Aug 4, 2024

KN Market View

Main Topics

Key Events. The United States faces an increase in its unemployment rate **from 4.1% in June to 4.3% last month**.

Government Bonds and Currencies. FED rate cut likely as unemployment rises. Canadian bond market hit by unemployment data and Fed rate cut expectations. **Yen surges following central bank announcements**.

Commodities. Oil prices continued under pressure. **Precious metals recovered some ground after market sell-off**.

Stocks. The **Utilities sector takes this week's victory again**, showing its resilience when markets are under pressure.

Crypto. Crypto followed markets' sell-off.

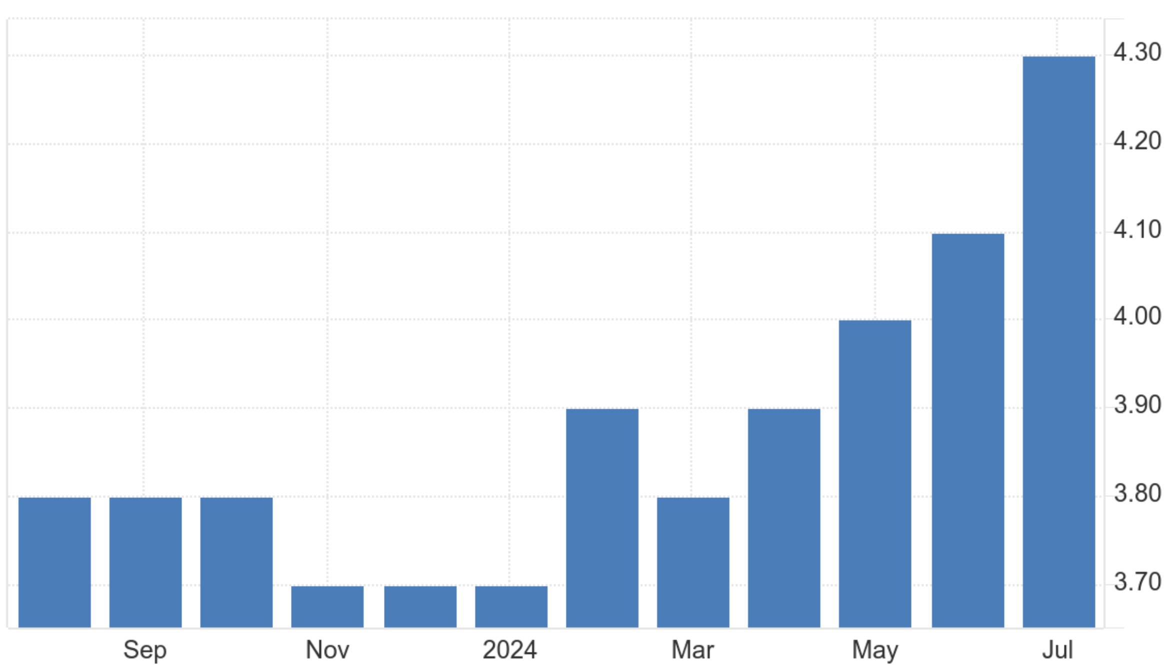
Weekly Paper Picks. **Market Bubbles and Crashes**.

Key Events

Economy at a glance

The United States faces an increase in its unemployment rate from 4.1% in June to 4.3% last month. This is the highest rate since October 2021. The outlook "painted a picture of a significantly weaker job market and raised some fears of a pending recession" link.

US Unemployment Rate



Source: Trading Economics | U.S Bureau of Labor Statistics

"The **US Commerce Department** announced it will continue to **classify Vietnam as a non-market economy country**". This label entails the imposition of punitive anti-dumping duties on its exports. Washington designates 12 other economies by this classification, among them are China, North Korea and Russia link.

“China's manufacturing activity in July shrank for a third consecutive month. **The official purchasing managers' index (PMI) fell to 49.4** in July from 49.5 in June” link.

