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What's News

Business & Finance

VW's emissions cheating spanned over a decade and arose from employees' deliberate efforts, New York's attorney general said. **A1**

◆ **The Fed is looking** toward a rate increase by year-end, possibly as early as September, now that markets have stabilized after Brexit. **A1**

◆ **Mizuho Bank** will provide a bridge loan of about \$9 billion to back SoftBank's \$32 billion purchase of U.K. chip designer ARM. **B1**

◆ **Monsanto rejected** Bayer's improved \$65 billion bid but left the door open for more talks with the German firm and "other parties." **B1**

◆ **Microsoft's annual sales** fell for the first time since 2009 as the software giant continued to shift from PCs to cloud computing. **B1**

◆ **Goldman detailed** new cost cuts as the Wall Street firm grappled with lower revenue, which fell 13%. **B5**

◆ **Global investors** are on the hunt for U.K. property bargains, expecting Brexit to lower real-estate values. **B5**

◆ **An EU court adviser** said the U.K. and other EU members can impose data-retention rules on telecom firms to fight serious crime. **A5**

◆ **An EU court rejected** a claim by Slovenian investors that they were unfairly forced to take losses. **B5**

World-Wide

◆ **The purges in Turkey** following the failed coup broadened to include military officers and thousands of teachers and clerics. **A1**

◆ **An Erdogan ally** was among the civilians killed when the military fired on a crowd during the coup. **A3**

◆ **Islamic State claimed** responsibility for an Afghan migrant's ax attack on train passengers in Germany that injured five people. **A1, A2**

◆ **A legal challenge** to Brexit began as claimants argued that only Parliament, and not the prime minister, can trigger the process. **A4**

◆ **The Labour Party's Eagle** pulled out of the race to lead the U.K. opposition, endorsing rival lawmaker Smith in a challenge to Corbyn. **A4**

◆ **The IOC banned** Russian officials named in a doping report from the Rio Olympics but held off on deciding on a ban on athletes. **A5**

◆ **Trump's campaign** tried to regain its footing after a tumultuous start to the GOP convention that included accusations of plagiarism. **A7**

◆ **Obama praised** police in an open letter to the law-enforcement community following the slayings of police in Texas and Louisiana. **A6**

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Turkey Widens Hunt for Suspects

Erdogan urges Obama to hand over cleric as purges of his alleged followers snag teachers

Turkey sent the Obama administration documents Ankara says show last week's attempted coup was orchestrated by a cleric living in the U.S., as purges broadened dramatically across Turkey to include thousands of teachers, social workers and clerics.

During a phone call Tuesday, U.S. President Barack Obama discussed with President Recep Tayyip Erdogan Turkey's demand that the U.S. extradite the Muslim cleric, Fethullah Gulen, who has lived in Pennsylvania for nearly two decades.

The widening hunt for purported supporters of Mr. Gulen extended even to Mr. Erdogan's top air force adviser, Lt. Col. Erkan Kivrak, who was arrested in southern Turkey and sent to Ankara, state news agency Anadolu reported.

It wasn't clear what charges he was facing. The Education Ministry dismissed nearly 17,000 teachers and administrators, including university professors and deans. The prime minister's office fired 257 people, and

the religious affairs office 442, according to Anadolu. Nearly 9,000 people have been detained since the foiled coup on Friday night.

In a sign the roundup of suspected sympathizers is likely to swell further, police chiefs in Istanbul and Ankara asked Turkish citizens to inform them of any signs of support for the failed coup on the country's social-media platforms, Anadolu reported.

Turkey's security services

have hit the military particularly hard, with nearly 120 generals and admirals held. The officers accused of being the coup leaders, including former air force commander Gen. Akin Ozturk, were

Please see TURKEY page A3

- ◆ **Erdogan ally died** in bridge confrontation..... A3
- ◆ **Opinion: Turkey's strongman** recoups his losses A11
- ◆ **Heard on the Street: Coup** worries lost in liquidity..... B10

By Thomas Grove in Istanbul and Carol E. Lee in Washington

Kerry, in London, Meets New U.K. Prime Minister



HIGH-LEVEL TALKS: U.S. Secretary of State John Kerry met with new U.K. leader Theresa May in London on Tuesday, and later with U.K. Foreign Secretary Boris Johnson, following the British vote last month to withdraw from the European Union. **A4**

U.S. Suit Says VW Scheme Ran Deep

By ARUNA VISWANATHA AND MIKE SPECTOR

Volkswagen AG's emissions cheating spanned more than a decade and arose from deliberate efforts by dozens of employees to mislead regulators and consumers about diesel-powered vehicles, according to a lawsuit from New York's top law-enforcement official.

The decision to use software to manipulate emissions tests traced back as far as

1999, when engineers at the company's Audi luxury unit developed technology to quiet diesel vehicles, according to a lawsuit filed Tuesday by New York Attorney General Eric Schneiderman. The technology, rolled out in 2004, made vehicles exceed European emissions standards, so the engineers added software they called "acoustic function" to turn it off during emissions tests, the lawsuit said.

Volkswagen eventually de-

veloped the software, known as defeat devices, for diesel vehicles sold in the U.S. starting in 2008. The German auto maker in September admitted to U.S. environmental regulators that the vehicles used software that allowed them to pollute on the road up to 40 times the amount allowed. The Environmental Protection Agency's subsequent disclosure of the cheating sparked probes across the globe and forced the resignation of Chief

Executive Martin Winterkorn.

The lawsuit cites emails and other documents to allege a prolonged effort among dozens of Volkswagen employees in the U.S. and Germany to equip vehicles with the devices and stonewall inquiries from regulators. The deception went far beyond the "couple of software engineers" whom Michael Horn, then Volkswagen's top U.S. executive, blamed in October, according to the lawsuit.

Please see VW page A8

Bunker Food: Not Just For the Apocalypse Anymore

Firms try to broaden appeal with dehydrated Greek yogurt, gluten-free meals

By SARAH NASSAUER

The "emergency-food" industry has long sold tubs of dehydrated fruit and freeze-dried beef stew to keep until disaster strikes.

The selling point is the food lasts for years. For companies, that is also the drawback. Customers can stock up once—a "one-and-done purchase," said Greg Allison, vice president of marketing for Blue Chip Group Inc., which makes hundreds of different freeze-dried entrees.

So he and others in the business are asking, Why wait for Armageddon?

With a new menu of gluten-free, organic meals, dehydrated Greek yogurt and fruit snacks, companies hope to

draw a wider group of customers who will dig in well before doomsday.

"The zombie apocalypse isn't going to happen," said Kenny Larson, marketing coordinator for Mountain House, which is owned by OFD Foods Inc., an Albany, Ore., freeze-dried food maker that has fed campers and the U.S. military, "but you might get snowed in and not be able to go to the grocery store."

Devin Spratt, of Sunnyvale, Calif., said he discovered freeze-dried food while backpacking but now considers them an easy meal after a long day at his trucking startup. "They are not some gourmet, home-cooked meal," said the 30-year-old mechanic.

Please see FOOD page A8



Thirty-day supply

Republican Meeting Enters Second Day



KEYNOTE: Donald Trump Jr., left, was set to address the Republican National Convention later Tuesday. **A7**

Fed Seems Inclined To Increase Rates

By JON HILSENRATH AND MICHAEL S. DERBY

Federal Reserve officials are looking more confidently toward an interest-rate increase before year-end, possibly as early as September, now that financial markets have stabilized after Britain's vote to leave the European Union and the economy has shown signs of picking up.

Officials are almost certain to leave rates unchanged when they meet July 26-27, according to their public comments and interviews with them. But the message in their postmeeting policy statement could be that the economy is on a more solid footing than appeared to be the case when they last gathered in June, setting the stage for raising rates if the data hold up in the months ahead.

Such a message would get the attention of traders in futures markets, who see low chances for the Fed moving as early as September.

In early June, traders on

the Chicago Mercantile Exchange placed a probability of greater than 60% that the Fed would raise short-term rates by at least a quarter-percentage point by its September policy meeting, according to the CME.

The probability dropped sharply after a weak May jobs report and the June 23 Brexit vote and was just 12% on Monday.

Stock markets initially fell but then bounced back after the Brexit vote, with U.S. indexes hitting record highs and the dollar stabilizing.

Moreover, the June jobs report was better than expected, putting a September Fed move back on the table.

Many Fed officials have said they can be patient before raising rates again, meaning a July move is highly unlikely. But new rounds of strong economic data—particularly on hiring or an uptick in inflation—could increase their sense of urgency in the months

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WORLD NEWS

Philippines' Duterte Is the Man in the Middle



CHINA'S WORLD
ANDREW BROWNE

DAVAO CITY, Philippines—Rodrigo Duterte, the new Philippine president, is used to being treated with the utmost respect.

In his previous job, as mayor of this once-lawless southern city, his war on drug dealers left a trail of bullet-riddled corpses, targets of police as well as vigilante death squads. He roared through the streets on a motorcycle toting a high-caliber rifle.

But on the afternoon of July 12, Mr. Duterte was irritated, according to one of his closest aides. He felt China was toying with him.

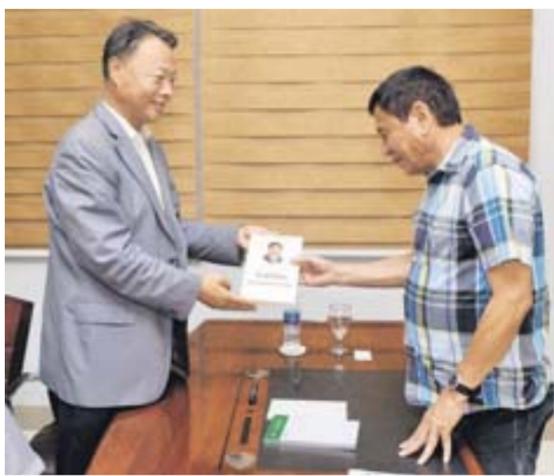
A cabinet meeting had just received word live from The Hague of Manila's stun-

ning victory in its legal challenge to China's claims in the South China Sea, and after noisy clapping and jubilant fist-pumping around the table the first order of business was to issue a public statement. A minister spoke up: He'd had dinner the previous night with the Chinese ambassador.

That got Mr. Duterte's attention. "Are you already a spy of the Chinese?" he demanded, in a teasing kind of way, according to the aide who was in the room.

The minister then relayed a long list of demands from the envoy about what the Philippine government should say—and not say—when the ruling came out. Anticipating a defeat, China was panicked at the prospect that Manila might issue a gloating statement that would add to its humiliation.

Mr. Duterte turned serious. What irked him, said the person in the room, was more than just the presumptuousness of the Chinese demands. The president had met with the ambassador himself earlier the same day



Rodrigo Duterte, right, with China's envoy to the Philippines.

to offer reassurances. "Didn't he trust what I told him?" asked Mr. Duterte.

"Between us guys," he remarked, "I would have said some of those things, but because the embassy wants me to say them, I won't."

The Chinese Embassy in Manila didn't respond to a request to comment.

The Philippine leader is getting a quick lesson in Chinese heavy-handedness.

He is in the middle of an

epic contest between China and the U.S. for regional supremacy. In the eyes of many Chinese nationalists, Manila is little more than an American pawn in this bigger game. Does Mr. Duterte, entirely untested on the global stage, have the temperament and political skills to maneuver between the two giants?

Ahead of the ruling—a surprisingly one-sided judgment that struck down China's historic claims to the

South China Sea and declared that China had violated Manila's rights by building artificial islands, despoiling reefs and chasing away fishermen in its waters—Mr. Duterte's critics sensed an eagerness to back down.

On the campaign trail, he even suggested he could trade maritime sovereignty for a Chinese-built railway line in his impoverished home province of Mindanao. And he pledged that he wouldn't put Philippine troops at risk in a conflict with China they could never win. If necessary, he joked with his usual swagger, he'd ride a jet-ski to the Scarborough Shoal to defend the disputed reef himself.

Mr. Duterte didn't pick this legal battle with China; he inherited it from his predecessor, Benigno Aquino III. But now that Manila has won, he wants to use it as leverage in bilateral talks. China, however, has rejected the ruling as a "piece of wastepaper" and won't negotiate with Manila on that basis.

Washington is watching

Mr. Duterte warily. He makes no secret of the fact that he doesn't trust American security guarantees.

That doesn't mean he wants to abandon the American alliance. At the cabinet meeting, the aide said, he declared he would welcome a show of strength by American aircraft carriers.

Still, says Chito Sta. Romana, president of the Philippine Association for Chinese Studies, "There's been a shift." Mr. Duterte "has signaled he wants cooperation with Beijing, not confrontation."

Mr. Aquino started out with that ambition, too. But after Chinese ships grabbed the Scarborough Shoal in 2012 he did an about-face and started comparing the Chinese regime to Nazi Germany. He launched the legal case the following year.

Mr. Duterte is a more volatile personality—and he brings his street-fighting sensibilities to diplomacy.

China will expect him to mind his manners. In Beijing, "the Punisher," as he's popularly known for his terror tactics against crime, may have met his match.

Rampage Highlights Susceptibility of Migrant Youths

By RUTH BENDER

BERLIN—A 17-year-old Afghan's rampage on a German train has thrown the spotlight on a subset of migrants seen as particularly susceptible to crime or radical extremism: unaccompanied minors.

Investigators on Tuesday were still piecing together what drove the teenage Afghan to stage the ax attack that injured five people late Monday. The young man, who arrived in Germany on his own and sought asylum more than a year ago, appeared to have radicalized rapidly and only recently, authorities said.

But the attacker's young age hits directly at concerns recently voiced by German police and youth workers: that lone-traveling teenagers are especially prone to extremist ideology or recruitment by criminal gangs or fanatics.

"Someone who fled bombs back home is under immense emotional pressure to finally reach a stable situation. We know there are people who try to use this," said Ulrike Schwarz, who works at the Federal Association for Unaccompanied Minor Refugees. "It's a very vulnerable group."

Germany is grappling with the mammoth task of integrating the more than 1 million migrants who poured into the country last year alone. But with minors, the situation is especially complex. Under law, they must be given a legal guardian before they can even apply for asylum. The process can take months as authorities—short-staffed and overwhelmed by the deluge of cases—often need to verify the age of the teenagers, few of whom carry documents.

With a lack of space in schools and shelters in some large cities such as Berlin, underage asylum seekers have often found themselves living in hostels and drifting with limited surveillance.

Germany is currently home to some 52,232 unaccompanied refugee minors, according to the family ministry. Last year alone, between 25,000 and 35,000 unaccompanied foreign children were taken in by youth services, Ms. Schwarz said. Not all of them register for asylum. Germany's migration agency said they received 14,439 requests for asylum from unaccompanied children last year, roughly a third of them Afghans.



Refugee children play in the courtyard of an Athens school now being used as a migrant shelter.

By those standards, the Afghan teen who carried out Monday's attack appeared to have lived in relatively good conditions. After leaving a shelter for unaccompanied children, he was sent to a foster family two weeks ago. Though police found a hand-drawn Islamic State flag in his room and the extremist group

claimed responsibility, investigators say the young man wasn't known previously to authorities and didn't appear to have any links to radical networks.

Authorities warn that migrant minors can fall prey to recruitment by local Islamists. Germany's domestic intelligence registered some 320 at-

tempts since September by known radicals to approach refugees in and around shelters, mosques or charities, according to a spokeswoman. In Bavaria, underage refugees had been spotted attending radical mosques, a spokesman for the state's domestic intelligence agency said.

"I am particularly worried

about the many unaccompanied minor refugees. This group is a particular target for recruiters," Hans-Georg Maassen, head of Germany's domestic intelligence agency, said in an interview earlier this year.

Delinquent Afghan youths, in particular, have also become a fixture of German local crime reports. In February, three young Afghans were filmed harassing a group of passengers on the Munich subway. They were detained and handed suspended sentences.

In April 2015, a 17-year-old Afghan stabbed to death another Afghan minor in a German classroom in Hamburg. The young man was sentenced to five years in prison, a spokesman for the Hamburg prosecutor's office said. The motive behind the attack remained unclear.

Officials have also warned that unaccompanied minors are being targeted by criminal gangs. The European Union's criminal intelligence agency Europol warned early this year that some 10,000 unaccompanied refugee children had disappeared since arriving in Europe and that they suspect some might have fallen into the hands of criminal gangs.

ATTACK

Continued from Page One before, it was the first time it claimed responsibility for a terror act within its borders. The rare attempt on German soil came within days of a fresh large-scale attack in terror-battered France, where a man drove a truck into a crowd in Nice on Bastille Day, killing 84 people.

The extremist group's claim to the attack doesn't mean it directed it, though. The group said it was responsible for the June mass shooting at an Orlando nightclub, for example, even though investigators found no indication the shooter had communicated with any terror group. German authorities said they had no evidence showing ties between

a terrorist network and the train attacker—raising the grim prospect that Germany is up against the same kind of lone-wolf terrorist threat that other Western countries have largely failed to detect.

The Würzburg attack appears to be the worst incident of Islamist terror in Germany since the shooting death of two U.S. military service members at Frankfurt Airport in 2011. Germany had essentially avoided the recent wave of Islamic State-inspired terrorism in the West, a phenomenon that experts chalk up to a combination of luck, effective police work, and a Muslim minority community that is better integrated than those in Belgium or France.

The Alternative for Germany, the upstart anti-immigrant party that rode public concerns about the migrant

influx to a string of regional electoral successes, seized on the attacker's refugee status as fresh evidence that the government's decision to let in more than a million migrants since the start of last year was a security hazard.

"So all this really has nothing to do with Islam?" the party, known as AfD, said in statement on its Facebook page. "What more needs to happen before politicians wake up and stop talking about 'confused lone attackers' but rather finally call the problem by its name?"

Populist, anti-immigrant parties across Europe have argued that the tide of refugees and migrants has created a heightened terrorism risk. In Italy, Matteo Salvini, leader of the populist Northern League, highlighted the Würzburg attack in a Twitter post on Tues-

day, saying, "Those who remain silent are complicit."

Ms. Merkel, whose refusal to close German borders to refugees last fall made her a primary target of European anti-immigrant politicians' ire, made no public comments on Tuesday. Her chief of staff, Peter Altmaier, said in a television interview that the government was taking the incident seriously but that "one single person cannot discredit a whole group of many thousands of young people."

"This kind of event could contribute to the people who say their biggest concern is domestic security saying, 'I was right,' and others joining their ranks," said Gero Neugebauer, a Berlin political scientist.

Wolfgang Bosbach, a conservative lawmaker in Ms. Merkel's party who has criti-

cized her government's refugee policy, said the country's efforts in addressing the security risks of migration continued to fall short. "We've been talking about this for months," Mr. Bosbach said. "But I can't see that this is leading to a change in practice."

The Würzburg attacker arrived as an unaccompanied minor in June 2015, officials said, when the flow of migrants was smaller than it would become in the fall. People who knew the teen told investigators that he was religious but didn't seem extremist, officials said.

"He went to a mosque on important holidays, but not every week," Mr. Herrmann said. "He was a faithful Muslim but did not appear radical or fanatical in any way to people who had contact with him."

The Islamic State-affiliated news agency released a video of a young man it claimed was the attacker promising to attack Germans with a knife and ax, according to SITE, identifying him as Muhammad Riyad. "We have no clues at this point showing that he was in contact with IS," said Erik Ohlenschläger, one of the prosecutors leading the probe.

Last weekend, officials said, the man received news that may have pushed him toward the edge: a friend in Afghanistan had lost his life. Officials said it wasn't clear how the friend died.



Left, police stand next to the train in which an ax-wielding teen migrant attacked passengers Monday. Above, a video image of a man Islamic State says is the attacker.

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WORLD NEWS

Erdogan Ally Died in Bridge Confrontation

During the coup, an architect of president's rise to power and his son were shot

By NED LEVIN

ISTANBUL—One of the architects of Turkish President Recep Tayyip Erdogan's rise to power was among the civilians who died when the military opened fire on a crowd during the failed weekend coup.

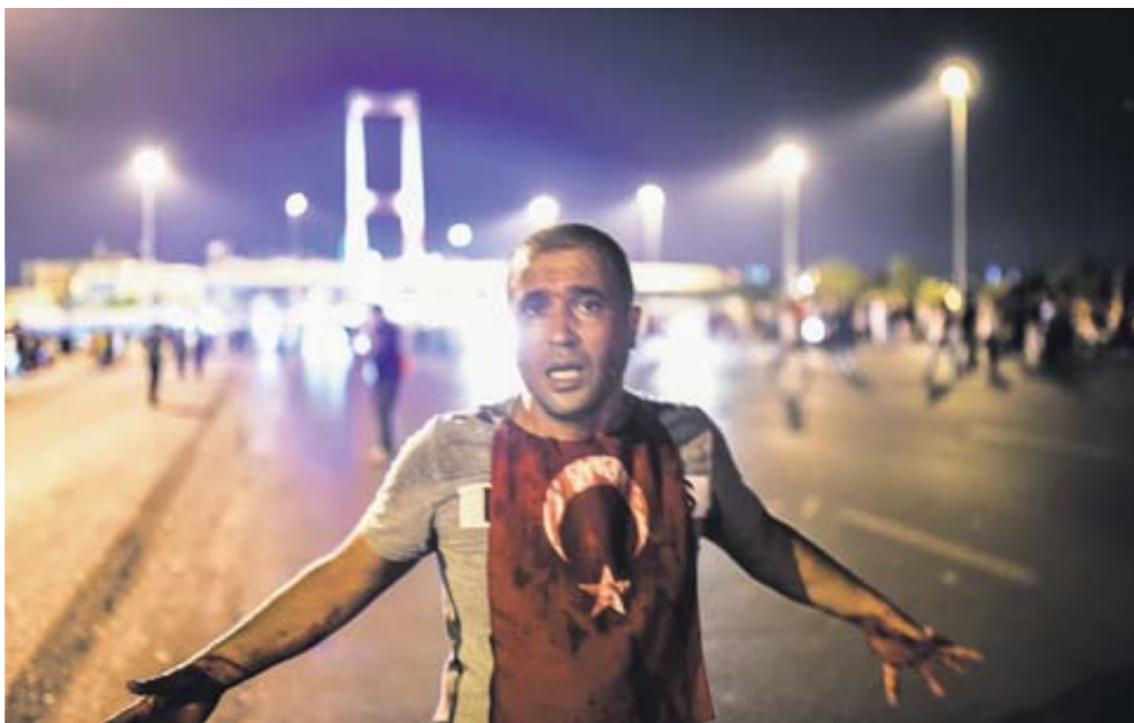
Erol Olcak, shot alongside his 16-year-old son on Istanbul's Bosphorus Bridge, was a close friend and colleague of Mr. Erdogan's dating back to the leader's first major political campaign, for Istanbul mayor, in 1994. Mr. Olcak had crafted advertisements for Mr. Erdogan's Justice and Development Party, or AKP, since the party was founded in 2001.

The showdown at the bridge was one of the most dramatic episodes during the coup, a chaotic incident in which bloodshed erupted when young soldiers armed with machine guns confronted an emotionally charged crowd of thousands.

The coup claimed 240 victims, state-run Anadolu News Agency reported Tuesday. The dead included 173 civilians, 62 police officers, and five soldiers, Anadolu said. Government officials have said that 104 coup plotters were also killed.

Police said they couldn't provide details of deaths and locations and it wasn't possible to verify the figures.

Two witnesses who were on the bridge Friday night say



A man stands near Istanbul's Bosphorus Bridge on Saturday. Soldiers opened fire on a crowd that had gathered at the bridge.

around 10 people died in the melee, which they said broke out around midnight. Witnesses said they saw scores of wounded.

Mr. Olcak, 53 years old, and his son, Abdullah Tayyip Olcak, were among the civilians who came out in opposition to a small caravan of Turkish soldiers on the bridge, which connects the Asian side of the city and the European side.

"He believed in democracy, worked for real democracy for his entire life and after all died for it," said Firat Arslan, plan-

ning director at Mr. Olcak's firm, Arter Advertising.

Civilians had gathered on the Asian side of the bridge after politicians, including Mr. Erdogan, announced on TV and social media that a coup was under way and called for people to resist.

The atmosphere, at first, was festive, said Yildiray Ogur, a Turkish journalist who was also on the bridge.

"People were coming there with children, with babies. Nobody thought that the soldiers would shoot," he said.

To Mr. Olcak's former colleagues, the scene felt eerily similar to one he had created for a televised political advertisement that ran during Turkish local elections in 2014.

The ad depicted crowds of Turks from all walks of life banding together to prevent a black-gloved saboteur from downing a massive Turkish flag. Swarms of citizens dive into the Bosphorus and climb on top of one another to bring the flag back to the top of a flagpole, to sweeping music and a voice-over of Mr. Erdogan

reading stanzas of the Turkish national anthem.

"The people will not bend, Turkey will not be defeated," flashes on the screen at the end of the ad. Mr. Olcak's employee, Mr. Arslan, said the ad had one of the biggest budgets in Turkish advertising history and employed 100 actors.

The ad was the subject of controversy because of a ban on using the Turkish flag in campaign ads. Later, Mr. Erdogan's party released a version of the ad in which the flag's star and crescent were edited out.

The real crowd at the Bosphorus Bridge was filled with a similar patriotic fervor, witnesses said. But the mood changed suddenly when the soldiers opened fire, they said. Witnesses said soldiers fired when the crowd started moving close to their lines.

Videos posted online show troops repelling several charges from men on foot and one on a motorcycle. Cengiz Sunar, a television producer, said he saw people charge the troops three times.

"People started screaming, 'How dare you shoot us with our guns, bought with our taxes,'" said Mr. Ogur, the journalist.

Mr. Olcak and his son were killed in the gunfire, according to Mr. Arslan. The troops surrendered around daybreak, witnesses said.

On Monday, a funeral for Mr. Olcak, his son and a photojournalist who also died in the coup was held in Istanbul. Mr. Erdogan, former President Abdullah Gul, and former Prime Minister Ahmet Davutoglu attended. Delivering a eulogy for his friend, who named his son after both presidents, Mr. Erdogan wept.

"Erol was my fellow traveler and Abdullah was our brilliant boy," Mr. Erdogan said.

This week, the original version of Mr. Olcak's ad started appearing on Turkish television and public video screens around Istanbul, but without the AKP's logo. An AKP spokesman didn't respond to a question about who, if anyone, was paying for the campaign.

—Yeliz Candemir contributed to this article.

U.S. Holds Split View of Cleric Who Rivals President

By JAY SOLOMON

WASHINGTON—U.S. efforts to defuse post-coup tensions with Turkey are focused on understanding the cleric whom the Turkish government charges with instigating the rebellion.

Fethullah Gulen has lived in the U.S. for more than 15 years in the Pocono Mountains. But the administration concedes they have two widely divergent views of the Muslim imam.

One is that of an aging 77-year-old who seems incapable of dictating events half a world away and appears content to spend his final days "looking forward to meeting [his] Lord," as he said in an email exchange with The Wall Street Journal on Sunday.

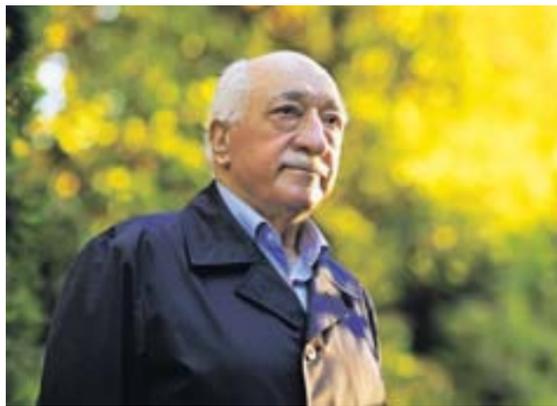
The second is that of a shrewd political operator and businessman who built a huge religious movement in Turkey and has openly talked in the past about quietly loading the ranks of the country's judiciary, security forces and parliament with his followers.

Gulenists, U.S. officials have said, have played high-profile roles in recent years in attempting to weaken both the Turkish military and President Recep Tayyip Erdogan's government.

"On the surface, it seems too easy to blame the coup on someone like Gulen," said Steven Cook, an expert on Turkey at the Council on Foreign Relations. "But in reality, no one really knows. Gulen's movement has been aggressive in trying to reshape the Turkish state."

Mr. Gulen on Saturday denounced the coup and denied that he played any role in it, alleging that Mr. Erdogan staged it to strengthen his own power. In a press briefing from his house in Saylorsburg, Pa., he also said he would face persecution if he was extradited to Turkey.

Soner Cagaptay, a Turkey expert at the Washington Institute for Near East Policy, said it appears that at least some Gulenist officers were involved in the coup attempt, though there were also non-Gulenist officers. He said it



Fethullah Gulen pictured in 2013 at his residence in Saylorsburg, Pa.

could have been a combination of factions in the military.

"If the Gulen movement was the mastermind behind it, that has yet to be seen," he said, but added: "There is definitely a Gulenist layer."

Mr. Gulen has defined himself by promoting education, modernity and a dialogue among varying faiths during his decades of preaching. He also

emerged as a close ally of Mr. Erdogan in the 1990s and 2000s as they jointly campaigned to end military rule in Turkey.

"I am hopeful that lessons will be learned from this experience and the current authoritarian trend will not last long, and Turkey will restore its journey toward further democratization," Mr. Gulen wrote to the Journal on Sunday.

Mr. Gulen's championing of Turkish democracy and nonviolence discredits to many the idea that the spiritual leader could have played a role in the coup, even if followers within the military did.

Still, supporters of Mr. Gulen have directly challenged Mr. Erdogan in recent years.

Their break was sealed in 2013, said Turkey watchers, when Gulenist media and supporters in the judiciary and police force made public tapes implicating Mr. Erdogan and other members of his government in an alleged kickback scheme. Mr. Erdogan's government has responded by purging the ranks of both institutions in recent years.

Mr. Gulen, in the past, hasn't made secret his hope that his supporters, who promote Turkish nationalism and Islamic values, would gradually dominate the ranks of the country's bureaucracy.

"You must move into the arteries of the system without anyone noticing your existence

until you reach all the power centers," Mr. Gulen said in a famous 1999 sermon to his supporters that was broadcast on Turkish television. "You must wait until such time as you have got all the state power, until you have brought to your side all the power of the constitutional institution in Turkey."

Mr. Erdogan said Monday that his government is days away from compiling evidence to submit to the U.S. for Mr. Gulen's extradition, and once more demanded Washington hand him over. While toning down previous statements by his government—his prime minister said over the weekend that any country refusing to hand over Mr. Gulen would be in a "war" with Turkey—Mr. Erdogan nonetheless was insistent.

"We are strategic partners, we are model partners," Mr. Erdogan said in a CNN interview. "And the U.S. has to extradite that individual to Turkey. I do hope that the U.S. will do that."

—Felicia Schwartz contributed to this article.

Ankara Cuts Rate After Failed Coup

By YELIZ CANDEMIR

ISTANBUL—Turkey's central bank cut one of its key rates for the fifth consecutive month, after a failed coup triggered fears about repercussions for the country's economy.

The Monetary Policy Committee in Ankara on Tuesday said it cut the overnight lending rate to 8.75% from 9%.

Analysts were split ahead of the decision, which comes a few days after a faction of the military tried to overthrow President Recep Tayyip Erdogan and his ruling Justice and Development Party.

"We had expected the central bank to refrain from another rate cut or even consider measures to support the Turkish lira due to the weekend's coup attempt, but that view proved wrong," said Anders Svendsen, a chief analyst at Nordea Bank AB. "Today's move shows the central bank's determination to get interest rates down, but also some Turkish lira complacency."

After the decision, Turkey's lira extended its losses, trading 2.2% lower at 3.0429 per dollar on Tuesday afternoon.

TURKEY

Continued from Page One

charged on Monday in a lengthy court procedure, where he and other officers appeared bruised and banded before court in Ankara.

A Turkish official said the education ministry had been a particular concern for the government due to suspicions that Mr. Gulen's supporters were gaining power there. In light of those worries, he said the threshold for evidence was low to order firings.

"The National Education Ministry...has carried out wide-ranging study on public servants with ties to the Fethullah Gulen terrorist organization," the ministry said.

