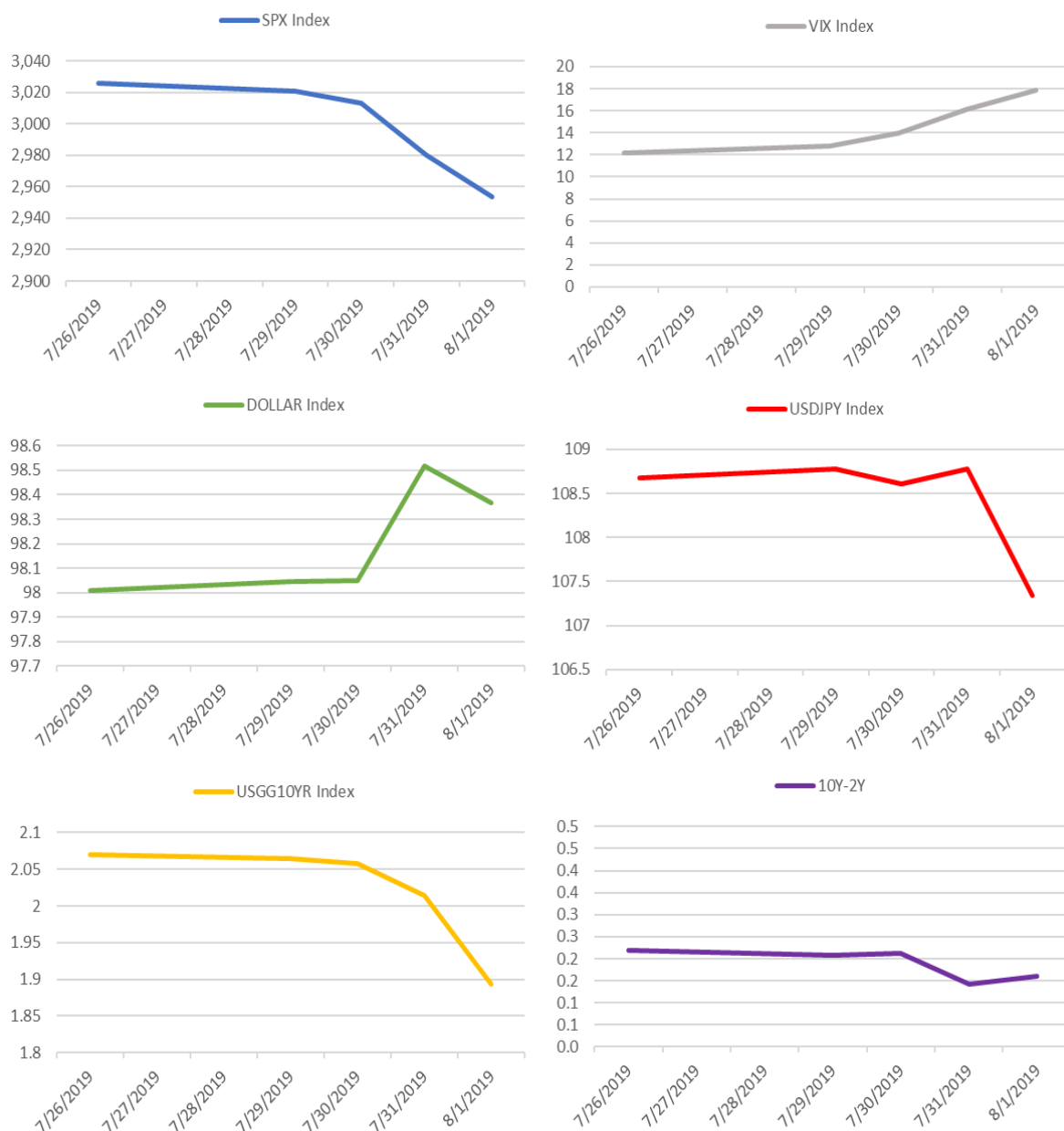


US Market Weekly Overview (08/02/19)



*** 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:

- 07/30: This morning's June PCE deflator (Fed's favorite inflation gauge) came in softer at +1.4% YoY (vs +1.5% expected), which should ensure at least a 25bp rate cut tomorrow. There will likely be considerable bond and equity market volatility tomorrow after the 2pm FOMC meeting and the subsequent Powell press conference. Pundits will be intensely parsing Powell's comments for hints of more cuts in the near future or none.
- 07/31: The big story was of course the FOMC meeting at which the Fed dutifully cut rates 25bps. The first Fed rate cut in a decade was fully anticipated by the market, but Chairman Powell's comments conveyed that he did not view this as the start of an extended easing cycle, which disappointed the market and caused a large flattening of the US yield curve led by the long end of the curve.
- 08/01: The large yield curve flattening resulting from yesterday's post-FOMC press conference was mostly reversed today. July ISM manufacturing data was the lowest since 2016 but the prices paid component was the lowest since July 2015, both lending support to the lower manufacturing and inflation story. Rates moved about 2-3bps lower into the afternoon. The afternoon summer calm was broken when President Trump tweeted the imposition of a new 10% tariff on the remaining \$300Bn of Chinese exports to US starting 1 Sept. This kicked off a massive wave of demand for bonds and sent rates crashing lower.

Perspectives vs Actual:

Date	Driver	Equity	Rates	Vol	Curve Shape (10Y-2Y)	USD Basket	JPY
30-Jul	PCE deflato < EXP	0	-1	0	-1	0	0
31-Jul	25 Cut + Not easing cycle	-1	-1	1	-1	1	1
1-Aug	ISM data lower + New tariff	-1	-1	1	-1	0	1
Expected		-1	-1	1	-1	1	1
Actual		1	-1	-1	1	1	1

- This week event is a huge story and definitely broken the quiet summer afternoon. As Fed gave out a unwilling rate cut since 2011 combined with Trump's new tariff. Equity market drops a lot since the easing cycle is already been priced in the index and a surprising tariff exaggerates the nervous sentiment.
- What is surprising is the USD starts getting stronger along with GOLD price (not shown up here). As the Fed still holds their opinion on not easing cycle market pushed USD index up a lot which in turn will leads to more de-inflation effects. And those movements in back would Fed to cut rate more. As the JPY and GOLD raise up together market gets a peak nervous plus a narrower in the 10Y-2Y spread, in the next quarter, equity market going down maybe a very possible event.