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AIG's Cassano defends record

By Sarah N. Lynch And Serena Ng

WASHINGTON—The former head of **American International Group** Inc.'s derivatives-trading unit defended his tenure at the firm Wednesday, saying AIG would have realized few losses from credit derivatives if the trades hadn't been unwound in the U.S. government's 2008 bailout of the company.

Speaking publicly for the first time in more than two years, Joseph Cassano, who was chief executive of AIG's Financial Products division from 2002 to early 2008, testified about the firm's credit-default swaps before the Financial Crisis Inquiry Commission. Those insurance-like products nearly brought down the giant insurer after the mortgage securities they were tied to soured and AIG struggled to meet collateral calls. The U.S. government ultimately bailed out the firm.

Mr. Cassano told the panel that he still believes his unit performed a vigorous review of the mortgage securities that AIG previously insured, known as collateralized debt obligations. Those are now held by a company called Maiden Lane III, which is largely financed by the New York Federal Reserve.

The portfolio "is performing through this crisis and it is meeting the standards that we set," he told the panel's chairman. "I think our reviews were rigorous. The portfolios are withstanding the test of time."

He also noted that his view of what happened may "diverge in many ways from popular wisdom."

The panel is seeking answers about the role that derivatives played in the financial crisis. It summoned current and former executives from AIG and **Goldman Sachs Group** Inc., including Goldman President and Chief Operating Officer Gary Cohn, to testify Wednesday and Thursday.

Goldman's Mr. Cohn, in his prepared remarks, flatly denied that the company took bets against clients who had a different view of the housing market. "During the two years of the financial crisis, Goldman Sachs lost $1.2 billion in its residential mortgage-related business," he said in the prepared remarks. "We did not bet against clients, and the numbers underscore this fact."

Goldman is facing criminal and civil probes into whether it misled investors on mortgage-bond deals, and the commission was expected to pepper Goldman executives with tough questions surrounding Goldman's exposure to AIG.

Former AIG Chief Executive Martin Sullivan told the panel that he had no knowledge about problems surrounding AIG's portfolio until 2007, even though the company opted to stop selling

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Pelicans in the queue as BP faces mounting claims

Reuters

Oil-covered pelicans sit in a pen waiting to be cleaned at a center in Louisiana. **See related articles on new U.S. pressure on BP on page 7, and a deep look at BP's safety record on pages 14-15.**

The Quirk

Forget the World Cup, South Africa keeps bowling along. **Page 29**

World Watch

A comprehensive roundup of news from around the world. **Pages 30-31**

Editorial & Opinion

Merkel is back. **Page 13**

Low ECB-loan demand eases fears of bank crisis

By Brian Blackstone

FRANKFURT—European banks borrowed less from the European Central Bank than had been expected during a closely watched loan operation, a reassuring sign that banks aren't overly dependent on the central bank as a source of liquidity.

More than 170 banks borrowed a total of €132 billion ($161 billion) in three-month cash at a 1% interest rate on Wednesday, a record sum for that maturity but only about half what some economists had thought they would need.

The lower-than-expected demand for the loan suggests that Europe's banks don't face the liquidity crisis that some economists feared. Such concerns contributed to a sell-off in global markets on Monday.

"It's encouraging," says Ben May, economist at the consultancy Capital Economics. "It doesn't suggest that banks were desperate for liquidity and could only get it from the ECB."

The euro rose about 1% on the news, briefly exceeding $1.23 to the dollar before pulling back some.

Equity markets also rallied, led by banks, especially in countries such as Spain whose shares have been pummeled in recent days on concerns that their banks were too reliant on ECB credit.

Worries over the state of bank balance sheets have left some European banks, especially those in countries along the euro zone's southern periphery, unable to borrow in the interbank lending market. That has forced the banks to turn to the ECB for help in meeting their short-term funding needs.

With the ECB's biggest lending program—a €442 billion, 12-month facility-expiring on Thursday—many investors were concerned that banks would simply roll over those loans into the three-month program, signaling serious stress.

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PAGE TWO

Auditing must learn lessons of history

[Agenda]

By Michael Izza


Bloomberg News
The Royal Bank of Scotland suffered during the banking crisis.

Aldous Huxley once remarked "that men do not learn very much from the lessons of history is the most important of all the lessons that history has to teach." The financial crisis and its aftermath have raised fundamental questions about the way in which markets operate. If there is to be a positive legacy, market participants need to be exacting about what went wrong and what steps can be taken to mitigate the risk of future crises.

The audit profession is no exception. While auditors were not the cause of the financial meltdown, legitimate questions are being asked about their role in the run-up to the banking crisis and how this role might be developed—for example in order to help better identify systemic risk issues.

The |Institute of Chartered Accountants in England and Wales, of which I am CEO, welcomes this debate. As the U.K.'s Future of Banking Commission recently observed, "the audit is a foundation stone for the integrity of our capital markets." Making sure the audit process continues to meet market expectations must be a priority.

Two recent publications from the European Commission and the U.K. Financial Services Authority (FSA) and Financial and Reporting Council (FRC) raise a number of interesting issues in this regard.

An EC green paper on corporate governance in financial institutions proposes strengthening the relationship between the audit profession and the regulatory community and asks whether auditors should validate an increased range of information relevant to shareholders. A second green paper on the role of audit services and the structure of the audit market is anticipated in the fall.

A joint FSA, FRC consultation paper published this week seeks to stimulate debate on how the FSA can best work with the audit profession to meet its statutory objectives. Both papers merit detailed scrutiny, not just by auditors but from all those in the financial reporting chain.

Over the past 18 months, ICAEW has also been examining how the current audit model needs to evolve. On the back of a major piece of stakeholder research as well as ongoing dialogue with the U.K. Treasury Select Committee we have recently published "Audit of Banks—Lessons from the Crisis," which recommends steps that could help meet changing stakeholder expectations.

Auditors are not there to assume management roles or compensate for inadequate in-house teams.

We think risk information is often presented in a piecemeal manner in bank annual reports, spread between the audited financial statements and the unaudited front sections. Banks need to focus on clearer presentation, allowing users to understand the big picture—often obscured by the volume of detailed information. Summary risk statements are a potential way of doing this, particularly if auditors are able to provide assurance on these statements.

We think insufficient information is provided in the current framework about the work that underpins an audit. This makes it difficult for investors to assess the performance of bank auditors or to understand the key areas of challenge. To address this gap, banks can help, for example by confirming that they have discussed with their auditors the critical accounting estimates and judgments disclosed in the financial statements as well as the information disclosed in the front end of their reports.

Greater consistency of dialogue between auditors and bank supervisors could enable both parties to perform their duties more effectively. Before the crisis this dialogue was intermittent. There have been improvements since but our sense is that it remains variable and is often dependent on the attitude of individual supervisors.

We also think auditors and other external experts have skills that could support banking supervisors in performing their functions more effectively. U.K. supervisors have the power to utilize these skills but have done so rarely, typically only where particular problems have been identified. There is scope for greater use of external experts on a thematic basis, as part of supervisors' monitoring regime and as preventative or diagnostic measures.

Any serious reform must be evidence based. It must also take into account a difficult home truth—the profession has not been good at explaining the value of audit. We are determined to rectify this via a new website which will explain in lay terms what an audit is there to do.

An auditor goes into a company with the purpose of providing greater confidence in the financial statements prepared by its management and directors in accordance with the appropriate financial reporting standards. They do this by giving an independent opinion on its truth and fairness—an opinion that is reached by gathering evidence to support the financial statements, usually on a sample basis, by examining risk management processes, governance, systems and internal controls, and by challenging management on the assumptions and decisions they have made.

Auditors use their professional judgment to reach conclusions and recommendations which then go to audit committees and senior management. Where there are issues which they believe the users of annual reports need to be made aware of, they will include a statement to this effect.

Independent auditors are not there to assume management roles or compensate for inadequate in-house teams. Ultimately it is the company directors who are responsible for the success or failure of the entities they lead and run. Auditors ensure that shareholders are provided with information which enables them to hold the directors of the companies they own to account.

In short, the audit is a small but vital cog in the effective operation of markets. As the debate on the future of audit evolves we will be advocating the incremental changes necessary to ensure it continues to be valued in these terms.

ONLINE TODAY

Most read in Europe

1. Putin Rips U.S. Over Spy Arrests
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4. Weaker Euro Set to Spur Irish Turnaround
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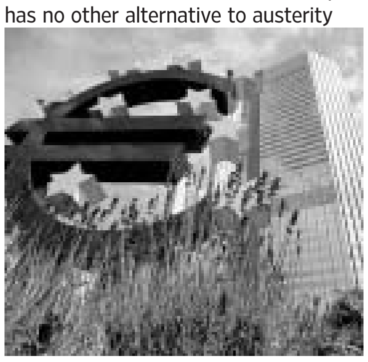
'No amount of fiscal slash and burn can save the Greek economy from going bust.'

Alen Mattich on how much of Europe has no other alternative to austerity



Continuing coverage

More Goldman executives face the congressional financial crisis inquiry today at **europe.wsj.com**

Question of the day

Vote and discuss: Do you expect a downturn in global growth?

Vote online and discuss with other readers at **wsj.com/dailyquestion**

Previous results

Q: Do you think a European team will make it to the World Cup final?

What's News

■ **Portugal's government** vetoed Telefónica's $8.72 billion bid to acquire Portugal Telecom's stake in the companies' Brazilian joint venture, in a surprise move that sets the stage for a confrontation with EU authorities. 17

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■ **EU representatives** backed a preliminary deal with the European Parliament on rules to limit bankers' bonuses in response to criticism of executive compensation. 17

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NEWS

Cast of characters

One complaint charges nine people, including four couples, with conspiracy to act as unregistered agents of a foreign government and money laundering. A second complaint charges two others with conspiracy to act as unregistered agents. The suspects and allegations against them in the complaints:

Christopher Metsos
A secret Russian agent based abroad, Metsos traveled to the U.S. to pay agents, including Richard Murphy, took bags of money and an ATM card from him. In 2004, Metsos received money from a Russian official in a train station in New York City and buried some of it upstate.

Richard Murphy, Cynthia Murphy, Montclair, N.J.
Told to gather information from sources on the global gold market and U.S. policy on nuclear weapons, Iran and Afghanistan ahead of President Obama's visit to Russia. Were unwilling to risk trying to get a job inside the U.S. government.

Donald Howard Heathfield, Tracey Lee Ann Foley, Boston
Told to cultivate sources on U.S. foreign policy, they sent messages to Russian officials based on conversations with American sources. In the U.S. as a naturalized citizen, Heathfield was using the identity of a dead Canadian.

Michael Zottoli, Patricia Mills, Arlington, Va.
Zottoli met with Richard Murphy to collect money, and traveled with Mills to Wurtsboro, N.Y. in 2006 to dig up a package of money buried by Metsos.

Juan Lazaro, Vicky Pelaez, Yonkers, N.Y.
Tried to gather information from U.S. sources, though Russians expressed disappointment with the quality of Lazaro's reporting. Traveled to South America to pass messages to Russian officials and receive money from them.

Mikhail Semenko
Tried to covertly exchange electronic messages over a private wireless network at a restaurant in Washington, D.C., and accepted a folded newspaper from an undercover U.S. agent posing as a Russian with $5,000 in cash inside to drop in a park.

Anna Chapman
Covertly exchanged electronic messages on at least 10 occasions with a Russian government official. Accepted a fraudulent passport from an undercover U.S. agent posing as a Russian to give to another agent.

Spy suspect jumps bail in Cyprus

By Nick Skrekas
And Richard Boudreaux

Cypriot police said a man arrested on U.S. charges of spying for Russia had vanished after being released on bail.

Christopher Robert Metsos, 54 years old, failed to report to police Wednesday as required, police said. A warrant has been issued for his arrest.

Mr. Metsos, who U.S. authorities allege was a ringleader of a group of Russian spies in the U.S., was arrested Tuesday in Cyprus as he tried to board a flight for Budapest, Hungary. Ten other people were arrested in various U.S. cities in recent days.

Cypriot authorities had released Mr. Metsos on bond despite U.S. concerns that he might flee. A Cypriot police official said Mr. Metsos had surrendered his passport. "Our investigation suggests he may still be in Cyprus because the only way he could leave is with a fake passport," the official said.

Meanwhile, more details emerged Wednesday of the early life in Russia of two of the suspects arrested in the U.S., Mikhail Semenko and Anna Chapman, as commentators on Russian social-networking sites expressed skepticism about the charges.

Dozens of visitors to Mr. Semenko's page on the Russian site odnoklassniki.ru professed their belief in his innocence and left messages of support. "Hang on in there Misha [Mikhail]," read one. "Everyone knows this is an American witch-hunt."

On Ms. Chapman's site, a visitor wrote that Ms. Chapman's arrest had "a sole purpose, to undermine the credibility of Obama and help the Republicans regain their positions. It is our Russian girl who got into this meat grinder."

One visitor to the site gave credence to the Justice Department's charges against Ms. Chapman, writing, "A beautiful girl came to study in the People's Friendship University from Volgograd. PFU has always been a 'nest' for the KGB. They quickly fooled her head, promising a wonderful life, fancy things, travelling, etc."

Ms. Chapman, a 28-year-old divorced Russian national who moved to the U.S. full-time last year, is alleged by U.S. authorities to have covertly exchanged electronic messages with a Russian government official, and to have accepted a fraudulent passport from an undercover U.S. agent posing as a Russian.

Ms. Chapman grew up in Volgograd, Russia, as Anna Kushchenko and finished high school there. She graduated in 2004 from the economic faculty of the Peoples' Friendship University of Russia, in Moscow.

For a number of years Ms. Chapman lived in London, where she worked at Berkshire Hathaway Inc.'s private-plane firm NetJets Europe and Barclays Bank PLC.

A spokesman for NetJets Europe said Ms. Chapman worked as an executive assistant in the company's sales department from May to July 2004. After that, she worked for about a year in the retail division of Barclays, where she was engaged in small-business banking, according to a person familiar with the matter.

In her profile on the social-networking site LinkedIn, Ms. Chapman says she spent the remainder of her time in London working at a hedge fund called Navigator, before she left the firm to work for Moscow-based KIT Fortis Investments in 2007. No one was available to comment at Navigator Asset Management in London on Wednesday, and a spokeswoman for KIT Fortis in Moscow said she couldn't confirm if Ms. Chapman had worked there because of personal-data regulations.

odnoklassniki (left); Sipa Press (right)

Mikhail Semenko at the White House, left, and Anna Chapman, right

In London, Ms. Chapman attended a gala charity event, known as the War and Peace Ball, in 2005, 2006 and 2007.

Ms. Chapman went on to run a Russian real-estate Web site, Domdot.ru, which is how she met Dan Johnson, the founder of TheMoveChannel.com, a U.K.-based property website. Ms. Chapman emailed Mr. Johnson last August to suggest that the two websites collaborate on listings, and Mr. Johnson, looking to tap into the Russian market, set up a meeting.

"We spoke about contemporary affairs within the industry and about running a business and managing staff," Mr. Johnson said,. "She knew her business," he said.

Ms. Chapman seemed diligent in building her Russian business.

Mr. Semenko, who was arrested in Virginia, apparently posted extensive information about himself on at least two social-networking sites: odnoklasniki.ru and LinkedIn.

U.S. authorities allege that Mr. Semenko took $5,000 cash from an undercover Federal Bureau of Investigation agent posing as a Russian government agent. Following the FBI agent's instructions, Mr. Semenko allegedly deposited the cash beneath a bridge in an Arlington park.

The online profiles linked to his name say Mr. Semenko grew up in Blagoveshchensk, a city on the Chinese border in Russia's Far East, finished high school there in 2000 and enrolled that year in Amur State University, located in the same city. The university confirmed that he graduated in 2005 with a degree in international relations. During that five-year period the profiles say he moved to China and studied at Harbin Institute of Technology from 2003 to 2004, earning a certificate in Chinese language and culture. The profiles say he also taught English in China.

Svetlana Kosikhina, dean of the faculty of international relations at Amur State, said she helped Mr. Semenko apply to several study programs in the U.S. during his final year at the university. She remembered him as studious, athletic and sociable.

—Paul Sonne and Cassell Bryan-Low contributed to this article.

Vatican appoints cardinal to vet bishops

By Stacy Meichtry

ROME—Pope Benedict XVI on Wednesday tapped a Canadian cardinal to take over the Vatican office in charge of vetting bishop appointments, a key post as the pope seeks to tighten church management in the wake of the sex-abuse crisis.

The appointment of Cardinal Marc Ouellet, the 66-year-old archbishop of Quebec, to run the Congregation for Bishops came as part of a broader reshuffling of the Vatican bureaucracy. The pope also named Archbishop Rino Fisichella of Italy as head of the Pontifical Commission for Promotion of the New Evangelization, a new department that aims to reinvigorate Catholic flocks in Europe and other regions where support for the church is flagging.

As head of the Congregation for Bishops, Cardinal Ouellet will have a hand in shaping the leadership of the Catholic Church for years to come. Bishops are among the most powerful figures in the Catholic hierarchy, acting as the primary link between Rome and local flocks, or dioceses, around the world.

The sex-abuse crisis that has roiled the papacy of Pope Benedict in recent months stems partly from the failings of bishops who covered up abuse by priests in their dioceses rather than report allegations to the Vatican or civil authorities.

Cardinal Ouellet faces the challenge of helping the pope pick candidates who can deliver on the pontiff's pledge to crack down on abuse by monitoring priests more carefully. At the same time, Cardinal Ouellet is expected make sure that candidates adhere to conservative Catholic disciplines, such as priestly celibacy, which some critics blame for the scandal.

Pope Benedict has accepted the resignations of a half-dozen bishops across Europe since the crisis exploded earlier this year. In some cases, bishops admitted to abusing children themselves before stepping down.

During the last papal election in 2005, Cardinal Ouellet was regarded by some observers as a "papabile," a candidate for pope, because of his conservatism and command of foreign languages, including Italian, French and English. Cardinal Ouellet succeeds 76-year-old Italian Cardinal Giovanni Battista Re who is retiring because of age.

Archbishop Fisichella, who will head the new evangelization office, has been on the front lines of Europe's culture wars for years. As head of the Pontifical Academy for Life and chaplain to the Italian Parliament, he has voiced the Vatican's opposition to artificial insemination, abortion and birth control.

EU introduces budget-control plans

New rules would have members submit to checklist of economic and financial indicators to avert future crises

By Stephen Fidler

BRUSSELS—The European Union's executive arm weighed in with proposals on Wednesday to discipline free-spending governments by cutting off EU farm and fisheries payments that often run into billions of euros a year.

The proposed sanctions from the European Commission are aimed at improving poor coordination of government budgets and other economic policies among the 16 nations that use the European common currency. These weaknesses are viewed as having allowed a government debt crisis to develop in Greece, in turn generating broader financial turmoil that may threaten the future of the euro zone.

Farm and fisheries payments run into billions of euros a year—France, the largest recipient, received nearly €10 billion ($12 billion) in farm subsidies in 2008 alone—and suggestions that they could be suspended or canceled are hugely sensitive for EU governments. Other payments that could be held back include regional support and project financing that can also run into billions of euros.

The proposals are an early salvo in a lengthy debate that goes to the heart of national sovereignty, raising questions of how much power national governments are willing to cede to the EU for the sake of the common currency.

Going even this far would be a tough pill for some governments to swallow. "Whenever one uses the word sanctions, there is excitement here. If then you touch on agricultural policy and regional funds, the excitement becomes huge," said one commission official.

The idea is for each government to submit to the commission the broad shape of its likely budget and economic policy program for the following year. After an assessment from the commission, the European Council—the EU governments sitting together—would make recommendations if the program was seen as risky or potentially destabilizing. If the governments failed to follow these recommendations, EU farm and other payments could be suspended and eventually canceled. Farmers would still get the subsidies, but the governments would lose the financing.

The commission wants to enforce more rigorously the existing budget deficit limit of 3% of a country's annual economic output, and to push efforts harder to bring down total government debt to the debt ceiling of 60% of annual output, which most governments exceed by a wide margin. "Excessive debt needs to be addressed more seriously than in the past," said Olli Rehn, the EU economics commissioner who launched the proposals.

The annual assessments would include other elements, such as structural reforms, as well as provide early warnings for potential problems, such as a buildup in private debt, that up to now haven't been taken into account.

One big question is whether the rules could be made to stick for big and small nations alike. Past efforts to enforce existing limits on government debt and deficits foundered because other member states were unwilling to fine France and Germany for violations.

"There is always room for substantive political discretion but in my view ... there should be equal treatment of all member states, regardless of their size or any other characteristic," Mr. Rehn said.

Wednesday's plan could be accomplished, officials claimed, without changing treaties. Tougher sanctions, including suspending a member state's voting rights, would require changing EU treaties, commission officials said, a lengthy and uncertain process that most governments would want to avoid.

The ideas must compete with others, including suggestions from a task force led by Herman Van Rompuy, the council president, that is due to report in September.

In his proposals, Mr. Rehn failed to address an issue that some economists believe is an essential component of the euro zone's travails: surpluses in countries such as Germany. Germany generates big trade surpluses with deficit countries in the euro area such as Spain, Italy, Greece and Portugal. Simon Tilford of the Centre for European Reform in London said the plan "assumes that all the imbalances can be addressed by the deficit countries."

Germany must play a role too in stimulating its consumption, Mr. Tilford said. "Any system of governing the euro zone that ignores the structural problems that we see in the surplus countries is doomed to fail," he said.

Associated Press

European Union Commissioner for Economic and Monetary Affairs Olli Rehn during a press conference in Brussels

Budget discipline

European Commission proposals on how to sanction governments who refuse to toe the line with fiscal and other policies.

April	July	July	September	January
Government submits economic plan for following year to the Commission	Commission examines proposals, and makes recommendations to European Council (governments meeting together)	If plan seen as unsatisfactory, Council recommends changes	If changes not accepted, EU payments to governments may be suspended	If plans implemented anyway, EU payments may be cancelled

Low loan demand eases fears

Continued from first page

vere stress in the banking system.

Confidence in the euro-zone economy received a further boost from a report that German unemployment fell for the 12th straight month. That raised hopes that the currency bloc's largest economy will post strong enough growth later this year to offset weakness in once fast-growing economies in Southern Europe that remain mired in prolonged slumps.

Banks remain under pressure, many analysts warn, especially those with heavy exposure to the sovereign debt of countries such as Greece, Portugal and Spain.

In addition to rising bond yields, those countries face years of subpar economic growth and very low inflation, or even deflation, making it harder to generate the revenue to pay back bondholders and issue new debt at low interest rates.

On Tuesday, the ECB failed for the first time to draw in enough deposits from banks to fully offset their recent bond purchases, a sign that banks were unwilling to part with spare cash amid heightened stress in financial markets.

Banks will have many more chances to tap ECB credit lines, starting with six-day loans available Thursday. The ECB will offer three more chances to tap three-month loans through the end of September, meaning banks have access to unlimited credit through the end of the year. The ECB issues seven-day loans on a weekly basis and also makes one-month loans available.

"This is not a green light yet," even if concerns over bank funding needs may have been overblown, says Silvio Peruzzo, economist at Royal Bank of Scotland.

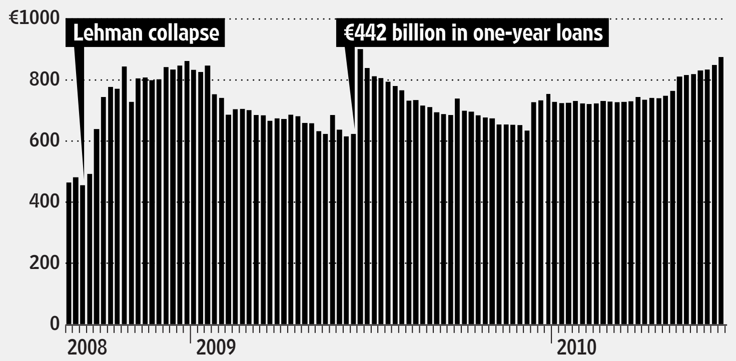
ECB officials have repeatedly assured markets that the expiration of one-year loans would happen without disruption. ECB President Jean-Claude Trichet said that the three-month and other loan facilities "will combine to create an orderly transition, as orderly as possible."

The ECB doesn't break down its individual loans by country, so investors don't know yet whether banks in trouble spots like Greece, Portugal and Spain remained heavy users of ECB credit.

—Christopher Emsden contributed to this article.

Lifeline for banks

European banks' use of ECB loans soared in the wake of the Lehman collapse and the lending of €442 billion in one-year loans, which mature Thursday. Outstanding ECB loans to banks, in billions of euros



Source: Royal Bank of Scotland

Hungary seeks IMF deal to ease investor worries

By Margit Feher

BUDAPEST—Hungary took a step forward Wednesday in securing investor confidence by stating its intention to seek a new agreement with the International Monetary Fund for next year.

The move came on the same day that official data indicated that one of the most open economies of Central and Eastern Europe is on the mend.

Also Wednesday, the government decided to continue talks with financial companies about an extra tax on them. While controversial, the decision proved that the country's new government isn't shying away from drastic steps to meet the target for its budget deficit as set out in its IMF-European Union standby credit agreement.

"Our goal is to enter a precautionary agreement with the IMF. We haven't drawn on the outstanding amount from our existing IMF loan agreement and we don't intend to. But we need the stabilization support [of the IMF]," Economy Minister Gyorgy Matolcsy said at a press conference after a cabinet meeting.

Hungary is also seeking a two-month extension of its €20 billion (about $24.5 billion) IMF-European Union credit line and regards IMF support as a means to lower its borrowing costs. A scheduled review of the existing credit line will start next week.

Mr. Matolcsy said that the country's new center-right government, which came into power after the Fidesz party's landslide victory in April's elections, is committed to delivering the budget shortfall laid out in its IMF-EU loan conditions: 3.8% of gross domestic product.

The new aggressiveness is in stark contrast to a statement earlier this month by a party executive comparing the state of Hungary's sovereign debt to that of crisis-ridden Greece.

The planned financial-sector tax "equals 0.7% of GDP. This is a brutal amount but necessary to reduce our debt and to deliver the budget-deficit target," Mr. Matolcsy said.

Hungary's high external debt and its lax fiscal policies of the past made it the first EU country to secure IMF-EU support. But first-quarter current-account data released Wednesday showed clear signs of improvement. The figures revealed an unexpectedly large surplus of €344 million.

EUROPE NEWS

Wulff wins German presidency vote

The need for three rounds of voting for the largely ceremonial post is a blow to Chancellor Angela Merkel

BY MARCUS WALKER

BERLIN—German Chancellor Angela Merkel suffered a blow to her authority from her own center-right coalition, whose members failed to rally behind her candidate for German federal president, Christian Wulff, until the last moment of a tense election on Wednesday.

Mr. Wulff, a regional politician from Ms. Merkel's conservative Christian Democrat Union, won election to the presidency only on the third and final ballot of 1,244 delegates from Germany's parliament and its 16 states. The CDU and its coalition partners proved unable to secure Mr. Wulff's election quickly despite controlling a majority of the delegates.

The post of president is largely ceremonial in Germany, but Wednesday's marathon contest in the Reichstag parliament building in Berlin became a test of Ms. Merkel's ability to unite her coalition, which is plagued by factional squabbles and losing public support.

The unconvincing manner of Mr. Wulff's victory could strengthen the perception of a weak government lacking direction, said political analysts. However, Ms. Merkel was spared the far greater ignominy of a defeat for her candidate, which might have raised more serious questions about her government's longevity.

Ms. Merkel's trouble on Wednesday stemmed largely from center-left opposition parties' tactic of putting forward a rival contender for the presidency, Joachim Gauck, who enjoyed strong support among conservatives.

Mr. Gauck, a former pastor and prominent activist in the peaceful revolution of 1989 that brought down East Germany's Communist dictatorship, is widely admired in Germany—including by Ms. Merkel, who struggled to explain to her own rank and file why they should vote for Mr. Wulff, a career politician of little distinction, rather than the more charismatic Mr. Gauck.

At Wednesday's assembly of national and state delegates, Mr. Wulff twice fell short of the 623 votes he needed for an outright majority, scoring only 600 on the first ballot and 615 on the second.

Around 50 delegates from the ruling center-right failed to back their man on the first vote, Bavarian conservative leader Horst Seehofer told reporters—a bigger rebellion than coalition leaders had expected. The dissidents and their precise motives weren't clear in the secret ballot, but a combination of gripes against Ms. Merkel and sympathy for Mr. Gauck probably played a role, analysts said.

Mr. Gauck won nearly 500 votes in the first two rounds of voting, indicating some support from the center-right in addition to that from the Social Democrats and Greens who put his name forward.

Mr. Gauck's chance of winning a majority was undermined by his poor relations with radical Left Party lawmakers, heirs to East German Communism, many of whom haven't forgiven Mr. Gauck for overseeing the opening of the Stasi secret-police archives after 1990.

The Left steadfastly refused to vote for Mr. Gauck, passing up the opportunity to humiliate the government.

After the second inconclusive ballot Ms. Merkel addressed her coalition and compared the situation to the German soccer team's inconsistent World Cup campaign. "We've just had the [unsuccessful] game against Serbia. Now for the [triumphant] game against England," she said, according to coalition officials.

Mr. Wulff won in the third round with 625 votes to Mr. Gauck's 494.

Leading CDU lawmaker Peter Altmaier told German state broadcaster Phoenix that delegates had sent the government a clear message: "You need to improve."

Government missteps that have angered supporters recently include promising major tax cuts before reversing course and pursuing budget cuts; and bailing out Greece with taxpayers' money after assuring Germans for months that Greece didn't need rescuing.

European Pressphoto Agency (2)

Christian Wulff, above, won after three rounds of voting. Angela Merkel, right, casts her ballot.

Ireland exits recession

BY QUENTIN FOTTRELL

DUBLIN—Ireland officially exited its recession on Wednesday, on export-driven gross domestic product growth of 2.7% in the first quarter, but some observers remained critical of the level of hardship shouldered by taxpayers.

Ireland was the first euro-zone country to announce that it had entered recession in 2008, and was one of the worst-performing economies in the bloc last year. GDP declined more than 14% in the two years to the end of 2009.

Exports helped to drive Ireland's return to growth, rising 6.9% in the first quarter—the second strongest quarter for exports on record.

Quarter-on-quarter, GDP fell 2.5% in the first three months of 2009 and 2.7% in the fourth quarter of last year.

But Ireland has a "two-speed" economy: gross national product, excluding profits from multinationals, declined 0.5% during the first quarter, versus a fall of 2% in the previous quarter and a fall of 5.2% a year ago.

"Forward-looking surveys of sentiment among exporters suggest that manufacturing and services exports will have a strong year in 2010," said Ronnie O'Toole, chief economist with the Dublin-based National Irish Bank.

The government plans to return to a general government deficit of below 3% of GDP by the end of 2014. The Organization for Economic Co-operation and Development forecasts Ireland's deficit at 11.7% of GDP in 2010 and 10.8% in 2011.

Some observers say the government's deficit targets are ambitious. It has already raised taxes and slashed spending, and intends to cut an additional €3 billion ($3.66 billion) from spending in December's 2011 budget.

Ireland's banks were hard hit by the property-market crash and the economy also faces rising unemployment.

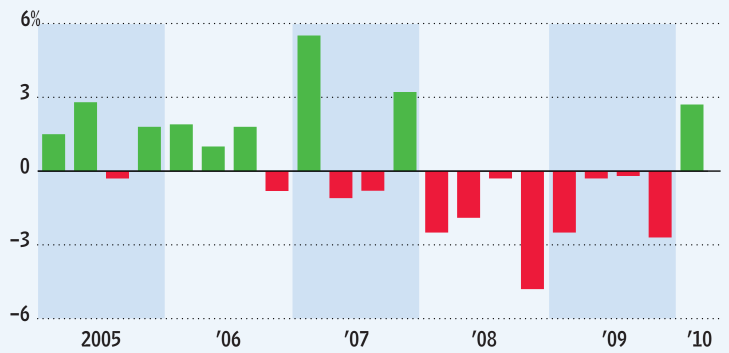
Prime Minister Brian Cowen on Wednesday said new unemployment figures were "disappointing."

The seasonally adjusted live register for benefit payments, also released Wednesday, rose by 5,800 on the month in June to 444,900—its highest in three years.

The estimated unemployment rate eased slightly to 13.4% in June from 13.7% in May, data from the live register showed, though economists say the employment market won't recover anytime soon.

Return to growth

Ireland's gross domestic product, change from previous quarter



Note: Seasonally adjusted
Source: Ireland's Central Statistics Office

Turkey's GDP surges, outpacing EU neighbors

Turkey's economy grew by 11.7% in the first quarter compared with a year earlier, underlining a robust recovery unharmed so far by growing economic woes in the European Union, Turkey's biggest export market, according to official data.

By Marc Champion in Istanbul and Joe Parkinson in London

The country's trade deficit for May widened, but by less than expected, boosted by a still-strong export performance, according to the Turkish Statistics Institute.

Economists said the growth figures underscored that the outlook for Turkey, whose tightly regulated banks escaped the worst of the recent financial crisis, remains among the best in the region. But they also cautioned against reading too much into the extraordinary first-quarter growth number, which largely reflects the distance Turkey fell last year and now has to climb back.

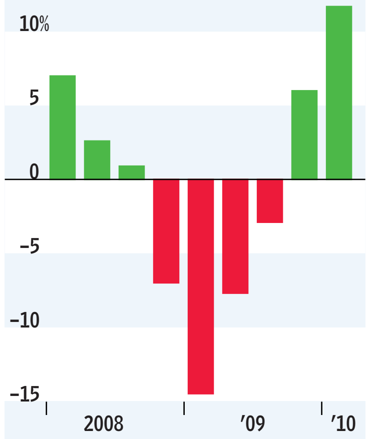
Turkey's government welcomed the strong data for Europe's sixth-largest economy as proof that its economic policies are working and that its stubbornly high unemployment rate—currently 13.7%—is set to fall. The rise in Turkish gross domestic product was just shy of China's 11.9% first-quarter rate.

Turkey Trade Minister Nihat Ergun responded by forecasting the Turkish economy could grow as much as 8% in 2010, according to Turkey's Ihlas News Agency, or IHA.

Wednesday's double-digit growth figure was widely anticipated, because of the enormous base effect of negative 14.5% growth in the first quarter of 2009.

Turkish delight

Annual change in Turkey's GDP



Note: in constant prices
Source: Turkish Statistics Institute

South Africa's loving the buzz.

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Lawmaker pushes BP drilling ban

Oil-response plans come under fire during congressional hearings; Panel moves to remove cap on damage claims

By Tennille Tracy
And Siobhan Hughes

WASHINGTON—After voicing concern over **BP** PLC's safety record during a U.S. congressional hearing, Rep. George Miller (D., Calif.) said he is drawing up legislation to block BP from obtaining new offshore drilling leases for up to seven years.

Mr. Miller said during the hearing of the House Natural Resources Committee that the Interior Department should prohibit BP from operating in the outer continental shelf for the next five to seven years, following what he called "dangerous, lethal behavior."

A BP spokesman declined to comment on the bill, but said, "Certainly on personal safety, we have a good track record."

Mr. Miller plans to introduce his bill in the next few days.

Also during the hearing, Rep. John Sarbanes (D., Md.) suggested that oil-company executives should be forced to personally certify oil-spill response plans.

In response to the idea, Interior Secretary Ken Salazar said that he thought the suggestion was "something that needs to be looked at."

Michael Bromwich, who oversees the Interior Department's newly formed Bureau of Ocean Energy Management, Regulation and Enforcement, added he thinks the idea "has to be taken seriously."

The natural resources committee is considering legislation to overhaul the Interior Department and to strengthen the administration's oversight of drilling projects.

Mr. Sarbanes's suggestion to certify response plans comes as Democratic lawmakers continue to point out weaknesses in the plans that oil companies develop.

At another congressional hearing on technology intended to prevent disasters like the Deepwater Horizon oil spill, Rep. Edward Markey said BP's disaster-response plan for an oil spill doesn't mention hurricanes or tropical storms.

Mr. Markey said the omission is yet another example of what the oil giant wasn't prepared to handle.

Officials responding to the oil spill are scrambling to prepare for Hurricane Alex, which is expected to hit the South Texas coast this week.

Meanwhile, a Senate panel voted to remove the cap on damage claims that BP would have to pay for the Gulf of Mexico oil spill. The Senate Environment and Public Works Committee approved the measure by a voice vote. The current limit on claims for damage that goes beyond the costs of cleanup is $75 million. That is widely regarded on Capitol Hill as too low.

The Democratic-controlled Congress and the Obama administration have been toughening their position on liability limits as oil continues gushing out of a broken BP well a mile below the surface in the Gulf of Mexico. The disaster is already one of the worst offshore oil spills in U.S. history. Oil has already reached the shore in Louisiana, Mississippi, Alabama and Florida.

Republicans—and at least one Democrat—expressed concern that removing the cap on damage claims would shut all but the largest oil companies out of offshore drilling by making it impossible to obtain insurance. Democrats said that other approaches to raise liability limits risked putting taxpayers on the hook for damage to property and livelihoods.

"No more taxpayer bailouts," said Sen. Barbara Boxer (D., Calif.), the chairwoman of the panel.

Republicans have blocked previous efforts to force a vote on the U.S. Senate floor on eliminating liability caps.

—Associated Press contributed to this article.

Goldman's Cohn: top problem-solver

By Susanne Craig

For months, **Goldman Sachs Group** Inc. Chairman and Chief Executive Lloyd C. Blankfein has been the whipping boy for lawmakers and other critics of the securities firm's resilient paychecks, role in the credit crisis and mortgage-related bets.

