and the deaths of more than 100 activists in 2014.

been ratified by Ukraine, 27 of the 28 EU member states and the European Parliament. Dutch Prime Minister Mark Rutte warned last week he would sign the trade and political agreement with Ukraine only if he received legally binding solutions that address Dutch voters' concerns.

Two issues have marked

Sunday, Ms. Leadsom said the process of leaving the EU should start as soon as possi-

"We need to get on with it, we need to seize the opportunity. It's not just about leaving the EU but it's about giving certainty to businesses, it's about saying to the world we're open for business let's get some free trade agreements started as soon as we can," Ms. Leadsom said, adding that it was also about showing the government is tackling concerns about EU migration. "We need to get a grip and make progress."

"We're oriented toward the EU, and the EU is telling us, 'Maybe not,' " she said. "A lot of people died for that. It's my friends, it's young, talented people who gave their lives."

Ukraine's European aspirations had already undergone a serious test in April, when Dutch voters rejected Ukraine's EU association agreement, which had already

Concern over rising migration was one of the factors that tilted votes in favor of Brexit. Some young residents of Lviv say that the vote damped their idealism about Europe. "It turns out that the European Union is not about the universal values we thought," said Volodymyr Beglov, who runs an internet radio station, Radio Skovoroda. "It was economic, it was migration or pensions. It was not about the common European project. That was a bit frustrating."

World Watch

HONG KONG **Bookseller Abruptly Drops Out of Protest**

A bookseller who recently went missing for months only to turn up later in police custody in mainland China withdrew at the last minute from leading a pro-democracy protest in Hong Kong, saying he felt "gravely threatened."

Organizers of the protest, which kicked off at Hong Kong's Victoria Park on Friday with tens of thousands in attendance, had invited Lam Wing-kee. But they said in a message to the media that he "suddenly" backed out.

The disappearance of Mr. Lam and four other Hong Kong booksellers sparked international concern that Beijing was eroding the city's considerable autonomy and rule of law. The other booksellers also subsequently surfaced in police custody on the mainland.

Mr. Lam returned to Hong Kong in June on the condition he provide information about buyers of the gossipy tomes on China's commu-

nist leadership that his company specialized in. But he defied Chinese authorities and instead spoke out about his ordeal of being detained secretly on the mainland.

Albert Ho, a pro-democracy lawmaker who has been assisting the bookseller, said Mr. Lam noticed he had been followed by strangers the last two days.

—Associated Press

TAIWAN

Antiship Missile Kills Fisherman

Taiwan's military said it mistakenly fired a supersonic antiship missile Friday that hit a fishing boat, killing one person and injuring three others on the day China was celebrating the Communist Party's anniversary.

The 500-ton patrol boat Chinchiang was undergoing an inspection inside a military base when the Hsiung Feng III missile was fired and landed about 40 nautical miles (75 kilometers) away in waters off the islands of Penghu near Taiwan, the official Central News Agency said.

The Defense Ministry said the missile penetrated a nearby Taiwanese fishing boat, killing its captain and injuring three crew members

PHILIPPINES Canadian's Body **Believed Found**

Philippine troops on Saturday dug up what they believe is the body of Canadian hostage Robert Hall, who was beheaded by Abu Sayyaf extremists more than two weeks ago in the south after a ransom deadline lapsed.

Villagers led the troops to a hinterland near Kamuntayan village in Sulu province's Talipao town where the militants buried Mr. Hall's body after killing him on June 13. His head was found abandoned outside a Roman Catholic cathedral, regional military spokesman Maj. Filemon Tan said.

Chances were high it was Hall's body, Maj. Tan said, citing intelli-



-Associated Press Tens of thousands joined Friday's pro-democracy rally in Hong Kong. enough to annul the vote in light of

gence reports and help from villagers. Police experts would confirm the identity, he said.

Mr. Hall was kidnapped with fellow Canadian John Ridsdel, Norwegian Kiartan Sikkengstad and Filipino Marites Flor in September at a resort on Samal Island, also in the south, and taken to Sulu, a predominantly Muslim province 590 miles south of Manila. —Associated Press

AUSTRIA

Court Orders Rerun Of Presidential Vote

Austria's Constitutional Court ordered a rerun of the final round of the presidential election, giving Freedom Party candidate Norbert Hofer a second chance of becoming the first right-wing populist head of state in postwar Western Europe.

"The runoff presidential election must be completely repeated in all of Austria," Gerhart Holzinger, the president of the Constitutional Court, said Friday.

The court, acting on the Freedom Party's challenge of the May 22 election result, ruled that 77,926 of the 4.5 million votes cast were affected by improprieties in how mail-in ballots were processed.

While the court established no instances of fraud, the judges said the lapses alone were reason

the tight margin of victory. Independent, pro-refugee candidate Alexander Van der Bellen beat Mr. Hofer 50.3% to 49.7%, a margin of 30.863 votes.

—Anton Troianovski

BRAZIL

Probe Targets Global Meat Giant JBS

Federal police searched the home of the chairman of JBS SA, the world's largest meatpacker, and the offices of its parent company as part of a corruption probe that has toppled some of the nation's business and political elites.

The search of the São Paulo home of billionaire Joeslev Batista, chairman of JBS and chief executive officer of J&F Investimentos, the holding company that controls the meat giant. lasted six hours. Authorities said they believe that Eldorado Brasil, a pulp-making unit of J&F, paid politicians bribes to obtain lowcost financing from a federal infrastructure fund. Eldorado said it doesn't engage in illegal activities and that it provided investigators with the information they asked for. Lawyers for Mr. Batista and J&F didn't respond to requests to comment. JBS said it wasn't a target of the action. –Rogerio Jelmayer

U.S. NEWS



Nobel Peace Prize winner Elie Wiesel died at the age of 87.

Holocaust Survivor Kept Memory Alive

BY BRENDA CRONIN AND RORY JONES

NEW YORK-Elie Wiesel, the Holocaust survivor and Nobel Peace Prize winner who educated millions in the atrocities of the Nazi concentration camps, was eulogized Sunday at a private service at a synagogue on the Upper East Side of Manhattan.

About 150 people attended the funeral at the Fifth Avenue Synagogue, including friends, staff members

OBITUARY ELIE WIESEL 1928-2016

Tributes to the 87-year-old peace advocate

leaders.

of his founda-

tion and Jewish

and activist-who died Saturday and famously warned that "The opposite of love is not hate, it's indifference...and the opposite of life is not death, it's indifference"-poured in from around the world.

Israeli Prime Minister Benjamin Netanyahu said Mr. Wiesel "personified the triumph of the human spirit over the most unimaginable evil" to become "a powerful force for light, truth and dignity."

An author of dozens of works of fiction and nonfiction, Mr. Wiesel also published "Night," a harrowing and acclaimed memoir of his family's 1944 capture and detainment in the Auschwitz and Buchenwald concentration camps.

Born in 1928 in what is now Romania into an observant Jewish family, Mr. Wiesel was a teenager when the Nazis sent his family to the camps. His mother, father and younger sister died there, while he and his

two older sisters survived. Mr. Wiesel completed his that deal with biblical, Talmudic or Hasidic themes, profoundly bear its stamp, and cannot be understood if one has not read this very first of my works."

Mr. Wiesel has "introduced millions of students to the atrocities of the Holocaust," said Jeff Seroy, a senior vice president at Farrar, Straus and Giroux. "It's an incredible teaching tool because kids can relate to the protagonist." Mr. Seroy said that title sells nearly 500,000 paperback copies a year in the U.S.

Mr. Seroy said he once accompanied Mr. Wiesel to a taping of Oprah Winfrey's TV talk show and noticed there was a box of tissues under every chair.

When I first saw that I cocked my eye, but by the end I'd used up most of a box myself," Mr. Seroy said.

Mr. Wiesel ultimately became a leading educator of the horrors of the Holocaust and a voice for human rights and peace throughout the world. According to the biography on the Elie Wiesel Foundation for Humanity website, he taught at Boston University, with stints in the 1970s and '80s at the City University of New York and Yale University. In 1978, he was named chairman of the President's Commission on the Holocaust.

Mr. Wiesel was also instrumental in creating Holocaust memorials around the world, including Yad Vashem, the World Holocaust Remem-

brance Center, in Jerusalem. In 1986, Mr. Wiesel was awarded the Nobel Peace Prize. In accepting the honor, he said of his work to preserve the memory of the Holocaust, 'I have tried to keep memory

FBI Grills Clinton on Emails

Democratic candidate interviewed for more than three hours as criminal probe near end

BY BYRON TAU

Former Secretary of State Hillary Clinton has been interviewed by the Federal Bureau of Investigation as part of a probe into whether any classified information on her private email server was compromised.

The 3¹/₂ -hour interview was conducted Saturday at the FBI's Washington, D.C., headquarters and is considered one of the final steps in the criminal investigation before prosecutors decide whether charges are warranted. "It was something I had of-

fered to do since last August," the Democratic presidential candidate told NBC about her meeting with the FBI. "I've been eager to do it, and I was pleased to have the opportunity to assist the department in bringing its review to a conclusion."

Attorney General Loretta Lynch said Friday she would accept the recommendations of career prosecutors and federal agents on whether to file charges in the email investigation.

The announcement of her decision to accept the FBI recommendation came after an impromptu meeting with Mrs. Clinton's husband, former President Bill Clinton, at the Phoenix airport drew bipartisan outrage. Critics questioned the propriety of the nation's top law-enforcement official meeting with the former president while his wife was being investigated.

Ms. Lynch has described the meeting as a social visit where nothing concerning the



Democratic presidential candidate Hillary Clinton speaking at a technology event in Denver last week.

investigation was discussed, although she said Friday the episode was "painful" and that she "wouldn't do it again."

Rep. Steve Scalise (R., La.), part of the House GOP leadership, said she should appoint a special prosecutor.

Mrs. Clinton's campaign for the Democratic presidential nomination has been roiled by the revelation that she exclusively used a private email server for government business while serving as secretary of state from 2009 to 2013. The government ultimately determined that more than 2,000 emails contained classified information, including nearly two dozen that were deemed "top secret," one of the high-est classification levels.

Any charges levied at Mrs. Clinton or her staff would send shock waves in the middle of a heated presidential race. There is no indication that a grand jury has been em-

paneled to hear evidence related to the investigation, the first step in the process of returning an indictment.

Mrs. Clinton maintained a light campaign schedule in the days before the FBI interview. She is expected to campaign this week in North Carolina with President Barack Obama and in Pennsylvania with Vice President Joe Biden, marking the beginning of the general election battle against presumptive Republican nominee Donald Trump.

The Wall Street Journal reported last month that a key part of the criminal probe is a series of emails routed through Mrs. Clinton's personal server that contained chatter between U.S. diplomats concerning whether to approve drone strikes in Pakistan, according to congressional and law-enforcement officials briefed on the FBI probe.

Mrs. Clinton and her aides

have said that none of the emails contained the markings that indicated the material was classified. They have portrayed the controversy as a dispute between government agencies over the proper level of classification.

An internal government watchdog report released in May was critical of Mrs. Clinton, saying she violated State Department rules and policies governing record keeping and cybersecurity. Mrs. Clinton declined to participate in that investigation.

Republicans have charged that her decision to use a private email server endangered sensitive or classified national-security material and circumvented rules about government record keeping.

Mr. Trump tweeted Saturday that "no charges will be brought against Crooked Hillarv Clinton. Like I said, the system is totally rigged!"

Child-Care Costs Squeeze Families

BY ERIC MORATH

The fast-growing cost of raising children is putting extra pressure on family budgets, causing resentment to spill over in day-care parking lots and soccer fields and even into the 2016 election debate.

Child care expenses alone have climbed nearly twice as fast as overall prices in the U.S. since the recession ended in 2009, according to Labor Department data. Along with fast-rising housing costs and lackluster wage gains, families with young children are finding themselves stretched enough to draw special attention from presidential candidates. Democratic candidate Hillary Clinton, keen to rack up votes among working moms, introduced a proposal to limit child-care costs to 10% of a family's income. That would represent a dramatic cost reduction for many families that can easily spend a fifth of their income or more on nannies, baby sitters or child-care centers.

pair held tight to tiller handles.

lead. But suddenly, his back

right wheel caught the edge of a

hay bale, launching his tiller

onto another bale of hay at a

sideways tilt. The winning ti-

tle-and his life-flashed before

gives an edge; racers

run multiple sprints

"Either I'm going to get lucky

and this is going to straighten

back or it is going to flip and I

might die," he recalled thinking.

saw his first race at the festival.

"I'm pretty good at that," he re-

calls thinking. "I could build one

coaching other family members

and friends ever since, racing

most spring weekends on family

land. Two years ago, he spent a

few hundred dollars to buy a

Kawasaki motor to outfit Mr.

He has been racing and

Twenty years ago, Mr. Waller

in scorching sun.

Physical fitness

his eyes.

of those."

Mr. Houldridge got the early

Change in Prices Since Recession Ended

The cost of child care and nursery school has increased nearly twice as fast as overall inflation since the recession ended. 30%



The cost of raising a child born in 2013 until age 18 is projected to be \$245,340, according to Agriculture Department data. That is nearly five years of income for the median U.S. household. By comparison, the cost of raising a child born in 2003 was \$226,108 after adjusting for inflation. The jump in overall inflation-adjusted costs mainly reflects increases in child-care education and health-care expenses

An April Gallup poll found that 37% of Americans between 30 and 49, the age when many are raising children, said they didn't have enough money to live comfortably. That was the highest share of any age group.

education in France and worked as a journalist. He embarked on the memoir with encouragement of the the French author François Mauriac, whom he had interviewed while working for a Tel Aviv newspaper.

The Nazis' atrocities seared themselves on the memory of the young Mr. Wiesel, who later wrote of the book: "If in my lifetime I was to write only one book, this would be the one. Just as the past lingers in the present, all my writings after 'Night,' including those

TILLER

Rotary Tiller Race. The contest

has been held every year since

1990 at the Purple Hull Pea Fes-

tival here in Emerson, popula-

pushed rototiller chugs along at

the speed of a lawn mower—its

engine rotating a set of teeth

that break up soil to prepare for

planting. Racing models are cus-

tomized hot rods, sporting paint

jobs, repurposed parts and go-

The festival-held on the

grounds of Emerson High

School with the scent of fried

cornbread and funnel cake in

the air—features the local pur-

ple hull pea, a relative of the

black-eyed pea, in cook-offs and

shelling contests. The big event

takes a chore and turns it into

an all-out, mud-throwing sprint.

took first place, while his uncle

Wayne Waller, a 52-year-old

machinist who has won the

event multiple times, came in

third. Mr. Waller's daughter

Courtney, 26, placed first in the

nasty," Mr. Houldridge said.

"You could call it a family dy-

The Waller-Houldridge clan,

who call their team Southern

women's division.

Last year, Mr. Houldridge

kart or motorbike engines.

In its mundane form, a hand-

Continued from Page One

tion 354.

alive, that I have tried to fight those who would forget. Because if we forget, we are guilty, we are accomplices."

After winning the Nobel Prize, he and his wife, Marion, established their foundation to promote international justice and human rights.

The foundation later invested with Bernard Madoff and lost money when Mr. Madoff's firm was revealed to be a Ponzi scheme.

contributed to this article.

–Josh Barbanel

Pride, aren't the only racing family in town.

Their chief rivals are the Cunningham-Ridlings, who race under the name the Till Billys and happen to have a homecourt advantage. The Cunninghams own half the land underlying the racetrack, set up on a field near the high school. And their star racer, Trevor Ridling, a 22-year-old chemical plant worker, had a personal mission to win this year.

For the past three years, Mr. Ridling took second place and was sick of being mowed over as the perennial underdog. So he hired a "perfectionist" mechanic and funneled over \$1,000 into a rototiller, a sleek machine painted bright yellow.

"I'm tired of getting second place," said Mr. Ridling, wearing a lime green, hand-drawn "TILL BILLYS" T-shirt and a backward baseball cap. "I want it bad enough to build a whole new tiller.'

The \$1,000 prize-plus bragging rights-for the men's contest keeps tensions high.

As the race got under way before a crowd of about 400, Mr. Houldridge, the incumbent champ, wearing a shirt and bandanna in this year's team color of bubblegum-pink, started his engine. He took his position opposite Till Billys' Ty Cunningham, 18.



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House. He hasn't made specific child-care proposals, but he has called for helping the middle class through lower taxes and a simplified tax code.

One trouble for families: As jobs have become more plentiful, demand for child care has increased—pushing up its cost and partially offsetting income gains.

Since the recession ended in mid-2009, the cost of child care and nursery school has increased at a 2.9% annual average, outstripping overall inflation of 1.6% during that sevenyear period. The cost of child care accelerated in 2014 and 2015, coinciding with the jobless rate falling to about 5%.

Engines roared and in a cloud of dust they were off. sprinting to keep up with their supercharged tillers as they plowed through 200 feet of soft dirt. Blinded by a spray of soil and jerked from side to side, the check. racers said.

> their greatest edge since they run multiple all-out sprints in scorching June sun to keep up with their heavily modified garden tillers. "A lot of it is conditioning," Mr. Ridling said.

> chines is also key, as they can be jarred off course by a stubborn chunk of dirt or a lurking stone. Shallow tines that barely churn the soil are better for limiting friction and boosting speed.

The lightweight rotary tiller showed up in the U.S. in the 1930s, when one of the industry's pioneers, the Rototiller Company of New York City, started manufacturing handpushed, engine-powered cultivators. These days, makers of rototillers include Troy-Bilt, Husqvarna and Honda.

As Mr. Houldridge swiped the second hay bale, he knew his race was over. The whole contraption hit the ground, cracking the gas line and hurling him to the dirt.

He got to his feet and brushed himself off. "I knew it was done," he said.

With the incumbent champion out of the race, the underdog saw first place within reach.

For the final heat, Mr. Ridling raced against Southern Pride's debut racer. Jeremy Davis. 35.

The two racers were neckand-neck until Mr. Ridling faceplanted across the finish line. Mr. Davis was declared the winner, but tensions rippled through the racers' pit as family members squabbled over the result.

"Could be a timer error!" shouted someone from the crowd, referring to two stop watches held by race officials and used to compare times.

"They need to go by the video!" shouted another. Sure enough, the contest's commissioner, Scott Baker, asked to see someone's cellphone video and, for the first time in race history, reversed the declared winner to Mr. Ridling.

"They can't take that away from me again," said Mr. Ridling, covered in dirt and limping from pain in his hamstring. but enjoying his victory after coming so close for years. He promised half his winnings to his mechanic.

Meanwhile, Mr. Houldridge. last year's champ, was already planning revenge.

"I guess I have some unfinished business," he said.

U.S. Watch

NEW YORK

Man Hurt in Central Park Explosion

Authorities say a man was seriously hurt in New York City's Central Park on Sunday after some kind of explosion. Fire officials said the man suffered serious injuries, possibly an amputation, and was taken to the hospital. A bomb squad was on the site. —Associated Press

ARIZONA

Tucson Man Arrested On Terrorism Charge

A Tucson man was arrested by the FBI and the Arizona Attorney General's Office for threatening to commit acts of terrorism on Arizona government buildings. The Attorney General's Office says 18-year-old Mahin Khan appeared before a Phoenix judge Saturday and was ordered held without bond in Maricopa County Jail. He faces two counts of conspiracy to commit terrorism and terrorism. -Associated Press

Houldridge with a new racer. The engines must be under 50 horsepower and run through an original tiller gear box, leveling the playing field and keeping the overall power of the tiller in

She also has proposed ex-

panded access to Head Start

programs, universal public

preschool for 4-year-olds and

child-care scholarships for

Trump will need to perform

well in the suburbs, where fam-

ilies' concerns can dominate

politics, to win the White

Republican candidate Donald

parents attending college.

Physical fitness gives racers

A strong hold on the ma-

FROM PAGE ONE

Xi Warns Party Not to Waver on Ideology

By CHUN HAN WONG

BEIJING-President Xi Jinping singled out ideological orthodoxy as vital for ensuring the legitimacy of Communist Party rule, marking the party's 95th anniversary with a forceful call for political discipline.

"The wavering of idealistic faith is the most dangerous form of wavering," Mr. Xi told an assembly of party officials and members at the Great Hall of the People on Friday. "A political party's decline often starts with the loss or lack of idealistic faith.'

In his nationally televised speech, Mr. Xi firmly defended the party's Marxist roots and its achievements in steering China's economic rise, but said any slippage in the party's ideological fervor would threaten its nearly seven-decade grip on power.

"Turning our backs or abandoning Marxism means that our party would lose its soul and direction," he said.

Since taking power in late 2012, Mr. Xi has pushed to reinvigorate the Communist Party with iron-fisted discipline and a sense of nationalistic purpose aimed at curbing corruption and bureaucratic atrophy that party leaders fear could erode their moral claims to power.

These efforts have gained argency in the past year as China's economic slowdown sapped confidence in Mr. Xi's economic stewardship and as he has stepped up an assertive foreign policy to rising resis-



A military band member playing Friday at the party anniversary.

tance from China's neighbors. "Xi's speech was a celebration and a warning," said Jude Blanchette, a Beijing-based researcher who is writing a book

on Mao Zedong's legacy. It is "a reminder that Xi's vision for China cannot be divorced from a strong, organized and highly disciplined Communist Party."

Chinese leaders have often used speeches on major party anniversaries-commemorated once every five years-to outline their political priorities. Some analysts said Mr. Xi's first such speech signaled that ideological discipline remains a priority ahead of a key party congress next year.

Ideological education has intensified in the months ahead of this year's party anniversary, as officials mount campaigns to encourage members to hand-copy the party's 15.000-character constitution, pay membership dues in full and on time, and test their knowledge of party affairs in quizzes. Just this week, the party introduced new disciplinary rules that require officials to be held accountable for negligence or poor performance.

"The emphasis on ideology is purely about getting everyone reading from the same hymn book," Mr. Blanchette said. "It's good for organizational cohesion.'

Some analysts say Mr. Xi's efforts represent an ambitious bid to reinvent the foundations of Communist Party legitimacy, aiming to forge an agile bureaucracy capable of tackling China's economic challenges and the growing demands of a more prosperous population.

In the process, Mr. Xi has promoted traditional Confucian morality while trying to curb Western influences, and has used a sweeping antigraft campaign to punish errant officials and deter bureaucratic sloth.

CHINA

Continued from Page One

Youthful ambition

Mr. Chen was the son of a hospital worker and a government employee in a small city on the Sichuan plain. He was the youngest of three brothers and bookish—an introvert who loved photography and classical music. He saved his money to buv cassettes and a Japanesemade stereo.

At home, Mr. Chen and his family listened to Tchaikovsky, and his favorite, Beethoven's Ninth Symphony. "I loved the sense of grandeur," he said, "the profundity."

Like his father, Mr. Chen took a government job, but he found work life dull at the local industry and commerce bureau. He was instead fascinated by the stories he had read of entrepreneurs prospering in China's first experiments with market economics. "At the time, I felt that anyone could start from nothing, could start anew," he said. "I thought I could do the same."

To the disappointment of his parents, Mr. Chen, then 25 years old, quit his job in 1988. He moved with friends to the southern island of Hainan, at the time a new and raucous economic zone that seemed to spring new fortunes.

