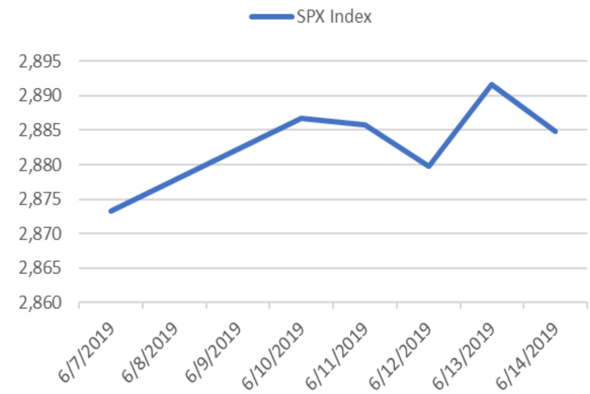
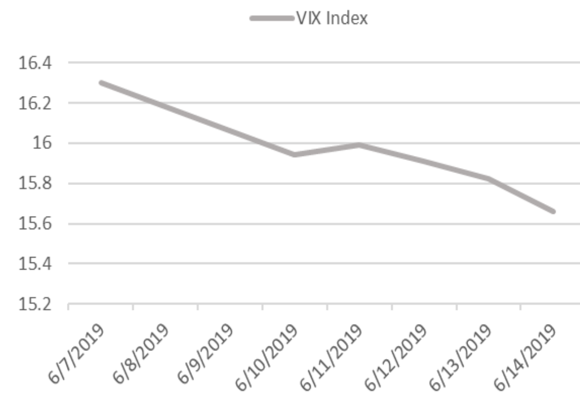
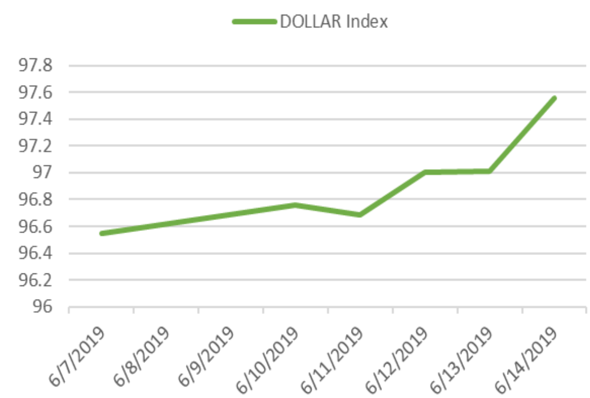
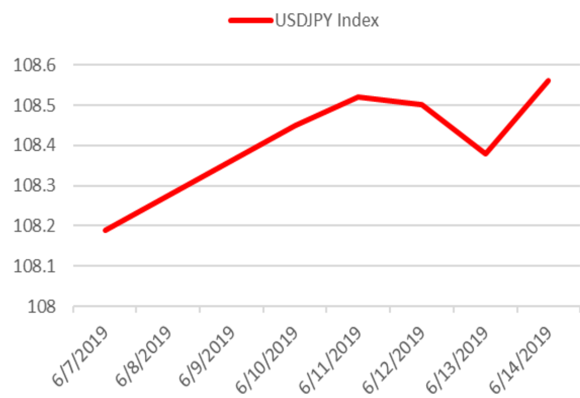
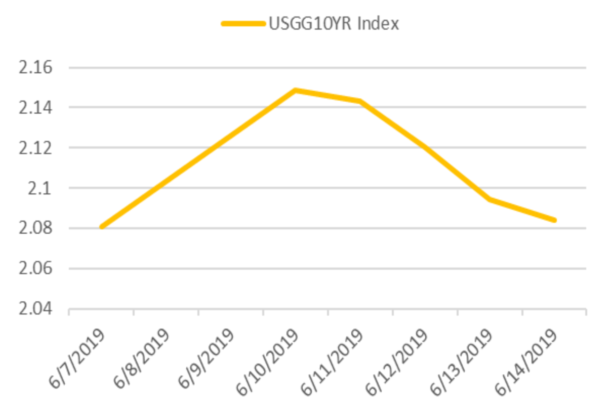
US Market Weekly Overview (06/14/19)