Wednesday, it was Gary D. Cohn's turn. Goldman's No. 2 executive, a longtime confidant of Mr. Blankfein, testified late Wednesday before the Financial Crisis Inquiry Commission. The congressional panel wants to know more about how derivatives fueled the crisis, including the near-collapse of insurer **American International Group** Inc.

"We did not 'bet against our clients" Mr. Cohn said in his testimony prepared for the hearing. "During the two years of the financial crisis, Goldman Sachs lost $1.2 billion in its residential mortgage-related business."

It is unusual for the 49-year-old Mr. Cohn to serve as Goldman's public face in such a potentially explosive setting. Since the Securities and Exchange Commission sued the New York company for fraud in April, his damage-control efforts have occurred largely behind the scenes, including meetings with dozens of the firm's clients. Despite being a driving force behind Goldman's mortgage department, Mr. Cohn was barely mentioned during the 11-hour pummeling that Mr. Blankfein and other current and former executives got at a Senate hearing shortly after the suit was filed.

Mr. Cohn's critics say he has a short attention span, can be dismissive and is famous inside Goldman for holding short meetings.

Few people know that Mr. Cohn was diagnosed at age 7 with dyslexia. He still has trouble spelling and following character-driven plots. His supporters say the disability has given Mr. Cohn a gift with numbers. He says he has a heightened ability to absorb verbal communication, hence short meetings.

When Mr. Cohn took over the mortgage unit in 2000, it traded just $1 billion in securities a week. Three years later, the business was producing $50 billion in weekly trades, thanks to his push to rev up risk-taking and use Goldman's own capital to make a profit.

"He reshaped the culture of the mortgage department into more of a trading environment," says Justin Gmelich, Goldman's current mortgage chief.

For two decades, Mr. Cohn has been at Mr. Blankfein's side. The two executives have been instrumental in Goldman's transformation from an elite private partnership with a reputation as a sober adviser on corporate mergers to a take-no-prisoners public company increasingly focused on using its own capital to drive its business.

Mr. Cohn is well known for being direct, even by Wall Street standards. During the credit crisis, he spotted ex-Goldman executives John Thain and Peter Kraus having dinner at San Pietro restaurant in New York. Mr. Thain now is chief executive of **CIT Group** Inc., while Mr. Kraus leads **AllianceBernstein Holding** LP. "They are a pair of Goldman retreads," Mr. Cohn remarked to his dinner companion, according to people familiar with the conversation.

"For people who don't know Gary, he can seem incredibly direct, but I would rather have someone who is direct than someone who gives a drawn-out 'yes' or 'no,'" says Michael Ovitz, the former talent agent and Walt Disney Co. president, who is a friend of Mr. Cohn's.

Mr. Cohn lacks the Ivy League pedigree of many Goldman heavyweights. He grew up in Lyndhurst, Ohio, and graduated from American University. As an unpaid intern at brokerage Shearson Loeb Rhoades, he turned a $10,000 loan from his grandmother into a quick profit by trading gold.

But those profits vanished in other trades Mr. Cohn made from a college pay phone.

In 1983, Mr. Cohn talked his way into a job interview with a trader on New York's commodities exchange, who was interested in Mr. Cohn's knowledge of options markets. He knew almost nothing about it, but read a book on the subject over the weekend and was hired.

Bloomberg News

Joseph Cassano, left, Robert Lewis, center, and Martin Sullivan at a hearing on the role of derivatives in the global crisis.

AIG's Cassano defends his record

Continued from first page

credit-default swaps tied to mortgages in 2005 because of concerns about the credit quality of the loans.

He also said he wasn't aware that in 2005 the amount of credit-default swaps the firm had written had tripled.

"In 2005...I was focused on resolving the issues that were facing the corporation at that time," Mr. Sullivan said in response to a question from the panel's chairman, Phil Angelides. "My first knowledge of the CDS...was some time in 2007."

When values of subprime-mortgage securities plunged during the housing downturn, AIG was driven to the brink of collapse as it struggled to meet large collateral demands from U.S. and European banks that had bought the protection. To prevent an AIG failure, the government rescued the insurer in September 2008 and has spent more than $130 billion in the AIG bailout.

Mr. Cassano said in prepared remarks before testifying that he believed most mortgage CDOs that AIG insured weren't "tainted" by lax underwriting standards, and that the debt pools wouldn't experience realized losses in the long run—in spite of market-value drops and accounting losses AIG had to book during the downturn.

As a result, AIG chose not to hedge its portfolio in 2006 and 2007.

"As I look at the performance of some of these same CDOs in Maiden Lane III, I think there would have been few, if any, realized losses on the credit-default contracts had they not been unwound in the bailout," he said in the prepared testimony.

Mr. Cassano told the panel he doesn't understand why AIG and the U.S. government weren't able to negotiate much lower prices in 2008 when the giant insurer faced steep collateral calls linked to its credit derivatives. He said he wished he could have stayed on with the firm to help it weather the storm because he had always had success in talking down collateral prices.

The Justice Department recently dropped a long-running criminal probe into whether Mr. Cassano made misleading statements to investors and auditors about AIG's exposure to the deteriorating mortgage market. Among the areas examined by investigators was whether Mr. Cassano had failed to tell outside auditors and AIG executives about an accounting adjustment that allowed the financial-products division to avoid writing down the value of its swaps.

Evidence later surfaced to suggest Mr. Cassano did make the disclosures. On Wednesday, he said that he still stands by both his past statements regarding potential realized losses on the mortgage-backed portfolio and the accounting adjustment.

"We believed then, and I still believe now, that it was a wholly appropriate adjustment," he said in the prepared statement. He said he disagreed with the auditors' decision to disallow the adjustment and was shocked when auditors said there was a "material weakness" in AIG's oversight of its mark-to-market valuation.

Goldman was a key beneficiary of the AIG bailout following a November 2008 decision by the Federal Reserve Bank of New York to pay off AIG's trading partners in full to cancel credit-default swaps on $62 billion in soured mortgage securities, a move aimed at stemming the insurer's cash bleed.

Goldman received $14 billion of that sum, while AIG realized billions of dollars in losses when the contracts were unwound.

—Amir Efrati and Susanne Craig contributed to this article.

The Supreme Court's key judge

Amid sharp divisions it was Justice Kennedy who cast the deciding vote in the most contentious cases

By Jess Bravin

The Supreme Court's January decision freeing corporations and unions to spend as they wish on political candidates' campaigns was more than just a blockbuster ruling. It was another reminder of the court's true compass, Justice Anthony Kennedy.

Justice Kennedy dissented from the 1991 and 2003 decisions that upheld restrictions on campaign spending. But when Justice Samuel Alito succeeded Justice Sandra Day O'Connor in 2006, he provided the fifth vote for overruling those decisions. Justice Kennedy wrote the opinion in the case known as Citizens United, characterizing it as a defense of free speech.

The term saw a sharper degree of leadership from Chief Justice John Roberts.

With the Supreme Court term wrapping up this week, Citizens United stands at the head of a series of 5-4 decisions that was resolved by the 73-year-old justice appointed by President Ronald Reagan in 1988. And while conservatives have made strides in their decades-long campaign to seize the bench from moderates and liberals who had dominated since the 1930s, Justice Kennedy still sometimes upsets their plans.

That was evident in the three 5-4 decisions delivered Monday, the last decision day of the term.

In two—enforcing Second Amendment gun rights over local weapons laws, and weakening the independence of an accounting oversight board created after the Enron scandal—Justice Kennedy joined with the court's four conservatives. In a third, which found that student religious groups had no constitutional right to public funds if they discriminated against nonbelievers, he sided with the four liberals.

The term also saw a sharper degree of leadership from Chief Justice John Roberts, who came closer than before to his goal of lessening division on the high court. Of 84 opinions delivered, 46% were unanimous, up from 33% last year, according to statistics compiled by Scotusblog.com, an independent Supreme Court website. Just 18% of decisions split 5-4, down from 30% the previous term.

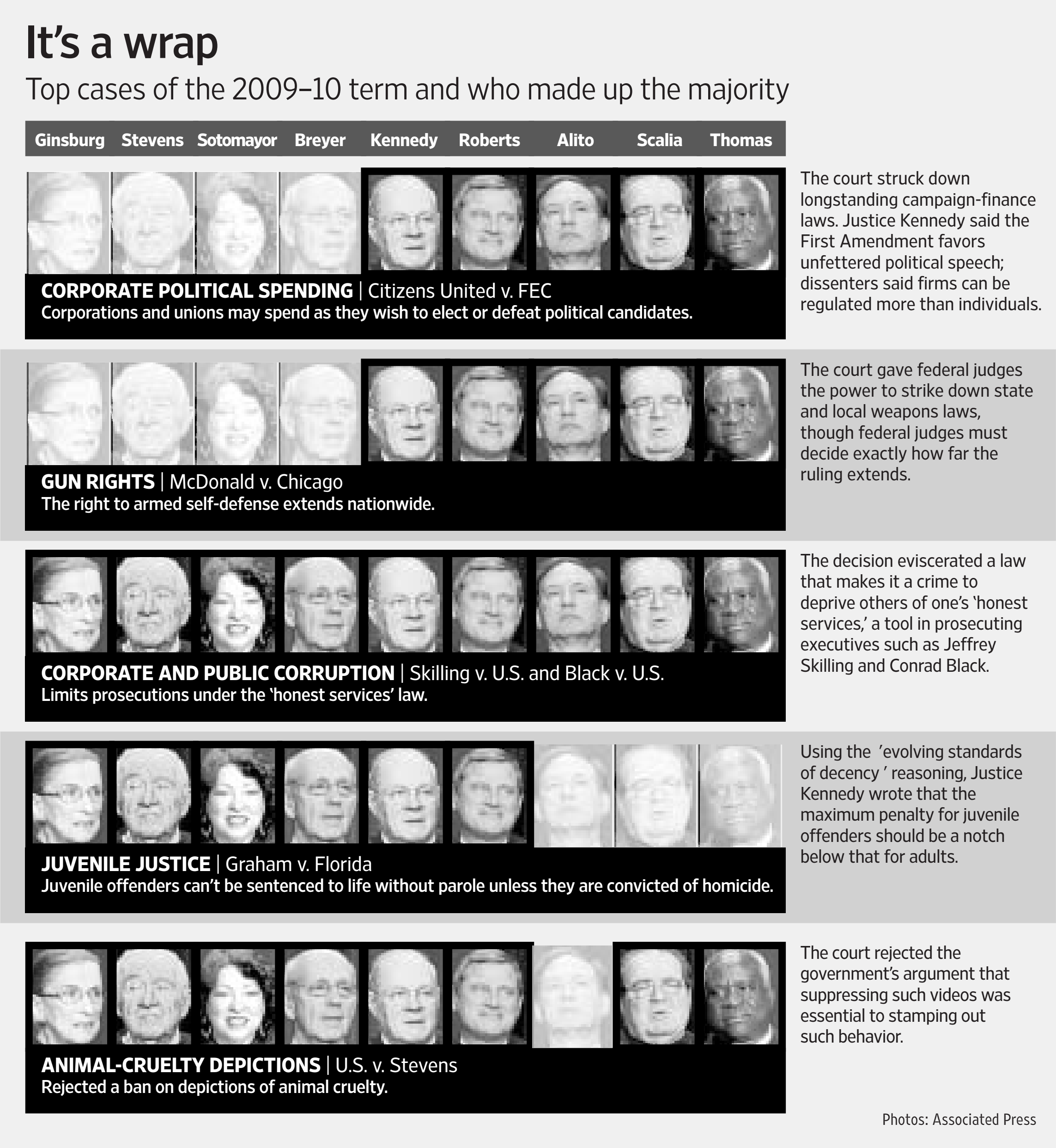
Chief Justice Roberts was in the majority 92% of the time, more than any other justice, taking that distinction from Justice Kennedy, who held it last term, Scotusblog found.

The chief justice wrote vigorous opinions reining in the accounting oversight board and upholding the government's power to punish those who provide any sort of expertise to foreign terrorist groups.

But on the most contentious cases, it was Justice Kennedy who cast the deciding vote.

When the court returns in October, Justice Kennedy's influence is likely to grow stronger still. With the retirement of Justice John Paul Stevens, Justice Kennedy will be the senior justice in cases where he differs with the chief justice and Justice Antonin Scalia.

So when Justice Kennedy finds himself in agreement with the court's liberals, he will be the one deciding who writes the opinion for the court.



Democrats attack Roberts court at hearing

By Naftali Bendavid And Jess Bravin

WASHINGTON—Democratic senators opened a broad attack Wednesday on the U.S. Supreme Court led by Chief Justice John Roberts, using Elena Kagan's confirmation hearing to question its motives and legal integrity.

Ms. Kagan was reduced in part to a sounding board as Democrats accused the court's conservative justices of ignoring the precedents they profess to revere in order to advance their political agenda.

During a pause in testimony, the senator presiding over the proceedings predicted her confirmation. "Solicitor General Kagan will be confirmed," Sen. Patrick Leahy (D., Vt.) said. While most of the panel's seven Republicans said they wanted to pose more questions to the nominee, Sen. John Cornyn (R., Texas), concurred, telling reporters: "I assume she will be confirmed."

Leading Democrats' attacks on the Roberts court, Sen. Sheldon Whitehouse (D., R.I.), said the Supreme Court has historically decided its controversial cases unanimously or by wide majorities but the Roberts court routinely overturns longstanding precedent with a 5-4 majority composed solely of Republican appointees.

"There may be judges on the court who have a particular mission right now and are selectively knocking out precedent that does not coincide with their ideological views," Mr. Whitehouse said.

Republican senators dismissed the criticism as a distraction. "It's a silly argument, but they had to come up with something, I guess," Sen. Jon Kyl (R., Ariz.) said outside the hearing room. Mr. Kyl noted that only a minority of the court's rulings—18% in the most recent term, according to the independent website Scotusblog.com—are split 5-4.

Democrats, starting with President Barack Obama, have assaulted the court for months, saying it favors corporate interests over ordinary Americans. Mr. Obama criticized the court during his State of the Union address, and Democratic lawmakers have pushed a bill to soften the impact of the court's Citizens United decision, which removed many restrictions on corporate and union political spending.

Conservatives defend the court's decisions. "I get a little tired of people on the left saying it was a terrible case," Sen. Orrin Hatch (R., Utah) said on Tuesday of Citizens United. The top Republican on the committee, Sen. Jeff Sessions (R. Ala.), on Wednesday said Ms. Kagan hadn't explained sufficiently what kind of justice she would be if confirmed.

The Democrats' approach is a change from the many years when mostly conservatives attacked the federal courts for what they viewed as activist liberal decisions that deviated from precedent. With Ms. Kagan's confirmation likely, both sides are using the hearing to air grievances about ostensible judicial activism by the other side, saying their opponents ignore the law in favor of a political agenda.

Mr. Whitehouse cited the Roberts court's 5-4 decisions in Citizens United; the Heller case, which established gun ownership as an individual right; and the Leegin case, which eased antitrust restrictions.

Sen. Ted Kaufman (D., Del.) added that Leegin, which allowed manufacturers to order retailers to set minimum prices, was a "results-oriented" decision that overturned 96 years of precedent and created a new economic theory.

Sen. Al Franken (D., Minn.) criticized Citizens United, saying: "I don't think Justice [Antonin] Scalia or Chief Justice Roberts adhered to their own principles."

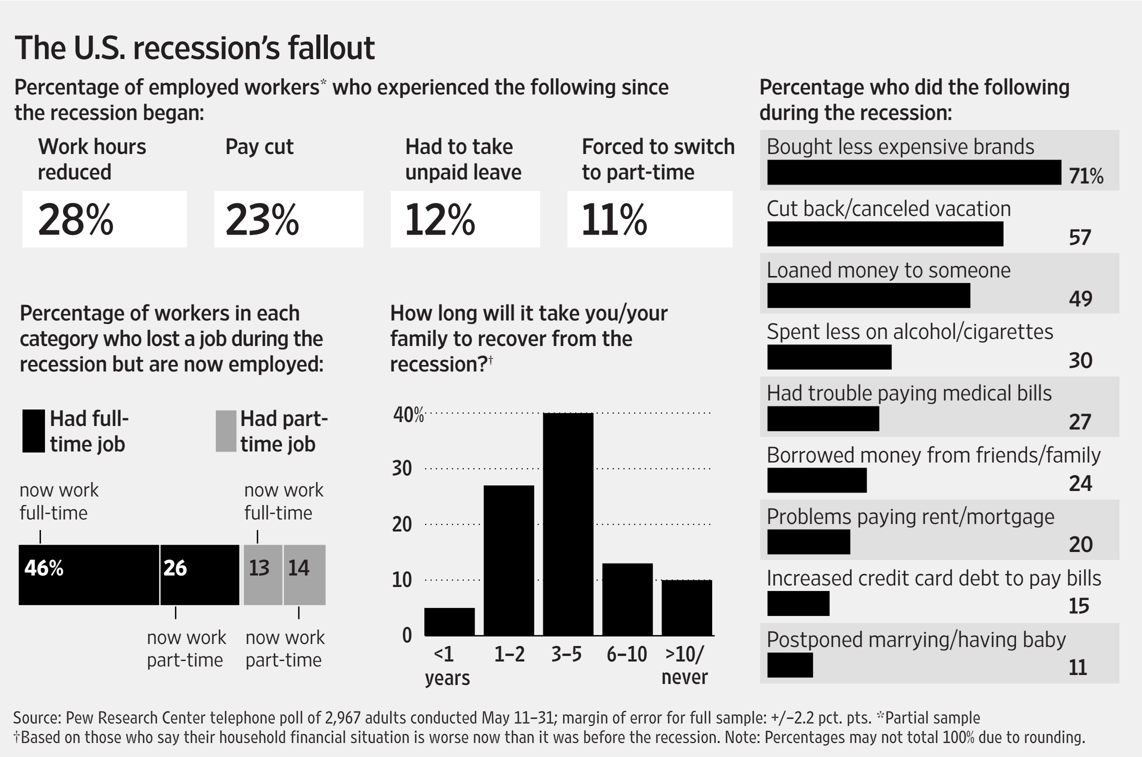
Ms. Kagan sought to acknowledge senators' concerns without endorsing them. When Mr. Whitehouse asked whether the justices shouldn't be finding ways to achieve broader majorities in their decisions, Ms. Kagan didn't wholeheartedly agree.

"Every judge, every justice has to do what he or she thinks is right on the law," she said. "You wouldn't want the judging process to become in any way a bargaining process or a log-rolling process."

Reuters

U.S. Supreme Court nominee Elena Kagan testified for a third day Wednesday.

U.S. NEWS



The full jobless story

Study measures impact beyond the jobless rate as pay cuts take toll

By Miriam Jordan

The 9.7% U.S. unemployment rate tells only part of the recession's story, according to a new study that found more than half of adults in the American labor force have suffered a spell of unemployment, a pay cut or reduction in work hours.

Middle-age workers—50 to 64 years old—are most likely to have taken a hit in the last 30 months of the downturn, a group normally at the peak of its earning potential, according to the report being released Wednesday by the nonpartisan Pew Research Center. The survey is based on telephone interviews May 11-31 with 2,967 adults nationally.

Out of the 13 recessions the U.S. has endured since the Great Depression of 1929-33, "none has presented a more punishing combination of length, breadth and depth than this one," write the report's authors.

Unemployment data "don't fully convey the scope of the employment crisis that has unfolded during the recession."

Those without jobs are enduring the longest spells of unemployment recorded in modern history. The typical unemployed worker today has been out of work for nearly six months, almost double the previous post-World War II peak—12.3 weeks in 1982-83.

Long-term unemployment is associated with severe breaks in career paths and erosion in income, health and other aspects of general well-being.

Once upper-middle-class Southern California residents, Louise and Alfred Ruiz are now "just trying to hold on to being middle class," said Ms. Valenciana-Ruiz.

In October 2008, she lost her job earning $100,000 as regional director of an education nonprofit. Since then, the former school principal has interviewed for eight jobs and filled out online applications for countless others, including at supermarkets.

"I have worked my whole life and still want to work," said the 56-year-old, whose unemployment benefits and severance package recently ran out. Her husband, a master carpenter, hasn't had steady work for months.

"I never thought that three decades into our careers we would be seeing everything slip away," she said. "I don't even have health coverage anymore."

But not even those who have kept their jobs have avoided hard times. Nearly three in 10 working adults say they have had their hours reduced. Almost a quarter suffered a pay cut, while 12% were forced to take unpaid leave and 11% had to switch to part-time from full-time work.

Among workers 50 to 64 years old, 27% reported that their salaries were reduced, compared with 22% of workers 30 to 49 and 20% of those 65 or older. Among those 50 to 61 years of age, 60% predicted they would delay retirement because of the downturn.

More than a quarter, or 26%, of those who are currently working had at least one stint of unemployment in the past 30 months.

And a quarter of those who are working again say they had to accept part-time work after losing a full-time job.

While nearly all Americans have suffered, blacks and Hispanics have borne a disproportionate share of both job losses and housing foreclosures. Men have lost many more jobs than women. And those with a high school degree or less have been more affected than those with higher education.

The recession has ushered in a culture of frugality: 57% of those surveyed have postponed or canceled a vacation, and seven out of 10 are buying less expensive brands. Nearly half have loaned money to someone in need.

Teresa Lara, 34, has lost $500 a month, or 8%, of her salary, since the University of California instituted a yearlong furlough last fall that cuts 18 days of her pay over 12 months.

To save money on gas and parking, she now rides the bus to the Los Angeles campus, where she works in an external relations department. She has nixed her martial-arts class, which she deems to be "a luxury."

Faint signs of a recovery aren't raising expectations. The university furlough is expected to be lifted in the fall. Still, she said, "I'm limiting my lifestyle. This recession has created nervousness that lasts."

Private sector adds few posts

By Kathleen Madigan

Private payroll gains in the U.S. were muted in June as small businesses cut jobs, according to data released Wednesday.

Private-sector jobs increased by 13,000 last month, according to an employment report published by payroll giant Automatic Data Processing Inc. and consultancy Macroeconomic Advisers.

Economists had expected ADP to report a jobs gain of 60,000 for June. The estimated change in employment for May was revised to a gain of 57,000 from an increase of 55,000 first reported.

The ADP survey tallies only private-sector jobs, while the Bureau of Labor Statistics' nonfarm payroll data, to be released Friday, include government workers. The Census Department hired hundreds of thousands of temporary workers for the census but began to lay off many of them in June.

Economists said the BLS will probably report June total payrolls dropped by 110,000, following a jump of 431,000 in May. Among economists forecasting private-sector jobs within the BLS data, the median projection is for a 110,000 rise. Unemployment is projected to edge up to 9.8% from 9.7% in May.

Consumer confidence has been dragged down by the lack of robust hiring. Job fears could keep shoppers at home—a concern given consumer spending is about 70% of the U.S. economy.

Stilled free-trade winds may start to blow again

[Capital]

By David Wessel

The long-standing U.S. campaign for ever-freer global trade was a casualty of job-destroying recessions and widespread American suspicion that free trade means making it easier for China to steal American prosperity. But we may—emphasize *may*—look back on the past few weeks as the moment when the trade tide turned.

Consider three noteworthy developments.

One, President Barack Obama promised his Russian counterpart he'd push harder to bring it into the World Trade Organization. Russia agreed to resume imports of U.S. chickens. Hey, all trade politics is local: The U.S. sold $750 million a year in chicken parts to Russia until Moscow blocked them on Jan. 1, citing concerns over the chlorinated wash used to clean them.

Two, Mr. Obama suddenly revived a U.S.-South Korea free-trade pact, aiming for a handshake deal when he visits Seoul in November while conveniently deferring any congressional vote until after this fall's U.S. elections.

Three, leaders of the Group of 20, the de facto board of directors of the world economy, publicly acknowledged the obvious: The nine-year-old Doha round of world trade talks won't end in agreement this year. But privately, they had a candid conversation about what it would take to end the current stalemate.

Economists argue that trade helps both exporters (yes, jobs) and importers (not only more, cheaper goods, but also competition from abroad that keeps domestic producers on their toes). Embracing that view, President Bill Clinton persuaded skeptical Democrats to approve the North American Free Trade Agreement, the Uruguay Round and the admission of China into the world-trading system.

Mr. Obama, who took office in an economy far worse and far more hostile to trade than the one Mr. Clinton inherited, appears less convinced of the virtues of free trade per se. He loves exports, easily sold as creating jobs. But he seems to view world trade like a basketball game: He wants to win, and doesn't like feeling that others are taking advantage of his team. He needles aides who worked in the Clinton administration that they let China into the WTO with a better hand than the one he has to play. Aides counter that China would be even more of a threat if not bound by WTO rules. He is unpersuaded.

The attempt to revive the South Korea deal began several weeks ago in a late-afternoon conversation between the president and his chief of staff, Rahm Emanuel. The president was looking for ways to shore up U.S. backing for South Korea after North Korea's new aggressiveness, had promised to increase U.S. exports and wanted to reinforce US. economic ties to Asia. Mr. Emanuel saw the South Korea deal as addressing all three objectives.

Winning Democratic votes for any free-trade pact will be tough, but this one—unlike, say, the pending Panama agreement—is more than symbolic. South Korea is the 14th largest economy in the world now. As recently as 2003, the U.S. was its largest trading partner; last year it ranked fourth after China, the European Union and Japan. Mr. Obama will press Korea to dilute rules that limit imports of U.S. autos and beef in exchange for trying to get the pact through Congress. If he succeeds, he will be sure to boast that he got a better deal than the original one President George W. Bush struck with Korea.

The Doha stalemate was raised Sunday at a closed-door lunch for G-20 leaders, with their sherpas listening from another room. One leader described a Doha deal as "the cheapest form of stimulus." Mr. Obama, according to a person familiar with the talks, was blunt. He said the Doha offers on the table would benefit "major emerging economies"—an obvious reference to China, India and Brazil—and do little for the U.S. or for smaller developing countries, which still face tariffs on their exports in bigger emerging markets.

He cited an estimate, by Washington's Peterson Institute for International Economics, that the current Doha deal would add only $6 billion a year to U.S. exports of goods—less than one day's worth. Which is why there's so little enthusiasm for it even among traditional business interests. His point: Any hope of U.S. backing—with the political pain that would inflict on Democrats—requires broadening the deal beyond manufactured goods and agriculture to the barriers that U.S. services companies still face in major emerging markets and on tough issues like protecting U.S. intellectual property.

Britain's new Conservative prime minister, David Cameron, agreed. "[I]t doesn't look like it's going to progress unless we do something different, and the discussion we had was...that we should look at enlarging the scale and ambitions of the [Doha] round, perhaps looking at bringing in some of the elements of services," he said in Toronto. (Mr. Cameron, it seems, has been boning up on a quote attributed to Dwight D. Eisenhower: "If a problem cannot be solved, enlarge it.")

Mr. Obama's trade strategy is becoming clearer. In international forums, as he did at the Copenhagen climate-change talks, he is arguing that China is posing as a developing country even though it has grown up and needs to be treated like the economic powerhouse it is. At home, he knows—no matter what his economists tell him—that neither voters nor Democrats in Congress will be convinced that free trade is good for them. So he is styling himself as a tough bargainer, who can beat other countries at their own game. We won't know for a year or so whether this is just talk or something more significant.

WORLD NEWS

India adds 3,000 troops in Kashmir

New Delhi blames Pakistani group for escalating violence; move comes after deadly protests against Indian rule

By Tom Wright

SRINAGAR, India—India's government on Wednesday blamed escalating violence in its part of Kashmir on a banned Pakistan-backed militant group, as Indian Prime Minister Manmohan Singh called an emergency meeting to deal with resurgent violence in the disputed Himalayan territory.

India moved 3,000 troops Wednesday to the territory, adding to the military contingent that numbers a half a million, and extended strict curfews to the south of the Kashmir valley.

The response came after deadly protests against Indian rule, which erupted in mid-June in Srinagar, spread to the north and the south of the Indian territory in recent days. Late Tuesday, paramilitary troops fired on thousands of protesters in the southern town of Anantnag, killing three teenagers. Rock-throwing protesters also clashed with police in Srinagar, the largest city in Indian-held Kashmir.

Associated Press

Indian paramilitary soldiers responding to protests Wednesday in Srinigar.

On Wednesday, few people ventured out here and shops remained closed. Thousands of security personnel patrolled deserted streets in armored vehicles.

Home Minister P. Chidambaram, speaking after attending the meeting with Mr. Singh, confirmed that Indian paramilitary forces had killed 11 civilians in Kashmir, India's only Muslim majority state, during anti-India protests that flared after paramilitary forces hit and killed a 17-year-old boy with a tear-gas cannister.

That marks the worst bout of violence in over two years in Kashmir, the focus of wars and tension since the 1947 partition of India split the territory into Indian and Pakistani parts. Each nuclear-armed neighbor claims the entire region as its own.

June's violence abruptly ended a nascent recovery in tourism and makes it harder for Mr. Singh's government to show that normalcy is returning to its Jammu and Kashmir state, where fighting has centered. Mr. Singh has made restoring relations with Pakistan a key objective of his administration.

Mr. Chidambaram said the protests were being manipulated by Lashkar-e-Taiba, a militant group that has received funding and training by Pakistan's intelligence agencies. New Delhi blames the group, which is banned in Pakistan, for 2008 attacks on Mumbai that led to the deaths of more than 160 people.

To support the link, the home minister said that two people killed in a firefight with police on June 25 in the northern town of Sopore were Lashkar-e-Taiba militants.

In the wake of the Mumbai attacks, India has been pushing Pakistan to arrest key Lashkar-e-Taiba figures including founder Hafiz Mohammad Saeed. New Delhi says there are 40 terrorist training camps in Pakistan-occupied Kashmir with more than 1,000 militants ready to infiltrate India-held territory. A spokesman for Pakistan's foreign ministry on Wednesday called the claims "baseless and self-serving."

Separatist political leaders in Indian-held Kashmir say the burgeoning protests are a response to heavy-handed policing tactics by the half a million Indian security personnel stationed in the territory of 10 million people. Ministers from Kashmir's pro-Indian local government have in recent days criticized security forces for employing disproportionate force.

Mr. Chidambaram appeared to partially acknowledge this concern, saying the government had instructed Indian paramilitary forces in Kashmir to "exercise maximum restraint." Kashmiri people should refrain from breaking curfews and keep their children away from protests, he added.

The June deaths have also sparked calls within Indian-held Kashmir for changes to India's Armed Forces Security Act, which gives security personnel immunity from prosecution while stationed in Kashmir. Mr. Chidambaram said the act, which the United Nations and the state's pro-Indian government have charged is a cover for abuses, was being discussed at cabinet level. He declined to comment further.

Mr. Chidambaram met with his Pakistani counterpart, Rehman Malik, in Islamabad last week for talks in preparation for a mid-July summit of the countries' foreign ministers. Both sides began discussions in 2004 aimed at fostering cross-border trade between India- and Pakistan-held Kashmir, while leaving the borders unchanged. Those talks broke down after the Mumbai attacks and are only now resuming.

Since 1989, more than 60,000 people, including many civilians, have died in fighting between Pakistan-backed militants and Indian security forces in Indian Kashmir.

Violence ebbed in the past five years as India effectively crushed the armed separatist movement. Local government and police estimate there are only 500 militants left in the state, half of them Pakistani.

India in recent years has made a big push to attract tourists to Kashmir. More than 500,000 people, mainly Indians, visited in the first half of 2010, double the total for the year-earlier period. But luxury hotels, full only a few weeks ago, have emptied in the past few days as tourists fled, some in buses to India in the middle of the night.

There are also fears that some of the thousands of Hindu devotees from India who are set to begin an annual pilgrimage to a mountain cave in Kashmir on July 1 will also cancel travel plans due to the violence.

"We've been holed up in this hotel," said Ramaswamy, a New Delhi-based health company employee. Ramaswamy, who goes by one name, decided last weekend on a last-minute Kashmir getaway with his wife. "What a beautiful place. But what a mess."

Iran shipped arms to Syria

By Charles Levinson

JERUSALEM—Iran has shipped to Syria a sophisticated radar system that Israeli and U.S. official say may be able to provide early warning of Israeli air force sorties, threatening Israel's ability to launch a surprise attack against Iran's nuclear facilities.

The radar could also increase the accuracy of Hezbollah's rockets and bolster the Shiite militia's air defenses, which both U.S. and Israeli officials say are substantially more formidable than they were in 2006 the last time Israel fought the group that controls southern Lebanon. Syria is widely believed to be a major arms supplier and conduit to Hezbollah, a Shiite-militia founded and chiefly backed by Iran.

The mid-2009 transfer was described by two Israeli officials, two U.S. officials and a Western intelligence source, and confirmed by the Israeli military. It is the latest in what these and other officials describe as a dramatic increase in weapons transfers and military coordination between Iran, Syria and Hezbollah.

The increased sophistication of the weapons transfers and military cooperation between the three signal an increased risk of conflict on Israeli's northern border, which many Israeli officials think is unavoidable and likely to be far more violent than the 2006 war. A new conflict is more likely to include Syria, which hasn't directly engaged Israeli in combat since 1974.

Last year's arms transfer would violate a 2007 United Nations Security Council resolution that bans Iran from supplying, selling or transferring "any arms or related materiel."

Israel and the U.S. haven't publicized Syria's acquisition of the radar system, a departure from years past when Israeli officials were eager to trumpet Iranian arms transfers to Syria and Hezbollah as violations of the Security Council resolutions.

A White House spokesman declined to comment on the transfer.

Israeli officials confirmed in private the transfer of the advanced radar, but the military would not release specifics in response to queries by The Wall Street Journal.

"Iran is engaged in developing Syrian intelligence and aerial detection capabilities, and Iranian representatives are present in Syria for that express purpose," the Israeli military said in a statement. "Radar assistance is only one expression of that cooperation."

Ahmed Salkini, the spokesman for the Syrian Embassy in Washington, called the allegations "classic Israeli PR stunts aimed at diverting the world's attention from the atrocities they are committing in Gaza and other occupied territories.

Syria, which has long struggled against Israel's superior military, has its own legitimate defensive interests in acquiring advanced radar. Israeli fighter jets bombed a Syrian site in 2007 that Israelis claimed would house a planned nuclear reactor but that Syria said was a defunct military facility.

Hezbollah officials in Beirut declined to comment on the allegations.

Both the Israeli and U.S. officials declined to offer specifics on the type of radar system passed to Syria in 2009, or the exact capabilities of the system. But the officials believe the radar would give Syria and its ally Iran improved visibility of Israeli air space. They worry that the radar could also give Iran early warning of an Israeli military strike and likely increase the accuracy and lethality of Hezbollah rockets.

China sticks to policy amid growth concerns

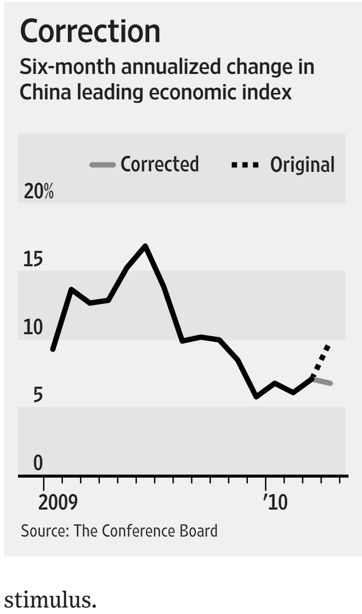
By Andrew Batson And J.R. Wu

BEIJING—Premier Wen Jiabao made clear that China will press ahead with economic policies that many analysts expect will lead to slower growth in coming months, an outcome that is unnerving global markets.

China will "maintain the continuity and stability of economic policies, while making them more targeted and effective," Mr. Wen said in a meeting with scholars and businesspeople, according to a State Council statement on Wednesday. "China's economy is currently developing in the direction envisaged by the macroeconomic adjustment and control policies," he said.

Those policies include a decision last month to loosen the currency's peg to the dollar—fiercely opposed by Chinese exporters—and restrictive policies on the housing market that have been crimping sales since being put in place in mid-April.

Mr. Wen emphasized the need to control inflation, a concern that has underpinned the government's recent push to roll back its economic stimulus.



His remarks appeared to signal the government is content with how its policies are playing out—despite increasing worries about weaker growth from investors. The benchmark Shanghai Composite Index ended down 1.2% Wednesday after a 4.3% drop Tuesday.

OPINION: REVIEW & OUTLOOK

Time to Let Airbus Fly on Its Own

Taxpayers of Europe, rejoice! The World Trade Organization declared Wednesday that European governments' soft loans to Airbus constitute an illegal export subsidy under global trade rules.

This has been obvious for years to most fair observers, but with the WTO ruling Germany, France, Spain and the U.K. now have a strong legal and political reason to end the practice of lending money to Airbus on easy terms to fund the development of new aircraft. The practice dates to Airbus's beginnings as an multi-government-owned consortium, but the aircraft maker is no longer a fledgling and now splits the market for large civil aircraft nearly equally with Boeing. With soaring deficits and a debt crisis that is still creating turbulence on the Continent, politicians have better uses for taxpayer money than subsidizing a successful company.

And yet European officials yesterday struck a defiant note, declaring that the ruling would be modified or overturned on appeal. And anyway, they added, the U.S. will lose a countervailing subsidy case the European Union has brought against Boeing, which would leave both companies out of compliance with trade rules.

The WTO rules its subsidies are illegal.

