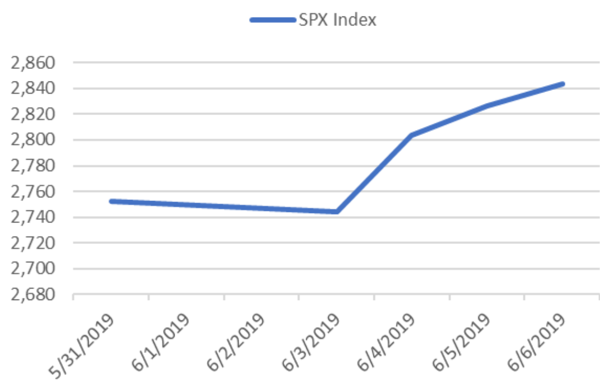
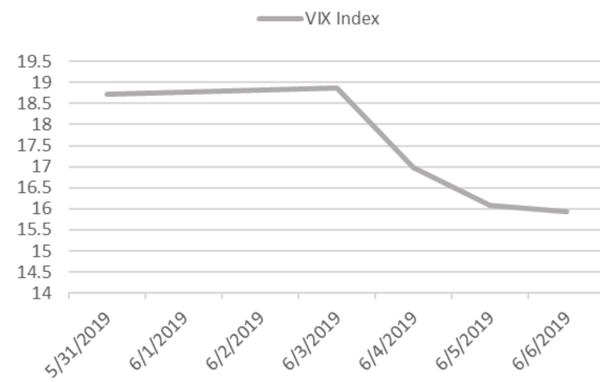
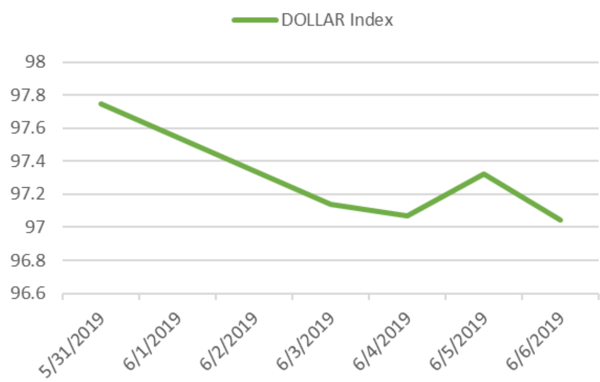
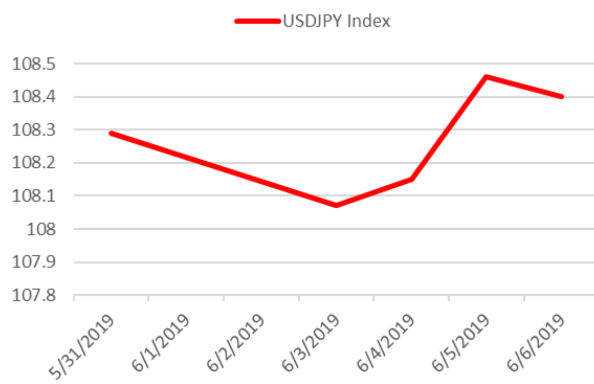
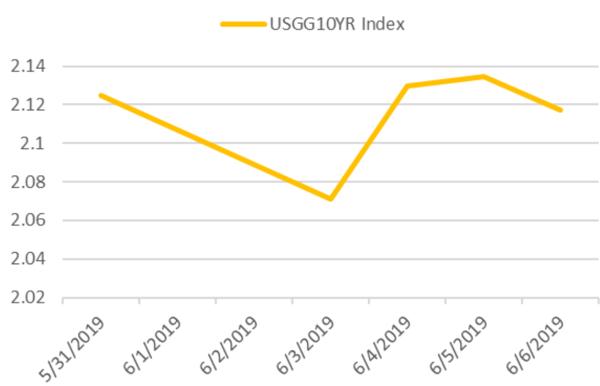
US Market Weekly Overview (06/07/19)

