

27 September 2019

Overview

US-Japan Trade Deal: *The U.S. and Japan announced the first phase of a new trade deal covering agricultural products and digital trade. The agreement will eliminate or lower tariffs for certain U.S. agricultural products and provide preferential U.S.-specific quotas for other agricultural goods. Once the agreement is implemented, over 90% of U.S. food and agricultural products imported into Japan will either be duty free or receive preferential tariff access. A separate agreement on digital trade was also announced that will prohibit imposing customs duties on electronically transmitted digital products such as videos, music, e-books, software and games.*

China Agricultural Purchases: *China will increase its purchases of U.S. soybeans and pork ahead of high-level trade talks in the U.S. in October. The agreement follows Beijing's decision to lift punitive tariffs on soybeans, which are China's biggest import from the U.S. Earlier, the U.S. agreed to postpone a planned October 1 tariff hike on Chinese imports to October 15.*

Saudi Oil Production: *Reports indicate Saudi Arabia has restored its oil production capacity to 11.3 million barrels per day following the September 14 attacks on key production facilities. Initially, the Saudis claimed that output would be fully back online by the end of September, but there was skepticism about the speed of recovery. It was thought the repairs could take up to a year, but Aramco has been in emergency talks with contractors, offering premium rates for parts and repair work.*

Key Financial Indicators

As of: 9/25/2019

Rates	Yield	1 W Change	1M Change	3M Change	6M Change	12M Change	YTD Change
Fed Funds	2.00%	-25 bps	-25 bps	-50 bps	-50 bps	0 bps	-50 bps
3 Month USD Libor	2.10%	-6 bps	-4 bps	-21 bps	-51 bps	-28 bps	-71 bps
3 Month Euribor	-0.41%	-1 bps	0 bps	-7 bps	-10 bps	-9 bps	-10 bps
3 Month U.S. T-Bill	1.90%	-6 bps	-6 bps	-17 bps	-51 bps	-27 bps	-50 bps
2-Year U.S. Treasury	1.67%	-7 bps	14 bps	-6 bps	-58 bps	-116 bps	-83 bps
10-Year U.S. Treasury	1.73%	-6 bps	20 bps	-27 bps	-69 bps	-138 bps	-96 bps
10-Year German Bund	-0.60%	-10 bps	6 bps	-30 bps	-59 bps	-111 bps	-84 bps
10-Year U.K. Gilt	0.50%	-14 bps	-1 bps	-40 bps	-52 bps	-111 bps	-83 bps
10-Year JGB	-0.26%	-9 bps	-2 bps	-10 bps	-17 bps	-39 bps	-26 bps
Fixed Income	Yield	OAS	1W Return	1M Return	3M Return	12M Return	YTD Return
Barclays Capital U.S. Government-Treasury	1.78%	N/A	0.4%	-1.1%	1.9%	10.3%	7.3%
Barclays Capital U.S. TIPS	1.94%	N/A	0.3%	-0.9%	1.5%	7.4%	7.7%
Barclays Capital U.S. Aggregate	2.33%	47	0.3%	-0.7%	2.0%	10.2%	8.1%
Barclays Capital Global Aggregate	1.33%	44	0.2%	-0.9%	0.7%	7.3%	6.4%
Barclays Capital U.S. ABS	2.06%	33	0.1%	-0.2%	0.7%	5.4%	4.0%
Barclays Capital U.S. MBS	2.54%	49	0.1%	0.1%	1.2%	7.9%	5.3%
Barclays Capital U.S. Corporate Investment Grade	2.97%	115	0.5%	-1.0%	2.8%	12.9%	12.7%