The WTO could issue a preliminary ruling in the EU's suit as early as this month, but the facts of that case are less clear. The U.S. does not provide below-market loans to Boeing in the same way that Europe does for Airbus, and the EU's argument rests on the contention that essentially all U.S. government contracting for aerospace engineering is, at least indirectly, a subsidy to Boeing.

Regardless of what happens there, the cases are separate. The EU hopes that if it wins big, the U.S. will sit down and negotiate a truce, as it did in 1992. That agreement proved to be a bad deal for the U.S., for European taxpayers and for Boeing, even if Airbus benefited. In 2005, before the U.S. brought the latest case, Airbus officials had suggested that the company was prepared to do without launch aid—soft loans that in many cases can be forgiven if the plane they fund proves to be a commercial bust.

Yesterday's ruling is a good opportunity to take Airbus up on that offer. If the ruling is upheld on appeal, as is likely, Airbus will have 90 days to renegotiate any outstanding subsidized loans or pay them back. That would include the launch aid for the A380 superjumbo, which has run behind schedule and over budget, and is years from turning a profit if it ever does. Like the Concorde before it, the A380 suffers from the small number of airports it can currently use, and sales have so far been limited to a small number of long-haul specialist airlines.

If Europe won't renegotiate the loans, the U.S. would be allowed to impose tariffs on the EU in amounts equal to the value of the illegal subsidies—and those tariffs needn't be on aircraft. An all-out trade war is in no one's interest. But neither is another standstill agreement that allows the subsidy drip to continue. Cutting Airbus loose would not be a defeat, but ought to be a declaration of victory. It's time for Europe to let the aircraft maker leave the nest.

The Boris and Natasha Show

The scenes are out of John Le Carré—or, more precisely, Rocky and Bullwinkle. The alleged Russian spies include suburban couples, a "flame-haired" divorcée (New York Post), and a columnist for a Spanish-language newspaper. Messages were passed in identical bags dropped at train stations or with "invisible ink" technology presumably available to preteens.

The FBI on Monday arrested 11 members of a spy ring that used assumed identities to integrate themselves into American life. Their marching orders use English syntax that would make Boris Badenov and Natasha Fatale proud: "You were sent to USA for long-term service trip. Your education, bank accounts, car, house etc.—all these serve as one goal: fulfill your main mission, i.e. to search and develop ties in policymaking circles in U.S. and send Intels [intelligence reports]" to Moscow.

The FBI said this encrypted message was sent by the SVR—the successor to the KGB—to one defendant in February 2009. Charges include conspiracy for failing to register as foreign agents and money laundering, but not espionage.

It's tempting to laugh off this episode as Russian keystone spies, but don't forget that paramount leader Vladimir Putin is a former KGB colonel who made the revival of his country's security services a priority. The timing was also embarrassing for President Obama, who only four days earlier hosted his "friend and partner" Dmitry Medvedev, the Russian president, for a "cheeseburger summit" in Washington as part of the Administration's "reset" in relations with Russia.

In truth, Russia doesn't see this relationship the way Mr. Obama does. The country's foreign and defense policy doctrines, released this year, say the enlargement of NATO, the deployment of American troops near Russia's borders and U.S. missile defenses are dangers to Russian security. Russia still occupies Georgia and threatens other neighbors. Mr. Putin's "managed democracy"—in effect authoritarian rule—also runs counter to the democratic values that America stands for.

The U.S. can and should seek good relations with Russia. But while Mr. Obama sits down for cheeseburgers, the people who really run the Kremlin still consider the U.S. a serious rival for power and influence, and stealing America's secrets is standard Putin procedure.

The Bailout Tax

A new tax on financial companies seemed like a good idea to Chris Dodd and Barney Frank at 3 a.m. last Friday, but now their $19 billion levy is threatening to blow up their 2,319-page financial bill. So they're scrambling to replace that cash, but the bigger news here is that Barney and Chris need to impose a bailout tax for what they claim is a bill that will end bailouts.

This is the real reason that the tax came out of nowhere in the middle of the night after having been rejected earlier by the Senate. And on Monday the Congressional Budget Office made it official when it released its cost estimate for the Dodd-Frank Wall Street Reform and Consumer Protection Act.

CBO estimates that the bill's vaunted "Orderly Liquidation Authority," which is being sold as tough medicine for failing banks and their creditors, will cost taxpayers $20.3 billion between now and 2020. CBO estimated how likely it is that one or more big financial firms will fail, how many tax dollars the Federal Deposit Insurance Corporation would likely pour into these losers to assist creditors, and how much taxpayers might recover as this "resolution process" proceeds.

Why $20.3 billion? CBO isn't releasing its assumptions, but it hardly matters because the number can't possibly be more than a guess. The failure of Citigroup alone could cost many times that, much as the failure of Fannie Mae and Freddie Mac has already cost taxpayers $145 billion and counting. That $20.3 billion is best understood to be the potential cost discounted to what you might call the net present political value.

The $19 billion Dodd-Frank bailout tax was especially pernicious because it essentially left it to regulators to decide who would pay. The sages at the new Financial Stability Council would make the call, guided by, among other factors, a particular company's "importance as a source of credit for households, businesses, and State and local governments" and "the company's importance as a source of credit for low-income, minority, or underserved communities and the impact the failure of such company would have on the availability of credit in such communities." Imagine the corruption and favoritism possibilities.

All of this caused a revolt in the Senate, where Massachusetts Senator Scott Brown was the first to declare his opposition because of the tax. This is far from a full apology for his earlier support for Dodd-Frank, but we assume he has learned something from the way he's been taken for a ride by the professionals. The other GOP supporters of Dodd-Frank—Maine's Olympia Snowe and Susan Collins, and Iowa's Chuck Grassley—should also be wary of standing with Senate liberals on tax hikes.

On Tuesday, House and Senate negotiators rewrote Dodd-Frank into something they hope can earn 60 Senate votes. One Democratic proposal is to save money by limiting the Obama Administration's ability to make new commitments under the Troubled Asset Relief Program. As New Hampshire Senator Judd Gregg pointed out, this is an excellent idea on its own, and should not be paired with a plan to spend the same dollars on a separate bailout program.

Democrats also voted to raise the fees banks pay for federal deposit insurance, which would be one more in a series of fee increases on banks struggling to rebuild capital and maintain lending. A $5.6 billion special levy early in the financial panic was followed by a December 2009 requirement that banks *prepay* $46 billion in assessments for future years. The fees will rise again in January under current rules, and a separate part of Dodd-Frank encourages future increases by permanently raising to $250,000 the insurance coverage for individual accounts.

This would also mean that commercial banks could essentially end up paying to bail out large hedge funds. The new Orderly Liquidation Authority was explicitly created for nonbanks, since the Federal Deposit Insurance Corporation already has a resolution process for commercial banks. Dodd-Frank would thus codify the mistakes of 2008, with bank deposit insurance supporting the rescue of all manner of uninsured adventures in the capital markets.

Most absurd is the claim that any of this money, however it is raised, will somehow be reserved for bank failures. The U.S. Congress will spend it immediately. American taxpayers will pay for bailouts like they always do, when they happen, and this bill makes them more likely.

Pepper . . . and Salt

THE WALL STREET JOURNAL

"Actually, we don't have any openings. I'm just interviewing to keep my skills sharp."

OPINION

Halfway Through a Hail Mary

[Business World]

By Holman W. Jenkins, Jr.

A debt crisis starts to mend itself when lenders admit their mistakes and take their losses. A government "bailout"—that incendiary word—can be helpful if taxpayers don't assume the losses themselves, but merely use the government's credit to stabilize lenders so they can meet their own obligations during the period when their profits must go to filling the hole.

By that standard, the U.S. committed a pretty good bailout—but not perfect. Money unwisely has been thrown at homeowners to delay defaults and prevent housing markets from clearing. New rules have been imposed on credit-card rates and fees that banks complain hinder their ability to manage their consumer debt exposure.

By and large, though, bailouts that merited the curse word, where taxpayers have been the suckers taking losses, are limited to the mismanaged cases like AIG and the politicized ones like the auto companies and Fannie and Freddie.

True, an unforgiving post mortem might also conclude Washington made the crisis worse before making it better. Lehman hardly makes a sympathetic rescue target—but then none do. And damage to the economy and employment probably would have been less if Lehman had been propped up.

Now, this half-won victory is in danger thanks to Europe, right?

Yes and no. The story goes: Having overdrawn its own credit to save the global private sector, Western governments now are losing the confidence of their own lenders. It started with the Greeks, but the Spanish and Portuguese are considered bets for default, etc.

This is a misleading narrative in one respect. Whatever the private sector's role in helping to trigger the timing of the government credit crisis, it was coming anyway, thanks to the developed world's unaffordable welfare states.

So far, though, we aren't getting a good bailout from Europe, as in a realistic sharing of the pain of their common mistake between the Greeks (and perhaps others) and their lenders. Instead, European taxpayer money is being thrown on the fire in a pretense that insolvent governments will somehow be willing to raise taxes and cut spending enough to pay back every dime.


Associated Press

Greek debtors discussing repayment terms.

Nobody believes this: Nobody doubts some kind of debt restructuring (read: default) is ahead. Europe would be wise to get on with it, even if it means roping the EU central bank into a Fed-like role of printing temporary money to keep the banks liquid and trusted by their own creditors.

But now we come to the binary debate between the pain caucus and the free-lunchism of those who believe governments have great scope left to borrow and borrow, stimulate and stimulate. Both are lousy alternatives. Neither is sustainable; both work against the essential goal here, to restore confidence to private sector investors and employers.

Example: Instead of arguing over deficit spending, how much better if the G-20 governments had left Toronto pledging flatter tax systems? Tax codes everywhere are full of mountains and valleys and shifting loopholes that distort investment, reward gaming, and discourage saving. After reform, rates may be lower but revenues higher. Is it a tax cut or tax hike? Who cares?

Likewise, what if the G-20 members had credibly committed to raise the retirement age and shift the co-insurance rate (out-of-pocket share) of their health-care spending under their social security programs? Cutting retirement subsidies might be advertised as "austerity," but middle-aged and younger workers are kidding themselves now to imagine their promised benefits were worth the paper they're written on. Expecting to work longer for a retirement that is actually secure rather than chimerical—is this "austerity" or a reason to celebrate?

All this applies to the U.S. too, fig-leafed by the ease with which Washington currently can finance its deficits in a world where investors are seeking the relative safety of the dollar. That won't last. Right now, America seems poised somewhere along the transition from debt deflation to stagflation, which historians may one day collectively call the "Obama Depression."

To change our fate, the best possible solution is real reform that improves incentives and inspires confidence—worlds different from today's sterile debate about whether a conspicuous short-term deficit encourages or inhibits recovery. Fed Governor Kevin Warsh put it nicely in a speech in Atlanta this week, when he cited veteran Washington economist Charles Schulze to the effect that "it is not the wolf at the door but the termites in the walls that require attention."

Tackle the termites and jobs and growth will return.

A Plague of Vagueness

[Wonder Land]

By Daniel Henninger

Just when you're thinking all hope is lost, along comes the "void-for-vagueness doctrine," invoked this past week by the Supreme Court to restrict a hopelessly vague law. If our era needs a bumpersticker, this is it: Void for Vagueness. Paste it on the 2,000-plus pages of the new ObamaCare law, paste it on the 2,000-plus pages of the floundering financial regulation bill. Hand it out in front of the Kagan confirmation hearings. Heck, chisel it on the portico of the U.S. Capitol. But my enthusiasm is racing ahead of the story.

In 2006, the most hated man in America was probably Jeff Skilling, who once sat atop Enron, perhaps the most hated corporate name in all American history. This heap of unpopularity notwithstanding, the Supreme Court said last week the government wrongly prosecuted the abominated Jeff Skilling under something called the "honest services fraud" law. The Court ruled—unanimously—that the law was, in a word, too "vague."

Here is the classic description of the void-for-vagueness doctrine from Justice George Sutherland in 1926: "a statute which either forbids or requires the doing of an act in terms so vague that men of common intelligence must necessarily guess at its meaning. . . violates the first essential of due process of law."


Corbis

That any such common-sense rule still exists in law, politics or life is a wonder.

Strictly, the vagueness test applies only to penal law, but in a better world would it not also apply to much else in public life? The world was simpler in 1926.

Our Congress, the one with a current approval rating of 22%, is attempting to enact its hapless answer to the financial crisis—now called, with no hint of irony, the Dodd-Frank bill. It spent the previous 12 months concocting the Obama health-care law. The actual language of the several-thousand page financial regulation bill was made available to the American people for the first time one evening this week.

Texas Rep. Jeb Hensarling, in a comment on the legislation that should go straight into Bartlett's Familiar Quotations, said, "There are probably three unintended consequences on every single page of this bill."

Justice Antonin Scalia wrote a separate concurrence on the Skilling decision. Consider his remarks in the context of Congress's modern legislative enactments, such as Sarbanes-Oxley, which technically are beyond reach of the void-for-vagueness doctrine.

He referred to the honest-services law, enacted by Congress in 1988, as "this indeterminacy." He calls the legal duties required of individuals under it "hopelessly undefined," a "smorgasbord" written in "astoundingly broad language" and "to put it mildly, unclear." His most stupendous example was a court ruling that one could be found in violation for a scheme "contrary to public policy."

In too many areas where the daily life of commerce intersects with public policy, people feel they are flying blind, uncertain of what law or regulation require, uncertain of how the bureaucracies empowered to enforce this morass will interpret them.

One sensed it was heading this way years ago when landowners were prosecuted under the Endangered Species Act for violating the "habitat" of odd creatures found on their property.

This derangement of the laws' meaning is among the reasons the public is so generally out of sorts about politics and Congress. They think compliance with the rules is turning into a crap shoot. They are right. Here is Justice Scalia on what happened to the law's meaning in the Skilling case: "The duty probably did not have to be rooted in state law, but maybe it did. It might have been more demanding in the case of public officials, but perhaps not." Truly, we are in Wonder Land.

It is an irony, though, that the same Supreme Court that can unanimously find in favor of a Jeff Skilling under the void-for-vagueness doctrine is the same Court that shows nearly infinite deference to federal administrative bureaucracies that strain to interpret the sloppy legislative language Congress enacts into law.

We are there again. The Dodd-Frank bill, if enabled into law by several Republican Senators, lets the actual meaning of the "Volcker Rule" on banks' trading practices and much else to pass into the hands of the translators at the Federal Reserve, FDIC, other federal agencies and the lobbyists who swarm around them.

American public policy and law haven't fallen so far into a condition of unknowable vagueness by accident. As with the prosecutors who abused the honest-services statute, opaqueness of the sort Messrs. Dodd, Frank and the president favor shifts the locus of power away from all citizens and toward an administrative minority that reduces the nation's civil life to Mother-may-I?

If only on principle, someone from the GOP in Congress should start demanding that all federal legislation pass through a void-for-vagueness test. This session, none would survive. If the Supreme Court can demand clarity on behalf of convicted felons, how about adopting it on behalf of people who, until their luck runs out, are truly innocent?

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OPINION

Why Obamanomics Has Failed

By Allan H. Meltzer

The Obama administration's stimulus program has failed. Growth in the U.S. is slow and unemployment remains high. The president and his advisers talk endlessly about the circumstances they inherited as a way of avoiding responsibility for the 18 months for which they are responsible.

But they want new stimulus measures—which is convincing evidence that they too recognize that the earlier measures failed. And so the U.S. was odd-man out at the recent G-20 meeting, continuing to call for more government spending in the face of European resistance.

The contrast with President Reagan's antirecession and progrowth measures in 1981 is striking. Reagan reduced marginal and corporate tax rates and slowed the growth of nondefense spending. Recovery began about a year later. After 18 months, the economy grew more than 9% and it continued to expand above trend rates.

Two overarching reasons explain the failure of Obamanomics. First, administration economists and their outside supporters neglected the longer-term costs and consequences of their actions. Second, the administration and Congress have through their deeds and words heightened uncertainty about the economic future. High uncertainty is the enemy of investment and growth.

Most of the earlier spending was a very short-term response to long-term problems. One piece financed temporary tax cuts. This was a mistake, and ignores the role of expectations in the economy. Economic theory predicts that temporary tax cuts have little effect on spending. Unless tax cuts are expected to last, consumers save the proceeds and pay down debt. Experience with past temporary tax reductions, as in the Carter and first Bush presidencies, confirms this outcome.

Another large part of the stimulus went to relieve state and local governments of their budget deficits. Transferring a deficit from the state to the federal government changes little. Some teachers and police got an additional year of employment, but their gain is temporary. Any benefits to them must be balanced against the negative effect of the increased public debt and the temporary nature of the transfer.

The two most successful fiscal stimulus programs since World War II—under Kennedy-Johnson and Reagan—took the form of permanent reductions in corporate and marginal tax rates. Economist Arthur Okun, who had a major role in developing the Kennedy-Johnson program, later analyzed the effect of individual items. He concluded that corporate tax reduction was most effective.

Another defect of Obamanomics was that part of the increased spending authorized by the 2009 stimulus bill was held back. Remember the oft-repeated claim that the spending would go for "shovel ready" projects? That didn't happen, though spending will flow more rapidly now in an effort to lower unemployment and claim economic success during the fall election campaign.

In his January 2010 State of the Union address, President Obama recognized that the U.S. must increase exports. He was right, but he has done little to help, either by encouraging investment to increase productivity, or by supporting trade agreements, despite his promise to the Koreans that he repeated in Toronto. Export earnings are the only way to service America's massive foreign borrowing. Isn't anyone in the government thinking about the future?


Martin Kozlowski

Mr. Obama has denied the cost burden on business from his health-care program, but business is aware that it is likely to be large. How large? That's part of the uncertainty that employers face if they hire additional labor.

The president asks for cap and trade. That's more cost and more uncertainty. Who will be forced to pay? What will it do to costs in the U.S. compared to elsewhere? The Obama administration should not expect businesses to invest in new, export-led growth when uncertainty about future costs is so large.

Then there is Medicaid, the medical program for those with lower incomes. In the past, states paid about half of the cost, and they are responsible for 20% of the additional cost imposed by the program's expansion. But almost all U.S. states must balance their budgets, and the new Medicaid spending mandated by ObamaCare comes at a time when states face large deficits and even larger unfunded pension liabilities. All this only adds to uncertainty about taxes and spending.

Other aspects of the Obama economic program are equally problematic. The auto bailouts ran roughshod over the rule of law. Chrysler bondholders were given short shrift in order to benefit the auto-workers' union. By weakening the rule of law, the president opened the way to great mischief and increased investors' and producers' uncertainty. That's not the way to get more investment and employment.

Almost daily, Mr. Obama uses his rhetorical skill to castigate businessmen who have the audacity to hope for profitable opportunities. No president since Franklin Roosevelt has taken that route. President Roosevelt slowed recovery in 1938-40 until the war by creating uncertainty about his objectives. It was harmful then, and it's harmful now.

In 1980, I had the privilege of advising Prime Minister Margaret Thatcher to ignore the demands of 360 British economists who made the outrageous claim that Britain would never (yes, never) recover from her decision to reduce government spending during a severe recession. They wanted more spending. She responded with a speech promising to stay with her tight budget. She kept a sustained focus on long-term problems. Expectations about the economy's future improved, and the recovery soon began.

That's what the U.S. needs now. Not major cuts in current spending, but a credible plan showing that authorities will not wait for a fiscal crisis but begin to act prudently and continue until deficits disappear, and the debt is below 60% of GDP. Congressman Paul Ryan offered a plan, but the administration and Congress ignored it.

The U.S. does not need more of the same. Successful leaders give the public reason to believe that they have a long-term program to bring a better tomorrow. America should plan its way out of explosive deficits and a hesitant and jobless recovery by reducing uncertainty and encouraging growth.

Mr. Meltzer is a professor of economics at Carnegie Mellon University, a visiting scholar at the American Enterprise Institute, and the author of "A History of the Federal Reserve" (University of Chicago Press, 2003 and 2010).

Merkel Is Back

By Malte Lehming

Berlin

"Stop It!" was the headline in the Spiegel news magazine two weeks ago. The cover showed Christian Democratic Chancellor Angela Merkel and Free Democratic Foreign Minister Guido Westerwelle with stony faces against a pitch-black background. Competitor Focus wondered on its front page how much longer the government would last. The opposition, too, was smelling blood. "This government has failed, and if they realize this, early parliamentary elections would be the cleanest approach," said the head of the Social Democratic Party's parliamentary faction, Frank-Walter Steinmeier. No wonder that, at the high point of this campaign, 53% of Germans expect the government to collapse prematurely.

This reality-denying hysteria was never related to facts or probabilities. Fortunately, the fuss most likely will soon blow over. Yesterday, Christian Wulff, Mrs. Merkel's candidate, was elected the new German president—not on the first two ballots, it's true; the chancellor had to cope with a few renegades, but Mr. Wulff was elected, and that's what counts. This should make it clear to even the biggest skeptics who's governing the country. Mrs. Merkel is back, not triumphant, but she never scores glorious victories, just hard-earned ones.

And there really has been little harmony over the last nine months, since Mrs. Merkel and Mr. Westerwelle began governing. In particular, the Free Democrats, who received a respectable 14.6% of the votes, were suspected of serving only their own clientele with their demands for lower taxes. The coalition partners fought publicly—not always with kid gloves on—over health reform, the continuation of military conscription, and a drastic austerity program. Then they lost the important regional elections in North Rhine-Westphalia, Germany's most populous state. As if that wasn't enough, President Horst Köhler, a favorite of Mrs. Merkel and Mr. Westerwelle, unexpectedly threw in the towel.

The chancellor picked a successor within a few days—the upright, colorless, relatively young governor of Lower Saxony, Christian Wulff. The Social Democrats and Greens, however, achieved a coup by entering Joachim Gauck in the race. Mr. Gauck, a prominent human-rights activist in East Germany, is charismatic, rhetorically skilled, on the conservative side ideologically, and popular. With this nomination, the opposition hoped to split the conservatives.

But that bubble burst as well. The special assembly of parliamentarians and public figures—in which the governing coalition had a nominal majority—made Mrs. Merkel sweat through three rounds of voting, but her candidate did in the end win. She has always been underestimated, only to ultimately prevail. She succeeded after all as a Protestant, East German woman in the male-dominated, Catholic, Western-oriented Christian Democratic Union. She has mastered the virtue of endurance, which often infuriates her opponents. She knows that what counts are not smoke and mirrors and pretty words, but figures, data, facts. And they are on her side.

Her Social Democratic predecessor, Gerhard Schröder, left behind five million unemployed, even without a global financial and economic crisis. Under Mrs. Merkel, despite the crisis, the unemployment rate has dropped and will soon fall to three million. The economy is improving, turning the country once again into Europe's growth engine. The automobile industry, in particular, is booming; assembly lines at Daimler, BMW and Audi are working overtime. Companies are responding to the strong growth in demand with extra shifts. Some factories have had to postpone summer vacations.

This economic activity, meanwhile, takes the pressure off the treasury. This year and next, the government will probably take in €5 billion to €7 billion more in taxes than expected. The decline in short-time work adds an additional €1 billion to the treasury. And the largest austerity package in German history was adopted by the cabinet without income-tax increases.

Internationally, too, Mrs. Merkel has prevailed. At the summit of the Group of 20 leading developed and developing nations in Toronto, the German principle of savings and solid state finances successfully defied U.S. pressure for higher investment. Even the new British Prime Minister David Cameron is on Mrs. Merkel's side. And in the euro rescue campaign following the Greek crisis, Mrs. Merkel succeeded in involving the IMF. This did strain the patience of French President Nicolas Sarkozy, but in the end it gave her leverage to encourage Athens to save.

Those who avoid reality will not acknowledge these facts, but will continue to dream of mutiny against Mrs. Merkel. The German commentariat will likely use Mr. Wulff's torturous election as confirmation that they were right to predict the chancellor's premature demise. The opposition will take solace in the fact that the governing coalition was not 100% united yesterday. It's not much comfort. Germany has a new president, Mrs. Merkel is still in power, Lena won the Eurovision contest, and the German soccer team has been playing pretty well. Maybe the bad mood will soon adjust to the good times.

Mr. Lehming is op-ed page editor of Der Tagesspiegel. Belinda Cooper translated this essay from the German.

THE BIG READ

As CEO Hayward remade BP, safety and cost drives clashed

Budget squeeze on one of oil giant's most challenging projects underscores a tension at the heart of his leadership

Early on June 5, 2008, a piece of steel tubing ruptured on **BP** PLC's vast Atlantis oil platform in the Gulf of Mexico. The tubing was attached to a defective pipeline pump that BP had put off repairing, in what an internal report later described as "the context of a tight cost budget."

By Guy Chazan, Benoit Faucon and Ben Casselman

The rupture caused a minor spill, just 193 barrels of oil, but BP investigators identified bigger concerns.

They found the deferred repair was a "critical factor" in the incident, but "leadership did not clearly question" the safety impact of the delay. The budget for Atlantis—one of BP's most sophisticated facilities— was "underestimated," resulting in "conflicting directions/demands."

As investigators were questioning Atlantis' lean operation, top executives were praising it. In an internal communication in early 2009, Neil Shaw, then-head of BP's Gulf of Mexico unit, lauded Atlantis' operating efficiency, saying it was "4% better than plan" in its first year of production. It was part of a success story that Mr. Shaw said had enabled BP to become the No. 1 oil producer in the Gulf.

The budget squeeze on one of the British oil giant's most challenging projects underscores a tension at the heart of BP under Chief Executive Officer Tony Hayward.

Until the April 20 explosion of the Deepwater Horizon oil rig in the Gulf, Mr. Hayward repeatedly said he was slaying two dragons at once: safety lapses that led to major accidents, including a deadly 2005 Texas refinery explosion; and bloated costs that left BP lagging rivals **Royal Dutch Shell** PLC and **Exxon Mobil** Corp.

A Wall Street Journal examination of internal BP documents, legal filings, official investigations and reports by federal inspectors, as well as interviews with regulators, shows a record that doesn't always match Mr. Hayward's reports of safety improvements.

Since Mr. Hayward took over, BP has continued to spar with regulators over the same issues that got it into trouble before his tenure as CEO. Some of its refineries still get poor marks for safety. And four years after one of Alaska's worst oil spills, BP's pipelines there have continued to leak.

"They claim to be very much focused on safety, I think sincerely," says Jordan Barab, deputy assistant secretary at the Occupational Safety and Health Administration. "But somehow their sincerity and their programs don't always get translated well into the refinery floor."

Separately, a U.S. Senate panel on Wednesday voted to remove the cap on damage claims that BP would have to pay for the Gulf of Mexico oil spill. The current limit on claims for damage that goes beyond the costs of cleanup is $75 million.

BP insists it has turned a page on safety. "BP's absolute No. 1 priority is safe and reliable operations," said spokesman Andrew Gowers. In the past five years, "significant effort and investment" have been devoted to improving safety, he said, and great progress has been made on all important metrics, with reduced injury frequency and fewer incidents involving equipment breakdowns.

Savings have been achieved through "reduced corporate overheads and a simpler corporate structure," he said, not by economizing on safety. Indeed, extra dollars and staff have flowed into operations.

On Atlantis specifically, BP said it identified a problem with vibration in certain pumps but decided it "was not in itself a cause for safety or environmental concern," and deferred repairing some pumps until the following budget year."

Mr. Hayward took the helm in May 2007, saying he would focus "like a laser" on safety and simultaneously improve BP's operations. In October 2007, he created a management system designed to enforce safety standards consistently across the organization.

Obstacles soon emerged. A 2007 internal document setting out the safety policy spoke of an industry shortage of engineers and inspectors that could endanger plans to implement new standards for inspecting and maintaining critical equipment. An internal presentation in May 2009 cited a shortage of experienced offshore workers and said more training was required to "maintain safe, reliable and efficient operations." The same month he revamped the safety structure, Mr. Hayward said he would streamline BP. An internal presentation to staff showed how problems such as less efficient operations had created a "growing gap between us and Shell."

Associated Press (top), Bloomberg News

BP's Texas City, Texas, refinery, top, shown after a fire in 2004, was the site of a deadly explosion in 2005. CEO Tony Hayward attending a meeting Monday at the Rosneft office in Moscow.

Over the next three years, Mr. Hayward shed 7,500 jobs and pruned costs—$4 billion in 2009 alone. Buoyed by soaring oil prices, BP made record profits of $25.6 billion in 2008. BP soon rivaled Shell as Europe's most valuable oil company.

Mr. Hayward sought to move beyond BP's troubled past. In October 2007, the company agreed to pay $373 million to settle charges arising from the Texas City blast, oil spills in Alaska and allegations that BP traders manipulated the propane market.

BP went on to invest more than $1 billion upgrading the Texas City refinery. Earlier this year, it said its recordable injury rate there had declined every year since 2005, and that the refinery's 2009 safety performance ranked among the industry's leaders.

But OSHA, the federal overseer of workplace safety, tells a different story.

After a six-month inspection of the Texas City refinery last year, OSHA hit BP with an $87 million fine, the biggest in the agency's history. About $57 million was what OSHA describes as "failures to abate" hazards similar to those that caused the 2005 explosion, which killed 15 people. BP has contested the fines and says it is now in "constructive" discussions with OSHA.

The agency had inspected a refinery in Toledo, Ohio, which BP now jointly owns with **Husky Energy**, in 2006, uncovering problems with pressure-relief valves. It ordered BP to fix the valves. Two years later, inspectors found BP had carried out requested repairs, but only on the specific

THE BIG READ

valves OSHA had cited. The agency found exactly the same deficiency elsewhere in the refinery. OSHA ordered more fixes and imposed a $3 million fine. “There was clear knowledge of these problems ... and yet they hadn’t been addressed” in other parts of the refinery, said Mr. Barab.

BP’s Mr. Gowers said BP has “worked cooperatively with OSHA” to resolve problems at the refinery. BP said when OSHA imposed the fine that the Toledo refinery had made “measurable improvement in matters of process safety.”

OSHA’s Mr. Barab says because of BP’s safety record, the agency scrutinized it more closely than other refiners and imposed tougher penalties because it deserved “a bit more attention on refinery safety than anyone else.”

Separately on Wednesday, the Interior Department also fined BP’s U.S. unit $5.2 million for submitting “false, inaccurate, or misleading” reports for energy production on Indian tribal lands in southwestern Colorado. The civil penalty marks the first enforcement action by the department’s Bureau of Ocean Energy Management, Regulation and Enforcement under its new director, Michael Bromwich, who took office last week. In a written statement, the Interior Department said the case isn’t related to the BP oil spill in the Gulf of Mexico. BP spokespersons couldn’t immediately be reached for comment. BP has the right to challenge the civil penalty assessment through an Interior hearing procedure, the department said.

Thousands of miles to the northwest, BP was addressing safety issues on its Alaska pipelines. A corroded conduit sprang a large leak in 2006, fouling the tundra.

By the end of 2008, BP had invested $500 million to replace 16 miles, or about 26 kilometers, of oil-transit lines at Prudhoe Bay, scene of the spill, and install a new leak-detection system.

But BP has continued to experience leaks. Last year, a civil filing by the state against BP said the company’s “poor maintenance practices” have resulted in several spills since 2006. For example, some 1,000 barrels of crude oil, water and gas mixture poured onto the tundra after a 2-foot gash formed in a pipeline in November 2009.

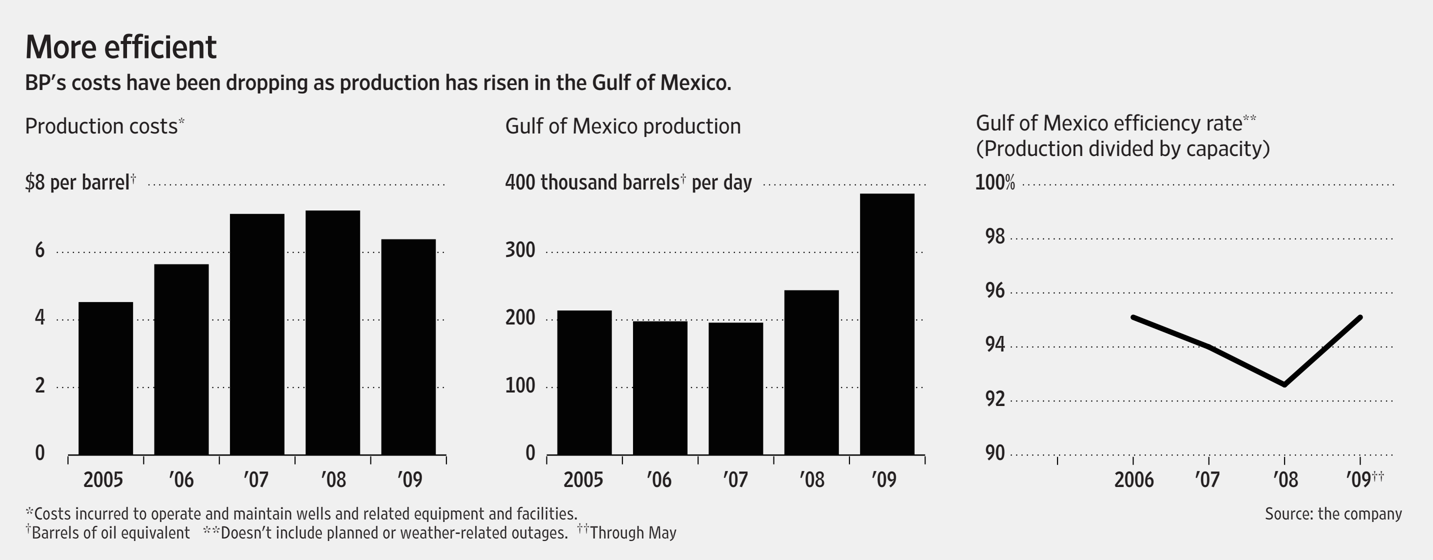
BP said that about a third of its Alaska capital budget of between $800 million and $850 million this year is for safety and integrity projects. It said that since 2006, it has tripled the number of pipeline-corrosion inspections, to more than 100,000 a year. Relations with Alaska’s regulators remain strained, however. In September 2008, a high-pressure natural gas pipeline operated by BP ruptured, sending two segments of pipe flying 900 feet across the tundra. No one was hurt, but the official state report said the incident could have been catastrophic.

“We were able to tie it down to procedures that either were not in place or had not been fully implemented at BP in their management system,” said Allison Iversen, a coordinator at Alaska’s Petroleum Systems Integrity Office.

In February 2009, Ms. Iversen sent BP a letter saying it had failed to inspect the stretch of pipeline for more than a decade before it broke. A scheduled 2003 inspection was never performed because the pipe was covered in snow and the company never returned to do it. The state also said it was “deeply concerned with the timeliness and depth of the incident investigation” conducted by BP. It took four months to provide a report that other oil companies typically submit in two weeks.

BP said it is implementing a plan to address the backlog of pipeline checks and ensure any missed inspections are flagged.

In the Gulf of Mexico, BP hadn’t suffered a safety disaster until the Deepwater Horizon. But there had been concerns that one might occur. An internal BP presentation from December 2007, early in Mr. Hayward’s tenure, noted that there had been 10 “high potential” incidents at BP facilities in the Gulf since the start of that year, including one December case in which a worker suffered an electric shock but survived. A common theme, the report found, was a failure to follow BP’s own procedures and an unwillingness to stop work when something was wrong.




Associated Press

A BP worker collects oil in Prudhoe Bay, Alaska, site of a 2006 spill. A corroded conduit sprang a large leak in 2006, fouling the tundra.

“As we enter the last two weeks of 2007, we are experiencing an unprecedented frequency of serious incidents in our operations,” Richard Morrison, vice president for Gulf of Mexico production, wrote in an email to staff. “We are extremely fortunate that one or more of our co-workers has not been seriously injured or killed.”

Mr. Morrison listed five near-miss incidents in November and December, including one in which natural gas escaped from a pipe aboard BP’s Pompano platform, threatening an explosion.

BP said it wouldn’t comment on this or any other internal communications, and declined to make Mr. Morrison available.

Meanwhile, company officials continued hammering home the message on costs. Mr. Shaw, the Gulf of Mexico head, made the point at a meeting for top managers in Phoenix in April 2008. His aim, according to an internal BP communication, was to instill a “much stronger performance culture” in the organization, based on strictly managing costs and “this notion that every dollar does matter.” BP declined to make Mr. Shaw available for comment.

A former BP engineer who retired last year said the Gulf of Mexico operation under Mr. Shaw became focused on meeting performance targets, which determined bonuses for top managers and low-level workers alike. The engineer says even small costs got targeted: BP no longer provided food at lunch meetings, and eliminated the fruit bowls that were offered as part of a healthy-living drive a few years earlier.

In a statement, BP said its cost-cutting should be seen in the context of the sharp fall in oil prices in 2008, which squeezed all oil companies’ profits. BP says executives are judged on the safety record of their units, not just on financial or production criteria.

The month after the Phoenix meeting, Mr. Shaw told his staff that efficiency was improving in the drilling and completing of wells. The number of days it took to drill 10,000 feet was 6% below plan. Idle time had fallen to 24% of total rig days, from 34% in 2007. In May 2009, he said in another memo that BP’s output in the Gulf had reached a record 500,000 barrels a day, a year ahead of schedule.

The improvements continued. According to an internal presentation on Gulf drilling performance dated April 13 of this year—a week before the Deepwater Horizon blast—BP’s estimate for 2010 capital spending on wells in the Gulf fell by $221 million to $2.03 billion.