Headline inflation in the Euro zone unexpectedly increased to 2.6%. Moreover, **core inflation**, which excludes volatile prices, **rose to 2.9%**. This information will be key to the European Central Bank’s decision on possible future rate cuts link.

On the other hand, “**in the second quarter of 2024, seasonally adjusted GDP increased by 0.3% in both the euro area and the EU,** compared with the previous quarter”, more than it was expected, according to Eurostat. In the first quarter of this year, GDP had also grown by 0.3% in both zones. After stagnation in 2023, this shows an economic recovery link.

“**The Bank of England** cut its key interest rate for the first time in over four years”. On Thursday the central bank **lowered its benchmark lending** by a quarter-percentage point **to 5%** link.

This week, the US will be in focus with the ISM Services PMI and the trade balance report. In China, the **Caixin Services PMI**, the balance of trade, and producer and consumer inflation figures will be closely monitored.

Australia, **India** and **Mexico will announce their interest rate decisions** while inflation rates will be reported for Turkey, the Philippines, Mexico, Brazil, and Russia.

Government Bonds and Currencies

FED rate cut likely as unemployment rises

US 10 Year Treasury Bond Note Yield

Source: Trading Economics

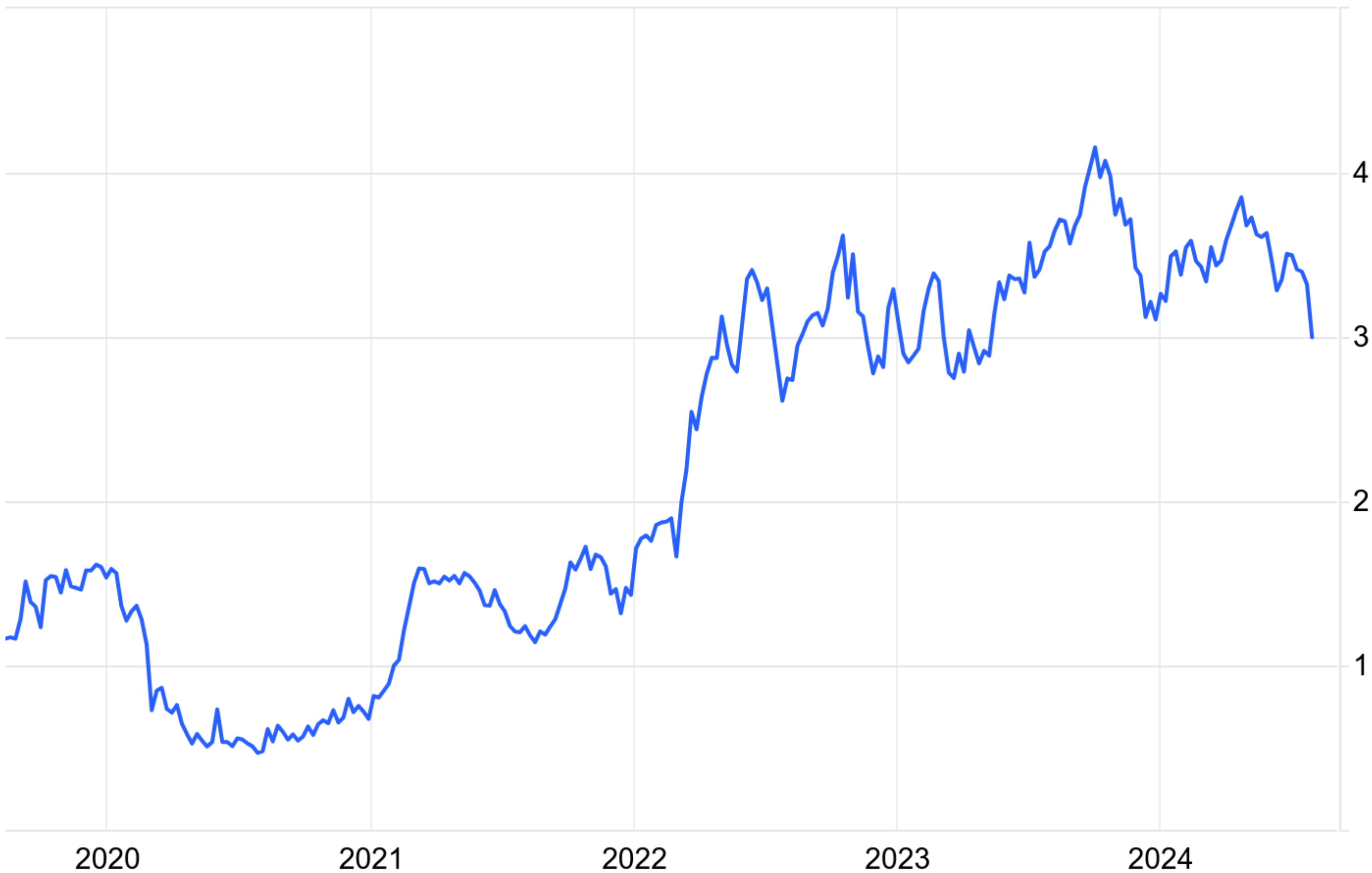
After recession alarms were triggered in the United States following the release of unemployment data, with the rate reaching **4.3%**, the rapidly increasing unemployment rate is creating the perfect scenario for the anticipated **rate cut in September**. In response, the yield on **10-year U.S. government bonds** fell by **41 bps**, closing at **3.79%**, its lowest level in the past eight months.