On his call with Mr. Erdogan on Tuesday, Mr. Obama pledged U.S. assistance in Turkey's investigation into the attempted coup, but stressed the need to follow democratic processes in carrying out that investigation, the White House said.

White House press secretary Josh Earnest said Obama administration officials are still sifting through the documents Turkey submitted electronically, adding it wasn't yet clear if they included a formal request for Mr. Gulen's extradition.

Prime Minister Binali Yildirim criticized the U.S. in an address to parliament for in-

sisting on proof to extradite Mr. Gulen to Turkey. "When you were demanding terrorists [after] Sept. 11, when you were collecting suspects in Guantanamo, did you ask for proof?" he said.

Mr. Gulen, who denies being behind the coup, has urged the Obama administration not to grant Turkey's request for extradition.

The repercussions of the failed coup will be felt in Washington on Wednesday, where both Turkey's foreign minister and defense minister

will be absent from a meeting of U.S. allies to review the fight against Islamic State, which Turkey plays a large part.

Both canceled meetings to attend an emergency national security council and cabinet meeting, after which Mr. Erdogan has promised to make an important announcement.

In a series of public rallies, Mr. Erdogan has exhorted his followers to voice their solidarity against the attempted seizure of power. Public transportation in Turkish cities has

been free since the coup to aid people coming to his rallies and those of other pro-government figures.

The government says the putsch attempt resulted in the deaths of 240 civilians, police and military who opposed it. But the government on Tuesday lowered its tally of deaths on among the insurgents to 24, having previously put their death toll at more than 100.

Turkey's top religious office said that military officers who lost their lives in the coup at-



President Recep Tayyip Erdogan wiped away tears at a funeral of anti-coup protesters in Istanbul.

tempt wouldn't be given religious services at their funerals, a serious offense in Mr. Erdogan's Turkey, where religion has gained importance under his rule.

Speaking to protesters outside his Istanbul residence early Tuesday, Mr. Erdogan promised to approve the reinstatement of the death penalty for the coup leaders if parliament passes the measure. Capital punishment has been outlawed in Turkey since 2004. "[The coup leaders] should know they will pay the price," he said to thunderous applause.

The post-coup crackdown has bolstered domestic support for Mr. Erdogan. Senol Oy, a 49-year-old who said he was only 4 when he experienced his first coup, said the government wasn't acting out of vengeance, but doing only what was needed to rid itself of a sprawling terrorist network seeking to bring down a democratic government.

"I never voted for [Mr. Erdogan's] AK Party, but this isn't about ideology or religion," said Mr. Oy, shopping with his wife in Istanbul's fashionable Levent district. "This is about people coming together to do what needs to be done."

—Emre Peker in Ankara, Dion Nissenbaum in Istanbul and Valentina Pop in Brussels contributed to this article.

WORLD NEWS

Brexit Legal Challenge Opens in Court

Case brought by individuals argues only Parliament has right to initiate withdrawal

BY ALEXIS FLYNN AND STU WOO

LONDON—The first legal challenge to Brexit began Tuesday in the U.K. High Court, where claimants argued only Britain's Parliament—and not the prime minister—has the authority to initiate the U.K.'s withdrawal from the European Union.

The case, which combines at least seven private actions brought by individuals who had supported Britain's continued EU membership in the June 23 referendum, underscores the complexities involved in the U.K.'s decision to leave the bloc, the first member of the modern EU to do so.

Jason Coppel, a lawyer representing the government, in a hearing Tuesday said the government wouldn't trigger Article 50—the formal mechanism for starting the process of leaving the EU—before the end of 2016. Theresa May, Britain's new prime minister, has said she wouldn't invoke the mechanism before the end of the year.

A member state that wants to exit the bloc needs to first formally notify the other 27 governments, initiating a complex process set out in Article 50 of the Lisbon treaty.

The legal arguments focus on who has the authority to trigger Article 50; doing so opens a two-year window for negotiating terms of withdrawal, though the time period can be extended.

The government claims it has the right to do so because of what is known as the royal prerogative, where executive authority is given to ministers to govern on the monarch's behalf. Lawyers representing the government also say Ms. May has a responsibility to carry out the wishes of the people, a majority of whom voted to leave the EU.

But the claimants argue that the prime minister would overreach her powers if she triggered Article 50 without prior parliamentary consent. Doing so, they argue, would override the 1972 European Communities Act, which enshrines European law in the U.K. and which the claimants say ensures rights that can be removed only by Parliament. The majority of lawmakers supported the Remain campaign.

"We have advised that it would be unlawful for the prime minister, or any other minister, to purport to start the Article 50 process without primary legislation," said a filing by Bindmans, one of the law firms challenging the government.



Prime Minister Theresa May has said she wouldn't trigger withdrawal talks before the end of the year.

Judge Brian Leveson said the case would be treated with utmost seriousness and could be expedited to the Supreme Court by the end of the year given that it is "of such constitutional importance."

Spearheading the legal challenge is British businesswoman Gina Miller, co-founder of boutique investment firm SCM Private and a campaigner for transparency in the financial and charity sectors. Deir Dos Santos, a hairdresser, and a group of unnamed French-based expatriates are co-parties.

David Pannick, one of the country's foremost constitutional experts, is representing some of the claimants, including Ms. Miller.

Mr. Pannick said some of the claimants that hired Mishcon de Reya, the law firm that appointed him to lead the case, wanted to remain anonymous because the firm had been subjected to "racist" abuse since its involvement in the Brexit proceedings was announced earlier in July.

Ms. Miller, whose investment firm bills itself as an ethically minded fund manager, in an interview said she supported the U.K.'s continued membership but sees positive aspects to leaving the EU, such as the chance to rid the country of what she called antiquated regulations. She said she was leading the legal effort because she felt referendum campaigners were dishonest and didn't properly explain the ramifications of the referendum.

"Without a debate in Parliament, I still do not think that people understand what they voted for," Ms. Miller said.

While the case is expected to deliver meaty fare for constitutional scholars, some legal experts said it was unlikely to succeed.

"I don't think the arguments are that persuasive," said Kenneth Armstrong, a professor of European law at the University of Cambridge. Mr. Armstrong said lawmakers could be said to have made a call on the government's right to trigger Brexit when Parliament passed an act authorizing the referendum last year. Alex Chesterman, founder of U.K. internet home-search company Zoopla Property Group PLC, is supporting Ms. Miller's effort, she said.



Owen Smith, seen here in Wales on Sunday, will take on Jeremy Corbyn for the party leadership. Angela Eagle has backed Mr. Smith.

Johnson Meets Kerry, Touts U.K.-U.S. Ties

BY JENNY GROSS

LONDON—U.K. Foreign Secretary Boris Johnson said he wanted to reshape Britain as a more outward-looking country and underlined his commitment to what he called the special relationship between Britain and the U.S. following a meeting with Secretary of State John Kerry in London.

Mr. Johnson, a leading proponent of Britain's exit from the European Union, was speaking at his first press conference since being appointed foreign secretary last week and was joined by Mr. Kerry. It comes as Britain seeks to reassure allies it will remain an engaged world power following its June decision to move to withdraw from the 28-member bloc.

London's former mayor, who has also worked as a journalist, faced questions from reporters Tuesday about colorful remarks he has made. Mr. Johnson this year said President Barack Obama may have an "ancestral dislike" of the British Empire because of his Kenyan roots and in 2007 likened Hillary Clinton to a "sadistic nurse in a mental hospital."

Mr. Johnson said his past comments in newspaper articles had been taken out of context and that he wanted to focus on the international conflicts and the global challenges facing the U.K. "I'm afraid there is such a rich thesaurus now of things that I've said that have been one way or another, through what alchemy I do not know, somehow mis-

construed, that it would really take me too long to engage in a full global itinerary of apology to all concerned."

On Britain's future role, Mr. Johnson said he wanted to reshape Britain as an even greater global nation and as more outward-looking and involved on international issues. He said the relationship with the U.S. remains strong and vital.

Mr. Kerry, who along with Mr. Obama had ahead of the referendum urged Britons to vote to remain in the EU, said the U.S. hopes for the exit from the EU to be as smooth as possible and for Britain to continue to have a highly collaborative relationship with the EU. He added that ties were "special and unbreakable" and that no shift in administration—either in the U.K. or the U.S.—would undermine that relationship.

In terms of the trading relationship between the two countries, he said there are "complicated questions that are posed by Brexit" because the U.K. can't sign a trade agreement with the U.S. until it actually leaves the EU. But Messrs. Kerry and Johnson said the U.S. and U.K. were prepared to engage in conversations about a bilateral deal.

"Clearly you can begin to pencil things in—you can't ink them in, and that's entirely right and proper," Mr. Johnson said.

The meeting came before Mr. Johnson travels to Washington on Thursday for meetings on countering the threat of militant group Islamic State.

Eagle Backs Smith in Labour Race

BY ALEXIS FLYNN

LONDON—Angela Eagle pulled out of the race to lead the U.K.'s main opposition Labour Party, placing her support behind the other candidate challenging the leadership of Jeremy Corbyn.

"Owen Smith will make a great leader for Labour and a great prime minister," Ms. Eagle said in a statement endorsing her erstwhile rival. "I will always do everything I can for the party I love."

Neither Mr. Smith nor his spokesman was immediately able to comment.

The contest follows weeks

of pressure on Mr. Corbyn, a former union organizer, to step down in the wake of Britain's vote to leave the European Union.

The Brexit vote shook up both Labour and the governing Conservative Party, prompting David Cameron's resignation as prime minister and his swift replacement at the helm of the party—and country—by former Home Secretary Theresa May.

But while Conservative fortunes have rebounded quickly, with Ms. May garnering high approval ratings, Labour's standing among voters has plummeted.

A fractious battle quickly broke out between Mr. Corbyn and most of his fellow Labour Party lawmakers, who say he didn't campaign hard enough for Britain's continued membership in the EU. Many also worry that Mr. Corbyn, a veteran far-left activist, doesn't have enough appeal to win a general election.

Ms. Eagle, a senior party figure, mounted her leadership challenge a little over a week ago. She was joined on the ballot days later by Mr. Smith, a Welsh lawmaker and former Corbyn ally.

However, with opinion polls showing Mr. Corbyn holding

much of the support among grass-roots Labour members, the challengers acknowledged that it made sense for only one of them to stay in the race.

Even in a two-horse race, Mr. Corbyn could defeat a challenger in the final round of voting, due to take place in September. According to a poll by YouGov conducted between Friday and Monday, 56% of Labour members would back Mr. Corbyn. By contrast, only 34% would vote for Mr. Smith.

The head-to-head contest will begin Wednesday, when the nominated candidates are officially confirmed.

Brexit, Terror Attacks Dim Hopes for a Global Rebound

BY IAN TALLEY

WASHINGTON—The International Monetary Fund downgraded its forecast for global economic growth as Britain's surprise vote to leave the European Union last month weighs on consumer confidence and investor sentiment.

The IMF on Tuesday notched down its global growth estimate for this year and next by 0.1 percentage point, putting 2016 at 3.1% and on par with last year's pace, the slowest since the financial crisis. The fund expects a mild pickup next year to 3.4% annual growth.

But it warned that a host of threats—including geopolitical turmoil, rising protectionism and terrorist attacks—could push growth into a deeper rut. Meanwhile, central banks appear to be running out of options to boost output, reflected in part by bonds yields plumbing new depths around the world. Many emerging markets are still struggling to cope with China's deceleration and the long-term slump in trade and commodity prices.

The Brexit vote "adds downward pressure to the world economy at a time when growth has been slow amid an array of re-

maining downside risks," said IMF chief economist Maurice Obstfeld. The IMF had been prepared before the vote to nudge up its outlook on the back of firmer commodity prices and less-severe contractions in Brazil and Russia. "But Brexit has thrown a spanner in the works," he said.

The IMF's latest World Economic Outlook sets the tone for a meeting of the world's top finance ministers and central bankers this week in China. Officials from the Group of 20 leading advanced and developing economies will call on each other to deliver on long-promised policies meant to spur growth.

Brexit will likely take center stage, with officials focusing on "the near- and long-term implications of the decision by voters in the U.K. to exit the EU," a senior U.S. Treasury official said.

Though many markets have stabilized after a post-Brexit selloff, the IMF warned the vote's impact will likely play out over time. The IMF cut prospects for eurozone growth next year across the board, including 0.9 percentage point for the U.K. to 1.3% and 0.4 point for Germany to 1.2%.

But the current outlook is

based on a "benign assumption" that the U.K. and the EU preserve much of their trade, finance and economic relationship.

That is by no means ensured, however, due to the lack of clarity about the U.K.'s ultimate relationship with the EU. "More negative outcomes are a distinct possibility," fund economists warned in the report.

Prolonged and acrimonious

negotiations could drag down global growth to 2.8% this year and next, the IMF said. Brexit has drawn new attention to Europe's legacy banking weaknesses, with some officials warning the financial system could face another full-blown crisis.

"This overlay of extra uncertainty, in turn, may open the door to an amplified response of financial markets to negative

shocks," Mr. Obstfeld said.

The fund also trimmed its forecast for U.S. growth this year by 0.2 point to 2.2% on the back of a weaker-than-expected first quarter as a strong dollar and souring energy sector hit the economy.

Brexit added to Japan's exchange-rate headaches as capital fleeing London sought refuge in the yen, one of the

world's haven currencies. Instead of a planned upward revision for the world's third-largest economy, a stronger yen forced the IMF to cut the country's growth prospects for this year by 0.2 point to a measly rate of 0.3% this year. Tokyo's decision to delay a consumption-tax increase means the country will avoid a recession. But the economy is expected to expand by only 0.1% next year.

Africa's largest economy, Nigeria, took the largest revision as plummeting oil prices, production cuts, power outages and souring investor confidence took their toll. The fund cut its forecast by 4.1 points for 2016 and 2.4 points for 2017, putting the economy in a 1.8% contraction this year and a mild 1.1% expansion next year.

While the overall outlook is gloomy, the IMF cited a few bright spots in the global economy such as market resilience in the face of the surprise Brexit vote. The fund also raised its forecasts for Brazil and Russia, projecting the two commodity exporters will pull out of deep recessions next year.

—Jason Douglas in London contributed to this article.



Soldiers patrolled the Nice waterfront on Tuesday after last week's deadly truck rampage.

WORLD NEWS

Russian Officials Get Games Ban

IOC bars those named in doping report, holds off on deciding whether athletes can compete

By MATTHEW FUTTERMAN

The International Olympic Committee on Tuesday banned all Russian officials named in the latest doping report from the Rio Games but held off, for now, on deciding whether to prohibit the country's athletes from competing.

The ruling puts on hold until later this week the decision the IOC faces on whether to ban the entire Russian delegation from participating in the Summer Games, which begin in Rio de Janeiro in less than three weeks.

The Court of Arbitration for Sport is set to rule Thursday on whether collective punishment can be used as a penalty for a state-sponsored doping program or if the rights of potentially innocent athletes to compete need to be protected.

A report commissioned by the World Anti-Doping Agency, released on Monday, laid out a multitiered scheme, stretching into the Russian government and security services, to allow the country's athletes to use performance enhancing drugs and hide it from the rest of the world.

The most brazen moves allegedly took place during the Sochi Olympics, when Russian officials passed dirty urine samples from a testing lab through a "mouse-hole" to security agents, who replaced them with clean ones, accord-



President Putin, seen speaking to Olympics volunteers in Sochi in 2014, on Monday criticized 'political interference' in international sports.

ing to the report.

The report, written by Canadian lawyer Richard McLaren, sparked demands by a number of athletes and sports officials to prohibit Russian athletes from competing both in Rio next month and at the Winter Games in South Korea in 2018.

In June, track and field's world governing body declined to lift an international suspension of Russia's athletics team ahead of the Rio Games.

In response, Russia sued

the International Association of Athletics Federations. A ruling on that lawsuit is expected Thursday by the Court of Arbitration for Sport.

In a statement on Monday, Russian President Vladimir Putin said doping had no place in sports but criticized those who wanted to ban Russian athletes as politicizing international sports. "Now, we are seeing a dangerous recurrence of political interference in sport," the Russian president said.

In a statement released af-

ter an emergency executive board meeting on Tuesday, the IOC said it would, "explore the legal options with regard to a collective ban of all Russian athletes for the Olympic Games 2016 versus the right to individual justice."

However, the IOC reiterated a provision it put forth in June that removed the presumption of innocence from Russian athletes who want to compete at the Olympics.

Under this provision, each Russian athlete's eligibility has

to be independently evaluated by the international federation in charge of their sport.

In addition, the IOC said it would reanalyze all urine samples from the Sochi Games and ordered a full investigation of Russia's sports staff involved in those Olympics. The organization asked all winter sports federations to move all scheduled competitions in Russia.

Among the Russian officials banned from the Rio Games on Tuesday was the country's minister of sport, Vitaly Mutko.

EU Court Adviser Backs U.K. Data Laws

By NATALIA DROZDIK

BRUSSELS—The U.K. and other European Union member states are allowed to impose data-retention rules on telecommunications companies to fight serious crime, a top adviser to the European Court of Justice said Tuesday.

In a nonbinding opinion, Advocate General Henrik Saugmandsgaard Oe said that, under EU law, member states are allowed to oblige telecoms providers to retain data on citizens' private communications but that governments need to satisfy strict requirements, particularly in regard to access to the data by security services.

"EU law requires that any interference with the fundamental rights should be in the pursuit of an objective in the general interest," Mr. Saugmandsgaard Oe said. "Solely the fight against serious crime is an objective in the general interest that is capable of justifying a general obligation to retain data."

Governments also need to ensure against "arbitrary interference" by authorities and must respect citizens' rights to private life, he said.

The case stems partly from a challenge lodged by a group of British politicians, including Tom Watson, deputy leader of the Labour Party, against the U.K. government. The EU's top court is also addressing a similar challenge in Sweden.

In the U.K. case, the politicians claimed the British government failed to adhere to the EU's strict data laws because U.K. legislation doesn't provide clear rules around national authorities' access to that information and the conditions on its use. U.K. rules require public telecoms operators to hold on to all communications data for a maximum period of 12 months.

Theresa May, former U.K. home secretary and now the new prime minister, had challenged a 2015 ruling by Britain's High Court of Justice against the U.K. government, which led the case to be referred to the bloc's highest court.

Pro-Brexit campaigner David Davis had also been involved in the challenge against the government before Ms. May appointed him chief of the U.K.'s task force to leave the bloc. Ms. May took on her new role as prime minister after David Cameron stepped down following Britain's referendum vote to leave the EU.

The British politicians argued that the U.K.'s 2014 data retention and investigatory powers act, which allows British security officials to gather information about people suspected criminals contact by telephone or email, doesn't comply with the EU's rules. They pointed to a 2014 ECJ decision annulling the EU's previous data-retention law over concerns it didn't sufficiently limit authorities' access to collected information.

As Outlook Worsens, ECB Expected to Hold

By TOM FAIRLESS

FRANKFURT—The European Central Bank is expected to leave its €1.8 trillion (\$1.994 trillion) stimulus unchanged at its policy meeting on Thursday, despite a potential economic slowdown in the euro area in the wake of Britain's vote to leave the European Union.

ECB President Mario Draghi has identified Brexit as a key risk that could shave up to 0.5 percentage point off eurozone economic growth over three years. Early survey data published Tuesday shows German investors are very concerned about the fallout.

But economists say that after years of monetary stimulus the ECB and other central banks are running out of policy options. Last week, the Bank of England surprised investors by postponing any response to Brexit until August. "The ECB is more and more short of ammunition," said Franck Dixmier, Global Head of Fixed Income at Allianz Global Investors. He said the bank will have to use it "only in exceptional circumstances."

Most economists expect Mr. Draghi will use his news conference on Thursday to reas-



ECB President Mario Draghi

sure investors of the ECB's ability to bolster the economy again if needed. Many think the ECB president will signal fresh stimulus is coming in September, when economic forecasts will be available that factor in the impact of the U.K. vote.

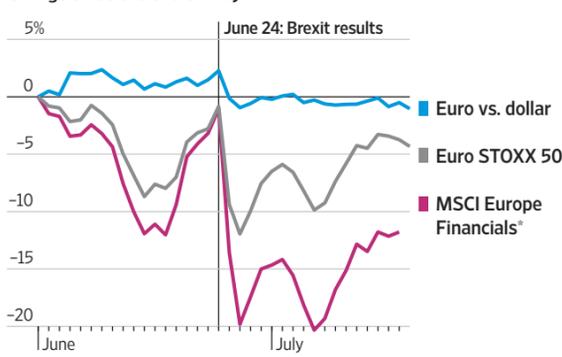
"It's critical for the ECB to convince investors that it can act again," Mr. Dixmier said.

The fallout from Brexit on the euro area remains unclear. An initial bout of financial-market volatility has subsided.

Aftershocks

Following the U.K. vote to leave the European Union, European markets plummeted and haven't returned to pre-Brexit levels.

Change since the end of May



*As of July 18 Sources: FactSet (indexes); Tullett Prebon (currencies) THE WALL STREET JOURNAL.

European stock markets largely recovered from a sharp fall and yields on 10-year German government bonds returned toward zero. The euro has risen sharply against the pound but has fallen against the dollar.

Yet vulnerability lingers. Shares of European banks plunged by roughly 20% and haven't fully recovered. Italian officials are negotiating with EU authorities over a possible €40 billion capital injection

for the banks. The latest batch of EU stress-test results, due to be published on July 29, could reveal further weaknesses in the sector.

Such problems "cannot be fully ignored by the ECB" when designing its monetary policy, said Gilles Moeck, an economist with Bank of America Merrill Lynch in London.

Meanwhile, the first eurozone indicator to be published since the U.K. referendum—the ZEW index of German investor

sentiment—slumped to nearly a four-year low on Tuesday. ZEW President Achim Wambach blamed Brexit.

The European Commission, the EU's executive arm, warned Tuesday that the U.K. referendum would likely reduce the eurozone's gross domestic product by up to 0.5% by 2017, due to heightened uncertainty, and knock up to 0.25 percentage point off inflation.

The ECB's challenge is that it has already done much to support the eurozone economy. It has twice boosted monetary stimulus since December, accelerated its bond purchases to €80 billion a month, slashed interest rates further below zero and launched new four-year loans for banks.

Despite that, eurozone inflation was just 0.1% in June, far below the ECB's target of just below 2%. Top ECB officials have urged investors to wait for the full impact of the bank's recent policy measures to unfold.

"There's not a huge amount they can do of a new nature," said Tim Graf, head of macro strategy for Europe at State Street Global Markets. "On the [interest] rates side they're probably out of options."

World Watch

EUROPEAN UNION

Chinese Duties Spur Complaint to WTO

The European Union launched a complaint against China for failing to remove export duties on certain raw materials, which it says favor Chinese industry and violate commitments Beijing made when it entered the World Trade Organization 15 years ago.

The case is the third such legal action by the EU—following two successful ones in 2012 and 2014 on similar measures—and adds to a trade dispute between China and the 28-country bloc.

The EU's complaint focuses on export duties on raw materials including graphite, cobalt, copper, tin and lead. It says the duties limit exports of these products for companies outside China, distorting the market.

—Viktoria Dendrinou

BRAZIL

Half of Residents Oppose Rio Games

With less than three weeks

before the start of the Olympic Games in Rio de Janeiro, half of Brazilians are against the sporting event in the city, as they believe it will generate more losses than gains for the country.

According to a survey by Datafolha polling institute, 50% of Brazilians are against the Games in Rio, up from 25% in a similar survey three years ago. Meanwhile, 40% are in favor, down from 64% in the previous survey. The remaining 10% expressed no opinion.

The Games will take place Aug. 5-21. An estimated 500,000 tourists and athletes are expected to descend on Rio.

The rejection of the Games among Brazilians is increasing, as people sees less benefit for their country and lack interest in the events. The survey took place amid a deep and prolonged economic recession in Brazil, which is also damaging Rio do Janeiro's state finances.

Datafolha's current survey involved 2,792 Brazilians interviewed nationwide July 14-15. The poll had a margin of error of 2 percentage points.

—Rogerio Jelmayer

IRAN

U.N. Hails, Criticizes Tehran on Accord

A United Nations report on the Iran nuclear deal hailed the country for keeping its nuclear

commitments, while criticizing actions unrelated to its nuclear program but that are seen as damaging to the momentum and spirit of the deal.

The 17-page report, timed around the first anniversary of the deal, was released by U.N. Secretary-General Ban Ki-moon.

Mr. Ban pointed to Iran's launches of long-range ballistic missiles and reports that it shipped weapons to Yemen and Iraq.

Mr. Ban's criticism was care-

fully worded. The report calls on Iran to refrain from activities that could destabilize the region, but doesn't condemn Iran for violating Security Council Resolution 2231. The resolution was adopted by the council unanimously in July 2015 to endorse the nuclear deal.

"While it is for the Security Council to interpret its own resolutions, I am concerned that those ballistic missile launches aren't consistent with the constructive

spirit" in the nuclear agreement, Mr. Ban said in the report.

—Farnaz Fassihi

INDONESIA

Security Forces Kill Alleged Terrorist

Security forces shot and killed Indonesia's most-wanted alleged terrorist, giving President Joko Widodo a hard-earned victory as he contends with the threat of Islamic State influence in the world's



SOGGY COMMUTE: Umbrellas do little to help people walking through a flooded street in Taiyuan, Shanxi province, China, on Tuesday. Heavy rain has hit many parts of northern China, halting transportation.

largest Muslim-majority nation.

Police said they killed two men in a jungle shootout a day earlier in a rugged, remote area on the island of Sulawesi. One of them was confirmed to be Santoso, the alleged leader of a terrorism network known as Mujahidin Indonesia Timur. The U.S. had put Santoso and the group on a terror list for alleged links to Islamic State, targeting the group with sanctions in September.

Santoso had been the focus of more than a year of intensive counterterrorism operations involving thousands of soldiers and police.

—Ben Otto

NORTH KOREA

Pyongyang Test-Fires 3 Ballistic Missiles

North Korea test-fired three ballistic missiles—two with the range to hit any point in South Korea and a more-powerful one capable of reaching Japan—in what was seen as the latest demonstration of Pyongyang's displeasure at a planned U.S. missile-defense system on the peninsula.

The three missiles were fired from Hwangju, south of Pyongyang. One flew 310 miles and another 375 miles before crashing into the sea off the country's east coast, the South Korean military said, adding that the third missile's trajectory was still being examined.

—Kwanwoo Jun

U.S. NEWS



A mosquito-control inspector in Miami-Dade County, Fla., examined larva in May taken from a pool of standing water.

States Bolster Zika Defenses

Public-health officials race to stop mosquito-borne virus spreading in mainland U.S.

By Betsy McKay and Cameron McWhirter

With summer in full swing, public-health and mosquito-control officials are pulling out the stops to halt the Zika virus from taking root and spreading in the continental U.S.

The mosquitoes that are able to spread the virus are flourishing this summer in Key West, Fla., just as they did six years ago during an outbreak of dengue—another disease they can transmit, said Michael Doyle, executive director of the Florida Keys Mosquito Control District. “We’re on high alert,” he said.

His team has stepped up mosquito-control activities, trapping mosquitoes, applying larvicide to breeding spots, even conducting aerial spraying to kill adult mosquitoes. That last step isn’t as effective as other measures against a pest that hides in and around homes, he admits. “But we have very few tools,” he said.

Finding better tools against these mosquitoes is just one of the challenges he and others face as the virus spreads rapidly through the Americas. Zika is behind an epidemic in 62 countries and territories since 2015, which the World Health Organization deems a public health emergency owing to its

connection to birth defects in the fetuses and babies of infected pregnant women.

The federal Centers for Disease Control and Prevention says widespread outbreaks in the continental U.S. are unlikely; the main mosquito that spreads Zika—*Aedes aegypti*—thrives mostly in poor, crowded neighborhoods in the tropics where there are plenty of places to breed and people to infect. Most American neighborhoods are made up of homes that aren’t packed as tightly together and are often air-conditioned.

Still, the agency predicts at least some transmission of Zika on the mainland this summer, and has laid out strategies for responding to cases that do occur. “We do anticipate there will be spread,” CDC Director Tom Frieden said recently.

Detecting them won’t be easy. Officials are up against a virus that invades most people silently, causing no symptoms or mild ones that wouldn’t necessarily catch a doctor’s attention. It is costly and technologically difficult to pinpoint the virus quickly in mosquitoes, so an outbreak is more likely to be detected first in humans, experts say. But the virus could spread to several people before it is picked up, officials say.

State and local organizations had been hoping for an injection of federal dollars to prepare for the new threat, but Congress failed to agree on a package before going on recess until after Labor Day. Instead,

they are using dollars and staff from other programs.

Dr. Frieden says the nation needs a flexible reserve fund that could be tapped quickly in a public health emergency.

The Baltimore City Health Department secured \$500,000 from the city mayor’s office to pay for staffing, public education and a restart of mosquito surveillance, which was stopped in 2007 “due to inadequate funds,” said Leana Wen, the city’s health commissioner.

Local authorities trap mosquitoes and apply larvicide to breeding spots.

North Carolina’s legislature voted late last month to allot \$500,000 to partially restore mosquito-control efforts eliminated in 2011, said Randall Williams, the state’s health director. Some of the funds will be used to hire two or three state entomologists, he said.

More than 1,300 cases of Zika infection have been reported in U.S. states and the District of Columbia. Almost all are linked to travel to places outside the continental U.S. where Zika is spreading. U.S. territories such as Puerto Rico have had more than 2,900 cases. All it will take for the virus to start spreading on the mainland, officials say, is for someone who has just been infected elsewhere to be bitten by

a Zika-transmitting mosquito here. That mosquito could then spread the virus to others.

Many states and counties are expanding mosquito-control programs, but they are up against an aggressive insect that has evaded many efforts at extermination. That is no more in evidence than in the Florida Keys, where *Aedes aegypti* is more abundant than in other parts of the country and mosquito-control inspectors regularly conduct surveillance for it. No local transmission of Zika has been reported, but Mr. Doyle has added inspectors in Key West to step up mosquito control. Lots of rain and high temperatures have provided an ideal environment for them to grow, he said.

Harris County, Texas—the nation’s third most populous—has all the elements for an outbreak, says Umair Shah, executive director of public health for the county, which serves the Houston area. These include mosquitoes that can spread Zika, Zika-infected travelers and densely populated, poor neighborhoods that offer prime mosquito breeding grounds. The county last week reported its first case of a baby born with microcephaly, a Zika-related birth defect.

Dr. Shah’s team has added new traps to capture and monitor *Aedes aegypti* mosquitoes, and pushed out public-service announcements to urge residents to protect themselves and get rid of pools of water around their homes.

Housing Starts Signal Continued Firming Demand

By Anna Louie Sussman

WASHINGTON—Home building in the U.S. rebounded in June, a sign that demand for housing continues to firm.

Housing starts rose 4.8% from a month earlier to a seasonally adjusted annual rate of 1.189 million in June, the Commerce Department said Tuesday.

“Home building continues to gradually recover from the housing bust that accompanied the Great Recession,” said PNC chief economist Stuart Hoffman. “Demand for new single-family homes is slowly but steadily improving.”

That steadily rising demand has led to concerns about the low inventory of new and existing homes on the market, which is pushing up prices and could weigh on further expansion. But Tuesday’s report showed an estimated 1.015 million homes under construction in June, the highest level since February 2008.

June’s uptick was driven by a jump in starts in the West and the Northeast, two of the pricier regions in the country. The conditions underpinning demand are still in place, namely historically low interest rates and steady—if slowly moderating—job creation.

Starts on single-family homes, which account for roughly two-thirds of new construction, rose 4.4% in June from May, to 778,000. May single-family starts were revised down. Starts on multifamily buildings with five or more units, which include apartments and condominiums, rose 1.6% to a rate of 392,000 in June from the prior month.

The market has swung to the single-family market over the first half of the year, with those starts up 13.2% in the

first six months of 2016, compared with a year ago. Housing starts in structures with five or more apartments fell 3.9% year to date from the same period in 2015. Still, the pace of apartment units already under construction in June hit 573,000, the highest since 1974.

New applications for building permits, a bellwether for forthcoming construction, rose 1.5% to 1.153 million. Permits have lagged behind housing starts since February, which some fear could signal weakness in the housing market going forward.

