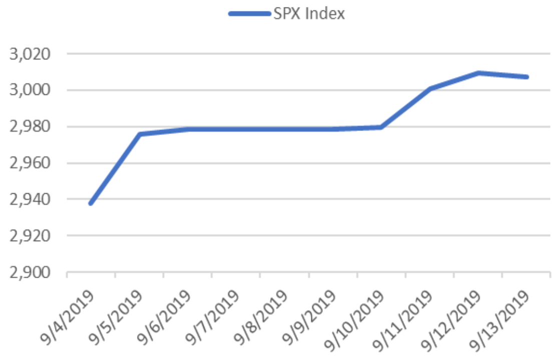
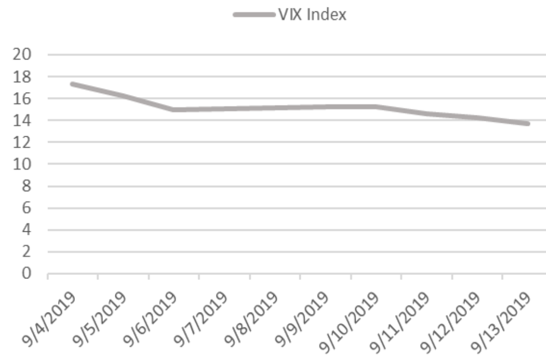
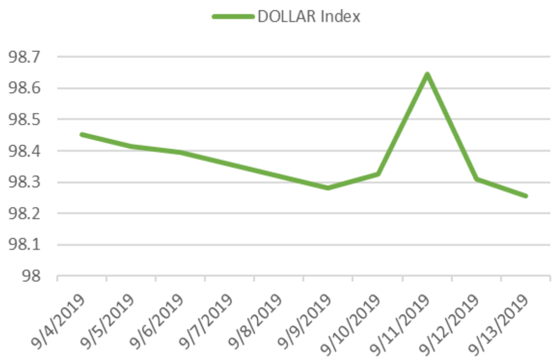
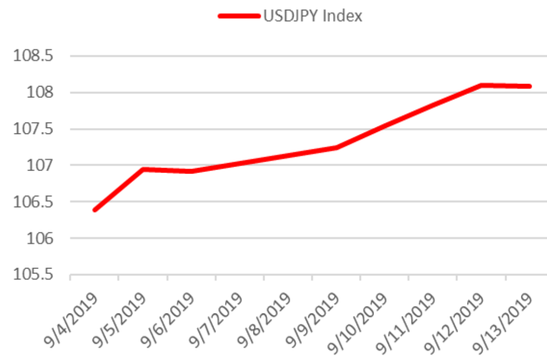
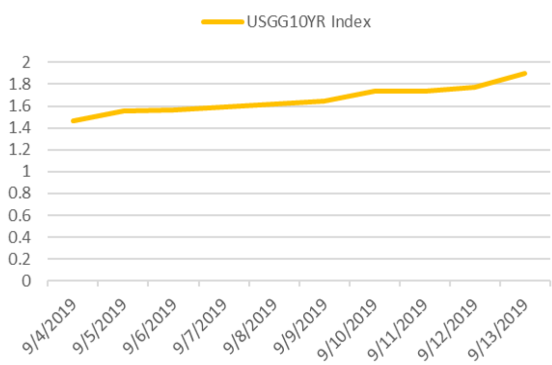
US Market Weekly Overview (09/13/19)

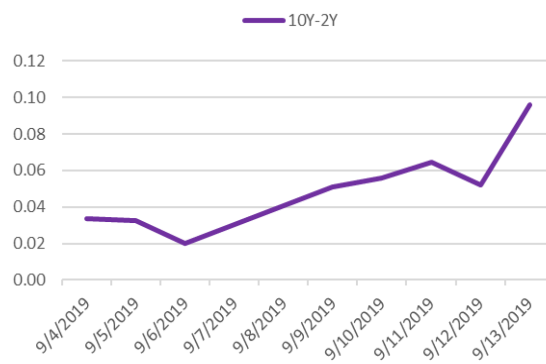












*** Index selection details:

- 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:

- 09/04: Equities rose 1% in response to a potential resolution of the Hong Kong protests after HK legislative leader Lam finally pulled the plug on the ill-conceived extradition bill. Markets were also cheered by data indicating China's service sector expanded at the fastest rate in 3 months. Bonds sold off modestly in the risk-on market.
- 09/05: It is nice to see a healthy bond selloff after the incessant rally of the last month. The bond selloff moved into gear today as US and China confirmed they would meet in October for trade talks. In addition, US ISM non-manufacturing index for August was very healthy at 56.4 (up from 53.7 vs 54.0 expected). This helped dispel the doom-and-gloom outlook on the US economy as the non-manufacturing sector accounts for the majority of US economic output.
- 09/06: Today featured the biggest US economic data of the month: August US non-farm payroll rose only +130k (vs +160k expected). That was hailed by bond bulls as a sign of that next recession will soon be upon us, even as the headline unemployment rate held steady at 3.7%. But it wasn't all bad as average hourly earnings in August rose +3.2% YoY (3.0% expected). Fed Chairman Powell's Q&A in Zurich was pretty much uneventful as far as news was concerned. The two main points he made were that the Fed does not see the US going into a recession, and the FOMC would do what is necessary to continue the economic expansion.
- 09/09: Today's rate-rise driver is the same as last week - growing optimism that central banks will continue to ease and that the global economy perhaps doesn't look so dire. Eurozone data has surprised a bit to the upside in recent days. Today's happy data include Eurozone investor confidence index beating expectations (-11.1 vs -13.4), August German exports +0.7% s.a. MoM (-0.5% expected) and August UK industrial production +0.1% vs -0.3% expected. In addition, another wave of long-end corporate issuance is expected today with 10yr and 30yr sectors as today's issuance sweet spot. Dollar bond issuers today include KfW (10yr), Cheniere ($1Bn 10NC5), Toll Brothers ($350mm 10yr), Principal Financing ($300mm 10yr), Baltimore G&E ($400mm 30yr), AEP ($350mm 30yr) and Oncor Electric ($700mm 30yr).
- 09/10: Markets are awaiting the ECB meeting later this week, but had to contend with headlines quoting unnamed ECB sources detailing substantial

