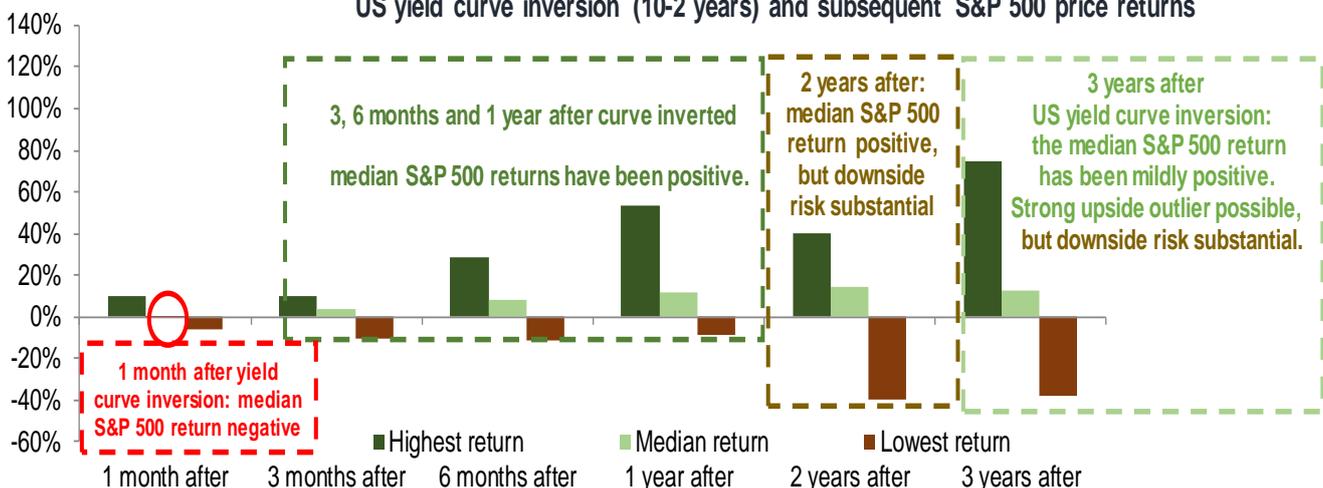


**During this week**, the uncertainty regarding **US-China** trade dispute triggered corrective move in the main equity markets. **US** published a list of \$110 bn. imported products from China, which will be tariffed at 10% from September 1 and a second list of \$160 bn., which will be tariffed from December 15. China said that will take countermeasures. US-China Presidents are expected to speak soon at a call. Political risk episodes include demonstrations in Hong Kong, possible early elections in Italy and substantial decline in Argentinian assets due to indications that the reformist M. Macri may lose the Presidential elections in October.

**In the US**, the spread of 10-year minus 2-year government bond yield turned negative intraday and closed almost flat (14/8: 0%), the lowest since June 2007. Looking at monthly figures (since 1976), when the 10-2 yield curve differential had turned negative, the one-month ahead return of the S&P 500 stock index tended to be negative (median). The initial risk-off environment triggered by the yield curve inversion tended to fade at the 3-6 months horizon (median positive return for the S&P 500 index). Positive median return was posted one year after the yield curve inversion. At the two-year horizon after the yield curve inversion, the median return tended to be positive, but lower than usual and there were episodes of substantially negative performance. At the three-year horizon, the median return has been positive, but the highest to lowest return range is large.

In conclusion, yield curve inversion tends to be associated with risk-off sentiment in the short term (one month), soon followed by relief (three to six-month horizon), normalizing in positive territory at the one-year horizon. Yield curve inversion tends to be associated with- substantial downside risk at the two-year horizon and widens the range of potential outcomes at the three-year horizon. It can be assumed that a potential easing of trade tensions and stabilization of growth figures, can bring positive outcome for the S&P 500 index at the 1-3 years horizon, despite the yield curve inversion, while in contrast a potential worsening of US-China dispute, coupled with other geopolitical risks materializing, carry the risk of negative outcome. US economy is at growth pace (2.5%) above estimated potential (1.9%), employment is still strong and profitability around historic high. This set of conditions makes the first scenario (positive outcome for the S&P 500 index) more probable than the second scenario.

**US yield curve inversion (10-2 years) and subsequent S&P 500 price returns**


Source: Bloomberg

**The week ahead:**

In the **Eurozone**, inflation (19/8) has probably decreased in July to 1.1% from 1.3% in June. Manufacturing and services PMI for Eurozone, **Germany** and **France** (22/8) are expected lower in August. In the **US**, the minutes (21/8) of the latest Fed meeting (31/7) and the leading economic index for July (22/8) will be released next week. Companies reporting quarterly results: Estee Lauder (19/8) and Home Depot (20/8).