Canadian bond market hit by unemployment data and Fed rate cut expectations

The unemployment data and the potential interest rate cut by the Fed also impacted the **Canadian bond market**, where the **10-year bond yield** closed the week at **2.99%**, losing **32 bps** and reaching its lowest level since May 2023.

The possible rate cut by Canada's main trading partner could **increase** the likelihood of the Bank of Canada following suit and beginning to **lower its rate** "If the US economy is rolling over and the Federal Reserve is cutting, that gives the Bank of Canada a green light to keep going and push toward neutral" link. The **upcoming release** of **Canada's unemployment data** this Friday will likely provide further indications of the direction Canadian monetary policy will take.

Canada 10-Year Government Bond Yie



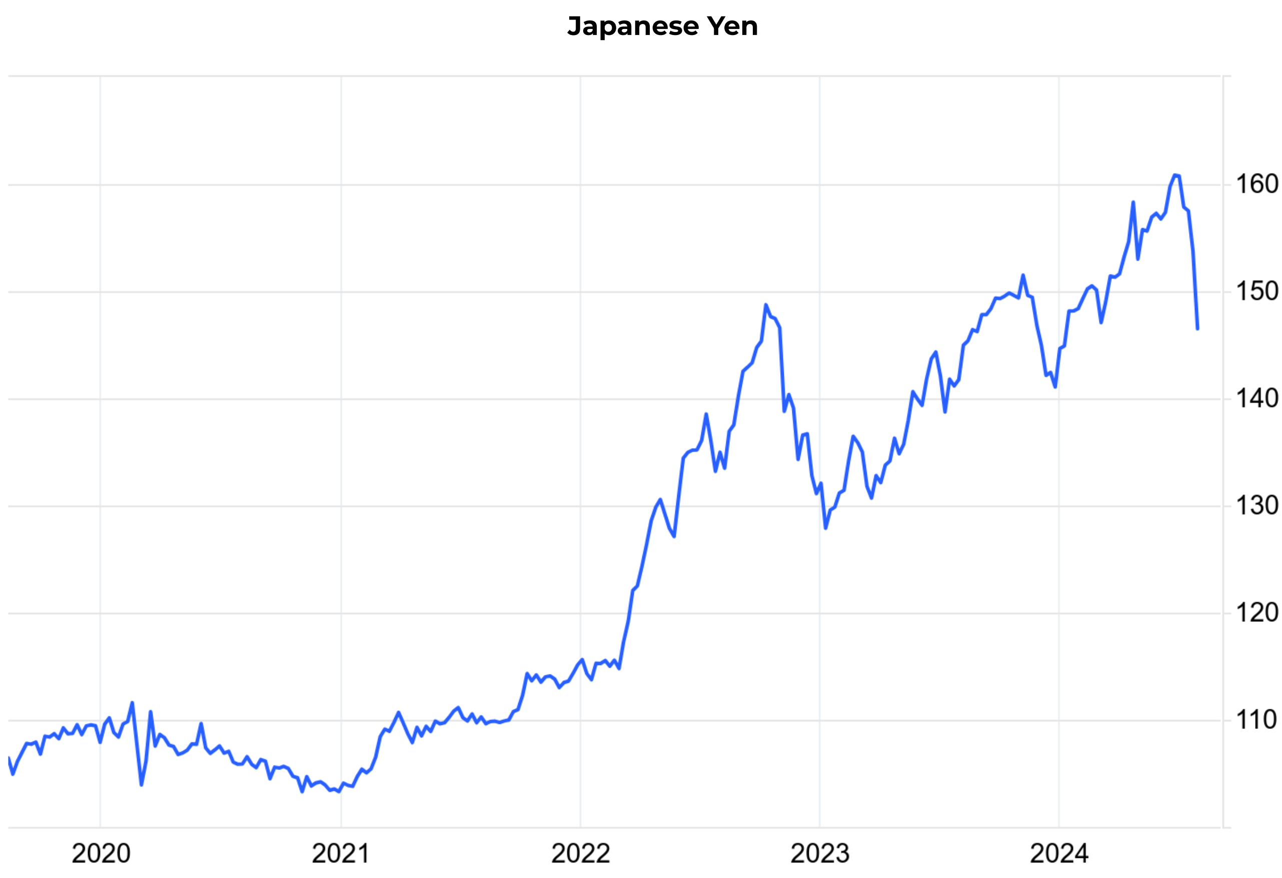
Source: Trading Economics

UK Bond yields drop as rate cut occurs amid mixed inflation results

On the other side of the world, the yield on **10-year UK government bonds** also closed the week lower, reaching **3.83%** with a decline of **27 basis points**. This followed the first rate cut in four years, with inflation trends providing mixed signals "services inflation has been slightly higher than expected, while goods inflation has been just below forecasts, meaning the two effectively offset each other, leaving headline inflation in line with expectations" link.