“Favorable weather conditions might help explain the overshoot in starts compared to April and May permits; either way, they’ll need to correct over the next few months,” said Ian Shepherdson, chief economist at Pantheon Macroeconomics.

The 4.8% rise beat the 0.9% forecast from economists surveyed by The Wall Street Journal, but home-start figures are volatile and often revised. June’s figure came with a margin of error of plus or minus 13.5 percentage points, and May’s starts figure was revised down to 1.135 million from an initial estimate of 1.164 million.

The market got off to a slow start to the year, but overall steady housing demand in the past year has driven up home prices in many markets amid a shortage of inventory. Builders have been struggling to keep pace, with many reporting shortages of skilled construction labor and affordable lots on which to build.

Housing starts in June were 2% lower than in June a year ago, and permits were down 13.6% from a year ago. Over the first half of the year, housing starts are up 7.1% compared with the same period a year ago.



Housing starts rose 4.8% in June. Above, construction of single-family homes by Pardee Homes is seen in San Diego.

Obama Praises Police in Letter

By Julian Routh

WASHINGTON—President Barack Obama wrote an open letter to the law-enforcement community Tuesday, praising police officers for their courage as tensions run high after the Texas and Louisiana police slayings.

“We have your backs,” Mr. Obama wrote in the two-page letter, seeking to reassure law-enforcement officials who have recently criticized the president for not doing enough to support police officers.

In the days after five officers were shot dead in Dallas and three in Baton Rouge, La., several police officials—and Republican presidential contender Donald Trump—blamed Mr. Obama for fueling antipolice sentiment and racial division in America.

Mr. Trump on Monday alleged “there’s something going on” with the way the president reacts to incidents involving police.

The president on Tuesday addressed the criticism, calling it an attempt “to use this moment to divide police and the communities you serve.”

“As we bind up our wounds, we must come together to ensure that those who try to divide us do not succeed,” Mr. Obama said. “We are at our best when we recognize our common humanity, set an example for our children of trust and responsibility, and honor the



President Obama sought to reassure police after recent officer shootings that ‘we have your backs.’

sacrifices of our bravest by coming together to be better.” He also commended police officers for continually making “split-second decisions that could mean life or death.”

“We recognize it, we respect it, we appreciate it, and we depend on you,” Mr. Obama said. “And just as your tightknit law-enforcement family feels the recent losses to your core, our nation grieves alongside you. Any attack on police is an unjustified attack on all of us.”

Racial tensions have been thrust back into the national conversation in recent weeks after the police killings and the earlier deaths of Philando Castile and Alton Sterling, two black men shot dead by police officers in Minnesota and Louisiana.

A New York Times/CBS News poll released last week found that seven-in-10 Americans say race relations are generally bad, while 60% say race relations are growing worse, compared with 38% a year ago.

Mr. Obama said in the letter Tuesday that police shouldn’t be asked to “solve issues we refuse to address as a society.”

“We should give you the resources you need to do your job, including our full-throated support,” the president said. “We must give you the tools you need to build and strengthen the bonds of trust with those you serve, and our best efforts to address the underlying challenges that contribute to crime and unrest.”

U.S. Watch

KANSAS

Police Chief Says Officer Has Been Shot

The police chief in Kansas City, Kansas, says an officer has been shot, and he is asking the community for prayers.

Police Chief Terry Zeigler tweeted that the officer was shot Tuesday afternoon. He says the officer’s condition is unknown, but he tweeted “start prayers.”

The Kansas City Star reported that police radio traffic indicated that multiple suspects ran from the scene. No other information was available.

Tuesday’s shooting was the second of a Kansas City, Kansas, police officer since early May, when a police detective was shot and killed near Kansas Speedway.

—Associated Press

RETAIL

Retail Sales Slipped In First Half of July

National retail sales decreased 0.5% during the first two weeks of July from the comparable period in June, Redbook Research reported Tuesday.

The decline compared with a target for a drop of 0.6%. The Johnson Redbook Sales Index also showed seasonally adjusted sales for the period increased 0.6% from a year earlier, compared with expectations for growth of 0.5%.

During the second week of July, sales edged up 0.4% from a year earlier.

Redbook noted a lull at department stores ahead of the back-to-school shopping season, one of the biggest for the retail sector. Other retailers suggested moderate interest in the children’s department as a sign of early back-to-school buying, Redbook stated. Meanwhile, discount retailers’ strongest categories included consumer staples such as food and household supplies.

—Tess Stynes

DETROIT

House Razed as Part Of Blight Removal

A two-story, wood-frame house on Detroit’s northwest side became the 10,000th vacant structure torn down as part of Mayor Mike Duggan’s massive plan to eliminate blight.

An excavator was used to quickly tear down the house Tuesday on Marlowe Street. It was another win in a years-long battle to improve Detroit neighborhoods.

Mr. Duggan’s blight program started 2½ years ago. He said Tuesday that Detroit’s demolition program is “moving much more efficiently” than others around the country.

About 10,000 houses were also demolished during the administration of Dave Bing, the previous mayor.

Detroit has received about \$258 million from the federal Harbor Hit Fund for demolitions and other blight-removal efforts.

A blight-task-force survey in 2014 revealed that more than 40,000 structures needed demolition, with another 38,000 tipping toward blight.

—Associated Press

★★★ THE REPUBLICAN CONVENTION ★★★

After Bumpy Start, Trump Seeks Reset

Accusations of plagiarism, other controversies emerge after opening night

By Patrick O'Connor and Beth Reinhard

CLEVELAND—Donald Trump's campaign tried to regain its footing on Tuesday after a tumultuous start to the Republican convention that included accusations of plagiarism, calls for the firing of a speechwriter and a program that went on well past television's prime time.

Campaign chairman Paul Manafort dismissed reports that the speech given by Mr. Trump's wife, Melania, copied portions from one given by first lady Michelle Obama eight years ago. Mr. Manafort also, without providing any evidence, blamed Democratic opponent Hillary Clinton for instigating the controversy.

The opening day of the convention Monday—which also featured a rare floor fight over a procedural vote that prompted the Colorado delegation to walk out—reflected Mr. Trump's perpetual struggle to unify his own party and project the image of a well-oiled campaign.

Monday's tumult raised the stakes on Tuesday's lineup to put the convention back on track. Mr. Trump's alienation from many party stalwarts—including former Presidents

George H.W. Bush and George W. Bush, who said they wouldn't attend the convention—led the gathering to be dominated by his own family members, who have relatively little political experience. Their remarks also come after the now controversial remarks by Mrs. Trump.

On Tuesday, the pressure was on Donald Trump Jr., his eldest son, and his youngest daughter, Tiffany Trump, to reset the pacing, tone and messages of the convention.

"It's an amazing opportunity to speak about my experiences with my father and our values," the younger Mr. Trump said in an interview.

"Between being able to headline the show tonight and to have the honor of throwing my father over the top in delegate count this afternoon, it's a day I am certain I will always remember," he added, noting that he is a delegate from New York.

Two of the night's most experienced speakers—House Speaker Paul Ryan (R., Wis.) and Senate Majority Leader Mitch McConnell (R., Ky.)—have concerns that extend beyond the top of the ticket: ensuring they preserve their majorities in Congress and the party's policy priorities.

Mr. Ryan is expected to use his speech to address Americans' kitchen-table concerns. Mr. McConnell plans to focus on Mrs. Clinton, making the case that she is unfit for the presidency. That message, and



Donald Trump with his wife, Melania, on Monday. She faces accusations of plagiarism in her speech.

the focus on the Democratic presumptive nominee, are central to Senate Republicans' strategy of untethering themselves from their own party's presidential candidate.

New Jersey Gov. Chris Christie, still nursing wounds from a high-profile snub in the contest to be Mr. Trump's running mate, will also deliver remarks.

In the aftermath of the plagiarism accusations, Mr. Manafort on Tuesday morning praised Mrs. Trump's speech

and called it "one of the highlight if not the highlight of the convention yesterday."

Stephen Miller, the campaign's policy director and an adviser on Mr. Trump's speech, told The Wall Street Journal that no one would lose their job over Mrs. Trump's remarks. "There is nothing to take the fall for," he said.

Mr. Manafort's response to questions about Mrs. Trump's speech rolled into an attack against Mrs. Clinton.

"There's a political tint to

this whole issue," he said. "The Clinton camp was the first to get it out there and try to say there was something untoward about the speech that Melania Trump gave," he said. "It's just another example, as far as we're concerned, that when Hillary Clinton is threatened by a female, the first thing she does try to do is destroy that person."

Clinton spokesman Jennifer Palmieri rejected Mr. Manafort's claim. "Nice try, not true," Ms. Palmieri said in

a Twitter post.

Kellyanne Conway, a senior Trump adviser and pollster, said the campaign calculated that 7% of the speech matched material from Mrs. Obama's convention speech.

"I certainly hope it does not detract from other things she said," Ms. Conway said at a panel discussion Tuesday sponsored by The Atlantic magazine.

But several Republicans outside the campaign quickly pointed fingers, arguing Mr. Trump should fire those responsible for writing, or vetting, his wife's speech.

"I would expect whoever did it to resign," said Karl Rove, the top political adviser to then-President George W. Bush and a Wall Street Journal columnist.

Chris Wilson, the polling expert for one of Mr. Trump's main primary rivals, Texas Sen. Ted Cruz, said the snafu reflected poorly on the campaign's competence.

"I know that if I turned in a term paper that was 7% taken off someone else, I would have been failed for that," said Mr. Wilson, who also spoke at the Atlantic event.

Even Republican National Committee Chairman Reince Priebus said he would "probably" fire the speechwriter, if he were put in the same position. He also sought to deflect blame from Mrs. Trump.

"I don't blame her," Mr. Priebus said at a breakfast hosted by Bloomberg.

Ryan Faces Tricky Balancing Act

By Kristina Peterson

CLEVELAND—House Speaker Paul Ryan, after months of sending frosty air kisses in the direction of Donald Trump, on Tuesday will be asked to give him a big bear hug.

The Wisconsin Republican's prime-time address Tuesday night, as well as his duties presiding over the Republican National Convention here this week, cap the speaker's monthslong effort to reconcile his early June endorsement of the presumptive GOP presidential nominee with his regular condemnations of Mr. Trump's most radioactive comments.

"He's not my kind of conservative, but I come from a different wing of the party," Mr. Ryan said of Mr. Trump on Monday at a lunch in Cleveland hosted by The Wall Street Journal.

"There will be times in a big-tent party like ours when we will disagree on certain policy issues, but on core principles and application of those core principles, we are on the same page," he added.

Mr. Ryan's support of a small-government, free-trade agenda with an eye toward expanding the demographic appeal of the GOP has often put him at odds with Mr. Trump's platform.

That stance requires Mr. Ryan to constantly defend himself to both Mr. Trump's supporters and his critics, but also gives him some political cushion. He is positioned to



Speaker Paul Ryan talked with Wall Street Journal staff and others during the Republican convention in Cleveland on Monday.

lead the House under a GOP president—or to pick up the party's pieces—depending on November's outcome.

If Mr. Trump loses, "there'll be a donnybrook of a fight for the future of the Republican Party," said Pete Wehner, a senior fellow at the conservative Ethics and Public Policy Center. "Paul Ryan will be a key figure."

Democrats predicted Mr. Ryan's refusal to disavow Mr. Trump will come with political consequences.

"I just don't think that as

talented as Paul Ryan may be, that he can escape the conclusion he is backing a presidential candidate who is not consistent with the values of his Republican Party," said Sen. Dick Durbin (D., Ill.). "History will say this was a serious mistake."

When he seeks to persuade Republicans to rally around their nominee, Mr. Ryan often turns to two arguments in favor of a GOP president, without pointing to Mr. Trump himself: A Republican in the White House would nominate

conservative Supreme Court justices, and would sign into law better policies than the Democratic alternative, former Secretary of State Hillary Clinton, Mr. Ryan says.

It is clear from Mr. Ryan's rhetoric that he couldn't stomach the idea that he would contribute to a split in the GOP that would scuttle its chances to win the White House.

"If we disunify, then we hand the left the country by default for another four years—and I don't want to be complicit in that," Mr. Ryan said Monday.

Similarly, his roughly 10-minute convention address Tuesday night is expected to focus less on Mr. Trump and more on the House GOP agenda, a compilation of conservative policy stances that Republicans hope to enact next year—and whose unrolling has been overshadowed at every turn by Mr. Trump's latest headline-grabbing tweet or comment.

The very day that Mr. Ryan unveiled its first plank on poverty, he was forced to address Mr. Trump's assertion that an Indiana-born federal judge overseeing a lawsuit against Trump University would be biased by his Mexican heritage.

Those close to Mr. Ryan say he is unwilling to overlook Mr. Trump's comments if they reflect intolerance.

"The one thing that really rubs Paul Ryan the wrong way is when things start to become racial," said fellow Wisconsin Republican Rep. Reid Ribble.

Family Speaking Slots Reflect Outsize Role

By Monica Langley

The major speaking roles of presidential candidate Donald Trump's adult children at this week's Republican National Convention are one more sign of how this campaign is a family enterprise.

As the Trump children take the stage, their speeches, each during prime time, will demonstrate their integral involvement with their father, including his run for the White House. Donald Trump Jr., Ivanka Trump and Eric Trump plan to deliver substantive remarks, which they wrote themselves, about Mr. Trump as a father, mentor and boss.

"These won't be typical child-of-candidate speeches," said Don Jr., who was speaking first, on Tuesday. "We will talk about him as a father, but I don't foresee a lot of the joking and the fluff we have grown so accustomed to from prior conventions."

Their appearances, spread over three of the convention's four nights, is consistent with the outsize role of these three children, all in their 30s, in helping to run the Trump real-estate empire for a decade. They have been instrumental in every important campaign decision made by Mr. Trump, most recently when he flew them to Indianapolis last week to assess Gov. Mike Pence, who was later named as their father's running mate.

"I wrote my speech from the bottom of my heart about what's made him an effective leader and phenomenal father," Eric Trump said, who was scheduled to speak Wednesday before Mr. Pence.

Ivanka Trump has the highest-profile speaking role: introducing her father to the con-

vention before he accepts the nomination Thursday night.

As an entrepreneur with her own fashion line and mother of three as well as a Trump Organization senior executive, Ms. Trump presents a positive female presence for a campaign struggling to attract women supporters. She is likely to say that Mr. Trump always showed her that she could do anything her brothers did and that gender is irrelevant, according to someone familiar with her speech.

The three children were forced into a difficult spotlight when their parents, Mr. Trump and his first wife, Ivana, separated. For a time, Don Jr. didn't talk with his father; all three went away to boarding schools to escape the drama. Yet, they all went to work for Mr. Trump after graduating from college.

Don Jr., who grew up working summers on construction sites for his father, is expected to tell the convention that they are as normal as children of a billionaire can be with one of his favorite lines: "I'm more comfortable driving a Caterpillar tractor than a golf cart."

Don Jr. and Eric, who have often acted as surrogates on the campaign trail by speaking about hot-button issues from immigration to guns, may address these issues in their speeches. Ms. Trump has assiduously avoided engaging in political topics, and it is expected that she will speak as a daughter and business colleague, said people familiar with her speech.

Mr. Trump's next child, Tiffany, 22, will also speak, but for much less time and in a less prominent time slot. His youngest child, 10-year-old Baron, won't have a speaking role.

Voice Vote on Rules Upsets Some

By Reid J. Epstein

CLEVELAND—On the first night of Donald Trump's convention, Republicans assailed Hillary Clinton for the 2012 attack on Benghazi, illegal immigration and recent killings of police officers they said were the result of societal breakdowns caused by feckless leadership in Washington.

At the same time Monday, Mr. Trump's campaign and its Republican National Committee allies presided over the most chaotic scene at a national party convention in generations, with hundreds of delegates shouting for a roll-call vote to disrupt his nomination and one state delegation walking off the floor.

Mr. Trump's campaign dismissed the midafternoon disruption as the last gasp of a shrinking number of intra-party opponents. But Kendal Unruh, a leading anti-Trump delegate, said the schisms are

now worse. "They chose to divide and try to conquer. He didn't unify the party," Mrs. Unruh said.

Near the close of the evening, Mr. Trump emerged from a darkened stage to introduce his wife, Melania, as the Queen anthem "We are the Champions" pumped through the arena's speakers.

Mrs. Trump said her husband was honored to be the GOP's choice for president and testified to his patriotic commitment. "I can tell you with certainty that my husband has been concerned about our country for as long as I have known him," she said.

Earlier in the evening session, delegates heard from mothers of U.S. officials killed at Benghazi, Libya, and a father whose son was murdered by an undocumented immigrant. David Clarke, the African-American sheriff of Milwaukee County, Wis., opened his remarks with a retort that

"blue lives matter," a reference to recent shootings of police officers.

Patricia Smith, whose son was killed in the attack at the embassy compound in Libya, accused Mrs. Clinton of being emotionally callous. "I blame Hillary Clinton personally for the death of my son, personally," she said.

Move to block Trump's nomination stalled when backers were thwarted.

Her address left some delegates in tears. Yet, in another sign of the undisciplined nature of Mr. Trump's candidacy, he called the Fox News Channel at the same moment to criticize Ohio Gov. John Kasich, his former GOP primary rival, for skipping the convention.

The lack of unity for Mr. Trump's nomination was on full display when the convention convened to vote on the reports of its rules and platform committees. Delegates who have sought for months to deny him the nomination found themselves silenced on key procedural votes.

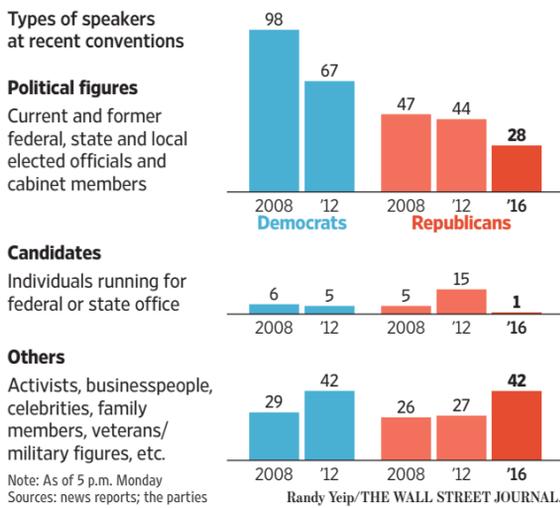
Hundreds of delegates, including Sen. Mike Lee of Utah, shouted their disapproval, chanting "roll call vote." Rep. Steve Womack of Arkansas, who was presiding over the convention, instead announced based on a voice vote that the "ayes" had it and the party's rules were approved.

Mr. Womack left the stage, announcing that the rules had been adopted. The Colorado delegation, which included many of the leaders of the anti-Trump rebellion, walked out of the arena.

The ruling left the leaders of the stop-Trump group furious.

A Different Profile

The lineup of speakers for this year's Republican convention features fewer politicians than recent years.



FROM PAGE ONE

VW

Continued from Page One
cording to the lawsuit. Some managers, engineers and executives named in the suit haven't been previously identified; others have been suspended or resigned since regulators disclosed the cheating.

In June, Volkswagen agreed to pay up to \$15 billion to settle claims with environmental regulators, owners of 475,000 vehicles with two-liter diesel engines and some state authorities. The company still faces legal claims affecting more than 80,000 three-liter diesel vehicles and a U.S. Justice Department criminal probe. The software is on some 11 million vehicles worldwide, Volkswagen has said.

Mr. Schneiderman's suit seeks up to \$450 million in civil penalties for what it calls Volkswagen's "egregious and pervasive violations" that "strike at the heart" of state environmental laws, and were "the result of a willful and systematic scheme of cheating by dozens of employees at all levels of the company."

A Volkswagen spokeswoman called Tuesday's allegations "essentially not new," adding that the company has been addressing them in discussions with U.S. and state authorities. "It is regrettable that some states have decided to sue for environmental claims now, notwithstanding their prior support of this ongoing federal-state collaborative process," she said. Volkswagen declined interviews with those individuals mentioned in the New York suit.



A VW Touareg, left, is tested at an EPA facility in Michigan; at right, former U.S. Chief Michael Horn testifying in Washington, D.C.

In 2006, Volkswagen engineer James Liang developed a defeat device for a Jetta diesel car and eight years later conducted tests to help conceal emissions-cheating, according to the lawsuit. Oliver Schmidt, who headed Volkswagen's U.S. regulatory compliance office in 2014 and early 2015 also played a key role in the deception, the lawsuit alleged.

A 2007 Volkswagen memo recapping a meeting with California regulators said a state

official "expects emission-control systems to work during conditions outside of the emissions tests. Volkswagen agrees," according to the lawsuit. Instead, Volkswagen engineers and executives developed and implemented emissions-increasing defeat devices "as part of the normal course of business," the lawsuit alleged.

In May 2014, a senior Volkswagen executive warned then-CEO Mr. Winterkorn of



growing suspicions from regulators and that the company couldn't explain dramatic emissions increases, the lawsuit said. A year later, a manager admonished a Volkswagen official in the U.S. for allowing another employee to send a frank email expressing concerns, the lawsuit said.

The emissions-cheating scandal began in earnest in late 2006, when Volkswagen, facing engineering challenges, adapted technology Audi had

developed to address other emissions problems and installed the defeat-device software on hundreds of thousands of Jetta, Golf and other cars, the lawsuit alleged. Cars with model years 2009 through 2015 ended up with the software.

In October 2006, many Volkswagen executives held a conference call with California regulators, with the latter requesting additional details on emissions-control devices.

VW's U.S. Chief Outlines Plan to Make Electric Cars in North America

CHATTANOOGA, Tenn.—The new head of Volkswagen AG's U.S. unit confirmed the German auto maker plans to build electric vehicles in North America by 2020, an important steppingstone to rebuilding its image following its emissions-cheating scandal.

Hinrich Woeckel, in an interview near the company's factory in Tennessee, said Volkswagen's plant in Chattanooga and a facility in Mexico

are among sites being considered for producing the electric vehicles. He declined to offer specific details on the effort, but said multiple models would be built in North America.

Electric car production in the U.S. would be an olive branch to regulators who hit Volkswagen hard in recent months. The Environmental Protection Agency and California's influential Air Resources Board are pushing auto makers

to offer more electric vehicles even as gasoline prices are low.

"We believe that this country, especially in urban mobility, will have a very strong shift from petrol engines into hybridization and electric cars," Mr. Woeckel said. "We are heavily investing in this one—including production in this North American region."

Long committed to promoting diesel engine technology in a U.S. auto market where gas-

oline engines are preferred, Volkswagen has pivoted in the wake of a \$15 billion settlement it agreed to pay to remedy a long-running scheme in which many of its diesel cars used software to cheat on emissions tests. As part of a broad rebuilding project, executives have talked about a plan to become far more aggressive with electric vehicles than in the past.

—John D. Stoll

FED

Continued from Page One
after their meeting next week.

Atlanta Fed President Dennis Lockhart, a centrist at the central bank whose views often represent a middle ground among officials, told reporters last week it remains likely the Fed will raise rates this year, adding, "I wouldn't rule out as many as two" increases.

Markets had been "quite orderly" since the Brexit vote, he said, and turbulence leading up to and right after the British vote "does not seem to have caused direct harm to the country's economy."

"We should be looking toward removing accommodation," Robert Kaplan, president of the Federal Reserve Bank of Dallas, said in an interview last week at the Official Monetary and Financial Institutions Forum.

"We just should do it in a patient, gradual way."

The Fed raised its benchmark federal-funds rate in December to a range between 0.25% and 0.5% and has held it steady since then amid bouts of uncertainty about the global economic outlook

and financial-market turbulence.

Officials will be reluctant to signal when the next rate increase is coming in their policy statement next week. They still face uncertainty about the outlook.

Moreover, an eight-week

stretch will pass between their July policy meeting and the Sept. 20-21 gathering, during which two more jobs reports and other data will be released.

Fed officials tried to nudge market expectations for a rate move earlier this year, with embarrassing results.

Minutes of their April policy meeting and comments by officials in April and May suggested a rate move in June or July was on track. Then the weak May jobs report and Brexit vote put the Fed on hold, and expectations for a July rate increase tumbled.

Officials could signal a more upbeat assessment of how the economy is performing after they meet next week, while keeping options open on rates.

When they gathered in June, they said the pace of labor-market improvement had slowed and job gains had di-

minished. Since then, the Labor Department said employers added 287,000 jobs in June.

One way to signal more optimism will be to upgrade their assessment of the job market's performance.

"We're basically at full employment," Loretta Mester, president of the Cleveland Fed, said in a recent interview with The Wall Street Journal.

"I think the underlying fundamentals remain very solid for the U.S. economy," she added.

Fed Chairwoman Janet Yellen could face divisions as a decision about rates approaches.

Though some officials like Ms. Mester have expressed support for moving rates higher, others are urging the Fed leader to proceed with extreme caution.

"This is not an economy that's running hot. This is not the late '70s," Fed governor Daniel Tarullo said in an interview with The Wall Street Journal earlier this month.

"I have thought that it was the better course to wait to see more convincing evidence that inflation is moving towards and would remain around the 2% target" before raising rates again.



Federal Reserve Chairwoman Janet Yellen arriving for a hearing before the Senate Banking Committee in Washington on June 21.

FOOD

Continued from Page One
cal engineer, "but they aren't dry Cheerios."

For Shelia Winsett, freeze-dried food is a matter of taste. The 66-year-old retiree has replaced the potatoes and cream of mushroom soup in her pork-chop casserole with a pouch of Augason Farms cheesy broccoli rice mix from her emergency food stash.

"I believe we are going to go through some hard times and there will be no food," said Ms. Winsett, who has a closet in her Parrish, Ala., home stacked with bins of freeze-dried meals. Meanwhile, she said, the broccoli-rice mix "makes a difference" in her son's favorite casserole.

Disaster needn't fall soon. The Salt Lake City-based Legacy Food Storage boasts meals with a 25-year shelf life. A best seller is the \$285 34-pound sample pack that includes Italian pasta and a vegetable version of chicken à la king.

To attract urbanites, companies have started selling small "pantry packs" and containers small enough to fit under bed. They want people to also use the food as "a quick meal for unexpected guests," according to one product description, as much as for waiting out the

hurricane or stocking the bunker.

"The Holy Grail for long-term, shelf-stable food is to become an everyday purchase," said Mr. Allison of Blue Chip, whose Augason Farms brand is sold at Wal-Mart.

His company is trying to branch out from the camping and bulk food sections to more mainstream food aisles. It is not an easy move. One prospect is Blue Chip's new organic soup mixes, including butternut squash and tomato basil.

"You are dealing with the General Mills of the world and

the Pillsburys," Mr. Allison said. "To get on those shelves is a very, very competitive space."

Emergency Essentials LLC, of Orem, Utah, which started selling small packs of freeze-dried fruit, hopes to place them at store check-out lines, said Scotty Pectol, a company sales manager.

The meals aren't for everyone. Many are high in calories and sodium, useful when fighting for survival, the companies said; less so after a day at the office.

"Your stomach won't be right if you eat them every

day," said a New York City employee of REI, a sports-and-camping store chain. The worker said he and his colleagues occasionally grab a freeze-dried backpacking meal for a quick lunch. They are tasty, he said, but in his experience trigger constipation.

Emergency-food companies have long relied on fear to help drive sales, with demand spiking for such panic-buying events as last year's blood-moon lunar eclipse—rumored to be linked with global catastrophe.

Annual sales track the ebb and flow of American angst.

The industry boomed after the recession, for example, company executives said.

Buyers generally lean toward the "fiscally conservative, politically independent or Republican," said Phil Cox of Legacy Food. "The best thing that can happen for my business is Hillary Clinton winning the presidency."

Despite the world's troubles, freeze-dried foods—\$300 million in a good year—remain a small fry in the more than half trillion-dollar U.S. food industry.

Angela Bailey is one new customer. To save money, Ms.

Bailey, the co-owner of an appliance store in Killeen, Texas, replaced milk at home with a dried mix of whey protein, coconut oil and corn syrup called Morning Moo's. She mixed up the first batch and served it to her children from a milk carton.

"They couldn't even tell," said Ms. Bailey, who now prefers it to milk.

She keeps 12 cans locked in a hall closet, along with her gun. "I hate to be one of those prepper people," she said, "but if something major happens and we are stuck in our home, we have milk."



Many kits come in buckets meant to be stored for decades, such as a best-seller from Wise Co., left. The \$3,599 kit of dried foods, right, can feed four people for a year.

PERSONAL JOURNAL

This \$50 Smartphone Might Be All You'll Need

Lockscreen ads and an inadequate camera aside, the Blu R1 HD sold by Amazon gets the job done

By JOANNA STERN

In life, you get what you pay for.*

Exceptions: Costco wine, New York City pizza and the Blu R1 HD smartphone, now sold by Amazon for \$50. In those cases, the quality of the product far exceeds your low expectations.

Yes, you read that right, there's an Android 6.0 smartphone that costs less than family dinner at the Olive Garden. It's cheap, but it's not, you know, cheap.

There's a reason for that. Even though Amazon sells the R1 HD for as little as \$50, on the open market it starts at \$100. Why the discount? Ads. Sorry, "special offers." Which are ads.

If you're an Amazon Prime member, you pay \$50 (plus an extra \$10 if you want more memory and storage), and on the lock screen, you see a rotation of promotions similar to what appears on Amazon tablets and e-readers. The shopping giant knocks down the price knowing it will make back the money (and then some).

Either way, it's very cheap compared with an iPhone or Galaxy. Why? Because of Blu, the most interesting U.S. phone brand you've never heard of. With a lean operation, close ties to its Chinese manufacturing partners and a very small marketing budget, the Florida-based company offers unlocked phones for little more than it costs to make them.

It's got the makings of a great SAT question. The R1's materials cost about \$70 to \$75, according to IHS analyst Wayne Lam's back-of-the-napkin math: \$20 for the screen + \$6 for both cameras + \$7 for memory + \$40 or so for the battery and core electronics. The Samsung Galaxy S7 retails for a starting price of \$650, but its bill of materials? \$225! That's not exactly an even comparison, Mr. Lam points out, since premium phones cost more to develop and market,



DREW EVANS/THE WALL STREET JOURNAL

The Blu R1 HD, which sells for \$50 with Amazon's Special Offer ads on the lockscreen, has plenty of power for email, web browsing and social media. As for the 8-megapixel camera, the nicest thing one can say is ... it's there.

but you get the idea.

So, are most of us paying for too much phone? That depends. The R1 is certainly no Samsung Galaxy S7 or iPhone 6s. It isn't even a \$350 Nexus 5X or \$200 Huawei Honor 5X. But if you're looking for a phone for a teenager, for an international trip or even as a temporary replacement until you get a better device, you'll be surprised at what less than \$100 will buy you.

What You Get

The R1 doesn't feel or look like a premium phone, but it also doesn't feel like something you'd find on a Toys "R" Us shelf. The metal frame and the touch screen's curved edges give it a weighty feel, while the black plastic casing is more firm Coke bottle than flimsy ShopRite water bottle. Even the power and volume buttons have a satisfying click.

The 5-inch, 720p screen is very bright and viewable at multiple angles, even outdoors. No, it isn't as crisp as the 1080p displays you'll get on the \$200 Moto G4 or Huawei Honor 5X, but again...\$50.

Actually, make that \$60. For \$10 more you can double the storage to 16GB and the RAM to 2GB.

I've been testing the \$60 model and suggest you spend the extra Hamilton for the memory boost alone.

Loading and scrolling through websites and my image-heavy Facebook, Twitter and Instagram feeds has been startlingly smooth. There's been no delay banging away on the keyboard when sending an email, either. Even streaming video on Netflix and YouTube has been a breeze.

Start throwing more graphics-intensive apps and games at the R1, however, and it calls a timeout. It couldn't handle Pokémon Go's augmented reality, and the game crashes more frequently than when I play on a faster Android device. Angry Birds 2 was playable but also had periodic slowdowns.

Here's the real upside to that low-end processor and screen: solid battery life. I had no issues making it through the day with regular use. In my lab stress test, which cycles through a series of websites at uniform screen brightness, the R1 lasted 7 hours and 40 minutes—30 minutes longer than the Galaxy S7.