**The speech by the President of the Fed on August 23 may be key on whether risk-off sentiment will extend into September or “buying into the dips” will prevail.**

**Quote of the Week:**

ECB member Olli Rehn said (15/8): “Need significant monetary easing package in September”.

Global Markets in Charts

**US-China will have talks in September regarding the trade dispute. US will impose 10% tariffs on \$110 bn. chinese imported products from September 1 and on \$160 bn. from December 15.**

Tariffs, by percentage rate, imposed by the U.S. and China on each other since March 2018

□ Imposed by the U.S. on China    ■ Imposed by China on the U.S.

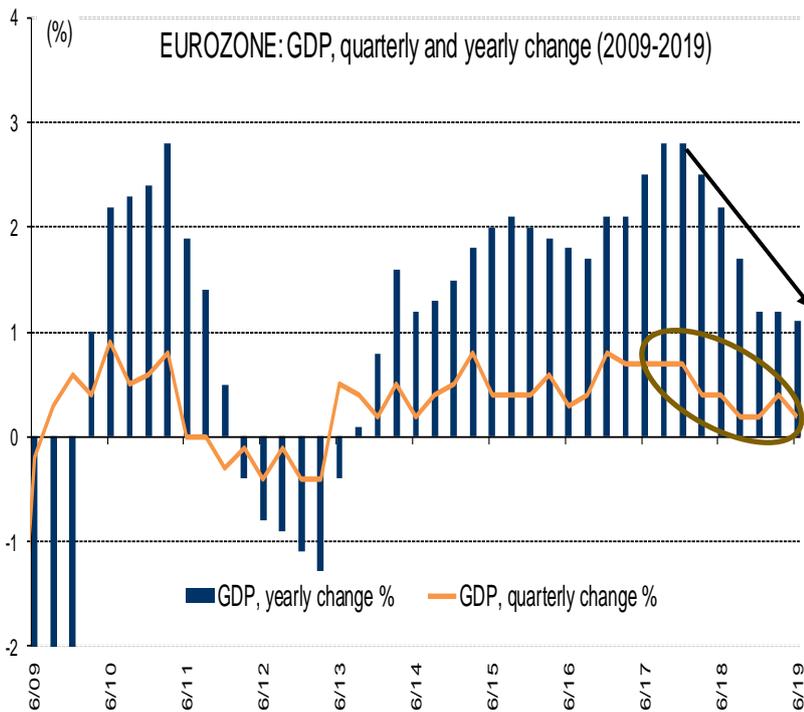
March/April 2018	July 2018	August 2018
<p>□ \$40b ■ \$3b</p> <p>Steel and aluminum products from most countries (10% aluminum, 25% steel) Wine, pork, nuts, steel pipes, recycled aluminum (15% to 25%)</p>	<p>□ \$34b ■ \$34b</p> <p>Aircraft parts, semiconductors, microscopes (25%) Soybeans, wheat, electric vehicles, whiskey, seafood, cigars (25%)</p>	<p>□ \$16b ■ \$16b</p> <p>Motorcycles, steam turbines, railway cars (25%) Beef, poultry, fiber-optic cables, motorcycles (25%)</p>
September 2018	September 1, 2019	December 15, 2019
<p>□ \$200b ■ \$60b</p> <p>Fabric, modems, chemicals, furniture, seafood (10%, raised to 25% in May 2019) Cosmetics, vodka, reptiles, wigs, diamonds, video games (5% to 10%, raised to 5% to 25% in May 2019)</p>	<p>□ About \$110b</p> <p>Agricultural products, antiques, clothes, kitchenware, footwear (10%)</p>	<p>□ About \$160b</p> <p>Smartphones, laptops, children's toys (10%)</p>

Sources: Office of the U.S. Trade Representative, Bloomberg

**Bloomberg**

Almost 17 months have passed since US-China trade dispute started. Chinese economic growth is weakening and industrial production posted in July the lowest yearly rise (4.8%) since February 2002. German economy contracted on quarterly basis in the second quarter (-0.1%). Main Central Banks have changed the direction of their policy towards easing. Economic growth worries have risen, government bond yields have dropped. The "trade war" which affects specific countries may widen to a "currency war", which may involve competitive currency devaluations by more countries, not necessarily directly related to the "trade war". This mix of worries has recently triggered risk-off mood.