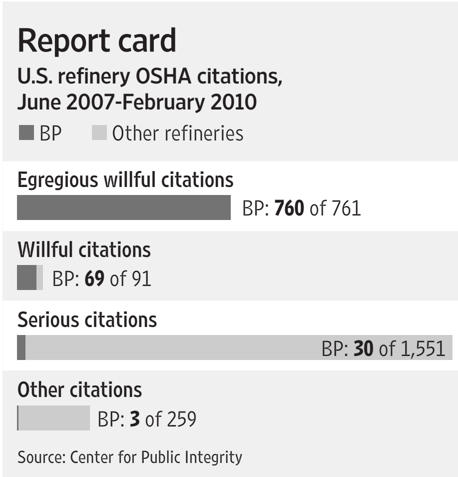
Some goals were more elusive. A safety steering committee worried that the “Total Recordable Incident Rate”—normally measured as total number of incidents resulting in injury or illness for every 200,000 man-hours worked—was higher than it should be. The rate was 0.97 for the Gulf drilling unit, over the target of 0.62, say minutes of an August 2009 meeting. “In order to meet the target will need some zero months,” the minutes say.

BP declined to comment on the memo’s specifics but said it showed the company “continually evaluating the safety of its operations.”

Some think the cost drive affected safety. Workers had “high incentive to find short-cuts and take risks,” says Ross Macfarlane, a former BP health and safety manager on rigs in Australia who was laid off in 2008. “You only ever got questioned about why you couldn’t spend less—never more.” BP vigorously denies putting savings ahead of safety.

At a strategy update for investors this March, BP targeted large savings in its drilling operations. BP spends nearly $4 billion a year drilling oil wells. Management said it could slash $500 million off that figure by improving efficiency.

In that regard, the Gulf of Mexico well being drilled by the Deepwater Horizon was an outlier. Deepwater Horizon was the least efficient of the rigs working for BP in the Gulf: A BP chart showed at least 44% of its rig days were nonproductive, a much higher figure than any other vessel.



That pushed up costs, putting Horizon $29 million over budget for 2010, the largest deficit in BP’s Gulf fleet. BP says the amount of down time wouldn’t have directly affected total spending on Deepwater Horizon, which was operating under a long-term, fixed-rate contract.

The April 20 explosion on the rig raised questions among congressional investigators about whether BP had cut costs too much. BP denies cost-consciousness played any role in the tragedy.

In a different context, BP had questioned the impact of its cost-cutting in the Gulf. After the 2008 incident on the Atlantis platform, BP’s internal report warned of lax safety oversight and tight budgets.

It concluded: “A key question to ask, especially with apparently minor and disconnected defects, is ‘What’s the worst thing that could happen?’ ”

—Stephen Power contributed to this article.

MARKETS LINEUP

Moving the markets

At right, Europe's benchmark stock indexes and stocks Wednesday. Below each index are its most actively traded stocks. The charts show the percentage change in each index's or stock's value, rather than the point change, for purposes of comparison. The index level or stock price is indicated on each axis. All indexes and stocks are shown in local currency terms.

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European indexes...

FTSE 100

U.K. 4916.87

▲ **0.05% or 2.65**

The index snapped a four-quarter winning streak, losing 13.4% over the past three months. It was the worst performance since the third quarter of 2002.

Stock	Volume in millions	Close In pence	Change Net	Change %
Lloyds Banking Grp	**214.68**	53.70	−0.11	−0.20
VodafoneGp	**150.41**	139.15	−3.10	−2.18
BP	**124.64**	318.90	16.00	5.28
RoyalBnkofScot	**110.02**	41.43	−0.34	−0.81
Barclays	**71.78**	270.55	3.20	1.20

DAX

Germany 5965.52

▲ **0.23% or 13.49**

The benchmark eked out a tiny gain for June. But for the quarter, the index was down 3.1%, its worst quarterly showing since the first quarter of 2009.

Stock	Volume in millions	Close In euro	Change Net	Change %
DeutscheTel	**19.70**	9.70	0.01	0.08
InfineonTch	**15.58**	4.82	-0.01	−0.27
Commerzbank	**10.69**	5.78	-0.04	−0.60
E.ON	**9.50**	22.18	-0.06	−0.27
DeutscheBk	**5.89**	46.70	0.70	1.52

CAC-40

France 3442.89

▲ **0.29% or 9.90**

Lower-than-expected demand for ECB funds supported banks on Wednesday. The index dropped 13.4% during the quarter, its worst showing since the end of 2008.

Stock	Volume in millions	Close In euro	Change Net	Change %
Alcatel Lucent	**27.03**	2.122	−0.036	−1.67
FrTelecom	**16.85**	14.285	−0.160	−1.11
ArcelorMittal	**14.29**	22.355	−0.430	−1.89
CreditAgricole	**12.93**	8.635	0.285	3.41
Total	**8.32**	36.965	0.205	0.56

IBEX 35

Spain 9263.40

▲ **1.12% or 103.00**

This was a brutal quarter, as banks in particular suffered over concerns about Spanish debt and their own financial health. The index plummeted 14.8% in three months.

Stock	Volume in millions	Close In euro	Change Net	Change %
BancoSantander	**62.70**	8.74	0.29	3.48
Iberdrola	**56.62**	4.63	-0.03	−0.69
Telefonica	**38.39**	15.26	0.15	0.96
BancoBilbao	**34.43**	8.61	0.26	3.14
BancoPoplr	**12.83**	4.21	0.05	1.13

European stocks in the news

Banco Santander

Spain €8.74

▲ **3.5% or €0.29**

Lenders jumped as fears over a potential liquidity crisis in the financial system receded.

Price-to-earnings ratio			**8**
Earnings per share, past four quarters			**1.05**
Dividend yield			**6.86%**
PERCENTAGE CHANGE	Daily	1 wk.	52 wks
Banks	**1.2%**	-5.6%	-7.4%
Banco Santander	**3.5%**	-4.8%	0.4%

Gecina

France €74.39

▲ **4.2% or €3.01**

The stock hasn't been this high in nearly seven weeks.

Price-to-earnings ratio			**None**
Earnings per share, past four quarters			**-12.87**
Dividend yield			**5.91%**
PERCENTAGE CHANGE	Daily	1 wk.	52 wks
Financial Services	**-0.2%**	-4.9%	-4.0%
Gecina	**4.2%**	1.7%	62.0%

OTP Bank

Hungary 4,765.00 forint

▲ **4.5% or 205.00 for int**

Hungarian stocks outperformed most other markets in the region on a bounce from a recent plunge.

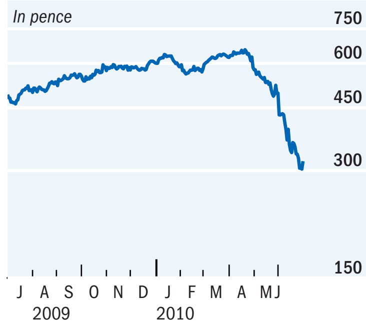
Price-to-earnings ratio			**9**
Earnings per share, past four quarters			**550.73**
Dividend yield			**None**
PERCENTAGE CHANGE	Daily	1 wk.	52 wks
Banks	**1.2%**	-5.6%	-7.4%
OTP Bank	**4.5%**	-7.7%	32.7%

BP

United Kingdom 318.90 pence

▲ **5.3% or 16.00 pence**

Traders cited speculation of a takeover bid for the beleaguered oil company.



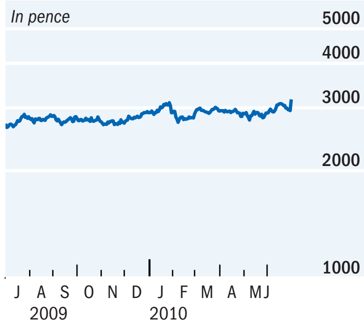
Price-to-earnings ratio			**5**
Earnings per share, past four quarters			**70.60**
Dividend yield			**8.94%**
PERCENTAGE CHANGE	Daily	1 wk.	52 wks
Oil & Gas	**0.5%**	-6.0%	-17.1%
BP	**5.3%**	-4.4%	-34.9%

Astrazeneca

United Kingdom 3,169.00 pence

▲ **7.5% or 222.00 pence**

A U.S. judge said the patent for its cholesterol drug, Crestor, was valid and enforceable.



Price-to-earnings ratio			**9**
Earnings per share, past four quarters			**370.18**
Dividend yield			**4.50%**
PERCENTAGE CHANGE	Daily	1 wk.	52 wks
Health Care	**1.6%**	-0.2%	6.7%
Astrazeneca	**7.5%**	5.8%	17.0%

PKN ORLEN S.A.

Poland 35.48 zloty

▼ **2.5% or 0.92 zloty**

The oil refiner fell to its lowest close since March 11.

Price-to-earnings ratio			**5**
Earnings per share, past four quarters			**6.99**
Dividend yield			**None**
PERCENTAGE CHANGE	Daily	1 wk.	52 wks
Oil & Gas	**0.5%**	-6.0%	-17.1%
PKN ORLEN S.A.	**-2.5%**	-5.6%	32.9%

Kazakhmys

United Kingdom 994.00 pence

▼ **3.7% or 38.00 pence**

Basic-resource stocks posted big falls as investors digested mixed U.S. data.

Price-to-earnings ratio			**15**
Earnings per share, past four quarters			**64.38**
Dividend yield			**0.60%**
PERCENTAGE CHANGE	Daily	1 wk.	52 wks
Basic Resources	**-1.9%**	-10.0%	13.6%
Kazakhmys	**-3.7%**	-15.0%	50.2%

InterContinental Hotels Grp

United Kingdom 1,063.00 pence

▼ **3.8% or 42.00 pence**

Some strategists talked down the European hotel sector.

Price-to-earnings ratio			**16**
Earnings per share, past four quarters			**64.78**
Dividend yield			**2.45%**
PERCENTAGE CHANGE	Daily	1 wk.	52 wks
Travel & Leisure	**-1.1%**	-6.2%	4.5%
InterContinental Hotels Grp	**-3.8%**	-9.4%	66.5%

Verbund

Austria €25.16

▼ **6.1% or €1.65**

The power generator and grid operator announced its intent to sell shares to repay debt.

Price-to-earnings ratio			**14**
Earnings per share, past four quarters			**1.84**
Dividend yield			**3.98%**
PERCENTAGE CHANGE	Daily	1 wk.	52 wks
Utilities	**0.2%**	-5.5%	-17.5%
Verbund	**-6.1%**	-9.5%	-31.3%

Man Grp

United Kingdom 223.30 pence

▼ **7.4% or 17.80 pence**

The hedge-fund manager's shares went ex-dividend.

Price-to-earnings ratio			**14**
Earnings per share, past four quarters			**16.53**
Dividend yield			**13.25%**
PERCENTAGE CHANGE	Daily	1 wk.	52 wks
Financial Services	**-0.2%**	-4.9%	-4.0%
Man Grp	**-7.4%**	-12.9%	-14.8%

High-frequency traders face off in escalating technology arms race
BUSINESS & FINANCE 22

Not-so-thirsty banks are bullish signal in Europe
HEARD ON THE STREET 32

BUSINESS & FINANCE.

Thursday, July 1, 2010 THE WALL STREET JOURNAL. europe.WSJ.com

EU moves to cut cash in bonuses for bankers

By Alessandro Torello

BRUSSELS—European Union government representatives backed a preliminary agreement with the European Parliament on rules to limit bankers' bonuses in response to criticism of compensation for executives.

"Two years on from the global financial crisis, these tough new rules on bonuses will transform the bonus culture and end incentives for excessive risk taking," said Arlene McCarthy, the European Parliament member who steered the legislation through the committee that handled it.

According to the proposed rules—which need the formal backing of the full Parliament assembly and the EU member states to take effect—cash bonuses would be capped at 30% of the total bonus, or 20% for particularly high bonuses. A large part of a bonus must also be deferred so it can be recovered if investments don't perform as expected, the European Parliament said in a statement Wednesday.

Bonuses would be linked to salaries under the draft rules, with each bank setting a limit following broad EU guidelines, the statement said.

While some European countries have already imposed limits on banker bonuses, the new rules set common guidelines for all 27 members of the EU. The French and German governments have also effectively set caps by pressing banks to agree to limit executive pay.

The EU's proposed measures are a response to anger over payments to executives of banks that received large state bailouts to avoid collapse during the financial crisis.

"These new rules will lay the foundations for a safe and sound capital base and a responsible pay and bonus policy, so that taxpayers don't face the risk of bailing out the banks once again," the Parliament said.

The new rules would ensure exceptional pension payments are generated as contingent capital, with their final value linked to the strength of the bank. The measures aim to avoid the kind of large severance packages for disgraced departing executives that have caused an outcry in Europe.

Banks would also be required to hold a minimum amount of capital to ensure they are covering risk from their trading book and complex securitized investments, such as mortgage-backed securities, to avoid a repeat of risk-related losses like those seen during the financial meltdown. The capital requirements would take effect in 2012.

Airbus is hit over subsidies

WTO condemns European aid for aircraft maker, as Boeing awaits a separate ruling

By John W. Miller
And Daniel Michaels

BRUSSELS—The World Trade Organization formally condemned European subsidies to civil-aircraft maker Airbus, concluding the first half of the most expensive trade dispute in WTO history.

Its main finding was that more than $20 billion in low-interest government loans used to develop six models of passenger jet constituted prohibited export subsidies.

The ruling could force the parent company of Airbus, **European Aeronautic Defence & Space** Co., to repay some aid money or risk giving the U.S. the right to raise import tariffs in retaliation on goods imported from Europe, such as cars, wines and cheese. It could also give the U.S. and Chicago-based **Boeing** Co. more legal backing to contest funding in the future for Airbus models.

A ruling on a separate European Union complaint against alleged U.S. subsidies for Boeing—the world's other large civil-aircraft maker—is due on July 16.

The WTO dispute is a central element of a separate competition between Boeing and Airbus to supply the U.S. Department of Defense with midair refueling tankers. The contract for as many as 179 flying fuel stations is potentially valued at $40 billion. EADS is offering a variant of its A330 passenger jet, which is one of the models that the WTO ruled had been illegally subsidized.

People watch an Airbus A380 during the first public day at the ILA International Air Show in Schoénefeld south of Berlin.

Reuters

Market turbulence | The most expensive trade dispute in WTO history

- U.S. case focused on $20 billion in loans to Airbus.
- EU counters that Boeing received billions in tax breaks and grants in the U.S.
- WTO ruling says support for A340, A380 and other planes constituted launch aid.

Boeing and its political supporters have argued that the Pentagon should take into account the financial impact of the subsidies in assessing the rival bids, arguing government support gives EADS an unfair advantage. EADS says that past government assistance doesn't affect the tanker bidding and that Boeing also has received significant government support.

On Wednesday, Boeing officials called for Airbus to immediately return billions of euros in aid to European governments or "restructure the loans" with higher, market-level interest rates, said Boeing spokesman Charlie Miller.

Officials at the European company hit back with strong language. "Boeing is deliberately misleading the public in claiming that repayment by Airbus in any amount is required," said Airbus spokesman Rainer Ohler. "That is wrong. We deplore this active misinformation."

Please turn to next page

Portugal blocks Telefónica's Vivo bid

By *Jeffrey T. Lewis, Jonathan House* and *Santiago Perez*

LISBON—The Portuguese government vetoed **Telefónica** SA's €7.15 billion ($8.72 billion) bid to acquire **Portugal Telecom** SA's stake in the companies' Brazilian joint venture, a surprise move that sets the stage for a confrontation with European Union authorities.

Prime Minister José Sócrates defended his decision to use Portugal's authority to veto the deal, saying the country has a strategic interest in maintaining the size of its largest company by market value. "The offer was not in the interest of PT," he told Portuguese television Wednesday. "The government is protecting the interests of the country."

Telefónica called the move illegal and in violation of Portuguese and European Union regulations. It said it would extend the period for Portugal Telecom shareholders to accept its bid until July 16. Nearly three-quarters of Portugal Telecom shareholders voted in favor of the offer on Wednesday.

Bloomberg News

Portugal Telecom CEO Zeinal Bava spoke to reporters Wednesday.

Portugal Telecom and Telefónica have been locked in a power struggle over Brazilian mobile operator **Vivo Participações** SA, which the two Iberian telecommunication companies control through a joint venture that owns 60% of the venture.

Portugal Telecom and Spain's Telefónica see Vivo as key to their growth prospects as they face declining revenue in their mature home markets and are suffering from the lingering impact of a severe recession.

"This outcome is simply horrible for everyone and the only likely thing from here is litigation," Sanford C. Bernstein analyst Robin Bienenstock said in a note to investors. "We would also caution that we think that Telefónica has now seriously overpaid for this asset and that this price is a reflection of their domestic weakness."

Telefónica late Tuesday raised its offer for Portugal Telecom's indirect stake in Vivo to €6.5 billion in a last-ditch attempt to win over Portugal Telecom shareholders reluctant to exit the coveted Brazilian market.

The Spanish company's first bid of €5.7 billion was swiftly rejected by Portugal Telecom's board last

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Coal disasters rack prices

Mine accidents limit supplies as focus on safety grows; higher costs for deeper deposits

By Kris Maher

A string of deadly coal-mining accidents around the world that have forced production cutbacks and prompted crackdowns on safety standards will constrain supplies and could lead to sharply higher prices for some types of coal.

In the U.S. on Tuesday, House and Senate Democrats introduced mine- safety measures in response to an April 5 explosion at a **Massey Energy** Co. mine that killed 29 miners. The proposals would make it easier for regulators to close mines with a history of significant safety violations and boost criminal and civil penalties for operators and increase protections for miners who report unsafe practices at mines.

The hit to the global coal supply could disrupt shipments, forcing suppliers and buyers to scramble to secure new sources. Increased safety measures could reach 2% to 3% of total underground coal production by 2011, estimates David Khani, an analyst with FBR Capital Markets. "It's definitely going to hurt productivity," Mr. Khani said.

He attributes the recent spike in accidents to a pickup in demand for metallurgical coal in recent months. Most recent accidents have been at metallurgical coal mines, which tend to be located deep underground where that coal is formed over longer periods of time at higher pressures. Thermal coal used by utilities, by contrast, is often mined at the surface with big machines.

Mr. Khani estimates the benchmark price for metallurgical coal this year will hit $225 a metric ton, up from $129 a ton last year. The recent accidents are expected to have the biggest impact on demand and prices for metallurgical coal.

In May, 90 miners and rescuers were killed in explosions at Raspadskaya, Russia, the county's biggest underground mine, which produced nine million tons annually of metallurgical coal. A mine in Ukraine that produced two million tons a year was closed recently as well.

European Pressphoto Agency

Coal-mining accidents, including at Raspadskaya, Russia, above in May, are boosting metallurgical-coal prices.

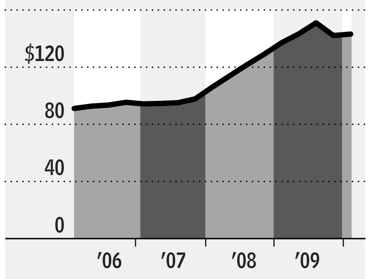
Alpha Natural Resources Inc., the largest U.S. exporter of metallurgical coal by volume, attributes a steep increase in its exports to the Ukraine this year to those closures. U.S. exports to the Ukraine through the first five months of this year have already matched its total exports to the country last year.

"Those are two huge mines that had events that impacted supply. It's no surprise that our exports to Ukraine are way up," said Ted Pile, a spokesman for Alpha, based in Abingdon, Va. Mr. Pile estimated it could take 12 to 15 months to get the Russian mine back in operation. He said many mines in Ukraine, meanwhile, are 50 years old and the country will have difficulty making up missing production.

In China, nine accidents from March through May, involving fires, floods and explosions, killed 152 miners, before a June explosion killed 47 miners in China's Henan province. An explosion at an underground mine in Colombia that produced thermal coal killed 73 miners.

Coal fever

Average quarterly cost of metallurgical coal at processing plants, in dollars a ton



Source: U.S. Department of Energy

WTO decision condemns European subsidies for Airbus

Continued from previous page

The report on Airbus was published Wednesday by the WTO on its website. The Wall Street Journal and other news organizations had already published broad outlines of what the report contains, based on a preliminary ruling sent to the parties involved in March.

The final ruling, more than 1,000 pages long, said support for the A300, A310, A320, A330, A340 and A380 airplanes constitutes launch aid. The WTO drew no conclusions on the new A350 model, now in development, because work began after the U.S. case was filed in 2004. The aid was found to be an export subsidy by default. Because the airplane market is by its nature global, any subsidy is an export subsidy.

Airbus officials said the EU would appeal the ruling. "There's not a single WTO case that hasn't been changed on appeal," an Airbus official said. Both sides can appeal the decision within 60 days.

"We'll see the result of the EU case against Boeing on July 16," said European trade commissioner Karel De Gucht, appearing on a panel at the European Business Summit in Brussels a few hours before the ruling was released.

Only after that second report is released, "will we have a full and more balanced picture of this dispute," Mr. De Gucht said in a prepared statement. "The EU remains committed to a negotiated outcome to the dispute with no pre-conditions on either side."

A negotiated settlement would allow the EU and U.S. to set standards for themselves that keep competitors such as Brazil, Canada and China from pouring even more money into their airplane companies. "China is closely following the proceedings," said Sun Zhenyu, China's ambassador to the WTO.

A 1992 agreement signed by the U.S. and EU gave both sides leeway to subsidize aircraft makers. However, Airbus grabbed so much market share in the next decade that the U.S. pulled out of the deal and filed a complaint at the WTO. It essentially accused Airbus of cheating by relying so much on launch aid.

The U.S. case focused on $20 billion in loans from EU governments. The loans were granted at below-market rates with a favorable condition: If a jetliner development project receiving the government loans incurred losses, Airbus wouldn't have to repay all the loans.

The EU retaliated with a case against the U.S. The EU says Boeing received billions in tax breaks from U.S. states, as well as defense-research grants from the U.S. federal government.

Airbus insisted that the WTO didn't rule against launch aid. "It's just a question of interest rates," said an Airbus official.

U.S. Trade Representative Ron Kirk claimed "victory" and called on EU member states to end preferential loans to the aircraft maker.

—Tom Barkley contributed to this article.

EU fines steelmakers over pricing

By Carolyn Henson And Peppi Kiviniemi

BRUSSELS—The European Commission on Wednesday fined 17 steelmakers a total of €518.5 million ($632.4 million) for fixing prices and dividing up markets for prestressed steel over two decades.

Among those fined were **ArcelorMittal**, which must pay €276.5 million, and former subsidiaries Emesa and Galycas and ArcelorMittal's Spanish unit, which were fined an additional €40.8 million; **Voestalpine Austria**, which must pay €22 million; and **Rautaruukki** Oyj, which together with **Ovako** was fined €4.7 million.

ArcelorMittal, the world's biggest steelmaker, said it believes it will be liable to pay about €315 million in fines. ArcelorMittal Fontaine and ArcelorMittal Wire France had their fines increased by 60% because they had been fined twice for previous steel cartels. **Saarstahl**, although also previously fined over a steel cartel, received full immunity from fines because it blew the whistle on the cartel in 2002.

Prestressing steel produces long, curled steel wires that are used with concrete to construct foundations, balconies or bridges.

"It is amazing how such a significant number of companies abused nearly the entire European construction market for such a long time and for such a vital product," said European Union Competition Commissioner Joaquín Almunia.

The companies involved mainly met at the sidelines of official trade meetings all over Europe from 1984 until 2002. The commission said it has evidence during the 18-year period of more than 550 cartel meetings, where the companies fixed individual quotas and prices, allocated clients and exchanged sensitive commercial information.

Owing to disturbances in the construction market after the economic downturn, the commission accepted three inability-to-pay applications and granted reductions in fines of 25%, 50% and 75% of the fine that would otherwise have been imposed on these three companies. It had received 13 such applications from the companies involved.

Voestalpine maintained its innocence. "During all stages of the proceeding, Voestalpine has made it abundantly plain to the EU Commission that the company has never been involved in the prestressing steel cartel," Voestalpine said. "The company therefore will take legal action against the decision."

ArcelorMittal said it will review the commission's decision.

—Devon Maylie in London contributed to this article.

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Businesses

This index of businesses mentioned in today's issue of The Wall Street Journal is intended to include all significant reference to companies. First reference to the companies appears in bold face type in all articles except those on page one and the editorial pages.

BUSINESS & FINANCE

Santander puzzles investors

Stock falls, as bank goes on buying binge; a sign of strength or fleeing Spain's travails?

By Sara Schaefer Muñoz

LONDON—**Banco Santander** SA's stock is down, the cost of insuring its debt against default has jumped and questions about the health of its home market are rampant.

Amid all that, the Madrid bank is on a shopping spree.

Last month, Santander paid $2.5 billion for the remaining 25% of its Mexican business. Last week, it spent $3.16 billion for a portfolio of auto loans from **Citigroup** Inc.'s U.S. auto-finance unit. It is the sole bidder for 318 U.K. branches of **Royal Bank of Scotland Group** PLC, for which it is expected to pay about £1.8 billion ($2.71 billion).

Santander also has bid €520 million ($634.2 million) for the German retail operations of Sweden's **Skandinaviska Enskilda Banken** AB, a deal that could close as early as Friday, people close to the matter said. And people familiar with the matter said its Sovereign Bank arm is back in talks for a possible deal for **M&T Bank** Corp., which could establish Santander as a big U.S. player.

International diversification "allows us to seize opportunities to grow without the results being affected by adversity in any one market," said Chairman Emilio Botín at the bank's annual general meeting on June 11.

Yet Santander's moves come against a backdrop of worries about high levels of government debt in the nations that use the euro, and as Spain grapples with high unemployment and a sharp, persisting property-sector downturn. While Santander's earnings are diversified across Europe, Latin America and the U.S., 35% of its revenue comes from Spain. The bank's stock has fallen 25% in 2010 and the cost of insuring its debt has more than doubled. Wednesday, the stock rose 3.5% to €8.74 in Madrid.

The bank's spending has confounded some analysts, who are concerned about Santander's rising funding costs and its home-market woes. Other analysts and investors said the bank has been unfairly lumped in with weaker Spanish and European peers, and that pouncing on such deals in a depressed market is a sound strategy.

A Banco Santander bank branch in Mexico City

Bloomberg News

Santander's shopping spree

- Citigroup Inc.'s auto-loan portfolio for $3.1 billion
- Remaining 25% stake in its Mexico unit from Bank of America for $2.5 billion
- Offered roughly £1.8 billion for RBS's U.K. branches
- Expected to pay €520 million for Swedish bank SEB's branches in Germany

The acquisitions—mostly add-ons in markets where Santander already has a presence—show investors that "the bank is very comfortable internally with its capital position and balance sheet," said Daragh Quinn, a Spanish bank analyst at Nomura who rated it a "buy."

Santander is one of the few big global banks to remain fairly healthy through the financial crisis. Its first-quarter net profit was €2.21 billion, and it has made acquisitions throughout the financial turmoil.

Still, it has struggled with Spain's economic difficulties. The percentage of nonperforming loans in its Spanish portfolio was 3.59% in the first quarter, below the sector's average of 5.37% but up from 2.4% a year earlier. In the first quarter, it had €6.6 billion of property assets on the books, on which it has taken €2.1 billion in provisions against their declining value.

This has led some analysts to read further into its deal-making spree. "Doing a string of acquisitions could be an excuse to raise more capital," which could be used, in part, to deal with Spain, said Joseph Dickerson, an analyst at Execution Noble Ltd. in London, who rated Santander a "sell."

Some analysts say the acquisition of RBS's U.K. branches could make an initial public offering of the U.K. unit, which the bank is considering, more attractive. The $8 billion IPO of its Brazilian arm in 2009 resulted in a capital gain on the book value of the unit that boosted Santander's core capital ratio.

Other analysts see some of the pending deals as an extension of Santander's quest for deposits.

A Santander spokesman said the recent deals are consistent with the bank's criteria, such as being in markets and businesses that Santander knows well and being able to generate a return on capital higher than the cost of capital by the end of the third year following an acquisition.

ICBC targets U.S. market in a large way

By Lingling Wei

Industrial & Commercial Bank of China, China's largest bank by assets, is rolling out a "large-loan" program targeting U.S. commercial real-estate owners in need of loans that exceed $100 million, a category most U.S. banks now avoid.

The move by Beijing-based ICBC, which is 70% owned by the Chinese government, is part of a broader push into the U.S. market and comes as China's regulators are encouraging domestic financial institutions to expand overseas. Although many U.S. and European banks continue to struggle with losses tied to real-estate loans made during the bubble years, ICBC is betting that property values have fallen enough that the bank's lending risks will be limited.

"The market is very close to the bottom," says Wu Bin, general manager of ICBC's New York branch, located in the Trump Tower on Manhattan's Fifth Avenue. Demand for new commercial-real-estate loans is huge as property owners face more than $1 trillion of maturing debt over the next five years that must be refinanced.

Brian Harkin for The Wall Street Journal, left; dbox

ICBC's Wu Bin, center, in the bank's New York office with Proctor Wong, left, of Newmark Knight Frank and Robert Koen of DLA Piper.

Analysts believe that ICBC could help fill a void left by the retreat of U.S.-based financial institutions. "Because of the concentration risk associated with large loans, that is a market many U.S. lenders shy away from," says Josh Scoville, director of research at real-estate-services firm CoStar Group Inc. "A new entrant like ICBC certainly will be helpful."

In the past, foreign banks from Japan to Germany have been clobbered by their push into the U.S. property market during the boom times. Mr. Wu says ICBC will limit its risk by financing buildings with stable existing cash flows and lending to developers and investors with a solid track record. The Chinese bank is offering to lend no more than 65% of a property's value. During the frenzy, U.S. banks had lent more than 80% of a building's value.

Mr. Wu is open about challenges. "Here, no one knows who you are," he says, wearing a pin of the bank's logo that resembles the Chinese word for industry. To counter the lack of name recognition, Mr. Wu brought in two local real-estate experts—Proctor Wong, head of bank-services group at brokerage Newmark Knight Frank, and attorney Robert Koen at DLA Piper US LLP—to devise the lending initiative.

Regulator in France says Google was at fault

By Max Colchester

PARIS—France's competition authority Wednesday said that **Google** Inc.'s online ad service discriminated against a client, a decision that comes amid the country's growing concern over Google's dominance of the lucrative French search market.

In a preliminary ruling, the Autorité de la Concurrence said that Google's Adwords system, which prompts ads to appear alongside search results, lacked transparency and "resulted in discriminatory treatment."

The ruling followed a complaint by **Navx**, a French company that provides data on the location of road-traffic speed cameras and gas prices, as well as other services and content for GPS devices. Navx said its ads were removed without warning from AdWords in 2009, and accused Google of anticompetitive practices.

Google said the reason for the disappearance of the Navx ads was a change of policy in 2008, when it decided no longer to promote services helping people to avoid speed cameras and fines.

The Authorité said the preliminary ruling is the first time Google has been adjudged in Europe to misuse its dominant market position. The Authorité gave Google four months to clarify the conditions for companies using AdWords, and that Navx's account must be reactivated within five days. Google can appeal the preliminary ruling.

"The competition authority is saying that Google has a dominant position," said Ron Soffer, Navx's lawyer. "When you have that position you can't just do what you want."

A final decision is expected in September, and a Google spokesman said the company remained "confident of a positive outcome."

Around 90% of Internet searches in France are made using Google, according to the Authorité, and the search engine's popularity has already attracted the attention of French politicians.

Google's European base is in Ireland, meaning the bulk of its European tax is paid to Ireland. In January, French President Nicolas Sarkozy suggested that search engines offering services in France but with European headquarters elsewhere should also pay French taxes.

Google is facing several other investigations into alleged anticompetitive practices in Europe.

Separately, France's data-protection authority, the Commission Nationale de l'informatique et des Liberté, or CNIL, plans to decide in September whether to bring a criminal case against Google for downloading private information from personal computers. Google said last month that it had collected the data by accident.

The CNIL's investigation stems from Google's use of a car that toured France collecting images for its Street View application. The car also had equipment that sucked up data—including emails and passwords— from unprotected wireless Internet connections and stored it.

Top merger advisers

Europe adviser volumes in the second quarter, rank by value of total deals

Adviser	Value	Number of deals
Morgan Stanley	$47.3 billion	49
BofA Merrill Lynch	45.5	17
Credit Suisse	44.7	36
Deutsche Bank	44.3	25
UBS	40.3	25
Goldman Sachs	35.3	32
J.P. Morgan	35.0	26
Lazard	27.1	33
Rothschild	20.9	35
Citigroup	19.6	13

Source: Dealogic

IPOs shine amid gloom for investment bankers

By Dave Kansas

European initial public offerings continued to rebound in the second quarter, but merger activity remained light and debt issuance slid sharply from the previous quarter.

In the European mergers-and-acquisitions arena, **Morgan Stanley** ranked first in terms of deal volume in the second quarter, with $47.3 billion in announced deals, according to data provider Dealogic. **Credit Suisse Group** AG topped the tables for the first half of the year with $105.9 billion in deals.

Deal volumes in Europe rose to $155.1 billion from the year-earlier quarter's $147.4 billion. **News Corp.**'s $11.5 billion bid for the remaining stake in **British Sky Broadcasting Group** PLC was the largest deal announced in the quarter.

European debt issuance dropped to $400 billion, about half the level of issuance in the year-earlier quarter.

A $11.7 billion bond, issued by the U.K. and priced on June 29, was the biggest debt deal in the second quarter, underscoring how sovereign-debt issuance continues to drive the market.

For the first half of the year, **Deutsche Bank** AG topped the debt-capital-markets volume rankings, followed by **Barclays** PLC's Barclays Capital and Credit Suisse, according to Dealogic.

In the IPO market, European offerings raised $9.99 billion in 46 deals during the quarter, up from the $266 million raised through 15 offerings a year earlier. European IPOs raised $8.59 billion in 42 deals during the first quarter.

Globally, 295 IPOs raised $42.04 billion, up from $11.36 billion raised through 89 deals in the year-earlier quarter. In the first quarter, 274 IPOs raised $51.52 billion.

Of the 10 biggest global IPOs in the first half of the year, four had shares offered on European exchanges. The biggest European IPO came on Warsaw's stock exchange in a deal that raised $2.71 billion.

Portugal blocks Telefónica's bid for Brazil's Vivo

Continued from page 17

month.

The government's veto came ahead of an expected ruling from the European Court of Justice next week on the legality of the state's so-called golden share in Portugal Telecom, which is designed to prevent a hostile takeover. European authorities claim Portugal's ownership of such a golden share breaches the principle of the free movement of capital.

Portugal Telecom Chairman Henrique Granadeiro said the company's directors didn't think the government's golden share could be used in this way. "The board has repeatedly said that it was convinced the golden share wasn't applicable in this situation," he told journalists. But he added that the decision is based on legal interpretations "and we respect the decision."

The government's veto precedes an expected ruling on the legality of the state's sway over Portugal Telecom.

There is a good chance that Telefónica "will be able to table the offer again if the golden share is ruled illegal," said ING analyst Georgios Ierodiaconou.

Portugal Telecom's shares dropped sharply after a halt in trading was lifted following the shareholder meeting, falling almost 6% to €7.88. Telefónica shares were down 0.1% at €15.10.

Both companies are increasingly dependent on emerging economies such as Brazil, where a young population and low mobile-penetration rates makes it easier to pick up new wireless and Internet customers.

Brazil has about 183 million cellphone customers, and Vivo is the market leader with a 30%. share. But rivals are close: Claro—the local unit of Carlos Slim's **America Movil** SA; Oi, owned by holding company **Telemar Norte Leste** SA; and **Telecom Italia** SpA's **TIM Participações** are moving to offer combined fixed-line, Internet, television and cellphone services to extend their grip on the market.

BUSINESS & FINANCE

Ruling propels AstraZeneca shares

U.S. judge upholds company's patent on blockbuster cholesterol treatment Crestor, in blow to generic-drug makers

By Peter Loftus

Shares of **AstraZeneca** PLC surged 7.5% in London Wednesday, a day after a U.S. judge upheld its patent for the blockbuster cholesterol drug Crestor, a victory in the British company's effort to ward off early generic competition.

The ruling that the patent was valid and enforceable stemmed from patent-infringement lawsuits AstraZeneca brought against several generic-drug makers that had applied for U.S. regulatory approval to market copycat versions of Crestor before a key patent expired in 2016.

Protecting Crestor from generic competition is critical for AstraZeneca because the drug had U.S. sales of $2.1 billion in 2009; global sales were $4.5 billion. Sales have gotten a boost recently from clinical studies suggesting Crestor could help prevent heart attacks in additional patient populations.

AstraZeneca's shares finished London trading Wednesday at £31.69 ($47.77), up 222 pence. On Tuesday its American depositary shares were up $4.02, or 9%, at $48.74 in 4 p.m. composite trading on the New York Stock Exchange. At late-afternoon Wednesday, they were down $1.26, or 2.6%, at $47.48.

Analysts at Jefferies upgraded AstraZeneca shares to "hold" from "underperform," but cautioned the generic makers may appeal the ruling. Analysts at J.P. Morgan Cazenove—which made a similar upgrade, to "neutral" from "underweight"—say the probability of a reversing ruling "appears low."

AstraZeneca's cholesterol drug, Crestor

The generics makers, including **Mylan** Inc. and **Sun Pharmaceutical Industries** Ltd., had challenged the validity of the Crestor patent, essentially arguing that its invention was obvious to anyone skilled in the art of drug development. They also argued that the patent was unenforceable because they alleged the original patent applicants withheld certain information. AstraZeneca licensed the Crestor patent from **Shionogi Seiyaku Kabushiki Kaisha** of Japan.