What You Don't Get

So where does Blu cut corners?

Look no further than the 8-megapixel camera. The nicest thing I can say about it is... it's there. Even my 10-year-old Canon takes better pictures. If the stars align, with decent lighting and a very steady hand, the best R1 shot you can hope for is one that's in focus, but as washed out as a pair of old jeans.

The \$50 R1 HD does us all the favor of providing a baseline, so we can see how much phone we really need.

The R1's front-facing 5-megapixel camera is worse; my Snapchats looked like a filter had already been applied to them.

There are small but significant sacrifices, too. You aren't able to connect to faster 5 GHz Wi-Fi networks, which many new routers also use, and the speaker is so low-volume, it sounds like it was made for a tiny mouse living inside.

On the plus side, call quality was OK; just avoid that speakerphone.

The Blu R1 HD is a 4G-compatible unlocked phone. It will work with GSM carriers.

Then, of course, there are those ads on the lockscreen. If you have no other notifications, an ad takes over the entire screen like wallpaper. Otherwise, they appear alongside other notifications.

You might just swipe them away and move on. Me? I got annoyed. I'd rather put my own adorable puppy on the lockscreen than look at the one in the Iams dog food ad.

Even more frustrating: You are logged into all of Amazon's core apps (Kindle, Music, etc.), yet the ads aren't yet tailored to your interests. A dietary supplement? If you're trying to tell me something, Amazon, I don't like it. Amazon says the ads experience be more refined over time.

While I'm fine with Amazon targeting ads based on its own services, I did have concerns about how much access it had to data from my most personal device. Amazon assured me that it doesn't collect information from third-party apps, your location or your Google history to target advertisements.

What You'll Get Elsewhere

Whether or not you can live with the Blu R1 HD, its so-so performance and terrible camera, the \$50 smartphone does us all a favor. It gives us a baseline to understand just how much phone we may need.

Moving up to \$200, the new Moto G4 offers a better 1080p screen, camera and performance. (Amazon Prime subscribers can get it for \$150—with ads.) I also like the \$200 Huawei Honor 5X, which has a fingerprint sensor and takes better photos. Closer to \$400, you hit a sweet spot. The \$350 Nexus 5X and the \$400 One Plus 3 keep the 1080p screens but are speedier and have much better cameras.

For the best of the best, \$650 gets you the Samsung Galaxy S7, with a superb design, a super-duper screen, great camera and speedy performance. There's also, of course, that new iPhone on the horizon.

So yes, if you pay more, you will get more.*

*But seriously, \$50!

A Sprinter Gears Up for Rugby's Olympic Return

By JEN MURPHY

Carlin Isles knew his speed would get him to the Olympic Games. He just always thought he'd be sprinting on the track rather than the rugby pitch.

Mr. Isles, 26 years old, smashed records in the 100-, 200- and 400-meter distances

while attending Jackson High School in Massillon, Ohio. He went on to play football and compete in track and field for Ashland University, a Division II school in Ohio where he still holds the school's indoor 60-meter dash record of 6.68 seconds. By 2012, Mr. Isles was ranked 36th nationally in the 100, with a personal best of 10.13 seconds. He was fast, but not fast enough for the London Olympics in 2012.

Ahead of Olympic trials that year, he turned to Google for new workout ideas and discovered rugby. "Speed is speed," he says. "This looked like a sport I could excel in."

To learn the rules of the game, Mr. Isles trained with the Gentlemen of Aspen Rugby Football Club in Aspen, Colo. He played wing, a position that requires good ball-handling, speed and quick decision-making. In October 2012, less than 12 weeks after his first time picking up a rugby ball, he made his debut for the U.S. men's sevens rugby team against New Zealand's national team, known as the All Blacks, and scored one minute into the game. Announcers called Mr. Isles "rugby's fastest man."

Rugby makes its return to the Olympics this summer in Rio de



SANDY HUFBAKER FOR THE WALL STREET JOURNAL

Janeiro, after a 92-year hiatus—in the pared-down, speedier form of the game known as "sevens," rather than the traditional form, which features 15 players a side.

Earlier this year, Mr. Isles attempted to resurrect his sprinting career, with hopes of becoming one of the few athletes to compete in two Olympic sports. In March, at the U.S.A. Indoor Track & Field Championships in Portland, Ore., he finished the 60-meter final in fifth place with a time of 6.67 seconds. But Team USA rugby coach Mike Friday told him he had to choose.

Mr. Isles chose rugby. He says he has never been fitter, doubling up on cardio and weights like never before. USA Rugby an-

nounced its 12-man Olympic roster Monday. Men's rugby begins in Rio Aug. 9.

The Workout

Rugby sevens is played over two seven-minute halves, with a two-minute halftime. Though much shorter than an 80-minute rugby union game, the play tends to be a bit more explosive, its proponents say.

"Sevens is a whole-body sport," says Brian Green, head athletic trainer for the U.S. men's team. "It involves a mixture of physical confrontations and sprinting and changing direction"—as regular rugby does, too, of course. Mr. Isles trains with the team five days a week at the U.S. Olympic Train-



Carlin Isles will play on the U.S. men's sevens rugby team in Rio next month; he does drills to improve explosive power, left, and strengthen abs, right. Above, he is tackled at the 2016 Wellington Sevens tournament in New Zealand.



ing Center in Chula Vista, Calif.

Workouts are broken up to address attack and defense, as well as technical aspects of tackling and rucking, which occurs when players close in around the ball on the ground and use their feet to try to win or keep possession of the ball. Yaka Yards, high-intensity sessions combining strongman drills with sprints and heavy contact, are core to training.

"It's kind of like wrestling meets combat conditioning," Mr. Isles says. "It pushes you mentally and physically. It really breaks you down." For 60 to 90 minutes, the coaches will yell out drills which the players perform for two, three or five minutes in between scrimmaging sessions. "The idea is to make us play at fatigue," he says.

One minute Mr. Isles might find himself doing back flips, the next bear crawls down the field. One section of circuits is often modeled after CrossFit, with exercises such as step-ups, medicine-ball tosses and squats.

Mr. Isles hits the gym three days a week to work on strength and explosive power. He might run pulling a weighted sled or repeatedly swing a sledgehammer overhead against an oversize tire, or do one-arm push-ups while balancing his feet on a stability ball.

He does a daily circuit of what

are known as prehab exercises, which prevent injuries by correcting muscle imbalances and optimizing muscle efficiency. He runs through exercises that activate his glute muscles, such as a bridge, where he lies on his back on the floor, knees bent, and thrusts his hips into the air, then slowly brings them down again. Or he might try to close his eyes while balancing on one leg while standing on a squishy foam board.

The Diet

Mr. Isles wakes up and eats two eggs, oatmeal and fruit. He eats the same breakfast a second time after his morning workout and adds a protein shake. Lunch is usually a turkey burger (hold the bun) and vegetables with a protein shake. He sometimes drinks Red Bull, which is one of his sponsors.

He has tried to eliminate bread and refined carbohydrates from his diet this year. He consults a nutritionist. Almonds are his go-to snack, and dinner is either steak or chicken with brown rice and grilled vegetables. His favorite splurge is a cheeseburger and fries.

Moves to Strengthen Your Glutes

Glute muscles are the pelvic stabilizing muscles in the backside that keep hips and pelvis in proper alignment during exercise, and they are key to performance and injury-prevention. "I often tell my patients a strong butt is the key to a happy life," says Jordan Metz, a sports-medicine physician at the Hospital for Special Surgery in New York City and author of "Dr. Jordan Metz's Running Strong."

Glutes help generate power for

push-off and sprinting. To fire in sequence and with the proper form, the muscle group needs to be strong. "Weak glutes can lead to a number of injuries around the pelvis," Dr. Metz says. There is a correlation between glute activity and knee injury; strong glutes help protect the knees. Dr. Metz suggests two ways to improve glute strength and activation.

Plyometric Jump Squat: Stand with your feet shoulder-width apart. Squat, bending knees to 90 degrees.

Jump up explosively and land softly with your knees bent in a squat; keep weight back and over heels.

Plyometric Lunge: Stand with right foot forward and knees slightly bent. Lower your body until the right thigh is parallel to the floor and the leg is bent at a 90-degree angle. Spring upward and switch legs, landing gently with your left foot forward; immediately lower to a lunge again. Spring and switch legs once more.

—Jen Murphy

OPINION

REVIEW & OUTLOOK

The Republican Divide

This should have been the week the Republican Party united in confidence to take back the White House. Instead the Republicans gathered in Cleveland this week are divided and anxious about nominating perhaps the only presidential candidate who could lose to Hillary Clinton. Is Donald Trump's ascendance a detour, an historical accident, or does it suggest a more fundamental change in the party of Lincoln and Reagan?

The irony is that in most of the country beyond Washington the GOP is remarkably healthy. The party controls 31 state houses, and the most state legislative seats since the 1920s. These GOP officials are cutting taxes, fixing pensions, reforming schools and reviving their economies, and they would do much more on health care and welfare if the federal government didn't block them.

Republicans have also done better than advertised in Congress, given the obstacle of a Democratic President. Since taking the Senate in 2014, Republicans have put the repeal of ObamaCare and three separate Environmental Protection Agency regulations on President Obama's desk. They can't be blamed for his vetoes. They have also freed oil exports, cut taxes on small business and established a process to reform bankrupt Puerto Rico, among other policy victories.

Meanwhile, Speaker Paul Ryan has steered his otherwise fractious House Members to unify behind an ambitious set of tax, health-care, welfare, defense and regulatory proposals that would set the government on a sharply better course next year.

What they need is an ally in the White House, and it is at the presidential level where the GOP brand is most tarnished. So how did they end up with Mr. Trump, who until recently wasn't even a Republican?

A large part of the answer is that he seized on an anger fanned against Republicans in Washington by Ted Cruz, Heritage Action and other GOP insiders for their own political and fundraising purposes. The plan was to make Mr. Cruz the populist, outsider conservative who would capture the nomination.

They and their media channels succeeded in creating a phony narrative of Republican betrayal, but Mr. Trump was better able to exploit it as a more authentic and populist outsider. His anger and media megaphone captured the grass-roots frustration with President Obama better than the other candidates did, appealing to moderates and conservatives, while Mr. Cruz ran as a Mark Levin faction leader. The large field of traditional GOP candidates turned on each other and divided the non-Trump vote. Bad accidents happen.

This isn't to diminish intra-GOP divisions on trade, immigration and national security. But these aren't new divisions. A faction of the GOP has always been nativist or protectionist, and Republicans passed the Smoot-Hawley tariff. Those sentiments become more prominent in times of economic or social anxiety, which is one reason Mr. Trump succeeded

where Pat Buchanan failed in the 1990s. The failures of the Obama economy have unleashed impulses that the 1980s and 1990s booms kept contained.

Immigration is the deepest fault line, and in Mr. Trump the restrictionists have captured the GOP. But even here there is a difference between the minority who want mass deportation and the rank and file who want a secure border but are broadly welcoming to immigrants who want to work. Immigration was typically cited as the most important issue by only about 10% of GOP primary voters, and a majority in many states even favored a path to citizenship for illegal immigrants already in the U.S.

Mr. Trump's winning immigration issue was terrorism and refugees from the Middle East. His Muslim ban struck a chord in particular after San Bernardino and Paris. Yet Mr. Trump has since modified his immigration ban to be temporary and apply only to countries with a history of terrorism. The polls also show that Hillary Clinton is favored over Mr. Trump on immigration among all voters in the general election, so the restrictionists still have an electoral challenge in November.

The other policy divisions will play themselves out depending on whether Mr. Trump wins. If he becomes President, the political and economic realities of trade will limit his protectionist ambitions. If he loses, the congressional GOP will be somewhat more protectionist but still less than the labor Democrats. This tension will persist until faster growth and prosperity return.

The biggest long-term problem for Republicans is demographic. The party is becoming older and whiter in a nation that is becoming more diverse. The GOP leadership recognized this with its post-2012 analysis that called for more outreach to minority voters and more emphasis on economic upward mobility. That analysis was rejected by the Cruz-Trump faction that has stressed polarizing cultural issues and turning out white voters. This election will test that strategy.

Given Hillary Clinton's weaknesses and the national desire for change, it's possible Mr. Trump can win by turning out more white voters this year. But Mitt Romney won 59% of the white vote and still lost. Ronald Reagan won the highest recent share of the white vote with 66% in 1984, and this year even that might not be enough if the Obama coalition turns out for Mrs. Clinton. Even if the more-whites strategy works this year, the price may be greater alienation among non-whites that would damage Republicans for years.

The GOP has done best for itself and the country when it offers an inclusive vision of economic opportunity, personal responsibility and an optimistic nationalism that speaks both to American values and security. The House Republican agenda is the best current expression of that vision, and Mr. Trump would be wise to embrace it. Win or lose in November, that agenda is the best way to bridge the GOP's divisions.

Trump has exposed old GOP fault lines, but the House signals a better way.

The Trump campaign comes out swinging—against Republicans.

Cleveland Fight Club

What did Winston Churchill say about how politicians should behave—be defiant in defeat but magnanimous in victory? The Donald Trump campaign must have missed that lesson in political manners because it started off the Cleveland convention Monday by picking unnecessary fights with vanquished foes.

De facto campaign manager Paul Manafort kicked things off at a Monday breakfast by kicking Ohio Governor and former presidential opponent John Kasich for not endorsing Mr. Trump and not speaking at the convention. He called Mr. Kasich "petulant" and said he is "embarrassing his party in Ohio."

Mr. Manafort, who seems to have adopted his boss's style, even tried to pit Mr. Kasich against Rob Portman, the Ohio Republican Senator who faces a tough re-election fight. "He's very upset with John Kasich," Mr. Manafort said of Mr. Portman. "Because John Kasich is hurting him." That drew a sharp denial from Mr. Portman's campaign manager.

What will hurt Mr. Portman is needlessly

drawing him into a fight between Trump voters and Kasich loyalists that might dampen Republican voter turnout. GOP Senators fighting to hold their majority against long odds should be furious.

Defiance in victory must have been the Trump theme for Monday because Newt Gingrich also used a morning appearance to take a whack at his old friend Mr. Kasich and Jeb Bush as "sore losers" and the Bush family for not showing up in Cleveland. He said the Bush family is behaving "childishly" and should "get over it."

Readers can decide who's behaving childishly, but as political strategy the Trump campaign's comments are nuts. Mr. Trump won the nomination. This week's convention is his best chance to make a sustained case to the country, and it makes no sense to turn it into the Republican Fight Club. The convention's first day news coverage has been dominated by this intra-GOP sniping, when it should be focused on making the case for Mr. Trump and against Hillary Clinton.

Tehran Teaches Its Children

President Obama's nuclear deal with Iran has a sunset clause, with almost every restriction on the mullahs' nuclear program expiring in 15 years. So it's worth paying attention to what the next generation of Iranians are being taught about their country's mission in the world.

Our best look so far comes thanks to a new report from Impact-se, a Jerusalem-based institute that monitors the content of textbooks across the Middle East. A ninth-grade social-education textbook reads: "All are submissive and obedient to the Guardian-Jurist," that is, Supreme Leader Ali Khamenei. Regime leaders are presented as infallible, divinely inspired and beyond criticism.

A third-grade religion textbook's section on cleanliness includes an illustration of Iranian children chasing away a filthy, mucuslike blob

with a Star of David on its back. A fifth-grade text for the 2016-17 academic year shows Palestinian children attacking Israeli soldiers with rocks and slingshots. It's accompanied by regime founder Ayatollah Khomeini's portrait and his injunction that "Israel must be wiped out." America is portrayed as an aggressive hegemon.

As for the types of weapons Iran may use, a 12th-grade religion textbook instructs that "Islamic learning is such that religious experts can extract from it new laws concerning . . . procurement and use of new weapons, in accordance with the new needs of society."

Part of Mr. Obama's bet in signing the nuclear deal is that Iranian youth will be more moderate than the religious fundamentalists who now rule the country. This curriculum suggests that's not a bet he's likely to win.

Iranian textbooks preach the virtues of dictatorship and hate.

The Better Angels Of Our Nature



GLOBAL VIEW
By Bret Stephens

The Republican Party came to presidential life under the leadership of a man who concluded his first inaugural address as follows:

"We are not enemies, but friends. We must not be enemies. Though passion may have strained it must not break our bonds of affection. The mystic chords of memory, stretching from every battlefield and patriot grave to every living heart and hearthstone all over this broad land, will yet swell the chorus of the Union, when again touched, as surely they will be, by the better angels of our nature."

This week, the same party will nominate as its presidential candidate a man who on Saturday introduced his running mate as follows:

"The turnaround and the strength of Indiana has been incredible, and I learned that when I campaigned there. And I learned that when I won that state in a landslide. And I learned that when Gov. Pence, under tremendous pressure from establishment people, endorsed somebody else, but it was more of an endorsement for me, if you remember. He talked about Trump, then he talked about Ted—who's a good guy, by the way, who's going to be speaking at the convention, Ted Cruz, good guy—but he talked about Trump, Ted, then he went back to Trump. I said, 'who did he endorse?'"

I cite these two passages to discuss two subjects that once were dear to conservative hearts: national decline and personal character. Many conservatives believe the subjects are one and the same.

When did the decline of American character begin? Maybe it was between July 1969, when two Americans walked on the moon, and a Saturday that August, when 400,000 Americans rolled in the mud at Woodstock. Maybe it was when that year's commencement speaker at Wellesley said it was the mission of her generation to search "for more immediate, ecstatic, and penetrating modes of living." Maybe it happened the night of Jan. 14, 1970, when Leonard and Felicia Bernstein held a soiree for the Black Panthers, inaugurating the era of radical chic.

Or maybe the date came later, when American culture sanctioned the idea that self-actualization should count for more than your children's emotional health. Or when bragging ceased to be considered uncouth, and ignorance ceased to be embarrassing, and lying ceased to be shameful, and the habits of understatement gave way to ever more conspicuous displays of wealth, desire, feelings, skin.

Whenever. Whatever. Pick your date and trend. Not everything that happened to the American character in the past 50 years is bad—we are more tolerant, more empathetic and more relaxed—but much of it undoubtedly is. If

Republicans are going to spend the next few days talking about making America great again, shouldn't part of that discussion also be about making *Americans* great again—or, at very least, making us better?

We could use that discussion right now. After Baton Rouge and Dallas, what better time for the GOP to invoke the better angels of our nature? But the party can't do that, because in nominating Donald Trump it is elevating a man whose character and candidacy are the antithesis of the better angels.

From its beginning, the impulses that have dominated Mr. Trump's candidacy are the insult, the put-down, the slander, the threat, the refusal to apologize. These have poured out of him in such profusion and at such velocity that they have degraded Republicans simply by accustoming us to them. Mr. Trump's apologists praise this as a refreshing burst of political incorrectness, but that just betrays an ignorance of what it means to be politically incorrect.

What's at stake in Cleveland is the identity of the GOP, not the next president.

Saying you aren't worried about global warming is politically incorrect. Making fun of physically disabled reporters is called being a creep.

But that isn't all we've grown used to. Mr. Trump doesn't merely lie, as Hillary Clinton does. His statements are postmodern, in that they have no connection to a foundational concept of truth. Nor is Mr. Trump's political ignorance a matter of not knowing the finer points of this or that policy. In a recent meeting with Republican members of Congress, he promised to protect Articles I through XII of the Constitution. The Constitution has a grand total of seven Articles.

This would be the Constitution he would be sworn, as president, to preserve, protect and defend. That presumes knowing it.

This column will elicit the usual mental wheezing from the True Believing Trumpsters, whose skins are as thin as their candidate's, along with the slightly better rebuttal that the presumptive GOP nominee is the lesser of two evils. That's pure conjecture, based on the prayer that Mr. Trump will soon transform into a statesman. People who believe this also kiss frogs.

But that's beside the point. What's at stake in Cleveland this week isn't the identity of the next president. It's the identity of the GOP: its ideas, its leaders, its followers. Above all, its character.

For what shall it profit a man, if he shall gain the whole world, and lose his own soul? Fellow conservatives: the same goes for your political party.

Write to bstephens@wsj.com.

LETTERS TO THE EDITOR

Italy Is Reforming Its Banks and Economy

Your editorial "Italy's Desperate Banks" (July 8) offers several considerations about the Italian banking system as a whole with which we disagree. The Italian government isn't willing to spend taxpayers' money to bail out banks, and the amount of €40 billion (\$44.25 billion) that is commonly cited as the scale for such a bailout is disproportionate to the potential needs of the banking sector. Since the Lehman crisis, Italy injected into the banking sector only €1 billion of public funds in support of only one bank. This is modest compared to other governments' rescues following the Lehman crisis, including Germany (€240 billion), Britain (€160 billion) and America's Troubled Asset Relief Program.

The editorial suggests that "sour" loans generally affect the banking sector by a huge amount, whereas we think that focusing on the net value of bad loans would be more appropriate.

These amount to €87 billion and have collateral assets and guarantees worth €122 billion. Moreover, the bad loans affect only a few banks and not the entire sector, as a wide majority of financial institutions have an ordinary amount of troubled assets that are managed properly.

The editorial recognizes our effort undertaken by the government to reform the country but criticizes the lack of reforms on the supply side. We believe that three major reforms we have implemented, aimed at consolidating the banking sector and gaining more transparency in governance of financial institutions, should also be classified as "supply-side reforms": the Jobs Act, the Public Administration reform and several other structural measures.

ROBERTO BASSO
Spokesman
Ministry of Economy and Finance
Rome

U.S. Can't Continue to Lead the World Alone

In "Brexit Has Nothing on Obama's Global Amexit" (op-ed, July 8), Kenneth R. Weinstein suggests that President Obama's exit from world leadership is leading America's unnerved allies to pursue defense arrangements on their own. France boosts its defense budget by 8%. Seven Eastern European nations, including Poland, raise theirs by 20%. Saudi Arabia forms an Islamic military coalition. Japan strengthens bilateral ties with India, the Philippines and Australia. And so forth. Mr. Weinstein seems concerned that these developments weaken America's leadership in global security.

But such developments are what America and the world should have ordered for the 21st century, because the U.S. cannot continue to discharge its post-Berlin Wall role of securing world peace and prosperity virtually by itself. Soon after the Berlin Wall, China joined the world system and quickly weakened America's economic and po-

litical supremacy; economic, by grabbing a large chunk of world production, and political, by insisting that a large portion of the Western Pacific has been its own territory all along.

Under the circumstances, world peace and prosperity can be maintained only if nations in troubled regions do their own defense work first and look to America, still the sole superpower, for critical assistance. That's why the self-defense moves observable around the world are the beginning of what the 21st century actually needs.

MIKE LEE
Seattle

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OPINION

Trump's Best Path to Victory

By John Brabender

Two-hundred and seventy. That's the number of Electoral College votes one needs to become the most powerful person on earth. And according to most of the so-called experts, it won't be Donald Trump. While I agree that he is the underdog, a Trump victory isn't impossible. Here's how it could happen.

If this were a typical presidential election, the logical first step would be to pick the most likely combination of states to put the Trump campaign over the 270 threshold. Then you would spend all of your time, energy and resources targeting the battleground states. It has worked this way

To hit 270 electoral votes, the Republican must light a national movement and pick up the Rust Belt.

for decades. Pundits, academics and TV analysts are busy re-creating this process using predictive modeling and campaign-honed wisdom.

The reality, though, is that this election is unlike any other in recent history—and Mr. Trump isn't your quintessential Republican nominee. If he followed the traditions, norms and standard practices of the past, he undoubtedly would lose.

But there is a path to 270. For Mr. Trump to win, he needs to incite a national movement and a significant shift in voting behavior. Think of the 1970s movie "Network," with people

shouting out their windows: "I'm mad as hell and I'm not going to take it anymore." This time, instead of shouting they are voting for Mr. Trump. He can worry less about specific states to target and spend more time on a national branding and message campaign centered on motivating specific audiences, not states. Mr. Trump did precisely that to win the Republican primaries.

There has been much criticism of Mr. Trump as a messenger. But what he seems to understand remarkably well is that he has become the megaphone for a large group of voters who feel they have been disenfranchised from the political process, and abandoned on the economic battlefield by both parties. Mr. Trump also knows that "acting presidential" is equivalent to no longer being authentic and believable to his supporters. You're never going to create an anti-Washington wave of the magnitude he needs if you sound too much like a focus-group-tested, teleprompter-guided candidate.

The other advantage of this type of national campaign is that it costs less than a highly targeted state-by-state campaign. Mr. Trump doesn't have the pieces in place or the money to run a massive turnout operation, and it is too late to change that significantly. Instead, he needs to use an emotional appeal and create a national dialogue with voters by leveraging the seemingly unlimited supply of time and space the news media is so happy to give him.

Note too that Hillary Clinton's early money advantage isn't as important as some political analysts claim. Television ads matter less in a



Donald Trump remains the underdog, but nobody expected him to get even this far.

presidential race because candidates get so much free airtime.

To get to 270 electoral votes, Mr. Trump must first win every state Mitt Romney did. I realize that mathematically it isn't necessary, but symbolically it is. If Mr. Trump were to lose some of the Romney states, it would signal that critical Republican voting groups had deserted him, most likely moderate Republican women or evangelicals.

There are a few Romney states that are attractive for the Clinton campaign to go after, North Carolina in particular. Mr. Trump also seems to be struggling in Arizona, likely because of its large Hispanic and Mormon populations. This is a huge problem, because he has little margin for error.

But let's assume Mr. Trump carries all of the Romney states. The tempting approach would then be to look at the states where Mr. Romney lost by the smallest margins.

But it would be wiser to look at states with the largest number of middle-income working families, and a sizable population of the children of Reagan Democrats. The largest blocs of those voters can be found in the Rust Belt. This means looking first at Ohio, Pennsylvania and Wisconsin (before turning to Virginia, Colorado and New Hampshire).

The big trio will be remarkably difficult to win. Pennsylvania hasn't gone for a Republican presidential candidate since 1988, and Wisconsin since 1984. But these states are chock-full of swing voters, many of whom are in sync with Mr. Trump on trade, immigration and national security. I have sat through many focus groups with these voters, and they are starving for a restoration of the American dream. They don't believe that's going to happen with a traditional candidate.

The best news for Mr. Trump: With the right nominee, these

Turkey's Strongman Recoups His Losses

By Asli Aydintasbas

Istanbul

Nothing spices up a dinner party like a military coup. Even the slightly overcooked main course went unnoticed thanks to low flying F-16s, sonic booms, calls for jihad from minarets all around the city and news of skirmishes across the country.

It didn't seem to matter that it was 2016, or that Turkey is a NATO country. The communications revolution of the past decade seemed never to have happened. When the rebels wanted to announce that armed forces had taken over the government, their communiqué was read on the official public television network that typically no one watches. How retro, I thought.

What happened was that on Friday sections of the Turkish military had organized a takeover of the country, only to be foiled when the government caught wind of it early. The plotters were either amateurs or were forced to execute their plans prematurely, allowing Turkish President Recep Tayyip Erdogan to escape.

Later, Mr. Erdogan appeared on CNNTurk via Apple's Facetime, calling on his supporters to take to the streets. Ironically, CNNTurk belongs to the Dogan media group, long persecuted by Mr. Erdogan. Just two days earlier, its owner was called to defend himself in court.

This was a media story from the very start. All night, government ministers were on TV urging supporters to come out in a show of solidarity. Mosques called for people to gather in town squares and airports in defiance of the coup. The same call popped up on our cellphones as text messages from the ruling party, from Islamic nongovernmental organizations and, allegedly, even from Mr. Erdogan himself.

"How can you have a coup just by closing down the Bosphorus bridge?" my mother asked, having lived through three previous coups.

Twitter was still working. So was the internet. When the rebels finally shut down the cable news, we watched Mr. Erdogan's second press conference on a small Kurdish news channel that the government had previously forced into the darkness of the internet. In the end, what saved Mr. Erdogan were the tiny remnants of free media that had escaped his iron rule.

This certainly was one of the most melodramatic nights in this drama-prone country. But it's also likely to be a turning point in our history. Had the coup succeeded, it would have wrecked Turkey's already fading democracy. But the ensuing purge may well do the same.

The crackdown is already massive and ugly. I understand the arrests of the military rebels, but what about the rest? Thousands of

judges and prosecutors have been arrested. News websites have been shut down. Were they all part of the coup? What about the state employees—about 50,000 of them—dismissed overnight?

The government claims this is all an effort to expunge the followers of Fethullah Gulen, a U.S.-based

Had the putsch succeeded, it would have wrecked the country's fading democracy. Erdogan's ensuing purge may well do the same.

cleric whom they hold responsible for the coup. But the drive has also hollowed out Turkey's institutions. Ironically, most Gulenists within the military and judiciary had been appointed by Mr. Erdogan's ruling Justice and Development Party (AKP), as part of a decadelong drive to root out the rival Kemalists and secularists from any position of influence.

None of this will solve Turkey's problem of weak institutions, the absence of a rule of law and the erosion of the separation of powers. The foiled coup will not only help consolidate Mr. Erdogan's power, but is also likely to bring us closer to a one-party state with AKP at its helm.

The purge will also exacerbate Turkey's dangerous polarization. The opposite of a military coup is democracy, not Islam. But that's not how the government mobilized masses. Friday night was scary for most secular Turks, not only because of the coup but also because among those who took to the streets were radicals and members of Islamic sects.

Call me old-fashioned, but I don't feel safe when minarets call for jihad, when bearded men try to raid Alawite neighborhoods, and when "Allahu Akbar!" is chanted all night, even in Parliament. I doubt that these people want an order that allows much space for secularists, Kurds and Alawites. I doubt they want people like me.

The purge could have been an opportunity to solidify unity under the banner of democracy. But, more likely, I fear it will create further divisions, sending minority groups into isolated ghettos and undoing the secular order that had been the core of the republic for the past 100 years.

I was an early supporter of AKP in its first years and enthusiastic about their efforts to diminish the importance of hardline secularism in Turkish politics. Fourteen years ago I wrote on these pages that AKP-style Islamism could evolve into a version of Christian Democrats in Europe.

Mrs. Clinton Makes the Case for Donald Trump



MAIN STREET
By William McGurn

Mike Pence gave it as his reason for signing on as Mr. Trump's VP: The alternative is President Hillary Clinton.

This is the reality of choice in a two-party democracy. Still, many

have a hard time accepting it. So even as Mr. Trump handily dispatched 16 more-experienced rivals, his shortcomings and unfitness for office have become a staple of conservative fare.

Yes, Mr. Trump elevates insult over argument. Yes, he is vague and contradictory about the details of his own proposals. And yes, he often speaks aloud before thinking things through. It's all fair game.

Even so, in this election Mr. Trump isn't running against himself. Though you might not know it from much of the commentary and coverage, he is running against Mrs. Clinton.

On so many issues—free trade, the claim that Mexico will pay for a border wall, his suspiciously recent embrace of the pro-life cause—Mr. Trump gives reasons for pause. But he still isn't Mrs. Clinton. That's crucial, because much of the argument for keeping Mr. Trump out of the Oval Office at all costs requires glossing over the damage a second Clinton presidency would do.

Start with the economy. There is zero reason to believe a Clinton administration would be any improvement over the past eight years, from taxes and spending and regulation to ObamaCare. If elected, moreover, Mrs. Clinton would be working with a Democratic Party that has been pulled sharply left by Bernie Sanders.

Mrs. Clinton's flip-flop on the Trans-Pacific Partnership is illuminating. As President Obama's secretary of state, she waxed enthusiastic. But when it came time to take her stand as a presidential candidate, she folded. Mr. Trump has made his own protectionist noises, but if this same trade agreement had been negotiated by a Trump White House, who doubts that he would be telling us what a great deal it was for American workers?

Or what about social issues? Mrs. Clinton has loudly repudiated the moderating language her husband ran on in 1992, notably on abortion. In sharp contrast, she is the candidate who touts the Planned Parenthood view of human life, who sees nothing wrong with forcing nuns to provide employees with contraceptive

ives, and who supports the Obama administration's bid to compel K-through-12 public schools to open girls' bathrooms to males who identify as female.

In short, Mrs. Clinton is the culture war on steroids.