Mr. Chen and his friends pooled their money to open a Sichuan-style restaurant. Scores of customers showed up for their opening day, many young transplants like themselves. They sang chorus after chorus of "Olive Tree," a popular song: "Don't ask me where I'm from, my hometown is far away, why



Chen Man, above in yellow with his family after his release, spent half of his life in a Chinese prison for a murder he didn't commit. Lawyer Li Jinxing, below, initiated the Innocence Project of China and helped overturn his conviction this year.



on Mr. Chen's case. His family and friends paid about a third of that.

The lawyers see hints of progress. The head of the Supreme People's Court made an unusual apology last year over wrongful convictions, most of them triggered by forced confessions. Between 2013 and 2015, China reversed guilty verdicts in 23 cases, according to newly released government statistics, including a half-dozen through work of the Innocence Project of China.

The group has been largely tolerated by the government, but the lawyers still operate in a fragile climate. Last summer, when the government detained scores of human-rights lawyers, the project's Beijing offices also were raided.

Police seized computers and files, the lawyers said, but it wasn't clear what they were after. The group has since moved.

President Xi Jinping has used law enforcement to squelch political dissent, but Beijing has also taken steps to revamp its legal system for Chinese citizens in cases that don't threaten the Communist Party.

Liu Pinxin, deputy director of Renmin University's Law of Evidence Research Institute in Beijing, said, "If you're mistakenly killing people, how can you have authority?

Heading home

On Feb. 1, the day Mr. Chen left prison, a judge bowed and apologized. With \$750 in cash from the court, Mr. Chen walked out and was greeted by his brother and local reporters.

That night, Mr. Chen settled into his seat on the plane that would carry him home and looked out on the tarmac, where a yellow light blinked. "What happened had to do with history, with society. It was a systematic problem," he said. "Sometimes you can't fight your fate."

am I roaming around: For the olive tree in my dreams."

When not working, he and his friends reveled in Hainan's tropical beauty, snapping photographs of each other along the surf of local beaches.

The good times didn't last. The restaurant failed, and for a time Mr. Chen fixed photocopiers and took odd jobs before trying, with limited success, to start a building renovation firm.

He returned to Sichuan to celebrate the Lunar New Year with his parents. During those visits, they sensed he held back talk of his financial struggles.

On Christmas Day 1992, Mr. Chen's former landlord in Hainan was knifed and his body set on fire. Mr. Chen was brought in for questioning. Police said they knew he owed rent and had found his ID card nearby.

Mr. Chen denied any involvement. He was taken to an office building for interrogation where he was beaten with iron rods, flogged and shocked with electric batons, according to his lawver and case files.

At one point, Mr. Chen said, his interrogators threatened to throw him off the building and make his death appear a suicide. He finally broke down, he said, offering various accounts of the homicide.

Despite that, Mr. Chen said, he believed he would be acquitted: No physical evidence was presented to the court; no fingerprints were taken or DNA tests conducted to connect him with the crime. During the trial. Mr. Chen testified he had been tortured into confessing.

In 1994, the Hainan Intermediate People's Court declared him guilty and issued a suspended death sentence, essentially imprisoning him for life. He was 31 years old. "I don't believe that this society, this government has no justice, has no fairness," he wrote to his family.

Mr. Chen's lawyers said police didn't pursue other leads, including a heated argument THE WALL STREET JOURNAL.

shortly before the killing between the landlord and father of a previous tenant.

In 1999, a higher Hainan court reheard the case and affirmed the lower court's verdict.

"Unless the world is destroyed, and they perish...to think of being exonerated is too hard to imagine," he wrote in a 2000 letter to his parents.

His lawyer, Lin Yiquan, fought to clear Mr. Chen's name. Mr. Lin died in 2003 and was buried in the mountain gravesite.

Mr. Chen eventually stopped writing regularly to his family, frustrated that jailhouse censors removed passages deemed too negative. His parents sent him several hundred yuan a month-around \$100-which Mr. Chen spent on instant noodles and crackers from the prison commissary.

After years of good behavior, Mr. Chen's sentenced was reduced to a fixed term, with a release date of 2018. He said he tried not think about his parents dying before then.

To pass the time, he read books he had requested from his parents: an Oxford English Dictionary, Aesop's Fables and Das Kapital. When he felt depressed, he said, he paced between the prison's TV room and the recreation yard, trying to turn off his mind. At night, he and other inmates watched TV.

Appeals for justice

For years, Mr. Chen's mother wrote him letters every month. For luck, she typically wrote on the 18th of the month: The number sounds somewhat close to the phrase in Chinese, to be let go.

His father wrote 77 appeals on his son's behalf, handwritten or typed by sympathetic friends who owned a computer. They all failed.

Then, in 2012, the legislature revised the Criminal Procedure Law to exclude from trials evidence obtained through torture. Mr. Chen's parents hoped that might help secure their son's release.

A friend of the family, a Beijing retiree, joined Mr. Chen's parents in petitioning the courts over the years. She set up a blog and contacted many lawyers before finding one who would take up the latest appeal.

Li Jinxing gave up a comfortable life practicing commercial law. He was spurred to activism after authorities in several high-profile cases prosecuted lawyers who defended clients on the grounds they had been tortured into confession.

Mr. Li and his colleagues, including Ms. Wang, took Mr. Chen's case in late 2013 as they kicked off the Innocence Project of China.

Mr. Chen said their first meeting that year made a deep impression. Mr. Li arrived at his prison and addressed him as "comrade" with a warmth and respect he hadn't heard in years, Mr. Chen recalled.

The lawyers had a limited toolbox. They tried to foster good relations with judges by sending them "jinqi," or red banners praising their work. In Mr. Chen's case, they asked well-known law professors to review materials and produce analyses. They hosted a legal forum about the case.

In 2014, the group appealed to China's Supreme People's Procuratorate, which has the authority to review verdicts. The following year, it lodged a protest with the Supreme Court and asked it to examine the Chen case, saying the facts weren't clear and the evidence insufficient. The highest court, in turn. ordered a different jurisdiction-a high court in Zhejiang—to take a look.

'To think of being exonerated is too hard to imagine,' Mr. Chen wrote from prison.

In February, the Zhejiang court affirmed the Supreme People's Procuratorate's findings and declared Mr. Chen innocent.

Historically, such reversals followed the pattern of a 1998 case: A man who served more than a decade behind bars for murdering his wife was freed after she was discovered living elsewhere, married to another man.

Mr. Chen's declaration of innocence was unusual because it was based on legal arguments, Ms. Wang said, not "because the dead came back."

The Supreme People's Court said in statements there was neither sufficient nor reliable evidence to convict Mr. Chen of murdering his landlord.

Hints of progress

Not-guilty verdicts in China are newsworthy because they are so rare: 1,039 criminal defendants were found not guilty last year out of 1.2 million people charged, up by 214 from 2013. Even after dipping slightly last year, China's annual conviction rate was still higher than 99.9%.

China has long judged police and prosecutors by the number of arrests and convictions. In the 2000s, China's Ministry of Public Security made popular the slogan, "Homicide Cases Must Be Solved."

Lawyers with the Innocence Project of China said such pressure encouraged confessions by threat or torture. "How can you have that kind of rule? How can vou guarantee that vou'll solve cases?" Ms. Wang said. "It's that kind of slogan that helps create wrongful convictions.'

Human Rights Watch said that despite China's 2012 law banning from trials any evidence yielded by torture, their analysis of 2014 court verdicts found it was rarely invoked successfully. Suspects are still tortured, the group said.

Mr. Li, who heads the Innocence Project of China, said members of the group have a responsibility for changing the system. "We can't go back to the days when we could just make money and be happy that way," said Mr. Li, one of the lawyers who visited the mountain grave in 2013.

The group funds much of their own work. They spent about 450,000 yuan, \$70,000,

During the flight, Mr. Chen said he hoped to put the past the beatings, the torture, the years in prison-behind him. "A person's life has limits," he said. "I've already had decades of my life put on hold."

He landed at the Chengdu airport around midnight. A crowd of friends and former classmates were waiting. They formed a car caravan to a restaurant for spiced chicken, stirfried peanuts and beer. The toasts lasted until 4 a.m.

The next morning, Mr. Chen went to see his parents. Neighbors set off strings of firecrackers to welcome him.

"People say that even though Chen Man suffered, he's helped serve the cause of helping improve our rule of law," said his mother, Wang Zhongyi, 84 vears old. "But this price is too great. It's a price our whole family has paid."

Looking ahead, Mr. Chen, 53 years old, said he would again try his hand at entrepreneurship. Maybe something with the internet, he said. With the help of his lawyers, Mr. Chen filed a request for compensation. The government in May agreed to pay him 2.75 million yuan, about \$418,000.

Several weeks after his return home, he and Ms. Wang spent a sunny afternoon at the mountain tomb of Mr. Lin, one of his first lawyers. They burned a copy of the verdict exonerating Mr. Chen, hoping the document could be read by the lawyer in the afterlife. They left yellow chrysanthemums.

"In my mind, I'd made a promise," Ms. Wang said of her earlier pilgrimage to Mr. Lin's grave-that she would return

when Mr. Chen was free. -Olivia Geng contributed to this article.

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Marital disputes are inevitable. A few truths can limit the fallout A9	REVIEW	Early humans weren't so peaceable after all, writes Melvin Konner A9
BOOKS CULTURE SCIENCE	COMMERCE HUMOR POLITICS LANGUAGE	TECHNOLOGY ART IDEAS
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AT HOME IN AMERICA

For the new recipient of a green card, life in the U.S. provides relief from the experiences of less hospitable places.

BY AATISH TASEER



Three very sweet words, and they made me smile: As a South Asian male, with a Muslim name, I had hardly ever before entered the U.S. without being carted off to secondary screening. Now, married to an American, I was entering for the first time as a permanent resident.

And already I could feel the warmth of the American welcome. Here, at last, was a country where a document meant something! I was overcome by what must be one of the most unfashionable emotions of our time: boundless, unqualified love for America.

Just weeks before, in early March, we had been at 26 Federal Plaza, a bureaucratic behemoth in lower Manhattan, where, deep within a warren of foam ceilings and fluorescent light, the U.S. Citizenship and Immigration Services are housed. The paperwork was in-endless forms, passport photos, long-form birth certificates, immunization records, pay stubs, tax returns. We had paid a small fortune in legal fees and were now at that most coveted juncture in the life of an immigrant, a subject of lore: the green-card interview.

If I could establish that my marriage to the tall white man from Tennessee, sitting next to me, was real, I would become a conditional American. If not... My Indian mother's words rang in my ears: "You will be arrested for green-card fraud and never allowed back into America again!" As we waited our turn, Ryan-the aforementioned tall white man from Tennessee, who also happens to be a lawyer—said with infinite patience: "That would be true if we were committing fraud. But we're not."

His belief in his country and its system astounded me. I had never known anvthing even vaguely similar in the places I came from. In fact, it had been a particu-



larly bad month in the old countries. In India, where I grew up and where my mother lives, university students had been dragged off to jail on charges of sedition for attending a protest at which anti-India slogans were shouted. As for Pakistan, a crowd in the tens of thousands had just poured into the streets to bid farewell to the man executed the week before for assassinating my father in 2011. My father, then serving as the governor of the province of Punjab, had provoked the ire of fundamentalists by defending a Christian woman accused of blasphemy.

Sedition, blasphemy: This was the darkness of my world, what I was running awav from. And these things never come in isolation. The sort of places that haul people away on charges of sedition and blasphemy also generally give a rough time to two men wanting to get married. (As a legal matter. same-sex love is punishable by life in prison in Pakistan and is "against the order of nature" in India.) I was tired of countries like these. It was what I hoped my emigration to America would allow me to turn my back on.

And yet a mood of general pessimism settled over me: Would America really be different? Was Ryan's trust not a little misplaced? I mean, the laws under which we were married were themselves brand-new, and now, here we were sitting in a government office, demanding a green card. It felt like a joke that had been carried too far.

Sedition, blasphemy: This was the darkness of my world, what I was fleeing.

But as I watched Ryan, patiently awaiting his turn in that room full of couples of other shapes and sizes, I began to realize that the gulf in our attitudes—my nerves and distrust, his preternatural calm—wasn't simply a matter of temperament. It came down to two fundamentally different experiences of nationhood and citizenship.

My background was like an education in comparative nationality. I was half Indian, half Pakistani, with a British passport. And if the experience of these different societies had taught me anything, it was how little papers mattered. Your passport was a mere document. What mattered—and, as you went East, the question became increasingly direct—was who you really were. That is to say: how you fit into the deeper historical organization of the society, of which citizenship was only a bland and imperfect expression.

In Pakistan, what mattered first and foremost was who your father was-nationality but, more important, faith. Was he Muslim? If so, what kind of Muslim, Sunni or Shiite? Pakistani society had once been plural, but the country's transformation into an Islamic republic meant that faith and nationality Please turn to the next page

Mr. Taseer is the author, most recently, of the novel "The Way Things Were."



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The Day I Got My Green Card

Continued from the prior page were inseparably fused, and Sunni Islam formed the invisible underpinnings of what it meant to be Pakistani.

India was more complicated, but there too, inclusion in society depended on a set of categories that ran far deeper than citizenship. It was, as the writer Siddharth Deb calls it, a "high-context culture." From the moment you arrived—sometimes from your name alone, which often revealed caste, religion and region—the immigration officer was busy making judgments about who you were that mattered infinitely more than what document you presented, in my case a Person of Indian Origin card.

"Aatish Ali?" one said to me just a few months ago as I arrived in New Delhi. "Quite a name you've got there." The subtext was: You're not part of the Hindu majority, so not part of the deeper organization of caste. The fact that I spoke English would have given him an intimation of class, and by the time he waved me through with a sneering, "Well, go on then, Aatish Ali!" he would have computed a whole range of information and bestowed upon me an identity from which there was no rescue. It was oppressive.

Belonging was what it really came down to, and I have to confess that Britain, the country of my birth, was terrible in this regard. The U.S. may have had the more traumatic experience with race, but it had led, in my view, to a more sincere reckoning. The racism that I experienced in Britain was insidious and casual. It was not part of a society coming to terms with a difficult racial history; it was a society telling you in the clearest terms that you would never belong.

It formed an unbroken thread in my life there. There was the man who accosted me, as a boy of 13, outside Madame Tussaud's with the offer of an intoxicant of some kind. "Take this," he said, "and you'll be as white as a snail." There was the taxi driver who, right after the London bombings of 2005, responded to my request to be dropped off on the other side of the street with: "You really think you ought to be talking to me like that after all your people have done?" And just the other day, on book tour in London, there was the distinguished old man,

with a pleading look in his eyes, who said, "Tell me: When you're done promoting your book, will you go home, or will you stay on?"

Stay on? It was the only nationality I'd ever had. I was born in London; I'd lived and worked there. On paper, I was as British as the Queen. And besides,

what about all of our shared commonwealth history? What about Kipling and cricket and the Raj? It meant nothing, and that was the point. No amount of cultural assimilation can ever make you British if you aren't already—a fact all too evident over the past week, with dozens of spontaneous racist attacks across the country in



REVIEW

THE AUTHOR, photographed at his New York City apartment, June 29.

my interview, a dark mood came over me. I began to doubt whether my interviewer could act in good faith.

After all, just the year before, there had been the incident of the county clerk in Kentucky who had refused to marry same-sex couples because of her religious beliefs. What if we were to get someone who felt similarly but was less forthright, someone whose beliefs and prejudices

> prevented them from doing their job?

Out of my distrust, I conjured up a range of profiles of people who would be hard-wired to treat me unfairly. I was full of these dark imaginings—Ryan was sanguine, checking his phone—when an attractive black woman Ds appeared with our file

in her mid-to-late 30s appeared with our file and asked us to follow her into her office.

Inside, after taking an oath, we were subjected to a perfunctory line of questioning, designed to establish whether we really knew each other. We were not, though we had prepared for it, asked the names of our first pets, our many half-siblings or distant relations. We were not, as in the 1990 Gerard Depardieu movie "Green Card," asked the color of each other's toothbrush; or how old I was when I first read Proust; or whether Ryan liked salt on the rim of his margaritas. We were asked some very basic questions, and yet I managed to fluff the first one: "When was Ryan born?"

"Feb. 3, 1985," I said easily.

"Are you sure it's February?" the interviewer asked.

"Oh, no. Forgive me! It's Jan. 3, 1985."

Dr. no. Forgive me: it's Jan. 5, 1965.

Ryan looked aghast; the interviewer smiled. It was roughly at this moment—just as things could have gone hideously south—that a moment of grace began to shine through the fog of nerves and bureaucratic repartee. It happened so swiftly that I was hardly able to catch it. When did we go from showing her pictures of our wedding and handing over proofs of cohabitation to discussing the interviewer's three (or was it four) children? When did we start discussing our future children? Had we considered surrogacy? Were we thinking of adoption? And then the next thing I knew, the interviewer was saying: "I'm going to go ahead and approve your application..."

I could have wept. It was all so humane. I thought of the other places I had known, places I belonged to: Pakistan, where my father's assassin was celebrated; India, which was busy demanding pledges of loyalty from university students. I thought of my cold, loveless relationship with Britain. ships; it takes seriously their happiness; it acts on the assumption that people are basically good and, if given half a chance, will realize their better natures. Most of all, it creates the conditions even here, in this dreary government office—for them to do so.

Some lines from the novel of a friend—Zia Haider Rahman's "In the Light of What We Know"—went through my head. The central character, Zafar, speaks of an experience I was to have myself a few months later upon entering the U.S. for the first time as a permanent resident: "If an immigration officer at Heathrow had ever said 'Welcome home' to me," Zafar says, "I would have given my life for England, for my country, there and then. I could kill for an England like that."

A week or so later—just as I was heading out for a run—my green card arrived in the mail. It was a sleek, handsome thing, full of an understated dazzle. I carried it around with me in

'I'm going to go ahead and approve your application.' I could have wept. It was all so humane.

my pocket for days. It was the first official document from any country—and I'd had quite a few—that I was proud to possess. It felt like an achievement.

My life had been a strange combination of deep roots and homelessness, and America seemed like the obvious answer. This may be an odd thing to say, with Donald Trump darkening the horizon, but perhaps it is in times

like these that we need most to be

reminded of who we are—or, at least, who we are capable of being. And, yes, I use the first person plural deliberately.

In 1967—27 years after he had escaped the terrors of the old world, first in Bolshevik Russia, then in Nazi Germany—the Paris Review asked the Russian writer Vladimir Nabokov, "Do you consider yourself an American?" He had, in the bargain, lost a country, a language; his father, a liberal like mine, had also been assassinated. In the U.S., Nabokov had made himself over from scratch.

None of it could have been easy. What America offered him, as it now offers me, was the opportunity to slough off the demands of the past. As a college student at Amherst, I had been unnerved by this aspect of the U.S. I thought my sense of self depended too much on the knots of intractable history that were integral to identity in the old world. I was afraid that identity in America would feel too thin, too much a thing of ink and paper.

What I had not counted on was what a relief that could be. Fifteen years later, it was what I had come back for. It was an immense freedom. No cultural attachment, no matter how great, can compete with it. The relief of being free of the



the wake of the Brexit vote.

But back to Federal Plaza in Manhattan. America was different. I just didn't know it yet. My experience of nationality had made me so cynical that even as I sat waiting to be called for

Then I thought of America, and a wave of optimism came over me. This is how a country earns the love of its citizens: It ennobles their relationpast, and safe in the future, is audible in the reply that Nabokov gave to the Paris Review. He said, "Yes, I do. I am as American as April in Arizona."

I hope one day to be able to answer similarly myself. Happy Fourth of July!

WHEN THE FOURTH OF JULY EMBRACED LATIN AMERICA TOO

BY CAITLIN FITZ

THE SUN BLAZED DOWN on Norfolk's old-fashioned fife-and-drum parade on July Fourth of 1822, but the weather deteriorated for the afternoon picnic. The skies of coastal Virginia turned heavy and black; the rain fell in sheets. Some guests ran for cover, while the rest dined on soggy food, sang above the howling wind and drank a toast to...Latin America?

Before the party started, the hosts had carefully hung the flags of Peru, Argentina, Chile and Colombia alongside the Stars and Stripes. The Mexican flag was probably there, too, whipping and snapping in the wind.

There was nothing unusual about this interest in our hemispheric neighbors. Newspapers of the era printed long transcripts of holiday toasts every summer in the weeks after Independence Day. A sample of several hundred indicates that well over half of July Fourth gatherings in the decade following the War of 1812 raised their glasses to Latin America.

Why, on their most patriotic of holidays, were so many Americans looking south of the border, speaking not of walls but of brotherhood?

The answer lies in the cosmopolitan vision of the American founding. The audacity of the Revolution lay not simply in the fact that 13 disparate colonies had defied the mighty British icans that the rest of the world should care. When Parisians stormed the Bastille in the summer of 1789, Americans exulted, thrilled to think that such a powerful country was following in their footsteps. (The ardor soon cooled as bloodied heads toppled in the streets of Paris and a slave rebellion erupted in Haiti.)

Empire but in the conviction of Amer-

When another wave of rebellion swept across Latin America from 1810 to 1825, Americans erupted with joy once again. By the 50th anniversary of the U.S., most of the western hemisphere was independent, from the U.S. and Mexico to Venezuela and Brazil. It was a "jubilee of nations," a Kentucky congressman crowed, "the birth-day of a hemisphere redeemed." U.S. patriots hailed Latin America's wars of independence as thrilling equatorial reprises of 1776.

The international ardor rang loudest on July Fourth, but it reverberated year-round. Appalachian farmers read poetry about Andean independence. Sailors wore cockades for revolutionary Montevideo. Parents even named their sons Bolivar, after Simón Bolívar, the Venezuelan political and military leader sometimes called the "George Washington of South America."

During the 1824 presidential election, Andrew Jackson named his prized "stud colt" Bolivar, after the Americas' other premier general. And when the citizens of Steubenville,



Ohio, gathered to commemorate the nation's 50th-year "jubilee" on July 4, 1826, the star of their parade was a prizewinning ram also named Bolivar.

Sometimes this grass-roots enthusiasm translated into concrete support. Around 3,000 privateers from the U.S. swashbuckled under Latin American flags, and American merchants became one of the rebels' primary firearms suppliers. In 1822, the U.S. became the first country in the world to extend diplomatic recognition to Peru, Chile, Argentina, Mexico and Colombia (which itself also included modern-day Venezuela, Ecuador and Panama).

If North and South America were republican soul-mates, however, it was usually just in spirit. Bolívar himself grumbled about the neutrality of the U.S. The sprawling northern republic was all business, he sighed, ready to sell guns, not to give them. The U.S. popular excitement for Latin America was more about feel-good patriotism than hard-nosed diplomacy.

Still, on their most studiously patriotic holiday and throughout the year, many Americans defined themselves by looking abroad, and what they saw was revealing. As U.S. newspapers widely reported, the Spanishspeaking, Catholic countries of Latin America were passing gradual antislavery laws and building ostensibly multiracial republics.

In defining foreign revolutions, Americans were defining themselves. But the universalism of their credo was always contested. It suffered one blow on the nation's 50th birthday in 1826, when the Southern wing of the nascent Democratic Party declared, among other things, that Latin Americans were dangerous antislavery extremists.

Even through the turmoil of the Civil War, as Americans fought over whether the U.S. would be a free, multiracial republic, no less a luminary than Frederick Douglass found his answer far to the south. "In Mexico, Central America and South America," he maintained, "many distinct races live peaceably together in the enjoyment of equal rights."

