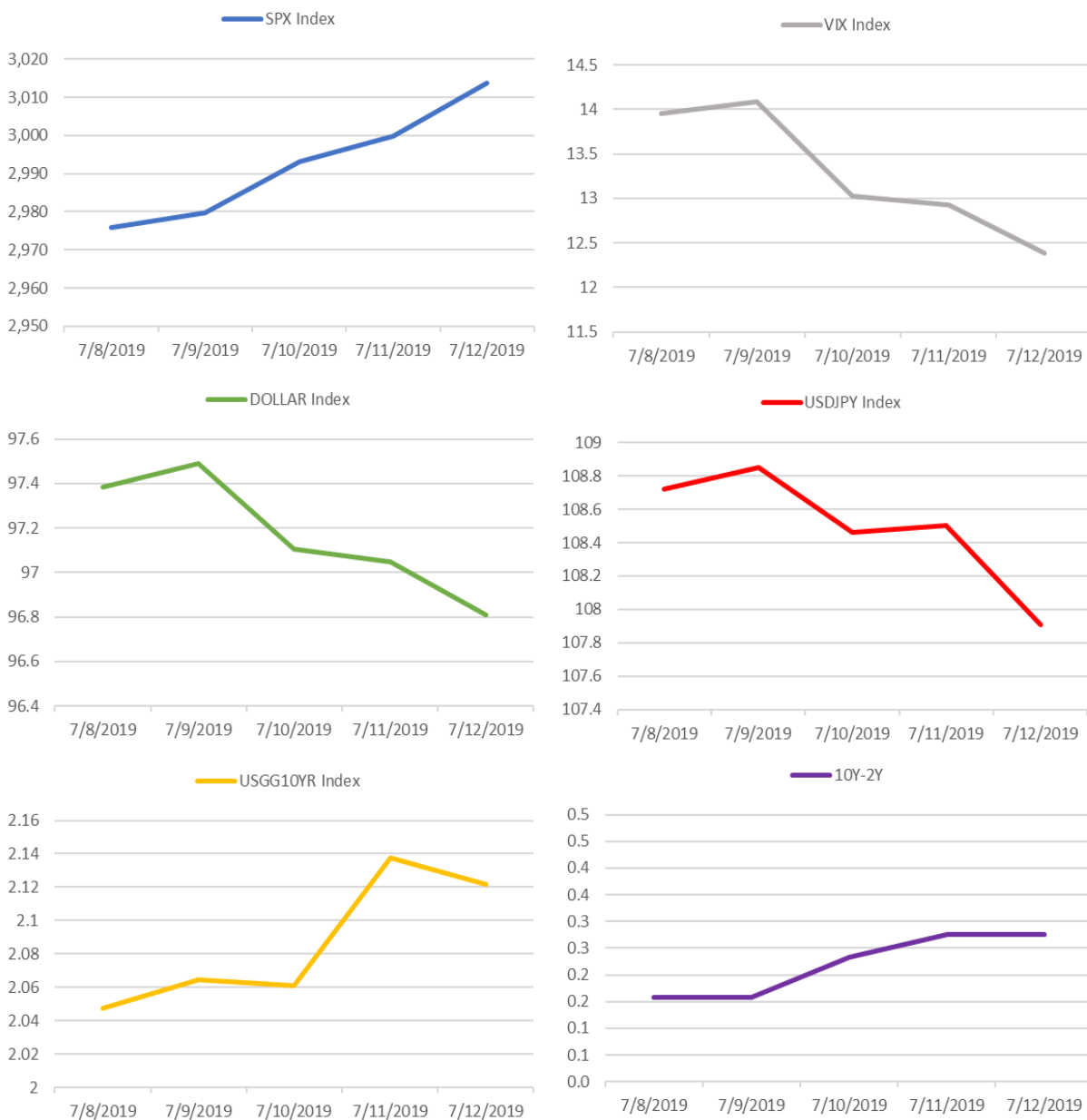


US Market Weekly Overview (07/12/19)



*** 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:

- 07/10: US swap rates massively steepened today, dropping 6bps at the short end to rising 3bps in 30yr swaps versus yesterday 3pm closing levels. The driver of today's steepening was Fed Chairman Powell's semiannual testimony to Congress (House today, Senate tomorrow). His speech was more dovish than the market anticipated, and he was given ample opportunity in the Q&A session to debunk both a 25bp and a 50bp rate cut in July. Powell passed on these opportunities and sought to focus on the declining global economies and the increase in risk since the Fed's June meeting. This clearly opens the door to at least a 25bp rate cut at the July meeting with the potential for more later in the year. Short rates responded with a large rally but longer rates sold off as an easing Fed (good for short rates) in a healthy economy is expected to stoke inflation (bad for the long bond).
- 07/12: US swap rates rose 2-6bps versus yesterday 3pm closing levels, spooked by a higher-than-expected June CPI (Core CPI YoY rose +2.1% vs +2.0% expected, not a huge miss). The selloff continued in the afternoon after the very lackluster 30yr Treasury bond auction (coming 2.5bps worse than pre-auction level, the worst long bond auction since Feb 2016). The market seems to be finally getting Fed Chairman Powell's message that the Fed: 1) is going to cut rates in July and maybe more later in the year (good for short bonds), and 2) will try harder to get inflation back above 2% (bad for long bonds).
- 07/13: US swap rates dropped 2-4bps versus prior day 3pm closing levels. It was another lackadaisical summer Friday trading day as some initial June PPI excitement (+2.3% YoY vs +2.1% expected) rapidly faded as the market has come to the conclusion that the Powell Fed has already decided to cut rates no matter what.

Perspectives vs Actual:

Date	Driver	Equity	Rates	Vol	Curve Shape (10Y-2Y)	USD Basket	JPY
10-Jul	Powell's semiannual dovish testimony	1	-1	-1	1	-1	-1
12-Jul	CPI > EXP	1	1	0	-1	1	0
13-Jul	PPI>EXP	1	1	0	0	0	0
Expected		1	1	-1	0	0	-1
Actual		1	1	-1	1	-1	1

- As Fed almost confirmed the market on rate cut, combined with better CPI and PPI, market reflects as equity and rates up, Vol down. The long-term outlook as reflected by the difference between 10Y and 2Y rates goes up a lot.
- What is most interesting here is the JPY as a close measure on global market sentiment keeps going up (JPY appreciated) indicated the short-term market sentiment keeps nervous even if better economic data and rate cut confirmation.