Yen surges following central bank announcements

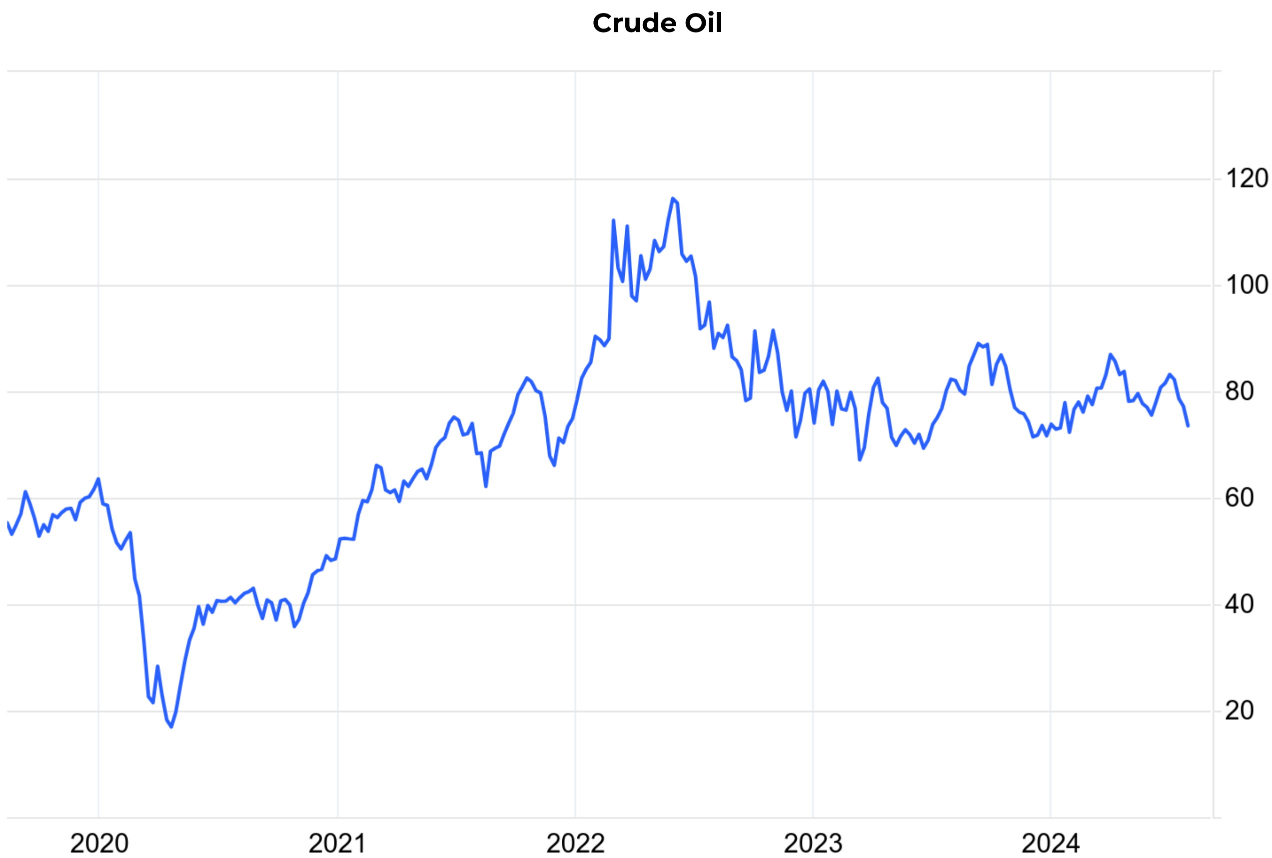
On the other hand, the **Yen** continues its meteoric **rise against the dollar**, appreciating by **4.70%** this week to close at **146.50 yen per dolla**r. This surge followed the Bank of Japan's decision to **increase** its **interest rate** by 15 basis points, bringing it to **2.5%**. This move surprised the consensus, which expected the rate to remain unchanged. Nevertheless, Finance Minister Shunichi Suzuki stated that "The government will continue to analyze the impact of exchange rate fluctuations on the Japanese economy and people's lives, and will respond appropriately" link.



Source: Trading Economics

Commodities

Oil prices continued under pressure



Source: Trading Economics

“WTI crude futures fell by more than 3% to below $74 per barrel on Friday, the lowest in 2 months, and extending the losses from the previous session, as global oil demand concerns outweighed supply risks from rising geopolitical tensions in the Middle East. **Data released on Friday showed US jobs growth slowed sharply**, the jobless rate increased to 4.3% and wage growth slowed. This comes on top of weak manufacturing data. The **ISM Manufacturing PMI revealed a larger-than-expected**

contraction in the US factory activity, while China's factory activity unexpectedly contracted, the first fall since last October" [link](#).

Precious metals recovered some ground after market sell-off

"Gold soared to over $2,474 per ounce on Friday, a new record high, after a weak jobs report in the United States added to the magnitude of the dovish pivot expected by the Federal Reserve" [link](#).

Source: Trading Economics

Stocks

Another week with big losers. This time led by the US sell off, after weak job reports.