It was an overly sanguine vision, but it resonated. Latin America was a mirror that helped Americans to understand who they were—and, just maybe, who they might become.

Dr. Fitz is an assistant professor of history at Northwestern University and the author of "Our Sister Republics: The United States in an Age of American Revolutions," which will be published Tuesday by Liveright.

REVIEW

Marital Disputes: A Survival Guide

Quarreling with a spouse is inevitable, but a few truths can limit the fallout

BY STANLEY FISH

BOOKS PROMISING to save or reinvigorate your marriage occupy whole shelves in the self-help section of your local bookstore. Often they give advice that takes the form of the seven to 10 steps you absolutely must take. But in the end, it all comes down to the management of words.

The relationship between marriage (shorthand here for any domestic partnership) and the art of language is, to put it mildly, complex. A marriage where both partners never bring up the issues that trouble them on a deep level will go forward, but at what level of satisfaction? The river may run smooth but shallow. A marriage where resentments, recriminations, accusations and criticism are aired daily will be arresting as a piece of drama (or farce), but will it be livable?

I grew up inside that latter type of marriage—never a dull moment. A friend who lived next door said that he didn't need to turn on the TV to be entertained; all he had to do was open the window and listen to our family. My wife, an only child, had the opposite experience. In her childhood house, she never heard an argument or even a raised voice. The universe she lived in was without conflict (as far as she could tell), which made it difficult for her when, later

on, conflict entered her life, as it always will. Even now, a good shouting match seems to me like a clearing of the throat; my wife receives it as an assault. A large part of the adjustment each of us has to make involves the management of words. Too few and a connection seems broken; too many and the ruptures seem to multiply. How does anyone ever get this right?

It helps to keep a few truths in mind: Arguments don't have a formal beginning, and by the time you know you're in one, it's too late. Domestic arguments aren't a formal debate. The participants aren't looking to have an argument (some spouses might disagree) but stumble into it

and then make it bigger and bigger trying to undo its effects. Domestic arguments resemble the famed hydra: Every time one party makes what he or she thinks to be a telling point and cuts off one head of the other's position, two more grow in its place. Even the attempt to exit ("I've had enough of this") only renews the fight: It's easy to fall into a quarrel but almost impossible to get out of one.

Arguments are seldom about their surface content (who's going to walk the dog tonight?). They are about needs that each party is intent on satisfying in ways that trigger negative feelings for the other. A misplaced focus on who is factually right means that neither side will get what he or she wants because the underlying anxieties, rather than being helpfully addressed, are exacerbated.

Consider this brief exchange from the 2007 book "How to Improve Your Marriage Without Talking About It," by Patricia Love and Steven Stosny:

Sheila: It's cold in here.

Randy: How can you say that? It's 70 degrees.

Sheila is saying "I feel cold," a statement about what she is experiencing, not about the temperature. Randy hears it as a factual error and, more important, a criticism of his performance: Were he a better husband, his wife would be comfortable. This isn't going to go well.

In fact, it will never go well. John M. Gottman and Nan Sil-

ments cannot be resolved. Couples spend year after year trying to change each other's mind-but it can't be done. This is because most of their disagreements are rooted in fundamental differences of lifestyle, personality or values."

Marriage manuals, although they vary in their diagnoses and in the approaches they recommend, deliver a single message: Arguing in marriage is a mug's game. No good can ever come of it, and it would be better if it never occurred.

This leads me to a third truth about domestic arguments: Trying to walk back the words that have precipitated a quarrel doesn't work. If you say that you have been misinterpreted, you've made a new accusation. If you offer to clarify, you're impugning your partner's ability to understand you.

One suggestion given by marriage books is that you engage in "active listening." It is the opposite of reactive listeningthat is, listening only to formulate your next stinging rejoinder. Active listening is empathic; the goal is to understand exactly what your partner is saying, not to counter or augment or correct it but simply to comprehend it.

Many will recognize the advice that these books give: Repeat what your partner says back to you. Use "I" statements ("I feel frightened and sad when you are home late") instead of blame statements ("Why are you home late this time?"). Validate your partner's feelings by explaining that what he or she has said "makes sense," which doesn't mean that you agree with it but that you can see how someone might think

> this way. Then extend yourself further by empathizing with the emotional vulnerability that initiated the sequence. You say something like, "Given the traumatic experience of having been left alone in the house when both of your parents were late, I can imagine how you must feel when I'm late."

At each stage in the process, the irritation and desire for self-justification that so naturally well up in moments of conflict are dissipated and absorbed by the formulaic nature of the exchange.

One of the admirable things about marriage manuals is that their authors often freely admit to making the same mistakes

that they classify and criticize. This candidness is at once refreshing and distressing. It is distressing because it suggests—and this is my final truth about domestic quarrelsthat deep knowledge of the ways of domestic argument doesn't insulate you from falling into the innumerable traps awaiting anyone who enters that arena.

I wish I could say that because I have studied the manuals, I have become better able to negotiate the land mines embedded in the landscape of every marriage, including mine. But-and you don't have to take my word for it, just ask my wife-when the rubber hits the road, my behavior isn't much different from the behavior of the bumbling, terminally defensive and self-regarding boob I was before I read a word of these books.

If there is any lesson here, it is that the hope of rationality-that we can master the contingencies of our lives by assessing and cataloging the dangers we would like to avoid—is unlikely to be realized. If you perform any better the next time you stumble into a crisis (as I hope to do), it is likely because you've been around the track a few times and are finally beginning to get the hang of it.

Adapted from Prof. Fish's latest book, "Winning Arguments: What Works and Doesn't Work in Politics, the Bedroom, the Courtroom and the Classroom," to be published next week by



MIND & MATTER: **MELVIN KONNER**

For Peaceable Humans, Don't Look to Prehistory



ALONG A RIVER in northern Germany, thousands of men lined up for a pitched battle. Some had come great distances, determined to seize or hold this modest waterway. They went at it mercilessly,

leaving hundreds dead, many shot in the back while fleeing. Victory was decisive.

World War II? Perhaps the Napoleonic Wars? The Thirty Years' War?

Actually, you won't find this battle in any history book. It happened around 1250 B.C., roughly the era of the Trojan War and the biblical war of Deborah. The weapons and tactics were similar to those famous conflicts, the numbers mobilized equally impressive.

But in illiterate Northern Europe, no one chronicled the German battle in song and saga, with heroes' names echoing down the centuries, and no one knew of the event until very recently.

Twenty years ago, an amateur archaeologist found an arm bone poking out of the bank of the River Tollense, an arrow point in one end. Since then, the accumulated bones and weapons have revealed violent death on an astonishing scale. As described in 2011 in the journal Antiquity, archaeologists used a range of techniques to study the excavation: forensics, X-rays, CT scans, 3-D reconstruction, metal detectors, geomagnetic surveys and mathematical models originally developed to predict stresses on aircraft parts.

Scientific archaeology at its best revealed human nature at its worst. With only 3% to 10% of the likely battlefield unearthed, researchers have found at least 130 dead, almost all men in their 20s. Tooth composition and genes show that they came from distant parts of Europe. A wooden causeway of about 400 feet across the valley may have had strategic significance.

Healed fractures show that these were warriors hardened in battle. Some appear to have been nobles on horseback, wearing heavy armor, which only the well-trained can wear while fighting. All this typified the Bronze Age, when warfare increased. Stone arrow and spear points among the bronze ones show that this was a

Validate your partner's feelings by explaining that what he has said 'makes sense.'

ver draw a bleak conclusion in their 1999 book "The Seven Principles for Making Marriage Work": "Most marital arguHarper (an imprint of HarperCollins, which, like The Wall Street Journal, is owned by News Corp).



transitional time.

Now let us jump back in time an additional 7,000 years and fly 4,000 miles to Nataruk, Kenya, west of Lake Turkana, another scene of

It's the modern era that has seen violence wane.

armed strife. No bronze here—we are squarely in the Stone Age—but there are still important parallels, as reported in January in the journal Nature by M. Mirazón Lahr and colleagues.

This was a massacre, not a battle: 27 dead, including eight women—one verv pregnant—and six children. Of 10 complete skeletons. eight showed violent

deaths—blunt trauma or blade penetration. Some may have had bound hands. Bodies had fallen or were dumped in a lagoon, just as many of the dead in Germany were found in the river. Obsidian blades, rare locally, suggest the perpetrators came from elsewhere.

These were hunter-gatherers, once thought to be free of war. (The 18th-century philosopher Jean-Jacques Rousseau, writing of "savages," cited "the peacefulness of their passions and their ignorance of vice.") Violence has been detected earlier in the fossil record, but not on this scale. Some archaeologists think that populations reached a critical mass 10,000 years ago, causing violence to spike. Battles began to increase in number and scale.

Over the past few decades, archaeologists have begun to question the idea that early humans were peaceable. Having unearthed a range of impressive weapons and fortifications, many now refer to earlier studies as "interpretive pacifications." Today there is no doubt about the violence in human nature, with war going back at least 10,000 years and homicide much longer.

The good news, as the psychologist Steven Pinker and others have shown, is that violence rates in our species-hard as it is to believehave fallen for centuries. To Dr. Pinker's explanations for this trend—state power, commerce, "feminization," cosmopolitanism and reason-I would add increasing longevity. If disease cuts fewer lives short, life is no ionger cherry -ciety as a whole, and war grows too expensive. We can applaud the decline but not our early with us

history—which still seems too much with us.

OPINION

REVIEW & OUTLOOK

Massacre in Dhaka

ot a month has passed since Islamic State killed 49 people at an Orlando, Fla., nightclub, and less than a week since it mur-

dered 45 at the Istanbul airport, and now Islamic State is taking credit for another slaughter. This time the assault came Friday in Bangladesh, at a cafe in Dhaka's diplomatic quarter, killing at least 20 civil-

ians and two policemen. More such attacks will surely follow as Islamic State makes inroads in South Asia's huge Muslim population.

As usual with Islamic State, this attack was distinguished by savagery and propaganda. Seven terrorists stormed the cafe Friday night and demanded that patrons recite verses of the Quran. Those who failed—including nine Italians, seven Japanese, two Indians and possibly one American-were tortured and hacked to pieces. The killers then spent the night posting their atrocities on social media and lecturing Muslims on Western moral pollution. Six of the seven were killed when authorities stormed the cafe the next morning, and one was captured.

Police quickly identified the attackers as Bangladeshis, mostly well-educated and from wealthy families. So much, once again, for the theory that poverty and hopelessness are the cause of terrorism. Islamic State is a religious and ideological movement of Muslim fanatics.

The attack also made nonsense of Prime Minister Sheikh Hasina's failure to acknowledge that international jihadists are recruiting and carrying out terrorist attacks in Bangladesh. As we noted last month ("Bangladesh and the Jihadists," June 16), Ms. Hasina's administration has sought to pin blame for the murder of 40 secular activists, intellectuals and religious minorities over the past three years on Islamists connected to the opposition Bangladesh Nationalist Party.

Islamic State spreads among South Asia's huge Muslim population.

That has resulted in the arrest of thousands of BNP activists in security sweeps. But the government has mostly missed the rise of such local jihadist groups as Ansar al-Islam, also known as Ansarullah Bangla Team, which use social media to radi-

calize young, middle-class men and are believed to have links to terror groups abroad.

Given the sophistication of the assault on the cafe, we wouldn't be surprised to learn that at least one of the attackers had spent time with Islamic State in Syria or Iraq. Five of the attackers were already on a wanted list, meaning the government is at least beginning to look in the right places. Another 120 Islamists were arrested in a sweep last month.

Bangladesh has made significant economic strides by becoming a global hub for the garment industry. Killing foreigners who work for that industry-several of the Italians killed Friday were garment entrepreneurs—is no doubt part of Islamic State's strategy of making the Muslim world a no-go zone for tourism and investment. That's all the more reason for Bangladeshi authorities to be clear-sighted about the nature of the expanding threat they face.

The Dhaka attack is also a reminder that Islamic State is spreading globally at a much faster rate than the U.S. is defeating it in its Syrian and Iraqi heartland. Two more Islamic State bombs targeting families and young people killed at least 115 in Baghdad on Sunday. The jihadist threat is global and growing, and it cannot be adequately fought, much less won, until an American President is honest about the danger.

Turnbull's Election Flop

ustralia's Malcolm Turnbull staked his premiership on a rare "double dissolution" election Saturday for both houses he ran as a safe choice, a beacon of stability.

of Parliament. While the results for a handful of close races may not be known until later in the week, the Prime Minister appears to have lost his gamble with a 3.6% swing in the popular vote against his Liberal-National coalition.

At best Mr. Turnbull will now have to govern with a much smaller majority or a minority government in the Lower House. It's also possible his could be the first Australian government tossed out after a single term since 1932.

There's a lesson here for conservatives who try to run away from conservative ideas. Mr. Turnbull took office in September by trying to portray himself as more acceptable to voters than Tony Abbott, his gaffe-prone and occasionally abrasive predecessor. But Mr. Abbott won 90 seats in the 150-seat lower house three years ago on a robust free-market platform, including repeal of the Labor government's carbon tax.

Mr. Turnbull is more polished and media savvy than Mr. Abbott, but he has a habit of leaving his supporters wondering where he stands. Mr. Turnbull cited the need to pass labor-relations reform as the reason for calling Saturday's election. This would have made union officials as accountable as directors of public companies and brought back the Australian Building and Construction Commission that successfully reined in criminal intimidation by construction unions from 2005 to 2012.

Yet during the campaign Mr. Turnbull failed to make the case for the laws to voters. Instead

Likewise he failed to communicate a clear plan for reviving a slowing economy hurt by the end of the commodities boom. His official slogan was "jobs and growth," but the emphasis seemed to be on govern-

ment programs, such as taxpayer-funded internships for the long-term unemployed. The government abandoned plans for tax reform in the May budget. While promising to cut the deficit eventually, Mr. Turnbull offered A\$57.6 billion (\$43.24 billion) in new spending over the next four years.

In the competition for who could promise more spending, Labor was bound to win. Opposition leader Bill Shorten took full advantage of Mr. Turnbull's reticence to accuse the government of attacking workers' rights. On election day, the Labor campaign sent out text messages that appeared to be from the state health-care agency warning that the Turnbull government planned to privatize the service.

A fragmented Senate now means that it will be nearly impossible for Mr. Turnbull to pass major legislation, and he will likely face an in ternal challenge for leadership of the Liberal Party. That's a notable comedown for a leader who two months ago enjoyed a double-digit lead in the polls. But it's also a valuable lesson about the risk conservatives run when they try to campaign on promises of stability in a world of change and economic anxiety.

Hillary's Strange Security Adviser

paign was forced to acknowledge last week that the former secretary of state did not, as she had claimed, turn over all her workrelated email to the U.S. State Department. The new story is that her deletion of these emails was an oversight. Team

Clinton is hoping therefore that you won't hear the story of Rajiv K. Fernando, which would suggest the oversight tale to be yet another untruth.

POTOMAC

By Kimberley

A. Strassel

WATCH

Don't feel bad if you've never heard of Mr. Fernando, because you arguably never should have. Mr. Fernando is a onetime Chicago securities trader who in July of 2011 somehow found himself sitting on the International Security Advisory Board, with the ability to access the nation's most sensitive intelligence.

Mr. Fernando had no background that would have qualified him to sit on the ISAB alongside the likes of former National Security Adviser Brent Scowcroft, former Defense Secretary William Perry. a United Nations chief weapons inspector. members of Congress, and nuclear scientists. That Mr. Fernando didn't belong was apparent. "We had no idea who he was," one board member told ABC News. So how exactly did he get there?

We now finally know, thanks to State Department internal emails that the government was forced to turn over to the watchdog group Citizens United. And thanks to ABC News, which began digging into Mr. Fernando's bizarre ap pointment when it first happened.

In August 2011, ABC requested a copy of Mr. Fernando's resume from the State Department. This, the internal emails show, sent a press aide reeling to find answers to how a trader had ended up on the ISAB. Even the aide noted that it was "natural to ask how he got onto the board when compared to the rest of the esteemed list of members."

The response came only a few hours later in an email from Wade Boese, chief of staff for an undersecretary of state: "The true answer is simply that S staff (Cheryl Mills) added him," Mr. Boese wrote. "Raj was not on the list sent to S; he was added at their insistence.'

S, in this situation, stands for Secretary of State Hillary Clinton. Ms. Mills, a longtime aide, was her chief of staff. Why would Hillary want to entrust the nation's secrets to a man with no intelligence experience?

Here's what we do know: Mr. Fernando, before his plum appointment, had given between \$100,000 and \$250,000 to the William J. Clinton Foundation. He had been a top bundler for Mrs. Clinton in her 2008 presidential run, and later a major Obama fund-

Hillary Clinton's cam- raiser. He gave tens of thousands more to a political group that helped Hillary pay off her 2008 campaign debt by renting her email list.

The 2011 emails reveal that State knew it had a problem on its hands. "We must protect the Secretary's and Under Secretary's name," the press aide warned. Ms. Mills, the messages say, asked staff to "stall" the news organization. Damage control came in the form of Mr. Fernando's quick resignation, on grounds of "additional time needed to devote to his business." Uh huh.

This is how Hillary Clinton operates. Donald Trump, for all the trouble his out-loud musings cause him, can nonetheless take credit for perfectly distilling, in five short words, what would be the defining nature of another Clinton presidency: The politics of personal profit.

How did a big-money Clinton donor get on an expert panel next to nuclear scientists?

This is also why Mrs. Clinton kept control over her home-brew email server. The Citizens United release shows that messages about ISAB appointments were forwarded to Mrs. Clinton's personal account—where they fell into a black hole. Were there email discussions about the personal-profit merit of appointing Mr. Fernando? Ask Mrs. Clinton's webmaster, Bryan Pagliano. Or not. He recently invoked the Fifth during a deposition 125 consecutive times.

Meantime, we have yet more evidence of a politicized State Department flacking for Hillary's misdeeds. It continues to stonewall demands for documents. It issued a statement after the Citizens United emails came out, defending the Fernando appointment on grounds that the ISAB's charter calls for "a balance of backgrounds and points of view"-thereby giving the Clinton campaign cover.

News organizations have also noted that Mr. Fernando is missing from the State Department website listing former ISAB members. So the department has also scrubbed the national record of actual facts.

As for Mr. Fernando, a message left on a cell number that appeared to belong to him was not returned. But he's still bundling-this time for Mrs. Clinton's 2016 bid. A peek at the Clinton Foundation website shows he continued to donate and is now listed as having given between \$1 million and \$5 million. If he keeps that up, he'll likely be in the running to become President Hillary's own secretary of state.

Trump's Would Be No Ordinary Defeat

He ran a status quo campaign in a moment of economic anxiety.

The Tories After Brexit

he Tory leadership fight that broke out last week to choose Britain's next Prime Minister has been dominated by reports

of who stabbed whom. That's good political drama, but the real question for the ruling party is what does Brexit mean? The Tories have to decide if the Leave vote endorsed a confident, open Brit-

ain that can succeed outside the European Union, or whether it represented a turn toward a more inward Littler England.

We hope it is the former, but it's true that the Leave campaign argued both sides of the book. Anti-immigration sentiment mixed with the vision of a Britain that would become a model of free-market prosperity liberated from the shackles of Brussels. The next leader will have to navigate these internal Tory tensions while also negotiating with the EU.

Michael Gove was one of the leaders of the Leave campaign, and on Thursday he surprised many by jumping into the leadership race. The current Justice Secretary is an eloquent and principled free-marketer, which also makes him controversial. As education secretary, he pushed through important reforms to decentralize schools, foster competition and promote evidence-based teaching.

Mr. Gove's entry elbowed out Boris Johnson, the charismatic former mayor of London who was thought to be the favorite. Mr. Johnson had taken a generous line toward Europe in the wake of Brexit, and Mr. Gove may have feared he wouldn't drive a hard enough bargain in trade negotiations with the EU.

Mr. Gove promised to negotiate a new trade deal with the Continent, but he also told the British they should be able to opt out of EU rules allowing open immigration across borders. He may be the choice of Tories who want to take the hardest line against EU rules.

His main competition will come from Home Secretary Theresa May, who was a relatively quiet Remain supporter but has promised to ne-

gotiate the best exit possible. She would probably be amenable to trading greater openness to immigration for better market access for Britain.

Ms. May is invested in Prime Minister David Cam-

eron's "Tory modernization," which combined supply-side policies such as corporate-tax rate cuts with more state interventions in such areas as child-care subsidies and a higher minimum wage. These policies produced stronger growth but haven't reduced the economic unease many voters feel, especially in rural areas. That unease also contributed to the Leave victory.

It's important for the Tory candidates to come out swinging for economic openness soon because some are interpreting Leave as a vote to pull up the drawbridge. Nigel Farage, leader of the U.K. Independence Party, has warned that the Tories are already "backsliding" on immigration restrictions. Some Leavers hoped that a Brexit vote would finally settle the long internal Tory fight over Europe, and perhaps it will. But gaining trade access to Europe will require some compromise on immigration flows—and in any case Britain should want to be a mecca for many of Europe's best and brightest.

The next Tory leader will need to steer past these divisions with care because it can't count on the opposition Labour Party to remain dysfunctional. Labour MPs are attempting a coup to overthrow the far-left Jeremy Corbyn in anticipation of an early election post-Brexit.

The Brexiteers promised that Britain can use its regained sovereignty to build a more prosperous future without the EU's burdens. The Tory leadership fight will be the first test of whether they're up to the task.

Before they gather in Cleveland for their convention, it's not too soon for Republicans to begin thinking about what exactly a Donald Trump defeat might be like.

As with his nowdocumented habit of charitable promises that seldom material-

ize, Mr. Trump never intended to endanger a sizable part of his personal wealth to fund a presidential campaign. That means he'll continue to campaign on the cheap, by saying incendiary things and having them transmitted by the free media. Expect more speeches like the protectionist-cum-conspiracy theory speeches in suburban Pittsburgh on and New Hampshire last week

BUSINESS

By Holman W.

WORLD

Jenkins, Jr.

In his mind, Mr. Trump may still envision a populist prairie fire carrying him to the White House. This is not his best plan to win, he may also admit to himself, but the one he's willing to pay for.

Here resides the problem for those hoping for a Trump-to-the-middle move. Such moves are expensive. Base-broadening campaigns require lots of paid television to reach nonengaged voters and Trump skeptics, pummeling them with reassuring images suggesting that a Trump presidency would be OK.

Mr. Trump not only is unwilling or unable to finance such a campaign. He evidently is unwilling to do what's necessarv to entice GOP donors to finance it on his behalf. This means GOP officeholders seeking re-election can expect a constant headwind of inflammatory Trump statements designed to stimulate the free media coverage that his assetlite campaign requires. Republican candidates up and down the ballot therefore become unwilling sharers of a high-risk Trump electoral wager, a gamble more likely to end in a Hillary landslide than a Trump White House.

The more intriguing question concerns what happens if Mr. Trump decides he can't win and no longer is willing to throw good money after bad. Campaign vendors will be the first to figure it out. Look for them quickly to cut off services rather than get stiffed in the inevitable Trump campaign bankruptcy filing.

Mr. Trump's harsher Republican critics are kidding themselves to think Mr. Trump is crazy or unstable and will suffer a breakdown. More likely, he will simply and coldbloodedly toss the ball to the GOP, saying, in effect, "If you want to pay for some events or TV, I'm available. Otherwise I'm done." The GOP would then have to shoulder the dual burden of propping up a minimally respectable Trump campaign while also distancing its down-ballot candidates from Mr. Trump so they might survive.

