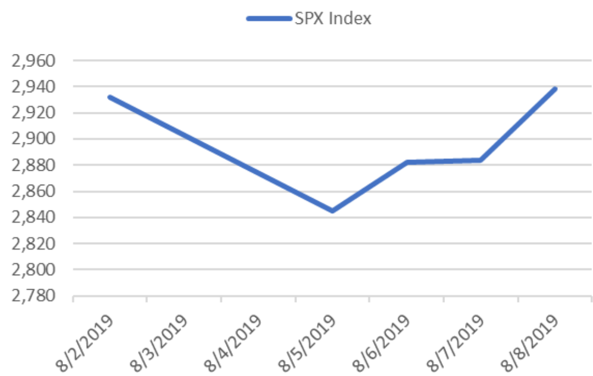
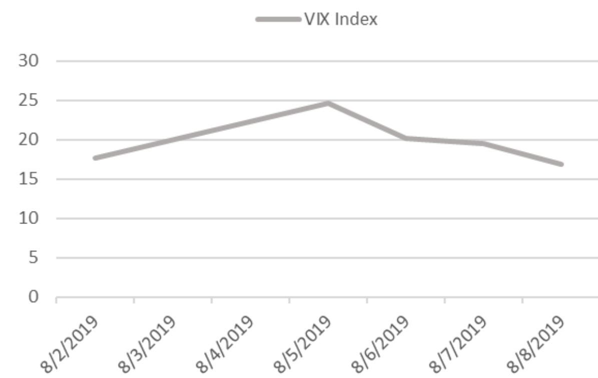
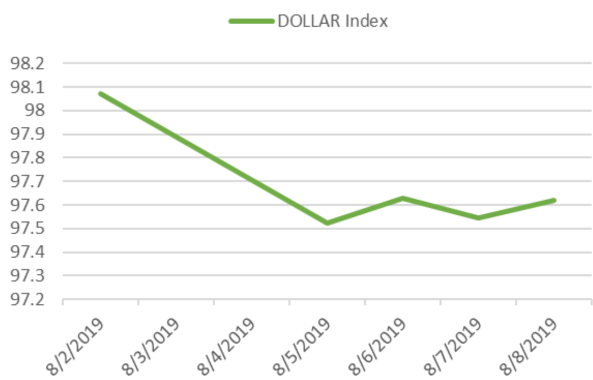
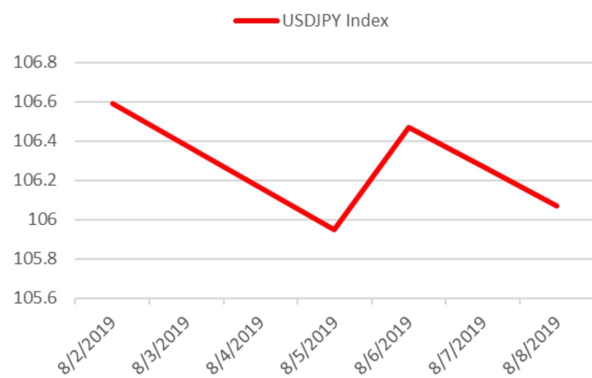
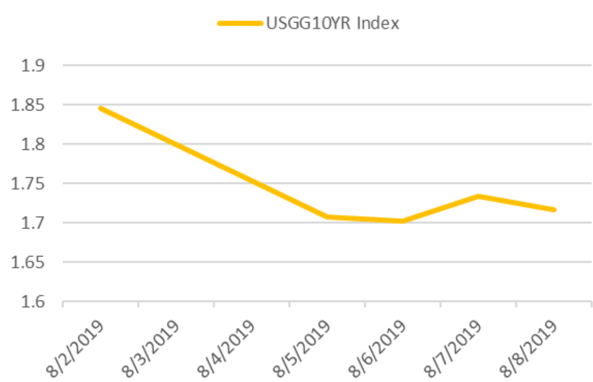
US Market Weekly Overview (08/09/19)

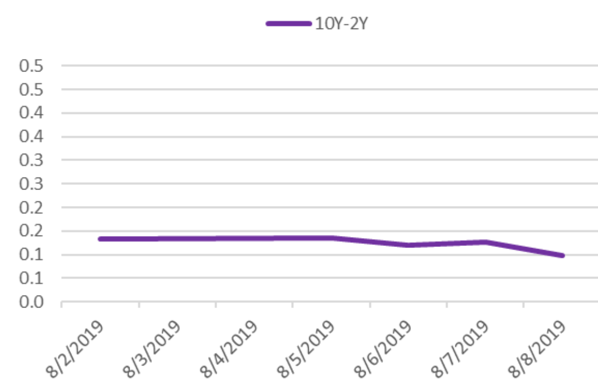












*** Index selection details:

- 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:

- 08/06: Some calm returned to the market as China set the Yuan fixing lower than market expected. This helped to halt the risk aversion crowd and reversed part of the stock market selloff from yesterday. The risk-on mood likewise helped to reverse some of the recent bond market rally, but the market mood remains cautious as participants anxiously await the next shoe to drop in the US-China trade war.
- 08/07: The market is rather bipolar at the moment, alternating between "the world is ending" trade war disaster scenarios to risk-on. By the end of the day, the DJIA managed to erase all but 55 points of a 500+ point drop in the opening half hour alongside the bond market reversal. The 10yr Treasury note auction was helpful in the reversal - the final auction yield was 1.6bps worse than pre-auction levels, the worst 10yr auction outcome in two years. That was a good indication that the large recent rally in yield is starting to outstrip investor demand for bonds.
- 08/09: Some calm finally returned to the bond market after a week of high drama and volatility. July Producer Price Index ex-food/energy came in +2.1% YoY (weaker than +2.3% expected). This will only help to solidify the lack-of-inflation theme behind potential future Fed cuts. President Trump's tweet today that the September US-China trade talks may not take place added some modest flight-to-quality sentiment.

Perspectives vs Actual:

Date	Driver	Equity	Rates	Vol	Curve Shape (10Y-2Y)	USD Basket	JPY
6-Aug	Yuan Dep a lot	-1	-1	1	0	1	1
7-Aug	10 Year Auction Worse 1.6BPS	-1	-1	1	-1	0	0
9-Aug	PPI<EXP	-1	-1	0	-1	-1	0
Expected		**-1**	**-1**	**1**	**-1**	**0**	**1**
Actual		**0**	**-1**	**0**	**-1**	**-1**	**1**

- As all bad news happened this week, equity performed relative strong to our expectation as a quick bouncing back after the large drop. Rates market and spread behaves more normally as the rates continuously to drop and spread between 2Y and 10Y reached a historical low. Expect equity's strong bouncing back, everything seems to be in line with a nervous market sentiment. At a very high probability the next equity drop will be more sever and hard to bounce back.
- The dollar index starts to drop a lot and in response to Chinese devaluation, Fed next cut would be more obvious and to a great scope equity market is already priced in the potential rate-cut. So the only possible situation would be a below-expectation cut and market corrects itself with this.