Main Equity Markets Movers WoW

Major	Price	Day	%	Weekly	Monthly	YoY
NZX 50	12453	▼ 35	-0.28%	0.84%	5.62%	4.33%
SHANGHAI	2905	▼ 27	-0.92%	0.50%	-2.58%	-11.44%
ASX200	7943	▼ 171	-2.11%	0.28%	2.63%	8.64%
US100	18441	▼ 450	-2.38%	-3.06%	-8.65%	20.11%
MOEX	2899	▼ 38	-1.28%	-3.10%	-9.41%	-7.91%
FR40	7252	▼ 119	-1.61%	-3.54%	-4.98%	-0.12%
DE40	17661	▼ 422	-2.33%	-4.11%	-3.88%	11.12%
ES35	10673	▼ 181	-1.67%	-4.42%	-3.47%	14.67%
EU50	4637	▼ 129	-2.71%	-4.64%	-6.63%	7.72%
JP225	35910	▼ 2,217	-5.81%	-4.67%	-11.51%	11.66%
IT40	32019	▼ 839	-2.55%	-5.30%	-5.40%	11.55%

Source: Trading Economics

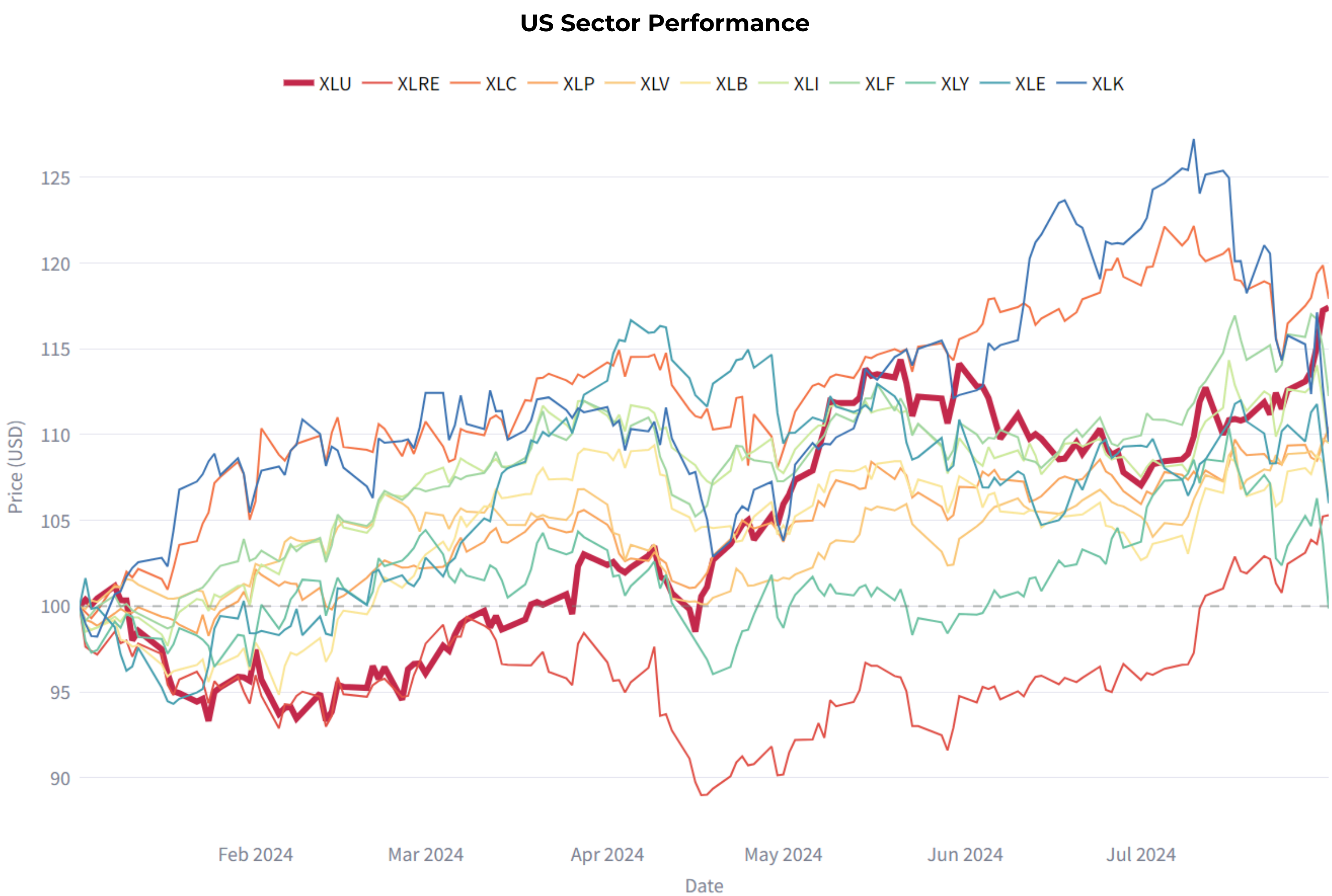
The Utilities sector takes this week's victory again, showing its resilience when markets are under pressure.