And that's the optimistic scenario. Mr. Trump has learned the value of audacity. He might well decide to cover his retreat and preserve his amour propre with a flurry of lawsuits and conspiracy theories about a "rigged" election.

He's already begun putting narrative flesh on these bones. He speaks of crooked Hillary" and increasingly of the Clinton Global Initiative, Bill Clinton's philanthropy, and what he calls the Clintons' "politics of personal profit and theft." In his trade speeches, he portrays the Clintons as members of a nefarious global elite that has enriched itself while foisting impoverishing trade deals on the U.S. middle class.

He perhaps will throw in a few suggestions that foreign governments hold hidden leverage over Hillary because of her hacked, illegal email server. He'll mention Bill Clinton's pardon of Marc Rich.

Republicans can also expect to be a target of his accusations. He doesn't need to be plausible, just tell a story that justifies his own stance that he didn't lose. the other side cheated, "Washington elites" conspired against him, etc.

If the Trump endgame is destined to go this way, Republicans should hope it does so early, ideally before the convention is even over. To date, Mr. Trump continues to tease top GOPers and conservatives with the idea that he may yet come their way, turn his formidable talents to advancing conservative causes

Republicans need a strategy, and lots of money to fund it, to preserve their House and Senate majorities. Do they know it? The thing they should fear most: An autumn dynamic in which Mr. Trump believes the best outcome for him personally is one that does as much damage as possible to the long-run GOP cause.

The party's next leader will have to bridge the immigration divide.

Australians Turn Away From Turnbull

By Tom Switzer

ustralians had their first opportunity to vote on Malcolm Turnbull, and judging by this weekend's election results they disapprove. The 3% to 4% swing against his center-right Liberal-National coalition means the prime minister will struggle to form a government.

Even if Mr. Turnbull's party wins the 76 seats needed to secure a majority in the House of Representatives, he still has his work cut out for him. A motley crew of minor party and independent candidates will control the Senate's balance of power.

Voters punish the prime minister for his lack of substance.

That means Mr. Turnbull won't be able to pass market reforms to kickstart an economy struggling with the end of the resources boom. He will also have to work hard to keep his conservative coalition content. The upshot is that Australia is heading for more political volatility.

How did it come to this? Why is it that someone who seemed so capable and confident when he assumed the prime ministership has floundered so spectacularly nine months later?

It's difficult to resist the conclusion that Mr. Turnbull is the author of his own troubles. The rationale for his coup against a sitting prime minister last September was that he was more acceptable to the electorate than the more abrasive Tony Abbott. Media sophisticates agreed, hailing the 61-year-old former republican activist as the Antipodean Obama, the great reformer who would transform Australia into a beacon of progressiveness.

Mr. Turnbull was the fourth prime minister in three years, and it was hoped he would bring about a sense of stability in Canberra. "There's never been a more exciting time to be an Australian," he consistently declared.

But the trouble for any politician exciting high expectations is that they can rarely be fulfilled. And no Australian politician in recent times has ever excited such expectations as Mr. Turnbull. His gifts of intelligence and image management did a terrific job in winning power in a Liberal Party leadership ballot. They are of less use in governing, especially when a politician lacks core convictions.

Contradicting himself every few weeks, Mr. Turnbull has stood fast in indecision. Bills to rein in corrupt unions triggered this weekend's elections for both houses of Parliament the first so-called double dissolution in three decades—yet he failed to campaign on workplace reform during the eight-week campaign.

Vacillating and equivocating on tax reform, he was quickly exposed with no coherent direction, exhibit-



Prime Minister Malcolm Turnbull in Sydney on Sunday.

ing poor judgment and even treating voters with contempt. Asked for advice on how young battling Australians should buy their first home in Sydney or Melbourne, the wealthy former investment banker suggested their parents "shell out" money for their mortgages.

Widely touted as a progressive liberal, Mr. Turnbull has always been viewed suspiciously by his party's conservative grassroots. His brief tenure in power has reaffirmed those doubts. As a climate enthusiast, he failed to argue against cap-and-trade carbon regulation that the Labor Opposition wants to revive. His plans to increase tax on superannuation flew in the face of self-funded retirees and older Liberal voters.

Meanwhile, Labor Party leader Bill

Shorten proved the adage that low expectations are a priceless political gift. Having taken over after the disastrous Rudd-Gillard-Rudd era, the 49-year-old former union leader was regarded as something of a joke. He was portrayed as weak, unprincipled, populist and doomed. It takes something close to genius to bring down a first-term federal government, something that has not happened since 1931. Yet against all the odds Mr. Shorten could do it.

But although Labor has defied the conventional wisdom, it can't take much solace in the results. Henry Kissinger once quipped during the Iraq-Iran war in the 1980s, "It is a pity both sides can't lose." That is how many Australians feel about their major parties. Indeed, the weekend shows what frustration with political elites looks like when it takes the shape of disillusion rather than anger. No one was really excited about this election, and no one will be happy with the results.

About 30% of the electorate voted for political outsiders who are toying with European-lite and Trump-lite politics. One of them is Pauline Hanson, the far-right populist Queensland firebrand who made global headlines two decades ago with her insulting remarks about Asian immigrants. She's back in the Senate, and her protectionist One Nation Party could win another three seats.

This portends more government gridlock and policy inertia. In the wake of the commodities boom, political leaders need to repair the budget with productivity reforms to exploit the new phase of Chinese economic development and the upside of digital disruption.

Australia has not had a recession in a quarter of a century, yet wage growth is shaky and the escalating debt-to-GDP ratio threatens the country's prized AAA credit rating. The political class does not seem to recognize the perilous state of the nation's finances, and therefore is incapable of doing much about it.

A hung Parliament would make it very difficult for any prime minister to govern. Mr. Turnbull largely has himself to blame.

Mr. Switzer is a presenter on the Australian Broadcasting Corporation's Radio National.

Obama's Climate Policy Is a Hot Mess

By Bjorn Lomborg

hen President Obama flew to Ottawa on Wednesday to meet with Canadian Prime Minister Justin Trudeau and Mexican President Enrique Peña Nieto, promoting their climate-change policies was near the top of the agenda. "The Paris Agreement was a turning point for our planet," the leaders? joint statement said, referring to the climate pact signed with fanfare in April by nearly 200 nations. "North America has the capacity, resources and the moral imperative to show strong leadership building on the Paris Agreement and promoting its early entry into force.'

Attracting rather less attention than the Ottawa meeting was a June 22 hearing on Capitol Hill. Testifying before the House Committee on Science, Space and Technology, Environmental Protection Agency Administrator Gina McCarthy extolled the Paris Agreement as an "incredible achievement." But when repeatedly asked, she wouldn't explain exactly how much this treaty would actually cut global temperatures.

The Paris Agreement will cost a

tories pledged to undertake and found that they will have a negligible temperature impact. I used the same climate-prediction model that the United Nations uses.

First, consider the Obama administration's signature climate policy, the Clean Power Plan. The U.N.'s model shows that it will accomplish almost nothing. Even if the policy withstands current legal challenges and its cuts are totally implemented—not for the 14 years that the Paris agreement lasts, but for the rest of the century the Clean Power Plan would reduce temperatures by 0.023 degrees Fahrenheit by 2100.

President Obama has made grander promises of future carbon cuts, beyond the plan's sweeping restrictions on the power industry, but these are only vaguely outlined now. In the unlikely event that all of these extra cuts also happen, and are adhered to throughout the rest of the century, the combined reduction in temperatures would be 0.057 degrees. In other words, if the U.S. delivers for the whole century on the very ambitious Obama rhetoric, it would postpone global warming by about eight months at the end of tion on Climate Change, the organization responsible for the Paris summit. The U.N.'s model reveals a temperature reduction by the end of the century of only 0.08 degrees Fahrenheit. If we generously assume that the promised cuts for 2030 are not only met (which itself would be a U.N. first), but sustained throughout the

The president hails the Paris Agreement again even though it will solve nothing and cost trillions.

rest of the century, temperatures in 2100 would drop by 0.3 degrees—the equivalent of postponing warming by less than four years at the end of the century. A cut of 0.3 degrees matches the finding of a Massachusetts Institute of Technology analysis of the Paris Agreement last year.

The costs of the Paris climate pact are likely to run to \$1 trillion to \$2 trillion annually throughout the rest of the century, using the best estimates from the Stanford Energy Modeling Forum and the Asia Modeling Exercise. Spending more than \$100 trillion for such a feeble temperature reduction by the end of the century does not make sense. Some Paris Agreement supporters defend it by claiming that its real impact on temperatures will be much more significant than the U.N. model predicts. This requires some mental gymnastics and heroic assumptions.

The group doing climate modeling for the U.S. State Department assumes that without the Paris Agreement, emissions would be much higher than under any realistic scenario. With such an unrealistically pessimistic baseline, they can then magically show that the agreement will cut temperatures by 1.8 degrees Fahrenheit—with about 1.5 degrees of the drop coming from a reduction of these fantasy carbon emissions.

The Climate Action Tracker, widely cited by Paris Agreement fans, predicts a temperature reduction of 1.6 degrees by the end of the century. But that model is based heavily on the assumption that even stronger climate policies will be adopted in the future—98% of the assumed reductions come after the current Paris Agreement promises to expire in 2030.

Even this wishful thinking won't achieve anything close to the 2 degrees Celsius (3.6 degrees Fahrenheit) reduction that has become the arbitrary but widely adopted benchmark for what will be essential to avoid the worst effects of global warming. The Paris Agreement is the wrong solution to a real problem. We should focus more on green-energy research and development, like that promoted by Bill Gates and the Breakthrough Coalition.

Mr. Gates has announced that private investors are committing \$7 billion for clean energy R&D, while the White House will double its annual \$5 billion green innovation fund. Sadly, this sorely needed investment is a fraction of the cost of the same administration's misguided carbon-cut policies.

Instead of rhetoric and everlarger subsidies of today's inefficient green technologies, those who want to combat climate change should focus on dramatically boosting innovation to drive down the cost of future green energy.

The U.S. has already shown the way. With its relentless pursuit of fracking driving down the cost of natural gas, America has made a momentous switch from coal to gas that has done more to drive down carbon-dioxide emissions than any recent climate policy. Turns out that those who gathered in Paris, France, could learn a little from Paris, Texas.

My Lowhove president of the

warming. In a peer-reviewed article published in Global Policy this year, I looked at the widely hailed major policies that Paris Agreement signathe century.

Or consider the Paris Agreement promises from the entire world using the reduction estimate from the United Nations Framework ConvenMr. Lomborg, president of the Copenhagen Consensus Center, is the author of "Cool It" (Knopf, 2007) and "Smartest Targets for the World" (Copenhagen Consensus, 2015).

From Burmese Dissident to Mystifying Politician

By Shirin Ebadi

I n advance of a United Nations envoy's visit to the country, Burmese officials in June instructed U.N. officials to refer to Burma's Muslim minority as "people who believe in Islam in Rakhine state." This is the latest chapter in what has become a tragic campaign to reassure Buddhist nationalists that the government will continue to oppress the Rohingya even to the point of denying them their name and citizenship in Burma.

Sadly, this campaign is being led by Nobel peace laureate Aung San Suu Kyi.

After decades of defiant activism, house arrest and unimaginable personal sacrifice, Ms. Suu Kyi is finally in a position to bring democracy to her country. Ms. Suu Kyi's party won Burma's national elections in November 2015, and this spring, in addition to being named foreign minister, she was appointed state counselor, the de facto prime minister. The new title effectively gives her the power to run Burma.

I'm sure it is a responsibility that my fellow Nobel peace laureate—a woman who was under house arrest off and on for more than two decades—takes very seriously. Yet those of us who spoke up for Aung San Suu Kyi those many years when her human rights were being violated—including His Holiness the Dalai Lama and Archbishop Desmond Tutu—are deeply pained that she won't extend the same respect for human rights to Burma's more than one million Rohingya.

Like thousands of human-rights defenders around the world, we have also called upon Burma to respect the rights of other political prisoners and minorities in Burma—including the Karen, the Shan and the Chin. Global human-rights organizations, along with courageous grassroots organizations in Burma, have documented how the Burmese military and state have suppressed these minorities through religious persecution, killings, rape, disappearances, torture and other crimes against humanity.

After at least 100 Rohingya were killed during the 2012 riots and clashes with Buddhists in Rakhine state, we spoke out publicly to help Burma's Muslim minority.

As a Muslim woman, I feel it is my particular responsibility to ring the alarm bells about the Burmese government's campaign against the Rohingya. Burma has long denied the Rohingya the recognition and basic rights, like access to education and freedom of movement, that citizenship would afford. Since the riots, more than 140,000 Rohingya have been forced into refugee camps, and many of them now live in conditions much resembling concentration

Why won't my fellow Nobelist Aung San Suu Kyi help a Muslim minority?

camps. Tens of thousands have risked losing their lives to make the dangerous journey by sea in overcrowded boats to leave Rakhine state.

The Buddhist majority in Burma even many seasoned democracy activists—seem to see no contradiction in their call for democracy and the cruel and inhumane treatment of the Rohingya. This includes Aung San Suu Kyi.

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From a letter to the Greenpeace environmental group signed by more than 100 Nobel laureates, announced Thursday at a Washington news conference:

We urge Greenpeace and its supporters to re-examine the experience of farmers and consumers worldwide with crops and foods improved through biotechnology, recognize the findings of authoritative scientific bodies and regulatory agencies, and abandon their campaign against "GMOs" in general and Golden Rice in particular.

Scientific and regulatory agencies around the world have repeatedly and consistently found crops and foods improved through biotechnology to be as safe as, if not safer than those derived from any other method of production. There has never been a single confirmed case of a negative health outcome for humans or animals from their consumption. Their environmental impacts have been shown repeatedly to be less damaging to the environment, and a boon to global biodiversity.

Greenpeace has spearheaded opposition to Golden Rice, which has the potential to reduce or eliminate much of the death and disease caused by a vitamin A deficiency (VAD), which has the greatest impact on the poorest people in Africa and Southeast Asia...

Based on UNICEF statistics, a total of one to two million preventable deaths occur annually as a result of VAD, because it compromises the immune system, putting babies and children at great risk. This is grimly ironic, given that her supporters—including me—have for many years defiantly rejected the word Myanmar, the name assigned to the country by the autocratic military that ran the country since 1962. We respected the fact that Ms. Suu Kyi and her followers called themselves Burmese, and the country Burma.

So how can Ms. Suu Kyi now turn her back on the Rohingya?

I have paid a high price in my life advocating for freedom, including defending the rights of the Bah'ai, a religious minority, in Iran. Since 2009, I have been forced to live outside of Iran—and have lost not only my home but also my marriage and many friends. But I strongly believe there is no other way to live. Up until recently, I thought that Ms. Suu Kyi and I shared this conviction.

In May, Ms. Suu Kyi's party announced that she will head up a committee dedicated to promoting peace and development in Rakhine state. The announcement said the committee—which reportedly will include 27 members of the new cabinet—will "coordinate" the activities of U.N. agencies and international nongovernmental organizations in that state.

This looks suspiciously more like an effort to further tighten her government's authoritarian control over the region than a response to a human-rights crisis. Let's hope not. I'll be the first to applaud if my sister Nobel peace laureate bravely ignores the internal pressure to dehumanize the Rohingya and instead stands up for their rights.

Ms. Ebadi, the author of "Until We Are Free: My Fight for Human Rights in Iran" (Random House, 2016) and a co-founder of the Nobel Women's Initiative, was awarded the Nobel Peace Prize in 2003.

Usain Bolt Pulls Out Why GDP Goes Cold in Winter Of Olympic Trials

By SARA GERMANO

Usain Bolt said he has withdrawn from the Jamaican Olympic track-and-field trials with a hamstring injury, but the world's fastest man hopes to be given an exemption to make the national team for the Olympic Games in Rio de Janeiro.

Bolt said Friday on verified social media that he had been diagnosed with a grade-one hamstring tear by a team doctor, and that he had pulled out of the remainder of the Jamaican national championships. "I will seek treatment immediately and hope to show fitness at the London Anniversary Games on July 22 to earn selection for the Olympic Games in Rio," he said.

Jamaica, like the U.S. and other nations with deep pools of talented athletes, stages national championships as a trial to determine its trackand-field delegation to the Olympics. Asked for clarification on how Bolt might seek a berth to Rio, his agent, Ricky Simms, wrote in an email: "The Jamaican selectors have the flexibility to select any athlete who misses the Trials due to medical reasons."

Bolt, 29, is a six-time Olympic gold medalist, across the 100 meters, 200 meters, and 4 x 100 meter relay. He has been ex-

Usain Bolt at the Jamaica National Trials last week.

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pected to defend those titles in Brazil this summer for an unprecedented third straight Olympics, which he has said would be his last. Bolt's injury raises the possibility he could miss the Rio Games, which would leave the event without one of its brightest stars.

The International Olympic Committee oversees the administration of each Olympic Games, but responsibility for completing Olympic delega tions lies with each sport's international governing body and each nation's national Olympic committee.

A spokesman for the Jamaican Olympic Association deferred to the nation's trackand-field federation, the Jamaican Athletics Administrative Association.

A representative for the JAAA couldn't immediately be reached. The national-team selection criteria detailed on its website say "athletes who are ranked/listed in the top three in the world for their event who are ill or injured at the time of the National Championships and are granted an exemption from competing at the Championships may still be considered for selection provided that they are able to prove their world ranking form prior to the final submission of the entries for the competition."

or several years now, economists have bitten their nails as the U.S. government published disappointing first-quarter estimates of the nation's gross domestic product. But observers have



the boy who cried wolf, are sounding a false alarm.

At issue: the obscure and difficult process of adjusting num-

bers to remove the effects of normal seasonal variation.

This year, the first estimate of U.S. GDP growth in the first quarter was 0.5%. mate was published Tuesday, the figure had more than doubled, to 1.1%.

of how the economy is growing, GDP influences government and business decisions. Congress and the White House consider it as they write the budget; the Federal Reserve looks to it as it weighs monetary policy; and firms take it into account as they decide whether to ramp up production, hiring and investment.

mates of the total value of finished goods and services produced in the U.S.-are weak, it signals a slowing economy and encourages observers like these to move cautiously. "People take the first-quarter GDP growth as a warning sign," said Glenn Rudebusch, director of economic research at the San Francisco Fed.

But identifying meaningful change amid normal shifts caused by school schedules, holiday shopping, seasonal weather and the like is tricky because those predictable fluctuations obscure genuine market change.

Seasonal Effects Disorder

Analysts suspect the rate of growth in gross domestic product has appeared to stall in the first quarter in recent years because seasonal adjustments have not fully accounted for normal fluctuations in the economy.



Sources: Bureau of Economic Analysis; Federal Reserve Bank of San Francisco THE WALL STREET JOURNAL.

numbers, GDP is seasonally adjusted to account for the economy's regular ups and downs, so analysts can discern whether the underlying numbers are unusually high or low—signs of real strength or weakness in the economy.

In the first quarter of the calendar year, GDP growth typically slows down. That's expected on the heels of the holidays, and seasonal adjustments should account for the predictable slump. But within the past decade, the apparent slump in the adjusted GDP in the first quarter has been unrealistically uniform, a sign the adjust-

counted for seasonality. "We expect a certain amount of randomness in any economic data," said Brent Moulton, who oversees Analysis. Given that expectation, he said, first-quarter

growth has been more consistent than he would have anticipated.

hen adjusted numbers continue to exhibit the influences of seasonal effects, statisticians refer to it as residual seasonality.

Although the GDP pattern has been noticed only recently, a study by Mr. Rudebusch and his colleagues found the trend goes back for 25 years

The BEA, which calculates GDP, has also dug into residual seasonality, and in June released a component-by-component analysis of 2,000 nominal data series included in GDP in an effort to figure out what's going on.

The most pervasive problem, the agency found, occurs when seasonally adjusted monthly data are rolled up to quarterly values.

To calculate GDP. the BEA assembles data sets from

government agencies such as the Department of Defense and the Census Bureau as well as entities like the National Association of Realtors and the American Petroleum Institute.

Typically, the data have already been seasonally adjusted by the source agencies, although in some cases the BEA makes the adjustments, and in special cases the data are left unadjusted. If the source figures are provided in monthly increments. or some other division of time, the BEA converts them to quarterly data and then aggregates all the components to produce the top-line GDP figure.

The problem is that the adjusted monthly components may retain a hair of insignificant seasonality. But once the numbers are aggregated to create quarterly figures and then combined with hundreds of other components, the GDP disgorges a noticeable hairball of residual seasonality.

"Small patterns of seasonality at the individual granular level, which don't appear to be that significant, can add up over time, over quarter and over various components to substantial residual seasonality." said Mr. Rudebusch, who found adjusting GDP a second time seems to erase the effect.

The BEA plans to stick to its basic approach, but, among other remedies, it

plans to test the GDP's monthly components for residual seasonality after they have been aggregated into quarterly data.

"We're pretty confident that by doing this additional work we can correct individual components where there is a problem," Mr. Moulton said

By July 2018, the BEA hopes, the residual seasonality, along with any lingering doubt about the numbers, will have been eliminated.

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The WSJ Daily Crossword | Edited by Mike Shenk

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113	"Beyond the Horizon" playwright
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Previous Puzzle's Solution



The contest answer is ELVIS. In each of the theme answers, every letter appears exactly two times except for one letter; the "one-of-a-kind letters spell the contest answer



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THE WALL STREET JOURNAL.

PepsiCo Set To Give Hint Abu Dhabi Banks Agree to Merge

BY NICOLAS PARASIE

DUBAI—Two of Abu Dhabi's top lenders said on Sunday that their boards agreed to a merger that will create a Middle East banking giant with \$175 billion in assets and emerging-market ambitions.

The board of directors at National Bank of Abu Dhabi and First Gulf Bank recommended combining the two lenders through a share-swap transaction, which is expected to close in the first quarter of 2017, the banks said. The merger proposal was first disclosed last month.

The combined entity would have a market value of about \$29 billion, larger than those of Standard Chartered PLC and Deutsche Bank AG.

Abu Dhabi is the capital of the seven-member United Arab Emirates. Its economy largely depends on oil exports, unlike neighboring Dubai, which doesn't possess the same energy resources and which started diversifying years earlier. With its finances hit by the two-year oil price slump, the emirate is consolidating its assets to cut costs and create stronger entities to face economic challenges. Last week, Abu Dhabi also engineered the home and overseas. proposed combination of two large state investment funds. With a bigger balance sheet

and a network that extends to The new entity would retain the name of National Bank of Abu Dhabi.

19 countries, the new entity could give Abu Dhabi more financial muscle and an international presence to support the emirate's growth plans at

National Bank of Abu Dhabi and First Gulf Bank have been trying to expand their presence in emerging markets as domestic growth has run out of steam. First Gulf, for example, has a branch in Singapore and representative offices in Hong Kong and Seoul. National Bank of Abu Dhabi is active in the Far East as well, but also in São Paulo, Shanghai, Geneva and Washington.

"Expansion across fastgrowing emerging markets presents a vast business opportunity for our customers and for us, as a larger, stronger, combined bank," said Nasser Ahmed Alsowaidi, chairman of National Bank of Abu Dhabi. "We will have the capital, expertise and international networks to be the preferred financial partner for anyone doing business along the West-East corridor."

