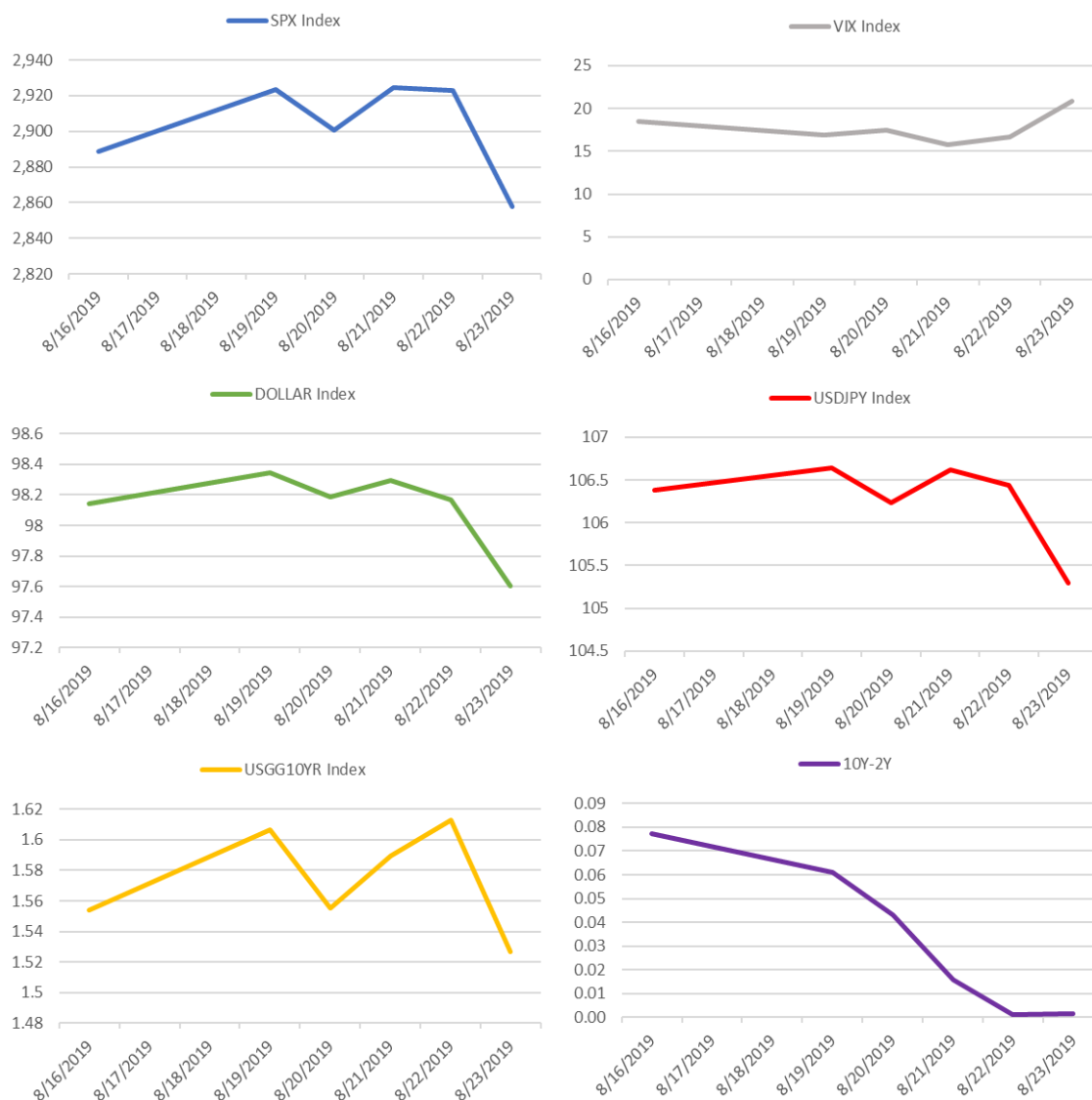


US Market Weekly Overview (08/23/19)



*** 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:

- 08/20: Global equity markets posted 1/2-to-1% losses on the day and bonds regained some flight-to-quality bid. The big market event this week is this Friday's keynote speech by Fed Chairman Powell at the Fed's annual Jackson Hole retreat. Market liquidity on Friday will be choppy before and after the text of the speech comes out at 10am EST.
- 08/21: Markets were heartened by Target's strong quarter which together with Walmart's good result reinforced the strong consumption story. The minutes of the last Fed meeting released this afternoon was a bit more hawkish than expected with most of the members feeling that the first rate cut in a decade was just a "midcycle adjustment". Of course 10yr Treasury yield was over 2% at that meeting (now 1.57%), so quite a lot has happened since that meeting. Nevertheless the hawkish tone of the minutes helped spur a 3bp selloff.
- 08/22: Markets are jittery ahead of tomorrow's keynote speech by Fed Chairman Powell. Bonds initially rallied after the August Markit US Manufacturing PMI dropped to 49.9, the first contractionary print for US manufacturing in a decade. Service PMI also dropped to 50.9, a clear sign that the global slowdown is spreading to the US. It is telling that bonds continued to sell off despite this bullish data, in addition to a successful 30yr TIPs auction that came 3bps below pre-auction levels. We may have reached the Wiley Coyote moment for the long bond. One key item the market will be looking for tomorrow is whether the term "midcycle adjustment" will show up in Chairman Powell's speech or comments. The absence of this term may be taken by the market as a hint that the situation has deteriorated further since the July FOMC and there may be more than just 2-3 eases this year.

Perspectives vs Actual:

Date	Driver	Equity	Rates	Vol	Curve Shape (10Y-2Y)	USD Basket	JPY
21-Aug	Strong Consumption Data	1	1	0	1	1	-1
22-Aug	PMI lower	-1	-1	0	-1	-1	1
Expected		0	0	0	0	0	0
Actual		-1	-1	1	-1	-1	1

- Equity market this week shows a better than expected sentiment along with a week breakthrough on USD dollar index, this will generate even more short-term money outflow from US and probably push up bond market even more.
- As we expected, the spread of 10Y-2Y continued drops to even negative range which clearly tells us, on the market, side investor priced in the horrible economic future on US. When rate cut expectation goes even lower, the probability of huge suddenly drop in equity market will be more obvious.