AstraZeneca disputed these claims, arguing the patent was valid and enforceable, and asked a judge to block the generics firms from selling copycat versions. A trial in the case was held in February.

U.S. Judge Joseph J. Farnan of the Delaware court sided with AstraZeneca on the key points of the case in a ruling released Tuesday.

"After evaluating the extensive arguments of the parties and the evidence adduced at trial, the court concludes that defendants have not demonstrated by clear and convincing evidence that the...patent is invalid as obvious," Judge Farnan wrote. He added that AstraZeneca provided compelling evidence that "significant work was needed" to develop Crestor.

Judge Farnan granted the generics companies' request to dismiss an AstraZeneca unit, AstraZeneca Pharmaceuticals LP, from the case because it lacked standing. He also ruled that **Apotex** Corp. may be held liable for patent infringement.

Representatives for Apotex, Mylan and Sun Pharma couldn't immediately be reached.

—Sarah Turner contributed to this article.

Celgene buys chemo-drug firm

By Thomas Gryta

Celgene Corp. agreed to acquire **Abraxis BioScience** Inc. for at least $2.9 billion as it expands beyond its core strength in blood-cancer treatments.

Abraxis sells Abraxane, a form of chemotherapy that is approved for treatment of breast cancer and that is being studied in a number of other solid tumors including lung and pancreatic cancers.

The drug has shown lackluster sales growth, but Celgene is making a big bet on the future of the drug and expects the deal to boost its annual revenue by $1 billion by 2015.

"The acquisition of Abraxis is a natural evolution of our business model," Celgene Chief Executive Robert Hugin said on a conference call Wednesday. The deal comes just two weeks after Mr. Hugin assumed his new role, succeeding longtime chief Sol Barer, who remains as chairman.

The deal offers a relatively mild 17% premium to Abraxis' closing price Tuesday but includes contingency rights that could carry significant value. If total milestone payments are achieved, the distribution could exceed $16 per share, not including potential royalty payments.

Under the terms, Celgene will pay $58 a share, or about $2.34 billion in cash, and issue 0.2617 share for each Abraxis share. Abraxis shareholders will also get one tradable contingent value right for each share, which provides for the distribution of milestone payments of up to $650 million related to future approvals of Abraxane, as well as potential royalties.

Abraxis has about 40.4 million shares outstanding, although about 82% of those are owned by Executive Chairman Patrick Soon-Shiong.

Following the news, Celgene shares fell 4.2% to $50.98 in afternoon trading on the Nasdaq Stock Market, while Abraxis surged 21% to $74.31. At those levels, Abraxis shares were trading a couple dollars above the deal's offer price, but that likely reflects the potential of milestone payments from the deal.

"No one is likely to argue that this was a bargain price" for Abraxis, Sanford Bernstein analyst Geoffrey Porges wrote in a note to clients, expecting the valuation to be scrutinized by investors. Regardless, Mr. Porges sees the deal as positive for Celgene, as it remains focused on cancer treatment and can leverage its global commercial infrastructure.

Celgene will pay more than $2.3 billion in cash and issue shares to acquire Abraxis BioScience.

Celgene expects the transaction, which is set to close in the fourth quarter, to reduce adjusted earnings "modestly" in 2011 and add to profit in 2012. The company also backed its 2010 outlook, which it raised in April on strong sales growth of blood-cancer drug Revlimid.

Although Celgene is exploring the treatment of solid tumors, the acquisition of Abraxis is a more aggressive move into that direction. Abraxane is already approved for use in breast cancer and has shown promise for lung and pancreatic cancer.

Although the drug was approved in 2005, its revenue has been relatively flat, coming in at $314.5 million last year, $335.6 million in 2008 and $324.7 million in 2007. Celgene is clearly looking ahead to opportunities for Abraxane, as demonstrated by projecting the deal to add $1 billion in revenue by 2015.

Furthermore, the company highlighted that the drug shouldn't face generic competition until at least 2023, something that is attractive for high-priced cancer treatments.

Although Abraxane was approved in Europe in 2008, Abraxis hasn't aggressively pursued that opportunity, something that Celgene plans to do. While Celgene has a strong presence in Europe, Mr. Hugin said Abraxis has a more advanced presence in China that could be used to expand the sales of Celgene products like Revlimid.

Aside from Abraxane, the company has a number of cancer treatments in earlier development. Perhaps more importantly, it owns the platform technology that created Abraxane, which is the generic chemotherapy paclitaxel encapsulated in particles of albumin, a natural protein found in the human body, making it simpler to administer and allowing for higher doses.

The deal is the biggest since Celgene's 2008 acquisition of Pharmion Corp. for $2.9 billion. Last year, it acquired privately held Gloucester Pharmaceuticals Inc. for $340 million plus milestone payments of up to $300 million. Both deals helped to bolster Celgene's position in its core blood cancer market.

Celgene had 2009 revenue of $2.7 billion, most of which came from Revlimid, Thalomid and Vidaza.

Ford to reduce its debt by more than $4 billion

By Matthew Dolan

Ford Motor Co. said Wednesday it is reducing its debt by more than $4 billion, a sign the auto maker remains confident in its turnaround despite a softening U.S. car market

The bulk of the debt reduction comes from paying down funds owed to an independent trust set up to provide health care for retired members of the United Auto Workers union.

Ford's remaining obligation to the trust is $3.6 billion, which the car maker could now prepay more frequently and at a discount if it uses cash.

The payments still leave Ford with about $27 billion in debt, which is expected to increase as the company takes U.S. government loans designed to help its move to more fuel-efficient cars and trucks.

Ford said it is taking the action to further strengthen its balance sheet and that it remains on track to deliver solid profit and positive automotive operating-related cash flow this year. The deal was signed Friday with representatives of the UAW trust and the payments were effective Wednesday.

At the end of last year Ford had $34.3 billion in debt, almost twice the debt held individually by **General Motors** Co. and **Chrysler** LLC after they cleaned up their balance sheets in bankruptcy court.

Reducing debt remains a top priority of Ford executives. The auto maker has posted profit around the world, including in its critical U.S. market.

The announcement was also a win for the UAW, which earlier raised $1.78 billion for its trust from the well-timed sale of options on Ford shares it owned. The one-day public auction to sell nearly 362.4 million stock warrants of Ford, which amounted to the complete holdings of the trust in the auto maker, was one of the biggest in history.

The trust still owns 68% of Chrysler's common stock and 17.5% of GM's common stock plus warrants for an additional 2.5%. The trust employs independent fiduciaries to handle its investments in the car companies.

To create the trust, GM transferred $23.6 billion, Ford contributed $15 billion and Chrysler handed over $6.8 billion. Those payments are in addition to the common stock and warrants awarded by each of the car companies to the trust.

As part of Wednesday's move, Ford said it is making scheduled payments in cash totaling about $860 million on two notes held by the trust.

In addition, Ford and its credit arm, Ford Motor Credit, are paying a combined $2.9 billion to retire additional debt to the union trust at a 2% discount.

Separately, Ford is making a $255 million cash payment to bring current previously deferred quarterly distributions on a separate debt issue.

With Ford's actions Wednesday and an April payment of $3 billion on its revolving credit facility, Ford will have reduced its debt by more than $7 billion in the second quarter.

The second-quarter debt reduction will save Ford more than $470 million in annual interest expense.

Fast traders face off with big investors

'Gaming' stock trades has some in the U.S. calling for government regulation, others seeking better technology

By Scott Patterson

A high-tech, high-speed poker game is playing out in the stock market, and billions of dollars are at stake.

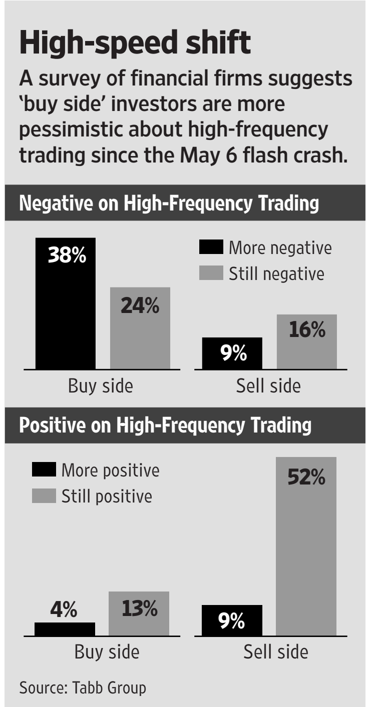
The adversaries are high-frequency traders and big investors such as mutual funds. High-speed firms are using computers to detect large "buy" and "sell" orders to adjust their trades, and traditional investors are scrambling to trade undetected.

The showdown has led to an escalating arms race, with players on both sides plowing money into ever-more-powerful technology to trade effectively. It also has led to tension between these camps as conventional investors call for greater regulation of their high-frequency counterparts.

The clash came to the fore after the May 6 "flash crash," which underscored the rising use of computers and algorithms to trade stocks. In testimony last week before federal regulators investigating the market plunge, high-speed firms contended critics spread false rumors about their trading methods. Traditional money managers said fast traders have harmed their ability to trade stocks and regulators need to step in.

"Attempts to classify some trading styles as 'desirable' or 'undesirable' are unproductive," said Dave Cummings, chairman of **Tradebot Systems** Inc., a high-speed firm, at the June 22 hearing.

Jeff Engelberg, a trader at Southeastern Asset Management Inc., a value-investing firm with about $35 billion under management, said high-speed traders are jumping ahead of his firm's trades. "Short-term traders are able to get an instantaneous glimpse into the future" through direct feeds to exchange data, he said, turning the market into "something nearer to a casino."



High-frequency trading accounts for about two-thirds of U.S. stock-market volume, according to industry estimates. Advocates of the practice include some heavy hitters, such as mutual-fund giant Vanguard Group Inc., which says it helps lower trading costs by narrowing the spread between what investors pay to buy and sell shares.

Traditional money managers largely agree that some costs have dropped. But some say they find certain trades have become more expensive to carry out, thanks to a practice critics call "gaming." With gaming, if a high-speed firm's computers detect a large buy order for a stock, the firm would instantly start snapping up the stock, expecting to quickly sell it back at a higher price as the investor keeps buying.

Phillip Krauss, head of stock trading at Harris Investment Management, says his firm's orders are picked off by high-speed trading firms that use computer programs to detect orders. "They front-run us," said Mr. Krauss, whose firm manages $15 billion in assets.

Bloomberg News

Traditional traders say their orders are getting picked off by high-speed trading firms. Here, the NYSE's trading floor.

To protect themselves, traditional investors like Mr. Krauss are stepping up investments in "anti-gaming" computer power and expertise. Big firms such as **Bank of America** Corp., acting on behalf of thousands of individual investors who trade through its brokerage network, have been rolling out high-tech platforms to help their traders avoid getting gamed.

On Capitol Hill, Sen. Ted Kaufman (D., Del.), an advocate of regulation of high-speed trading, said his office has been fielding complaints from players across Wall Street who say gaming is tilting the field against them.

The Securities and Exchange Commission in January issued a report outlining its concerns about high-frequency trading and related consequences of recent changes in the structure of markets. The agency recently unveiled a plan to give large high-frequency firms unique identification codes to better track their activities.

While gaming isn't blamed for the May 6 crash, that day's downdraft has increased scrutiny of high-speed trading generally. High-speed firms have touted their ability to smooth trading by constantly stepping in to buy and sell stocks. But when trading became chaotic that day, many of these firms—along with other investors—pulled back.

Thirty-eight percent of "buy side" money managers—typically long-term investors—say they have a more negative view of high-frequency trading than before the flash crash, according to a recent survey by Tabb Group.

In many ways, the gaming dynamic isn't new but instead represents an evolution of the market. Wall Street insiders have always tried to use information about competitors' intentions to gain an edge.

Now, information is embedded in streaming market data and computer codes. Algorithms—the mathematical programs that are the building blocks of electronic trading—are expected to account for about 60% of stock trading this year, up from 28% in 2005, according to Aite Group, a firm that tracks electronic trading.

Prudential's CFO says board supports chiefs

By Vladimir Guevarra

LONDON—**Prudential PLC** Chairman Harvey McGrath and Chief Executive Officer Tidjane Thiam still have boardroom support despite the U.K. insurer's failed $35.5 billion bid for the Asian life-insurance business of **American International Group** Inc., its chief financial officer said.

Nic Nicandrou said that it was business as usual at Prudential following the troubled bid for **AIA Group** Ltd. and that the majority of shareholders aren't asking for either of the two men to step down.

Mr. Nicandrou said the company's board of directors has confidence in Messrs. McGrath and Thiam.

The collapse of the AIA offer was followed by persistent reports that some shareholders were privately calling for Messrs. McGrath and Thiam to resign.

Schroders, one of Prudential's 10 largest shareholders, told a U.K. newspaper at the time that "someone at board level should be accountable with the losses associated with this failed deal."

Mr. Nicandrou, on the sidelines of a Standard & Poor's insurance conference Wednesday, said, "Our focus is on going back to running a very successful business."

"People seem to have lost sight of the fact that last year was a record year for us. And as you've seen from the first five months of this year, we continue to be exceptionally strong," Mr. Nicandrou said.

Messrs. McGrath and Thiam sought to pacify angry shareholders at the company's recent general meeting with apologies for the ambitious bid that would have transformed Prudential into an Asian insurance powerhouse.

Even so, they insisted that the move had been the right strategy and said the company would keep an eye on the Asian unit's development and its plans for a potential IPO.

Prudential was forced to try to renegotiate the price of the deal after its major shareholders balked at the price and the level of risk involved in the transaction.

Hong Kong's small investors cool to AgBank

By Yvonne Lee

HONG KONG—Foreign institutional investors are eagerly bidding for **Agricultural Bank of China** Ltd.'s share offering, but Hong Kong's small investors are giving the lender a lukewarm reception.

The portion available for institutional investors in Hong Kong was six to 10 times oversubscribed, people familiar with the matter said. AgBank's initial public offering aims to raise as much as US$23.3 billion total in Hong Kong and Shanghai.

Wednesday was the first day in which the offering was open to Hong Kong retail investors. Total figures for the retail response weren't yet available, but three major brokerages said small investors had subscribed for a total of 499 million Hong Kong dollars (US$64.1 million) worth of shares. That accounted for 11.3% of the offering's retail tranche of as much as HK$4.42 billion. Analysts said the weak appetite wasn't surprising given sluggish market conditions.

MARKETS

Stocks cheer ECB tender

But Europe's major indexes finished the second quarter in the red

By Michele Maatouk

Major European national stock markets eked out small gains Wednesday following a bumpy session, as a lower-than-expected participation rate in the European Central Bank's three-month tender eased fears over the health of the region's banking sector.

But the pan-European Stoxx 600 index fell 0.2% at 243.32 and ended the second quarter with a 7.7% loss.

The euro rose against the dollar, while gold finished with a small gain and oil ended slightly lower.

Stock gains were limited as basic-resource stocks posted big falls amid mixed data out of the U.S. There was also caution ahead of Thursday's expiration of the ECB's one-year funding program and Friday's U.S. nonfarm jobs data for June. **ArcelorMittal** fell 1.9% and **Kazakhmys** slipped 3.7%.

Banking stocks received a boost as fears over a potential liquidity crisis in the financial system receded. The ECB allotted €131.9 billion ($160.9 billion) in funds at its three-month tender, compared with expectations ranging between €200 billion and €300 billion. **Banco Santander** added 3.5% in Madrid, **Crédit Agricole** rose 3.4% and **BNP Paribas** rose 1.9% in Paris and **Deutsche Bank** shares traded up 1.9% in Frankfurt.

The ECB allotted €131.9 billion in funds at its three-month tender, compared with expectations ranging between €200 billion and €300 billion.

The U.K.'s FTSE 100 index ended up 0.1% at 4916.87, France's CAC-40 index rose 0.3% to 3442.89 and Germany's DAX added 0.2% to 5965.52. But all three finished the quarter in the red; London and Paris lost 13% and Frankfurt was down 3.1%.

Stocks dipped in and out of negative territory for most of the afternoon, after a disappointing U.S. ADP employment report. The report showed the private sector added 13,000 jobs in June, versus expectations for a gain of 60,000. Still, a Chicago PMI number helped stocks to claw back some ground. The index came in at 59.1% in June from 59.7% in May, but was still deemed upbeat as levels remained high.

That mixed data left U.S. investors cautious. The Dow Jones Industrial Average fell 96.28 points, or 1%, to 9774.02, heading for its first quarterly percentage drop since the first quarter of 2009.

Short-dated Treasurys were slightly lower as many investors cut their holdings as a result of the recent rally that sent the two-year note's yield to a record low. The two-year note slipped 2/32 to yield 0.633%, while the 10-year note rose 3/32 to yield 2.956%.

Analysts cautioned that worries about Europe's banking sector remain, with many noting that the outcome of the stress tests, due by the end of July, will be closely watched. On Thursday, European banks are set to repay the ECB €442 billion in one-year emergency loans.

Also Thursday, investors will look at euro-zone and U.K. manufacturing data, while the U.S. will report initial jobless claims, ISM manufacturing data and pending home sales.

Late Wednesday in New York, the euro was trading at $1.2244, up from $1.2197 late Tuesday, and sterling was at $1.4955, down from $1.5075. The dollar was at 88.46 yen from 88.55 yen and at 1.0770 Swiss francs from 1.0808 francs.

Light, sweet crude for August delivery fell 31 cents to $75.63 a barrel on the New York Mercantile Exchange after a U.S. government report showed inventories of key petroleum products were higher than expected and demand dropped to a two-month low.

Gold for July delivery was up $3.50 at $1,245.50 per troy ounce on the Comex division of Nymex.

In major market action: BP added 5.3% as talk of a possible takeover resurfaced following a note Tuesday by J.P. Morgan, which cited Exxon Mobil and Royal Dutch Shell as possible candidates to make offers for the company.

Natural resources were under pressure, with copper and platinum futures dropping along with miners. **Vedanta Resources** declined 1% in London.

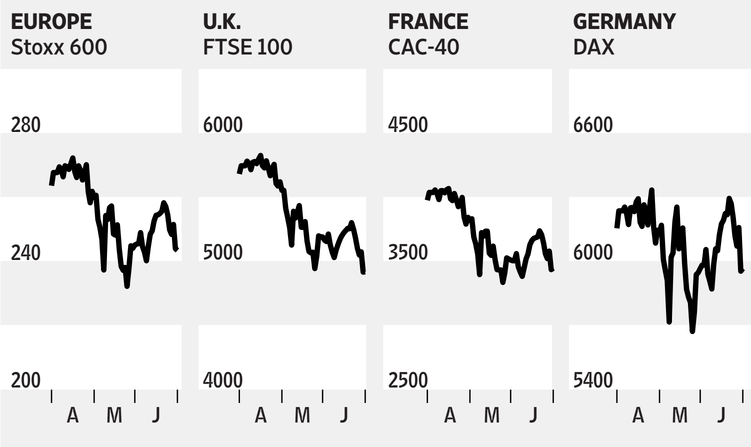
AstraZeneca jumped 7.6% after a U.S. district court enforced a patent protecting Crestor, a cholesterol drug. J.P. Morgan Cazenove upgraded the stock to "neutral" from "underweight," saying the ruling raises the possibility of a significant share-buyback program.

France's **Sanofi-Aventis** rose 1.7% after it agreed to acquire privately held U.S. biopharmaceutical company TargeGen for as much as $560 million.

Portugal Telecom shed 1.9% after the Portuguese government used its "golden share" to block the sale of the company's stake in Brazilian mobile operator Vivo Participaoes to Spain's **Telefónica**. Late Tuesday, Telefónica had sweetened its offer to €7.15 billion. Telefónica's shares rose 1% in Madrid.

—Sarah Turner contributed to this article.

All fall down | Index performance over the past three months



Source: Thomson Reuters via WSJ Market Data Group

BarCap hires from Citi, Credit Suisse

By Anupreeta Das

Barclays Capital, the investment bank owned by the U.K.'s **Barclays** PLC, hired two senior bankers from **Citigroup** Inc. and **Credit Suisse Group** AG to join its global industrials group.

Reid Marsh, previously Citigroup's co-head of global industrials, was appointed chairman of Barclays Capital's global industrials group and will be based in London.

Lawrence Hamdan will head Barclays Capital's global industrials mergers and acquisitions practice and will be an executive chairman of global M&A. Mr. Hamdan, who is leaving Credit Suisse after more than 20 years, was the Swiss bank's vice chairman of the global M&A group.

While at Credit Suisse, Mr. Hamdan advised **Alcoa** on its $5 billion unsolicited takeover of Reynolds Metals and the $12 billion hostile defense and eventual sale of TRW to **Northrop Grumman**, among others.

Both men will join Barclays Capital in mid-September.

The industrials group offers M&A advisory and other banking services to clients in the aerospace, automotive, transportation and other sectors.

Barclays Capital also appointed John Miller, who currently runs the bank's global private-equity banking group, as the new head of the global industrials group. He will continue to head the private-equity banking business.

Messrs. Miller and Hamdan will succeed Mathew Pendo and Scott Mohr, who will remain in senior roles within the industrials group.

Mr. Marsh will fill a newly created position.

Barclays ranked among the 10 busiest banks in global M&A by deal value and across sectors for the first six months, according to Dealogic.

FUND SCORECARD

Global Large-Cap Blend Equity

Funds that invest primarily in equities of large-cap companies from around the globe, where neither growth nor value characteristics predominate. Ranked on % total return (dividends reinvested) in U.S. dollars for one year ending June 30, 2010

Leading 10 Performers

FUND RATING*	FUND NAME	FUND MGM'T CO.	CURR.	LEGAL BASE	YTD	% Return in $US** 1-YR	2-YR	5-YR
1	**New Capital Alt Strat Tact Opps EUR**	EFG Asset Management	EUR	Ireland	**-10.06**	46.53	-15.14	-1.76
5	**Margin of Safety Fund (USD) Part I**	Pastel Associés	USD	Luxembrg	**-0.08**	38.01	8.51	5.23
NS	**Manulife GF Glbl Contrarian AA**	Manulife Global Fund	USD	Luxembrg	**3.23**	34.93	-4.52	NS
5	**Cantillon Global Value A1**	Cantillon Capital Management LLP	USD	Ireland	**5.37**	30.46	1.65	6.25
5	**HMG Globetrotter Acc**	HMG Finance	EUR	France	**-0.01**	30.25	0.75	NS
NS	**Direct Invest Explorer Select I I**	Universal-Investment GmbH	EUR	Germany	**-10.18**	28.86	-24.13	NS
1	**Danske FoF Global Growth C**	Danske Fund Management Company S.A.	EUR	Luxembrg	**-3.72**	27.79	-14.76	3.87
5	**Degroof Eqs World ex J.E.U.**	Bank Degroof	EUR	Belgium	**-2.72**	27.44	-8.60	8.43
3	**Scottish American Inv Tr**	Baillie Gifford </td> Co Limited.	GBP	United Kingdom	**-5.48**	25.31	-13.97	-0.52
2	**Compartiment Cap In**	Cap West	EUR	France	**-2.83**	24.72	-9.17	0.33

NOTE: Changes in currency rates will affect performance and rankings.
KEY: ** 2YR and 5YR performance is annualized
NA-not available due to incomplete data;
NS-fund not in existence for entire period

Source: Morningstar, Ltd
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FUND NAME	GF	AT	LB	NAV DATE	CR	NAV	YTD	12-MO	2-YR
Andfs. Espanya	EU	EQ	AND	06/29	EUR	10.69	-19.0	1.2	-10.4
Andfs. Estats Units	US	EQ	AND	06/29	EUR	13.49	-7.4	12.1	-11.1
Andfs. Europa	EU	EQ	AND	06/29	EUR	6.80	-13.3	4.1	-12.3
Andfs. Franca	EU	EQ	AND	06/29	EUR	8.45	-13.2	4.9	-12.9
Andfs. Japo	JP	EQ	AND	06/29	JPY	472.30	-7.6	-0.3	-16.3
Andfs. Plus Dollars	US	BA	AND	06/29	USD	9.16	-3.0	7.2	-5.0
Andfs. RF Dolars	US	BD	AND	06/29	USD	11.68	2.2	9.9	1.5
Andfs. RF Euros	EU	BD	AND	06/29	EUR	10.92	0.9	10.1	1.4
Andorfons	EU	BD	AND	06/29	EUR	14.64	1.0	11.5	0.8
Andorfons Alternative Premium	OT	OT	AND	04/30	EUR	99.25	0.3	6.6	-6.5
Andorfons Mix 30	EU	BA	AND	06/29	EUR	9.39	-1.8	12.4	-6.0
Andorfons Mix 60	EU	BA	AND	06/29	EUR	8.76	-5.6	10.0	-12.4

■ CHARTERED ASSET MANAGEMENT PTE LTD - TEL NO: 65-6835-8866
Fax No: 65-6835 8865, Website: www.cam.com.sg, Email: cam@cam.com.sg

FUND NAME	GF	AT	LB	NAV DATE	CR	NAV	YTD	12-MO	2-YR
CAM-GTF Limited	AS	EQ	MUS	06/25	USD	327098.43	19.2	72.4	16.7

■ DJE INVESTMENT S.A.
internet: www.dje.lu email: info@dje.lu phone: +00 352 269 2522 0 fax: +00 352 269 25252

FUND NAME	GF	AT	LB	NAV DATE	CR	NAV	YTD	12-MO	2-YR
DJE Real Estate P	OT	OT	LUX	06/30	EUR	8.98	1.4	-0.2	-2.8
DJE-Absolut P	GL	EQ	LUX	06/30	EUR	210.72	2.9	17.8	-4.7
DJE-Alpha Glbl P	EU	BA	LUX	06/30	EUR	174.47	-2.1	9.6	-5.2
DJE-Div& Substanz P	GL	EQ	LUX	06/30	EUR	217.96	1.3	18.6	-0.9
DJE-Gold&Resourc P	OT	EQ	LUX	06/30	EUR	198.95	16.8	40.7	0.5
DJE-Renten Glbl P	EU	BD	LUX	06/30	EUR	136.42	4.5	9.7	6.5
LuxPro-Dragon I	AS	EQ	LUX	06/30	EUR	148.76	-5.8	13.2	8.9
LuxPro-Dragon P	AS	EQ	LUX	06/30	EUR	144.41	-6.1	12.7	8.4
LuxTopic-Aktien Europa	EU	EQ	LUX	06/30	EUR	16.58	-3.9	11.4	1.5
LuxTopic-Pacific	AS	EQ	LUX	06/30	EUR	18.45	12.6	41.6	2.6

■ HSBC ALTERNATIVE INVESTMENTS LIMITED
T +44 20 7860 3074 F + 44 20 7860 3174 www.hail.hsbc.com

■ HSBC Portfolio Selection Fund

FUND NAME	GF	AT	LB	NAV DATE	CR	NAV	YTD	12-MO	2-YR
Sel Emerg Mkt Debt	GL	BD	GGY	12/31	USD	350.10	42.6	42.6	6.0
Sel Emerg Mkt Equity	GL	EQ	GGY	12/31	USD	207.66	58.5	58.5	-12.4
Sel Euro Equity EUR	US	EQ	GGY	12/31	EUR	96.29	29.2	29.2	-18.8
Sel European Equity	EU	EQ	GGY	12/31	USD	181.94	32.3	32.3	-19.9
Sel Glob Equity	GL	EQ	GGY	12/31	USD	185.29	31.8	31.8	-16.8
Sel Glob Fxd Inc	GL	BD	GGY	12/31	USD	143.46	11.2	11.2	-1.1
Sel Pacific Equity	AS	EQ	GGY	12/31	USD	143.75	59.0	59.0	-9.7
Sel US Equity	US	EQ	GGY	12/31	USD	123.56	22.6	22.6	-14.9
Sel US Sm Cap Eq	US	EQ	GGY	12/31	USD	168.82	29.1	29.1	-14.5

■ HSBC TRINKAUS INVESTMENT MANAGERS SA
E-Mail: funds@hsbctrinkaus.lu Telephone: 352 - 4718471

FUND NAME	GF	AT	LB	NAV DATE	CR	NAV	YTD	12-MO	2-YR
Prosperity Return Fund A	JP	BD	LUX	06/28	JPY	10048.30	1.3	NS	NS
Prosperity Return Fund B	EU	BD	LUX	06/28	JPY	8974.39	-9.2	NS	NS
Prosperity Return Fund C	EU	BD	LUX	06/28	USD	90.24	-6.5	NS	NS
Prosperity Return Fund D	EU	BD	LUX	06/28	EUR	108.46	11.1	NS	NS
Renaissance Hgh Grade Bd A	JP	BD	LUX	06/28	JPY	10051.65	1.6	NS	NS
Renaissance Hgh Grade Bd B	EU	BD	LUX	06/28	JPY	8911.60	-9.6	NS	NS
Renaissance Hgh Grade Bd C	EU	BD	LUX	06/28	USD	89.01	-6.8	NS	NS
Renaissance Hgh Grade Bd D	EU	BD	LUX	06/28	EUR	105.17	8.0	NS	NS

■ MP ASSET MANAGEMENT INC.
Tel: +386 1 587 47 77

FUND NAME	GF	AT	LB	NAV DATE	CR	NAV	YTD	12-MO	2-YR
MP-BALKAN.SI	OT	OT	SVN	06/29	EUR	21.23	-12.7	-12.5	-36.2
MP-TURKEY.SI	OT	OT	SVN	06/29	EUR	40.76	17.4	59.5	12.7

■ PAREX ASSET MANAGEMENT IPAS
Republikas square 2a, Riga, LV-1522, Latvia
www.parexgroup.com Tel: +371 67010810

FUND NAME	GF	AT	LB	NAV DATE	CR	NAV	YTD	12-MO	2-YR
Parex Eastern Europ Bal	OT	OT	LVA	06/29	EUR	14.49	8.4	25.8	2.2
Parex Eastern Europ Bd	EU	BD	LVA	06/29	USD	16.14	10.2	31.0	7.0
Parex Russian Eq	EE	EQ	LVA	06/29	USD	20.24	3.7	39.0	-19.7

■ PICTET & CIE, ROUTE DES ACACIAS 60, CH-1211 GENEVA 73
Tel: +41 (58) 323 3000 Web: www.pictetfunds.com

FUND NAME	GF	AT	LB	NAV DATE	CR	NAV	YTD	12-MO	2-YR
Pictet-Agriculture-P EUR	OT	OT	LUX	06/29	EUR	123.46	1.8	31.2	NS
Pictet-Asian Eq (ExJpn)-I USD	OT	OT	LUX	06/30	USD	161.38	-8.0	17.5	-7.9
Pictet-Asian Eq (ExJpn)-P USD	OT	OT	LUX	06/30	USD	152.95	-8.3	16.5	-8.7
Pictet-Biotech-P USD	OT	OT	LUX	06/29	USD	246.62	-12.9	-10.9	-13.6
Pictet-CHF Liquidity-P	OT	OT	LUX	06/29	CHF	124.12	-0.1	0.0	0.3
Pictet-CHF Liquidity-Pdy	OT	OT	LUX	06/29	CHF	93.33	-0.1	0.0	0.3
Pictet-Conv. Bonds-P EUR	OT	OT	LUX	06/29	EUR	99.67	NS	NS	NS
Pictet-Digital Comm-P USD	OT	EQ	LUX	06/29	USD	112.78	-3.5	17.5	0.3
Pictet-Eastern Europe-P EUR	EU	EQ	LUX	06/29	EUR	346.24	10.1	61.6	-8.4
Pictet-Emerging Markets-P USD	GL	EQ	LUX	06/30	USD	482.37	-9.6	19.7	-13.2
Pictet-Eu Equities Sel-P EUR	EU	EQ	LUX	06/29	EUR	401.00	-1.7	19.0	-8.0
Pictet-EUR Bonds-P	EU	BD	LUX	06/29	EUR	397.20	3.3	6.5	5.9
Pictet-EUR Bonds-Pdy	EU	BD	LUX	06/29	EUR	291.27	3.3	6.5	5.9
Pictet-EUR Corporate Bonds-P	EU	BD	LUX	06/29	EUR	151.41	2.4	11.7	8.4
Pictet-EUR Corporate Bonds-Pdy	EU	BD	LUX	06/29	EUR	102.64	2.4	11.7	8.4
Pictet-EUR High Yield-P	EU	BD	LUX	06/29	EUR	150.57	3.0	29.3	6.0
Pictet-EUR High Yield-Pdy	EU	BD	LUX	06/29	EUR	82.53	3.0	29.3	6.0
Pictet-EUR Liquidity-P	EU	MM	LUX	06/29	EUR	136.07	0.1	0.3	1.4
Pictet-EUR Liquidity-Pdy	EU	MM	LUX	06/29	EUR	96.74	0.1	0.3	1.4
Pictet-EUR Sovereign Liq-P	OT	OT	LUX	06/29	EUR	102.41	0.0	0.1	1.1
Pictet-EUR Sovereign Liq-Pdy	OT	OT	LUX	06/29	EUR	99.92	0.0	0.1	1.1
Pictet-Europe Index-P EUR	EU	EQ	LUX	06/29	EUR	99.01	-2.0	19.9	-5.2
Pictet-European Sust Eq-P EUR	EU	EQ	LUX	06/29	EUR	133.18	0.1	22.6	-4.2
Pictet-Glo Emerging Debt-P USD	GL	BD	LUX	06/29	USD	254.11	4.5	17.2	12.9
Pictet-Glo Emerging Debt-Pdy USD	GL	BD	LUX	06/29	USD	165.03	4.5	17.1	12.9
Pictet-Greater China-P USD	AS	EQ	LUX	06/30	USD	315.12	-10.3	9.6	-3.6
Pictet-Indian Equities-P USD	EA	EQ	LUX	06/30	USD	366.61	1.6	27.7	9.0
Pictet-Japan Index-P JPY	JP	EQ	LUX	06/30	JPY	8202.33	-7.7	-7.8	-19.7
Pictet-Japanese Eq 130/30-P JPY	JP	EQ	LUX	06/30	JPY	4178.49	-5.4	-3.3	-18.1
Pictet-Japanese Eq Sel-I JPY	JP	EQ	LUX	06/30	JPY	7177.79	-7.3	-6.9	-22.5
Pictet-Japanese Eq Sel-P JPY	JP	EQ	LUX	06/30	JPY	6939.96	-7.6	-7.5	-23.0
Pictet-MENA-P USD	OT	OT	LUX	06/29	USD	45.44	1.3	NS	NS
Pictet-Pac (ExJpn) Idx-P USD	AS	EQ	LUX	06/30	USD	242.89	-11.1	18.5	-7.4
Pictet-Piclife-P CHF	CH	BA	LUX	06/29	CHF	773.39	-2.2	7.0	0.2
Pictet-Premium Brands-P EUR	OT	EQ	LUX	06/29	EUR	75.05	14.9	49.8	11.3
Pictet-Russian Equities-P USD	OT	OT	LUX	06/30	USD	61.12	-5.1	48.4	-21.7
Pictet-Security-P USD	GL	EQ	LUX	06/29	USD	97.90	-1.7	17.9	1.5
Pictet-Small Cap Europe-P EUR	EU	EQ	LUX	06/29	EUR	469.08	3.6	25.7	-5.6
Pictet-Timber-P USD	OT	OT	LUX	06/29	USD	99.29	-6.8	28.9	NS
Pictet-USA Index-P USD	US	EQ	LUX	06/29	USD	85.05	-6.2	13.4	-8.5
Pictet-USD Government Bonds-P	US	BD	LUX	06/29	USD	536.16	5.6	6.2	5.9
Pictet-USD Government Bonds-Pdy	US	BD	LUX	06/29	USD	383.37	5.6	6.2	5.9
Pictet-USD Liquidity-P	US	MM	LUX	06/29	USD	131.01	0.0	0.1	0.8
Pictet-USD Liquidity-Pdy	US	MM	LUX	06/29	USD	84.83	0.0	0.1	0.8
Pictet-USD Sovereign Liq-P	OT	OT	LUX	06/29	USD	101.56	0.0	0.0	0.8
Pictet-USD Sovereign Liq-Pdy	OT	OT	LUX	06/29	USD	100.06	0.0	0.0	0.8
Pictet-Water-P EUR	GL	EQ	LUX	06/29	EUR	134.71	8.7	23.4	1.2
Pictet-World Gvt Bonds-P USD	GL	BD	LUX	06/30	USD	164.06	-0.6	3.0	3.4
Pictet-World Gvt Bonds-Pdy USD	GL	BD	LUX	06/30	USD	133.04	-0.6	3.0	3.4

■ POLAR CAPITAL PARTNERS LIMITED
International Fund Managers (Ireland) Limited PH - 353 1 670 660 Fax - 353 1 670 1185

FUND NAME	GF	AT	LB	NAV DATE	CR	NAV	YTD	12-MO	2-YR
Global Technology	OT	OT	IRL	06/29	USD	13.11	-2.5	22.0	2.9
Japan Fund USD	JP	EQ	IRL	06/30	USD	15.95	0.4	0.9	-0.4
Polar Healthcare Class I USD	OT	OT	IRL	06/29	USD	11.78	-8.9	8.4	NS
Polar Healthcare Class R USD	OT	OT	IRL	06/29	USD	11.73	-9.1	7.8	NS