BAML Euro Corporate Investment Grade	0.41%	112	0.1%	-0.7%	1.3%	6.2%	6.6%
Barclays Capital U.S. Corporate High Yield	5.66%	370	-0.1%	1.0%	1.6%	6.8%	11.6%
BAML European Currency High Yield Non-Financial	3.28%	379	-0.4%	0.1%	1.3%	4.2%	8.5%
CS U.S. Leveraged Loans	6.32%	475	0.0%	0.5%	1.0%	3.2%	6.4%
CS Western European Leveraged Loans Non-USD	4.58%	412	0.2%	0.6%	1.1%	2.8%	3.8%
JPM CEMBI Broad Diversified	5.13%	346	0.1%	0.5%	1.8%	10.9%	10.5%
JPM EMBI Global Diversified	5.28%	345	-0.3%	-0.1%	1.7%	12.2%	12.9%
JPM GBI-EM Global Diversified	5.23%	N/A	-0.8%	0.4%	-0.2%	11.6%	8.0%
Equities	Price	Div Yield	1W Return	1M Return	3M Return	12M Return	YTD Return
S&P 500	2,984.87	1.86%	-0.7%	5.0%	2.8%	4.5%	20.9%
Euro STOXX 600 (Local)	387.59	3.21%	-0.5%	4.4%	1.1%	1.0%	14.8%
U.K. FTSE 100 (Local)	7,289.99	4.49%	-0.3%	2.7%	-1.8%	-2.9%	8.4%
Japan Nikkei 225 (Local)	22,020.15	2.13%	0.3%	6.3%	3.9%	-8.0%	10.0%
China Shanghai Composite (Local)	2,955.43	2.35%	-1.0%	2.0%	-0.9%	6.3%	18.5%
MSCI AC World (Local)	521.88	2.54%	-0.7%	4.6%	2.1%	3.1%	17.7%
MSCI Emerging Markets (Local)	1,005.56	2.97%	-1.0%	3.3%	-1.0%	0.7%	8.5%
Commodities/Currencies	Price	1W Change	1M Change	3M Change	6M Change	12M Change	YTD Change
S&P GS Commodity Index	411.72	-1.3%	4.7%	-3.0%	-5.2%	-14.7%	10.0%
WTI Crude (\$/bbl)	56.56	-2.8%	4.6%	-1.9%	-3.7%	-22.9%	25.3%
Copper (\$/lb)	2.60	0.0%	2.7%	-5.1%	-8.9%	-7.4%	-1.3%
Gold (\$/oz)	1,528.75	1.7%	1.7%	6.8%	15.9%	27.2%	19.5%
U.S. Dollar Index	99.04	0.5%	1.4%	3.0%	2.6%	5.2%	3.0%
Euro (USD/EUR)	1.10	-0.9%	-1.4%	-3.7%	-3.2%	-7.0%	-4.1%
British Pound (USD/GBP)	1.24	-0.8%	0.9%	-2.7%	-6.2%	-6.0%	-2.8%
Japanese Yen (Yen/USD)	107.72	-0.5%	1.7%	0.7%	-2.2%	-4.6%	-1.8%
Chinese Yuan (CNY/USD)	7.12	0.5%	0.6%	3.5%	6.1%	3.6%	3.8%

Source: FactSet and Bloomberg

Economics

UNITED STATES

GDP: The third release of 2Q19 GDP was unchanged at 2%. Consumer spending was revised down slightly from 4.7% to 4.6%, while nonresidential fixed investment shrank 1%, more than -0.6% in the second estimate. 2Q19 corporate profit growth was revised down to 3.8% Q/Q from 5.3% on the initial estimate. Current estimates for 3Q19 GDP growth are similar to 2Q19: Atlanta Fed GDPNow is 1.9%; NY Fed Nowcast is 2.2% and Bloomberg consensus is 1.9%.

PMI: The preliminary reading of Markit's September manufacturing Purchasing Managers' Index (PMI) came in above estimates, rising to 51 from 50.3 in August, reaching a five-month high. The service sector PMI increased less than expected, advancing to 50.9 from 50.7 in August. The services employment measure fell into contraction territory at 49.1.

Consumer Confidence: Consumer confidence fell to a three-month low as both the present situation and expectations gauges declined. The drop in confidence was larger for future expectations compared to present conditions. A softer consumer segment could constrain the pace of economic growth, but current conditions cushion against a further slowdown.