opposition on the ECB's governing council to restarting QE. With the market fully pricing in substantial ECB action later this week (cut in depo rate, restarting QE of EUR 30Bn/month), those headlines came as a bit of a shock. In other trade-war thawing news, Reuters reported that China would look to buy more agricultural products from the US. Both of these headlines spurred today's bond selloff. We have a 3-yr Treasury auction at 1pm today, followed by 10yr and 30yr auctions the next two days.

- 09/11: Market mood remains mildly bond-bearish as US August PPI was a little hotter than expected (+2.3% YoY ex-Food & Energy vs +2.2% expected). PPI tends to be a bit more volatile so investors will look to tomorrow's CPI to confirm any uptick in inflation. Despite some concession in rates and the curve today, this afternoon's 10yr Treasury auction still tailed by the same amount as yesterday's 3yr auction (0.3bp higher than pre-auction level). The long bond auction tomorrow may either confirm the recent rising rate trend or may put a temporary halt to it. We also have the ECB meeting tomorrow which could see the unveiling of more negative rates and the return of QE.
- 09/12: The bond selloff was quite impressive considering ECB President Draghi defied hawks at his last ECB meeting by getting the governing council to cut rates 10bps to -50bps and also implement a new ECB QE program that was open-ended (a commitment to end QE before ECB would raise rates). However, the dovish QE morsel was more than offset by the ECB's newly announced bank reserve tiering system that exempted a certain amount of bank reserves from the punitive -50bp deposit rate. The amount of exempt reserves in question (set to 6x minimum required reserve) amounts to a maximum of EUR 792Bn, more than the total amount of the new QE program even if it went on for 3 years. Given that reserves qualify as HQLA (high quality liquid assets) under Basel-3 (same as Eurozone govt bonds), why should Eurozone banks wish to buy 2yr German government bonds yielding -70bps when they can leave their money with the ECB and earn zero? Perhaps that is why short-end Euro swaps rose 13bps from intraday lows after investors figured that out. Today's Treasury news featured Treasury Secretary Mnuchin announcing to the world on CNBC that the Treasury is seriously considering issuing 50yr Treasuries next year as it attempts to opportunistically lengthen the duration of its net debt. In addition, this afternoon's 30yr Treasury auction was another bust as it tailed 1.5bps worse than pre-auction levels. With all 3 of this week's Treasury

auctions coming weaker than expected, fundamental investor demand for bonds seems to have topped out at these yield levels.

- 09/13: Continued conciliatory language out of China plus potential progress on the Brexit front (UK PM Johnson to meet EU President Juncker next week) all helped generate market optimism. August US retail sales was quite healthy at +0.4% (+0.2% expected), and last month was revised upward from +0.7% to +0.8%. August University of Michigan consumer sentiment survey rebounded from 89.8 to 92.0 as well, further signs of healthy consumers.

Perspectives vs Actual:

Date	Driver	Equity	Rates	Vol	Curve Shape (10Y-2Y)	USD Basket	JPY
4-Sep	Strong Consumption Dataresolution of the Hong Kong protests	1	1	-1	1	0	-1
5-Sep	US ISM non-manufacturing index > exp	1	1	-1	1	1	-1
6-Sep	US non-farm payroll < exp	-1	-1	1	0	-1	1
9-Sep	EURO data > exp	0	1	-1	0	-1	-1
11-Sep	PPI < exp	-1	-1	0	-1	-1	0
12-Sep	EUR rate cut	1	1	0	0	1	0
13-Sep	US retail sales > exp, Consumer sentiment > exp	1	1	-1	1	1	-1
Expected		**1**	**1**	**-1**	**1**	**0**	**-1**
Actual		**1**	**1**	**-1**	**1**	**-1**	**-1**

- This is a summary of two weeks, market shows some bouncing back from previous nervous. US non-farm payroll below expectation but the retail sales data shows positive, market tends to focus more on the political event as the US-China trade-war and Hong Kong protest becoming mild, equity market recovers lots of the loose from last week.
- The most significant part for this week comes from the large recover of 10Y-2Y spread as a strong indicator for the market healthy. Also combined with a weak trending for JPY currency, there is an open window for equity market and risk lovers. As the EURO decides to cut rates that pushed US to cut rate on the table, which is already priced in the market. Right now, US economic seems to drive US currency only do not have a significant effect on equity market.