Which leaves foreign affairs. Here again, the initiatives where she was front-and-center don't inspire confidence: the Russian reset and Beng-

The businessman clearly gives reason for pause. But he still isn't Hillary.

hazi. More to the point, while she now apologizes for her 2002 vote to authorize the use of military force in Iraq, what she ought to be apologizing for is her admission that her 2007 opposition to the surge in Iraq was dictated not by any military concerns but because she was worried about facing antiwar candidate Barack Obama in the Iowa Democratic primary.

Today this same woman supports the nuclear deal with Tehran and offers an Islamic State strategy that sounds tough but is not materially different from Mr. Obama's. This is the "hawk" we're always hearing about?

Nor is the case against Mrs. Clinton limited to policy. It's as much about personnel, which goes much further than the activist nominees she would almost certainly nominate for the Supreme Court.

When presidents enter office,

three states aren't afraid to vote Republican. Each has a Republican senator, and two of the three have Republican governors. Mr. Trump pretty much has to win two of the three. I think Ohio and Pennsylvania are his best chances, as recent polls confirm.

By putting Pennsylvania and Ohio in the Trump column, combined with the Romney states, Mr. Trump would sit at 244 electoral votes. At this point there would be two ways to get to 270: Win a collection of states such as Virginia, Colorado and New Hampshire, or win Florida. Neither John McCain in 2008 nor Mr. Romney won any of these states. But George W. Bush won all of them—twice.

I think the victory-in-Florida scenario is the more likely. Mr. Trump will benefit from a close relationship with the state's governor, Rick Scott, and, ironically, by having Marco Rubio back in the U.S. Senate race, increasing Republican enthusiasm and turnout.

More than 30,000 new Republicans registered to vote in Florida this year and many observers believe that Mr. Trump was the driving factor. In recent days, Mrs. Clinton's numbers in Florida have eroded significantly, highlighting the state's volatility.

All of this is a heavy lift for the Trump campaign. But who dreamed that Donald Trump could defeat 16 highly skilled and credible adversaries to become the Republican nominee?

Mr. Brabender, a national Republican strategist and media adviser, is a partner at BrabenderCox.

But my own views on secularism have since changed. I now believe that it is impossible to establish a pluralistic democratic order without real secularism. It is also equally difficult to imagine that, having defeated the mighty military, the conservative base of the AKP and all the religious sects that were out on Friday night will want anything but an even more rigid Islamic order headed by Mr. Erdogan.

I don't lament the failure of a coup. It would have set Turkey back and possibly have led to civil war. More than a hundred civilians were killed Friday night as they protested the military. But I also know that as a person of a liberal lifestyle, I will have to live the rest of my life as a member of a timid minority, in the safety of my secular ghetto.

I also know that democracy won't come to Turkey anytime soon. And that the bloodletting will now lead to new power struggles and new culture wars.

And here is the final irony. The military had long been regarded as the bastion of Turkey's secular order, fashioned after the principles of the country's founder, Mustafa Kemal Ataturk. This silly, botched coup has brought about the end of Ataturk's secular republic. We are beginning a new chapter in Turkey now.

Ms. Aydintasbas is a fellow at the European Council on Foreign Relations.

they bring with them about 6,000 people. From the head of the Environmental Protection Agency and White House assistants down to the lowliest Justice Department lawyer, Mrs. Clinton would fill her government with people who get up each day looking to tax, spend, regulate—and use the federal government to stomp on anyone in their way.

At a time when so much of American "law"—from the Health and Human Service's contraceptive mandate, to the Education Department's "Dear Colleague" letters on transgender policy, to the National Labor Relations Board's prosecution of Boeing for opening a new plant in South Carolina instead of in Washington state—is decided by faceless federal bureaucrats, Mrs. Clinton would stuff these federal agencies from top to bottom with Lois Lerner and Elizabeth Warrens.

Welcome to 21st-century American liberalism, which no longer even pretends to produce results. Whatever the shortcomings of Mr. Trump's people, nonprogressives simply don't share the itch to use the government to boss everyone else around. On top of this, an overreaching President Trump would not be excused by the press and would face both Republican and Democratic opposition.

Fair enough to argue that Mr. Trump represents a huge risk. But honesty requires that this risk be weighed against a clear-eyed look at the certainties a Hillary Clinton administration would bring.

Write to mcgurn@wsj.com.

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ARTS & ENTERTAINMENT

Nicholas Hoult's Many Faces

BY LUCY FELDMAN

NICHOLAS HOULT LEAPT into moviegoers' minds last year as a frenzied fighter in "Mad Max: Fury Road." This summer, the 26-year-old British actor takes on a very different role in "Equals," a science-fiction romance.

The contrast is part of Mr. Hoult's strategy to play characters who are as varied as possible. "That's maybe not always the smartest way to approach a career, because sometimes it's easier to get more success if you stick to a template that works," he says.

In "Mad Max," Mr. Hoult jumped between war rigs in the desert and drove into an apocalyptic storm, bellowing, "Oh, what a lovely day!" One critic described him as "fabulously unhinged." In the latest three "X-Men" movies, he played Hank McCoy ("Beast").

He will portray J.D. Salinger in "Rebel in the Rye," a biopic due next year from director and writer Danny Strong. Mr. Hoult is a fan of Salinger's writing and says "The Catcher in the Rye" is widely known but not required reading in the U.K. With no audio or video recordings of the author to study, Mr. Hoult researched Salinger's childhood, honed an accent and read as much about and by him as possible. The film finished shooting earlier this summer.

Mr. Hoult, who lives in London, broke out at age 12 in the title role of "About a Boy" and then was a teen television regular on "Skins" in the U.K. He is better known at home than in the U.S., but figures he's played more Americans than British characters at this point.

In "Equals," directed by Drake Doremus, Mr. Hoult stars as Silas, a member of a futuristic society in which emotions signal deadly disease. When Silas realizes his capacity to feel, he begins a furtive romance with co-worker Nia, played by Kristen Stewart. There was a lot of improvisation, something new to him, and long takes shot in close quarters. Thus far, critics have expressed mixed feelings about the film, Mr. Doremus's first venture into science fiction.

The director says he created the role of Silas—who, once he discovers love, is completely overtaken by it—with Mr. Hoult in mind. "This industry, especially when you've been doing it at such a young age, can really make you jaded," Mr. Doremus says. "None of the negative stuff affects him."

This August will see the release of "Collide," an action thriller in which Mr. Hoult's character tangles with drug smugglers. Mr. Hoult recently shot "Sand Castle," in which he and fellow Brit Henry Cavill play American soldiers in Iraq. He's in talks to play Beatles manager Brian Epstein in "A Life in the Day."

The actor in London in June, falls for Kristen Stewart in the film 'Equals.'



CLOCKWISE FROM LEFT: CHRIS FLOYD FOR THE WALL STREET JOURNAL; A24; EVERETT COLLECTION (2)



ANIMAL ATTRACTION 'Zootopia'

Hollywood Goes to the Dogs

BY BEN FRITZ

IN ONE OF THE MORE bizarre developments to emerge from multiplexes in some time, five of the top 10 grossing movies so far this year have anthropomorphic animals with flawless speaking skills: "Finding Dory," "The Jungle Book," "Zootopia," "Kung Fu Panda 3" and "The Secret Life of Pets." No. 11, "The Angry Birds Movie," continues the frenzy.

Four of the remaining five top-grossing films are comic-book adaptations. Only the Wayne Johnson-Kevin Hart comedy "Central Intelligence," at No. 10, features human beings who don't wear spandex.

Together, "Finding Dory," "The Jungle Book," "Zootopia," "Kung Fu Panda 3" and "The Secret Life of Pets" have grossed more than \$3.3 billion. All five have the advantage of being good, according to critics' reviews and audience polls. Last year's Pixar dud "The Good Dinosaur" and more recent flops like "Norm of the North" prove that audiences exercise some discretion.

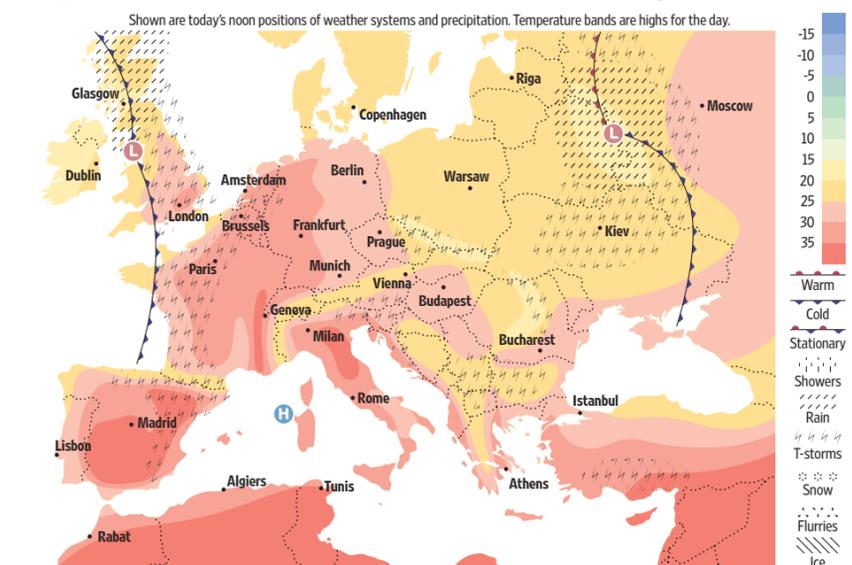
But there's no question that furry creatures with personality are marketable concepts. A billboard or television commercial featuring the Louis C.K.-voiced dog Max from "Pets" or Bill Murray's Baloo from "The Jungle Book" stands out from the slew of two-legged adults and lets kids latch onto a simple image: "I want to see the movie with the dog/fish/snake/bear."

As studios look for anything that can stand up to Batman and Iron Man at the box office, expect more talking animals on screen and atop box-office charts. Still to come this year are "Ice Age: Collision Course," "Nine Lives," "Storks" and "Sing." Sequels to "The Jungle Book" and "Angry Birds" are already in development, and "Zootopia" and "Pets" appear ripe for follow-ups.

DISNEY (3); EVERETT COLLECTION (SECRET LIFE OF PETS);

Weather

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Global Forecasts

City	Today			Tomorrow			City	Today			Tomorrow		
	Hi	Lo	W	Hi	Lo	W		Hi	Lo	W	Hi	Lo	W
Amsterdam	32	17	pc	26	15	t	Ottawa	28	13	s	32	20	pc
Anchorage	23	16	pc	21	15	r	Paris	31	18	t	28	16	t
Atlanta	31	23	s	32	22	s	Philadelphia	30	19	s	32	23	pc
Bahgdad	36	23	pc	34	23	pc	Phoenix	42	32	pc	44	34	pc
Baltimore	30	19	s	32	22	pc	Pittsburgh	29	18	s	31	21	pc
Bangkok	32	26	t	32	26	t	Port-au-Prince	34	22	pc	34	23	t
Beijing	24	22	r	29	23	r	Portland, Ore.	28	16	pc	28	16	pc
Berlin	26	16	pc	27	18	pc	Rio de Janeiro	22	19	r	21	18	r
Bogota	18	10	c	18	10	pc	Riyadh	45	34	pc	46	33	s
Boise	33	17	s	37	16	s	Rome	30	20	s	30	19	s
Boston	27	19	s	31	22	s	Salt Lake City	38	23	pc	39	24	pc
Brussels	32	18	t	27	16	t	San Diego	26	20	pc	26	20	pc
Buenos Aires	12	3	s	13	4	s	San Francisco	20	13	pc	20	12	pc
Cairo	34	25	s	36	25	s	San Juan	30	26	pc	32	26	pc
Calgary	24	9	sh	24	12	pc	Santiago	17	6	pc	20	6	pc
Caracas	31	24	pc	31	25	pc	Santo Domingo	32	23	pc	32	23	t
Charlotte	33	21	pc	33	21	t	Sao Paulo	17	10	c	16	10	c
Chicago	29	23	t	34	26	t	Seattle	25	15	pc	26	15	pc
Dallas	37	26	s	37	27	s	Seoul	32	23	c	30	23	c
Denver	34	18	t	33	18	t	Shanghai	36	28	pc	37	28	pc
Detroit	30	20	s	30	24	pc	Singapore	31	25	c	30	26	c
Dubai	43	34	s	43	34	s	Stockholm	24	10	pc	24	11	s
Dublin	21	13	c	21	13	sh	Sydney	20	14	r	21	12	sh
Edinburgh	21	11	r	20	13	sh	Taipei	34	27	t	35	26	s
Frankfurt	33	21	s	28	18	t	Tehran	41	24	s	41	27	s
							Tel Aviv	31	25	s	31	24	s
							Tokyo	29	23	t	26	23	t
							Toronto	28	18	s	32	23	pc
							Vancouver	22	13	pc	23	13	c
							Washington, D.C.	30	22	s	32	24	pc
							Zurich	32	17	s	28	17	t

The WSJ Daily Crossword | Edited by Mike Shenk

THE BIG CHILL | By John Lieb

- | | | |
|--|---|--|
| Across | 24 Careless shepherdess | 50 Rappers' wrappers |
| 1 Aid for rounding up | 27 San Diego setting, familiarly | 51 Drink of the gods |
| 6 1972 hit for Bill Withers | 28 *Metaphorical location of a stalled film project | 53 Santa ___ winds |
| 11 People representing the people: Abbr. | 32 Spur | 54 Kin of an Amber Alert |
| 14 LeAnn's "Written in the Stars" duet partner | 33 Leading indicator? | 57 Approximating suffix |
| 15 First pope | 34 Poker chip, e.g. | 58 **Chew on that" |
| 16 Comprehensive abbr. | 35 Disconcert | 62 Casual top |
| 17 *A long time ago | 37 Delivery cart | 63 Causing shivers, perhaps |
| 19 Supporting | 41 More able-bodied | 64 Black swan in "Swan Lake" |
| 20 Cinq doubled | 43 Poet Marianne | 65 Paycheck abbr. |
| 21 "Norma ___" | 44 *Belt-tightening measures | 66 Swedish autos |
| 22 Selena's musical genre | 49 Pianist Rubinstein | 67 Succinct version of the combined final words of the starred answers |

- Down**
- 29 Virgin ___ Records
 - 30 Some corp. execs
 - 31 Certain degree
 - 35 Slugger from Louisville
 - 36 River feature
 - 38 Cartoonist Chast
 - 39 Really exist
 - 40 Sycophantic answer
 - 42 They're high for the Super Bowl
 - 43 Explosive unit
 - 44 Marbles, so to speak
 - 45 Car radio button
 - 46 Permanently inscribed
 - 47 Jonathan of "Star Trek: The Next Generation"
 - 48 Indian royal
 - 52 Ostrich's South American cousin
 - 54 Tel ___
 - 55 Youngest scorer in World Cup history
 - 56 Uncle Remus title
 - 59 Savings option
 - 60 Quill tip
 - 61 Praising poem

Previous Puzzle's Solution

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Wednesday, July 20, 2016 | B1

Japanese Banks Cash In on Deals

By ATSUKO FUKASE

TOKYO—Internet and telecommunications giant **SoftBank Group Corp.**'s \$32 billion buyout of U.K.-based **ARM Holdings PLC** is good news for Mizuho Bank, underscoring how Japanese lenders see financing cross-border deals as a growth area.

Mizuho, the core banking unit of **Mizuho Financial Group Inc.**, will provide a bridge loan of about ¥1 trillion, or roughly \$9 billion, to back SoftBank's acquisition of chip-designer ARM, SoftBank said Monday when announcing the buyout.

\$9 billion

Amount of bridge loan Mizuho is providing to SoftBank to back its purchase of ARM.

Japanese companies' demand for domestic loans remains weak, despite the Bank of Japan's efforts during the past three years to increase lending by lowering interest rates through its extraordinary monetary policies.

The BOJ's introduction early this year of negative interest rates on some bank reserves has driven yields on government debt to record lows, and some into negative territory, while pressuring banks' profits.

In search of opportunity, many Japanese lenders have turned to financing mergers

and acquisitions, mainly of Japanese companies seeking to buy growth abroad.

Before SoftBank's acquisition of ARM, Japan's outbound deal volume this year had lagged behind last year's pace, dropping more than 60% from a record level a year earlier, according to data provider Dealogic. SoftBank's deal for ARM raised outbound M&A to \$51.7 billion year-to-date, slightly behind last year's record \$54.9 billion, according to Dealogic.

Mizuho, SoftBank's main lender, likely will end up sharing the financing on the deal with other banks such as **Bank of Tokyo-Mitsubishi UFJ** and **Sumitomo Mitsui Banking Corp.** in the next few months, according to a person familiar with the matter. SoftBank said in a statement that all or part of the bridge loan would be refinanced with longer terms.

Japanese companies are expected to continue seeking growth abroad through acquisitions, given Japan's sluggish economy and shrinking population.

Nana Otsuki, an analyst at Monex Securities, noted that SoftBank's debt carries a below-investment-grade rating from Moody's and Standard & Poor's. "Mizuho may be taking too much risk" by providing ¥1 trillion as the sole lender, Ms. Otsuki said.

A Mizuho spokeswoman said the lender recognized the strategic significance of the deal for SoftBank and wanted to support its client.

SoftBank Chip Foray Taps a Nascent Field

SoftBank Group Corp.'s \$32 billion wager on **ARM Holdings PLC** hinges on the British chip designer's promise as a leader in the so-called Internet of Things, a nascent field connecting everyday items such as lightbulbs to the web.

By *Stu Woo in London and Don Clark in San Francisco*

So far, though, the market for such devices is small. Revenue per sale is tiny. And it is unclear whether ARM can exploit the industry in the same way it has dominated the global smartphone business.

"It's not a given that everything else in the world is going to run on ARM," said Rob Chandhok, a former **Qualcomm Inc.** executive who specializes in the sector. "It's not a bad bet, but it's still a bet."

Many SoftBank investors agree. Shares fell 10% in Tokyo on Tuesday, a day after the Japanese internet and tele-

communications group disclosed its deal to acquire ARM.

ARM was founded in 1990 and is based in an office park in Cambridge, England, a centuries-old university town. Far from a household name even in the U.K., the company is an important competitor in the mobile-device industry—designing the basic architecture of about 95% of the world's smartphones.

More recently, it has pushed to become a dominant designer of a new breed of chips for the Internet of Things, or IoT, in industry parlance. These chips are aimed at processing and wirelessly transmitting data for a range of devices, including smartphone-controlled thermostats, child-tracking bracelets and web-connected refrigerators.

But markets for many such "smart home" devices are still niche, with high price tags hampering wider adoption by consumers so far. Wearable *Please see DEAL page B3*

Monsanto Spurns Bayer

By JACOB BUNGE AND EYK HENNING

Monsanto Co. on Tuesday rejected a roughly \$65 billion takeover proposal from **Bayer AG**, saying the improved bid continued to undervalue the biotech seed giant.

Monsanto left the door open to further talks, however, and Bayer said it would continue to pursue the deal, despite objections from a major shareholder.

Bayer's bid, which the German company raised last week

to \$125 a share, remains "financially inadequate" and "insufficient to ensure deal certainty," according to Monsanto, whose board unanimously rejected the offer.

Bayer said it was "disappointed" and stressed the offer's value for shareholders in light of Monsanto's "recent weak business performance."

Bayer is pursuing what would be the latest in a succession of multibillion-dollar merger agreements that would reorder the \$100 billion global market for agricultural seeds

and pesticides, which has been hurt by a slide in crop prices.

The German drugmaker, which runs an agricultural division heavily focused on pesticides, views Monsanto's No. 1 position in the global seeds and crop genes business as the key to creating an agricultural giant that could develop high-tech seeds, crop sprays and related farm services.

A Monsanto deal would make agriculture roughly half of Bayer's business. Its bid—which would be the most it has ever paid for an acquisi-

tion—has rankled some Bayer shareholders who would prefer investing in the drug and health-care business. Bayer also would need to issue billions of dollars in new shares to fund a deal.

Henderson Global Investors—Bayer's 16th-largest shareholder, according to Thomson Reuters—has called on Bayer's board of directors to let shareholders vote on the proposed Monsanto transaction. Bayer has previously said such a step isn't required and *Please see BID page B2*

China's Box-Office Growth Slows



'Captain America: Civil War,' shown at a theater in China in May. Chinese theaters' receipts rose 20% in the first half of 2016.

Ticket sales in the country begin to show signs of a pullback as discount offers dry up

BEIJING—While Chinese money and moviegoers reshape Hollywood, China's box-office growth is slowing down, knocking the country off its stride toward overtaking the U.S. as the world's biggest movie market.

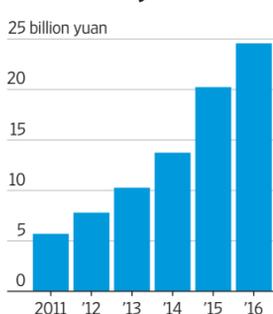
The first six months of the year has seen a deceleration in Chinese box-office sales as the economy cools, a change that can partly be explained by the rarity of sharply discounted movie tickets that were common a year ago.

Deep ticket discounts by online platforms fighting for a foothold helped drive up growth in box-office receipts last year to a staggering 50%, compared with the previous year. But the frenzy has wound down this year as some major players have established relatively stable market share. "The subsidy carnival has

Movie Mania

Although slowing in recent months, China's cinemas have experienced years of explosive box-office growth helped by online-ticket discounts and the addition of thousands of theaters.

China's box-office revenue in first half of the year

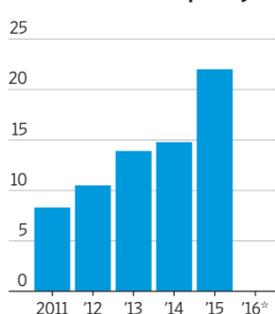


*No data available **Estimate 10 billion yuan = \$1.49 billion

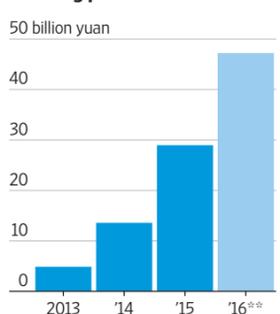
Sources: EntGroup (box-office); The State Administration of Press, Publication, Radio, Film and Television (screens); Analysys (revenue)

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Average number of newly-added movie screens per day



Revenue of online movie-ticketing platforms



passed," said Xu Yongming, general manager of Nuomi Pictures, the film arm of internet search company **Baidu Inc.**

The price wars drew new segments of Chinese society into theaters over the past two years. It wasn't uncommon to find tickets online for under

\$2 for blockbusters such as the 2014 installment of **Paramount Pictures'** "Transformers" and even less for domestic films.

"The discounts got some people used to the idea that a ticket shouldn't cost more than 10 yuan (\$1.50)," said Lou

Xiaoqing, who runs eight cinemas in Shangrao, a city in China's Jiangxi province.

But this summer online-ticketing companies cut back on discount offers and fewer tickets were priced less than \$7, giving some potential mov- *Please see FILM page B2*

North Sea Oil Firms Buoyed by Brexit

By SELINA WILLIAMS

LONDON—A weakened British pound caused by the U.K.'s vote to leave the European Union has thrown a lifeline to a group of businesses on the brink: small oil companies plying the North Sea.

The fall of the British pound to a 31-year low after the June 23 referendum has lowered labor, equipment and engineering costs for companies that have major operations in Scotland, the main base for North Sea outfits. These companies sell oil in dollars but pay employees and the majority of their costs in the weakened British currency.

Until now, they had been walloped by the slump in crude prices and the declining productivity of aging fields offshore of Britain. Now, they



An oil platform operated by Transocean in the U.K.

finally have something to cheer about, even as the uncertainty created by Britain's decision to leave the EU, known as Brexit, has slammed other U.K. industries such as travel companies and banking. "I don't really see any nega-

tives, other than general market uncertainty," said Tony Durrant, the chief executive of **Premier Oil PLC**, a London-based company that pumps about 60,000 barrels of oil equivalent a day, mostly from the North Sea. "Our dollar in-

come is going to buy more and it's going to reduce our costs," he added.

Around 60% to 70% of spending on North Sea oil and gas is in British pounds, says energy consultancy Wood Mackenzie. Last year, companies invested more than £11 billion (\$14.6 billion) in North Sea fields and were expected to spend around £10 billion this year, according to trade association Oil & Gas U.K. estimates in February.

Mr. Durrant said his company is saving \$100 million on a new North Sea oil-field development called Catcher because the pound's decline has allowed it to budget for an exchange rate of \$1.31 against the U.K. currency, instead of \$1.60 per pound when the project was planned two years *Please see OIL page B2*

Microsoft Revenue Falls As Cloud Overtakes PCs

By JAY GREENE

Annual revenue fell at **Microsoft Corp.** for the first time since 2009, as the software giant continues to shift its business from the slowing personal computer market and server software sales to cloud computing.

Still, shares were ahead 3.3% at \$54.81 in after-hours trading as per-share earnings easily beat analysts' expectations and the company's cloud and productivity businesses posted revenue growth for the quarter and year.

The Redmond, Wash., software giant registered \$85.32 billion in annual revenue, down 8.8% from fiscal 2015. Sales have dwindled as the company's flagship operating

system, Windows, continues to post sluggish growth.

For the fourth quarter ended June 30, sales in the company's More Personal Computing segment fell 3.7% to \$8.9 billion. Revenue from computer makers rose 11%. Revenue in the Intelligent Cloud segment, which includes Azure computing services, rose 6.6% to \$6.71 billion.

Microsoft posted \$3.12 billion in fourth-quarter profit, or 39 cents a share, compared with a loss of \$3.2 billion, or 40 cents a share, a year ago. Excluding revenue deferrals and restructuring charges, adjusted earnings rose to 69 cents from 62 cents a year ago. Revenue fell 7.1% to \$20.61 billion and was \$22.64 billion on an adjusted basis.

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Novartis Throws Weight Behind New Heart Drug

By DENISE ROLAND

Novartis AG cut its full-year profit outlook as it ramps up investment in its new heart-failure treatment to offset declining sales of blockbuster cancer drug Gleeevec. Chief Executive Joe Jimenez said he had made a "hard decision" to boost investment in heart drug Entresto by an additional \$200 million this year, a move that could cost the company 1% to 2% of core operating income.

"This is absolutely the right thing to do," he said. "There are two big catalysts for this company over the next two years in terms of growth. One is Entresto...and I'm not going to let any constraints minimize the peak sales potential of that brand."

Mr. Jimenez said the additional investment would mostly go into building a sales force targeting primary-care physicians, which "will need more education about Entresto."

Novartis is also counting on Cosentyx, its new drug for psoriasis and certain rheumatic diseases, to play a key role in driving growth.

The Swiss drugmaker now expects core operating income to fall by a low-single-digit percentage, after previously estimating it would be broadly in line with 2015. The company continues to see revenue broadly in line with last year.

The heart-failure drug, which launched a year ago, got

off to a slow start, reflecting doctors' hesitation to switch stable patients onto a new medicine and delays in securing reimbursement from health insurers in the U.S.

But growth has picked up. More insurers have agreed to cover the drug, and cardiology associations in the U.S. and European Union updated their prescribing guidelines to recommend Entresto as the preferred drug in certain patients. Sales of Entresto were \$32 million in the second quarter, and Novartis expects the drug to generate \$200 million in revenue for the full year.

Novartis reported second-quarter net income of \$1.81 billion, down 3% from \$1.86 billion a year earlier. Core net income—a measure that strips out one-time gains or losses—fell 5% to \$2.93 billion, and revenue dipped 2% to \$12.47 billion; both topped analyst expectations.

Stripping out the negative effect of the strong U.S. dollar, the company said net income and sales were flat, and core net income was down 2%.

Novartis is dealing with shrinking sales of its best-selling cancer treatment Gleeevec, which has faced competition from a cheaper generic version in the U.S. since February when it came off patent. That dragged sales at the company's innovative-medicines unit down 1% at constant currencies to \$8.4 billion, despite a 23% increase in revenue from Novartis's new drugs.

FILM

Continued from the prior page

receipts. In February, Chinese theaters broke the \$1 billion barrier with a monthly total that surpassed North America's monthly ticket sales for the first time.

Some of the battle to attract audiences has instead turned to content. There is little doubt in the industry that China is firmly on the way to lead the global box-office contest. Passing that milestone, however, might depend on the quality and marketing of movies hitting the market.

China has eased its policy of imposing a summer blackout on Hollywood movies to maximize audiences for domestic titles. Paramount Pictures' newest installment of its "Teenage Mutant Ninja Turtles" franchise and Warner Bros.' "The Legend of Tarzan" have been given summer slots.

With China's box office aiming for \$9 billion in receipts this year, those in the industry say hitting that target depends on whether there will be enough quality films released at the right time.

—Lilian Lin

BUSINESS NEWS

Record EU Fine for Truck Makers

By NATALIA DROZDIK

BRUSSELS—The European Union on Tuesday imposed its highest-ever cartel fine—about €2.93 billion, or roughly \$3.22 billion—on five truck makers for colluding on prices and the implementation of emissions technologies, confirming an earlier report by The Wall Street Journal.

"We have today put down a marker by imposing record fines for a serious infringement," said EU Competition Chief Margrethe Vestager, adding it was "a clear message to companies that cartels are not accepted."

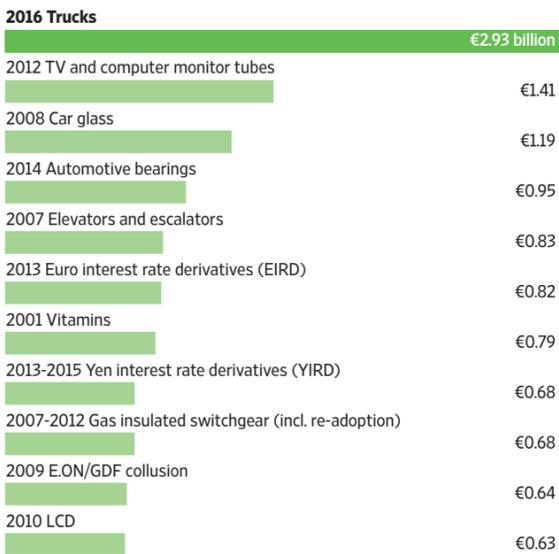
The European Commission, the bloc's antitrust regulator, said Volkswagen AG's MAN SE, Volvo AB, Daimler AG, Paccar Inc.'s DAF and CNH Industrial NV's Iveco colluded for 14 years, between 1997 and 2011, on the factory prices of medium and heavy trucks.

They also coordinated on when to implement new emissions technologies and agreed to pass the extra costs of complying with the stricter environmental standards onto customers, the EU said.

Daimler faces the largest fine of around €1 billion, followed by DAF with penalties of €753 million. Volvo has to pay about €670 million, and Iveco approximately €500 million. MAN hasn't been fined,

Big Load

The EU slapped its heaviest cartel fine ever on a handful of truck makers.



€1=\$1.11 Source: Eurostat

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avoiding a penalty of roughly €1.2 billion because it revealed the cartel to the commission, the EU said.

All the companies except MAN had set aside hundreds of millions of dollars in provisions in preparation for the decision. The truck makers acknowledge their involvement and agreed to settle the case,

the EU added. "Daimler regrets these occurrences and took appropriate action some time ago," the company said in a statement.

Volvo said the €650 million previously set aside largely covers the cost of the fine but that an additional provision of €20 million to pay the full penalty would impact operat-

ing profit in the third quarter. "While we regret what has happened, we are convinced that these events have not impacted our customers," Volvo Chief Executive Martin Lundstedt said in a statement.

MAN acknowledged in a statement it had escaped the fine by informing the commission of the cartel.

In a statement, Paccar said it didn't believe "the exchange of factory list prices among manufacturers had (any) effect on truck sales prices negotiated between DAF's independent dealers and its customers." CNH, owner of Iveco, declined to comment.

At a news conference Tuesday, Ms. Vestager divulged more details about how senior managers at the companies founded the cartel in January 1997 when they met in "a cozy hotel" in Brussels. She said the truck makers met regularly to manage the cartel, sometimes at the margins of trade fairs and other events.

The companies then changed their approach in 2004, Ms. Vestager said. For the remaining duration of the cartel, the collusion was organized by the truck makers' subsidiaries in Germany, she said.