EUROPE

EZ PMI: Markit's manufacturing and services Purchasing Managers Index were weaker than expected in September. The manufacturing PMI fell further into contraction territory at 45.6, the lowest level since October 2012. The manufacturing PMI reading in Germany was much worse than expected, slumping to 41.4 as the sector continues to be a major growth drag.

German Business Confidence: Business confidence data for September shows economic weakness is continuing. Although the current assessment and business climate measures improved, the expectations gauge declined further.

U.K. Budget: U.K. government borrowing is rising more sharply than expected as the budget deficit in the first five months of the fiscal year was 28% higher than the same period of 2018, amid easing austerity measures that are boosting spending.

ASIA - PAC

China Beige Book: China's Beige Book report showed the current economy was at its weakest point this year. All sectors, including manufacturing, property and services, were weakening. Manufacturing weakness was the main culprit, although the services sector continued to underperform with falling revenue and profits, and employment gains slowed.

Japan Machine Tool Orders: Orders plunged 37% year-over-year in August, the 10th-straight monthly drop and second-largest decline in nearly a decade. The global trade conflict continues to weigh on Japanese business spending plans.

South Korea Trade: Exports in the first 20 days of September fell 21.8% Y/Y, much more than expected, while imports over that time also declined more than estimated at -11.1% Y/Y. South Korea trade is typically a good proxy for global trade.

Policy

UNITED STATES

Impeachment: Amid Democratic outrage surrounding President Donald Trump's alleged interactions with Ukraine, whereby Trump purportedly threatened to cut off U.S. military aid to Ukraine unless the country launched an investigation into former Vice President Joe Biden's son, Hunter. House Speaker Nancy Pelosi announced that the House will begin a formal impeachment inquiry against the President. While the GOP Senate will likely not vote to remove the president, the developments do pose risks to pending legislation such as the USMCA.

China Trade: Ahead of an October high-level summit between senior U.S. and Chinese trade negotiators in Washington, D.C., Chinese authorities have announced plans to buy more U.S. pork, amid a domestic shortage, and granted companies waivers to buy U.S. soybeans without being subjected to retaliatory tariffs. President Trump has since tempered expectations, however, saying he won't accept a partial trade agreement with China involving only buying agricultural products.

Japan Trade: A trade-enhancement agreement that will lower agricultural tariffs in Japan, industrial tariffs in the U.S. and set new rules for digital trade was signed by President Trump and Prime Minister Shinzo Abe on the sidelines of the United Nations General Assembly. A joint statement released following the limited accord offered an indirect assurance that the U.S. wouldn't hit Japan with auto tariffs, saying the two sides will "refrain from taking measures against the spirit of these agreements."

Federal Reserve: The New York Fed has announced that it will continue daily open market repurchasing operations, offering 14-day term repo operations for an aggregate amount of at least \$60 billion each through September 27, and daily overnight repo operations for an aggregate amount of at least \$100 billion each through October 10. A surprise spike in repo rates prompted the Fed to keep supporting funding markets ensure adequate liquidity is available for banks.

GLOBAL

Brexit: The U.K. Supreme Court has ruled, in a unanimous vote, that Prime Minister Boris Johnson's decision to prorogue parliament from September 9 through October 14 was "unlawful, void and of no effect," and called on lawmakers to return to Parliament as soon as possible. Johnson signaled that while he "strongly disagrees," he is respecting the motion. The fallout sees increasing demands for Johnson to resign as prime minister.

India: Finance Minister Nirmala Sitharaman has announced that the base corporate tax rate would be lowered to 22% from 30%, with firms that receive incentives or exemptions seeing their tax rate cut to 25% from 35%. In addition, some new manufacturing firms will see their corporate tax rate lowered to 15% from 25%.

Israel: President Reuven Rivlin has selected Prime Minister Benjamin Netanyahu to form a new government after talks between Netanyahu and rival Benny Gantz, who has garnered support of 54 members in Parliament, to form a broad unity

government collapsed. Netanyahu will have six weeks to attempt to form a government and will need to produce a collation of at least 61 members, out of the 55 he's already won, to have a majority government.

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