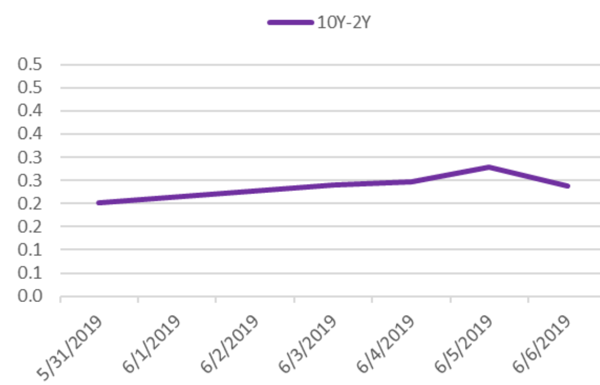












*** Index selection details:

- 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:

- 06/03: Equity markets started the morning well, optimistically staging small rallies and bond yields were unchanged until around noon at which time equities were spooked by talk of antitrust investigations into Google and Apple. That drove equities down about 1% from intraday highs and dragged bond yields lower as well. 10yr Treasury yield is now 2.07%, within shouting distance of a big resistance level at 2.0%. The bond rally was further aided by St.Louis Fed President Bullard (very big dove) commenting that the Fed may have to cut rates soon to boost inflation and head off economic risk from the US-China trade war. This was the first time in this rate hike cycle that a Fed official has publicly stated the case for a rate cut.
- 06/04: Global markets firmed up in part due to Fed Chairman Powell's comments that the Fed is effectively open to rate cuts if warranted by the trade wars. US equities managed its first up day (so far) after a 2-day downturn. Sunnier news on the Mexico tariff front (Mexican Foreign Minister Ebrard sees 80% likelihood that Mexico can work with the US to avoid the tariffs) also helped boost investor sentiments. The equity market rally is holding and rates have stabilized after the initial selloff. EM currencies have stabilized as well on hopes of an amicable Mexico tariff resolution: TRY, MXN, BRL are all up about 1% on the day.
- 06/05: Today's US economic data included the ADP Employment Report which showed private employer payrolls rose a meager 27k in May (185k expected) and helped further fuel the Fed rate cut speculations. The Fed Beige Book of economic activity showed modest growth in the US economy with overall prices increasing at a modest pace. Some districts saw signs of slowing manufacturing activity. None of today's data served to detract from market expectations of Fed cuts in 2019. Tomorrow we get the ECB meeting which could move rates globally as it may announce a new liquidity program (TLTRO) to stimulate the Eurozone economy. The exact details of the ECB program (how much, how long, what rate) will likely be the driver of global rate movements tomorrow.
- 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.
- 06/07: Today US monthly non-farm payroll came in considerably weaker than market expected (+75k versus +175k consensus). Average hourly earnings was up 0.2% (0.3% expected) and averagely weekly hours at 34.4 was below the 34.5 expected. While the overall US labor market remains quite healthy at 3.6% headline unemployment, today's data confirms the near-term slowdown we saw from ADP private payroll data and the continued lack of wage pressures in the inflation pipeline. It all adds up to more pressure on the Fed to put an easing bias back on the table.

Perspectives vs Actual:

Date	Driver	Equity	Rates	Vol	Curve Shape (10Y-2Y)	USD Basket	JPY
3-Jun	Expectation of Fed rate cut	1	-1	0	1	-1	1
4-Jun	Mex tariff avoid	1	1	0	0	0	-1
5-Jun	ADP lower	-1	-1	1	-1	-1	1
6-Jun	ECB TLTRO, keep rates until 2020	-1	-1	1	0	1	0
7-Jun	US bad data	-1	-1	1	-1	-1	1
Expected		**-1**	**-1**	**1**	**-1**	**0**	**1**
Actual		**1**	**0**	**-1**	**1**	**-1**	**-1**

- This week our expectation is quiet off compared to actual market movements: the reason for this is also quiet obvious that market short term movement is more rely on the money policy or the rate expectation. During this week market seems to put more attention on rate-cut pricing in which results in equity bouncing back quiet a lot and vol keeps dropping. In term of USD index, from this week it goes weaker and also this because of the expectation of rate-cut pricing in. What can be expected is when the actual rate cut (high probably to come) comes, there will be some bouncing back movements especially when it is below expectation. And then what will come is the continuation of pricing in the above events.
- Lower US economic in just one term probably cannot be the reason to judge it in the long term. However, when the rate cut comes, the yield curve shape at a very high probability will come back into “normal” shape (steepen) again, and combined with previous seen moderate inflation rate will actually does good to the economic and equity market. What can really be sure is the volatility in a short term will raise a lot given recent pricing in activities.