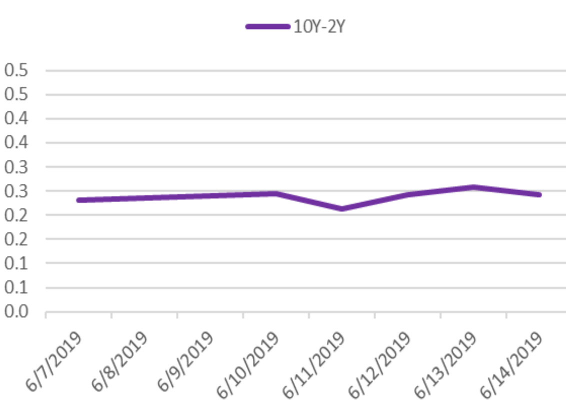












*** Index selection details:

- SPX index: S&P 500 index stands for overall market performance
- Dollar index: The overall index value of US dollar currency
- USGGxYR: 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:

- 06/10: President Trump's announcement over the weekend of an agreement between the US and Mexico that precluded the imposition of tariffs spurred market optimism and a reversal of some of the recent flight-to-quality bid for bonds.
- 06/11: US May PPI (excluding food and energy) was right on expectation at 0.2% MoM. This afternoon's $38 Billion 3yr Treasury auction came 0.6bps better than pre-auction levels, signifying significant investor demand for short maturity bonds despite the current low rate levels.
- 06/12: US Consumer Price Index for May came in below expectations (0.1% MoM core versus 0.2% expected, 2.0% YoY vs 2.1% expected). This opens the door for the Fed to move to an easing bias at next week's FOMC meeting and begin cutting rates at the July meeting. Investors immediately sought out short duration bonds and the yield curve bull steepened. The 10yr Treasury note auction in the afternoon went pretty much as expected (only 0.1bp worse than pre-auction level). Tomorrow we get the 30yr bond auction which will be eagerly anticipated (recall the last 30yr auction had the worst outcome in many years). The success or failure of that auction is likely to set the tone for rates tomorrow afternoon.06/06: The bond market reacted unfavorably to the new ECB liquidity program (TLTRO 3) which charged cooperating banks negative 0.3% (10bps above the ECB's deposit rate of -0.4%) for ECB loans. Apparently being paid 30bps to borrow money was not sufficiently dovish for investors (the last TLTRO program paid borrowers 40bps to borrow). The ECB also refused to inform the market of any easing bias, merely extending their intention to keep rates on hold until the middle of 2020. Investors then feared that the Fed may also start pushing back against easing expectations, resulting in a flattening yield curve in both the US and Eurozone.
- 06/13: Bid for bonds steadily increased throughout the day, first driven by tame May import and export price inflation data which came in below expectations, then buoyed by a better than expected 30yr Treasury bond auction (0.4bps below pre-auction yield), culminating in Persian gulf headlines in the afternoon that further spurred flight-to-bonds:
  *U.S. BLAMES IRAN FOR OIL TANKER ATTACKS AS TENSIONS ESCALATE
  *POMPEO SAYS U.S. TO RAISE IRAN CONCERNS AT UN SECURITY COUNCIL

Perspectives vs Actual:

Date	Driver	Equity	Rates	Vol	Curve Shape (10Y-2Y)	USD Basket	JPY
10-Jun	No Mex Trade War	1	1	-1	1	1	-1
11-Jun	PPI Good	1	1	0	1	1	-1
12-Jun	ECB no easing	-1	-1	1	0	0	1
13-Jun	Export below exp	-1	-1	0	-1	-1	0
Expected		**0**	**0**	**0**	**1**	**1**	**-1**
Actual		**1**	**0**	**-1**	**0**	**1**	**-1**

- This week our expectation is a line with the market, except for the equity we see there should be no changes but the market reflects with going long, obviously the market temperature is getting warm even if the JPY and Gold price implied market sentiment is still cool. In terms of rates, Dollar index and JPY we are getting closer with the market.
- Take a closer look at the yield spread, this week is not moved even when the market goes up which means fixed income market investors is still cautious to give a long bet.
- Overall weekly market is starting to get better given bouncing back on dollar index, equity and depreciation on JPY. But in terms of long run, investors still hold cautious views as the 10Y-2Y spread stays at lowest level.