■ Hemisphere Management (Ireland) Limited

FUND NAME	GF	AT	LB	NAV DATE	CR	NAV	YTD	12-MO	2-YR
Discovery USD A	OT	OT	CYM	05/31	USD	109.20	10.8	12.5	12.2
Elbrus USD A	GL	EQ	CYM	05/31	USD	10.51	35.9	-24.7	-17.9
Europn Conviction USD B	EU	EQ	CYM	05/31	USD	135.06	-1.7	0.6	6.4
Europn Forager USD B	OT	OT	CYM	05/31	USD	226.81	1.3	15.9	4.7
Latin America USD A	GL	EQ	CYM	06/30	USD	14.25	2.2	-4.7	14.7
Paragon Limited USD A	OT	OT	CYM	12/31	USD	309.60	12.7	12.7	14.2
UK Fund USD A	OT	OT	CYM	04/30	USD	187.82	2.1	6.9	5.4

■ PT CIPTADANA ASSET MANAGEMENT
Tel: +6221 25574 883 Fax: +6221 25574 893 Website: www.ciptadana-asset.com

FUND NAME	GF	AT	LB	NAV DATE	CR	NAV	YTD	12-MO	2-YR
Indonesian Grth Fund	EA	EQ	CYM	06/24	USD	147.24	15.6	66.2	9.6

■ RUSSELL INVESTMENT GROUP
Multi-Style, Multi-Manager Funds www.russell.com

FUND NAME	GF	AT	LB	NAV DATE	CR	NAV	YTD	12-MO	2-YR
ACTION FRANCE A	OT	OT	IRL	06/29	EUR	637.86	-9.8	11.3	-10.0
CORE EUROZONE EQ B	OT	OT	IRL	06/29	EUR	761.08	-8.5	12.4	-8.5
EURO FIXED INCOME A	EU	BD	IRL	06/29	EUR	1313.96	5.6	13.8	4.5
EURO FIXED INCOME B	EU	BD	IRL	06/29	EUR	1407.18	5.9	14.5	5.1
EUROPEAN SMALL CAP A	EU	EQ	IRL	06/29	EUR	1238.10	3.1	28.0	-7.3
EUROPEAN SMALL CAP B	EU	EQ	IRL	06/29	EUR	1330.14	3.4	28.8	-6.8
EUROZONE AGG A EUR	EU	EQ	IRL	06/29	EUR	639.61	-2.5	21.3	-6.7
EUROZONE AGG B EUR	EU	EQ	IRL	06/29	EUR	921.91	-2.2	22.0	-6.2
GLB REAL EST SEC A	OT	OT	IRL	06/29	USD	856.19	-4.5	23.6	-12.5
GLB REAL EST SEC B	OT	OT	IRL	06/29	USD	885.31	-4.2	24.3	-12.0
GLB REAL EST SEC EH A	OT	OT	IRL	06/29	EUR	778.72	-3.2	22.2	-12.1
GLB REAL EST SEC SH B	OT	OT	IRL	06/29	GBP	73.61	-2.8	23.4	-12.1
GLB STRAT YIELD A	EU	BD	IRL	06/29	EUR	1681.71	4.6	25.5	7.3
GLB STRAT YIELD B	EU	BD	IRL	06/29	EUR	1804.83	4.9	26.2	7.9
GLOBAL BOND A	EU	BD	IRL	06/29	EUR	1322.95	19.7	28.8	18.0
GLOBAL BOND B	EU	BD	IRL	06/29	EUR	1413.10	20.1	29.7	18.7
GLOBAL BOND EH A	GL	BD	IRL	06/29	EUR	1474.33	7.2	15.9	7.9
GLOBAL BOND EH B	GL	BD	IRL	06/29	EUR	1569.49	7.5	16.6	8.6
JAPAN EQUITY A	JP	EQ	IRL	06/29	JPY	10840.41	-6.9	-7.2	-18.8
JAPAN EQUITY B	JP	EQ	IRL	06/29	JPY	11588.56	-6.6	-6.6	-18.3
PAC BASIN (X JPN) A	AS	EQ	IRL	06/29	USD	2138.12	-6.5	22.7	-1.2
PAC BASIN (X JPN) B	AS	EQ	IRL	06/29	USD	2288.63	-6.2	23.4	-0.6
PAN EUROPEAN EQUITY A	EU	EQ	IRL	06/29	EUR	947.13	-1.6	22.0	-6.2
PAN EUROPEAN EQUITY B	EU	EQ	IRL	06/29	EUR	1012.51	-1.3	22.7	-5.7
US EQUITY A	US	EQ	IRL	06/29	USD	809.59	-7.2	12.8	-10.6
US EQUITY B	US	EQ	IRL	06/29	USD	869.35	-6.9	13.4	-10.1
US SMALL CAP EQUITY A	US	EQ	IRL	06/29	USD	1269.61	-1.5	20.8	-9.0
US SMALL CAP EQUITY B	US	EQ	IRL	06/29	USD	1364.19	-1.2	21.5	-8.4

■ SEB ASSET MANAGEMENT S.A.
www.seb.se

FUND NAME	GF	AT	LB	NAV DATE	CR	NAV	YTD	12-MO	2-YR
Asset Sele Opp C EUR	OT	OT	NA	06/30	EUR	97.75	-1.3	NS	NS

■ SEB Fund 1

FUND NAME	GF	AT	LB	NAV DATE	CR	NAV	YTD	12-MO	2-YR
Asset Sele C EUR	OT	OT	LUX	06/30	EUR	13.77	-0.7	1.7	7.4
Asset Sele C H-CHF	OT	OT	LUX	06/30	CHF	95.45	-0.8	1.3	NS
Asset Sele C H-GBP	OT	OT	LUX	06/30	GBP	96.94	-0.5	2.3	NS
Asset Sele C H-JPY	OT	OT	LUX	06/30	JPY	9613.81	-0.5	1.7	NS
Asset Sele C H-NOK	OT	OT	LUX	06/30	NOK	111.20	0.0	2.6	NS
Asset Sele C H-SEK	OT	OT	LUX	06/30	SEK	137.93	-0.9	1.5	7.7
Asset Sele C H-USD	OT	OT	LUX	06/30	USD	96.74	-0.6	2.0	NS
Asset Sele CG-EUR	OT	OT	LUX	06/30	GBP	97.74	-1.2	NS	NS
Asset Sele D H-SEK	OT	OT	LUX	06/30	SEK	127.23	-0.8	1.5	NS
Choice Global Value -C-	GL	EQ	LUX	06/30	SEK	72.76	-5.6	11.9	-11.3
Choice Global Value -D-	OT	OT	LUX	06/30	SEK	67.86	-5.6	11.9	-11.3
Choice Global Value -I-	OT	OT	LUX	06/30	EUR	6.81	1.4	27.6	-11.0
Choice Japan Fd -C-	OT	OT	LUX	06/30	JPY	43.96	-6.2	-10.3	-20.8
Choice Japan Fd -D-	OT	OT	LUX	06/30	JPY	39.36	-6.2	-10.3	-20.8
Choice Jpn Chance/Risk -C-	OT	OT	LUX	06/30	JPY	44.72	-12.2	-11.3	-24.2
Choice NthAmChance/Risk -C-	OT	OT	LUX	06/30	USD	3.63	-7.6	11.0	-14.7
Ethical Europe Fd -C-	OT	OT	LUX	06/30	EUR	1.87	-4.3	16.8	-11.3
Europe Fund -C-	OT	OT	LUX	06/30	EUR	2.74	-3.0	19.0	-10.2
Europe Fund -D-	OT	OT	LUX	06/30	EUR	1.47	-3.0	19.0	NS
Europe Index Fund -C-	OT	OT	LUX	06/30	EUR	3.95	-2.8	19.0	-10.8
Global Chance/Risk Fd -C-	OT	OT	LUX	06/30	EUR	0.64	6.2	27.5	-2.8
Global Fd -C-	OT	OT	LUX	06/30	USD	1.93	-9.3	9.2	-14.8
Global Fd -D-	OT	OT	LUX	06/30	USD	1.20	-9.3	9.2	NS
Nordic Fd -C-	OT	OT	LUX	06/30	EUR	5.91	-1.9	13.9	-2.5

■ SEB Fund 2

FUND NAME	GF	AT	LB	NAV DATE	CR	NAV	YTD	12-MO	2-YR
Choice Asia ex. Japan -C-	OT	OT	LUX	06/30	USD	7.00	-5.3	18.1	-2.1
Choice Asia ex. Japan -D-	OT	OT	LUX	06/30	USD	1.23	-5.3	18.2	NS
Currency Alpha EUR -IC-	OT	OT	LUX	06/30	EUR	10.28	-0.2	-2.9	-1.5
Currency Alpha EUR -RC-	OT	OT	LUX	06/30	EUR	10.16	-0.4	-3.3	-1.9
Currency Alpha SEK -ID-	OT	OT	LUX	06/30	SEK	91.77	-0.2	-3.0	-3.5
Currency Alpha SEK -RC-	OT	OT	LUX	06/30	SEK	96.73	-0.4	-3.3	-1.9
Generation Fd 80 -C-	OT	OT	LUX	06/30	SEK	7.89	-0.4	12.2	-1.6
Nordic Focus SH A	OT	OT	LUX	06/30	EUR	82.52	2.3	33.8	-1.0
Nordic Focus SH B	OT	OT	LUX	06/30	SEK	83.59	2.3	33.8	-1.0
Nordic Focus SH C	OT	OT	LUX	06/30	NOK	81.26	2.3	33.8	-1.0
Russia Fd -C-	OT	OT	LUX	06/30	EUR	9.60	8.6	61.1	-9.1

■ SEB Fund 3

FUND NAME	GF	AT	LB	NAV DATE	CR	NAV	YTD	12-MO	2-YR
Ethical Glbl Index Fd -D-	OT	OT	LUX	06/30	USD	0.70	-14.4	6.8	-13.4
Ethical Glbl Index Fd -C-	OT	OT	LUX	06/30	USD	0.73	-6.0	8.8	NS
Ethical Sweden Fd -D-	OT	OT	LUX	06/30	SEK	43.50	5.4	28.1	11.6
Index Linked Bd Fd SEK -D-	OT	OT	LUX	06/30	SEK	13.19	2.6	6.6	4.3
Medical Fd -D-	OT	OT	LUX	06/30	USD	3.02	-9.3	8.1	-5.5
Short Medium Bd Fd SEK -D-	OT	OT	LUX	06/30	SEK	8.56	-0.1	0.1	1.1
Technology Fd -C-	OT	OT	LUX	06/30	USD	0.19	-8.4	13.9	NS
Technology Fd -D-	OT	OT	LUX	06/30	USD	2.31	-8.4	13.9	-2.9
U.S. Index Fd -C-	OT	OT	LUX	06/30	USD	1.70	-7.1	13.3	-9.7
U.S. Index Fd -D-	OT	OT	LUX	06/30	USD	1.68	-8.0	12.2	-10.1
World Fd -C-	OT	OT	LUX	06/30	USD	26.70	-6.2	13.4	NS
World Fd -D-	OT	OT	LUX	06/30	USD	1.99	-7.8	11.4	-8.9

■ SEB Fund 4

FUND NAME	GF	AT	LB	NAV DATE	CR	NAV	YTD	12-MO	2-YR
Short Bond Fd EUR -C-	OT	OT	LUX	06/30	EUR	1.27	-0.1	-0.2	0.2
Short Bond Fd EUR -D-	OT	OT	LUX	06/30	EUR	0.49	-1.3	-1.4	NS
Short Bond Fd SEK -C-	OT	OT	LUX	06/30	SEK	21.96	0.0	0.3	1.3
Short Bond Fd SEK HNWC	OT	OT	LUX	06/30	SEK	11.11	0.2	NS	NS
Short Bond Fd SEK HNWD	OT	OT	LUX	06/30	SEK	9.95	-1.9	NS	NS
Short Bond Fd USD -C-	OT	OT	LUX	06/30	USD	2.48	-0.3	-0.6	0.1

■ SEB Fund 5

FUND NAME	GF	AT	LB	NAV DATE	CR	NAV	YTD	12-MO	2-YR
Bond Fd SEK -C-	NO	BD	LUX	06/30	SEK	43.89	2.4	4.8	7.9
Bond Fd SEK -D-	NO	BD	LUX	06/30	SEK	12.29	-1.2	1.1	6.0
Bond Fd SEK HNWD	OT	OT	LUX	06/30	SEK	8.92	2.6	NS	NS
Corp. Bond Fd EUR -C-	EU	BD	LUX	06/30	EUR	1.31	2.9	12.9	6.0
Corp. Bond Fd EUR -D-	EU	BD	LUX	06/30	EUR	0.97	3.0	12.3	6.0
Corp. Bond Fd SEK -C-	NO	BD	LUX	06/30	SEK	13.12	4.3	15.3	4.6
Corp. Bond Fd SEK -D-	NO	BD	LUX	06/30	SEK	9.55	4.3	15.3	4.6
Danish Mortgage Bond Fd EUR -ID-	NO	BD	LUX	06/30	EUR	106.61	6.7	10.2	7.8
Danish Mortgage Bond Fd EUR -RC-	NO	BD	LUX	06/30	EUR	115.96	6.5	9.7	9.9
Flexible Bond Fd -C-	NO	BD	LUX	06/30	SEK	21.33	-0.1	0.4	3.3
Flexible Bond Fd -D-	NO	BD	LUX	06/30	SEK	11.32	-0.1	0.4	3.3

■ SEB Sicav 1

FUND NAME	GF	AT	LB	NAV DATE	CR	NAV	YTD	12-MO	2-YR
Choice Emerging Mkts Fd -C-	OT	OT	LUX	06/30	USD	2.44	-8.7	18.1	-8.3
Eastern Europe exRussia Fd -C-	OT	OT	LUX	06/30	EUR	2.51	-6.2	18.8	-11.3

■ SEB Sicav 2

FUND NAME	GF	AT	LB	NAV DATE	CR	NAV	YTD	12-MO	2-YR
Choice Asia SmCap exJpn -C-	OT	OT	LUX	06/30	SEK	32.05	-0.4	25.4	12.7
Eastern Europe SmCap Fd -C-	OT	OT	LUX	06/30	EUR	2.93	6.0	47.6	-7.0
Europe Chance/Risk Fd -C-	OT	OT	LUX	06/30	EUR	1014.69	-2.1	19.4	-12.3
Listed Private Equity -C-	OT	OT	LUX	06/30	EUR	137.88	7.0	40.7	NS
Listed Private Equity -IC-	OT	OT	LUX	06/30	EUR	83.98	10.3	51.7	NS
Listed Private Equity -ID-	OT	OT	LUX	06/30	EUR	80.28	10.1	51.1	NS
Nordic Small Cap -C-	OT	OT	LUX	06/29	EUR	139.14	3.2	NS	NS
Nordic Small Cap -IC-	OT	OT	LUX	06/29	EUR	139.92	3.5	NS	NS

■ SEB Sicav 3

FUND NAME	GF	AT	LB	NAV DATE	CR	NAV	YTD	12-MO	2-YR
Asset Sele Defensive EUR -C-	OT	OT	LUX	06/30	EUR	98.49	-1.3	-0.6	NS
Asset Sele Defensive GBP -D-	OT	OT	LUX	06/30	GBP	97.74	-1.2	NS	NS
Asset Sele Defensive SEK -A-	OT	OT	LUX	06/30	SEK	77.25	-1.3	-0.4	-14.1
Asset Sele Defensive SEK -C-	OT	OT	LUX	06/30	SEK	98.44	-1.3	-0.7	NS
Asset Sele Defensive SEK -D-	OT	OT	LUX	06/30	SEK	69.10	-1.3	-0.3	-14.1
Asset Sele Defensive USD -C-	OT	OT	LUX	06/30	USD	99.79	-1.1	-0.6	NS
Asset Sele Opp C H NOK	OT	OT	LUX	06/30	NOK	101.52	-0.7	3.5	NS
Asset Sele Opp C H SEK	OT	OT	LUX	06/30	SEK	99.35	-1.5	2.0	NS
Asset Sele Opp D GBP	OT	OT	LUX	06/30	GBP	95.19	-0.9	NS	NS
Asset Sele Opp IC EUR	OT	OT	LUX	06/30	EUR	100.54	-1.3	2.6	NS
Asset Sele Opp ID H GBP	OT	OT	LUX	06/30	GBP	100.79	-0.9	3.2	NS
Asset Sele Opp ID H SEK	OT	OT	LUX	06/30	SEK	99.99	-1.5	2.1	NS
Asset Sele Original C EUR	OT	OT	LUX	06/30	EUR	100.89	-0.5	1.4	NS
Asset Sele Original D GBP	OT	OT	LUX	06/30	GBP	101.59	-0.3	2.1	NS
Asset Sele Original ID GBP	OT	OT	LUX	06/30	GBP	101.22	-0.3	1.7	NS

■ SG ASSET MANAGEMENT HTTP://WWW.SGAM.COM
A company of Amundi Group

FUND NAME	GF	AT	LB	NAV DATE	CR	NAV	YTD	12-MO	2-YR
Bonds ConvEurope A	OT	OT	LUX	06/29	EUR	30.85	4.2	12.1	2.1
Bonds Eur Corp A	OT	OT	LUX	06/29	EUR	23.30	0.8	6.6	4.2
Bonds Eur Hi Yld A	OT	OT	LUX	06/29	EUR	21.14	3.1	26.1	4.5
Bonds EURO A	OT	OT	LUX	06/29	EUR	41.98	2.2	5.1	7.1
Bonds Europe A	OT	OT	LUX	06/29	EUR	40.60	3.8	5.8	7.5
Bonds US MtgBkSec A	OT	OT	LUX	04/29	USD	24.41	-4.7	11.9	0.0
Bonds World A	OT	OT	LUX	06/29	USD	41.65	-0.9	3.9	3.4
Eq. AsiaPac Dual Strategies A	OT	OT	LUX	06/29	USD	9.41	-9.7	17.3	-6.2
Eq. China A	OT	OT	LUX	06/29	USD	21.22	-12.1	5.1	-2.1
Eq. Concentrated Euroland A	OT	OT	LUX	06/29	EUR	80.98	-12.9	1.2	-14.6
Eq. ConcentratedEuropeA	OT	OT	LUX	06/29	EUR	25.99	-3.8	14.3	-9.0
Eq. Emerging Europe A	OT	OT	LUX	06/28	EUR	26.20	11.2	58.3	-15.8
Eq. Equities Global Energy	OT	OT	LUX	06/28	USD	15.00	-17.3	-0.9	-27.8
Eq. Euroland A	OT	OT	LUX	06/29	EUR	9.75	-10.0	7.8	-13.8
Eq. Euroland MidCapA	OT	OT	LUX	04/30	EUR	14.61	1.4	-45.7	-33.8
Eq. Euroland Small Cap A	OT	OT	LUX	06/28	EUR	143.51	1.7	27.1	-5.4
Eq. EurolandCyclclsA	OT	OT	LUX	06/29	EUR	17.66	2.3	23.8	-6.7
Eq. EurolandFinancialA	OT	OT	LUX	06/29	EUR	9.17	-15.1	6.3	-16.0
Eq. Glbl Emg Cty A	OT	OT	LUX	06/29	USD	8.24	-14.8	2.9	-16.3
Eq. Global A	OT	OT	LUX	06/29	USD	25.16	-9.7	10.6	-11.8
Eq. Global Resources A	OT	OT	LUX	06/28	USD	108.20	-0.9	24.8	-16.2
Eq. Gold Mines A	OT	OT	LUX	06/28	USD	34.56	14.1	38.4	5.4
Eq. India A	OT	OT	LUX	06/29	USD	131.10	0.3	20.7	7.4
Eq. Japan CoreAlpha A	OT	OT	LUX	06/29	JPY	7136.65	-1.6	-5.8	-10.3
Eq. Japan Sm Cap A	OT	OT	LUX	06/29	JPY	1035.09	-3.2	-1.6	-12.2
Eq. Japan Target A	OT	OT	LUX	06/30	JPY	1617.77	-1.2	-9.8	-9.4
Eq. Latin America A	OT	OT	LUX	06/28	USD	108.64	-6.5	31.3	-13.1
Eq. US ConcenCore A	OT	OT	LUX	06/28	USD	21.27	-5.9	13.5	-5.3
Eq. US Focused A	OT	OT	LUX	06/29	USD	14.44	-8.9	6.6	-20.0
Eq. US Lg Cap Gr A	OT	OT	LUX	06/28	USD	14.22	-6.8	11.5	-15.0
Eq. US Mid Cap A	OT	OT	LUX	06/28	USD	30.75	2.9	29.6	-7.5
Eq. US Multi Strg A	OT	OT	LUX	06/28	USD	20.38	-4.2	16.2	-12.5
Eq. US Rel Val A	OT	OT	LUX	06/28	USD	19.47	-5.5	16.9	-10.5
Eq. US Sm Cap Val A	OT	OT	LUX	06/29	USD	14.95	-6.3	13.0	-16.5
Money Market EURO A	OT	OT	LUX	06/28	EUR	27.44	0.2	0.4	1.7
Money Market USD A	OT	OT	LUX	06/28	USD	15.84	0.1	0.2	0.9

■ THE NATIONAL INVESTOR
PO Box 47435, Abu Dhabi, UAE Web: www.tni.ae

FUND NAME	GF	AT	LB	NAV DATE	CR	NAV	YTD	12-MO	2-YR
MENA Real Estate Fund	OT	OT	BMU	06/24	USD	870.53	-9.4	-15.5	-32.2
MENA Special Sits Fund	OT	OT	BMU	05/31	USD	1100.19	1.9	6.7	NS
UAE Blue Chip Fund	OT	OT	ARE	06/24	AED	4.78	-10.3	-17.8	-38.0

■ YUKI INTERNATIONAL LIMITED
Tel +44-207-269-0203 www.yukifunds.com

■ YMR-N Series

FUND NAME	GF	AT	LB	NAV DATE	CR	NAV	YTD	12-MO	2-YR
YMR-N Growth Fund	OT	OT	IRL	06/30	JPY	8472.00	-10.4	-5.2	-21.2
YMR-N Small Cap Fund	OT	OT	IRL	06/30	JPY	6370.00	-9.2	-7.2	-18.9

■ Yuki 77 Series

FUND NAME	GF	AT	LB	NAV DATE	CR	NAV	YTD	12-MO	2-YR
Yuki 77 General	JP	EQ	IRL	06/30	JPY	5268.00	-14.4	-16.9	-26.0

■ Yuki Chugoku Series

FUND NAME	GF	AT	LB	NAV DATE	CR	NAV	YTD	12-MO	2-YR
Yuki Chugoku Jpn Gen	JP	EQ	IRL	06/30	JPY	6000.00	-12.1	-10.0	-21.8
Yuki Chugoku JpnLowP	JP	EQ	IRL	06/30	JPY	7284.00	-3.4	-15.3	-20.0

■ Yuki Hokuyo Japan Series

FUND NAME	GF	AT	LB	NAV DATE	CR	NAV	YTD	12-MO	2-YR
Yuki Hokuyo Jpn Gen	JP	EQ	IRL	06/30	JPY	4084.00	-12.6	-11.8	-26.7
Yuki Hokuyo Jpn Inc	JP	EQ	IRL	06/30	JPY	4825.00	-8.1	-10.7	-21.6
Yuki Hokuyo Jpn Sm Cap	JP	EQ	IRL	06/30	JPY	4620.00	-9.5	-8.5	-18.6

■ Yuki Mizuho Series

FUND NAME	GF	AT	LB	NAV DATE	CR	NAV	YTD	12-MO	2-YR
Yuki Mizuho Gen Jpn III	OT	OT	IRL	06/30	JPY	3866.00	-12.5	-11.8	-28.4
Yuki Mizuho Jpn Dyn Gro	OT	OT	IRL	06/30	JPY	4110.00	-11.9	-11.0	-28.5
Yuki Mizuho Jpn Exc 100	OT	OT	IRL	06/30	JPY	6073.00	-12.9	-7.9	-23.8
Yuki Mizuho Jpn Gen	OT	OT	IRL	06/30	JPY	7770.00	-9.8	-9.6	-21.4
Yuki Mizuho Jpn Gro	OT	OT	IRL	06/30	JPY	5692.00	-10.5	-12.7	-23.0
Yuki Mizuho Jpn Inc	OT	OT	IRL	06/30	JPY	7179.00	-6.0	-8.8	-22.3
Yuki Mizuho Jpn Lg Cap	OT	OT	IRL	06/30	JPY	4545.00	-12.4	-11.6	-23.5
Yuki Mizuho Jpn LowP	OT	OT	IRL	06/30	JPY	10815.00	-6.5	-12.8	-16.9
Yuki Mizuho Jpn PGth	OT	OT	IRL	06/30	JPY	6892.00	-13.4	-14.3	-26.0
Yuki Mizuho Jpn SmCp	OT	OT	IRL	06/30	JPY	6622.00	-7.2	-3.4	-17.2
Yuki Mizuho Jpn Val Sel	OT	OT	IRL	06/30	JPY	5141.00	-9.0	-11.2	-20.3
Yuki Mizuho Jpn YoungCo	OT	OT	IRL	06/30	JPY	2478.00	-9.1	-10.9	-23.8

■ Yuki Shizuoka Japan Series

FUND NAME	GF	AT	LB	NAV DATE	CR	NAV	YTD	12-MO	2-YR
Yuki Shizuoka General Japan	JP	EQ	IRL	06/30	JPY	4896.00	-9.7	-9.7	-22.4

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[ALTERNATIVE INVESTMENT FUNDS www.wsj.com/funddata]

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12-month and 2-year returns may be calculated over 11- and 23-month periods pending receipt and publication of the last month end price.

■ ALEXANDRA INVESTMENT MANAGEMENT

FUND NAME	GF	AT	LB	NAV DATE	CR	NAV	YTD	12-MO	2-YR
Alexandra Convertible Bond Fund I, Ltd. (Class A)	OT	OT	VGB	05/31	USD	2034.86	20.3	67.1	NS

■ D'AURIOL FUNDS WWW.DAURIOL.BIZ
2 FUNDS OF FUNDS OF HEDGE FUNDS

FUND NAME	GF	AT	LB	NAV DATE	CR	NAV	YTD	12-MO	2-YR
D'Auriol Alt Non-Lev A	EU	OT	CYM	05/31	EUR	99.63	-1.4	0.7	-11.7
D'Auriol Opp F3 EUR	EU	MM	CYM	03/31	EUR	970.17	-1.9	-1.8	-13.3

■ HERMITAGE CAPITAL MANAGEMENT LTD.
Tel: +7501 258 3160 www.hermitagefund.com

FUND NAME	GF	AT	LB	NAV DATE	CR	NAV	YTD	12-MO	2-YR
The Hermitage Fund	GL	EQ	JEY	03/12	USD	963.12	4.5	105.6	-23.2

■ HORSEMAN CAPITAL MANAGEMENT LTD.
T: +44(0)20 7838 7580, F: +44(0) 20 7838 7590, www.horsemancapital.com

FUND NAME	GF	AT	LB	NAV DATE	CR	NAV	YTD	12-MO	2-YR
Horseman EmMkt Opp EUR	GL	EQ	GBR	12/31	EUR	165.42	-23.0	-23.0	-5.5
Horseman EmMkt Opp USD	GL	EQ	USA	12/31	USD	165.72	-24.5	-24.5	-7.0
Horseman EurSelLtd EUR	EU	EQ	GBR	05/28	EUR	188.45	-3.4	4.0	-2.6
Horseman EurSelLtd USD	EU	EQ	GBR	05/28	USD	196.21	-2.8	4.3	-2.8
Horseman Glbl Ltd EUR	GL	EQ	CYM	05/31	USD	341.78	-7.8	-16.4	-7.8
Horseman Glbl Ltd USD	GL	EQ	CYM	05/31	USD	341.78	-7.8	-16.4	-7.8

■ HSBC ALTERNATIVE INVESTMENTS LIMITED
T +44 20 7860 3074 F + 44 20 7860 3174 www.hail.hsbc.com
HSBC Absolute Companies

FUND NAME	GF	AT	LB	NAV DATE	CR	NAV	YTD	12-MO	2-YR
Global Absolute	OT	OT	GGY	03/31	GBP	1.11	2.9	16.5	0.6
Global Absolute EUR	OT	OT	NA	03/31	EUR	1.60	2.8	14.2	NS
Global Absolute USD	OT	OT	GGY	03/31	USD	2.05	2.8	15.2	0.3

■ HSBC ALTERNATIVE STRATEGY FUND

FUND NAME	GF	AT	LB	NAV DATE	CR	NAV	YTD	12-MO	2-YR
Special Opp EUR	OT	OT	CYM	06/18	EUR	91.27	-0.6	14.9	NS
Special Opp Inst EUR	OT	OT	CYM	06/18	EUR	86.51	-0.3	15.7	NS
Special Opp Inst USD	OT	OT	CYM	06/18	USD	98.40	-0.2	16.3	NS
Special Opp USD	OT	OT	CYM	06/18	USD	96.06	-0.5	15.5	NS

■ HSBC Portfolio Selection Fund

FUND NAME	GF	AT	LB	NAV DATE	CR	NAV	YTD	12-MO	2-YR
GH Fund AP	OT	OT	JEY	05/22	EUR	123.47	1.9	-14.8	-2.1
GH Fund CHF Hdg	OT	OT	JEY	05/28	CHF	110.84	0.1	8.5	-5.3
GH Fund EUR Hdg (Non-V)	OT	OT	JEY	05/22	EUR	111.63	1.6	-17.0	-4.5
GH Fund GBP Hdg	OT	OT	JEY	06/18	GBP	132.30	0.2	7.2	NS
GH Fund Inst USD	OT	OT	JEY	06/18	USD	112.21	0.4	7.8	NS
GH FUND S EUR	OT	OT	CYM	06/18	EUR	128.87	0.7	8.2	NS
GH FUND S GBP	OT	OT	JEY	06/18	GBP	133.73	0.8	8.4	NS
GH Fund S USD	OT	OT	CYM	06/18	USD	151.22	0.7	8.4	NS
GH Fund USD	OT	OT	GGY	05/28	USD	274.56	0.3	9.3	-3.7
Hedge Investments	OT	OT	JEY	06/18	USD	140.42	NS	7.7	NS
Leverage GH USD	OT	OT	GGY	05/28	USD	120.11	-0.2	16.7	-11.4
MultiAdv Arb CHF Hdg	OT	OT	JEY	05/28	CHF	96.27	1.8	10.4	-7.2
MultiAdv Arb EUR Hdg	OT	OT	JEY	05/28	EUR	105.18	2.1	11.6	-6.4
MultiAdv Arb GBP Hdg	OT	OT	JEY	05/28	GBP	113.47	2.2	11.4	-6.7
MultiAdv Arb S EUR	OT	OT	CYM	06/18	EUR	112.96	2.6	10.8	NS
MultiAdv Arb S GBP	OT	OT	CYM	05/28	GBP	118.35	2.7	12.9	-5.5
MultiAdv Arb S USD	OT	OT	CYM	06/18	USD	128.99	2.4	10.9	NS
MultiAdv Arb USD	OT	OT	GGY	05/28	USD	197.96	2.0	11.7	-5.0

■ HSBC Uni-folio

FUND NAME	GF	AT	LB	NAV DATE	CR	NAV	YTD	12-MO	2-YR
Asian AdbantEdge EUR	OT	OT	JEY	06/18	EUR	96.61	-2.7	1.0	NS
Asian AdvantEdge	OT	OT	JEY	06/18	USD	177.97	-2.6	1.7	NS
Emerg AdvantEdge	OT	OT	JEY	06/18	USD	162.20	-3.1	4.5	NS
Emerg AdvantEdge EUR	OT	OT	JEY	06/18	EUR	90.02	-3.4	4.1	NS
Europ AdvantEdge EUR	OT	OT	JEY	06/18	EUR	131.64	-0.8	7.7	NS
Europ AdvantEdge USD	OT	OT	JEY	06/18	USD	140.01	-0.7	8.1	NS
Real AdvantEdge EUR	OT	OT	NA	06/18	EUR	104.66	-3.3	1.2	NS
Real AdvantEdge USD	OT	OT	NA	06/18	USD	105.16	-2.9	1.7	NS
Trading Adv JPY	OT	OT	NA	06/18	JPY	9508.09	3.1	-0.7	NS
Trading AdvantEdge	OT	OT	GGY	05/28	USD	144.18	2.8	-1.7	-0.6
Trading AdvantEdge EUR	OT	OT	GGY	06/18	EUR	130.08	2.1	-1.6	NS
Trading AdvantEdge GBP	OT	OT	GGY	06/18	GBP	138.03	2.5	-1.0	NS

■ MERIDEN GROUP
Tel: + 376 741 175 Fax: + 376 741 183 Email: meriden@meriden-ipm.com

FUND NAME	GF	AT	LB	NAV DATE	CR	NAV	YTD	12-MO	2-YR
Antanta Combined Fund	EE	EQ	AND	06/25	USD	373.77	1.4	37.4	-29.5
Antanta MidCap Fund	EE	EQ	AND	06/25	USD	733.15	3.3	77.2	-36.6
Meriden Opps Fund	GL	OT	AND	06/23	EUR	47.56	-20.7	-40.7	-33.6
Meriden Protective Div	OT	OT	AND	11/24	EUR	78.88	-2.8	NS	NS

■ OTHER FUNDS
For information about these funds, please contact us on Tel: +44 (0) 207 842 9694/9633

FUND NAME	GF	AT	LB	NAV DATE	CR	NAV	YTD	12-MO	2-YR
Medinvest Plc Dublin	OT	OT	IRL	09/30	USD	1318.27	NS	1.3	-4.4

■ SEB ALTERNATIVE INVESTMENT
SEB KEY Europe Equity Long Short

FUND NAME	GF	AT	LB	NAV DATE	CR	NAV	YTD	12-MO	2-YR
Key Europe Long/Short EUR -IC-	OT	OT	LUX	05/31	EUR	92.38	0.0	5.8	NS
Key Europe Long/Short EUR -RC-	OT	OT	LUX	05/31	EUR	91.37	-0.3	5.2	NS

■ SEB KEY Hedge

FUND NAME	GF	AT	LB	NAV DATE	CR	NAV	YTD	12-MO	2-YR
Key Hedge EUR -IC-	OT	OT	LUX	05/31	EUR	103.23	1.1	7.1	NS
Key Hedge EUR-RC-	OT	OT	LUX	05/31	EUR	102.23	0.9	6.6	NS

■ SEB KEY Market Independent II

FUND NAME	GF	AT	LB	NAV DATE	CR	NAV	YTD	12-MO	2-YR
Key Market Independent II EUR -RC-	OT	OT	LUX	05/31	EUR	97.35	0.9	7.1	-0.4
Key Market Independent II SEK -I-	OT	OT	LUX	05/31	SEK	94.44	0.8	6.8	-0.6

■ SEB KEY Recovery

FUND NAME	GF	AT	LB	NAV DATE	CR	NAV	YTD	12-MO	2-YR
Key Recovery -IC-	OT	OT	LUX	05/31	EUR	92.51	2.5	12.0	NS
Key Recovery -RC-	OT	OT	LUX	05/31	EUR	91.51	2.3	11.4	NS

INDICES

■ ARIX ABSOLUTE RETURN INVESTABLE INDEX
Feri Institutional Advisors, www.feri.de

FUND NAME	GF	NAV DATE	CR	NAV	1-WK	1-MO	1-Q	1-YR	2-YR
ARIX Composite Gross USD	OT	05/31	USD	1414.97	3.2	3.2	2.6	-18.0	-7.1

■ SUPERFUND ASSET MANAGEMENT GMBH
For information about open funds, please contact us on Tel: +43 1 24700
*www.superfund.com *Closed for New Investments*

FUND NAME	GF	AT	LB	NAV DATE	CR	NAV	YTD	12-MO	2-YR
Superfund Cayman*	OT	OT	CYM	06/22	USD	34.00	-16.6	-30.3	-29.6
Superfund GCT USD*	OT	OT	LUX	06/22	USD	1915.00	-12.7	-20.0	-23.5
Superfund Green Gold A (SPC)	OT	OT	CYM	06/22	USD	973.00	20.9	6.6	-7.5
Superfund Green Gold B (SPC)	OT	OT	CYM	06/22	USD	883.00	-5.6	-1.8	-17.7
Superfund Q-AG*	OT	OT	AUT	06/22	EUR	6235.00	-5.8	NS	NS

■ WINTON CAPITAL MANAGEMENT LTD
Tel: +44 (0)20 7610 5350 Fax: +44 (0)20 7610 5301

FUND NAME	GF	AT	LB	NAV DATE	CR	NAV	YTD	12-MO	2-YR
Winton Evolution EUR Cls H	OT	OT	CYM	05/31	EUR	988.63	4.6	4.2	NS
Winton Evolution GBP Cls G	OT	OT	CYM	05/31	GBP	995.77	4.9	4.9	NS
Winton Evolution USD Cls F	OT	OT	CYM	05/31	USD	1252.85	4.5	4.3	0.6
Winton Futures EUR Cls C	OT	OT	VGB	05/31	EUR	207.13	5.2	6.3	4.2
Winton Futures GBP Cls D	OT	OT	VGB	05/31	GBP	224.14	5.3	6.7	4.8
Winton Futures JPY Cls E	OT	OT	VGB	05/31	JPY	14798.94	6.6	7.2	3.0
Winton Futures USD Cls B	OT	OT	VGB	05/31	USD	736.23	5.3	6.6	3.9

For information about listing your funds, please contact: Justin Jones tel: +44 207 842 9674; email: justin.jones@dowjones.com

BLUE CHIPS & BONDS

Major players & benchmarks

Below, a look at the Dow Jones Stoxx 50, the biggest and best known companies in Europe, including the U.K.

Stoxx Europe 50: Wednesday's best and worst...