**Eurozone GDP increased on quarterly basis in the second quarter by 0.2% and on yearly basis by the least (1.1%) since the fourth quarter of 2013.**



Source: Bloomberg

In the Eurozone, GDP yearly rise had reached 2.5%-2.8% area in mid-2017, two years after the initiation of quantitative easing by the ECB. Following this QE boost, growth is gradually decelerating, posting in the second quarter of 2019 a low (1.1%, 10-year average: 1.0%) since the fourth quarter of 2013. German 10-year yield dropped at historic low (15/8: -0.714%). The ECB is expected to lower its interest rates in September and probably restart asset buying. Eurozone growth softening and monetary easing by the ECB have pushed Euro at a two-week low versus USD (16/8: \$1.1081). Support is at \$1.1030 (1/8/19 low) and at \$1.087 (Fibonacci retracement 76.4%: \$1.0341- \$1.2555). Resistance is at \$1.1250-\$1.1300 (6/8/19 high, 200 days average).

**Global Markets Minesweeper**
**Event Risk Calendar, 19 - 23 August, 2019**

Monday 19/8							
Date Time	Country	Event	Period	Survey	Prior		
19/8 02:50	JN	Trade Balance	Jul	-¥194.5b	¥589.6b		
19/8 02:50	JN	Trade Balance Adjusted	Jul	-¥150.8b	-¥14.4b		
19/8 11:00	EC	ECB Current Account SA (Euro)	Jun		29.7b		
19/8 12:00	EC	CPI Core (YoY)	Jul F	0.90%	0.90%		
19/8 12:00	EC	CPI (MoM)	Jul	-0.40%	0.20%		
19/8 12:00	EC	CPI (YoY)	Jul F	1.10%	1.30%		
<b>Eco Event</b>	US	President of Boston's Fed (Eric Rosengren) discusses the economy in Bloomberg interview					
<b>Corp. Results</b>		US: Estee Lauder Companies					
Tuesday 20/8							
Date Time	Country	Event	Period	Survey	Prior		
20/8 09:00	GE	PPI (MoM)	Jul	0.10%	-0.40%		
20/8 09:00	GE	PPI (YoY)	Jul	1.10%	1.20%		
20/8 12:00	EC	Construction Output (YoY)	Jun		2.00%		
20/8 13:00	UK	CBI Trends Total Orders	Aug	-25.0	-34.0		
<b>Eco Event</b>	IT	Italian Prime Minister (G. Conte) will address the Senate in Rome, possibly leading to a confidence vote					
<b>Corp. Results</b>		US: Home Depot Inc, Medtronic Plc					
Wednesday 21/8							
Date Time	Country	Event	Period	Survey	Prior		
21/8 08:30	JN	Nationwide Dept Sales (YoY)	Jul		-0.90%		
21/8 11:30	UK	PSNB ex Banking Groups (GBP)	Jul	-3.0b	7.2b		
21/8 17:00	US	Existing Home Sales (MoM)	Jul	2.20%	-1.70%		
<b>Eco Event</b>	US	FOMC Meeting Minutes (21:00)					
Thursday 22/8							
Date Time	Country	Event	Period	Survey	Prior		
22/8 07:30	JN	All Industry Activity Index (MoM)	Jun	-0.80%	0.30%		
22/8 09:00	JN	Machine Tool Orders (YoY)	Jul F		-33.00%		
22/8 10:15	FR	Markit France Manufacturing PMI	Aug P		49.7		
22/8 10:15	FR	Markit France Services PMI	Aug P		52.6		
22/8 10:30	GE	Markit Germany Manufacturing PMI	Aug P	43.0	43.2		

22/8 10:30	GE	Markit Germany Services PMI	Aug P	54.0	54.5	
22/8 11:00	EC	Markit Eurozone Manufacturing PMI	Aug P	46.5	46.5	🌩️
22/8 11:00	EC	Markit Eurozone Services PMI	Aug P	52.8	53.2	🌩️
22/8 15:30	US	Initial Jobless Claims	17-Aug		220k	
22/8 16:45	US	Markit US Manufacturing PMI	Aug P	50.5	50.4	
22/8 16:45	US	Markit US Services PMI	Aug P	52.8	53.0	
22/8 17:00	US	Leading Index (MoM)	Jul	0.20%	-0.30%	🌩️
22/8 17:00	EC	Consumer Confidence	Aug A	-6.8	-6.6	🌩️
<b>Corp. Results</b>		US: Intuit, CH: China Life Insurance				
		<b>Friday 23/8</b>				
<b>Date Time</b>	<b>Country</b>	<b>Event</b>	<b>Period</b>	<b>Survey</b>	<b>Prior</b>	🌩️
23/8 02:30	JN	Natl CPI (YoY)	Jul	0.50%	0.70%	
23/8 02:30	JN	Natl CPI Ex Fresh Food (YoY)	Jul	0.60%	0.60%	
23/8 17:00	US	New Home Sales (MoM)	Jul	-0.20%	7.00%	
<b>Eco Event</b>	US	Fed President (J. Powell) speaks at Jackson Hole (17:00)				🌩️
<b>Corp. Results</b>		CH: China Merchants Bank, AIA Group				

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