—Matthias Verbergt in Stockholm and Ilka Kopplin in Frankfurt contributed to this article.

EU Opens Full Probe Into Areva Financing

By NATALIA DROZDIK

BRUSSELS—European Union antitrust regulators on Tuesday said a full-blown probe has been opened into France's financial support of beleaguered nuclear group Areva SA's restructuring plans to ensure the government didn't give it an unfair advantage.

The European Commission said France notified it of the group's restructuring plans in April, which includes state aid of about €4 billion (\$4.43 billion) in the form of a public

capital injection into Areva.

"Our aim is to ensure a sustainable future for Areva without the need for further government support," said EU competition chief Margrethe Vestager.

The EU said it was examining whether Areva's restructuring plans are realistic enough to ensure the company can operate without "constant injections of public funds." The commission said it also wants to ensure the group sufficiently contributes to the restructuring costs and that France is taking appropriate steps to limit

any distortions to competition.

The opening of a probe isn't a surprise for the French government, an Economy Ministry official said Tuesday. "The minister and the commissioner had several meetings since the project was notified in April," he said. "We are confident our project is solid and the outcome will be positive." The government still aims to conclude the process in early 2017, he said.

The government plans to inject €4 billion directly into the rescue of Areva and will seek partners to provide an

additional €1 billion.

Areva, which is 85%-owned by the French government, in June detailed its overhaul plans to raise billions of euros, mostly from the government and from selling assets, including the sale of a majority stake in its nuclear-reactor manufacturing unit to state-controlled power utility Electricité de France SA.

An Areva spokeswoman said the company wouldn't comment on the decision.

—Inti Landauro in Paris contributed to this article.

Ericsson Plans More Layoffs as Profit Falls

By MATTHIAS VERBERGT

STOCKHOLM—Ericsson AB intends to seek further cost reductions and job cuts after posting a 24% drop in second-quarter net profit, as the Swedish telecommunications-equipment maker faces stiff competition and continued weak product demand in most of its markets.

Ericsson said Tuesday that it aims to double its operational savings by 2017 by reducing research-and-development costs and capturing efficiency gains from a new company structure, as well as from its partnership with Cisco Systems Inc.

The company expects the cuts to lower its annual operating expenses, excluding research and development, to 53 billion Swedish kronor (\$6.2 billion) in a year's time, compared with 63 billion kronor



Ericsson's Hans Vestberg cited a networks-business slowdown.

for all of 2014. Ericsson also is pursuing a nine-billion-kronor efficiency program, which the company said is going according to plan.

The restructuring comes as Ericsson, one of the world's largest telecom-gear providers, faces competition from its Nordic rival Nokia Corp. and new operators such as Huawei

Technologies Co., the rapidly growing Chinese network-equipment maker that has been offering innovative products at competitive prices.

Ericsson, whose share price has lost about one-third of its value over the past year, on Tuesday reported a second-quarter net profit of 1.59 billion Swedish kronor, down

OIL

Continued from the prior page ago. The project's overall cost has been reduced by about 20% to \$1.8 billion from \$2.26 billion in 2014, partly because of lower contractor rates.

Further savings from the weak pound will come when oil begins to flow next year, Mr. Durrant said.

The pound, which earlier this month fell below \$1.30 for the first time since 1985, is now trading around \$1.32. It is currently trading around 11% below a peak of \$1.50 on the day of the referendum.

Some British company share prices, which are denominated in pounds while the value of their oil fields are in dollars, would have received a boost from the exchange rate, said Tony Craven Walker, CEO of Serica Energy PLC, whose London shares have risen around 28% since the June 23 referendum. "It's definitely been a short-term positive coming out of Brexit," he said.

Until now, Premier and its rivals in the North Sea, like EnQuest PLC and Ithaca Energy, had been blasted with a

steady stream of bad news.

Investors punished their share price for their high debt levels after oil prices began a steep descent in 2014, sending Premier and EnQuest down 80% and Ithaca 60% lower.

EnQuest declined to comment. Ithaca was unavailable to comment.

The North Sea has long looked like a bad bet.

Earlier this year, when oil prices were trading around \$30 a barrel, nearly half the

The falling pound makes it cheaper for some oil companies to pay off debt.

region's fields were operating at a loss, according to Oil & Gas U.K. Britain's remaining offshore barrels lie deep underwater in tough-to-drill reservoirs and some infrastructure is old, requiring constant maintenance and repair.

Total costs, including finding, developing, operating and decommissioning, are about \$50 a barrel—among the highest in the world, despite efforts at cost control, according

to Oil & Gas U.K.

Companies have to spend huge sums to drain the British North Sea of its last drops of oil. Once one of the world's great petroleum basins, churning out more than 2.7 million barrels of crude oil a day at its height in the 1990s, production in the North Sea has declined to roughly 900,000 barrels a day in 2015.

Now, the falling pound makes it cheaper for North Sea-focused companies to pay back some of the debt they took to launch expensive projects. Premier, for instance, has £250 million of debt drawn in pounds, which will be cheaper to pay back now because its dollar income is stronger.

Brexit, however, isn't all good news for the North Sea oil industry. Volatility on financial markets could cause new bank funding to dry up.

A lack of clarity about these costs in the past has slowed mergers and acquisitions in the region, analysts have said.

"Going forward, Brexit has created uncertainties in the market," said Aidan Heavey, chief executive of Tullow Oil PLC, an Africa-focused company with some gas production in the North Sea.

BID

Continued from the prior page could put a deal at risk.

"For us, the strength of Bayer as a long-term investment has been called into question by its potential takeover of Monsanto," said Asim Rahman, Henderson's European equities fund manager. "After meeting with Bayer management at the end of May, we were still not convinced the transaction will create value."

Bayer raised its offer for Monsanto July 14, increasing its initial \$122-a-share bid by \$3 and outlining financing commitments from a group of banks. It pledged to pay Monsanto \$1.5 billion if regulators torpedoed a merger deal.

Analysts had expected Monsanto to spurn Bayer's higher offer, with some saying around \$135 to \$140 a share was a more realistic price. A person familiar with the matter said Monsanto sees more potential synergy from combining the two companies than Bayer's estimate of \$1.5 billion.

—Friedrich Geiger contributed to this article.

EMC Shareholders Approve Dell Merger

By Rachael King

EMC Corp. shareholders Tuesday approved Dell Inc.'s \$60 billion offer, in what would be the largest technology merger ever.

The newly combined entity, to be named Dell Technologies, aims to be a one-stop shop for information technology sold to businesses. It will consolidate diverse products and services under one umbrella, including personal computers, servers, storage and networking equipment.

All that remains for the deal to move forward is regulatory approval from China.

"The board evaluated numerous options and decided that the merger with Dell is the best outcome," EMC Chief Executive Joe Tucci said before the vote.

Dell, a leading maker of PCs and servers, is battling persistent declines in computer sales as users turn to mobile devices and other newer form factors. In acquiring EMC's line of data-storage hardware—including VMware Inc.'s data center software—it aims to create the leading one-stop shop for information technology sold to businesses.

Once combined, the two companies plan to help customers move to cloud computing, which likely would be a hybrid approach that includes both cloud and on-premises operations, said a person familiar with the matter.

The deal also would allow Dell exploit a product category pioneered by EMC, known as converged infrastructure, to sell computing, storage and networking equipment as an easy-to-install bundle.

—Tess Stynes
contributed to this article.

McDonald's To Sponsor 'Pokémon Go' In Japan

By Takashi Mochizuki

TOKYO—McDonald's Holdings Co. will participate in the introduction of "Pokémon Go" in Japan and will make its restaurants key locations for players of the popular smartphone game, people familiar with the matter said on Tuesday.

The deal could be announced as soon as Wednesday along with the introduction of the mobile game for players in Japan, these people said. It would be the first business tie-up for "Pokémon Go."

The game combines location-tracking technology and augmented reality so hunters can seek virtual Pokémon characters on a digital map and view the monsters blended into the real world by looking at their phones. Players search for Pokémon creatures at PokéStops, usually real-world locations such as libraries and landmarks.

Pokémon Co. and Niantic Inc., the creators of the game, declined to comment, while a representative of McDonald's Holdings wasn't available for comment. McDonald's Holdings is the Japan unit of U.S.-based McDonald's Corp.

"Pokémon Go" is free to download, and the publishers earn revenue through small in-app purchases, such as incense to lure child-friendly Pokémon characters.

Niantic has said the company would seek sponsorship deals for the game as additional sources of revenue. Niantic Chief Executive John Hanke said this past weekend in Tokyo that the game would be available "real soon" in Japan.

Niantic, the San Francisco-based startup, which was spun out of Alphabet Inc.'s Google last year, has already struck similar partnerships in Japan with major companies including McDonald's, SoftBank Group Corp. and Mitsubishi UFJ Financial Group Inc. for an earlier game it produced called "Ingress."

Thyssenkrupp Recasts the Elevator

By Christopher Alessi

Imagine an elevator that moves without attached cables, and can travel horizontally or vertically, sharing a shaft with several other cabs.

That is the vision of German industrial conglomerate Thyssenkrupp AG, which aims to use magnetic-levitation technology to revolutionize a business that has essentially delivered the same product for over a century.

Thyssenkrupp hopes that by adapting maglev technology used in high-speed trains, it can elbow aside rivals including United Technologies Corp.'s Otis unit, the world's largest and oldest elevator maker.

Otis and Thyssenkrupp's two other global competitors, Finland's Kone Corp. and Switzerland's Schindler Group, are taking incremental approaches to innovation for their people-movers.

Kone offers carbon-fiber elevator cables that have higher tensile strength than traditional metal, permitting taller shafts. Otis and Schindler have focused on improving the computers that manage how banks of elevators operate, seeking to cut passengers' waiting times and improve efficiency. Thyssenkrupp offers similar systems.

Only the storied German steel and engineering company is proposing to eliminate the elevator cable altogether, fashioning a kind of hyperloop for commercial buildings. Thyssenkrupp already runs a scaled-down mock-up and later this year aims to demonstrate a full-size working prototype. If all goes well, sales could begin as soon as next year.

"It will definitely take some years to filter through, but it's a start," said Andreas Schierenbeck, chief executive



A view of a prototype elevator that can move vertically or horizontally at a Spanish test facility.

of Thyssenkrupp's elevator division. He predicted the technology, dubbed Multi, would ultimately make elevators faster and more efficient while transforming the way buildings are constructed.

Rivals are skeptical.

"So far, these kinds of concepts have not been commercially viable," said Kone Chief Executive Henrik Ehrnrooth.

Silvio Napoli, Schindler's former chief executive and now a director, said horizontal elevator concepts are "not that new for the industry."

"Competitors were working on this years ago but found problems," including high energy consumption, he said.

Otis in the 1990s designed a system to run both vertically and sideways, but its intricate system of pulleys and cables proved too complex to install, according to Dario Trabucco, a

researcher at the Council on Tall Buildings and Urban Habitat, a nonprofit standards organization.

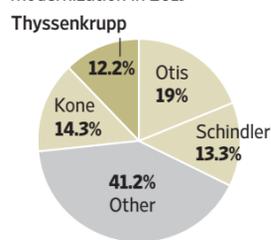
Otis declined to comment.

James Fortune, an expert at Fortune Shepler Saling Inc., an elevator consultancy that works with developers and architects, said Thyssenkrupp's biggest challenges will be "to develop a working system that would be cost-competitive" and to convince developers they should take the risk of using its unique and proprietary system.

Today's high-speed single elevators typically cost between \$400,000 and \$600,000 a shaft, he said. A Thyssenkrupp spokesman said pricing estimates for Multi aren't yet available but "the savings in reduced footprint for super-tall and mega-tall buildings is enormous and pays off easily."

Race to the Top

Global market share for elevator equipment, maintenance and modernization in 2015



Source: Credit Suisse

THE WALL STREET JOURNAL.

Replacing an installed elevator system could cost millions of dollars, and in some structures could be impossible. So developers shun risk.

"This will be a very niche market," said Andre Kukhnnin, an equity analyst at Credit Su-

France's Deezer Dives Into the U.S. Music Fray

By Hannah Karp

French music-streaming service Deezer, which officially launched in the U.S., stiffening the competition in an already-crowded market.

Deezer, which has about six million subscribers, already has some users in the U.S., where it has been available only to AT&T Inc.'s Cricket Wireless customers or on Sonos and Bose speaker systems. As of Tuesday, the 9-year-old service is available for \$10 a month to all U.S. consumers after a 30-day free trial.

Catching up with rivals offering virtually the same product—unlimited access to tens of millions of songs—may be

challenging. Spotify AB, which made its debut a year after Deezer, counts over 30 million paying subscribers world-wide and 70 million free users. The Swedish outfit has been available in the U.S. since 2011. Apple Inc.'s year-old Apple Music has at least 15 million paying subscribers, most of them outside the U.S. Tidal, controlled by rap star Jay Z, has 4.2 million subscribers.

Apple and Tidal have been duking it out by offering exclusive content from various superstars. While Spotify has largely steered clear of exclusive releases, it has been flirting with doing so, people familiar with the matter said, recently hiring pop star Lady

Gaga's former manager, Troy Carter, to build its relationships with artists.

Alphabet Inc. offers two \$10-a-month subscription services—Google Play Music and

The U.S. is a very tough market because free internet radio is so popular.

YouTube Red—while Amazon.com Inc. is readying its own \$10-a-month service, separate from the limited Prime Music service it provides to its Prime members. Music-video platform Vevo LLC and inter-

net-radio company Pandora Media Inc. are also preparing to roll out new paid services in months ahead.

The U.S. is a particularly tough market for paid services because free internet radio is so popular, with Pandora counting nearly 80 million active monthly free listeners.

But Deezer's chief executive, Hans-Holger Albrecht, said that Deezer stands out because its catalog of 40 million tracks is bigger than its competitors', with more tunes from around the world. Also setting it apart is its simple "flow" feature, a button that users can press for a personalized soundtrack based on their tastes and listening habits.

The company got traction after making the service available to Cricket, Sonos and Bose customers in the U.S. Sonos customers, for example, got Deezer's high-fidelity service free for a year with their speakers, and of those users 90% said they would never go back to regular listening again, Mr. Albrecht said. The stand-alone high-fidelity plan available to Sonos users costs \$19.99, as does the one offered by Tidal.

While Deezer has experimented with offering exclusive content, it is generally skeptical of that strategy, fearing that making music harder to find will lead to more piracy, Mr. Albrecht said.

DEAL

Continued from page B1

computing devices, another IoT focus, are still more popular among technology enthusiasts than among mainstream consumers.

Total industry revenue from IoT chips totals a few billion dollars each year, estimates Malik Saadi, the managing di-

rector at research firm ABI Research. That compares with the \$80 billion smartphone chip market.

While companies such as Intel Corp. design and manufacture chips, ARM is strictly a designer. It charges licensing fees and per-chip royalties to other companies that use its schematics. Customers such as Apple Inc., Qualcomm and Samsung Electronics Co. began flocking in the past decade to

ARM-based chips because they drew less power than competing chips from the likes of Intel, which made high-performance but energy-guzzling processors.

Intel has closed the gap in energy efficiency, but it hasn't countered the sheer volume of ARM licensees, all of whom compete on price and new features. ARM says some of its processors have been licensed by hundreds of companies.

About 14.8 billion chips containing ARM technology were shipped last year.

ARM has made some significant beachheads in new markets. It has built a 90% share in total automotive "infotainment" processors, for instance, Mr. Saadi at ABI Research said.

SoftBank is now betting that ARM-designed chips will take off with these new markets. Andrew Frame, ARM's director of agriculture, said dur-

Business Watch

RIO TINTO Iron Ore Shipments Increase Globally

Rio Tinto PLC shipped more iron ore to steelmakers around the world last quarter, recovering from a weak start to the year when a tropical cyclone hindered its vast mining operations in northwest Australia.

The Anglo-Australian minerals producer on Tuesday reported iron-ore shipments of 82.2 million metric tons from its Australian mines in the three months through June, up 7% on the quarter immediately prior and 6% higher than the same period a year earlier.

One of the world's biggest exporters of the key steel ingredient, Rio Tinto has in recent years ratcheted up production from a vast network of mines in a re-

mote part of Australia, betting on strong demand from expanding Asian economies. The company said it expects to ship roughly 330 million tons of iron ore from those Australian mines in 2016.

—Rhiannon Hoyle

PHILIP MORRIS Shipping Volume Takes Toll on Profit

Philip Morris International Inc.'s profit declined more than Wall Street anticipated as shipment volume slipped in each of its geographic divisions, including in Europe.

Shares fell 3.4% to \$99.50 a share in afternoon trading in New York. The stock had risen 17% so far this year through Monday's close.

Philip Morris, which sells the leading Marlboro brand and others internationally, had seen its cigarette volumes grow amid an improving European economy.

However, in May the European Union's highest court rejected a challenge by Philip Morris and other tobacco companies against a tough new antismok-



A new film in the franchise is expected to open in 2018.

ing law. The 2014 tobacco directive bans menthol cigarettes, mandates bigger warning labels on packaging and sets limits on electronic cigarettes. A legal challenge against plain packaging in the U.K. also failed in May.

Over all, Philip Morris reported a profit of \$1.79 billion, or \$1.15 a share, down from \$1.89 billion, or \$1.21 a share, a year earlier.

—Joshua Jamerson

MATTEL Toy Maker Wins 'Jurassic' License

Toy maker Mattel Inc. said Tuesday it won the license for toys based off the "Jurassic World" film franchise, with initial products hitting stores in time for a new movie in 2018.

The move comes a day after Hasbro reported a sharp slowdown in sales for its boys toys, hurt by a drop in "Jurassic World" sales. Hasbro Chief Executive Brian Goldner said the company would lose the license in 2017 because it couldn't agree with its owner, Comcast Corp.'s NBCUniversal, on renewal terms.

Mattel's license rights, which will begin next year, include products such as action figures, vehicles, games and other activity toys. The company said it would start to design and develop new product lines immediately.

Universal has announced a new "Jurassic World" film will be released in 2018 with executive producer Steven Spielberg, who directed the original film.

—Joshua Jamerson

JOHNSON & JOHNSON Company Upbeat Despite Profit Drop

Johnson & Johnson on Tuesday raised its guidance for the year again as the health-care giant topped expectations in the latest quarter, helped by growth in its pharmaceutical business.

The New Brunswick, N.J., company now expects earnings for the year of \$6.63 to \$6.73 a share, up from previous guidance of \$6.53 to \$6.68 a share. It also raised its revenue forecast to a range from \$71.5 billion to \$72.2 billion, up from \$71.2 billion to \$71.9 billion.

Chief Executive Alex Gorsky expressed optimism about J&J's outlook, saying longstanding efforts to reshape the company's struggling medical-device and consumer-health businesses were bearing fruit. He said J&J was positioned to surpass the world-wide health-care market's current 3% to 5% annual growth rate. But J&J faces the threat of lower-priced competition.

—Anne Steele
and Jonathan D. Rockoff

MANAGEMENT

WORKAROUNDS

First Job: Teaching In Japan Leads To Venture Capital

An occasional look at executives' early jobs. Chieh Huang, 34 years old, co-founder and CEO of online shopping site Boxed Wholesale, on his first job out of college:

I stumbled into a job teaching English in Japan. I was in the northwestern region of the main island. It's a pretty rural area. It was frightening to be in front of a group of middle schoolers at the beginning. They barely spoke English; I didn't speak any Japanese.

Years later, I ended up quitting my day job at a law firm and

joined a few folks I had known from middle school and high school to make a mobile game. As luck would have it, Apple featured it on the App Store and iTunes. The game started taking off.

The CEO of a gaming company in Japan asked to meet with us. It was an awkward first 10 or 15 minutes. I mentioned I speak a little Japanese and said I lived in Japan for two years. She asked where. I worried I would seem like a total country bumpkin. I was like, oh, it was countryside. She was like, no try me. I was like, Niigata. Her eyes lit up. She was like, I grew up there. It turned out that where I taught English was not very far from her home.

A week or two later she paid for us to go to visit her. Two weeks after that she wired us \$800,000. And we were on our way.

—Rachel Feintzeig

CEOs Challenging Company Culture Boost Results

Chief executive officers who challenge their organizations' cultural norms are better for the bottom line, according to a new study published in June's Journal of Applied Psychology.

Researchers surveyed 114 technology company leaders and their management teams and asked them to rate a number of statements about the CEO's leadership style and company culture.

The answers helped researchers classify management styles and organizational cultures as either task-focused or relationship-focused.

CEOs who adopted a leadership style counter to their company's culture—instead of reinforcing existing values—achieved better financial results and were able to implement fresh strategies. Nine months after the survey, the companies with counter-culture CEOs had a 1% to 4% greater return on assets.

The study's conclusions were "paradoxical," according to Chad Hartnell, a co-author of the study and assistant professor of managerial sciences at Georgia State University, because they run counter to the notion that CEOs are major culture creators.

—Dahlia Bazzaz

Tackling Mental Health, A Text at a Time

Employers turn to counseling services that can be accessed on smartphones

By Rachel Emma Silverman

Companies want employees to seek mental-health treatment when needed, so they are turning to a tool already in workers' pockets: their smartphones.

As employers seek to reduce the costs of untreated mental illness among staffers, more companies are trying mobile apps that help workers easily find and receive treatment. Some apps mine data about employees' phone usage, or medical and pharmaceutical claims, to determine who might be in need of care. Others allow workers to text and video chat with therapists—in what are being called "telemental" health services.

By downloading these apps, employees grant permission to be contacted with care recommendations, though some may not be aware of the full extent of the apps' data collection, which is laid out in the programs' privacy statements and other communications workers receive. Employees don't receive data on individual workers. In some cases those offering these tools hold general meetings with employees to discuss how the services work.

Companies are waking up to the costs of untreated mental illnesses such as depression, which is linked to \$44 billion a year in lost workplace productivity, according to the University of Michigan Depression Center. The center cites data suggesting that workers suffer-

ing from depression cost companies 27 lost work days a year.

Some health advocates worry that providing mental-health treatment on mobile phones could lead to privacy breaches if phones are lost or hacked, exposing users' health data.

Still, companies are willing to try alternatives to employee assistance programs—called EAPs—which typically offer workers free counseling sessions by phone. Anywhere from 2% to 5% of employees use EAPs, according to several studies. Workers may be unaware of EAP programs or feel uncomfortable calling in, benefits experts say.

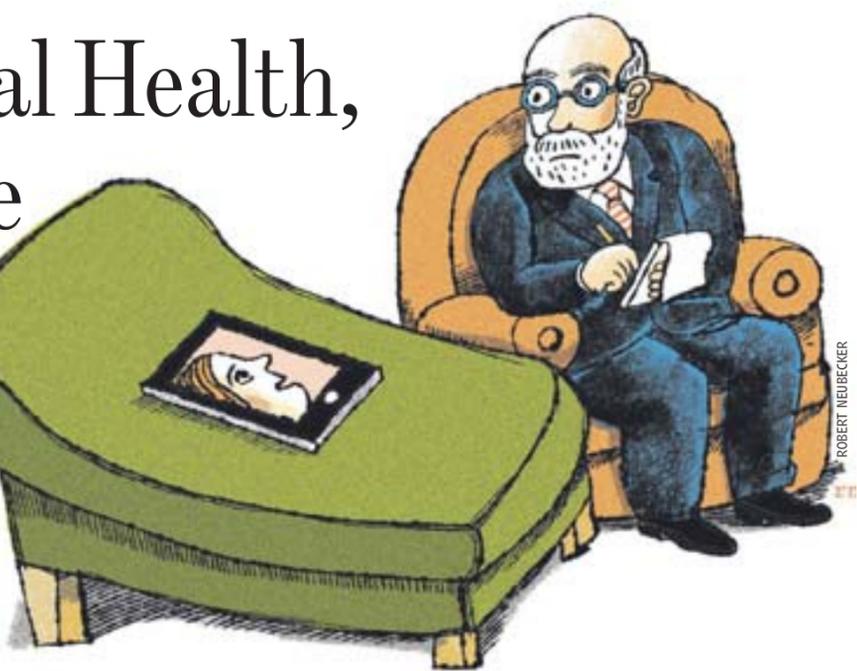
"For some reason, using it feels like a hurdle," says Lissa Minkin, who runs human resources at financial-services tech firm Addepar Inc., which has about 200 employees.

Addepar, based in Mountain View, Calif., recently purchased for employees smart-

Some worry that providing such treatment on phones could lead to privacy breaches.

phone access to Ginger.io, an app that tracks users' mobile-phone behavior and connects workers to health coaches who help guide treatment.

For instance, the app alerts a health coach when a user hasn't texted in a while or hasn't left the house, potential signals of increased stress or anxiety. The health coach texts the employee to suggest treatment, such as stress-reduction exercises. Ginger.io gathers phone-activity



ROBERT WEUBECKER

data with users' permission; the app doesn't monitor the content of messages or a phone's specific location.

Addepar is keeping its EAP, but a mobile app "feels like a more immediate solution for folks, because they are always on their phones anyway," Ms. Minkin says.

Fifty employees have signed on to Ginger.io since its introduction last month, she says. So far, employees haven't expressed

rithm—for example, those with a history of chronic pain, which can be tied to depression or anxiety—might see a message on their screen asking, "Feeling overwhelmed?" Clicking on the message directs users to a questionnaire about their mood, and then to recommendations for treatment, information and an online therapy program.

Sprint expects the app to generate return on investment of \$2.1 million this year, according to Nathan Hays, Sprint's manager of health and productivity analytics. In a presentation this year, he said Sprint could reap significant savings on the \$11.5 million it spent in 2015 on behavioral health treatments for U.S. employees.

Services such as Ginger.io and Castlight cost companies a few dollars a month per employee and usually are offered free for workers, though employees may have to cover costs of some therapies. The vendors report aggregate usage data to employers, showing how many workers are seeking help.

The services say that they

don't share data about individual workers with employers, a particular concern given the stigma around mental health.

Mental-health advocates laud companies for tackling a sensitive issue, but note that the effectiveness or privacy protections of these new tools may be unproven. While treatment by text is convenient, some users may still need to supplement it with in-office visits to a therapist.

EAP providers, for their part, are seeking new ways to reach workers in need of therapy. ComPsych, the country's largest employee-assistance provider, is developing virtual-reality technology to simulate a treatment session in a therapist's office. Other telemedicine companies are adding psychiatric and psychology services to their video-chat offerings.

Laika LLC., a Hillsboro, Ore., animation studio, began offering its employees Talkspace, a virtual therapy app, in June. Talkspace matches users with therapists, who communicate privately with employees via text, audio or video chat.

Roughly Half of U.S. Employees Are Satisfied

By Lauren Weber

Just under half of U.S. workers said they felt satisfied with their jobs last year—the happiest they've been in a decade, according to a new report from the Conference Board, a research group that focuses on economics and business conditions.

Some 49.6% of workers reported being satisfied with their jobs overall last year, edging up from 48.3% in 2014. An improving labor market, a decline in layoffs, stronger wage growth and expanding job opportunities are driving that increase, said Gad Levanon, the board's chief economist for North America.

Last week, JP Morgan Chase & Co. and Starbucks Corp. announced raises for hourly workers, signaling a recognition that they must keep workers happy and compete aggressively for employees who have more opportunities to go elsewhere. The bank said it would raise pay for 18,000 tellers and customer-service workers, among oth-



Starbucks recently announced raises for its hourly workers.

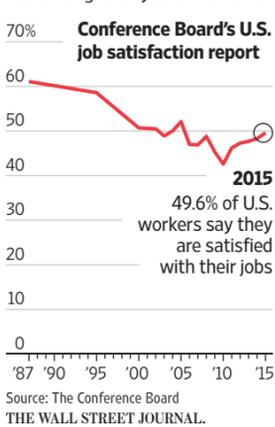
ers, and the coffee chain announced a 5% raise in base pay for store workers.

Workers have a stronger sense of security, and feel more likely to find jobs they enjoy. Just over half, or 50.6%, of people said they are satisfied with their job security and 58.8% reported a high

level of interest in their work, second only to the 58.9% who said they were happy with their co-workers. Satisfaction was highest in Texas (56.1%), and was generally higher in the Western half of the country. The board doesn't break out results by job type, but found, unsurprisingly, that

Slow Rise

U.S. workers' job satisfaction is rebounding after years of decline.



satisfaction generally rises with income; 61.2% of people earning \$125,000 or more report feeling satisfied at work, the highest proportion.

Yet nearly half of employees surveyed are unsatisfied, and internal policies help explain why. Among the 23 components of job satisfaction the

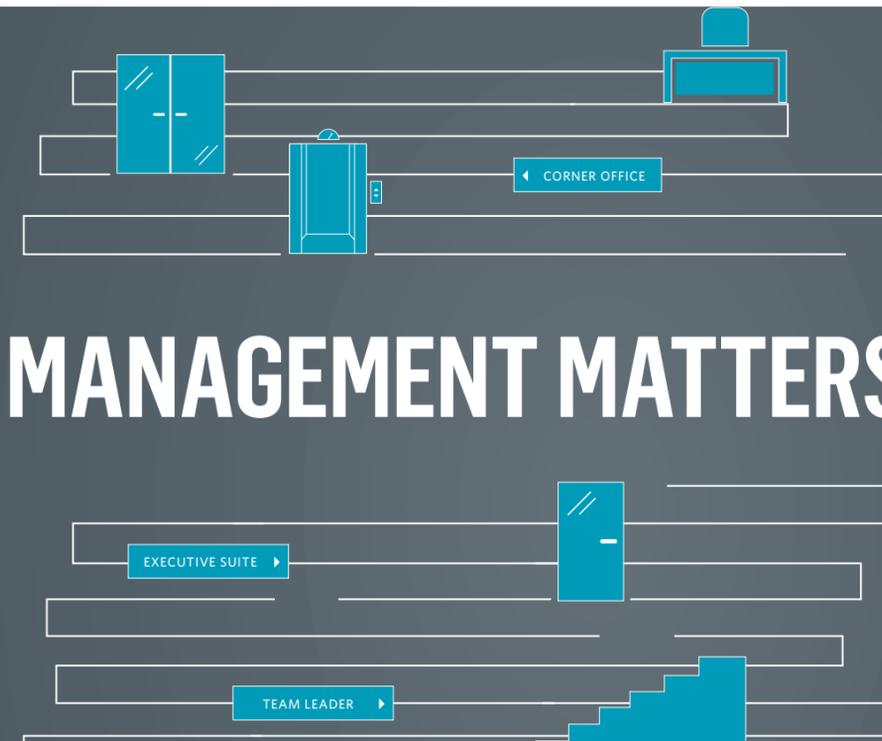
Conference Board asked about, the 1,565 respondents were least content with their company's promotion policy, followed by bonus plan, performance-review process, educational and job training programs, and recognition for their work.

Firms, including General Electric Co. and Deloitte, are overhauling the way they assess employee performance, but so far most programs are still in the testing phase, said Rebecca Ray, the head of the Conference Board's human capital practice. "There's more talk than actual upheaval."

Despite steady improvement over the last few years, Mr. Levanon said it is unlikely that the U.S. workforce will repeat the highs achieved in 1987 and 1995, when about 60% of workers reported satisfaction on the job.

"It was a whole different world in terms of employee-employer relationships," he said. "There was much more loyalty. People looked to their employer for more than just a job, in many cases."

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Andrew Bailey: FCA Will Clarify Its Mission

REGULATION | B7



Turkish Banks Shelve Plans to Raise Funds

COUP AFTERMATH | B7

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THE WALL STREET JOURNAL.

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As of 4 p.m. ET **EUR/GBP** 0.8401 ▲ 0.54% **YEN/TLR** ¥106.10 ▼ 0.05% **GOLD** 1331.50 ▲ 0.23% **OIL** 44.65 ▼ 1.30% **3-MONTH LIBOR** 0.69710% **10-YR TREAS** ▲ 8/32 yield 1.558%

Goldman's Revenue Drops

Profit climbs 74% in quarter, but firm lays out cost cuts; client activity is subdued

By LIZ HOFFMAN AND PETER RUDEGEAR

Goldman Sachs Group Inc. detailed new cost cuts as the Wall Street firm grappled with lower revenue and relatively muted client activity.