US Sector Performance

	WoW	YTD
Technology (XLK)	-5.34%	9.59%
Energy (XLE)	-4.11%	6.01%
Consumer Discretionary (XLY)	-3.53%	-0.13%
Financials (XLF)	-3.11%	12.25%

Industrials (XLI)	-2.83%	9.47%
Materials (XLB)	-1.41%	6.33%
Health Care (XLV)	0.60%	9.53%
Consumer Staples (XLP)	0.98%	10.44%
Communication Services (XLC)	1.24%	17.92%
Real Estate (XLRE)	2.77%	5.31%
Utilities (XLU)	4.29%	17.42%

Source: FMP



Source: FMP

This week on the markets

This Friday, US markets saw a big sell off, after the **weak employment figures for the month came lower than expected**, giving **fears** of a **possible recession.**

This led the **US index with the biggest 500 companies to a -2.09% WoW return**. From the sector side of things, **Tech (-5.24%), Energy (-4.11%), Consumer Discretionary (-3.53%) and Financials (-3.11%)** were the worst performers in week-over-week numbers.

On top of the selloff, the VIX is at 16 week top, reaching levels previously seen at the start of 2023.

Volatility Index

Source: TradingView

Earnings season highlights

The second quarter earnings season is underway, and here are some highlights from companies that reported this week.

Apple

- Apple reported **revenue of $85.5 billion and EPS of $1.40**, both surpassing analyst expectations of $84.4 billion and $1.35, respectively.
- **iPhone sales totaled $39.2 billion**, slightly missing the $39.6 billion from Q3 2023 but **exceeding** analyst **expectations of $38.9 billion.**
- **Revenue from Greater China** reached **$14.7 billion**, falling short of the $15.2 billion expected by analysts and down from $15.7 billion in the same quarter last year.
- **Services** revenue hit **$24.2 billion**, above the anticipated $23.9 billion, and iPad sales reached $7.1 billion, **surpassing the expected $6.6 billion.**

Amazon

- Amazon reported **revenue of $148 billion**, slightly below the **expected $148.8 billion**. EPS came in at **$1.26, surpassing the estimated $1.04** and nearly doubling profits from the same period last year.
- Sales projected for the current quarter were between **$154 billion** and **$158.5 billion**, **missing** the **analyst forecast of $158.43 billion**.

- **Advertising** segment generated **$12.8 billion in revenue**, slightly below the **anticipated $13 billion**.
- **AWS** reported **$26.3 billion in revenue**, exceeding the expected **$26 billion** and significantly higher than the **$22.1 billion** from the same period last year.