Monday, July 4, 2016 | **B1**

Several regional banks have been reeling as a consequence of the drop in energy prices. Governments from Abu Dhabi to Riyadh have had to rein in spending as oil revenues dropped, crimping growth in an already fragile economic environment. Government-Please see BANKS page B2

Rio Tinto Boss Decides to Dig Deeper

New CEO of mining company shuffles to improve profitability of existing assets and buy into growth markets



BY RHIANNON HOYLE

prized coal deposits, to focus on a handful of its highestmargin businesses.

its mines, including once-

the company may be preparing nal a move by the company to split it out similar to BHP's away from iron ore, which it South32 Ltd. metals and coal relies on for the bulk of its spinoff in 2015. earnings, toward copper, a "Are we going to create a market many competitors in-South32, or South33? The ancluding BHP are also increasswer is, in one word, no," said ingly working to tap. Mr. Jacques previously ran the Mr. Jacques. Rather, he said Mr. Davies miner's copper and coal unit. has been given an objective to He has previously forecast get struggling assets to genercopper to be one of the first ate cash and to nurture new commodities to recover, probusinesses. jecting a shortfall of the indus-"He has a role to play in betrial metal used widely in ing a business incubator," said manufacturing and construc-Mr. Jacques. "If we were to detion to emerge within two or velop a position in new comthree years. modities like lithium, that is In May, Rio Tinto signed off where we would develop it." on a delayed, US\$5.3 billion The company is spending expansion of its Oyu Tolgoi millions of dollars studying copper mine in Mongolia's rethe possibilities for a lithium mote southern Gobi desert. close to the country's border deposit in Serbia at a time when prices for that commodwith China. ity have surged on expectainterview, Mr. In the tions of rising demand from Jacques insisted Rio doesn't companies such as electric-car want to narrow its focus onto particular markets. maker Tesla Motors Inc.

THE WEEK abroad, with a AHEAD big presence from the U.K. to Russia to Brazil. Its potato chips, sodas and juices are everyday staples, making it an easy barometer for consumer sentiment. It is also reporting

On Global

Economy

nvestors should get fresh

clues to how economic

volatility is affecting

when **PepsiCo** Inc. reports its

The U.S. snack-and-bever-

its sales from

age giant derives nearly half

globe-trotting companies

second-quarter results on

BY MIKE ESTERL

Thursday.

ahead of many other big companies.

PepsiCo has been able to navigate overseas turmoil until now by cutting costs, raising prices and leaning more heavily on its U.S. business. In 2014 and again in 2015, it increased its full-year earnings forecast when reporting second-quarter results.

But it is unclear if the company will revise its earnings guidance upward again after the U.K. voted to leave the European Union, which has heightened fears of a world-wide recession.

"My guess is they probably won't this time around, because there's so much uncertainty globally," said Jack Russo, a consumer goods analyst with Edward Jones.

Morgan Stanley this past week estimated a 40% probability of a global recession in the next year, up from an earlier 30% forecast. S&P 500 companies are expected to report a 5.2% decline in secondquarter earnings from a year earlier, the fifth straight quarter of profit contraction, Fact-

Set estimated. PepsiCo is expected to report quarterly per-share earnings of \$1.29, down from \$1.32 in the year-earlier quarter, according to a Thomson Reuters survey of analysts who follow the company. Revenue is expected to drop 3.4% to \$15.37 billion, hurt by weakening foreign currencies. The maker of Lay's potato chips and Pepsi-Cola declined to comment ahead of releasing its earnings. Chief Executive Indra Nooyi warned of a "difficult environment" globally and "sustained volatility and uncertainty" in April's earnings call. PepsiCo booked a \$373 million impairment charge at its Chinese beverage joint venture in the first quarter. Many economists expect China's second-quarter growth to fall short of the 6.7% year-to-year figure for the first quarter, its slowest

Please see PEPSI page B2

The new chief executive of **Rio Tinto** PLC said he wants to develop the metals and mining company by building and buying assets and will cast a wide net for commodities that could help to power its next phase of expansion.

Jean-Sébastien CEO Jacques's approach is very different from major rivals.

As a downturn in global metals markets extends into its fifth year, most of the world's top minerals exporters have been refocusing on fewer assets and commodities, a move they predict will make them stronger.

Anglo-Australian rival BHP Billiton Ltd. last year carved off a large chunk of mine pits and smelters from Australia to Africa, shifting its focus to just commodities. Anglo four **American PLC** is in the midst of a radical restructuring that involves selling more than half

"We know that we need to grow," Mr. Jacques, who became CEO of Rio Tinto on Saturday, said in an interview. "The growth strategy of Rio going forward will be: Build and buy smart."

London-based Rio Tinto recently approved a major investment to expand a Mongolian copper mine, and is considering bold bets on new markets such as lithium. used in rechargeable batteries for electric-cars and homes.

Two weeks ago, Mr. Jacques shook up the company structure, bidding adieu to iron-ore chief Andrew Harding, who had also been viewed as a CEO candidate, and reshuffling operational divisions. He succeeded Sam Walsh, who had been widely credited with turning around Rio's fortunes in his three years on the job,



CEO Jean-Sèbastien Jacques

mainly by cutting costs and investment.

Mr. Jacques' decision to group a range of commodities including coal, titanium-dioxide and Rio's Canadian ironore operation into one division, called energy and minerals, and to be run by Alan Davies, sparked speculation among some analysts that

Brokers said Mr. Jacques' appointment appeared to sig-

"It is not about commodi-Please see MINES page B2

Tesla's 'Autopilot' Got Little Oversight

BY MIKE SPECTOR AND JACK NICAS

Last October, Tesla Motors Inc. Chief Executive Elon Musk heralded the arrival of the company's autonomous-driving technology, inviting owners of its electric cars to download software that let the autos operate themselves under certain conditions. His message to owners on its website: "Your Autopilot has arrived."

regulators. Auto-safety meanwhile, were relatively silent on the technology even though many experts viewed Tesla's program as the most aggressive self-driving system on U.S. roads. The National Highway Traffic Safety Administration, embroiled in managing a sharp increase in



Tesla Model S with hands-free Autopilot on an Amsterdam road.

safety recalls, including tens of millions of rupture-prone air bags, lacks authority to approve or disapprove of the advanced technology or meaningfully slow its deployment. Instead, car-safety regula-

tors were forced to wait until a major mishap before significantly addressing Tesla's Autopilot system. The May 7 fatal crash in Florida that killed 40-year-old Joshua Brown when his Tesla Model S drove under the trailer of an 18wheel semi truck offers NHTSA officials their first significant chance to flex regulatory muscle.

Seven weeks later, NHTSA opened an initial investigation that, depending on the findings, could result in a recall of 25,000 Tesla vehicles and pressure to change the software. The probe will rely on a Florida Highway Patrol investigation and other analysis, and could take several more months to complete. Until then, regulators will continue to leave it up to Tesla and the owners of thousands of its sedans and sport-utility vehicles to use Autopilot responsibly.

NHTSA on Friday declined to comment on the probe.

The gap between Tesla's de-

Secretive Trust Steers A Hershey Deal's Fate

BY ANNIE GASPARRO AND JULIE JARGON

Snack maker Mondelez International Inc. or any other potential bidder for Hershey Co. is up against not only a board that indicated it doesn't want to sell, but a secretive. controlling shareholder-and the state's top law officer.

Mondelez, whose roughly \$23 billion bid was quickly rebuffed this week, is expected to continue fighting for a union. The company said on Friday it handles situations such as this "through private communications between companies.'

But, if the company continues its pursuit, it will have to contend with an unusual num-*Please see TESLA page B3* | ber of additional legal and political hurdles unique to deal making with the famous chocolate maker.

No deal would happen without the blessing of Hershey Trust Co., which controls 81% of the company's voting power and 8.4% of its common stock.

Set up in 1905 by chocolate icon Milton Hershey, the trust's mission is to make decisions based on the potential impact to the Milton Hershey School for underprivileged children, and the community of Hershev Pa.-which had protested selling the company in the past.

Any sale would also need final approval of Pennsylvania's attorney general, who—under an unusual 2002 state lawhas the power to countermand Please see HERSHEY page B2

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The community of Hershey, Pa., has opposed past efforts to sell.

HERSHEY

Continued from the prior page the trust, and has done so in the past.

Yet another challenge is the

Pennsylvania attorney general, said a sale would hurt the community by resulting in job losses and other adverse economic and social impacts.

"Predicting and trying to rationalize the Trust's behavcurrent political turmoil in the ior has always been a tricky exercise. said Susquehanna analyst Pablo Zuanic. A spokesman for the Her-Trust board said it shey wouldn't comment on whether it supports selling the company, but three trust board members have seats on Hershey's board, which unanimously voted against the Mondelez offer on Thursday. The trust itself is juggling other problems. A continuing investigation by the attorney general's office into alleged overpayment of directors and conflicts of interest has led to several directors resigning. The trust has said it is cooperating with the probe. The fate of the 2002 deal talks is instructive. Hershey called off a sale to Wm. Wrigley Jr. Co., now a unit of the privately held Mars Inc., at the final hour, after facing resistance from the attorney general's office, which obtained an injunction granted by Pennsylvania Orphans' Court, saying a sale would hurt the communitv.

BUSINESS NEWS

June U.S. New-Car Sales Edge Up

BY ANNE STEELE AND JONATHAN BACH

U.S. auto sales last month rose at a pace that was the lowest in at least 13 months as two of the biggest players reported declines, adding to doubts about the industry's ability to maintain its record clip this year.

General Motors Co., the nation's largest auto maker, reported its sales slipped 1.6% amid a planned reduction in sales to fleet buyers such as car rental agencies. GM's retail sales to individual buyers edged up 1%, on strength in the Chevrolet, Buick and Cadillac brands, it said.

Tovota Motor Corp., meanwhile, posted a 5.6% drop as car sales fell 10% and truck sales edged less than 1% lower.

Overall, the annualized sales pace dipped to 16.67 million vehicles last month, the lowest in at least 13 months on weaker demand for passenger cars. Market researcher Autodata Corp. reported total sales for the month of 1.5 million, up 2.5% from the same month a year earlier.

Analysts had been looking for the sales rate to remain at 17 million vehicles or more. The weakness was largely confined to passenger cars, which fell 8% from a year earlier: demand for light trucks and sport-utility vehicles continued to gain. Light trucks accounted for 58.9% of June sales, up from 54.2% a year ago. Autodata said.

Heating Up

Summer sales have boosted U.S. auto sales to reach their best June in more than 10 years.

Vehicle sales by company in June 2016



Sources: the companies

Other car makers held up better than GM and Toyota, helped by sales of bigger vehicles. Ford Motor Co. posted a 6.4% gain to 239,096 light vehicles on sharply higher truck sales, which bounded up 24%, and SUV sales, up 7.3%. Ford said its car sales skidded 12%.

"We cannot get enough Escape [SUVs]," said Jeff Brown, who co-owns Brown's Ford dealerships in Johnstown and Amsterdam, N.Y. Mr. Brown, 57 years old, said Escapes and F-150 pickups contributed the most to his sales.

He forecasts an uptick in sales as the summer months progress. Low loan interest rates and fuel prices are a green light for pickup sales, he said.

Last year "might have been one of the best summers we had in 50 years," said Mr. Brown, adding if this summer's sales get near to a year

earlier "we'd be happy."

Fiat Chrysler Automobiles NV posted a 6.5% rise in U.S. auto sales, fueled by robust demand for its Jeep brand. The Italian-U.S. auto maker's sales fell just below Toyota and were its best June sales in 11 years. Jeep brand sales jumped 17%.

GM and **Toyota's** sales suffered amid weaker demand for passenger cars.

Still, the growth didn't match past months.

"What we're seeing in June car sales is what we've predicted for some time," said AutoTrader analyst Michelle Krebs. "The hefty year-overyear increases are narrowing, which is expected after this unprecedented long stretch of

THE WALL STREET JOURNAL.

gains."

Sales got a boost from an extra selling day in the month compared with the same period a year ago.

J.D. Power and LMC Automotive projected record incentives of \$3,278 a vehicle for the month. Industry analysts estimated more than 20% of sales came from fleet buyers in June.

Nissan Motor Co. logged a 13% overall increase, propelled by a 14% jump in sales of its crossovers, trucks and SUVs.

Honda Motor Co.'s sales rose 3.2% as light trucks climbed to a June high and as demand for its Civic and Accord cars helped drive its growth.

The average transaction price for a light vehicle sold in the U.S. rose 2% to \$33,652, according to researcher Kelley Blue Book, driven by strength in trucks and SUVs.

PEPSI

Continued from the prior page quarterly pace since the 2008 global financial crisis.

PepsiCo also has estimated that Venezuela will have a negative impact of 2% on earnings this year after it booked a \$1.36 billion impairment charge and deconsolidated operations in the recession-torn country last fall.

All of that was before the June 23 Brexit vote. The U.K. is PepsiCo's fifth-largest market, generating 3% of company sales and low-single-digit volume growth last year. But economists warn the world's fifthlargest economy faces twin risks of recession and inflation. That could cause ripple effects, with the International Monetary Fund cautioning this past week it might lower Germany's growth forecast.

It isn't just Europe that is nervous. Brazilian Central Bank President Ilan Goldfajn said this past week Brexit could hurt his country's economy, which is already expected to shrink 3.3% this year. Brazil is PepsiCo's sixth-largest market, generating 2% of revenue, and companies have been hoping for a sales lift from the country hosting the Olympic Games this August. PepsiCo also is exposed to Russia's struggling economy, its biggest market after the U.S. and Mexico. Russia's central bank cut interest rates last month for the first time in nearly a year, fueling hopes the country's economy will return to growth next year.

All of that overseas volatility is heightening pressure on PepsiCo to deliver growth in the U.S., which generated 56% of revenue in 2015. Personal spending in the U.S. rose 0.4% in May from a month earlier after a 1.1% jump in April, the sharpest rise in nearly seven years.

PepsiCo's U.S. snacks unit had its strongest performance in more than a year in the four weeks ended June 18, with sales rising 5.9% over a year earlier, according to Wells Fargo, citing Nielsen store-scanner data. Some of that was fueled by the Memorial Day holiday, which wasn't fully included in the year-earlier data.

The company has posted healthy sales growth in bottled water, sports drinks and teas but its soda business has been losing ground in its biggest market. PepsiCo's U.S. carbonated soft drink sales contracted 3.4% in the 12 weeks ended June 18, worse than the 2.2% industrywide decline.

Much of the downturn has been tied to Diet Pepsi, whose sales slide accelerated after the company changed artificial

sweeteners last August. It said this past week it will bring back the old recipe, but not before September.

PepsiCo estimated earlier this year that weaker foreign currencies would have a negative impact of 4 percentage points on 2016 results, less than last year's 11% negative impact. Until recently, Joseph Agnese, an equities analyst at S&P Global Market Intelligence, figured foreign exchange could provide a lift by the end of the year. "Now it doesn't look like it'll be happening," said Mr. Agnese, citing overseas uncertainty



state, where Attorney General Kathleen Kane is riding out the last few months of her having been first term, stripped of her law license after being accused of leaking confidential information and lying about it. Ms. Kane has said the charges against her are part of a conspiracy involving former state prosecutors she was investigating.

Other food makers, including Kellogg Co. and Campbell Soup Co., have significant ownership by family and trusts. but Hershev is further subject to a state law that requires the top law-enforcement official to green light the sale of any company controlled by a charitable trust.

The law is a "public policy tragedy," according to Robert Sitkoff, a Harvard Law School professor who has studied the trust. He said that diversifying the trust's portfolio would benefit the school and community but said he thinks any deal would face difficulties.

Others, including a former

BANKS

Continued from the prior page owned banks haven't only financed large infrastructure investments, they also have been the prime recipients of government deposits when the region was still awash with oildollars.

The merger could spark more consolidation in the United Arab Emirates banking industry, where almost 50 lo-

cal and international banks compete. Merger activity of its scale is rare in the Persian Gulf, where the vast majority of banks are owned by local governments or members of the ruling families, who are usually reluctant sellers.

Under the terms of the deal, billed as a merger of equals, First Gulf shareholders would receive 1.254 shares if National Bank of Abu Dhabi for each First Gulf share they hold, implying a discount for First Gulf

...amid a prolonged downturn in

commodity prices.

Price of iron ore

\$150 a metric ton

100

50

shareholders of 3.9% based on the June 30 closing price. First Gulf's shares would be delisted after the transaction is completed.

Once shareholders and regulators approve the merger, the Abu Dhabi government and related entities would hold a 37% stake in the new entity, which would retain the name of National Bank of Abu Dhabi.

Abdulhamid Saeed, FGB's current managing director, has been named to become the

new bank's chief executive officer. He already serves on several boards of regional investment entities. including sovereign-wealth fund Mubadala. NBAD's current chief, former Standard Chartered executive Alex Thursby, will continue to be at the bank's helm until the merger is completed.

Credit Suisse advised NBAD's board and UBS was the financial adviser to FGB on the proposed merger.

INES

Continued from the prior page ties, it is about the quality of the assets," he said. "We will grow our position in worldclass assets no matter which commodities they are in."

Rio Tinto has cut some unwanted assets in recent years to strengthen its balance sheet and secure its single-A credit rating. It has sold coal and copper mines, and run unsuccessful campaigns to unload some businesses including diamond deposits and an iron-ore pit in Canada.

Although Mr. Jacques declined to say Rio was putting the brakes on iron-ore expansion—the focus of much of its investment in recent timeshe said the focus of new ironore chief Chris Salisbury will

Commodities Challenge

Rio Tinto's new management needs to find ways to boost returns... Underlying commodities earnings, in billions





Sources: the company (earnings); The Steel Index (prices)

be to boost profits from its existing mines.

"The remit of Chris and his team in Perth is very clear: It is about creating value, as much value as you can, by 2014

driving productivity to the next level," he said.

A proposal to develop a new iron-ore mine in Western Australia, called Silvergrass, will be assessed in the coming months, he said. That project is aimed at improving the grade of the iron ore it blends and markets to Asia, rather than increasing overall output, though, said Mr. Jacques.

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THE WALL STREET JOURNAL.

How mining firms protect themselves and boost returns amid a prolonged downturn has become a matter of much debate among brokers, some of whom are skeptical that the time is right for expansion.

"It appears to us that it is still very difficult for the mining companies to grow their way out of the current situation and, without hoping that commodity prices increase, it appears the best way out is still to shrink the business and focus on higher returning and better quality assets," analysts at Citigroup wrote in research note last month.

Mining executives now tend

to agree the downturn in world commodity prices is deeper than even their worstcase forecasts.

China's overproduction of commodities including steel

and aluminum has added to a global glut.

"Most of the commodities in which we operate today are suffering from overcapacity and the pace of the restructuring in China will have a critical impact on the pace of the price recovery," Mr. Jacques said.

For now, he expects at least another few years of "subdued" prices and high volatility, and added uncertainty from the U.K. decision in June to leave the European Union.

However, Mr. Jacques said the vote hasn't spurred review of the mining company's London market listing or headquarters.

"However, we will continue to monitor the situation very carefully in the weeks, months and years, because this story could pan out over multiple years," he said.

diet

Pepsi's soda business has been losing ground in the U.S. after it changed artificial sweeteners.

WSJ.D

TECHNOLOGY

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TESLA

Continued from page B1

ployment of Autopilot and meaningful federal oversight lays bare NHTSA's limitations in policing emerging safety technology. U.S. officials are virtually powerless to stop auto makers from adopting such technologies unless they clearly run afoul of existing regulations that address car steering wheels, brakes and seat belts designed for human operators.

"NHTSA has no premarket regulatory authority," David Strickland, a former agency head who now represents auto makers pursuing driverless technologies at law firm Venable LLP. "The only thing the agency can do is make a decision whether the vehicle is noncompliant with the existing federal motor vehicle safety standards."

NHTSA is readying new guidelines for autonomous-vehicle developers, but they're expected to be suggestions rather than rigid rules. The regulator aims to make recommendations for states and other local governments to

conflicting avoid patchworks of rules in the U.S.

Autonomous vehicles have been under development for decades, but the high cost of deployment and the lack of rules and infrastructure to support them have slowed their introduction.

To protect drivers, Tesla offered disclosures and a three-step warning system to

keep occupants attentive even as the car drove itself. The system has a downside. By installing check-in features, such as forcing drivers to

touch the steering wheel periodically, Tesla acknowledged motorists could be prone to a false sense of security. Tesla acknowledges the

Model S Mr. Brown was in failed to recognize the truck in front of him. The Autopilotwhich employs cameras and other sensors-treated the trailer much like a sign suspended high above a highway, enabling the car to run directly under an obstruction that sheared off the car's roof.

While many driverless-car advocates have been critical of Mr. Musk's aggressive timetable for introducing Tesla's self-driving technology, they now worry the fatal crash will provoke additional regulatory oversight and slow deployment on U.S. roads of the rapidly advancing technology.

There will be repercussions" in regulations, said Dean Pomerleau, a Carnegie Mellon University professor who has worked on driverless cars for 25 years and led several NHTSA research programs. "I think NHTSA is going to want Tesla to turn off Autopilot at least until they learn more."

Regulators are preparing to release the guidelines for automated vehicles in July, attempting to balance adoption promising technologies of while ensuring they're safe. Companies developing driverless cars—including Alphabet Inc.'s Google and Tesla—have expressed reservations about the regulatory oversight, contending it could delay widespread deployment. But they support general guidelines that aim to avoid conflicting rules when cars drive themselves across state lines.

before Even Thursday's disclosure, people working on driverless cars

worried that Tesla's Autopilot was an accident waiting to happen.

Tesla contends its system is safer than conventional automobiles, noting the crash was the first

fatality in over 130 million miles driven with Autopilot and that the feature "results in a statistically significant improvement in safety when compared to purely manual driving.'

Tesla tweaked the system earlier this year after drivers posted YouTube videos of themselves engaging in dangerous behaviors such as a reading a newspaper while the Autopilot was engaged. It stepped up its communication to drivers as well, underscoring the dangers of zoning out while at the wheel.

"You can tell drivers to be alert at all times, but can you presume that everyone who read the disclosure will do just that?" Mr. Strickland said.



Baidu CEO Robin Li, at right, talks as Publicis Group CEO Maurice Levy listens during a Viva technology event in Paris on July 1.

Baidu Strategist Shifts Role

Helen He, top adviser to CEO Robin Li, takes lesser duties amid challenges to revenue

By LI YUAN

AND ALYSSA ABKOWITZ

A top aide to Robin Li, chief executive of China's dominant search engine Baidu Inc., is stepping aside, according to people familiar with the situation, as the company searches for ways to reduce its dependence on search-related revenue.

Helen He, a top adviser and strategist for Baidu, is taking a reduced role, these people said. Ms. He has been among Mr. Li's closest confidants in the past few years and the driving force behind Baidu's foray into products and services ranging from e-commerce, fintech and food deliverv. Ms. He's official title is senior consultant, but she is among a handful of executives whom Mr. Li works closely with, say people with knowledge of the matter.

The move could signal that Mr. Li is changing his strategy on how the company will diversifv its revenue sources—at a time when Baidu's search practices have come under scrutiny by the Chinese government and internet users. Currently, more than 90% of Baidu revenue come from search. The company has gone through a few reorganizations in the past few months, and Mr. Li is expected to focus more on fintech and artificial intelligence-related projects, according to a person familiar with the matter.

