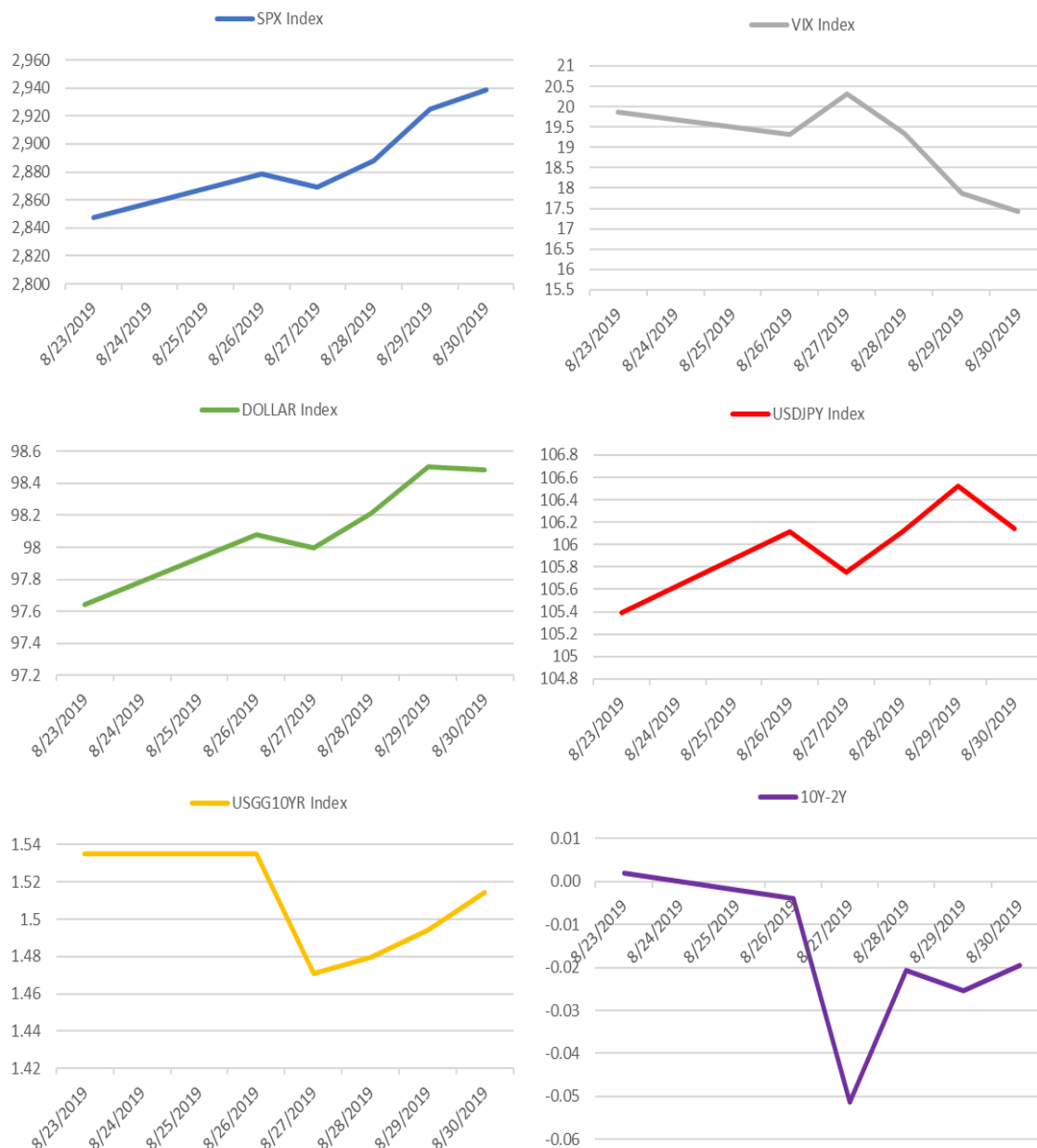


US Market Weekly Overview (08/30/19)



*** Index selection details:

- SPX index: S&P 500 index stands for overall market performance
- Dollar index: The overall index value of US dollar currency
- USGG xYR: US government x-year bond yield stands for overall bond market
- USDJPY: USD currency in terms of JPY currency stands for macro risk sentiment
- 10Y-2Y: 10Y US treasury yield – 2Y US treasury yield stands for macro risk sentiment
- BCOM index: Bloomberg commodity index details of composition (Energy: 30%, Grains: 23%, Industrial metals: 17, Precious metals: 16%, Softs: 7%, Livestock: 5%)

Recent News & Economics:

- 08/26: Markets were whipsawed by conflicting trade war headlines over the weekend. Ultimately it was news that China and US will continue their trade dialog that proved to be risk-friendly and resulted in equities rallying and bonds selling off.
- 08/27: Equity markets initially rallied but then had second thoughts about whether the trade war was improving or merely stagnating. Bonds continued to rally and bring the long bond yield to another new record low.
- 08/28: Equities are up on the day but that doesn't seem to deter bond yields from dropping further. 5yr Treasury auction came 1bp better than pre-auction levels as demand for bonds seems insatiable. 30yr Treasury yield again set another record low.
- 08/29: Equities are again up on the day from trade war optimism as China indicated it would not respond to the latest US tariffs. Consumption data for Q2 came in at +4.7%, considerably better than +4.1% expected. The 7yr auction this afternoon was abysmal as it cleared more than 2bps worse than pre-auction levels. This auction had the worst level of investor interest since 2016 and again illustrates the unsustainability of current rate levels.
- 08/30: A lot of economic data released today which shows: 1) consumers are spending nicely (+0.6% August, up from +0.3%), 2) inflation is tame (PCE YoY +1.6%, well below Fed's 2.0% target), and 3) US manufacturing may be bottoming as August Chicago PMI was 50.4 vs 47.5 expected. Equities initially rose but then fell as investors are wary ahead of the start of a new round of US and China tariffs over the weekend.

Perspectives vs Actual:

Date	Driver	Equity	Rates	Vol	Curve Shape (10Y-2Y)	USD Basket	JPY
26-Aug	Trade dialog cont.	1	1	-1	0	1	-1
27-Aug	Consumption > Exp.	1	1	0	1	1	-1
30-Aug	PCE 1.6 < Target	0	-1	0	1	0	0
Expected		1	1	-1	1	1	-1
Actual		1	-1	-1	-1	1	-1

- Equity market is totally driven by political event for a while as this week shows up the continuation of trade dialog, the market goes up a lot. However, bond market has a even more strength trend of buying up. And the 10Y-2Y spread continued to drop into negative range which definitely a bad sign for market economic outlook.
- A strong sign in the market as the JPY started to devalue, possibly breakthrough the short trend zone, combined a breakthrough on USD index, this will open up a time window for equity market.