While net income and revenue both easily beat expectations in the second quarter,

Goldman's flagship trading business didn't bounce back as much as at rival banks that have reported results in the past week.

New York-based Goldman's second-quarter net income climbed 74% to \$1.82 billion, or \$3.72 a share, from \$1.05 billion, or \$1.98 a share, a year earlier. Profit in the year-earlier quarter was weighed down by \$1.45 billion in legal expenses that went toward an eventual mortgage-related settlement with the U.S. Justice Department.

Revenue dropped 13% to

\$7.93 billion, from \$9.07 billion. The Wall Street firm was expected to earn \$3 a share on revenue of \$7.58 billion, the average estimates of analysts polled by Thomson Reuters.

Like other banks, Goldman has responded to the tough environment by cutting costs. Goldman has been eliminating jobs—about 2,000 this year. Tuesday, it detailed about \$700 million of annual savings from those reductions going forward. Severance costs associated with those cuts reduce the savings in 2016 by about half.

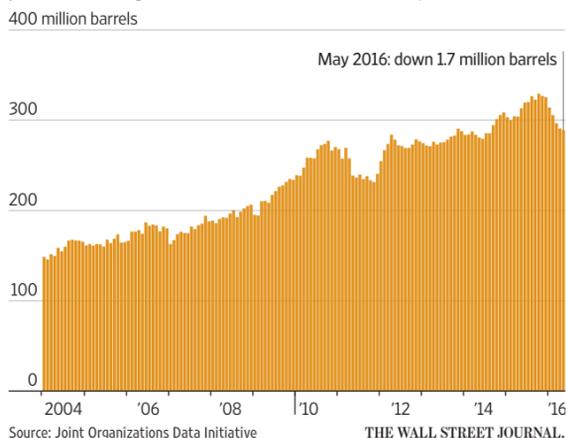
Year to date, Goldman's compensation expenses have declined 28%, in line with its revenue decline. Also, quarterly noncompensation expenses declined 40%, helped in large part by lower legal expenses. Goldman booked \$126 million in litigation and regulatory reserves during the quarter, down 91% from a year earlier.

Goldman shares, which rose over the past week as rivals reported strong quarters, were down 1.2% in late trading.

Most of Goldman's business
Please see PROFIT page B6

Draw Down

Saudi Arabia has been taking oil out of storage after a long period of building inventories. Saudi oil stock, monthly data:



Brexit has fueled concerns that parts of the soaring U.K. property market, especially in London, above, are headed for a fall.

Investors Go Deal-Hunting in U.K.

By ART PATNAUDE AND LAURENCE FLETCHER

Global investors are on the hunt for U.K. property bargains, expecting that Brexit-fueled economic turmoil could weaken real-estate values. The drop in the value of sterling has only increased the appeal.

U.K. property took an immediate blow from Britain's vote to leave the European Union last month. Major asset managers suspended trading in U.K. property funds and shares in listed property firms dropped.

Brexit has fueled concerns that parts of the soaring U.K. property market, especially in London, are headed for a fall. One of the managers that

temporarily shuttered trading in a U.K. property fund sold a central London building on Friday for nearly 20% less than the price it was valued at before the June 23 referendum, a person familiar with the transaction said. Norway's sovereign wealth fund announced it bought a retail and office property on Oxford Street, one of London's main shopping destinations from **Aberdeen Asset Management** for £124 million (\$164.3 million). Aberdeen, which resumed trading in its U.K. property fund last week, declined to comment.

In all, U.K. commercial-real-estate values could decline more than 25%, Société Générale analysts said in a Mon-

day note to investors.

"The bottom feeders are out," said Richard Divall, head of cross-border capital markets in Europe at Colliers International.

A big potential source of commercial-property sales will be from the retail funds, like Aberdeen, that have halted trading due to untenable requests from investors seeking to withdraw their money.

Henderson Global Investors is selling two London office buildings, according to Société Générale, while Legal & General Investment Management and Standard Life Investments each have one office on the market.

While the initial panic in commercial property has

passed, "the bottom line is that prices are going to have to fall," Mr. Divall at Colliers said. Global investors were "looking at London and the U.K. as quite expensive anyway."

At the moment, deal flow remains thin. Investors looking for bargain-basement opportunities could be disappointed with what is on offer, brokers said.

But private-equity firms, hedge funds and other groups that typically try to buy assets during periods of crisis have started circling.

Even before the Brexit vote, private-equity giant KKR & Co. last month closed a \$739 million fund focused on real estate in Western Europe.

Please see U.K. page B9

Saudis Tap Into Stockpile of Oil

By SUMMER SAID AND SELINA WILLIAMS

Saudi Arabia has been steadily drawing down its record-high oil stockpile this year as the kingdom wrestles with soaring domestic demand while trying to maintain exports.

The world's top exporter of crude oil drew down its storage level in May to the lowest since August 2014, according to the Joint Organizations Data Initiative, a group based in Riyadh that compiles oil-industry information. The country's crude inventories have fallen 12% since October to 289 million barrels, in the longest sustained drawdown in 15 years.

The moves suggest Saudi Arabia is performing a delicate balancing act at a sensitive

time for the oil market, said analysts who monitor the kingdom's oil industry.

It doesn't want to ramp up production past its record, more than 10.5 million barrels a day set in June 2015, to meet peak local demand during the scorching summer. Such an increase might signal to investors that there is no end in sight for a global glut of crude that helped sink oil prices to 13-year lows during the winter.

Saudi Arabia's production has remained steady since August 2015, hovering between 10.14 million barrels a day and 10.28 million after a significant ramping up in early 2015.

But Saudi Arabia also has to keep output flowing as it competes for its share of the ex-

Please see OIL page B6

BOE Idea: Borrow Bitcoin Playbook

By JON SINDREU

When it comes to bitcoin and digital currencies, central banks might be considering the adage: "If you can't beat them, join them."

In a research paper published Monday, economists at the Bank of England advocated that central banks issue their own kind of digital currency. Using the U.S. as a case study, they argued it could give a permanent boost to the economy of around 3%, as well as providing policy makers with more effective tools to tame financial booms and busts.

BOE economists John Barrdear and Michael Kumhof write that "reductions in real interest rates, distortionary taxes and monetary transaction costs" would boost the economy.

Much like physical cash,
Please see BITCOIN page B7

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Fingers Pointed After Failure of Bank Sale

By JOHN LETZING

ZURICH—In late 2014, a young entrepreneur from Mexico made a splash by announcing plans to buy a Swiss bank.

Lugano-based **Banca Arner SA** wasn't just any bank; it was once embroiled in media coverage of former Italian Premier Silvio Berlusconi's legal travails.

The planned purchase carried symbolic weight amid a broader push to transform a Swiss system renowned for private banking and secrecy to one that embraces transparency and new ways of doing business. But the deal recently fizzled amid finger-pointing, undercutting the idea that Switzerland's cottage industry of small private banks can be smoothly repurposed for a post-secrecy world.

Switzerland's financial sector is typically associated with its biggest lenders, such as **UBS Group AG**. But the rump of Swiss banking is composed of modest wealth managers like Arner. Even more than their

bigger peers, these banks have struggled to adapt to an era of tighter regulation and higher compliance costs. Arner has a few dozen employees and recently reported having roughly 700 million Swiss francs (\$712.5 million) in managed assets, or less than 0.1% of that of UBS.

Arner's erstwhile suitor, Alejandro Garcia, wanted to turn the bank into a trade-finance specialist offering credit to small businesses. That would have been a shift from Switzerland's traditional mainstay of discreetly tending assets for the wealthy.

During a publicity push before the acquisition bid, media outlets cast a spotlight on Mr. Garcia's family-owned, Zurich-based agriculture and trading conglomerate, **IXE Group**, and reported on the family's wealth and vast land holdings.

But in February, in a letter sent to an Arner co-owner and reviewed by The Wall Street Journal, Mr. Garcia said IXE wouldn't be injecting 22 million
Please see DEAL page B10

EU Court Ruling Echoes in Italy

By JULIA-AMBRA VERLAINE

BRUSSELS—The European Union's top court has rejected a claim from investors that they were unfairly forced to take losses during Slovenia's 2013 banking crisis, in a ruling with implications for the Italian government as it discusses options to help its own troubled banks.

The Slovenian investors—shareholders and subordinated creditors in five banks—brought the claim in 2014. They challenged the right of the **European Commission** to insist that holders of subordinated debt in the banks should take losses before the government could inject public funds into the banks.

The ruling has consequences for Italy, whose government is in discussions over providing state aid to some of its banks and is seeking to avoid imposing losses on small investors holding some €187 billion (\$207 billion) in Italian bank bonds. About €30 billion of those bonds are subordinated, and would be targeted



The EU's top court rejected bank investors' claims of unfairness.

first in case of a bailout.

Under the commission's rules, published in 2013, subordinated debtholders are on the hook when a bank no longer holds enough capital, triggering losses in the event of insolvency or the winding up of the institution.

The rules, aimed at reducing the heavy bills paid by taxpayers to bail out banks after the 2008 financial crisis, have been toughened since then.

In its ruling Tuesday, the

financial crisis, subordinated creditors were not called upon to contribute to the rescue of credit institutions does not put the creditors in a position to rely on the principle of protections of legitimate expectations," the court said.

While Tuesday's conclusions support the commission's state-aid rules, the door is left open in the case of "exceptional circumstances," which could be used by Italy.

Recently, Bank of Italy Gov. Ignazio Visco said state intervention may be needed to prevent contagion from the problems afflicting its weakest banks. Shares in Banca Monte dei Paschi di Siena, the third-largest bank in Italy by assets, fell 3.3% after the court ruling.

The commission welcomed the ruling as reinforcing its approach to state aid for banks. The EU's executive arm is negotiating terms with Italy on a so-called precautionary recapitalization of some banks, an exemption that allows the use of public money to aid banks under certain conditions.

MONEY & INVESTING

Dow Posts Eighth Day of Gains

By GEORGI KANTCHEV
AND CORRIE DRIEBUSCH

The Dow Jones Industrial Average crept higher Tuesday, extending a seven-session rally that catapulted the index to new records.

The blue-chip index rose 25.96 points, or 0.1%, to 18559.01 in 4 p.m. trading in New York. The S&P 500 slipped 0.1%, and the Nasdaq Composite lost 0.4%.

TUESDAY'S MARKETS

The start of the earnings season in the U.S. and hopes about central bank stimulus after the U.K.'s surprise vote to leave the European Union last month have helped push stocks higher.

On Tuesday, traders said second-quarter corporate results dominated trading.

"We're not seeing much conviction either way in the market today. Earnings haven't been either fantastic or abysmal. They've been kind of tepid, so to speak, so that's not adding any spark to the market," said Jonathan Corpina, senior managing partner at Meridian Equity Partners.

Netflix shares fell 14% by



Online retailer Zalando rallied after it lifted its full-year guidance.

late afternoon, weighing on the Nasdaq Composite and S&P 500, after the streaming-video company reported its weakest subscriber expansion in three years late Monday.

Johnson & Johnson shares rose 1.7%, boosting the Dow industrials, after the health-care giant raised its guidance for the year and beat expectations in the latest quarter.

Goldman Sachs Group also beat expectations Tuesday, but the firm's flagship trading business didn't bounce back as much as rivals. Its shares declined 1.4%. Morgan Stanley

follows Wednesday.

The Dow industrials were up about 3% by late afternoon from their pre-Brexit levels. They fell 4.8% in the two trading sessions following the vote.

"Hopes about policy action have underpinned the rally so far, but the question investors are now asking is how much of those expectations will materialize?" said Geoffrey Yu, a strategist at UBS.

According to Mr. Yu, the first test will be the European Central Bank policy meeting on Thursday—its first since

the Brexit vote. While most economists expect the ECB to leave its policy mix unchanged, ECB President Mario Draghi's news conference could offer a window into his thoughts on the impact of Brexit on the eurozone economy and markets.

On Tuesday, the Stoxx Europe 600 lost 0.4%, dragged down by financial and automobile stocks. France's CAC 40 fell 0.6% and Germany's DAX dropped 0.8%.

The British pound, which has been in the firing line since the Brexit vote, lost 1.2% against the dollar.

In European corporate news, Zalando rallied 22% after the online retailer lifted its full-year guidance and said its profit-before-tax margin is set to come in between 7.5% and 9.5%. Analysts at UBS had expected a margin of 5%.

Japanese stocks rose for the sixth consecutive session amid continued expectations that the Bank of Japan will soon roll out stimulus for the economy. Other markets were down, with the Shanghai Composite Index falling 0.2% and the Hang Seng Index slipping 0.6%.

PROFIT

Continued from the prior page units made less money in the quarter than they did in the same period last year. A lower-than-expected tax rate added about 22 cents of earnings per share, according to Evercore ISI analyst Glenn Schorr.

But the results were an improvement from the previous period, in which Goldman had the lowest revenue of any first quarter under the leadership of Chairman and Chief Executive Lloyd Blankfein.

After the first quarter, investor confidence returned as fears about China and Asian growth subsided a bit. But trading remains well off its postcrisis peaks.

Responding to the broader changes, Goldman has been expanding into new businesses, such as offering online savings accounts through its banking arm, while slimming down in other units.

Goldman's trading arm was the only division to post an increase in revenue from the second quarter of 2015, with revenue in that business up 2% to \$3.68 billion. That lagged behind the double-digit percentage gains in trading that Goldman's large peers reported over the past week.

Fixed-income, currency and commodity trading revenue rose 20% to \$1.93 billion, from \$1.6 billion a year earlier, due in large part to strength in

foreign-exchange and credit-sensitive securities such as corporate bonds.

Stock-trading revenue, however, fell 12% to \$1.75 billion from \$2 billion mostly because of weakness in Asia. Excluding an accounting adjustment related to the value of Goldman's debt, the bank's trading revenue rose 8%.

Goldman's increase in trading revenue was smaller than the big banks that have reported so far. J.P. Morgan Chase & Co., for instance, reported trading revenue rose 25% from the second quarter of 2015, while Bank of America Corp.'s trading revenue gained 12% and Citigroup Inc.'s rose 15%.

Those rival banks have deeper ties to corporate clients and asset managers such as mutual funds whose trading has been more consistent than the complex trading preferred by hedge funds, a core Goldman clientele.

In May, Goldman Chief Operating Officer Gary Cohn said the bank was focusing more on the trading of corporate clients and that client preferences had been shifting "to more plain vanilla products from structured transactions."

A longtime Goldman strength, the investment-banking unit, reported revenue fell 11% to \$1.79 billion. Goldman, Wall Street's top adviser on mergers and acquisitions, reported revenue of \$794 million from that business during the second quarter, down 3% from \$821 million a year earlier.

OIL

Continued from the prior page port market with a host of rivals. They include a resurgent Iran following the end of Western sanctions, Russia pumping at near record levels, and the U.S., which is selling crude abroad for the first time in 40 years.

According to JODI data, Saudi Arabia exported almost 7.3 million barrels of crude oil a day in May, up more than 5% from May 2015.

"If Saudi Arabia had not been drawing stocks, it would have had to reduce exports at a time when Iran was increasing exports," said Olivier Jakob, an analyst at Switzerland-based energy consultancy Petromatrix.

A Saudi industry official familiar with the matter said the Gulf producer is likely to continue to use its stockpiles rather than raise output to meet the peak summer demand. Saudi Arabia burns crude to generate much of its electricity. Local energy demand has consumed an increasing part of the country's crude production in recent years, rising to 25% of total output in 2015.

Saudi Arabia hasn't significantly drawn down its oil inventories since 2011, when it ramped up exports to cushion the market after Libyan production plunged after the ouster and death of dictator Moammar Gadhafi.

The kingdom still is grappling with its new role in a world where it and the 14-nation group it leads, the Organi-

zation of the Petroleum Exporting Countries, no longer have the same power over the oil market.

The rise of American production via shale producers has made the Saudis' production increases and cuts less effective at keeping prices at desirable levels.

The price of Brent crude, the global benchmark, is up 67% from this year's low set in January, trading at \$46.66 a barrel on Tuesday in London. Those prices still are down more than half from 2014, and Saudi Energy Minister Khalid al-Falih has said prices need to be between \$50 and \$100 to support investment.

Mr. Falih said Saudi Arabia still has a role to play in balancing the crude market.

"The focus of attention remains on countries such as

Saudi Arabia which, due to its strategic importance, will be expected to balance supply and demand once market conditions recover," he said in June.

Some analysts said the Saudi oil-stocks policy now is aimed not at prices but at maintaining production at a steady level of about 10.2 million barrels a day, a high level that would be costly to exceed.

The kingdom has an official production capacity of about 12.5 million barrels a day, but it has never reached that figure and would do so only in the event of an emergency, such as a global supply shortage.

"The effective cap on Saudi production is 10.5 million barrels a day," said Yasser Elguindi, an oil-market analyst at Medley Global Advisors, a financial consultancy.



Revenue at most Goldman businesses declined year on year.

WSJ City

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MONEY & INVESTING



Sekerbank postponed investor meetings it had scheduled across Europe, the Middle East and Asia ahead of a potential bond deal.

Turkish Markets Shudder

By Christopher Whittall
and Jon Sindreu

Two Turkish banks shelved plans to raise funds and the lira fell sharply as investors continued to react to last week's failed coup and the government's response in its aftermath.

The Turkish lira fell 2.4% against the U.S. dollar late Tuesday afternoon in New York after reports that the government dismissed more than 15,000 staff at its education ministry.

Turkish bank **Yapi ve Kredi Bankasi** A.S. pulled a \$550 million bond on the day it was supposed to settle, citing the events in Turkey.

"Yapi ve Kredi Bankasi has decided to cancel the transaction...and to revisit the market at a later date subject to market conditions," the bank said in a statement to investors released Tuesday and seen by The Wall Street Journal.

Another Turkish lender, **Sekerbank TAS**, said in a statement released to inves-

tors in Dubai on Sunday that it was postponing a series of fixed-income investor meetings across Europe, the Middle East and Asia that it had scheduled ahead of a potential bond deal. The bank signaled it planned to reschedule the meetings at a later date.

The cancellations and the lira's drop come in the aftermath of an unsuccessful effort by elements of the Turkish military to overthrow President Recep Tayyip Erdogan's regime.

The coup has shaken local markets. Istanbul's benchmark stock index, the BIST 100, fell 1% on Tuesday, following a 7.1% tumble on Monday, while lira-denominated bonds have also lost value.

The lira has plunged against other currencies since Friday's coup attempt. That night, the lira lost 4.7% against the dollar.

After partly recovering Monday, it is 5.6% below where it was before rebel troops tried to oust Mr. Erdogan.

Analysts and investors have been closely watching Mr. Erdogan's reaction to the attempted coup as a way to gauge its potential economic effect.

Even before Friday's plot, the Turkish president was believed by opponents to be trying to consolidate too much power. Investors are now concerned that he could threaten the country's rule of law and put investments at risk.

"The key question right now is which way Turkey is going to go," said Turker Hamzaoglu, economist at Bank of America Merrill Lynch. "We don't know if President Erdogan is going to come out of this with a more inclusive attitude or a more heavy-handed one."

Separately, Turkey's central bank cut one of its key interest rates Tuesday for the fifth consecutive month, in a move likely aimed at shoring up the economy.

Such rate cuts "could stimulate flows into the country," said Simon Lue-Fong, head of

global emerging-markets debt at Pictet Asset Management.

Paul McNamara, a fund manager at GAM Holding, said he expects Yapi Kredi to begin selling its bond again soon but offering a slightly higher yield than the 4.625% on the original deal.

Access to international markets is vital for the Turkish banking sector. Turkish banks rely on foreign lenders for more than \$100 billion of their financing needs, said Mr. McNamara.

"If Turkish banks are going to have real trouble borrowing from abroad, then I don't see how they can get out of this without a full-blown currency crisis," he said.

An official at Yapi Kredi said in an emailed statement that the decision to withdraw the deal isn't expected to have any adverse impact on the bank's liquidity position.

That "remains strong and well above regulatory limits," the statement said.

—Georgi Kantchev
contributed to this article.

U.K. Regulator To Clarify Goals

By Margot Patrick

LONDON—The U.K. Financial Conduct Authority will set out a new mission to make its role more accountable and easier to understand, the agency's new chief executive said Tuesday.

Andrew Bailey, in the job for three weeks, said the FCA needs to clarify its priorities and how best to use its powers, after a checkered three-year history for the sprawling agency.

The FCA's brief includes supervising more than 40,000 financial firms and monitoring many of the country's financial-market activities. The regulator also must promote competition and protect consumers and enforces individual and corporate conduct across the financial sector.

"The mission has to tackle the big and hard questions that underpin financial conduct regulation," Mr. Bailey said at the FCA's annual meeting. The goal is "to get the FCA firing on all cylinders."

Since being created from the ashes of predecessor the Financial Services Authority,

the FCA has cracked down on poor practices in foreign-exchange markets and successfully prosecuted insider-trading and other criminal conduct. But it has been criticized for spreading itself too thin and for clumsy handling of policy changes.

The government ousted former CEO Martin Wheatley last year.

A draft mission statement will be released in early fall and opened up to consultation.

Mr. Bailey, who until the end of June had been deputy governor at the Bank of England in charge of prudential bank regulation, said the FCA will continue following all European Union rules until the U.K.'s exit from the bloc is completed. EU legislation in the pipeline will also be implemented as long as the U.K. is part of the union, he said.

Mr. Bailey said the U.K. should seek access to the single market for financial services and the FCA will work with the government to achieve that. However, the government will ultimately lead such negotiations with EU authorities, he said.



Andrew Bailey, new head of the U.K. Financial Conduct Authority

Yields Signal Brexit Pain to Be Contained

By Jon Sindreu

How far the economic ripples of Brexit will expand remains one of the key questions for financial markets in the months ahead. Bond yields suggest the fallout won't be as

far-reaching as initially feared. Yields on sovereign bonds in the U.S. and Germany have consistently recovered over the past week as investors regained their appetite for risk and moved into stocks, while they have edged up only slightly in the U.K.

Furthermore, the difference between German 10-year yields and those of shorter maturities, such as two-year bonds, has kept widening and now is above where it was on June 23, the day the U.K. voted to leave the European Union. U.S. yields show a similar trend. By contrast, the U.K. yield curve remains much flatter than it was before the vote.

This could be a sign that markets believe Brexit will have a lasting impact on the

U.K. economy, but will affect the eurozone and the U.S. less.

"The shock on the macro side is now perceived as more local," said Fabio Bassi, senior analyst at J.P. Morgan Chase & Co.

The slope of the yield curve often is regarded as a gauge of how the economy is expected to fare in the future, because lower growth would drive central banks to keep interest rates lower for longer.

For example, the eurozone's steeper curve, due to 10-year German bond yields going up by more than two-year yields, suggests that investors expect the European Central Bank to lower rates in the short term, but they don't believe Brexit will have strong longer-term effects on monetary policy.

In fact, bond yields across the developed world were sliding before the effect of the U.K. referendum was felt.

To be clear, markets remain quite gloomy about eurozone growth. The bond data just play down how much of it is due to Brexit.

Not So Hot



Corn prices fell as extended weather forecasts promised relief from scorching temperatures that are expected to descend on the U.S. Midwest this week. September corn futures on the Chicago Board of Trade fell 4.3%. Above, a tractor moves corn in Illinois in March.

BITCOIN

Continued from page B5

digital currencies such as bitcoin allow direct payment from one person to another, but they also have all the advantages of bank transfers, because large payments can be made instantaneously around the globe.

But the main appeal of bitcoin isn't that it is electronic. In fact, most money already is: Only about 5% of money in the economy is physical cash; the rest is bank deposits.

Rather, a digital currency offers a decentralized way to make payments without needing commercial banks to stand in the middle and record the transaction. Payments are validated by other users in a global network of computers and then updated in a shared record known as the blockchain.

Central banks across the developed world, including the Bank of England and the Bank of Canada, are now studying the potential of this technology. Were central banks to is-

sue digital cash and make it available to the general public, money would exist electronically outside bank accounts in digital wallets, much as physical bank notes do. This means households and businesses would be able to bypass banks altogether when making payments to one another.

This could trigger a radical reshaping of the financial system.

"Making central-bank money widely available could have an impact on deposits held at commercial banks and a knock-on effect on the banking system," the BOE said in a research paper last year, because the new digital money would be seen as a cheaper and safer alternative.

"I don't see how banks could compete," said Peter Stella, former central-banking head of the International Monetary Fund and director of Stellar Consulting LLC.

Many economists would cheer at the prospect of all the money in the economy being issued by the central bank, instead of existing as current accounts or deposits, which are

the liabilities of private banks. One of the authors of the BOE digital-currency paper, Mr. Kumhof, in 2012 co-wrote research for the IMF making the case for "full-reserve banking." He argued it could boost the U.S. economy by around 10%.

Key figures in American economics, such as Irving Fisher and Milton Friedman, have also advocated full-reserve banking.

Key figures in American economics, such as Irving Fisher and Milton Friedman, have also advocated 'full-reserve banking.'

Under such a system, banks are forced to back every single deposit they issue to their customers with money at the central bank, essentially turning the central bank into the sole creator of money.

This isn't how the monetary system works at the moment. As long as deposits at private banks can act as money, banks have the power to create an infinite amount of money out of thin air: When they grant a loan, banks just use their computers to increase the cus-

tomers account balance.

It is only when one bank needs to make payments to another that it requires actual cash, called reserves. Banks can always get more reserves at the central bank, for a price.

While this price—the interest rate—can influence how much money private banks create, many economists have long ar-

gued this control is too weak, giving birth to financial bubbles.

Proposals to outlaw private-bank money have seen a revival since the financial meltdown in 2008. Iceland is spearheading the charge and studying how to create an alternative system, where all money is created by the central bank.

A central-bank-issued bitcoin would be a means for policy makers to completely control the amount of money in the economy, much like full-reserve banking. That isn't pos-

sible right now, because private banks can create money on their own.

For many economists, however, the focus on the quantity of money and who creates it is a mistake. They argue it is the amount of credit and how it is used that matters, which means overly optimistic expectations about the future would still bring about a financial bubble.

"It's the private sector which decides whether actually to accept those terms and conditions and ask the banks to give them the loan," said Charles Goodhart, a professor at the London School of Economics and former Bank of England rate-setter.

Indeed, the debate dates back to the spat between the Currency School and the Banking School in 19th-century Britain. While the Currency School saw excessive issuance of notes by private banks as the reason for excessive inflation, the Banking School thought the amount of money in circulation was a result of what happened in the economy, instead of a cause.

The idea that controlling

the amount of money in the economy will determine economic growth, inflation or credit creation has long appeared false.

Since central banks started bond-buying programs in 2008, for example, the amount of central-bank money has exploded, but no inflation has materialized.

Experiments to control the quantity of money in the 1980s, inspired by Milton Friedman, also ended in failure, with central banks fully reverting to using interest-rate policy by the 1990s.

Proposals to create a bitcoin-like central-bank currency also risk alienating another set of activists: the actual supporters of bitcoin. The whole point of a digital currency, they say, is that it is money without government.

"The key benefit is decentralization," said Marco Streng, chief executive at Genesis Mining, a digital-currency company. "The best scenario is where people would not necessarily need to trust the government, they would just need to trust the blockchain."

MARKETS DIGEST

Nikkei 225 Index

16723.31 ▲225.46, or 1.37%
 High, low, open and close for each trading day of the past three months.



STOXX 600 Index

337.32 ▼1.38, or 0.41%
 High, low, open and close for each trading day of the past three months.



S&P 500 Index

2163.78 ▼3.11, or 0.14%
 High, low, open and close for each trading day of the past three months.