A government investigation this spring found that Baidu needed to revise its ad and search practices to clearly identify promotions and limit advertising results on each page. The investigation was prompted by the death of a college student with cancer who had used a therapy found through an online ad on Baidu.

In June—in light of the regulatory inquiry—Baidu cut its second-quarter revenue expectation to \$2.8 billion from \$3.1 billion. Analysts have estimated that nearly 30% of

Baidu's ad revenue comes from the medical and healthcare sector and have said the changes to Baidu's algorithms are cause for revenue concern.

At the World Economic Forum in Tianjin in late June, Baidu President Zhang Yaqin acknowledged the company's recent struggles: "In the last six months or so we have [had] a couple of crises that have to do with the credibility of information that we vet. Obviously we will continue to make our information, to make our search results more reliable and accurate."

In an effort to diversify its business, Baidu announced last year it would spend \$3.2 billion on on-demand services and e-commerce. At the time, Mr. Li said, "Traditionally, search is considered as a tool to connect people with information, but we think in the age of mobile, search can function as a tool for connecting people with services.'

But on-demand services such as meal delivery proved to be much more competitive and expensive than the company had

initially expected, people close to it say. The company has had to compete head-to-head with startups backed by Alibaba Group Holding Ltd. and Tencent Holdings Ltd. in a costly discounting war that has yet to establish one company in a dominant market position.

Baidu lags far behind Alibaba and Tencent in investing in outside firms to build reach. As of this spring, Baidu had completed 12 deals valued at \$100 million or more in the last five years, compared with 44 by Alibaba and 41 by Tencent, according to data compiled by research firm Dealogic.

Insiders say Ms. He has been the force driving the catch-up game. She was also behind Baidu's strategic partnership and investment in UberChina.

But Baidu is considered to be too late to the game on some services, such as its mobile-payment system Baidu Wallet, which has 45 million users compared with Alibaba's financial affiliate Ant Financial's more than 450 million users of Alipay.

Honeywell Makes a \$1.5 Billion E-Commerce Bet

By JOSHUA JAMERSON AND ROBBIE WHELAN



trol Solutions.

million for **Kiva Systems** Inc..

lift manufacturer Kion Goup In 2012, Amazon paid \$775 AG announced it had struck a \$2.1 billion deal for **Dematic** Corp., an American company that designs supply-chain software and equipment to make warehouses more efficient. Intelligrated, based in Mason, Ohio, was founded in 2001 and currently employs more than 3,100 people in the U.S., Canada, Mexico, Brazil and China. Permira paid about \$500 million to acquire the company in 2012. Honeywell, which put Intelligrated's annual sales at about \$900 million, said the transaction is expected to close by the end of the third quarter. The industrial conglomerate said earlier this week that Chief Executive Dave Cote would step down at the end of March, capping a 14-year tenure.

June, thanks to the Creta sport-

The auto maker posted a

9.7% increase in its sales in the

Indian market last month to

utility vehicle and the i20 and

Grand i20 hatchbacks.

39,806 vehicles

Nintendo Cautious on

Elon Musk

Industrial conglomerate Honeywell International Inc. said on Friday it has agreed to acquire Intelligrated, a privately held supplier of warehouse automation systems, for \$1.5 billion in cash.

Intelligrated, which Honeywell is buying from global investment firm Permira, includes as its customers **United** Parcel Service Inc., Amazon.com Inc. and Nordstrom Inc.

Manufacturers of warehouse automation have emerged as hot takeover targets in recent years, as the growth of online shopping has sparked an arms race among retailers to cut costs and modernize their distribution centers.

"E-commerce continues to

Honeywell's \$1.5 billion purchase of Intelligrated is the latest in a string of recent deals for warehouse-automation companies.

grow at an unprecedented rate tions and customer demands for faster delivery times have created a need for warehouse. logistics and fulfillment solu-

that can increase productivity and lower costs for our customers," said Alex Ismail, chief executive of Honeywell Automation and Con-

which designs and builds robots that transport entire shelves of products from one part of a warehouse to another. The deal was one of the online retailer's largest individual acquisitions to date, and Kiva's robots have since been integrated exclusively into Amazon's warehouses.

Two other recent deals have brought logistics-technology firms wider attention. In May, Chinese appliance

maker Midea Group Co. offered more than \$5 billion for Germany's Kuka AG, which specializes in building lightweight robots that can be used in factories and warehouses. The deal has yet to be completed.

And in June, German fork-

green cars, establish 3,000 electric-vehicle charging stations and roll out 100 refueling stations for hydrogen-powered vehicles by 2020.

Immersives

By TAKASHI MOCHIZUKI

TOKYO—A top executive at Japanese videogame maker Nintendo Co. has expressed concerns about introducing virtual-reality products, a likely sign that it won't include the technology in its next-generation console, code-named 'NX," when it is released in March.

Virtual reality, which offers users an immersive visual experience through headmounted displays, is made to be used for short periods because of health concerns, including possible headaches and nausea. It isn't recommended for small children, one of Nintendo's main customers.

"We've been looking at the technology, but we should also see how it fits into our products that are designed to use for the long term and how parents would feel about their children mounting VR devices," the company cited Shigeru Miyamoto as saying at an annual shareholder meeting last week.

Mr. Miyamoto, a creator of the company's famous franchises including "Mario," "Legend of Zelda" and "Pikmin," also questioned whether virtual reality was well-suited for experience sharing, including multiplayer gaming or just watching other gamers, which is increasingly popular.

Nintendo has released few details about NX other than its release date, saying it would reveal more later this year.

Tokvo-based videogame consultant Serkan Toto said there was "no way" that NX would be a virtual-reality console, and that Nintendo was making the right call.

"Nintendo is always about the mass market, but right now VR is years away from becoming mainstream," he said.

Business Watch

CHEVRON

Gorgon Cargoes **Back on Track Soon**

Chevron Corp. says it remains close to shipping its second cargo of liquefied natural gas from its US\$54 billion Gorgon plant despite a gas leak Friday that forced the evacuation of some workers.

The plant shipped just one cargo in late March before a technical fault forced it to shut down.

A spokesman for the U.S. energy company said there had been a minor gas leak at the remote Barrow Island plant, off Australia's West Coast. Workers in the area were evacuated and there were no injuries, he said.

The spokesman added the relevant authorities had been notified.

Mick Buchan, state secretary for the Construction, Forestry, Mining and Energy Union in Australia, said the leak occurred in a pipe at the plant's acid-gas removal unit, and the situation had the potential to be dangerous until the unit had been decompressed.

Chevron said it remains on track to load the second cargo of liquefied gas in coming days. -Robb M. Stewart

SOUTH KOREA

Green-Car Budget Set at \$4.3 Billion

South Korea plans to spend 5 trillion won (\$4.3 billion) by 2020 to see more green cars on the road and improve air quality.

The government will spend 3 trillion won meeting its target of raising eco-friendly vehicles to 30% of new-car sales by 2020 from 2.6% now, the Ministry of Environment and other five government agencies said Friday in a joint statement.

It will also use 760 billion won rolling out more electric-vehicle charging stations and 180 billion won scrapping old diesel

cars. Much of the remaining budget will go to research & development projects, said an official at the Office for Government Policy Coordination.

The measures come after Korea in May found some diesel vehicles emitted as much as 21 times more nitrogen oxides on the roads than at laboratories in tests conducted in the wake of the global emissions tests scandal involving Volkswagen AG. Korea aims to have 1.5 million

HYUNDAI MOTOR Hyundai India's Rakesh Srivastava said the announce-June Auto Sales ment of salary increases for **Increased 9.7%** government employees has cre-Hyundai Motor Co., the secated a positive environment in ond-largest car maker in India, the country posted a strong sales boost in —Santanu Choudhury

–In-Soo Nam



An undated photo of Chevron's Gorgon plant in Western Australia. The U.S.-based company says it remains on track to load the second cargo of liquefied natural gas soon from the plant.



STORIES OF SUBSTANCE

The Wall Street Journal congratulates our winners of the 2016 Gerald Loeb Award for their ambitious reporting on business and financial news. The Journal led all publications, with five awards.

BEAT REPORTING WINNER

"Testing Theranos" by John Carreyrou, Michael Siconolfi and Christopher Weaver

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"Inside the Dow-DuPont Merger" by David Benoit, Jacob Bunge, Dana Cimilluca, Dana Mattioli and Dennis K. Berman

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"Malaysia's Missing Millions" by Tom Wright, Bradley Hope, Simon Clark, Mia Lamar, Justin Baer, Tom Di Fonzo and Paolo Bosonin

VIDEO WINNER

"Joanna Stern's Videos" by Joanna Stern and Drew Evans



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THE WALL STREET JOURNAL.

Monday, July 4, 2016 | **B5**

As of 4 p.m. ET Friday **EUR/GBP** 0.8401 ▲ 0.67% YEN/DLR ¥102.55 ▼ 0.63% GOLD 1336.70 ▲ 1.39% **OIL** 48.99 **▲** 1.37% 3-MONTH LIBOR 0.65335% **10-YR TREAS 1**4/32 yield 1.446%

A New Faith **In Central**

Bank Policy By JON SINDREU

In his first speech after the Brexit vote, Mark Carney, the governor of the Bank of England, lamented that markets had lost faith in monetary pol-

icy. "The charge that central banks are out of monetary ammunition is wrong," he said.

U.K. markets subsequently jumped as investors reacted to Mr. Carney's signals that the BOE was about to dip back into its arsenal.

A week after Britain's vote to leave the European Union, investors around the world appear to be rediscovering their faith in central banks as the salvation from a potential global recession, as central bankers signal they are willing to take action to spur confidence about the economy.

Investors' swift change of heart says a lot about the shock to markets from the June 23 referendum. Equity markets tumbled in the immediate aftermath, and investors jumped

into haven assets such as gold and government debt.

In recent trading sessions, shares have been rising again, with even U.K. and eurozone indexes clawing back most of their losses. That is because investors again are thinking that central banks will use ammunition that many had concluded was exhausted after years of interest-rate reductions and bond buying.

As Britain prepares to negotiate its future relationship with the European economic bloc, economists have warned that Brexit could harm the global economy.

"There's comfort that central banks will underwrite the negotiation period," said Robert Michele, chief investor and head of fixed income at J.P. Morgan Asset Management.

Since Mr. Carney's address on Thursday, the U.K.'s FTSE 100 has gained 2.4% and the midcap index, the FTSE 250, is up 1.9%. Wider European markets

Please see FAITH page B8



Brazil's stock market ended Friday up 6% from its low following the U.K.s' vote to exit the EU.

Emerging Opportunity?

A global selloff slammed all markets, but some investors think emerging markets can bounce back ...and boosting bonds. Money had been flowing back ...helping stocks to rally...



Emerging Markets Gain As World Assesses Brexit

By JULIE WERNAU AND IRA IOSEBASHVILI

A week after the U.K. vote to leave the European Union sparked a global market rout. some investors already are betting that emerging markets are on their way back.

kets were part of a broader a fast start in early 2016 alongprices and U.S. stocks. Even the British pound has steadied against the dollar, rising 0.4%

global rally that included oil side other riskier assets such as stocks, oil and other commodities.

Those gains reflected a

Malaysia, Abu Dhabi In Talks On 1MDB

BY BRADLEY HOPE

The two government investment funds at the heart of a Malaysian financial scandal are disappearing as the two sides try to put the situation behind them even as they battle over billions of dollars that have gone missing.

Abu Dhabi said last week that International Petroleum Investment Co. is being merged into another fund in the Emirate. Most of the assets of 1Malaysia Development Bhd. have been sold or transferred to the country's Ministry of Finance.

Meanwhile, a delegation from Malaysia visited Abu Dhabi for talks about how to resolve a simmering dispute between the two sides, according to a person familiar with the matter.

The saga involves offshore companies of dubious provenance and huge sums of cash transferred around the world. Investigators in seven countries are probing what some of them think is one of the biggest corruption scandals ever.

In a filing on Thursday, IPIC gave new details about its dispute with 1MDB. The fund announced a \$2.6 billion net loss, amid lower oil prices, and said it was taking a \$3.5 billion provision related to guarantees it gave for a pair of 1MDB bonds.

Total funds missing from 1MDB could top \$6 billion, including money diverted from three bond offerings and an early business deal, according to a person familiar with one country's probe.

1MDB's relationship with IPIC is one of the main ways funds were allegedly siphoned from the Malaysian fund, the Please see IMDB page B8

Puerto Rico Fails To Pay on Bonds

BY HEATHER GILLERS AND NICK TIMIRAOS

The Puerto Rican government didn't pay almost half of \$2 billion in bond payments due Friday, marking the commonwealth's first-ever default on its constitutionally guaran-

President Barack Obama signed legislation Thursday that addressed the island's debt crisis but didn't provide any mechanism to avoid Friday's default. Instead, the law gives the island a stay against litigation by creditors.

Of the \$779 million in gen-

teed debt.

Gov. Alejandro García Padilla defended the historic decision by highlighting the island's tense relationship with Wall Street firms that own its debt.

Some of these firms stand to lose money as a result of Friday's nonpayment. Major insurers backing Puerto Rico's debt could also be forced to pay out as much as hundreds of millions of dollars to bondholders.

Puerto Rico had become over many years "a colony of Wall Street," Mr. García Padilla told reporters in San Juan on Friday. "We are starting the process of putting it back in the hands of Puerto Ricans."

eral obligation debt the commonwealth failed to pay Friday, about half could translate into missed payments for bondholders. The three major bond insurers active in Puerto Rico are expected to cover as much as \$358 million.

Puerto Rico's Government also Development Bank skipped payments on some other bonds with weaker guarantees.

One creditor affected by Friday's actions is Eaton Vance Management, which holds a few million dollars in general obligation debt. But "for us it's a non-event," said Craig Brandon, Eaton Vance's co-director of municipal investments, be-*Please see DEFAULT page B7*

Stocks and bonds in the developing world sustained huge losses after the U.K.'s surprise decision. Currencies such as the South African rand, Polish zloty and Mexican peso fell more than 5% in the two days following the vote to leave.

currencies these But bounced back between 2% and 6% during the next four days, while bond markets also steadied. Brazil's stock market ended Friday up 6% from its post-Brexit low, while the Shanghai Composite Index was up 1.1% from its nadir.

The gains in emerging mar-

since its post-Brexit low.

Now, investors are trying to determine what forces will win out. Will Europe's political and economic uncertainty sour the mood for riskier investments? Or will Brexit prove less of a drag on global growth than some fear, while lower interest rates world-wide lead investors to seek higher vields in emerging markets?

"This is what markets do," said Chris Pavese, chief investment officer at Broyhill Asset Management, who has 40% of his portfolio in cash as he considers his next move. "They swing back and forth between extreme optimism and extreme pessimism."

Emerging markets got off to

sharp turn in investor thinking Emerging markets had suffered declines for most of the past three years. Going into this year, many analysts and fund managers believed the recent dollar rally would continue and that U.S. interest rates would rise with a nudge from the Federal Reserve.

But the introduction of negative rates in Japan and parts of Europe sent some investors looking for higher-yielding assets in the developing world.

The dollar fell to its lowest level in nearly a year last month, after soft jobs data and indications that the Fed is unlikely to raise rates this year. A weaker dollar makes it easier *Please see EMERGE page B7*



Most of the assets of 1MDB have been sold or transferred.

The Trap in Becoming a Big Cheese in Private Equity

or years now, big banks and brokerage firms have been urging their wealthiest individual clients to get into private-equity funds. Buying such a presti-

gious fund

can make

you feel like

a big cheese

with privi-

to the high

returns that

deal making

corporate

leged access



INTELLIGENT INVESTOR **JASON ZWEIG**

can generate. Trying to sell one, however, can make you feel like a tiny mouse in a giant glue trap.

Consider J.C. Flowers II LP, once one of the most glamorous of the buyout funds. By July 1, investors had to decide to stick with the fund, which lost roughly 60% over its life, or sell their stakes to a group of buyers for less than threefourths of its shriveled value.

Investors face two risks. If

they sell now, they lock in an even more-severe loss than they already have suffered. If they hang on, they gamble that the manager can turn the fund around, while having no idea how much longer they will have to wait to get their money out.

It is instructive to see how investors ended up in this bind.

Launched in 2006 by the firm led by J. Christopher Flowers, formerly a top banker at Goldman Sachs, J.C. Flowers II sought to raise \$3.5 billion.

As the financial bubble peaked, Flowers practically had to beat investors away with sticks. Lured by the success of the firm's first fund and the hope of giant gains from buyouts of banks and other financial companies that Mr. Flowers knew so well, money came pouring in.

J.C. Flowers II closed the floodgates at \$7 billion. Among its investors were



such giants as the Andrew W. Mellon Foundation. the Colorado Public Employees' Retirement System and the Teachers' Retirement System of the State of Illinois. Many wealthy individuals bought in, too.

Before the fund could get all that money invested, the bubble burst. Flowers also

made some unfortunate investments, including MF Global, the brokerage firm that collapsed and sought bankruptcy protection in 2011, and Tokyo-based Shinsei Bank, which has fallen more than 60% since the fund bought it in 2008.

Scheduled to earn a 1% annual management fee and

20% of profits, Flowers cut its yearly fee to 0.9% after the losses. It hasn't kept that 20% cut of investors' profits, because there aren't any.

The latest transaction may change that. The new investors in the fund, Coller Capital of London and Goldman Sachs Asset Management of New York, are acquiring their stakes at a 27.5% discount from the fund's already depressed value as of March 31.

Under the terms of the deal, Flowers will take one-20th of any gains the fund earns in excess of 10% and one-tenth of any profits above 20%

Here is an important detail: The starting point against which those gains will be measured isn't the fund's actual net asset value on March 31, but rather the deeply discounted price the new buyers are paying.

That makes it easier for Flowers to earn back a percentage of the fund's profits. Some of those gains, after all, would merely be a bounceback from the artificial discount imposed by the buyers.

To restate: Flowers's fund is down about 70% from its starting value, when factoring in the discount. And it is getting new fees.

Furthermore, Shinsei Bank, which makes up nearly half the fund's assets. is a publicly traded security. The fund's investors could sell it themselves if Flowers distributed the shares, which have risen 9% since March 31.

Coller and Goldman Sachs declined to comment.

A person familiar with the fund says Flowers's new cut of profits is well below the 20% industry standard and gives the firm an appropriate incentive to maximize the value of the remaining assets. Flowers has consistently told the fund's investors that it would hold Shinsei Bank for as long as necessary, the per-Please see PRIVATE page B7

Data as of Friday, July 1, 2016

Nikkei 225 Index

15682.48 106.56, or 0.68% High, low, open and close for each trading day of the past three months.

Year-to-date **V**17.61% 52-wk high/low20841.97 14952.02 All-time high 38915.87 12/29/89



Bars measure the point change from session's open

14500 Mar. Apr. May June



STOXX 600 Index

i¶T¶µ↓

65-day moving average

Apr.

332.24 12.36, or 0.72% High, low, open and close for each trading day of the past three months.

MARKETS DIGEST

Year-to-date **9**.18% 52-wk high/low 406.80 303.58 All-time high 414.06 4/15/15 **2102.95 4**.09, or 0.19% High, low, open and close for each trading day of the past three months.

S&P 500 Index

4 p.m. New York time Last Year ago Trailing P/E ratio * 23.74 21.30 P/E estimate 17.82 17.25 Dividend yield 2.18 2.02 All-time high: 2130.82, 05/21/15

Yield

1.677

2.305

-0.497

0.362

-0.431

0.475

-0.512

0.140

-0.049

1.387

-0.245

-0.118

-0.533

Year ago

1.994

3.025

-0.135

1.270

-0.175

1.260

-0.237

0.813

0.403

2.285

0.000

0.481

-0.208

Month ago



1920 Mar. Apr. May June

Year ago

130.2

60.1

-82.8

-115.4

-86.8

-116.4

-92.9

-161.1

-29.0

-13.9

-69.2

-194.3

-90.0

Previous

1.599

1.996

-0.539

0.102

-0.528

0.197

-0.659

-0.082

-0.075

1.252

-0.301

-0.233

-0.603

Data as of 4 p.m. New York time

May

Global government bonds

Country

10

10

10

10

10

10

Italy 2

Japan 2

Netherlands 2

Yield

1.576

1.964

-0.568

0.055

-0.550

0.162

-0.645

-0.121

-0.120

1.137

-0.328

-0.254

-0.611

Maturity, in years

Australia 2

Belgium 2

France 2

Germany 2

June

Coupon

3.250

4.250

3.500

0.800

1.000

0.500

0.000

0.500

4.500

2.000

0.100

0.100

0.500

Latest, month-ago and year-ago yields and spreads over or under U.S. Treasurys on benchmark two-year and 10-year government bonds around the world. Data as of 3 p.m. ET

Previous

101.3

52.3

-112.5

-137.1

-111.4

-127.6

-124.4

-155.5

-66.0

-22.1

-88.7

-170.6

-118.9

Latest

97.9

52.1

-116.5

-138.8

-114.7

-128.1

-124.2

-156.4

-71.7

-30.6

-92.6

-169.7

-120.8

Spread Over Treasurys, in basis points

Month Ago

77.1

46.8

-140.3

-147.6

-133.8

-136.2

-141.8

-169.8

-95.6

-45.0

-115.1

-195.5

-144.0

			— Lates	:		— 52-Week Range ——— YT
Region/Country	/ Index	Close	NetChg	% chg	Low	Close High % ch
World	The Global Dow	2323.02	11.50	0.50	2047.44	• 2565.19 -0.
	MSCI EAFE	1620.63	12.18	0.76	1491.52	• 1891.88 -5.
	MSCI EM USD	839.25	5.15	0.62	688.52	• 964.31 5.
Americas	DJ Americas	506.32	1.31	0.26	433.35	• 518.50 3.
Brazil	Sao Paulo Bovespa	52233.04	706.12	1.37	37497.48	• 54477.78 20.
Canada	S&P/TSX Comp	14064.54		Closed	11843.11	• 14731.08 8.
Mexico	IPC All-Share	46213.27	246.78	0.54	40265.37	• 46263.84 7.
Chile	Santiago IPSA	3140.43	26.18	0.84	2759.77	• 3184.44 6.
U.S.	AILD	17949.37	19.38	0.11	15660.18	• 18120.25 3.
	Nasdaq Composite	4862.57	19.89	0.41	4266.84	• 5218.86 -2.
	S&P 500	2102.95	4.09	0.19	1829.08	• 2128.28 2.
	CBOE Volatility	14.77	-0.86	-5.50	11.95	• 40.74 -18.
EMEA	Stoxx Europe 600	332.24	2.36	0.72	303.58	• 406.80 -9.
	Stoxx Europe 50	2825.86	12.53	0.45	2566.26	• 3520.48 -8.
France	CAC 40	4273.96	36.48	0.86	3896.71	• 5196.73 -7.
Germany	DAX	9776.12	96.03	0.99	8752.87	• 11735.72 -9.
srael	Tel Aviv	1397.95		Closed	1382.34	• 1723.56 -8.
taly	FTSE MIB	16295.78	98.00	0.61	15103.58	• 24031.19 -23.
Netherlands	AEX	438.85	2.97	0.68	382.61	• 503.48 -0.
Russia	RTS Index	933.32	2.55	0.27	628.41	• 965.36 23.
Spain	IBEX 35	8268.90	105.60	1.29	7645.50	• 11556.10 -13.
Switzerland	Swiss Market	8085.21	65.06	0.81	7496.62	• 9526.79 -8.
South Africa	Johannesburg All Share	52357.50	139.78	0.27	46282.02	• 54609.01 3.
Turkey	BIST 100	77952.11	1134.92	1.48	68567.89	• 86343.65 8.
U.K.	FTSE 100	6577.83	73.50	1.13	5536.97	• 6796.45 5.
Asia-Pacific	DJ Asia-Pacific TSM	1372.95	8.47	0.62	1190.45	• 1524.83 -1.
Australia	S&P/ASX 200	5246.60	13.20	0.25	4765.30	● 5706.70 -0.
China	Shanghai Composite	2932. 48	2.87	0.10	2655.66	• 4123.92 -17.
Hong Kong	Hang Seng	20794.37		Closed	18319.58	• 26282.32 -5.
India	S&P BSE Sensex	27144.91	145.19	0.54	22951.83	• 28504.93 3.
Indonesia	Jakarta Composite	4971.58	-45.07	-0.90	4120.50	• 5016.65 8.
Japan	Nikkei Stock Avg	15682.48	106.56	0.68	14952.02	• 20841.97 -17.
Malaysia	Kuala Lumpur Composite	1646.22	-7.86	-0.48	1532.14	• 1744.19 -2.
New Zealand	S&P/NZX 50	6926.23	28.70	0.42	5546.88	• 7039.41 9.
Pakistan	KSE100	37783.54		Closed	30564.50	• 38776.94 15.
Philippines	PSEi	7830.35	34.10	0.44	6084.28	• 7830.35 12.
Singapore	Straits Times	2846.37	5.44	0.19	2532.70	• 3373.48 -1.
South Korea	Kospi	1987.32	16.97	0.86	1829.81	• 2104.41 1.
Taiwan	Weighted	8738.24	71.66	0.83	7410.34	• 9358.23 4.
Thailand	SET	1444.99		Closed	1224.83	• 1491.62 12.