Company	Country	Industry	Volume	Previous close, in local currency	STOCK PERFORMANCE Previous session	YTD	52-week
Astrazeneca	U.K.	Pharmaceuticals	15,730,440	3,169	7.53%	8.9%	17.0%
BP PLC	U.K.	Integrated Oil & Gas	124,637,968	318.90	5.28	-46.9	-34.9
Banco Santander	Spain	Banks	62,699,549	8.74	3.48	-24.3	0.4
Banco Bilbao Vizcaya Argentaria	Spain	Banks	34,426,809	8.61	3.14	-32.3	-5.6
L.M. Ericsson Telephone Series B	Sweden	Communications Technology	17,986,659	87.25	2.65	32.4	10.7
Rio Tinto	U.K.	General Mining	8,440,140	2,969	-2.61%	-12.4	37.6
Tesco	U.K.	Food Retailers & Wholesalers	24,195,572	380.05	-2.51	-11.2	5.5
Vodafone Group	U.K.	Mobile Telecommunications	150,406,912	139.15	-2.18	-3.2	16.4
ArcelorMittal	France	Iron & Steel	14,293,267	22.36	-1.89	-30.5	-6.6
Royal Dutch Shell A	U.K.	Integrated Oil & Gas	8,361,041	20.75	-1.71	-1.7	14.3

...And the rest of Europe's blue chips

Company/Country (Industry)	Volume	Latest, in local currency	STOCK PERFORMANCE Latest	YTD	52-week
BNP Paribas France (Banks)	6,575,170	44.77	**2.33%**	-19.9%	-2.8%
Intesa Sanpaolo Italy (Banks)	158,604,064	2.19	**2.10**	-30.6	-7.8
British American Tobacco U.K. (Tobacco)	5,443,587	2,137	**1.86**	6.0	26.1
GlaxoSmithKline U.K. (Pharmaceuticals)	13,655,728	1,143	**1.78**	-13.4	4.5
Sanofi-Aventis France (Pharmaceuticals)	4,238,586	49.53	**1.74**	-10.0	14.8
Daimler AG Germany (Automobiles)	5,189,813	41.92	**1.55**	12.6	58.5
Deutsche Bank Germany (Banks)	5,894,576	46.70	**1.52**	-5.5	8.5
Nokia Finland (Telecommunications Equipment)	22,508,378	6.71	**1.51**	-24.8	-36.7
Societe Generale France (Banks)	4,796,615	34.30	**1.48**	-29.9	-7.9
Barclays U.K. (Banks)	71,782,889	270.55	**1.20**	-2.0	-6.8
Telefonica Spain (Fixed Line Telecommunications)	38,389,651	15.26	**0.96**	-21.8	-6.5
UniCredit Italy (Banks)	538,532,893	1.84	**0.82**	-17.8	5.4
Novartis Switzerland (Pharmaceuticals)	6,550,818	52.60	**0.77**	-6.9	17.9
RWE AG Germany (Multiutilities)	2,209,161	53.72	**0.75**	-21.0	-6.0
Siemens Germany (Diversified Industrials)	3,718,363	74.02	**0.64**	15.3	47.5
Allianz SE Germany (Full Line Insurance)	1,963,889	81.85	**0.58**	-6.1	20.5
Total S.A. France (Integrated Oil & Gas)	8,315,935	36.97	**0.56**	-17.9	-5.8
Bayer AG Germany (Specialty Chemicals)	3,193,654	46.00	**0.55**	-17.8	18.8
ENI Italy (Integrated Oil & Gas)	17,268,191	15.19	**0.40**	-14.7	-12.3
AXA France (Full Line Insurance)	8,008,046	12.75	**0.31**	-22.9	-5.1

Company/Country (Industry)	Volume	Latest, in local currency	STOCK PERFORMANCE Latest	YTD	52-week
Assicurazioni Generali Italy (Full Line Insurance)	6,539,492	14.43	**0.28%**	-23.3%	-4.1%
Diageo U.K. (Distillers & Vintners)	5,242,411	1,060	**0.19**	-2.2	18.2
Deutsche Telekom Germany (Mobile Telecommunications)	19,697,666	9.70	**0.08**	-5.7	13.1
UBS Switzerland (Banks)	19,089,234	14.46	**0.07**	-9.9	7.6
Credit Suisse Group Switzerland (Banks)	8,826,102	40.92	**0.05**	-20.1	-17.7
HSBC Holdings U.K. (Banks)	34,533,144	615.20	**-0.05**	-13.2	20.7
Unilever Netherlands (Food Products)	6,126,782	22.54	**-0.11**	-0.9	27.9
GDF Suez France (Multiutilities)	5,162,814	23.50	**-0.13**	-22.4	-13.8
ABB Ltd. Switzerland (Industrial Machinery)	8,849,217	18.97	**-0.26**	-4.9	11.6
E.ON AG Germany (Multiutilities)	9,502,272	22.18	**-0.27**	-24.1	-13.0
Nestle S.A. Switzerland (Food Products)	8,263,608	52.20	**-0.29**	4.0	25.8
SAP AG Germany (Software)	3,545,580	36.68	**-0.33**	11.2	28.3
BASF SE Germany (Commodity Chemicals)	4,472,614	45.11	**-0.40**	3.8	55.0
Roche Holding Switzerland (Pharmaceuticals)	2,212,161	149.10	**-0.47**	-15.2	-0.6
ING Groep Netherlands (Life Insurance)	31,340,579	6.18	**-0.53**	-10.5	10.0
Iberdrola Spain (Conventional Electricity)	56,619,126	4.63	**-0.69**	-30.6	-18.0
BHP Billiton U.K. (General Mining)	15,032,189	1,755	**-0.99**	-12.1	23.1
France Telecom France (Fixed Line Telecommunications)	16,847,364	14.29	**-1.11**	-18.0	-14.3
BG Group U.K. (Integrated Oil & Gas)	8,211,577	1,006	**-1.37**	-10.3	-5.2
Anglo American U.K. (General Mining)	8,374,559	2,351	**-1.57**	-13.3	28.3

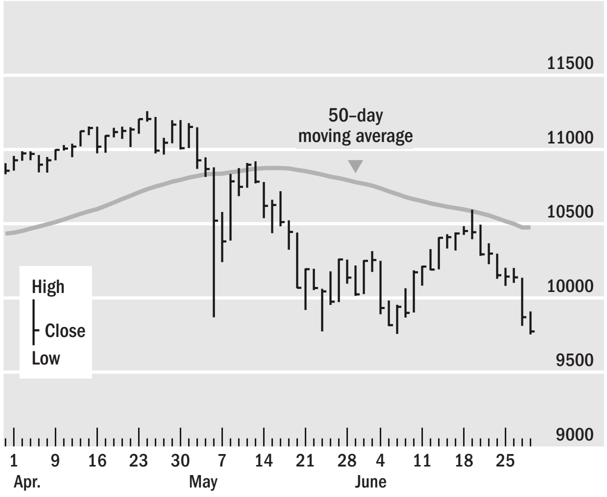
Sources: Thomson Reuters

Dow Jones Industrial Average P/E: 14

LAST: **9774.02** ▼ 96.28, or 0.98%

YEAR TO DATE: ▼ **654.03, or 6.3%**

OVER 52 WEEKS ▲ **1,269.96, or 14.9%**



Note: Price-to-earnings ratios are for trailing 12 months

DJIA component stocks

Stock	Symbol	Volume, in millions	Latest	CHANGE Points	Percentage
AT&T	T	**33.0**	$24.16	–0.30	**–1.23%**
Alcoa	AA	**32.7**	10.06	–0.28	**–2.71**
AmExpress	AXP	**8.0**	39.68	–0.23	**–0.58**
BankAm	BAC	**127.7**	14.38	–0.19	**–1.30**
Boeing	BA	**6.4**	62.74	–0.30	**–0.48**
Caterpillar	CAT	**9.1**	60.07	–0.78	**–1.28**
Chevron	CVX	**11.3**	67.82	–0.54	**–0.79**
CiscoSys	CSCO	**55.4**	21.31	–0.31	**–1.43**
CocaCola	KO	**9.4**	50.09	–0.24	**–0.48**
Disney	DIS	**15.8**	31.47	–0.83	**–2.57**
DuPont	DD	**6.4**	34.60	–0.64	**–1.82**
ExxonMobil	XOM	**39.9**	56.97	–0.32	**–0.56**
GenElec	GE	**74.4**	14.39	–0.09	**–0.62**
HewlettPk	HPQ	**22.1**	43.22	–1.08	**–2.44**
HomeDpt	HD	**19.6**	28.03	–0.60	**–2.10**
Intel	INTC	**62.4**	19.45	–0.34	**–1.72**
IBM	IBM	**7.1**	123.39	–1.70	**–1.36**
JPMorgChas	JPM	**31.8**	36.60	–0.46	**–1.24**
JohnsJohns	JNJ	**14.1**	59.05	–0.19	**–0.32**
KftFoods	KFT	**15.2**	27.98	–0.46	**–1.62**
McDonalds	MCD	**6.4**	65.85	–0.61	**–0.92**
Merck	MRK	**19.0**	34.94	–0.49	**–1.38**
Microsoft	MSFT	**78.0**	23.01	–0.30	**–1.29**
Pfizer	PFE	**44.8**	14.25	–0.03	**–0.21**
ProctGamb	PG	**15.1**	59.96	–0.36	**–0.60**
3M	MMM	**6.4**	78.95	0.46	**0.59**
TravelersCos	TRV	**3.9**	49.23	–0.50	**–1.01**
UnitedTech	UTX	**5.9**	64.85	–0.12	**–0.18**
Verizon	VZ	**25.2**	28.02	–0.60	**–2.10**
WalMart	WMT	**17.0**	48.05	–0.85	**–1.74**

Source: WSJ Market Data Group

Tracking credit markets & dealmakers

Hedge funds

Dow Jones Hedge Benchmark	TOTAL RETURN for rolling periods, net of fees* One week	One month	One quarter	Year to date	One year
Merger Arbitrage	-0.47%	0.11%	-1.3%	-0.6%	3.1%
Event Driven	0.19	0.36	-1.1	1.2	9.9
Equity Long/Short	-1.20	-0.80	-3.1	-0.1	4.0

*Estimates as of 06/28/10, after fees; Source: www.djhedgefundindexes.com

Credit derivatives

Spreads on credit derivatives are one way the market rates creditworthiness. Regions that are treading in rough waters can see spreads swing toward the maximum—and vice versa. Indexes below are for five-year swaps.

Markit iTraxx Indexes

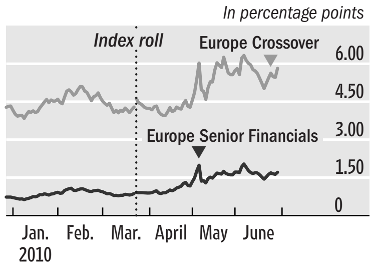
Index: series/version	Mid-spread, in pct. pts.	Mid-price	Coupon	SPREAD RANGE, in pct. pts. since most recent roll Maximum	Minimum	Average
Europe: 13/1	1.32	98.50%	0.01%	1.42	0.75	1.05
Eur. High Volatility: 13/1	1.98	95.57	0.01	2.16	1.11	1.53
Europe Crossover: 13/2	5.82	96.80	0.05	5.84	5.36	5.55
Asia ex-Japan IG: 13/1	1.39	98.20	0.01	1.72	0.87	1.18
Japan: 13/1	1.35	98.31	0.01	1.76	0.85	1.22

Note: Data as of June 29

Spreads

Spreads on five-year swaps for corporate debt; based on Markit iTraxx indexes.

In percentage points



Source: Markit Group

Credit-default swaps: European companies

At its most basic, the pricing of credit-default swaps measures how much a buyer has to pay to purchase-and how much a seller demands to sell-protection from default on an issuer's debt. The snapshot below gives a sense which way the market was moving yesterday.

Showing the biggest improvement...

	Yesterday	CHANGE, in basis points Yesterday	Five-day	28-day
AB	75	**–3**	3	5
3i Gp	271	**–1**	5	32
Syngenta	54	**–1**	4	1
Diageo	75	**...**	4	–6
Schneider Elec	65	**...**	1	–1
Vattenfall	69	**...**	4	3
Pilkington Group	65	**...**	2	...
Henkel AG Co	55	**...**	3	1
Compass Gp	66	**...**	3	–2
Bertelsmann	126	**...**	5	–9

And the most deterioration

	Yesterday	CHANGE, in basis points Yesterday	Five-day	28-day
Alcatel Lucent	759	**29**	65	11
Stena Aktiebolag	480	**29**	64	118
Unitymedia	685	**30**	49	22
UPC Hldg	690	**30**	49	16
Contl	584	**31**	73	77
Intelsat	678	**32**	40	–32
Sol Melia	781	**32**	80	26
Intl Pwr	381	**38**	53	–22
TUI	915	**52**	110	84
Codere Fin Luxembourg	864	**58**	120	100

Source: Markit Group

Behind Asia's deals: Bank revenue rankings, Asia (ex Japan)

Behind every IPO, bond offering, merger deal or syndicated loan is one or more investment banks. Here are investment banks ranked by year-to-date revenues from recent deals.

	Revenue, in millions	Market share	PERCENTAGE OF TOTAL REVENUE Equity capital markets	Debt capital markets	Mergers & acquisitions	Loans
Goldman Sachs	$138	3.8%	57%	19%	23%	...
Ping An Securities Co Ltd	132	3.7	96	4	...	...
JPMorgan	123	3.4	65	11	23	1%
UBS	123	3.4	56	23	20	...
Morgan Stanley	114	3.2	50	9	41	...
Deutsche Bank	113	3.1	51	16	33	...
Bank of China Ltd	111	3.1	42	47	2	9
CITIC Securities	110	3.1	66	32	2	...
China Merchants Securities Co Ltd	110	3.0	73	26	...	1

Source: Dealogic

GLOBAL MARKETS LINEUP

Commodities

Prices of futures contracts with the most open interest

EXCHANGE LEGEND: CBOT: Chicago Board of Trade; **CME:** Chicago Mercantile Exchange; **ICE-US:** ICE Futures U.S.**MDEX:** Bursa Malaysia Derivatives Berhad; **LIFFE:** London International Financial Futures Exchange; **COMEX:** Commodity Exchange; **LME:** London Metals Exchange; **NYMEX:** New York Mercantile Exchange;**ICE-EU:** ICE Futures Europe

Commodity	Exchange	Last price	ONE-DAY CHANGE Net	Percentage	Contract high	Contract low
Corn (cents/bu.)	CBOT	**373.50**	29.50	**8.58%**	705.00	343.25
Soybeans (cents/bu.)	CBOT	**902.50**	-9.50	**-1.04%**	1,555.00	809.75
Wheat (cents/bu.)	CBOT	**480.25**	23.25	**5.09**	762.75	442.50
Live cattle (cents/lb.)	CME	**90.025**	1.275	**1.44**	95.575	83.500
Cocoa ($/ton)	ICE-US	**2,944**	-35	**-1.17**	3,522	2,237
Coffee (cents/lb.)	ICE-US	**165.85**	2.70	**1.65**	180.95	121.75
Sugar (cents/lb.)	ICE-US	**16.06**	0.78	**5.10**	22.78	11.79
Cotton (cents/lb.)	ICE-US	**76.38**	-1.75	**-2.24**	100.50	53.87
Crude palm oil (ringgit/ton)	MDEX	**2,373.00**	7	**0.30**	2,725	1,665
Cocoa (pounds/ton)	LIFFE	**2,503**	-37	**-1.46**	2,608	1,585
Robusta coffee ($/ton)	LIFFE	**1,731**	30	**1.76**	1,737	1,282
Copper (cents/lb.)	COMEX	**295.05**	2.00	**0.68**	366.70	166.00
Gold ($/troy oz.)	COMEX	**1245.90**	3.50	**0.28**	1,266.50	800.00
Silver (cents/troy oz.)	COMEX	**1870.80**	7.30	**0.39**	1,986.50	1,338.00
Aluminum ($/ton)	LME	**1,953.00**	-33.00	**-1.66**	2,481.50	1,564.50
Tin ($/ton)	LME	**17,405.00**	-400.00	**-2.25**	19,175.00	12,320.00
Copper ($/ton)	LME	**6,541.00**	-72.00	**-1.09**	7,970.00	4,820.00
Lead ($/ton)	LME	**1,715.00**	-52.00	**-2.94**	2,615.00	1,580.00
Zinc ($/ton)	LME	**1,762.00**	-31.00	**-1.73**	2,659.00	1,490.00
Nickel ($/ton)	LME	**19,350**	-640	**-3.20**	27,590	14,405
Crude oil ($/bbl.)	NYMEX	**75.63**	-0.31	**-0.41**	132.70	54.69
Heating oil ($/gal.)	NYMEX	**2.0143**	-0.0355	**-1.73**	3.3990	1.4525
RBOB gasoline ($/gal.)	NYMEX	**2.0604**	-0.0047	**-0.23**	2.4410	1.6910
Natural gas ($/mmBtu)	NYMEX	**4.652**	0.065	**1.42**	10.810	4.140
Brent crude ($/bbl.)	ICE-EU	**75.01**	-0.43	**-0.57**	91.41	56.40
Gas oil ($/ton)	ICE-EU	**647.00**	-5.50	**-0.84**	755.00	499.00

Source: Thomson Reuters; WSJ Market Data Group

WSJ.com

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Currencies

London close on June 30

AMERICAS	Per euro	In euros	Per U.S. dollar	In U.S. dollars
Argentina peso-a	4.8174	0.2076	3.9335	0.2542
Brazil real	2.2075	0.4530	1.8025	0.5548
Canada dollar	1.3013	0.7685	1.0626	0.9411
1-mo. forward	1.3016	0.7683	1.0628	0.9410
3-mos. forward	1.3022	0.7680	1.0633	0.9405
6-mos. forward	1.3033	0.7673	1.0642	0.9397
Chile peso	671.32	0.001490	548.15	0.001824
Colombia peso	2348.30	0.0004258	1917.45	0.0005215
Ecuador US dollar-f	1.2247	0.8165	1	1
Mexico peso-a	15.7784	0.0634	12.8835	0.0776
Peru sol	3.4622	0.2888	2.8270	0.3537
Uruguay peso-e	25.657	0.0390	20.950	0.0477
U.S. dollar	1.2247	0.8165	1	1
Venezuela bolivar	5.26	0.190126	4.29	0.232848
ASIA-PACIFIC				
Australia dollar	1.4502	0.6896	1.1841	0.8445
China yuan	8.3055	0.1204	6.7817	0.1475
Hong Kong dollar	9.5369	0.1049	7.7871	0.1284
India rupee	56.8567	0.0176	46.4250	0.0215
Indonesia rupiah	11096	0.0000901	9060	0.0001104
Japan yen	108.43	0.009223	88.54	0.011295
1-mo. forward	108.38	0.009227	88.49	0.011300
3-mos. forward	108.26	0.009237	88.39	0.011313
6-mos. forward	108.05	0.009255	88.22	0.011335
Malaysia ringgit-c	3.9668	0.2521	3.2390	0.3087
New Zealand dollar	1.7811	0.5614	1.4543	0.6876
Pakistan rupee	104.834	0.0095	85.600	0.0117
Philippines peso	56.875	0.0176	46.440	0.0215
Singapore dollar	1.7105	0.5846	1.3967	0.7160
South Korea won	1496.40	0.0006683	1221.85	0.0008184
Taiwan dollar	39.527	0.02530	32.275	0.03098
Thailand baht	39.711	0.02518	32.425	0.03084

EUROPE	Per euro	In euros	Per U.S. dollar	In U.S. dollars
Euro zone euro	1	1	0.8165	1.2247
1-mo. forward	0.9999	1.0001	0.8164	1.2249
3-mos. forward	0.9995	1.0005	0.8161	1.2253
6-mos. forward	0.9990	1.0010	0.8157	1.2260
Czech Rep. koruna-b	25.698	0.0389	20.983	0.0477
Denmark krone	7.4490	0.1342	6.0823	0.1644
Hungary forint	285.20	0.003506	232.87	0.004294
Norway krone	7.9667	0.1255	6.5050	0.1537
Poland zloty	4.1360	0.2418	3.3772	0.2961
Russia ruble-d	38.293	0.02611	31.267	0.03198
Sweden krona	9.5351	0.1049	7.7857	0.1284
Switzerland franc	1.3208	0.7571	1.0785	0.9273
1-mo. forward	1.3201	0.7575	1.0779	0.9277
3-mos. forward	1.3184	0.7585	1.0765	0.9289
6-mos. forward	1.3153	0.7603	1.0740	0.9311
Turkey lira	1.9388	0.5158	1.5831	0.6317
U.K. pound	0.8186	1.2216	0.6684	1.4962
1-mo. forward	0.8186	1.2216	0.6684	1.4961
3-mos. forward	0.8186	1.2216	0.6684	1.4961
6-mos. forward	0.8187	1.2215	0.6685	1.4960
MIDDLE EAST/AFRICA				
Bahrain dinar	0.4617	2.1659	0.3770	2.6525
Egypt pound-a	6.9759	0.1434	5.6960	0.1756
Israel shekel	4.7570	0.2102	3.8843	0.2574
Jordan dinar	0.8674	1.1529	0.7083	1.4119
Kuwait dinar	0.3571	2.8006	0.2916	3.4299
Lebanon pound	1837.66	0.0005442	1500.50	0.0006665
Saudi Arabia riyal	4.5932	0.2177	3.7505	0.2666
South Africa rand	9.3884	0.1065	7.6659	0.1304
United Arab dirham	4.4982	0.2223	3.6729	0.2723
SDR -f	0.8281	1.2076	0.6762	1.4789

a-floating rate b-commercial rate c-government rate c-commercial rate d-Russian Central Bank rate f-Special Drawing Rights from the International Monetary Fund ; based on exchange rates for U.S., British and Japanese currencies.
Note: Based on trading among banks in amounts of $1 million and more, as quoted by Thomson Reuters.

Major stock market indexes

Stock indexes from around the world, grouped by region. Shown in local-currency terms.

Price-to-earnings ratio*	Region/Country	Index	PREVIOUS SESSION Close	Net change	Percentage change	PERFORMANCE Yr.-to-date	52-wk.
23	**EUROPE**	**Stoxx Europe 600**	243.32	-0.50	**-0.21%**	-3.9%	16.2%
14		**Stoxx Europe 50**	2359.66	2.85	**0.12%**	-8.5	10.5
27	**Euro Zone**	**Euro Stoxx**	246.38	0.80	**0.33**	-10.3	8.4
14		**Euro Stoxx 50**	2573.32	16.98	**0.66**	-13.2	5.0
15	Austria	**ATX**	2278.80	-34.84	**-1.51**	-8.7	6.5
8	Belgium	**Bel-20**	2386.53	4.05	**0.17**	-5.0	15.1
11	Czech Republic	**PX**	1103.9	-9.8	**-0.88**	-1.2	22.8
21	Denmark	**OMX Copenhagen**	366.47	1.79	**0.49**	16.1	33.1
15	Finland	**OMX Helsinki**	6251.04	6.36	**0.10**	-3.2	9.3
14	France	**CAC-40**	3442.89	9.90	**0.29**	-12.5	7.0
12	Germany	**DAX**	5965.52	13.49	**0.23**	0.1	21.6
...	Hungary	**BUX**	21050.43	404.46	**1.96**	-0.8	36.5
18	Ireland	**ISEQ**	2878.67	0.99	**0.03**	-3.2	7.0
13	Italy	**FTSE MIB**	19311.75	75.49	**0.39**	-16.9	-0.7
18	Netherlands	**AEX**	316.81	-2.22	**-0.70**	-5.5	21.7
10	Norway	**All-Shares**	379.07	1.36	**0.36**	-9.8	12.1
17	Poland	**WIG**	39392.47	-123.75	**-0.31**	-1.5	28.4
12	Portugal	**PSI 20**	7065.65	44.12	**0.63**	-16.5	-2.4
...	Russia	**RTSI**	1339.35	-16.70	**-1.23%**	-6.1	37.0
9	Spain	**IBEX 35**	9263.4	103.0	**1.12%**	-22.4	-6.5
15	Sweden	**OMX Stockholm**	312.96	3.12	**1.01**	4.5	25.1
15	Switzerland	**SMI**	6128.06	-16.39	**-0.27**	-6.4	12.0
...	Turkey	**ISE National 100**	54839.46	-375.86	**-0.68**	3.8	47.2
11	U.K.	**FTSE 100**	4916.87	2.65	**0.05**	-9.2	13.3
3	**ASIA-PACIFIC**	**DJ Asia-Pacific**	116.53	-1.12	**-0.95**	-5.3	10.0
...	Australia	**SPX/ASX 200**	4301.51	-44.16	**-1.02**	-11.7	11.0
...	China	**CBN 600**	21423.74	-247.40	**-1.14**	-26.3	-16.7
14	Hong Kong	**Hang Seng**	20128.99	-119.91	**-0.59**	-8.0	9.5
17	India	**Sensex**	17700.90	166.81	**0.95**	1.4	20.9
...	Japan	**Nikkei Stock Average**	9382.64	-188.03	**-1.96**	-11.0	-5.6
...	Singapore	**Straits Times**	2835.51	5.17	**0.18**	-2.1	20.5
11	South Korea	**Kospi**	1698.29	-9.47	**-0.55**	0.9	20.3
14	**AMERICAS**	**DJ Americas**	278.85	1.00	**0.36**	-5.9	14.9
...	Brazil	**Bovespa**	62102.74	124.83	**0.20**	-9.5	19.4
16	Mexico	**IPC**	31568.33	95.13	**0.30**	-1.7	28.3

*P/E ratios use trailing 12-months, as-reported earnings
Note: Americas index data are as of 3:00 p.m. ET.

Sources: Thomson Reuters; WSJ Market Data Group

Thomson Reuters is the primary data provider for several statistical tables in The Wall Street Journal, including foreign stock quotations, futures and futures options prices, and foreign exchange tables. Reuters real-time data feeds are used to calculate various Dow Jones Indexes.

Dow Jones Indexes

Dividend yield*	Price-to-earnings ratio*	Dows Jones Index	PERFORMANCE (euros) Last	Daily	52-wk.	PERFORMANCE (U.S.dollars) Last	Daily	52-wk.
2.42%	8	**Global TSM**				2117.48	**0.03%**	10.8%
2.34	17	**Global Dow**	1324.40	**-0.42%**	20.7%	1722.90	**0.16**	4.7
3.06	14	**Global Titans 50**	162.60	**-0.33**	18.2	148.74	**0.25**	2.5
3.48	15	**Europe TSM**				2200.07	**0.36**	1.2
2.48	66	**Developed Markets TSM**				2044.04	**0.03**	9.6
1.96	1	**Emerging Markets TSM**				3882.65	**0.01**	21.9
3.44	17	**Africa 50**	849.60	**-1.72**	18.0	660.51	**-1.15**	2.3
6.93	5	**BRIC 50**	470.80	**-0.50**	34.2	549.74	**0.08**	16.3
3.35	56	**GCC 40**	542.50	**-1.53**	4.4	421.79	**-0.96**	-9.5
1.90	18	**U.S. TSM**				10795.21	**0.41**	14.9
3.29	29	**Kuwait Titans 30** -c				181.67	**-1.28**	-22.1
0.07		**RusIndex Titans 10** -c	3251.80	**-1.75**	40.9	5155.87	**-1.52**	22.8
2.43%	11	**Turkey Titans 20 -c**	594.60	**-1.34%**	66.9%	662.20	**-0.86%**	50.2%
5.53	13	**Global Select Div -d**	168.80	**-0.84**	33.6	176.90	**-0.26**	15.8
6.15	14	**Asia/Pacific Select Div -d**				242.97	**-0.97**	12.2
4.22	14	**U.S. Select Dividend -d**				309.19	**0.32**	20.2
2.27	15	**Islamic Market**				1788.94	**0.17**	9.8
2.63	13	**Islamic Market 100**	1764.70	**-0.32**	19.5	1849.86	**0.26**	3.6
4.26	11	**Islamic Turkey -c**	1531.00	**-0.25**	43.4	2927.33	**0.23**	29.1
2.85	13	**Sustainability**	842.90	**-0.50**	22.1	871.68	**0.08**	5.9
4.57	16	**Brookfield Infrastructure**	1634.30	**0.10**	34.4	1908.49	**0.68**	16.5
1.17	25	**Luxury**	997.00	**-0.32**	43.5	1035.34	**0.27**	24.4
2.28	8	**UAE Select Index**				213.47	**-1.96**	-11.0
		DJ-UBS Commodity	141.10	**0.45**	17.2	125.52	**1.04**	1.6

*Fundamentals are based on data in U.S. dollar. Footnotes: a-in US dollar. b-dividends reinvested. c-in local currency. Note:All data as of 2 p.m.ET.

Source: DowJones Indexes

Cross rates

U.S.-dollar and euro foreign-exchange rates in global trading

	USD	GBP	CHF	SEK	RUB	NOK	JPY	ILS	EUR	DKK	CDN	AUD
Australia	1.1841	1.7716	1.0980	0.1521	0.0379	0.1820	0.0134	0.3049	1.4502	0.1947	1.1144	...
Canada	1.0626	1.5897	0.9853	0.1365	0.0340	0.1633	0.0120	0.2736	1.3013	0.1747	...	0.8973
Denmark	6.0823	9.1000	5.6399	0.7812	0.1945	0.9350	0.0687	1.5659	7.4490	...	5.7242	5.1365
Euro	0.8165	1.2216	0.7571	0.1049	0.0261	0.1255	0.0092	0.2102	...	0.1342	0.7685	0.6896
Israel	3.8843	5.8114	3.6017	0.4989	0.1242	0.5971	0.0439	...	4.7570	0.6386	3.6556	3.2802
Japan	88.5350	132.4616	82.0947	11.3716	2.8316	13.6103	...	22.7933	108.4288	14.5562	83.3231	74.7678
Norway	6.5050	9.7325	6.0318	0.8355	0.2080	...	0.0735	1.6747	7.9667	1.0695	6.1221	5.4935
Russia	31.2670	46.7801	28.9925	4.0160	...	4.8066	0.3532	8.0497	38.2927	5.1407	29.4264	26.4050
Sweden	7.7857	11.6485	7.2193	...	0.2490	1.1969	0.0879	2.0044	9.5351	1.2801	7.3273	6.5750
Switzerland	1.0785	1.6135	...	0.1385	0.0345	0.1658	0.0122	0.2776	1.3208	0.1773	1.0150	0.9108
U.K.	0.6684	...	0.6198	0.0858	0.0214	0.1027	0.0075	0.1721	0.8186	0.1099	0.6290	0.5644
U.S.	...	1.4962	0.9273	0.1284	0.0320	0.1537	0.0113	0.2574	1.2247	0.1644	0.9411	0.8445

Source: Thomson Reuters via WSJ Market Data Group

MSCI indexes

Developed and emerging-market regional and country indexes from MSCI Barra as of June 30, 2010

Dividend yield	Price-to-earnings ratio	Morgan Stanley Index	Last	LOCAL-CURRENCY PERFORMANCE Daily	YTD	52-wk.
2.50%	17	**ALL COUNTRY (AC) WORLD***	270.02	3.24%	**-9.8%**	9.5%
2.50	17	**World (Developed Markets)**	1,048.09	3.29	**-10.3**	8.1
2.40	17	**World ex-EMU**	126.11	2.98	**-7.7**	10.9
2.40	17	**World ex-UK**	1,050.20	3.26	**-9.7**	8.5
3.10	18	**EAFE**	1,351.41	3.17	**-14.5**	2.6
2.20	15	**Emerging Markets (EM)**	924.81	2.92	**-6.5**	19.6
3.50	15	**EUROPE**	84.57	-2.99	**-4.2**	16.3
3.80	15	**EMU**	136.82	5.34	**-24.2**	-7.4
3.50	16	**Europe ex-UK**	90.93	-3.38	**-5.9**	14.4
4.70	12	**Europe Value**	89.55	-3.33	**-9.9**	9.5
2.40	18	**Europe Growth**	77.32	-2.67	**1.5**	23.0
2.30	25	**Europe Small Cap**	162.36	-2.75	**3.3**	29.4
2.40	10	**EM Europe**	290.75	-2.42	**4.4**	32.3
3.60	13	**UK**	1,455.76	-3.10	**-9.4**	10.9
2.90	20	**Nordic Countries**	145.35	-3.37	**6.7**	27.5
1.90	9	**Russia**	689.49	-2.88	**-7.6**	9.1
2.30	21	**South Africa**	697.27	-1.50	**-1.4**	12.9
2.70	17	**AC ASIA PACIFIC EX-JAPAN**	385.11	2.42	**-7.5**	19.7
1.80	41	**Japan**	527.71	-1.05	**-7.2**	-5.3
2.40	16	**China**	60.15	-2.51	**-7.2**	13.0
1.00	20	**India**	711.26	-1.55	**0.6**	24.0
1.30	13	**Korea**	482.92	-1.34	**0.4**	26.9
2.70	23	**Taiwan**	262.74	-0.97	**-11.2**	4.3
1.90	19	**US BROAD MARKET**	1,164.43	3.37	**-5.9**	15.1
1.20	408	**US Small Cap**	1,656.15	4.03	**-0.9**	26.1
2.50	15	**EM LATIN AMERICA**	3,694.19	4.57	**-10.3**	21.4

*Twenty-three developed and 26 emerging markets

Source: MSCI Barra

C-SUITE: LIFE/WORK

THE BREEDERS' CUP

Social science says kids drain their parents' happiness, but good parenting is less work and more fun than people think. **Bryan Caplan** *makes the case for having more children.*

Many of us sometimes find ourselves privately asking a Scroogely question: "Having kids—what's in it for me?" An economic perspective on happiness, nature and nurture yields an answer: Parents' sacrifice is much smaller than it looks and much larger than it has to be.

Most of us believe that kids used to be a valuable economic asset. They worked the farm, and supported you in retirement. In the modern world, the story goes, the economic benefits of having kids seem to have faded away. While parents today make massive personal and financial sacrifices, children barely reciprocate. When they're young, kids monopolize the remote and complain about the food, but do little to help around the house; when you're old, kids forget to return your calls and ignore your advice, but take it for granted that you'll continue to pay your own bills.

Many conclude that if you value your happiness and spending money, the only way to win the modern parenting game is not to play. Low fertility rates looks like a sign that we've finally grasped the winning strategy. Empirical happiness research seems to validate this parenting pessimism: All else equal, people with kids are indeed less happy than people without.

While the popular and the academic cases against kids have a kernel of truth, both lack perspective. By historical standards, modern parents get a remarkably good deal. When economist Ted Bergstrom of the University of California, Santa Barbara, reviewed the anthropological evidence, he found that in traditional societies, kids don't pay. Among hunter-gatherers, children consume more calories than they produce, and grandparents produce more calories than they consume virtually until the day they die. Agricultural societies are much the same. Only in recent decades did people start living long enough to collect much of a "pension" from their kids. While big financial transfers from children to their parents remain rare, only in the modern world can retirees expect to enjoy two decades of their descendents' company and assistance.

It's also true that modern parents are less happy than their childless counterparts. But happiness researchers rarely emphasize how small the happiness gap is. Suppose you take the National Opinion Research Center's canonical General Social Survey, and compare Americans with the same age, marital status and church attendance. (These controls are vital, because older, married and church-going people have more happiness and more kids). Then every additional child makes parents just 1.3 percentage points less likely to be "very happy." In contrast, the estimated happiness boost of marriage is about 18 percentage points; couples probably have fewer highs after they wed, but the security and companionship more than compensate. In the data, the people to pity are singles, not parents.

A closer look at the General Social Survey also reveals that child No. 1 does almost all the damage. Otherwise identical people with one child instead of none are 5.6 percentage points less likely to be very happy. Beyond that, additional children are almost a happiness free lunch. Each child after the first reduces your probability of being very happy by a mere .6 percentage points.

Happiness researchers also neglect a plausible competing measure of kids' impact on parents' lives: customer satisfaction. If you want to know whether consumers are getting a good deal, it's worth asking, "If you had to do it over again, would you make the same decision?" The only high-quality study of parents' satisfaction dates back to a nation-wide survey of about 1,400 parents by the Research Analysis Corp. in 1976, but its results were stark: When asked, "If you had it to do over again, would you or would you not have children?" 91% of parents said yes.

You might think that everyone rationalizes whatever decision they happened to make, but a 2003 Gallup poll found that wasn't true. When asked, "If you had to do it over again, how many children would you have, or would you not have any at all?" 24% of childless adults over the age of 40 wanted to be child-free the second time around, and only 5% more were undecided. While you could protest that childlessness isn't always a choice, it's also true that many pregnancies are unplanned. Bad luck should depress the customer satisfaction of both groups, but parenthood wins hands down.

The main problem with parenting pessimists, though, is that they assume there's no acceptable way to make parenting less work and more fun. Parents may feel like their pressure, encouragement, money and time are all that stands between their kids and failure. But decades' worth of twin and adoption research says the opposite: Parents have a lot more room to maneuver than they realize, because the long-run effects of parenting on children's outcomes are much smaller than they look.

Think about everything parents want for their children. The traits most parents hope for show family resemblance: If you're healthy, smart, happy, educated, rich, righteous or appreciative, the same tends to be true for your parents, siblings and children. Of course, it's difficult to tell nature from nurture. To disentangle the two, researchers known as behavioral geneticists have focused on two kinds of families: those with twins, and those that adopt. If identical twins show a stronger resemblance than fraternal twins, the reason is probably nature. If adoptees show any resemblance to the families that raised them, the reason is probably nurture.