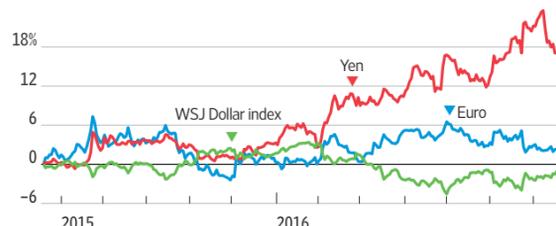
International Stock Indexes

Region/Country	Index	Close	Latest NetChg	% chg	Low	52-Week Range Close	High	YTD % chg
World	The Global Dow	2387.45	-11.69	-0.49	2033.03	2560.95	2560.95	2.2
	MSCI EAFE	1643.76	-9.05	-0.55	1471.88	1956.39	1956.39	-4.2
	MSCI EM USD	867.71	-2.42	-0.28	691.21	1044.05	1044.05	9.3
Americas	DJ Americas	521.04	-0.84	-0.16	433.38	522.26	522.26	6.9
Brazil	Sao Paulo Bovespa	56620.09	135.88	0.24	37046.07	56658.29	56658.29	30.6
Canada	S&P/TSX Comp	14522.17	-10.23	-0.07	11531.22	14622.35	14622.35	11.6
Mexico	IPC All-Share	47049.42	88.17	0.19	39256.58	47134.27	47134.27	9.5
Chile	Santiago IPSA	3222.98	18.04	0.56	2730.24	3243.62	3243.62	9.5
U.S.	DJIA	18559.01	25.96	0.14	15370.33	18562.53	18562.53	6.5
	Nasdaq Composite	5036.37	-19.41	-0.38	4209.76	5229.00	5229.00	0.6
	S&P 500	2163.78	-3.11	-0.14	1810.10	2169.05	2169.05	5.9
	CBOE Volatility	12.33	-0.11	-0.88	10.88	53.29	53.29	-32.3
EMEA	Stoxx Europe 600	337.32	-1.38	-0.41	303.58	403.93	403.93	-7.8
	Stoxx Europe 50	2851.05	-13.82	-0.48	2556.96	3528.53	3528.53	-8.0
Austria	ATX	2209.32	-10.69	-0.48	1929.73	2558.85	2558.85	-7.8
Belgium	Bel-20	3410.24	-2.23	-0.07	3117.61	3859.70	3859.70	-7.8
France	CAC 40	4330.13	-27.61	-0.63	3892.46	5217.80	5217.80	-6.6
Germany	DAX	9981.24	-81.89	-0.81	8699.29	11773.49	11773.49	-7.1
Greece	ATG	563.75	8.49	1.53	420.82	797.52	797.52	-10.7
Hungary	BUX	27410.14	321.92	1.19	20452.90	27590.83	27590.83	14.6
Israel	Tel Aviv	1459.22	0.93	0.06	1378.80	1728.89	1728.89	-4.5
Italy	FTSE MIB	16673.77	-88.96	-0.53	15017.42	24121.03	24121.03	-22.2
Netherlands	AEX	447.85	-0.47	-0.10	378.53	504.23	504.23	1.4
Poland	WIG	46251.65	133.46	0.29	41747.01	53694.88	53694.88	-0.5
Russia	RTS Index	952.80	-16.55	-1.71	607.14	975.21	975.21	25.9
Spain	IBEX 35	8485.20	-39.20	-0.46	7579.80	11579.70	11579.70	-11.1
Sweden	SX All Share	490.14	1.38	0.28	432.78	543.12	543.12	-8.0
Switzerland	Swiss Market	8111.48	-50.12	-0.61	7425.05	9537.90	9537.90	-8.0
South Africa	Johannesburg All Share	52892.92	-153.39	-0.29	45975.78	54760.91	54760.91	4.3
Turkey	BIST 100	76177.82	-779.79	-1.01	68230.47	86931.34	86931.34	6.2
U.K.	FTSE 100	6697.37	1.95	0.03	5499.51	6800.13	6800.13	7.3
Asia-Pacific	DJ Asia-Pacific TSM	1413.81	1.38	0.10	1188.42	1512.74	1512.74	1.7
Australia	S&P/ASX 200	5451.30	-7.20	-0.13	4765.30	5706.70	5706.70	2.9
China	Shanghai Composite	3036.60	-6.97	-0.23	2655.66	4123.92	4123.92	-14.2
Hong Kong	Hang Seng	21673.20	-129.98	-0.60	18319.58	25536.43	25536.43	-1.1
India	S&P BSE Sensex	27787.62	40.96	0.15	22951.83	28504.93	28504.93	6.4
Japan	Nikkei Stock Avg	16723.31	225.46	1.37	14952.02	20841.97	20841.97	-12.1
Singapore	Straits Times	2919.54	-9.22	-0.31	2532.70	3371.41	3371.41	1.3
South Korea	Kospi	2016.89	-4.22	-0.21	1829.81	2083.62	2083.62	2.8
Taiwan	Weighted	9034.87	26.66	0.30	7410.34	9034.87	9034.87	8.4

Source: SIX Financial Information; WSJ Market Data Group

Currencies

Yen, euro vs. dollar; dollar vs. major U.S. trading partners



Country/currency	Tue	YTD	in US\$	per US\$	%
Americas					
Argentina peso-a	0.0655	15.2630	18.0		
Brazil real	0.7671	1.3037	-17.3		
Canada dollar	0.7671	1.3037	-17.3		
Chile peso	0.001534	651.90	-8.0		
Colombia peso	0.0003405	2936.50	-7.5		
Ecuador US dollar-f	1	1	unch		
Mexico peso-a	0.0539	18.5642	7.9		
Peru sol	0.3046	3.2826	-3.9		
Uruguay peso-e	0.0331	30.200	1.0		
Venezuela boliviar	0.100100	9.99	58.4		
Asia-Pacific					
Australia dollar	0.7492	1.3348	-2.7		
China yuan	0.1494	6.6933	-3.1		
Europe					
Bulgaria lev	0.5633	1.7752	-1.4		
Croatia kuna	0.1471	6.798	-3.0		
Euro zone euro	1.1010	0.9083	-1.4		
Czech Rep. koruna-b	0.0407	24.545	-1.4		
Denmark krone	0.1480	6.7563	-1.7		
Hungary forint	0.003491	286.45	-1.4		
Iceland krona	0.008197	121.99	-6.3		
Norway krone	0.1174	8.5170	-3.7		
Poland zloty	0.2514	3.9772	1.4		
Russia ruble-d	0.01577	63.397	-11.8		
Sweden krona	0.1161	8.6149	2.0		
Switzerland franc	0.1045	0.9857	-1.6		
Turkey lira	0.3297	3.0332	4.0		
Ukraine hryvnia	0.0403	24.7940	3.3		
U.K. pound	1.3106	0.7630	12.4		
Middle East/Africa					
Bahrain dinar	2.6497	0.3774	0.1		
Egypt pound-a	0.1125	8.8867	13.5		
Israel shekel	0.2589	3.8631	-0.8		
Kuwait dinar	3.3052	0.3026	-0.3		
Oman rial	2.5977	0.3850	unch		
Qatar riyal	0.2747	3.641	-0.05		
Saudi Arabia riyal	0.2666	3.7504	-0.1		
South Africa rand	0.0696	14.3772	-7.1		
WSJ Dollar Index	87.85	0.54	0.62	-2.58	

Sources: Tullett Prebon, WSJ Market Data Group

Global government bonds

Latest, month-ago and year-ago yields and spreads over or under U.S. Treasuries on benchmark two-year and 10-year government bonds around the world. Data as of 3 p.m. ET

Coupon	Country/	Maturity, in years	Yield	Latest	Spread Over Treasuries, in basis points	Previous	Month Ago	Year ago	Previous	Month ago	Year ago
3.250	Australia	2	1.568	87.8	93.0	91.6	129.2	1.624	1.612	1.961	
4.250	10	1.930	37.1	41.3	47.5	61.1	1.999	2.086	2.959		
1.250	Belgium	2	-0.574	-126.4	-127.3	-117.1	-85.3	-0.579	-0.474	-0.184	
1.000	10	0.238	-132.2	-134.7	-130.4	-122.9	0.239	0.307	1.119		
1.000	France	2	-0.527	-121.7	-122.1	-113.8	-83.4	-0.527	-0.441	-0.165	
0.500	10	0.209	-135.0	-137.1	-118.6	-126.2	0.215	0.426	1.086		
0.000	Germany	2	-0.634	-132.4	-133.4	-129.1	-88.4	-0.641	-0.594	-0.215	
0.000	10	-0.026	-158.5	-159.9	-159.1	-161.0	-0.014	0.020	0.738		
0.250	Italy	2	-0.064	-75.4	-74.9	-66.3	-53.1	-0.055	0.034	0.139	
1.600	10	1.239	-32.1	-33.2	-16.5	-43.9	1.253	1.446	1.909		
0.100	Japan	2	-0.328	-101.8	-102.5	-96.1	-66.0	-0.332	-0.264	0.010	
0.100	10	-0.231	-179.0	-181.6	-176.8	-192.2	-0.230	-0.157	0.426		
4.000	Netherlands	2	-0.576	-126.6	-129.1	-125.8	-88.8	-0.597	-0.561	-0.219	
0.500	10	0.090	-147.0	-149.1	-145.8	-138.8	0.095	0.154	0.961		
4.450	Portugal	2	0.665	-2.5	-0.7	-16.0	-83.7	0.687	0.537	-0.167	
2.875	10	3.073	151.3	153.8	171.1	29.0	3.124	3.322	2.638		
4.500	Spain	2	-0.139	-82.9	-84.6	-67.4	-53.3	-0.153	0.023	0.137	
1.950	10	1.190	-37.0	-34.2	-6.2	-39.7	1.243	1.549	1.951		
4.250	Sweden	2	-0.638	-132.8	-132.9	-129.6	-105.5	-0.635	-0.599	-0.386	
1.000	10	0.172	-138.8	-141.1	-108.4	-153.6	0.175	0.527	0.812		
1.250	U.K.	2	0.174	-51.6	-51.8	-31.4	12.1	0.175	0.383	0.790	
2.000	10	0.801	-75.9	-75.9	-46.7	-24.8	0.827	1.145	2.100		
0.625	U.S.	2	0.690	...	...	...	...	0.694	0.697	0.670
1.625	10	1.560	...	...	...	...	1.585	1.611	2.348	

Commodities

Prices of futures contracts with the most open interest 3:30 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 7/18/2016

Commodity	Exchange	Last price	Net	One-Day Change	Percentage	Year high	Year low
Corn (cents/bu.)	CBOT	350.25	-13.00	-3.58%		449.00	346.00
Soybeans (cents/bu.)	CBOT	1031.00	-35.25	-3.31%		1,186.25	868.00
Wheat (cents/bu.)	CBOT	419.25	-10.25	-2.39%		533.75	415.75
Live cattle (cents/lb.)	CME	109.300	-1.325	-1.20%		125.475	107.900
Cocoa (\$/ton)	ICE-US	3,004	-81	-2.63%		3,241	2,745
Coffee (cents/lb.)	ICE-US	147.00	-2.45	-1.64%		154.80	117.15
Sugar (cents/lb.)	ICE-US	19.36	-0.01	-0.05%			

THE PROPERTY REPORT

Chinese Builders Push Into Hong Kong

China Vanke, others bid for land in territory long dominated by local tycoons

By ANJIE ZHENG

HONG KONG—China's property developers are aggressively bidding for prime public land in Hong Kong as competition heats up in a sector where Asia's wealthiest tycoons built their fortunes.

For decades, large conglomerates controlled by Hong Kong's richest families have ruled the city's real-estate market, having developed the tall office towers that dot the iconic skyline to the endless rows of residential apartment blocks.

That dominance is now being challenged, as major Chinese property firms that have grown to prominence in recent years seek to gain international status through a foothold in the former British colony. Though a part of China, Hong Kong has its own set of laws and institutions.

In the first half of this year, some 40,869 square meters (439,910 square feet) of public residential land were awarded to mainland Chinese property companies through government tenders, according to Hong Kong's Lands Department, a sixfold jump from a year earlier.

Although Hong Kong companies still won more land during the six-month period, analysts say the increased tender wins are the result of the most assertive bidding effort by Chinese developers to date. Strong backing from their parent companies helped them outbid large



STEPHEN J. BOITANO/LIGHTROCKET/GETTY IMAGES

For decades, big conglomerates controlled by Hong Kong's richest families have dominated the city's real-estate market.

Hong Kong rivals, the analysts say.

"They want to make some iconic developments here," said Thomas Lam, head of valuations at Knight Frank, a property consultancy.

Between 2005 and 2009, none of the 26 plots of public residential land up for bidding in Hong Kong, among the world's priciest markets, were won by Chinese companies, according to real-estate consultant Savills. That jumped to 18 winning bids out of 166 sites offered between 2010 and 2016, Savills said.

Those making a push into Hong Kong include China

Vanke Co., the nation's biggest home builder by sales, as well as state-backed conglomerates such as China Overseas Land & Investment and the housing arm of a company originally founded by the People's Liberation Army.

For China Vanke, its expansion in Hong Kong and overseas follows a presence in China that spans 65 cities and 210 million square meters, with more than 95 developments in the affluent Guangdong province alone.

A move abroad could help Vanke "learn management experience and business models from the developed countries," the company said in its

latest annual report, published in April.

The hope is that the company's status would meet, and even exceed, the likes of well-known Hong Kong developers such as tycoon Li Kashing's Cheung Kong Group, Sun Hung Kai Properties and Swire Pacific. China Vanke will "continue to increase its property portfolio in Hong Kong through various means" since it remains positive on the market's fundamentals, a representative said.

Already, Chinese companies have become key players in many Hong Kong business sectors, such as retail, banking, aviation and telecoms,

going up against the local conglomerates that had dominated nearly every facet of the city's economy. Until recently, however, Chinese firms largely avoided competing in property development, which is among the most lucrative segments of most Hong Kong conglomerates. Property prices have more than tripled since 2003, according to UBS, albeit with some recent weakness.

In February, brokerage China Everbright Ltd. spent US\$1.29 billion to buy a 39-story office tower on Hong Kong Island. In November, Chinese developer Evergrande Real Estate bought a

26-story office building for US\$1.61 billion near the city's central business district.

"It's good to have more players than a market dominated by four developers. Now that there's more supply, it's actually a healthier market," said Chris Hoong, managing director of midsize developer Far East Consortium. The government has put up more land for bidding to boost supply as housing prices are among the highest in the world.

To be sure, Hong Kong's largest developers sit on massive land banks, making it less likely they would aggressively bid for public land, analysts say. Yet when they do bid they have been losing out to more aggressive mainland firms.

Also, the presence of Chinese developers in Hong Kong remains small, and despite the rise in land tenders, most mainland Chinese companies have yet to build and sell a residential project in the city.

For now, it is too early to say how the recent flurry of successful Chinese bids will affect Hong Kong's property market, since it will take years for new projects to be completed. The success of those sales will depend not just on having land, but also on branding, marketing and creating a product consumers will want to buy.

Chinese developers "really have to learn and catch up to the big Hong Kong developers," said Henry Mok, director at property consultancy Jones Lang LaSalle.

However, he says their goal isn't to dominate the Hong Kong market. "They want to use Hong Kong to explore other areas overseas," he says.

—Dominique Fong contributed to this article.



Graeme Wheeler, governor of the Reserve Bank of New Zealand.

New Zealand to Curb Home Loans

By DAVID WINNING

SYDNEY—New Zealand's central bank announced plans on Tuesday to tighten mortgage lending rules further to take some of the heat out of the country's housing market and safeguard financial stability.

The Reserve Bank of New Zealand said it planned to introduce restrictions nationally beginning Sept 1, effectively ending policy curbs specifically targeting Auckland—the country's biggest city—where there have been growing fears of a house pricing bubble led by property speculators.

"The banking system is heavily exposed to the property market, with residential mortgages making up 55% of banking system assets," RBNZ Governor Graeme Wheeler said Tuesday. "Investor lending has been increasing rapidly and is a significant contributing factor to the current market strength. The proposed restrictions recognize the higher risks associated with such lending."

Specifically, the RBNZ wants to limit further the amount that can be lent against the value of a property.

Under the proposed restric-

tions, no more than 5% of bank lending to residential property investors would be permitted with a loan-to-value ratio of more than 60%. Also, no more than 10% of lending to owner-occupiers would be permitted with a loan-to-value ratio of greater than 80%, the RBNZ said.

Consultation on the proposed restrictions ends Aug. 10.

The RBNZ is caught in a balancing act as it struggles to get inflation back to its target range of 1% to 3%, while trying to minimize risks to the financial system by containing a rising property market. Cut-

ting rates in an effort to boost inflation risks stoking house prices further. Introducing more macro-prudential measures could cool the property market and perhaps open the door to future rate cuts.

Mr. Wheeler said it continues to look at caps on loan size versus income ratios. Debt-to-income limits would have to be agreed on by the Minister of Finance.

"We have had positive initial discussions with the Minister of Finance on amending the Memorandum of Understanding on Macro-prudential policy to include this instrument," Mr. Wheeler said.

U.K.

Continued from page B5

The timing was good, firm executives said. "Volatility and dislocation creates opportunity," Ralph Rosenberg, the firm's global head of real estate, said in an interview Monday.

Mr. Rosenberg said KKR has its eye on a number of sectors, including the London residential and office markets.

"We're thematically looking at places where there was a lot of aggressive investing in the last three to four years that may now unwind," he said.

Sterling is down nearly 11% against the dollar since the referendum results.

Longer-term investors also have been scouting for deals because of the drop in the value of sterling against other currencies, brokers and lawyers said.

Sterling is down nearly 11% against the dollar since the referendum results.

Strong demand from abroad should help support prices, brokers said, as cash-rich investors continue to hunt for yield amid ultralow interest rates.

To be sure, many property owners appear to be better positioned to weather a downturn than during the 2008 financial crisis. In the last downturn, firms including Blackstone Group LP profited

handsomely from picking up real estate from firms forced to sell to raise quick cash.

But such opportunities might be harder to come by this time, analysts said. With far less debt and more stable credit markets, many landlords won't need to sell at steep discounts.

"There's a perception there will be forced liquidity. But that's not exactly guaranteed," said David Evans, partner in the real-estate group at U.S.-based law firm Goodwin.

While they wait for deals, hedge funds have been trying to profit from the uncertainty in London's real-estate market by sharply increasing their bets against U.K.-listed property firm Capital & Counties Properties PLC, which is developing a 10-year residential project on the site of an exhibition center at London's Earls Court. Hedge funds also have short positions on other residential developers, including Berkeley Group and Bovis Homes.

Shares in major U.K. landlords and home builders fell sharply after the referendum result. They have since recovered some of those drops. Some equity analysts still view parts of the sector as ripe for investment.

But highlighting uncertainty over the impact of Brexit, others say there also could be room for shares to fall further.

"We fear the recent rebound in real-estate stocks could turn out to be just the proverbial 'dead cat bounce,'" Société Générale analysts said.

—Peter Grant and Andrew Pearce contributed to this article.

Arkansas Bank Fills a Lending Void

By LAURA KUSISTO

When New York developer Gary Barnett needed a \$55 million loan for a commercial-development site on the Upper East Side of Manhattan earlier this year, he didn't turn to Deutsche Bank AG or J.P. Morgan Chase & Co.

Instead, he called on Bank of the Ozarks Inc., a small lender based in Arkansas.

The bank quickly agreed to finance the purchase. "I think they see a great opportunity in the real-estate construction market and the real-estate financing market now," said Mr. Barnett, founder of Extell Development.

Bank of the Ozarks has stepped into a void left by bigger banks that have pulled back from commercial lending in recent months amid softness in big markets such as New York and Houston. The lender's outstanding loans in New York shot up to \$1.9 billion in the first quarter since entering the market in 2012. Overall, its portfolio of loans and leases has swelled to nearly \$9.7 billion as of June 30 from \$3.6 billion in 2013.

"While a lot of the other lenders have stepped out of the spotlight, these guys have come in," said Andrew Geringer, managing director of the Marketing Directors, an apartment-development consultancy. "They have little competition today, so they can pretty much write their own terms."

But the Little Rock, Ark., lender is diving headlong into some of the shakiest commer-

cial-property markets in the U.S. at a time when investors are beginning to worry that the real-estate rally of the past few years is coming to an end.

"A lot of our competitors tend to move as a pack and are heavily driven by headline risk," said George Gleason, the bank's chairman and chief executive, on a recent call with investors. "So what we have tried to do is ignore the headlines, to

Manhattan apartment sales, meanwhile, were down 10% in the second quarter from a year earlier, the slowest pace since the recession year of 2009, according to an analysis of city records by The Wall Street Journal.

"There's a lot of warning signs out there, some of them are flashing," said Michael Rose, an analyst at Raymond James & Associates.



The bank's outstanding loans in New York shot up to \$1.9 billion in the first quarter. It entered the market in 2012.

a great extent...we are finding tremendous opportunities in Manhattan, Miami, Houston [and] Dallas."

The median sales price for luxury condominiums and townhouses along the Miami waterfront fell 17% in the second quarter compared with a year earlier, while inventory jumped more than 78%, according to the Elliman Report by real-estate appraiser Jonathan Miller.

Investors are getting jittery about Bank of the Ozarks' heavy bets on potentially shaky markets. In May, Carson Block of Muddy Waters Capital said at the Sohn Investment Conference that he was betting against the stock. He cited the fact that 89% of the bank's loans are in real estate. Similar-size banks average about 72%, according to Mr. Rose.

Mr. Block also said the bank has made construction loans

that are riskier than the bank claims, and should be setting aside more money to cover losses as the real-estate market cools.

The bank's stock shed 5% on the day of Mr. Block's comments. Shares now fetch about \$40, down 25% from their recent high in December.

To reduce its risk, the bank is demanding higher interest rates than most banks collect and insists developers put more equity in their deals. On average it finances 49% of a project, compared with the estimated 70% that is typical for most banks, analysts said.

In Houston, for example, the bank has made a loan to a project with office space and retail in the upscale River Oaks neighborhood. Houston's inventory of empty office space has soared thanks to the oil slump and a wave of fresh supply just after oil prices plunged. The availability rate—space that is vacant or available for sublease—hit 19.8% in the second quarter, a 20-year high, according to CBRE Group Inc.

But Bank of the Ozarks' loan represents only 25% of the cost of the project, making it less risky than a typical commercial-property loan.

"Why isn't everybody doing this? Because people are afraid of Houston right now," Mr. Rose said.

Bank of the Ozarks said it has historically had far fewer loans go bad than the banking industry average. It said its net charge-off ratio was 38% of the industry average from 2000 to 2015.

HEARD ON THE STREET

FINANCIAL ANALYSIS & COMMENTARY

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Doubts Hound Brexit Dividends

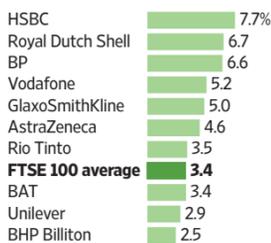
Currency gains can flatter to deceive. Brexit has boosted the share prices of the biggest U.K.-listed companies because their foreign earnings are worth more at home. The same effect may filter through for their dividends, too, though only in local-currency terms.

However, some of the biggest British dividend payers of recent years still are trading with among the highest prospective yields in the FTSE 100, suggesting investors are skeptical that these payouts can be sustained. The truth is, companies such as **PLC**, **HSBC Holdings** and **Royal Dutch Shell** PLC face challenges to their businesses born of low global growth that remain difficult to surmount regardless of Brexit.

Companies that produce the most dividends are very important to the index. The top 10 paid more than half of all cash payouts from FTSE 100 companies in the past three years, while the top five paid about one-third, according to FactSet.

Dividend Doubts

Prospective 2016 yields for top 10 historic dividend payers in FTSE 100



Source: FactSet
THE WALL STREET JOURNAL.

Two of those already have cut interim dividends this year, the miners **BHP Billiton** Ltd. and **Rio Tinto** PLC, and their yields have collapsed. Unsurprisingly, two other resources companies that haven't cut dividends, Royal Dutch Shell, the FTSE's biggest payer, and **BP** PLC, now show among the highest yields, above 6.5%.

Their prospective yields have edged down slightly over the past three months,



An HSBC branch in London

however, because of the positive Brexit currency effect, which has rallied their share prices more than the expected coupons.

In contrast, U.K.-based global bank HSBC is trading on the highest forward dividend yield at 7.7%, which is higher than three months ago. The bank has seen a bigger increase in consensus forecasts for its 2016 payout in local sterling terms than the two oil groups, but its

shares have risen much less.

One simple reason may be in the raw materials behind these businesses. Oil and other commodity prices have been recovering in recent months, but the price of money (otherwise known as interest rates) is now expected to be lower for longer globally, in part because of Brexit, hurting bank profits.

However, HSBC looks like the better bet in the medium term because the less global growth there is, the less capital it is likely to reinvest in southern China as it cuts its balance sheet elsewhere. That will support dividends.

For Shell and BP, the outlook remains less certain and commodities prices remain far below the high levels of recent years.

For all three, cost cuts across global operations remain key to dealing with low growth. A weaker pound doesn't change that.

There are billions of pounds of income at stake. More dividend reductions would be deeply unwelcome.

—Paul J. Davies

OVERHEARD

The European Central Bank's purchases of investment-grade corporate bonds have topped €10 billion (\$11.1 billion). But what has the ECB been buying?

The ECB now has released lists of the securities it owns under its purchase program, although it doesn't disclose exactly how much it holds of an individual bond, or what price it bought it.

Some of the entries are predictable: mainstays of the European market like car makers **BMW** and **Daimler** and telecom group **Telefonica**. But the ECB is ranging far and wide. It owns some of a €300 million bond issued by **Apetra**, which manages Belgium's strategic oil stocks, the data show. And it also has bought into a €265 million bond from Slovenian energy company **Petrol d.d. Ljubljana**.

Buying paper from small issues won't particularly help the ECB hit its bond-buying targets. But it is nice to see that smaller borrowers aren't being left behind.

Turkey Coup Worries Lost In Liquidity

The Turkish government swiftly put down Friday's attempted military coup. But markets face a struggle between political risk and the global search for yield.

Turkish financial assets have been shaken. But the lira recovered some ground Monday, and stocks gained Tuesday.

That the coup didn't succeed is one reason for this. Another is the dearth of available yield. Turkish lira-denominated government bonds yield 9.3%, while the country's dollar debt yields 4.3%, according to Barclays data. Both have returned about 8% so far this year.

Yet the failed coup's negative consequences for Turkey already are emerging. Moody's says it might cut Turkey's credit rating to junk status, citing the risk to growth and economic revisions, as well as Turkey's large external financing needs, pegged at 25% of gross domestic product in both 2016 and 2017.

The balancing act can be seen in Tuesday's decision by Turkey's central bank to cut its overnight lending rate 0.25 percentage point to 8.75%. That is smaller than the 0.5-point cut that markets had been expecting before the coup. But it is still a rate cut from an emerging-market central bank that has consistently missed its inflation target and has been forced previously to defend the exchange rate; some analysts had expected the bank to remain on hold.

Turkey looks like an important bellwether for markets. If even an attempted coup doesn't deter investors, that will be testament to the power of the global liquidity flood—and its distortional effects.

—Richard Barley

Europe Clothing Retailers Won't Be Torn Apart by Amazon

In a rapidly growing sector, worrying about competition misses the point. The ambitions of **Amazon.com** in clothing retail pose a bigger threat to high-street fashion chains than they do to online rivals **Zalando** and **ASOS**.

This is one lesson of an expectation-smashing second-quarter update from Zalando. Since its 2008 founding by Rocket internet as a European copy of Amazon's **Zappos.com** website, this Berlin-based company has become Europe's largest online fashion retailer after Amazon. But its shares have fallen this year as investors have fretted about weak first-quarter margins and

Amazon's renewed push into fashion.

Those worries now look overblown. The company said Tuesday that its second-quarter adjusted operating margin would be between 7.5% and 9.5%. The consensus of analysts had expected 5%, so earnings upgrades are inevitable. The shares jumped.

Until the company releases full figures and holds a conference call next month, the reasons for the profit beat will remain somewhat mysterious. The company noted "operating leverage"—the mathematical drop-through of strong sales growth to the bottom line—but second-quarter sales

growth in the range of 24% to 26% was in line with analyst forecasts. At the same time, management insisted it was keeping its foot on the gas pedal with investments.

This muddy picture will do nothing to clear Zalando's reputation for unpredictable financial performance, and the shares will doubtless remain volatile. But even after Tuesday's jump they look cheap at 1.7 times prospective sales, relative to those of ASOS at over 2 times.

The two companies have slightly different focuses. ASOS targets the market for 20-something fashionistas globally, while Zalando pitches itself at a wider de-

mographic, but only in Europe. ASOS places more emphasis on fashion and curated content, Zalando on cutting-edge logistics and web technology. Yet these differences can be exaggerated: Both are growing sales at about 25% a year as they take market share from bricks-and-mortar retail, and both should now make full-year margins of roughly 5%.

The key reason why ASOS might warrant a higher valuation is that its focus on fast fashion and the millennial niche better protects it from direct competition with Amazon. But focusing on the Amazon threat is misleading. The U.S. giant already has a

higher market share in European fashion than its local peers, according to research group Euromonitor, so the competition is nothing new.

There is a reason why most clothes are sold by specialist retailers; the online world may be no different. As long as Zalando and ASOS keep up with Amazon's logistics operation, and keep their current edge in website design and function, they should be able to grow at least as fast as more clothes shoppers move online.

It is time to consign those Zalando shorts to the back of the wardrobe. This is a market with growth for all.

—Stephen Wilmot

MONEY & INVESTING

DEAL

Continued from page B5

Swiss francs into the bank's equity and that he was terminating the purchase agreement.

The move followed private exchanges in which the bank asked why Mr. Garcia was failing to submit documents including his tax returns to Switzerland's financial regulator, Finma, required to win final approval, and questioned his ready access to cash, according to correspondence reviewed by the Journal and people familiar with the matter; the bank in turn received reassuring responses from Mr. Garcia, the correspondence shows.

Business associates of Mr. Garcia describe the 39-year-old as charming, persuasive, and sometimes inflexible. His small, centrally located office is at the base of a funicular railway snaking up a Zurich hillside.

In an interview, Mr. Garcia said his total costs, including Arner's sale price and recapitalizing the bank, would have been about 71 million francs. The deal unraveled, he said, following disagreements with the bank over how swiftly it would be recapitalized, as well as its planned sale of a Bahamas subsidiary. Mr. Garcia also said he received signs from Finma that the situation at Arner was more stressed than he had understood, though he said he could never learn more about what the regulator meant.

By the time Mr. Garcia said he met with Finma to show it a last installment of required documents, the deal had soured—though IXE's attorney informed Arner that all required documents had been delivered on time, he said.

A Finma spokesman declined to comment.

Now, Arner must find its way in a new paradigm. Crackdowns by authorities in the U.S. and elsewhere on the use of Swiss bank accounts to evade taxes have contributed to a shakeout. An Ernst & Young report earlier this year said that Switzerland's private banks had suffered significant outflows of assets managed for foreign clients and that 60 banks had "disappeared off the map since 2010."

Many that remain have come up for sale.

A Milan affiliate of Arner, which was later sold, once held accounts for members of Mr. Berlusconi's family, according to Italian media reports and a person familiar with the matter.

Separately, an Arner co-owner was accused in an Italian court of tax fraud related to the purchase of programming rights for Mr. Berlusconi's Milan-based firm Mediaset SpA, where his son serves as chief executive. The co-owner was acquitted. He couldn't be reached for comment. Arner's association with the former prime minister was widely covered in Italian media several years ago.



Alejandro Garcia

As a result of the negative attention paid to Arner in Italy, the bank came under on-site enforcement in Switzerland by Finma, a person familiar with the matter said. The enforcement ended in 2011.

Mr. Garcia said he perused several banks shaken by recent disruptions in the Swiss market before settling on Arner, in part because it had been through a revamp. He also raised his profile in the media.

In November 2013, Mr. Garcia told a Swiss newspaper he had decided to move to Switzerland in 2006 and said IXE was going to disclose audited financial figures. "We want to be transparent," Mr. Garcia was quoted as saying. He also let it be known that his family might buy a bank.

The next month he appeared on Al Jazeera, where a host said Mr. Garcia ran "one of the biggest agricultural businesses in the Americas." An appearance

on Bloomberg TV, as an expert on trade in quinoa, followed. During an appearance on CNBC, it said that Mr. Garcia's firm has 1 million hectares (2.47 million acres) of arable assets in Latin America, roughly equivalent to half of New Jersey.

Mr. Garcia recently said that IXE's business, which works with farmers to distribute their wares, encompasses more than two million hectares of land. He said he ultimately decided against publicly disclosing IXE's financial figures, because he felt it was unnecessary.

On more than one occasion during 2014, Switzerland's Bilanz magazine reported that Mr. Garcia's family had a fortune worth as much as 250 million Swiss francs. Mr. Garcia said he didn't know how the magazine got that number. "We come from Mexico," he said. "For security reasons, we never give our key figures."

A spokesman for Arner said: "The attention given by the media to Mr. Garcia did make the [bank's] shareholders more comfortable in terms of dealing with him as a strategic partner."

In December 2014, Arner announced IXE's plan to buy the bank. In the following months, however, questions emerged from the bank about Mr. Garcia's progress in closing the purchase, according to internal correspondence and people familiar with the matter. By August 2015, he was reassuring Arner that he didn't have liquidity issues, the correspondence shows.

As 2015 progressed, Mr. Garcia and Arner disagreed about whether he would recapitalize the bank in stages, as he said was the original agreement, or in a lump sum. Finma ultimately asked that he do it in one lump sum, he said.

Mr. Garcia said he also argued with Arner about its sale of a Bahamas subsidiary, which he said required his permission and should have affected his purchase price—though he said the bank informed him that he had no say in the matter. Soon after that, Mr. Garcia called the deal off.

Both Mr. Garcia and a spokesman for Arner say the misadventure may yet lead to litigation.



Bank to Cut Staff; Earnings Decline

Comerica Inc. became the latest bank to announce major cost cuts in a move the lender says will help it cope with profit-sapping low interest rates.

The Dallas-based lender said Tuesday in its second-quarter earnings release that it would cut about 9% of its workforce and shut down around 40 locations, or about 8% of its 473-branch network. The bank is also under pressure from investors to bolster performance and consider potentially selling itself.

Chief Executive Ralph W. Babb Jr. told investors the new cost-cutting and revenue-enhancement plans are "fundamentally changing the way we operate."

The regional bank reported a quarterly profit of \$104 million, down from \$135 million a year earlier. On a per-share basis, earnings fell to 58 cents from 73 cents. The bottom line includes 19 cents a share of charges related to the new plans.

—Rachel Louise Ensign

S&P Lowers Outlook For Credit Rating

Standard & Poor's Ratings Services lowered its credit outlook for **Deutsche Bank** AG on Tuesday to "negative" from "stable," saying market conditions and the U.K.'s decision to leave the European Union are ex-

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The Dallas-based lender is closing about 8% of its branches.

pected to complicate the German lender's restructuring plans.

S&P said that despite the negative outlook, it is keeping its triple-B-plus rating for Deutsche Bank's long-term unsecured debt. The negative outlook reflects S&P's view that a credit downgrade could follow "if market conditions challenge Deutsche Bank's ability to preserve its capital and maintain its franchise while implementing its restructuring plans."

—Jenny Strasburg

State-Run Banks Get Capital Injection

India's Finance Ministry said on Tuesday that it would inject 229.15 billion rupees (\$3.4 billion) as capital into 13 state-run banks in the year that started in April, as they struggle with rising bad loans.

The capital infusion is broadly in line with the 250 billion rupees the government had budgeted in February.

State Bank of India, the country's top lender, will get 75.75 billion rupees, the biggest share of the planned infusion. **Indian Overseas Bank** will get 31.01 billion rupees and **Punjab**

National Bank will receive 28.16 billion rupees, according to a statement.

Allahabad Bank, Canara Bank, Central Bank of India, Corporation Bank and Syndicate Bank are among the other banks to get capital.

—Rajesh Roy

SINGAPORE EXCHANGE Disk Failure Led To Trading Outage

Singapore Exchange Ltd. said Tuesday that last week's nearly day-long trading outage was caused by a hardware failure that wasn't detected by its automated backup systems.

The exchange, better known as SGX, said a computer disk that runs an application to send out clearing-confirmation messages for completed trades had failed early Thursday. SGX's automated software didn't detect the disk failure, so backup systems didn't kick in until activated manually.

After the problem was detected, SGX said it had worked with brokerages to reconcile trades, but this took longer than expected and it was forced to delay reopening until Friday.

—Jake Maxwell Watts