0.250 10 -0.060 -150.3 -149.3 -161.7 -133.3 -0.020 0.220 1.091 4.350 Portugal 2 0.222 -37.6 -32.5 -71.3 -66.0 0.261 0.194 0.032 127.0 2.875 10 3.001 155.8 152.4 48.8 2.998 3.107 2.912 4.500 -0.205 -80.2 -76.8 -100.9 -28.4 -0.183 -0.102 0.409 Spain 2 1.950 1.144 -29.9 -24.3 -33.4 1.230 1.503 2.264 -16.0 10 4.250 Sweden 2 -0.673 -127.0 -122.1 -134.5 -97.9 -0.636 -0.438 -0.287 1.000 -120.7 10 0.245 -119.8 -110.3 -140.0 0.266 0.735 1.024 1.250 0.196 -40.1**U.K.** 2 -47.8 -49.6 10.7 0.108 0.410 0.800 2.000 0.865 -57.8 -60.0 -46.2 0.873 10 -30.3 1.375 2.121 0.625 **U.S.** 2 0.597 0.586 0.907 0.692 1.625 10 1.443 1.473 1.837 2.424

Commodities Prices of futures contracts with the most open interest 4 p.m. New York time EXCHANGE LEGEND: CBOT: Chicago Board of Trade; CME: Chicago Mercantile Exchange; ICE-US: ICE Futures U.S.; MDEX: Bursa Malaysia Derivatives Berhad; TCE: Tokyo Commodity Exchange; COMEX: Commodity Exchange; LME: London Metal Exchange; NYMEX: New York Mercantile Exchange; ICE-EU: ICE Futures Europe. *Data as of 6/30/2016

				One-Day Change	Year	Year
Commodity	Exchange	Last price	Net	Percentage	high	low
Corn (cents/bu.)	CBOT	360.25	-5.25	-1.44%	444.00	355.75
Soybeans (cents/bu	.) CBOT	1137.25	-16.00	-1.39	1,186.25	868.00
Wheat (cents/bu.)	CBOT	429.25	-16.25	-3.65	533.75	428.00
Live cattle (cents/lb	.) CME	112.975	-1.850	-1.61	125.350	109.575
Cocoa (\$/ton)	ICE-US	2,990	27	0.91%	3,241	2,745
Coffee (cents/lb.)	ICE-US	146.60	0.95	0.65	148.00	117.15
Sugar (cents/lb.)	ICE-US	20.66	0.33	1.62	21.22	12.92
Cotton (cents/lb.)	ICE-US	65.13	0.96	1.50	66.64	54.19
Robusta coffee (\$/tor	n) ICE-EU	1744.00	27.00	1.57	1,748.00	1,400.00
Copper (\$/lb.)	COMEX	2.2330	0.0375	1.71	2.3295	1.9690
Gold (\$/troy oz.)	COMEX	1343.40	22.80	1.73	1,362.60	1,065.70
Silver (\$/troy oz.)	COMEX	19.900	1.277	6.86	19.980	13.930
Aluminum (\$/mt)*	LME	1,643.50	20.00	1.23	1,675.00	1,451.50
Tin (\$/mt)*	LME	17,050.00	unch.	unch.	17,500.00	13,225.00
Copper (\$/mt)*	LME	4,835.00	49.50	1.03	5,070.50	4,320.50
Lead (\$/mt)*	LME	1,784.50	48.50	2.79	1,888.00	1,598.00
Zinc (\$/mt)*	LME	2,098.00	37.50	1.82	2,098.00	1,467.00
Nickel (\$/mt)*	LME	9,475.00	130.00	1.39	9,575.00	7,750.00
		4 - 4 - 4	4.4.6		4 = = 4 4	4 4 9 4 9

Source: SIX Financial Information;WSJ Market Data Group

Currencies

Yen, euro vs. dollar; dollar vs. major U.S. trading partners



London close on July 1

ountry/currency	in US\$	i —— per US\$	US\$vs, YTDchg (%)
urope			
ulgaria lev	0.5697	1.7552	-2.5
r oatia kuna	0.1481	6.753	-3.7

6		VV21	Jollar II	ndex	*	
0	interest	2-5	-in	and be to	m	<u></u>
-6		· W	J		~~~~~~	W
				Euro		
-12	L I	1	1		1 1 1	
2015				2016		
			US\$ vs,			US\$ vs,
	—— Fr	i ——	YTD chg		—— Fri ——	YTD chg
Country/currency	in US\$	per US\$	(%)	Country/currency	in US\$ per US\$	(%)
Americas				Hong Kong dollar	0.1289 7.7582	0.1
	0.0442	1E 0720	14 5	India rupee	0.0149 67.2363	1.6
Argentina peso-a Brazil real		15.0739		Indonesia rupiah	0.0000763 13106	-5.3
		3.2343		Japan yen	0.009751 102.55	-14.7
Canada dollar		1.2907		Kazakhstan tenge	0.002965 337.27	-0.4
Chile peso	0.001520			Macau pataca	0.1253 7.9812	-0.3
Colombia peso	0.0003427			Malaysia ringgit-c	0.2509 3.9858	-7.4
Ecuador US dollar-f	1		unch	New Zealand dollar	0.7166 1.3955	
Mexico peso-a		18.3940	6.9	Pakistan rupee	0.0095 104.715	
Peru sol		3.2875	-3.7	Philippines peso	0.0213 47.003	
Uruguay peso-e		30.450	1.8	Singapore dollar	0.7434 1.3452	
Venezuela bolivar	0.100100	9.99	58.4	South Korea won	0.0008706 1148.58	
Asia-Pacific				Sri Lanka rupee	0.0068578 145.82	1.1
Australia dollar	0 7/95	1.3360	-2.6	Taiwan dollar	0.03103 32.222	
China yuan	0.1503	6.6525	2.4	Thailand baht	0.02851 35.080	-2.0

Euro zone euro	1.1144	0.8974	-2.5
Czech Rep. koruna-	b 0.0411	24.338	-2.2
Denmark krone	0.1497	6.6786	-2.8
Hungary forint	0.003512	284.70	-2.0
Iceland krona	0.008167	122.45	-5.9
Norway krone	0.1200	8.3363	-5.7
Poland zloty	0.2524	3.9621	1.0
Russia ruble-d	0.01562	64.030	-10.9
Sweden krona	0.1186	8.4327	-0.2
Switzerland franc	1.0277	0.9730	-2.9
Turkey lira	0.3454	2.8953	-0.8
Ukraine hryvnia	0.0403	24.7965	3.3
U.K. pound	1.3265	0.7539	11.1
Middle East/Afi	rica		
Bahrain dinar	2.6501	0.3774	0.1
Egypt pound-a	0.1126	8.8804	13.4
Israel shekel	0.2601	3.8451	-1.2
Kuwait dinar	3.3144	0.3017	-0.6
Oman sul rial	2.5976	0.3850	0.003
Qatar rial	0.2747	3.641	-0.1
Saudi Arabia riyal	0.2666	3.7512	-0.1
South Africa rand	0.0686	14.5781	-5.8
	Close Net Ch	g % Chg	YTD % Chg
WSJ Dollar Index	86.62 -0.2	1 -0.24	-3.94
Sources: Tullett Prebon, V			

	Rubber (1.01/101)	ICE	194.70	-1.10	-0.71	157.10	149.00
	Palm oil (MYR/mt)	MDEX	2358.00	5.00	0.21	2,707.00	2,317.00
	Crude oil (\$/bbl.)	NYMEX	49.19	0.86	1.78	52.28	32.22
	NY Harbor ULSD (\$/gal.)	NYMEX	1.5190	0.0303	2.04	1.5876	0.9643
	RBOB gasoline (\$/gal.)	NYMEX	1.5226	0.0213	1.42	1.6591	1.1366
	Natural gas (\$/mmBtu)	NYMEX	2.981	0.063	2.16	2.9900	2.0090
	Brent crude (\$/bbl.)	ICE-EU	50.58	0.87	1.75	53.30	31.33
	Gas oil (\$/ton)	ICE-EU	448.00	1.75	0.39	472.50	285.50

Sources: SIX Financial Information: WSJ Market Data Group

Cross rates

	USD	GBP	CHF	JPY	HKD	EUR	CDN	AUD					
Australia	1.3360	1.7724	1.3731	0.0130	0.1722	1.4888	1.0354						
Canada	1.2907	1.7118	1.3263	0.0126	0.1663	1.4379		0.9658					
Euro	0.8974	1.1905	0.9223	0.0088	0.1157		0.6953	0.6717					
Hong Kong	7.7582	10.2912	7.9743	0.0756		8.6445	6.0115	5.8072					
Japan	102.5540	136.0400	105.3900		13.2190	114.2500	79.4700	76.7700					
Switzerland	0.9730	1.2906		0.0095	0.1254	1.0843	0.7540	0.7283					
U.K.	0.7539		0.7748	0.0074	0.0972	0.8401	0.5841	0.5643					
U.S.		1.3265	1.0277	0.0098	0.1289	1.1144	0.7748 0.748						
					Courses Tullett Decker								

Source: Tullett Prebon

YTD **▼ 5.2**% 140 135

> 130 125 120

> > 115

2500

P/E:19 YTD 🔺 3.0% 18500 18000 17500 17000 16500

London close on July 1

Key Rates | Top Stock Listings

	Latest	52 wks ago			-			YTD%		-			YTD%			-			TD%	Asia Titans 50
Libor			Cur Stock	۲ <u>ـــــــــــ</u>	Sym	Last	Chg	Chg	Cur Stock	Sym	Last	Chg	Chg	Cur St	tock	Sym	Last	Chg C	Chg	Asia mans Ju
One month	0.46755%	0.18840%		A	- T :		_		¥ TakedaPhar	m 4502	4438.00	0.32	-26.83	£ Ric	oTinto	RIO	2345.00	2.22	18.46	Last: 129.21 🔺 0.73, or 0.57% YTD
Three month	0.65335	0.28430		ASI	ап	tans	5		HK\$ TencentHol	linas 0700	176.10	2.15	15.32	CHF Ro	ocheHldactf	ROG	256.70		-7.13	
Six month	0.92365	0.44800	HK\$ AIAGro	oup	1299	46.35	3.23	-0.54	¥ TokioMarine	5	3415.00	1.43			yDtchShell A	RDSA	2076.00		36.04	
One year	1.22500	0.77160			4503	1603.50	0.22	-7.39	¥ TovotaMtr	7203	5107.00	1.09	-31.80			SAP	67.40		-8.15	High 50-day
Euro Libor			AU\$ AustN		ANZ	23.95	-0.70	-14.25	AU\$ Wesfarmer		40.18	0.20	-3.44		anofi	SAN	75.02		-4.55	Close moving average
One month	-0.35743%	-0.07929%	AU\$ BHP		BHP	19.09	2.36	6.89	AU\$ WestpacBa		29.28	-0.41			hneiderElectric		53.73	1.26	2.23	Low [[[[" 'L]-L V French Frenc
Three month	-0.29514	-0.01500	HK\$ Bankof	China	3988	3.09	1.98	-10.69	AU\$ Woolworth	5	20.74	-0.72			emens	SIE	92.06	0.27	2.43	Le pret reserve le reserve le rest ere ret
Six month	-0.18729	0.05714	HK\$ CKHute	chison	0001	84.55	2.05	-19.01	A00 11001010101			0.72	17.57		elefonica	TEF	8.66		-15.34	
One year	-0.06114	0.16929	HK\$ CNOOD		0883	9.62	2.89	19.21		Stox	x 50			€ To	otal	FP	43.76	0.86	8.17	
Euribor			¥ Canon		7751	2893.00	-0.67	-21.28	CHF ABB	ABBN	19.38	1.36	7.91	CHF UE	BSGroup	UBSG	12.87	2.39 -	-34.07	
One month	-0.36300%	-0.06700%	¥ Central	JapanRwy	9022	18080	-0.25	-16.30	€ AXA	CS	17.86	0.31	-29.21		nilever	UNA	42.16	0.58	5.11	8 15 22 29 6 13 20 27 3 10 17 24 1
Three month	-0.29000	-0.01500	HK\$ ChinaCo	nstructnBk	0939	5.12	1.79	-3.58	€ AirLiquide	A	94.68	0.66			nilever	ULVR	3620.00	1.15	23.70	Apr. May June
Six month	-0.18200	0.04900	HK\$ ChinaLit	felnsurance	2628	16.62	1.09	-33.78	€ Allianz	ALV	127.30	-0.39	-22.16		odafoneGroup	VOD	229.20	0.68	3.71	
One year	-0.05200	0.16300	HK\$ ChinaN		0941	88.65	1.08	1.31	€ Anheuser B		118.25	0.55	3.37		richlnsurance	ZURN	241.20		-6.66	C , EA
Yen Libor			AU\$ Cmwlt		CBA	73.83	-0.73	-13.68	£ AstraZenec		4502.50	0.79	-2.47							Stoxx 50
One month	-0.04786%	0.05929%		anRailway		9450.00	0.18	-17.47	€ BASF	BAS	69.46	1.19				D'I	A			
Three month	-0.02386	0.10071	¥ Fanuc		6954	16390	-0.88	-22.25	€ BNP Paribas		39.91	0.39			mericanExpress	AXP	60.69	-0.12 -	-12.74	Last: 2825.86 🔺 12.53, or 0.45% YTD
Six month	-0.01107	0.13943	¥ Hitachi		6501	417.40	-1.53	-39.64	£ BT Group	BT.A	409.60	-0.10			ople	AAPL	95.89	0.30	-8.90	
One year	0.07000	0.24257	TW\$ Hon Ha		2317	82.70	0.24	2.35	€ BancoBilViz		5.12	1.13			being	BA	129.69	-0.14 -	-10.31	
	Offer	Bid	¥ Hondal		7267	2567.00	-0.21	-34.35	€ BancoSanta		3.50	2.16			aterpillar	CAT	76.45		12.49	rffreieri ressi, e e
Eurodollars	Ollei	Did	KRW Hyunda		005380	137000	1.11	-8.05	£ Barclays	BARC	140.00	1.01			nevron	CVX	104.15	-0.65	15.77	
One month	0.5500%	0.4500%	HK\$ Ind&Co		1398	4.29	1.18	-8.33	€ Baver	BAYN	90.69	0.77	-21.68	\$ Cis	scoSystems	CSCO	28.80	0.38	6.06	
Three month	0.7000	0.6000	¥ JapanT		2914	4124.00	0.51	-7.76	£ BP	BP.	445.40	1.65			ocaCola	ко	45.12	-0.46	5.03	
Six month	1.0000	0.9000	¥ KDDI		9433	3193.00	2.57	1.24	£ BritishAmT		4879.00	0.74			sney	DIS	98.03		-6.71	
One year	1.3000	1.2000	¥ Mitsub		8058	1797.00	0.50	-11.39	CHF FinRichemo		57.35	1.06		\$ Du	uPont	DD	64.36		-3.36	
one year	Latest	52 wks ago	¥ MitsuU	IFJFin	8306	459.90	0.88	-39.26	CHF CreditSuiss		10.53	2.13	-50.97	\$ Ex	xonMobil	XOM	93.84		20.38	8 15 22 29 6 13 20 27 3 10 17 24 1
	Latest	52 WKS dyo	¥ Mitsui		8031	1219.00	0.45	-15.67	€ Daimler	DAI	54.74	2.28	-29.44		enElec	GE	31.49	0.03	1.09	Apr. May June
Prime rates		2.05%	¥ Mizuho	Fin	8411	148.30		-39.10	€ Deutsche Ba	ink DBK	12.55	1.87	-44.26	\$ G0	oldmanSachs	GS	148.25		-17.74	Api. May Julie
U.S.	3.50%	3.25%	¥ NTTDo	CoMo	9437	2798.50	1.16	12.66	€ DeutscheTel	ekom DTE	15.24	-0.23	-7.74	\$ H0	omeDepot	HD	129.62		-1.99	
Canada	2.70	2.85	AU\$ NatAus		NAB	25.27	-0.63	-16.32	£ Diageo	DGE	2107.00	0.98	13.49	\$ Int		INTC	32.75		-4.93	Dour Jones Industrial Average
Japan	1.475	1.475		l&SmtmoMtl		1952.50	-0.28	-19.18	€ ENI	ENI	14.82	2.07	7.39	⇒ iDi		IBM	152.35		10.70	Dow Jones Industrial Average
Hong Kong	5.00	5.00	¥ Nippon		9432	4812.00	0.25	-0.50	£ GlaxoSmith		1600.00	-0.28		, Э ЛР	5	JPM	61.26		-7.22	Last: 17949.37
Policy rates			¥ Nissan		7201	921.20	0.36	-28.00	£ HSBC Hldgs	HSBA	469.85	0.85	-12.37	φ JO	hnsJohns	JNJ	121.29		18.08	LdSL. 1/949.5/ 🔺 17.50, 01 0.11/0
ECB	0.00%	0.05%	¥ Nomur		8604	373.90	2.38	-44.94	€ INGGroep	INGA	9.16	-0.21		φ IVIC	cDonalds	MCD	120.40	0.05	1.91	
Britain	0.50	0.50	¥ Panaso		6752	875.00	-0.68	-29.46	£ ImperialBra		4062.50	0.22	13.27	φ IVIE	erck	MRK MSFT	57.94	0.57 -0.02	9.69 -7.79	
Switzerland	0.50	0.50	HK\$ PetroC		0857	5.29	2.12	3.93	€ IntesaSanpa		1.68	-1.29	-45.60	φινι	icrosoft keClB	NKE	51.16 55.61		-7.79 -11.02	a barrier a state of the state
Australia	1.75	2.00	HK\$ PingAn			34.15	1.64	-20.40	€ LVMHMoetHe		136.15	0.11	-6.04	φ ιτι	izer	PFE	35.57		10.19	
U.S. discount	1.00	0.75		eIndsGDR		28.70	0.53	-6.21	£ LlovdsBanking		54.35	0.54	-25.62	φ Π		PFE	35.57 84.78	0.13	6.76	[*r[kl[[**[**[*[k]] k]] k]
Fed-funds targe		0.00	AU\$ RioTint		RIO	46.07	1.25	3.04	€ LOreal	OR	172.45	0.26	11.04			MMM	84.78 175.54		0.70	
Call money	2.25	2.00	KRW Samsun			1466000	2.88	16.35	£ NationalGrid		1105.50	0.20	17.92	φ <i>3</i>	vi avelersCos	TRV	175.54	-0.16	5.31	F
Overnight repu					3382	4264.00	-0.40	-23.17	CHF Nestle	NESN	76.05	1.20	2.01	+	nitedTech	UTX	102.73	0.18	6.93	
U.S.	1.03%	0.23%			9984	5727.00	-1.07	-6.71	CHF Novartis	NOVN	80.45	0.37	-7.32		nitedHealthGroup		140.86		19.74	8 15 22 29 6 13 20 27 3 10 17 24 1
Euro zone	n.a.	n.a.		mo Mitsui		2948.00	0.75	-36.00	DKK NovoNordis			1.51	-9.10	+	SACIA	V	74.48		-3.96	Apr. May June
	Coursees M/C I Marilia	t Data Crown CIV	HK\$ SunHn		0016	93.05	2.59	-0.75	£ Prudential	PRU	1283.00	2.07	-16.20	+	erizon	vz	56.23		21.66	Note: Price-to-earnings ratios are for trailing 12 months
	Sources: WSJ Marke	et Data Group, SIX formation, Tullett				166.00	2.15		£ ReckittBend		7545.00	0.73			alMart	WMT	72.81		18.78	Sources: WSJ Market Data Group; Birinyi Associates
	FilidiiCldIII	ronnation, rullett	i wa i alwai	scrinivirg	000	T00.00	2.1)	10.00	- NEUKILIDEIIU	noei no.	1,00	0.75	20.12	- ⁻ ₩	unvitit t		12.01	0.27	10.70	Sources. Was market Data Group, Diffinity Associates

4 p.m. New York time

MONEY & INVESTING

Oil Prices Rise, But Can Rally Continue?

Supply disruptions, weaker dollar fuel an upswing; investors are split on future path

BY NICOLE FRIEDMAN

Oil prices rebounded in the second quarter after a historic two-year rout, boosted by a weaker dollar and a number of supply outages from Canada to Nigeria.

Now, investors face an unusual predicament: They can't agree on whether the market is facing a supply surplus or a deficit.

"We see more uncertainty than we have seen before in terms of price formation" in the oil market, Eldar Saetre, chief executive of Norwegian oil major Statoil ASA, said in an interview.

U.S. oil prices rose \$9.99, or 26%, in the second quarter to \$48.33 a barrel on the New York Mercantile Exchange, the best quarterly performance on a percentage basis since 2009. Brent, the global benchmark, rose \$10.08, or 25%, to \$49.68 a barrel on ICE Futures Europe. U.S. oil prices ended the quarter up 30% for the year.

Natural-gas prices rallied, too. Nymex natural gas gained 49% to \$2.924 a million British thermal units, logging its best quarterly performance on a percentage basis since 2005. It is up 25% for the year.

Crude prices seesawed for much of June as investors tried to gauge whether the U.K. would vote to leave the European Union—an outcome that was considered bearish because it could slow European growth and cause the dollar to rally. A strong dollar can weigh on dollar-priced commodities such as oil.

Oil prices dropped 4.9% the day after the Brexit side prevailed and have been volatile since then. But some investors are already starting to look beyond the vote's aftermath.