Intel

- Intel shares **fell 26% to $21.48 this week**, marking the steepest drop in 50 years and the second worst day ever for the stock. **The company's market cap fell below $100 billion**.
- **Reported a net loss of $1.61 billion**, a significant drop from the $1.48 billion net income reported in the same period last year.
- **Adjusted EPS were 2 cents, falling short of the 10 cents expected** by analysts.
- **Intel announced it would not pay its dividend in the fiscal fourth quarter** of 2024 and lowered its full-year capital expenditures forecast by over 20%.
- The company plans **to lay off more than 15% of its employees** as part of a **$10 billion cost-reduction plan**, marking its most substantial restructuring in decades.

Crypto

Crypto followed markets' sell-off

Main Crypto Movers WoW

Crypto	Price	Day	%	Weekly	Monthly	YoY
Solana	141.9647	▼ 1.0853	-0.76%	-23.10%	5.33%	528.73%
Avalanche	22.24	▼ 1.25	-5.33%	-21.00%	-9.00%	79.49%
Cosmos	5.00	▼ 0.11	-2.15%	-19.54%	-12.57%	-41.17%
Algorand	0.12	▼ 0.00	-3.58%	-17.32%	-12.02%	13.42%
Bitcoin Cash	348.00	▼ 15.66	-4.31%	-16.44%	6.41%	53.67%
Chainlink	11.4188	▼ 0.4549	-3.83%	-16.12%	-9.53%	59.99%
Cardano	0.35443	▼ 0.00900	-2.48%	-15.38%	-2.52%	20.62%
Polkadot	4.85	▼ 0.18	-3.64%	-15.20%	-14.55%	-2.20%
Uniswap	6.40	▼ 0.22	-3.38%	-15.04%	-17.48%	5.35%
Polygon	0.45	▼ 0.02	-3.44%	-13.15%	-9.13%	-32.03%
Bitcoin	60512	▼ 947	-1.54%	-11.12%	5.83%	109.11%
Ether	2895.20	▼ 84.7	-2.84%	-11.06%	-5.75%	58.43%
Binance	519.8	▼ 9.0	-1.70%	-11.01%	4.17%	112.16%
Ripple	0.53847	▼ 0.01774	-3.19%	-10.54%	26.12%	-13.90%

Source: Trading Economics

"The recent stock market volatility has caused a dramatic increase in liquidations in the crypto market. This event comes in an uncertain economic context, where investors are reassessing their portfolios in light of a possible recession.

The crypto market experienced a liquidation of over 272 million dollars in the last 24 hours. Bitcoin (BTC) was the most affected crypto asset by these liquidations, with nearly 78 million dollars liquidated, including about 44 million from long positions. This increase in cryptocurrency liquidations is linked to the stock market volatility. Indeed, the price of certain stocks has recently seen a significant drop. The S&P 500 had its worst session in nearly two years" link.

Weekly Paper Picks

Market Bubbles and Crashes

Link : https://arxiv.org/pdf/0812.2449

Episodes of market crashes have fascinated economists for centuries. Although many academics, practitioners and policy makers have studied questions related to collapsing asset price bubbles, there is little consensus yet about their causes and effects.

This review and essay evaluates s**ome of the hypotheses offered to explain the market crashes that often follow asset price bubbles**. Starting from historical accounts and syntheses of past bubbles and crashes, we put the problem in perspective with respect to the development of the efficient market hypothesis.

We then present the models based on heterogeneous agents and the limits to arbitrage that prevent rational agents from bursting bubbles before they inflate. Then, we explore another set of explanations of why rational traders would be led to actually profit from and surf on bubbles, by anticipating the behavior of noise traders or by realizing the difficulties in synchronizing their actions.

We then end by discussing a complex system approach of social imitation leading to collective market regimes like herding and the phenomenon of bifurcation (or phase transition) that rationalize what crash can occur in unstable market regimes. **The key insight is that diagnosing bubbles may be feasible when taking into account the positive feedback mechanisms that give rise to transient "super-exponential" price growth, the bubbles**.

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Disclaimers