

US Market Weekly Overview (10/11/19)



*** 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:

- 10/08: Core September Producer Price Index fell 0.3% vs an expected rise. This lent a bid to bonds as investors fret about possible deflation. We would note that PPI is quite volatile and CPI and PCE are what the Fed focuses on. In the afternoon Fed Chairman Powell spoke at the NABE conference. Nothing much new in his speech ("Fed to act as appropriate", "policy not on preset course"), but the one new item he mentioned is that the Fed is looking into buying Treasury Bills to help money market liquidity. We called for that Fed measure in our recent writeup (enclosed) as one possible Fed action to counter the recent money market instability.
- 10/09: US September CPI was 0.0% and 0.1% core, both below expectations. But the market seemed to focus favorably on the ongoing US-China trade talks (at least nobody's walked out on the other party, yet).
- 10/10: Optimism in the US-China trade talks and the potential Brexit solution supported equity markets and bond bears. GBP is up 1.9% vs USD and 0.3% vs the EUR today. The Treasury released its questions to be discussed at its Quarterly Refunding meeting which only asked about 20yr bonds. That disappointed the market which was looking for questions about a 50yr issuance.

Perspectives vs Actual:

Date	Driver	Equity	Rates	Vol	Curve Shape (10Y-2Y)	USD Basket	JPY
8-Oct	PPI < exp	-1	-1	0	-1	-1	0
9-Oct	CPI < exp	-1	-1	0	-1	-1	0
10-Oct	US-China optimism	1	1	-1	1	1	-1
Expected		-1	-1	-1	-1	-1	-1
Actual		1	1	-1	1	-1	-1

- Market this week is totally driven by the optimism of US-China trade war, equity market bouncing back in just one day to recover what has been lost for the whole week. Also, dollar index gets weakening and probably will reverse its long-term strong trend. The eye-catching part here is the spread between 10Y-2Y yield, as the market starts to build confidence this spread already raise over 2 weeks. Investor starts to see the bright side of market.
- A few words about US economic, as we noticed that manufacture sector shows weak and this is an established short trend. If both PPI and CPI continues to lower this will increase the probability of rate cut for Fed which in turn lower the dollar price.