Brexit "certainly adds uncertainty to future investment" in oil production, said Will Riley, who co-manages a portfolio at Guinness Atkinson Asset Management Inc., which oversees about \$300 million in energyequity investments.

However, "the elements on the supply side that are rebalancing the market are no different today than they were' before the referendum, Mr. Riley said.

Oil prices are hovering near \$50 a barrel, roughly half the price of two years ago but a level that now spells relief for battered oil producers and their creditors. Investors piled into the oil market in the first half of the year as futures rallied from 13-year lows.

Market participants are divided about where prices are headed next

The bullish view is that daily production is barely keeping up

tions-due to Canadian wildfires, attacks on oil facilities in Nigeria and political unrest in Libva-removed millions of barrels of daily production from the market in recent months. This sentiment prevailed in the oil market in the second

quarter, pushing prices higher even after large producing nations failed to agree on an output freeze at a meeting in May.

with growing demand. U.S. out-

put has fallen from its highs.

and unplanned supply disrup-

The opposite view is that global inventories still stand near record levels, keeping the market oversupplied even as daily production falls.

"For us the key question is: What does rebalancing really mean?" said Julius Walker, senior consultant at JBC Energy in Vienna. "There are periods this year, notably in the third quarter, when we think supply and demand will be matched. But you're still left with this massive surplus of stocks."

U.S. crude-oil supplies as of

June 24 stood 130 million barrels, or 33%, above the fiveyear average level for that week, according to the Energy Information Administration. Total commercial crude supplies held by industrialized nations stood at a record in April. according to the International Energy Agency.

Many investors are looking past ample inventory levels. Analysts warn that Venezuelan production is increasingly vulnerable due to the country's economic troubles and power outages. In addition, U.S. production has declined for more than a year and is forecast to keep sliding, as companies have slashed spending on new drilling.

"With U.S. production likely falling another couple hundred thousand barrels [a day] over the next few months, that will likely put us back in balance and we'll be producing less than we're consuming globally," said Roland Morris, commodity strategist at VanEck, which manages \$31.7 billion in assets.

Mr. Morris expects oil prices to trade near \$50 a barrel in the third quarter and rise above that level in the last three months of the year.

Will Nasgovitz, chief executive of Heartland Advisors in Milwaukee, which manages \$2 billion in assets, limited his funds' exposure to energy stocks in 2015. This year, he changed his view and now has more money invested in energy than is recommended by the benchmark he tracks.

"What we're seeing clearly is North American supply is coming down," he said. Among U.S. oil producers, "some guys are circling the drain even at \$50 oil."

But wary investors point to 2015, when a strong price rally in the spring failed to hold. U.S. producers took advantage of the higher prices to put more drilling rigs to work, and U.S. output fell less slowly than expected.

DEFAULT

Continued from page B5 cause the firm expects to receive full principal and interest payments from insurers.

Much of Puerto Rico's debt is held by hedge funds and municipal-bond mutual funds such as **Oppenheimer Funds** Inc. Oppenheimer's total Puerto Rico debt has a face value of \$7 billion, including nearly \$6 billion of uninsured bonds.

An Oppenheimer spokeswoman declined to comment on possible losses, saying the firm looks forward "to working with all stakeholders to help get Puerto Rico on a long-term sustainable path while protecting the interests of our shareholders.'

The municipal-bond fund with the second-largest amount of Puerto Rico debt is Franklin Templeton Inc., which holds \$2.7 billion in face value, most of it uninsured. A spokeswoman declined to com-

Puerto Rico debt remained largely unchanged Friday, with benchmark uninsured general obligation bonds trading at 67.5 cents on the dollar. In contrast, many insured general obligation bonds continued to trade around 100 cents on the dollar.

News of the default was tempered by the passage of the restructuring legislation. The law authorizes the creation of a federally appointed fiscal control board in Puerto Rico, which establishes a framework for a more orderly debt work-

News of the default was tempered by the restructuring legislation.

out. The board is tasked with restoring economic growth to the island and will have considerable power to approve debt restructuring.

The restructuring legislation

tary Jacob Lew on Wednesday. Congress spent months

working on the bipartisan bill, which was propelled through the Senate by concerns of a looming legal battle. Voluntary talks with general obligation bondholders broke down in recent weeks, and a group of hedge funds sued the island last week over a local debtmoratorium law, saying the island was legally required to pay them ahead of essential public services.

A separate group of hedge funds filed a motion Friday in a lawsuit against Puerto Rico's governor, asking to be exempted from the stay on lawsuits contained in the federal restructuring legislation. The motion said the funds hold more than \$750 million in Government Development Bank debt, which Puerto Rico defaulted on in May.

Three large bond insurers are bracing for payouts as a result of Friday's events. National Public Finance Guarantee Corp. backs \$173 million in general obligation debt that Puerto Rico was supposed to pay Friday, the company has disclosed.

the third quarter of 2016, much of which was due Friday.

Ambac Financial Group backs only about \$1 million in general obligation debt due Friday, but Chief Executive Officer Nader Tavakoli said in a televised appearance Friday that the bond insurer expected to pay between \$45 million and \$50 million in claims. Much of it will likely cover payments on the island's Infrastructure Financing Authority

debt, which Puerto Rico also didn't make.

Mr. Tavakoli said in the interview that he hopes the fiscal control board created under the restructuring legislation will include "the right kinds of business people, growth-oriented business people," who will focus on fiscal and structural reforms for Puerto Rico, rather than on cutting payments to bondholders.

Assured Guaranty said in a

statement that it is well prepared to handle defaults in Puerto Rico. "Our liquidity and capital position are very strong," the statement said. National Public Finance Guarantee, a unit of MBIA, declined to comment.

The island has been in a recession for most of the past decade and has seen a large drop in its population as residents, who are U.S. citizens, leave for the mainland.



An oil platform offshore of Libya. Brent prices climbed 25% in the second quarter, while U.S. oil rose 26%, its best quarterly performance on a percentage basis since 2009.

ment.

Municipal-bond defaults are rare. The last time a state-level issuer defaulted on general obligation debt was when Arkansas did so in 1933.

The default was widely anticipated, and bond prices on

prevents creditors from asking a court to force bond payments to be made ahead of essential services. Without such a safeguard, the island's debt crisis would have grown "much worse and might have been unsolvable," said Treasury Secre-

Assured Guaranty Ltd. has reported that it backs \$184 million in general obligation bond payments coming due in

Much of Puerto Rico's debt is held by hedge funds and municipal-bond mutual funds.

EMERGE

Continued from page B5

for emerging markets to service debt that is denominated in the U.S. currency. It also tends to boost prices for raw materials such as oil and metals, a key export of many developing countries.

"In terms of how this affects emerging markets like Mexico or Indonesia, it really doesn't materially change our investment outlooks there." Franklin Templeton portfolio manager Michael Hasenstab wrote a day after the vote.

Some think emerging markets could rebound faster than they have after other financial crises because these assets aren't the cause of the selloff.

The Latin American debt crisis of the 1980s frightened away many bond investors for years. In the late 1990s, the Asian currency crisis caused market disruptions around the globe, and continued until the International Monetary Fund

began a series of country bailouts. The Russian debt crisis in 1998 caused bond markets to seize up and the hedge fund Long-Term Capital Management to collapse.

"The good news is that for once the problems are not originating in emerging markets,' said Alejo Czerwonko, director of emerging markets investment strategy at the Chief Investment Office of UBS, which has invested assets of \$2 trillion

Emerging markets bounced back faster after the 2008 financial crisis that erupted after the U.S. housing bubble burst and Lehman Brothers collapsed. A vear later, stock markets in Asia and Latin America were buoyed by a commodities rally and climbed back to near precrisis levels.

But slowing growth in China. a primary consumer of commodities and raw materials produced by these countries, cut short that rally. Many fear that waning Chinese demand could be a problem again.

If the dollar continues to

PRIVATE

Continued from page B5 son savs.

Four institutional investors who own the fund told me such terms aren't problematic. But institutions dislike highlighting an underperforming investment, lest their constituents criticize them over it. They also suffer a financial form of Stockholm syndrome: the fear of be-

ing excluded from future private funds if they are publicly critical. No amount of rationalizing

can make such a deal completely palatable. To be sure, a buyout fund is

inherently illiquid, and it can't always clean up its investments by the time the clock runs out on the typical 10-year term of the fund.

"If you're in year 10," says David Ewer, executive director of the Montana Board of Inrally as a haven play during market turbulence, that could pressure China to devalue the yuan and further slow growth.

China's yuan fell to its lowest level against the dollar in five years in the wake of Britain's vote. Signs of a yuan devaluation "would totally disrupt global markets," said Michael Mullaney, who oversees \$11.5 billion as chief investment officer for Boston-based Fiduciary Trust Co.

A sharp devaluation of the vuan would exacerbate the debt load of Chinese corporations that borrowed in dollars, further fueling fears of a slowdown in China. According to Brown Brothers Harriman, every 1% decline in the yuan costs Chinese corporations approximately \$8 billion.

A stronger dollar would also make it harder for countries to service debt denominated in the U.S. currency. Ratings firms have downgraded several developing countries, including Venezuela. Brazil and other commodity exporters and some investors worry about a default.

vestments, which manages \$10 billion in pension assets, "there's at least a 50/50 chance you've still got a long tail in front of you." Another large investor recalls waiting 22 years to get the last payout from a 10-year fund.

No wonder big institutions often hold dozens, even hundreds, of private-equity funds to spread such risks.

If you have millions to spare, buying a buyout fund is easy. Selling it can be a lot harder.

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China Greenchip-A Units NZD H		Q CYM	06/29 NZD	8.15	-9.8	-27.3	-10.5					
		Q CYM	06/29 USD	7.84	-10.6	-27.5	-12.3					
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		THKG	06/29 USD	68.47	-5.5 -4.7	-10.0	-1.5					
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		THKG	06/29 CAD	8.80	-4.5	-10.5	-0.5					
		THKG	06/29 CAD 06/29 GBP	8.28	-5.4	-17.9	-1.0 NS					
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		THKG	06/29 USD	9.80	-4.8	-16.7	-1.4					
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Intel-China Converg Fund-A Units		Q CYM	06/29 USD	122.18	-16.4	-30.2	0.4					
Intel-Chinese Mainland Foc Fund		Q CYM	06/29 USD	33.76	-18.3	-30.6	-0.7					
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Why Apple

May Roll on

Tidal's Wave

Tesco Can't Rely on Brexit Boost

Apple's early efforts in music streaming are an interesting Rorschach test.

In one light, the world's richest company has amassed only half as many paying subscribers as category leader **Spotify** in a vear's time. Yet it took Apple only one year to persuade 15 million people to pay for its streaming service. That took Spotify about seven years.

Both are useful to think about in light of the news that Apple is exploring a potential acquisition of Tidal, a streaming service run by rapper Jay Z and co-owned by several other top-selling music acts. Beyoncé and Kanye West released their latest albums exclusively to Tidal, which has helped the service garner 4.2 million paying subscribers. The talks are continuing, and the potential price is unknown.

The first point suggests there is room in streaming music for more than one big player. Digital music sales rose 10% in 2015, eclipsing physical music sales for the first time, according to industry data cited by RBC Capital. Subscription streaming was for 32% of total digital revenue compared with 23% the year before.

The second point suggests a certain power of convenience. Apple Music already is embedded on most of the company's devices. Cowen estimates that Apple Music subscribers account for just 2.5% of active iPhones in the market. It is an advantage that somewhat offsets an awkward user interface.

Buying Beats two years ago helped Apple jump-start its streaming efforts. But the company's interest in Tidal is evidence that the service is still a work in progress. –Dan Gallagher

Shares in the largest U.K. grocer have steadily recovered from the shock of Britain's vote to leave the European Union.

One reason is the pound's pounding: The group made about 29% of its operating profit in other currencies last year. But the average FTSE 100 group makes roughly three-quarters of its profit outside the U.K. Tesco's stock has outperformed the index since the referendum, so overseas earnings can't be the whole story. Another explanation is the reputation of food retail as a haven. The theory is that people still need food, whatever the economic or political climate.

There is a superficially encouraging historical precedent: Tesco performed well during and shortly after the financial crisis. Then, too, the pound dropped, making imported goods more expensive. Because people need food, retailers could pass on



2011 /12 '13 '14 '15 Source: FactSet

THE WALL STREET JOURNAL.

the price increases, buoying like-for-like growth. Operating costs are more or less fixed, so this boosted net profit.

More recently, falling prices have had the opposite impact on Tesco's margins. Some analysts are therefore optimistic that a bout of imported inflation will restore the old growth order.



A Tesco Extra store in Woolwich, southeast London

This looks too optimistic. The strategy of passing on higher import costs served consumers badly, eroding Tesco's reputation for value and paving the way for Germarket share. It protected profits in the short run, but bottled up problems for later. The new management team surely won't make this mistake again.

Given the current competitive environment, the pound's fall is more likely to squeeze margins than boost them. This will make it harder for Tesco to deliver the kind of profit recovery that would justify the current share price, which works out at about 24 times expected earnings, according to FactSet.

Tesco should eventually earn a decent return on sales. It is by far the largest player in a market that rewards scale, and it has a new management team committed to sorting costs out. But, as HSBC's David McCarthy points out, cost inflation as a result of Brexit is no better news than inflation as a result of Britain's coming increase in the minimum wage.

Investors spying a haven are getting ahead of themselves. The road to recovery at Tesco has lengthened, not shortened.

OVERHEARD

WSJ.com/Heard

"Uncertainty" seems to be the new central-banking euphemism for political chaos.

As leadership crises engulfed Britain's main political parties, Bank of England governor Mark Carney put an analytical spin on what may be the most widely used word in financial markets since the Brexit vote: uncertainty.

The BOE's index of policy uncertainty is based on newspaper mentions of key words in combination: "economic," "uncertainty" and "policy." At the start of the campaign it reached five times its average before the 2008 financial crisis. Now it must be higher.

The same measure finds policy uncertainty three times its precrisis average in China, and about one-and-a-quarter times in the U.S. and Japan.

Slowing growth and rising inequality have disrupted the political order in many countries. Its economic impact is the real uncertainty investors need to worry about.

-Stephen Wilmot

The Fed's New Challenge: Boosting Inflation Expectations likely it is to work its way

into the expectations of

workers and businesses. If

that happens, today's low in-

have less rate-cutting ammo

when the next recession hits.

expected inflation are down

Treasury inflation-protected

Price Index will gain annually

in the five years starting five

aged 1.63% in the first half of

this year versus 2% last year.

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sharply. The five-year, five-

vear forward rate—what

Market-based measures of

Just when it looked as if the Federal Reserve's inflation woes had begun to lessen, they are threatening to get worse.

Inflation has been on an upswing. Excluding food and energy, the Fed's preferred measure of consumer prices was up 1.6% in May versus a year earlier—still short of the central bank's 2% inflation target, but better than the 1.3% it marked a year earlier. It is an indication that the effects of last year's strength in the dollar, and drop in oil and raw-materials prices, have begun to wane.

But now Brexit has breathed new strength into the dollar, and looks likely to place another drag on already weak global growth. The probable result: Import

Expecting Less

The five-year, five-year forward rate



2010 11 12 13 14 15 16 Source: Treasury Department THE WALL STREET JOURNAL.

prices will remain depressed, and will weigh on U.S. consumer prices. Ultimately, that is a temporary issue, but the worry for the Fed is that it could create a longerrun problem.

That is because the longer inflation stays low, the more

MONEY & INVESTING

structure" that were "incorporated in other offshore jurisdictions using variations of the 'Aabar' name."

IPIC, 1MDB and the Prime utes from 2012 and 2013. Minister's office in Malaysia declined to comment. 1MDB guarantees being provided by has previously said it was unaware of any wrongdoing at the firm, but was willing to as-

Since the CPI tends to run a bit hotter than the Fed's preferred price measure, this suggests investors think inflation will be seriously short of target. As of Friday, the five-year, five-year forward rate was 1.43% versus its historical average of 2.36%.

Some of the drop in implied inflation probably owes to market liquidity. In a scary year for markets, investors may be paying up for Treasurys relative to less-frequently traded TIPS, with Treasury yields falling more than TIPS yields as a result. That would push TIPS-implied inflation, which is based on the difference between TIPS and Treasury yields, lower. Beyond the liquidity issue, consider that implied inflation levels reflect not just

largely reliant on that guaran-

tee, according to Malaysian in-

vestigation documents and

1MDB board of directors min-

"Both IPIC and Aabar confirm

there is no record of any such

Aabar," IPIC said in its finan-

cial statements.

what inflation investors expect, but their assessment of the risk their inflation forecast is wrong. Right now, they probably think that risk is to the downside, pushing implied inflation lower.

Still, at least some of the decline in implied inflation may reflect a genuine belief that the Fed will face more of a struggle to reach its target. With survey-based measures of longer-run inflation slipping a bit this year, the central bank urgently needs inflation to pick up, and drag inflation expectations up along with it. That will make it more willing to keep rates low even if the economy gathers steam, and increases the odds that it won't tighten at all this year.

-Justin Lahart

1MDB

Continued from page B5 person said.

IPIC was set up by Abu Dhabi in 1984 to invest in energy projects around the world. Over the years, it moved far afield of that original mission by investing in banks, automobile companies and other unrelated businesses. The merger with Mubadala Development Co. will likely see those non-energy investments trimmed down over the coming years, analysts said. After IPIC guaranteed bonds worth \$3.5 billion in 2012. 1MDB agreed to pay \$1.4 billion in collateral to the Abu Dhabi fund. But the paymentand an additional \$2.1 billion in subsequent payments over the next several years-were instead made to a company in the British Virgin Islands that had a similar name to a bona fide subsidiary of IPIC.

The payments to Aabar in the British Virgin Islands were confirmed by a report prepared by a parliamentary comU.A.E. frozen by authorities. He declined to comment.

1MDB has argued in private negotiations that the role in the British Virgin Islands company of Mr. al Qubaisi and another former executive from an IPIC subsidiary, as well as the existence of a document showing the British Virgin Is-

man discounters to seize

mittee in Malaysia in April.

That British Virgin Islands company has a similar name to the bona fide Aabar Investments PJS, but IPIC has said repeatedly that the British Virgin Islands-registered Aabar was never part of its corporate structure. What complicates the matter even more is the British Virgin Islands company was set up by IPIC's former managing director Khadem al Qubaisi, who was forced to resign from IPIC last year and has since had his assets in the lands company was owned by sist investigators

The saga involves offshore companies of dubious provenance.

the genuine Aabar, prove IPIC should take responsibility for at least some of the missing money, according to people familiar with the matter.

In its filing on Thursday, IPIC said it was also investigating "other companies outside the group's corporate

IPIC also contradicted an assertion from 1MDB that the bona fide Aabar had guaranteed about \$1 billion worth of 1MDB's investment portfolio in the Cayman Islands.

Valuations conducted by 1MDB's auditors on the value of the investments were

The dispute between IPIC and 1MDB burst into the open in April, when IPIC declared 1MDB had defaulted on an agreement to repay a billion dollar bailout IPIC provided 1MDB in 2015. 1MDB then refused to pay interest on the pair of bonds IPIC guaranteed, which forced IPIC to make the payments.

IPIC said earlier this month it was seeking the full \$6.5 billion from 1MDB and the Malaysian Ministry of Finance through arbitration.

formed Prime Minister Nailb Razak of what IPIC believed to be inconsistencies in 1MDB's financial statements related to some of the payments 1MDB said it made to IPIC entities.

Behind the scenes, the is-

sues began to affect the rela-

tionship between the two

funds last year, according to

two letters from IPIC and

Aabar provided to the Journal

by an Asian-based third party

with knowledge of the matter.

IPIC's managing director in-

In one letter from July 2015,

Referring to a \$1.4 billion refundable deposit 1MDB said was held by Aabar, Mr. Al Mazrouei said, "I am not aware of any such deposit held by Aabar or any member of IPIC's group, and no document relating to the underlying transactions provides for such a deposit as far as I am aware."

ITH

Continued from page B5 also gained after a two-session selloff that followed Brexit. The Stoxx Europe 600 is up 7.6% over the past four trading days. The S&P 500 gained 5.1% over the same period and rose 3.2% for the week.

For Emmanuel Hauptmann, fund manager and founding partner at RAM Active Investments, there is now "the likelihood of a recession," but that "could be prevented by more central-bank action."

That could include cuts to interest rates and new rounds of bond purchasing by the BOE and European Central Bank. The U.S. Federal Reserve might refrain from further rate increases this year.

Some market observers said the BOE could even take a page from the ECB's book and start buying corporate bonds. Analysts expect the ECB to expand its bond-buying programs bevond the current end date of March 2017.

Most economists agree that central banks have been successful at providing stability to markets by pumping in cash when the financial plumbing was appearing ready to falter. But their record at stoking inflation and providing a boost to



Before the U.K. referendum, many investors and analysts had given up on the idea that central banks could bail out sclerotic growth and ease market uncertainty. Instead, some economists argued that it was time for monetary policy to make way for fiscal policy. Several even talked of a combination, in which central banks would finance mass government handouts of cash, a policy known as "helicopter money."

BOE Gov. Mark Carney: 'The charge that central banks are out of monetary ammunition is wrong.'

"Central-bank actions are coming up against diminishing returns," said Bill Papadakis, strategist at Swiss private bank Lombard Odier, a week before the Brexit vote. "Helicopter money could offer an ingenious way out of some of these problems."

But after the U.K.'s decision to leave the EU, the debate seems to have shifted back to what central banks can achieve by themselves.

"The Bank of England has plenty of ammunition at its disposal," Luca Paolini, chief strategist at Pictet Asset Management, said Friday.

To be sure, many investors are still arguing that fiscal policy will be key to keeping the global economy going after Brexit.

"Monetary policy will keep the plumbing going," said Mark Cernicky, managing director at Principal Global Investors, "[but] there needs to be more fundamental stimulus."

Finance Watch

J.P. MORGAN CHASE **Bank Wins Approval** For Branches in India

J.P. Morgan Chase & Co. has received approval from India's banking regulator to set up three new branches, expanding beyond its existing single branch.

The U.S. bank's move to expand comes after some other foreign banks have scaled back their ambitions in India.

Foreign commercial banks face restrictions on the number of branches they can open in India. They are required to allocate a portion of their lending to the so-called priority sector, which includes borrowers from economically weaker backgrounds. –Shefali Anand

CHINA

PBOC Injects Funds Into Banking System

China's central bank said Friday that it had channelled a combined 382.62 billion vuan (\$57.5 billion) of liquidity via monetary tools into the banking system in June.

The People's Bank of China said it extended 171.9 billion vuan of credit via its pledged supplementary lending to state policy banks, and provided 208 billion yuan of liquidity via a medium-term lending facility. The bank also conducted a 2.72 billion yuan liquidity injection via a standing loan facility to the nation's financial institutions.

—Grace Zhu

PERSHING SQUARE Ackman Fund Cuts

Lower-Level Staff

William Ackman's Pershing Square Capital Management LP, which has been battered this year by a slumping portfolio, laid off eight lower-level employees last week, according to people familiar with the matter.

The cuts, which largely involve back-office employees in technology and investor services, amount to more than 10% of the activist hedge fund's staff, the people said.

Mr. Ackman told his staff that the moves have nothing to do with the poor performance of the hedge fund, the people said. Instead, he said, the firm has gotten better in technology and automating tasks like filling out new-investor forms, reducing the need for employees. He added that he doesn't anticipate any other big cuts, the people said. -David Benoit