Parents try to instill healthy habits that last a lifetime. But the two best behavioral genetic studies of life expectancy—one of 6,000 Danish twins born between 1870 and 1900, the other of 9,000 Swedish twins born between 1886 and 1925—found zero effect of upbringing. Twin studies of height, weight and even teeth reach similar conclusions. This doesn't mean that diet, exercise and tooth-brushing don't matter—just that parental pressure to eat right, exercise and brush your teeth after meals fails to win children's hearts and minds.

Parents also strive to turn their children into smart and happy adults, but behavioral geneticists find little or no evidence that their effort pays off. Parents use many tactics to influence their kids' schooling and future income. Some we admire: reading to kids, helping them with homework, praising hard work. Others we resent: fancy tutors, legacy admissions, nepotism. According to the research, however, these tactics barely work. Dartmouth economist Bruce Sacerdote studied about 1,200 families that adopted disadvantaged Korean children. The families spanned a broad range; they only needed incomes 25% above the poverty level to be eligible to adopt. Nevertheless, family income and neighborhood income had zero effect on adoptees' ultimate success in school and work.

Behavioral geneticists also find that the effect of upbringing on morals is quite superficial. Parents have a strong effect on which religion and political party their kids identify with, but little on their adult behavior or outlook. Some, but not all, twin and adoption studies find that parents have a modest effect on tobacco, alcohol and drug use, juvenile delinquency, and when daughters (but not sons) start having sex. The most meaningful fruit of parenting, however, is simply appreciation—the way your children perceive and remember you. When 1,400 older Swedish twins were asked to describe their parents, identical twins' answers were only slightly more similar than fraternal twins', and twins raised together gave much more similar answers than twins raised apart. If you create a loving and harmonious home for your children, they'll probably remember it for as long as they live.

Critics often attack behavioral genetics with a reductio ad absurdum: "If it doesn't matter how you raise your kids, why not lock them in a closet?" The answer is that twin and adoption studies measure the effect of parenting styles that people frequently use. Locking kids in closets fortunately isn't one of them. It's also important to remember that most studies focus on kids' long-run outcomes. Parents often change their kids in the short-run, but as kids grow up, their parents' influence wears off.

Many find behavioral genetics depressing, but it's great news for parents and potential parents. If you think that your kids' future rests in your hands, you'll probably make many painful "investments"—and feel guilty that you didn't do more. Once you realize that your kids' future largely rests in their own hands, you can give yourself a break.

If you enjoy reading with your children, wonderful. But if you skip the nightly book, you're not stunting their intelligence, ruining their chances for college or dooming them to a dead-end job. Your choices have little effect on your kids' development, so it's OK to relax. In fact, relaxing is better for the whole family. Riding your kids "for their own good" rarely pays off.

Once parents stop overcharging themselves for every child, the next logical step is straight out of Econ 101: Buy more. When you raise your children the easy way, another child is more likely to pass the cost-benefit test. This doesn't mean you should have 19 children; when prices fall, Econ 101 says "Buy more," not "Buy dozens." But whatever your priorities, the science of nature and nurture tilts the scales in favor of fertility.

Bryan Caplan is a professor of economics at George Mason University and blogger at EconLog. His next book, "Selfish Reasons to Have More Kids," is forthcoming in 2011.

Federer is ousted in Wimbledon quarterfinals

Reuters

Six-time Wimbledon champion Roger Federer, left, was upset in the quarterfinals by big-hitting Tomas Berdych on Wednesday, stopping his bid for a record-tying seventh title at the All England Club and extending his recent stretch of disappointing play.

Scary thought: faster serves

Coaches and scientists say speeds can rise; 160 miles per hour is 'around the corner'

By Tom Perrotta

WIMBLEDON, England—After John Isner and Nicolas Mahut bludgeoned their way into the history books with an 11-hour match here that included 216 service aces, many tennis fans believed that both players' serves were too good to make the match enjoyable.

But here's a scary thought: What if serves still had room to get better? Coaches and biomechanics experts say that the fastest serves can go faster still, and that more players will reach speeds that are at today's outer limits: 150 miles per hour for men and 130 mph for women. And like Messrs. Isner and Mahut, they'll be able to do this without sacrificing consistency.

"I think 160 mph is around the corner for the men," said Rick Macci, a coach who has trained Andy Roddick and Venus and Serena Williams. "The women are going to make the biggest jump because there's a lot more room for improvement. I see 135 mph soon." Samantha Stosur, the French Open finalist and one of the WTA Tour's top servers, agreed. "It's going to happen," she said.

Andy Roddick's fourth-round loss to unseeded Yen-Hsun Lu of Taiwan on Monday might seem like an indictment of the booming serve—but all it really shows is that it's becoming a tool of the masses. Mr. Lu hit 22 aces and dropped one service game, the same as Mr. Roddick. Mr. Lu was eliminated himself on Wednesday by Novak Djokovic.

Last month, Brian Gordon, a biomechanics Ph.D. and founder of 3-D Tennis Technologies, brought 10 digital-video cameras with infrared beams to Mr. Macci's Boca Raton, Fla., academy. Mr. Gordon uses the equipment, which costs about $225,000, to analyze technique.

Getty Images

John Isner serves against Nicolas Mahut on the third day of their match.

He fits players with infrared reflectors and asks them to hit serves as the cameras record and software calculates racket speed, torque and angular momentum. He posts the data on a website, where players are represented by stick figures that swing in 3-D.

Jan Abaza, a 15-year-old student of Mr. Macci's who recently turned pro, said she appreciates the feedback. "I can see where I'm losing efficiency in my legs," she said. "I was putting in all the effort, but the ball was not going as fast as it should."

Glenn Fleisig, a Ph.D. in biomedical engineering and the research director at the American Sports Medicine Institute in Birmingham, Ala., said motion-analysis equipment would help players like Ms. Abaza reach their biomechanical limits. "Through science, more people are going to max out," he said.

The serve has often been called a threat to the more entertaining aspects of men's tennis. But since Mr. Roddick won the U.S. Open in 2003, dazzling returns and fast feet have dominated. Roger Federer, who has won a record 16 Grand Slam titles, is known for a smooth and accurate serve that isn't particularly powerful. He's so quick that few players can put a serve past him. Rafael Nadal's weakest stroke is his serve—he has won seven Grand Slams with speed, a deadly forehand and some of the sport's best service returns.

No one expects the importance of the return to diminish. It has become crucial in the men's game because few players have a bad serve. Even Mr. Nadal can crack 130 mph.

The match between Messrs. Isner and Mahut brought the serve front and center. Mr. Isner, who won 70-68 in the fifth set, lost his serve just once. Mr. Mahut lost his twice. Combined, they attempted 980 first serves and made 689.

Serve speeds have been rising for decades for both men and women. Tennis statistician Leo Levin, who collects data for IBM at the Grand Slam tournaments, said the first 140-mph serve in men's tennis was recorded in 1997 (a serve must go in to be counted). In 2009, 15 men broke the 140-mph barrier, he said. A woman didn't reach 120 mph until 1996. Last year, 13 women did. Mr. Roddick holds the record—155 mph—but Mr. Levin said the radar gun that measured the serve was generous.

The ATP World Tour, which has tracked serve percentages for longer than the WTA, said accuracy hasn't suffered: Mr. Roddick made 70% of his first serves last year while Pete Sampras never did better than 64%. Mr. Isner had made 68% of his first serves prior to Wimbledon.

Though rackets and strings often receive credit for this, better preparation and the growing size and power of players has more to do with it. "It's how strong the players are more so than the rackets," Mr. Isner said. "Tennis players are better trained now than 20 years ago, and I think that can still improve."

It's unlikely, though, that any player, man or woman, will serve so hard that no one can return the ball. Ms. Stosur pointed out that a modern racket helps the return more than the serve, because it's stable and forgiving on off-center hits. "You can barely get your racket on the ball and still hit a great shot," she said.

Mr. Macci doesn't foresee a future of serve-only tennis, either. He also doesn't want these new data to make his students obsess over speed. Ms. Abaza said she's not even sure how fast she can hit a serve, because Mr. Macci wants her to concentrate on technique. "I don't know," she said. "But if you put down a 100, I'd feel good."

The Count

Reuters

Lance Armstrong

Tip of the day

The Tour de France begins on Saturday with 22 teams and 198 riders set for a three-week, 3,650-kilometer test of extreme endurance.

Seven-time champion Lance Armstrong came out of retirement to finish third in 2009 and can anticipate a tough battle to improve on what he has said will be his final Tour.

Despite the age gap to his main rivals, the 38-year-old American is among the main contenders and third-favorite at 14/1 on Betdaq.

Alberto Contador claimed his second Tour de France title last year and is the heavy favorite to repeat his triumph with his Astana team. His 4/7 odds don't make him the best bet in such a big field, especially considering all the things that could go wrong in a three-week race.

This year's course favors climbers, which is why the willowy Mr. Contador is such a strong favorite. But among the other contenders, Luxembourg's Andy Schleck, last year's runner-up, could be a threat for the top of the podium. Backing him at 9/4 with Betfred in the 'without Contador' market has a strong appeal.

Spread betting firm Sporting Index runs an outright index with 50 points going to the winner, 30 for second place, 20 for third, ten for fourth, five for fifth and zero for anything outside of the top five.

Mr. Schleck is second-favorite with a spread of 15-18 and it looks like a good opportunity to buy at this price.

20

Years since a Czech last reached the Wimbledon semi-finals prior to Tomas Berych's win over six-time champion Roger Federer on Wednesday.

Source: Associated Press

THE QUIRK

Bowling: South Africa's other tourney

By Will Connors
Johannesburg, South Africa

On a crisp morning, middle-aged men in white pants and white shoes met on a patch of grass here, attempting to bowl a biscuit.

The hundred or so players were competing in a local lawn-bowling tournament, where a "biscuit" is a good shot. But while they came to compete, they were keeping their heads down. No tickets were sold for the event, and there were few spectators. The bowlers didn't want to upset organizers of that other big tournament in town, the World Cup.

"Everybody's hanging back," says John McArdle, president of World Bowls, the international lawn bowling association.

Local lawn bowlers say they would have preferred to have held a larger, international tournament. But they consented to a general request from football's governing body, FIFA, not to hold major events during the Cup, they say.

A FIFA spokeswoman says the Zurich organization doesn't forbid events taking place but frowns on those in host cities that "might have an operational impact on the preparations or organization" of the Cup.

The idea that lawn bowling might pose a threat to the world's biggest team-sport spectacle might sound far-fetched. Bowling, after all, is a pastime where players often sip whiskey and smoke cigarettes on the field. But as in cricket and rugby—but not in football—South Africa is a global powerhouse in lawn bowling.

In 1976, South Africa swept every event at the Lawn Bowling World Championship held in Johannesburg—singles, doubles, triples and fours all went to the South Africans. They remain the only nation to sweep every event at the Men's World Championships. The 1976 event was the first live televised event of any kind in South Africa, says John Ravenscroft, the operations manager of Bowls South Africa.

"The whole country was electrified by it," says Kevin Campbell, a member of the 1976 team, who was 25 at the time.

South Africa currently ranks sixth in the lawn-bowling world. But organizers here are looking for any opportunity to re-energize the sport. Once called "old man's marbles," lawn bowling in South Africa is struggling to attract new and younger players—and more attention.

While the latest local tournament didn't involve bringing in international lawn-bowling teams to South Africa, that didn't keep the bowlers from getting into the World Cup spirit. Each team at a recent Saturday event adopted a country participating in the football tournament. One of the hardest-fought battles pitted a local team playing as Portugal against a team playing as France. As in the actual World Cup, France lost.

People have been bowling in South Africa since 1882, when a club was opened in the coastal town of Port Elizabeth by South African politician and DeBeers founder Cecil John Rhodes. During the apartheid era, lawn bowling was often government-financed and remains predominantly white. There are about 40,000 lawn bowlers in South Africa.

Samantha Reinders for The Wall Street Journal

John McArdle, president of the World Bowls Association, rolls a bowl June 19 during an annual lawn-bowling tournament in Johannesburg.

"Once people try it, they just get the bowls bug," says Debra Ferguson, president of Bowls South Africa.

Nearly 600,000 people in 52 countries participate in lawn bowling, according to international registration figures, Mr. Ravenscroft says. The U.S. has been slow to jump into the game; it has just less than 4,000 registered bowlers.

Though the rules are straightforward, the sport requires skill. The object is to roll an asymmetrically weighted ball—a bowl—down the green toward a smaller, white ball, called the jack. The balls closest to the jack earn points. Teams or individuals face off against each other on a rectangular green.

Despite its popularity here, there isn't enough money in lawn bowling for South African players to bowl professionally. Average prize money for a national tournament in South Africa is about $1,300. A football player on a World Cup-winning team, by contrast, might earn a bonus of $300,000.

Most lawn bowlers have day jobs. Mr. Campbell, of the 1976 team, is a travel adviser for Air France. Mrs. Ferguson, president of Bowls South Africa, sells life insurance. Her husband, Derek, also an avid bowler, is a foreign-exchange dealer.

The sport's popularity has surged in the Middle East and Asia. The United Arab Emirates is the latest country to join World Bowls, and the Malaysia team is ranked No. 1 in the world. The next Lawn Bowling World Championships, where the crowds and stakes will be bigger than at the local tournament in Johannesburg, will be in Australia in 2012.

After 90 minutes of play, a woman named Roz rang the tea bell, signaling it was time for a break. The men came inside and sipped some tea, but mostly stuck with whiskey. The whiskey was provided by the club's major sponsor, Scottish Leader whiskey, which has been supporting lawn bowling in South Africa for 31 years.

Women served bread with cheese, bread with herring, bread with baked beans and flapjacks. Many players wore gear designed by a Liverpool company called Drakes Pride, after Sir Francis Drake, who is said to have lawn bowled before defeating the Spanish Armada.

Looking on from the sidelines was Dougie Baggott, a former Mr. Universe runner-up who has been lawn bowling for 50 years. Mr. Baggott showed weathered pictures of himself and Arnold Schwarzenegger on a South African beach.

Mr. Baggott, 78, wore a ski cap with the word "Power" written across it. "I was the only guy like me bowling," he said. He still bowls, every Tuesday and Thursday.

Several times during the tournament, players would shout, "Umpire!" and Mrs. Ferguson's husband, Derek, would run to the green in question and take out a specialized telescopic measure made just for lawn bowling.

Mr. Ferguson has been a lawn-bowling umpire for more than 30 years. He missed his first son's birth because he was officiating at a tournament. "It's a way of life," he says.

After the day's bowling finished, players retired inside, where cigarette smoke hung over plates of shepherd's pie and cupcakes decorated in the colors of the South African flag.

Players from the winning team—competing under the name Switzerland—each won $80 and a bottle of whiskey.

WSJ.com

ONLINE TODAY: See photos and video from the competition at **WSJ.com/Sports.**

WORLD WATCH

Aquino is sworn in as president of Philippines, pledges to tackle corruption

Reuters

Benigno Aquino III, known as Noynoy, waves during his inaugural address in Manila after being sworn in as the Philippines' new president. Aquino, 50, the son of two Phlippine democracy icons, started a six-year term with promises of clean government and a better economy. Aquino's parents were revered for their opposition to the late dictator Ferdinand Marcos, who was ousted by a 1986 revolt.

* * *

Europe

■ **European banks** borrowed less from the ECB than expected during a closely watched loan operation, a reassuring sign that banks aren't overly dependent on the central bank as a source of liquidity. The euro rose on the news.

■ **The European Commission** laid out plans on ways to strengthen budgetary discipline in the euro zone, weighing in with proposals to discipline free-spending governments by cutting off EU farm and fisheries payments that often run into billions of dollars a year.

■ **A new EU rule** that takes effect next year will limit the portion of a banker's bonus that can be paid upfront in cash. EU government representatives backed a preliminary agreement with the European Parliament on new rules to limit bankers' bonuses and cap them to salaries in response to widespread criticism of excessive compensation for executives.

■ **German Chancellor** Angela Merkel suffered a blow to her authority from her own center-right coalition, whose members failed to rally behind her candidate for German president, Christian Wulff, until the last moment of a tense election.

■ **Cypriot police** said a man arrested on U.S. charges of spying for Russia vanished after being released on bail. A spokesman said Christopher Robert Metsos, 54, failed to report to police according to the terms of release imposed on him by a Cypriot court.

■ **Hungary took a step** forward in securing investor confidence by saying it plans to seek a new agreement with the IMF for next year. The move came on the same day that data indicated the country's economy is on the mend.

■ **Britain's Supreme Court** overturned a landmark ruling that promised troops on overseas missions protection under human rights law, including the right to life—saying such protections would leave military commanders concerned more about legal issues than enemy fire.

■ **The first person** to be convicted in Britain for the crime of directing terrorism has won the right to appeal after judges agreed to consider his claim that he was tortured. Three judges at London's Appeal Court have granted leave of appeal to Rangzieb Ahmed, who alleges that the U.K. was complicit in his torture in Pakistan in 2006 by security forces there.

■ **Pope Benedict named** a Canadian cardinal to take over the Vatican office in charge of vetting bishop appointments, a key post as the pope seeks to tighten church management in the wake of the sex-abuse crisis.

■ **Turkey's economy** grew by 11.7% in the first quarter from a year earlier, underlining a robust recovery yet to be hit by growing economic woes in the EU, Turkey's biggest export market. The double-digit growth figure was widely expected, because of the enormous base effect of the negative 14.5% growth that the Turkish economy suffered in the first quarter of 2009.

■ **Ireland officially exited** recession, on export-driven GDP growth of 2.7% during the first quarter. Ireland was the first country in the euro zone to announce it slid into recession in 2008, and was one of the worst performing economies in the bloc last year.

■ **The incoming Czech** government is moving to assure markets that it intends to move swiftly to curb state spending and plug budget holes. Miroslava Nemcova, the new speaker of parliament, said the government would shrink its deficit significantly in order to send "a clear signal to foreign investors" that Prague is serious about strengthening its finances.

■ **Greece said it asked** Turkey to explain the presence of a Turkish naval research ship in the northern Aegean Sea.

■ **In France**, the prosecutor in a money-laundering case against former Panamanian dictator Manuel Noriega asked that he be sentenced to 10 years in prison. His lawyers said the charges were part of a plot against him.

* * *

U.S.

■ **Democratic** Rep. John Sarbanes suggested oil-company executives should be forced to personally certify oil-spill response plans. He made the suggestion during a hearing of the U.S. House Natural Resources Committee, which is considering legislation to overhaul the Interior Department and to strengthen the administration's oversight of drilling projects.

■ **Elena Kagan**, President Barack Obama's Supreme Court nominee, neared the end of a grueling turn in the Senate Judiciary Committee witness chair, and the senator presiding over the proceedings predicted she would be confirmed.

■ **Obama appears** unlikely to get a financial overhaul plan, one of his top priorities, through Congress before mid-July now that a key Republican's vote is in doubt. Massachusetts Republican Sen. Scott Brown said he needs more time to study the measure before committing his vote.

■ **Gen. David Petraeus**, the Army officer credited with turning around the war in Iraq three years ago, was confirmed by the Senate to become the new U.S. commander in Afghanistan, where he has been tasked with doing the same thing for another conflict.

■ **Funding for NASA** manned-exploration programs will be suspended after a House Appropriations subcommittee vote, until lawmakers hammer out a consensus on spending priorities.

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Asia

■ **India blamed** escalating violence in its part of Kashmir on a banned Pakistan-backed militant group, as Prime Minister Manmohan Singh called an emergency meeting to deal with the latest turmoil in the disputed Himalayan territory. India moved 3,000 troops to the territory, adding to the military contingent that numbers a half a million.

■ **Nepal's prime minister** resigned, bowing to pressure from opposition Maoists who have been demanding his ouster in parliament and on the streets.

■ **Afghanistan** will investigate its hawala network, an informal banking system a minister says is moving billions of dollars siphoned from international aid.

■ **The IMF and South Korea** are developing an emergency loan program for Asia that could help nations during a financial crisis.

■ **In the Maldives**, two opposition politicians were arrested for allegedly paying lawmakers for their votes in Parliament. The cabinet resigned earlier after accusing Parliament of blocking government legislation.

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Middle East

■ **Iran has shipped** to Syria a sophisticated radar system that Israeli and U.S. officials say may be able to provide early warning of Israeli air force sorties, threatening Israel's ability to launch a surprise attack against Iran's nuclear facilities. The radar could also increase the accuracy of Hezbollah's rockets and bolster the Shiite militia's air defenses.

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Africa

■ **In South Africa**, labor unions representing thousands of workers at state power company Eskom have threatened to go on strike next week after rejecting a revised pay offer.

■ **Congo's government** was marking the 50th anniversary of independence from Belgium with pomp and circumstance, with invited guests including Belgian King Albert II and U.N. Secretary-General Ban Ki-moon.

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BUSINESS WATCH

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Autos

■ **Ford is reducing** its debt by more than $4 billion, the bulk of the payment coming from retiring debt owed to a health-care trust for some retired workers, in a sign that the auto maker remains confident in its own turnaround despite a softening car market in the U.S. At the end of last year Ford had $34.3 billion in debt, almost twice the debt GM and Chrysler are carrying after cleaning up their balance sheets in bankruptcy court.

■ **Peugeot-Citroën** and Mitsubishi are considering jointly developing power train technology for small commercial electric vehicles, the Japanese company said. The move builds on existing ties between the two auto makers in the field of electric vehicles.

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Aviation

■ **The WTO formally** condemned European subsidies to Airbus, concluding the first half of the most expensive trade dispute in WTO history. The ruling could force EADS to repay some of the more than $20 billion in low-interest government loans used to develop six models of passenger jet. The WTO said these constituted prohibited export subsidies. A ruling on a separate EU complaint against U.S. subsidies for Boeing is due July 16.

■ **Boeing is buying** defense-equipment maker Argon for about $775 million, with the deal coming as the sector shuffles operations amid belt-tightening.

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Banking

■ **Santander** is on a shopping spree. The Spanish bank is bidding €520 million ($634 million) for the German retail operations of Sweden's SEB, in a deal that could close as early as Friday, say people close to the matter. Santander's U.S. Sovereign Bank it is back in talks for a possible merger with regional M&T Bank, people familiar with the situation say, a deal that could establish Santander as a major U.S. player.

■ **ICBC**, China's largest bank, is targeting U.S. commercial real-estate owners in need of loans that exceed $100 million, a category most U.S. banks avoid. The move by ICBC, which is 70% owned by the Chinese government, is part of a broader push into the U.S. and comes as China's regulators are encouraging Chinese financial institutions to expand overseas.

■ **Barclays Capital**, the investment bank owned by U.K.'s Barclays, has hired two senior bankers from Citigroup and Credit Suisse to join its global industrials group. Citi's Reid Marsh has been appointed chairman of the Global Industrials Group at BarCap. Lawrence Hamdan is joining the bank to head its global industrials M&A practice from Credit Suisse.

■ **Two shareholder** activist groups joined to rally investors in pushing for UBS to pursue former bosses for their role in more than $50 billion of write-downs. The move comes after investors refused to absolve the former managers for investments that nearly brought down the Swiss bank.

■ **Lloyds will cut** 650 jobs after closing an insurance operation in the U.K. and shrinking staff in other locations, as it continues to streamline. The 41%-government owned U.K. bank is also shutting down its Halifax Independent Agency business, which is comprised of agencies that offer limited banking services, as opposed to regular branches.

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Energy

■ **BP shares rose** in the U.S. and London as rising speculation of potential deal activity had investors increasingly viewing the oil giant's assets, and possibly the company as a whole, as an acquisition target.

■ **Russia's TNK-BP** may be a buyer in BP's asset sale if it sees interesting opportunities, including downstream assets in Europe, Deputy CEO Maxim Barsky said. BP publicly clashed with local Russian partners for control of TNK-BP in 2008.

■ **The U.S. Interior** Department fined the U.S. unit of BP $5.2 million for submitting "false, inaccurate, or misleading" reports for energy production on Indian tribal lands in Colorado. The case isn't related to the BP oil spill in the Gulf of Mexico.

■ **An explosion** at Total's Lindsey oil refinery in England killed one person. Police and regulators are investigating the cause. The Lindsey plant had been partially shut since May 31 for planned maintenance, which was set to finish in late July. Total has been hoping to sell the refinery this year in an effort to cut the French company's refining capacity.

■ **Italy's state-owned** finance group Cassa Depositi e Prestiti agreed to transfer its stake in utility Enel to the Italian Treasury in exchange for shares in oil and gas company Eni as it moves to meet an antitrust commitment.

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Insurance

■ **AIG's former head** of derivatives-trading, Joseph Cassano, broke a long silence and defended his role in an aggressive buildup of risky mortgage-linked securities. The Financial Products division run by Cassano at the big U.S. insurer precipitated a $182 billion bailout pledge from taxpayers. Cassano said many of the pools of loans would have performed over time, except that they were unwound in the bailout.

■ **Prudential's chairman** and CEO both have board support despite the U.K. insurer's failed bid for AIA, the Asian life-insurance business of AIG, its chief financial officer said. But people familiar with the thinking of two top 20 shareholders said that they remain unhappy with the company's handling of their concerns, suggesting that the insurer may yet face a further campaign to remove the management.

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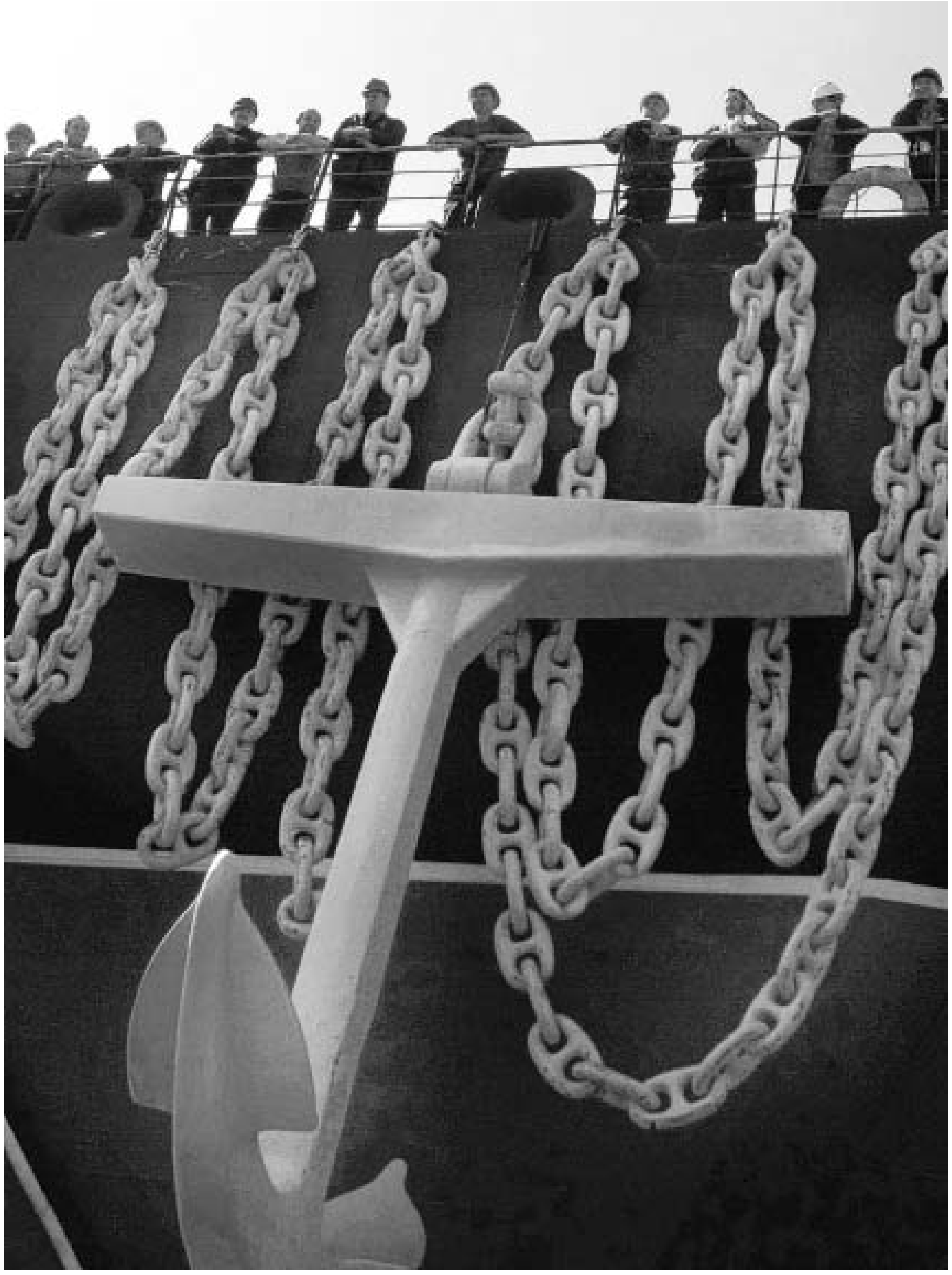
Markets

■ **European IPO activity** continued to rebound in the second quarter, but mergers activity remained light and debt issuance slid sharply from the previous quarter. Deal volumes in Europe edged up to $155.1 billion from the year-earlier quarter's $147.4 billion. News Corp.'s $11.5 billion bid for the remaining stake in BSkyB was the largest deal announced in the quarter.

In St. Petersburg, floating nuclear-power station is launched



Agence France-Presse/Getty Images

Men stand on deck as the Russian floating nuclear-power station Akademik Lomonosov is launched to sea. The power station, which will be used in remote areas, is capable of producing enough energy for a city of 200,000 people.

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Media

■ **Larry King**, an American talk-show host, said that he will end his nightly program on CNN in the fall. "Larry King Live" has long been the flagship prime-time show at CNN, which is owned by Time Warner.

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Metals and mining

■ **The European Commission** fined 17 steelmakers a total of €518.5 million ($632 million) for fixing prices and sharing out markets for prestressed steel over two decades. ArcelorMittal was handed the biggest fine.

■ **Deadly accidents** in the coal-mining sector around the world that have forced production cutbacks and prompted crackdowns on safety standards will end up constraining supplies and could lead to sharply higher prices for some types of coal.

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Pharmaceuticals

■ **AstraZeneca** shares surged after a U.S. judge ruled that the patent for its blockbuster cholesterol drug, Crestor, is valid and enforceable, a victory in the U.K.-based company's effort to ward off early generic competition.

■ **Celgene agreed** to acquire fellow U.S. biotechnology company Abraxis BioScience for at least $2.9 billion as it expands beyond its core strength in blood-cancer treatments.

■ **Sanofi-Aventis** is shoring up its pipeline of oncology products with plans to acquire U.S.-based biotech company TargeGen for as much as $560 million.

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Technology

■ **Google's online ad** service discriminated against some clients, France's competition authority said—a decision that comes amid the country's growing concern over Google's dominance of the lucrative French search market.

■ **Sony is recalling** about 535,000 Vaio laptops world-wide because of a temperature-control defect that may cause excessive heat and distort the shape of the laptop.

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Telecommunications

■ **Telefónica**'s €7.15 billion ($8.7 billion) bid to buy out Portugal Telecom's stake in the companies' Brazilian joint venture was vetoed by the Portuguese government, in a surprise move that sets the stage for a confrontation with EU authorities.

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Watches

■ **Swatch selected** the daughter of the Swiss watch company's founder as its new chairman. Nayla Hayek succeeds Nicolas G. Hayek, who died Monday at age 82. She was previously vice president of the board.

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HEARD ON THE STREET

Portugal Telecom is left in limbo

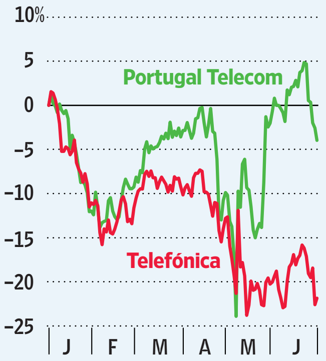
Sore heads in Portugal have clearly got the better of the government's judgment.

Hours after the national soccer team was beaten by Spain in the World Cup, Lisbon has intervened to block Spanish telecom group **Telefónica**'s €7.15 billion ($8.7 billion) bid for **Portugal Telecom**'s 50% share of their Brazilian joint venture, Brasilcel, a holding company that owns about 60% of cellphone operator Vivo. In doing so, it rode roughshod over the wishes of Portugal Telecom investors, who had just voted 74% to back the deal.

Lisbon claims to be exercising its rights under the terms of its so-called golden share in Portugal Telecom, which allows it to block mergers. But that is a highly controversial interpretation of the current law: Portugal Telecom's board itself didn't believe the government's veto applied to the sale of an equity stake in a foreign subsidiary, but the chairman of the group's general meeting allowed it to stand.

Static on the line

Daily performance of Portugal Telecom vs. Telefónica this year



Source: Thomson Reuters

The Portuguese prime minister claimed to be acting in the national interest, since the deal would effectively have halved the size of Portugal Telecom. Telefónica's best hope of gaining control of Vivo now lies in the courts. The European Commission has long challenged the legality of Lisbon's Portugal Telecom golden share. The European Court of Justice is due to deliver its verdict July 8 and is expected to side with the commission, given previous decisions to rule golden shares illegal. Even then, it could take months or even years before the Portuguese government amends domestic law, stringing out the process for Telefónica. Portugal Telecom has a history of standing up to EU edicts.

The biggest loser is Portugal Telecom, which is left in limbo. Its shares fell 2% after the announcement, giving back a chunk of the 25% gains since the Telefónica bid was first received. Unless the government's decision is overturned in the courts or a compromise is reached, the shares could fall further. Meanwhile, Telefónica could try to wind up the joint venture or restrict dividends, as it has previously threatened. Investors must hope cooler heads prevail, even if they have to wait until long after memories of Tuesday's soccer match have faded.

> Portugal's prime minister claimed to be acting in the national interest by using its 'golden share' to block a deal that was supported by 74% of shareholders.

—Hester Plumridge

OVERHEARD

Bankers, to the barricades! Collective bargaining could yet become a way to nail down bigger bonuses. At least that is the message some of Wall Street's capitalists soon may be getting.

Unbeknownst to many bankers, they are federal contractors, at least in the eyes of the Labor Department. That is due to federal deposit insurance. According to a Labor Department spokesman, that has been the agency's position "for the past 40 years."

So banks will have to comply with new rules that took effect June 21 requiring federal contractors to notify employees about their rights under the National Labor Relations Act. These include rights to "form, join, and support a union and to bargain collectively," according to the Labor Department. Maybe it is time for James Dimon and Vikram Pandit to form a union that could strike to protest financial-overhaul legislation.

In Europe, some not-so-thirsty banks

Perhaps Europe's banks are in better shape than the market feared. Tuesday's sector selloff in response to the European Central Bank's decision not to renew its one-year funding facility appears to have been an overreaction. In the event, banks chose only to apply for €132 billion ($161 billion) of funds under a new, unlimited, three-month ECB facility—less than a third of the €442 billion of 12-month money that needs to be repaid. The market had been expecting the banks to roll over nearly €250 billion.

> Under a new, unlimited, three-month ECB facility, European banks chose to apply for less than a third of the 12-month money that needs to be repaid.

In fact, many of Europe's biggest banks had long prepared for the expiration of 12-month money, which was well-flagged by the ECB last year. Much of that money was almost certainly used to fund lucrative "carry" trades as banks took advantage of the 1% interest rate to invest in higher-yielding assets such as sovereign bonds. Indeed, some of the recent selloff in sovereign bonds may have reflected balance-sheet adjustments ahead of the plan's expiration. What's more, some of the funds may have been deposited back at the ECB, so the sector's net funding needs weren't as large as they appeared.

There is another six-day ECB auction Friday, which could yet see further rolling over of 12-month money, so the picture may yet change again. But clearly many banks now feel confident they have access to sufficient funding through the wholesale market, repos or the interbank market instead. That could yet lead to higher funding costs, putting pressure on profits. But if banks are now able to rely on private-sector funding, it is a bullish signal and justifies the ECB's decision to withdraw some of the excess liquidity from the system.

Agence France-Presse/Getty Images

ECB President Jean-Claude Trichet

—Simon Nixon

Ford's latest financing incentive: making some cuts to debt load

Good timing. **Ford Motor** was scheduled Wednesday to make a debt payment of $860 million in cash or stock. Ford chose to pay cash. But it also prepaid one outstanding bond entirely. All in all, Ford is paying $4 billion in cash to cut its debt load.

Even if the absolute impact on Ford's net debt is minimal—it gets a 2% discount for early payment—the underlying message is encouraging. U.S. light-vehicle sales remain sluggish. Investors nervous about the strength of the recovery had knocked Ford's shares down to less than $10 before this announcement, from almost $14.50 in April.

Ford's actions imply the underlying business is performing well, perhaps reflecting increasing market-share gains. Looking to July, when Ford reports second-quarter earnings, investors should be aware of the potential for a positive surprise.

Putting a 4.5 times multiple on estimated 2011 earnings before interest, taxes, depreciation and amortization for the automotive business, and adding in the finance business at a book value of $11 billion, results in an enterprise value for Ford of about $60 billion. Take off pro forma net debt and unfunded retiree obligations of about $20 billion and the implied value per share is about $11.

That isn't far above the current price of $10 and change. But Ford's fortunes reflect both the vehicle market and its bloated balance sheet. Every effort to reduce the impact of the latter helps make it more of a normal stock, with potentially a higher multiple. Ford is forecast to generate perhaps $10 billion or more of free cash flow after capital expenditure over 2010 and 2011, which should cut into its remaining debt burden significantly. If sales accelerate in 2011, so should the stock.

—Liam Denning