WEEKLY LIQUIDITY & TREASURY

1 August 2019

Confidence must be earned

Amundi ASSET MANAGEMENT

Data as of 07/31/2019 [Lookback : 1 week (7 days)] Spot

MONEY MARKET

EURO	Spot (bp)	Low	High
EONIA*	-37	-37	-36
OIS 1 M*	-37	-37	-37
OIS 3 M*	-43	-43	-42
OIS 6 M*	-48	-48	-47
OIS 12 M*	-54	-54	-53
EURIBOR 3M	-38	-38	-37

US	Spot (bp)	Low	High
FedFunds*	239	239	240
OIS 1 M	212	212	214
OIS 3 M	202	202	205
OIS 6 M	190	190	193
OIS 12 M	175	175	177
ICE LIBOR USD 3M	2,25	2,25	2,27

GBP	Spot (bp)	Low	High
SONIA*	70,9	70,9	71,0
OIS 1 M*	70,5	70,5	70,6
OIS 3 M*	69,8	69,6	70,0
OIS 6 M*	63,7	63,7	64,5
OIS 12 M*	54,2	54,2	56,4
LIBOR 3M	77,2	77	78

FOREX MAJORS

	Spot	Low	High
EUR/USD	1,11	1,11	1,12
EUR/GBP	0,91	0,90	0,92
EUR/JPY	121	121	121
GBP/USD	1,22	1,22	1,25
USD/JPY	109	109	109

GOV RELATED BONDS

Bunds	Spot (%)	Low	High
2 Y	-0,78	-0,78	-0,75
5 Y	-0,72	-0,72	-0,67
10 Y	-0,44	-0,44	-0,36
30 Y	0,12	0,12	0,24

US Govt. Bonds	Spot (%)	Low	High
2 Y	1,82	1,82	1,86
5 Y	1,81	1,81	1,86
10 Y	2,03	2,03	2,08
30 Y	2,55	2,55	2,61

UK Govt. Bonds	Spot (%)	Low	High
2 Y	0,44	0,44	0,51
5 Y	0,38	0,38	0,49
10 Y	0,61	0,61	0,71
30 Y	1,32	1,32	1,36

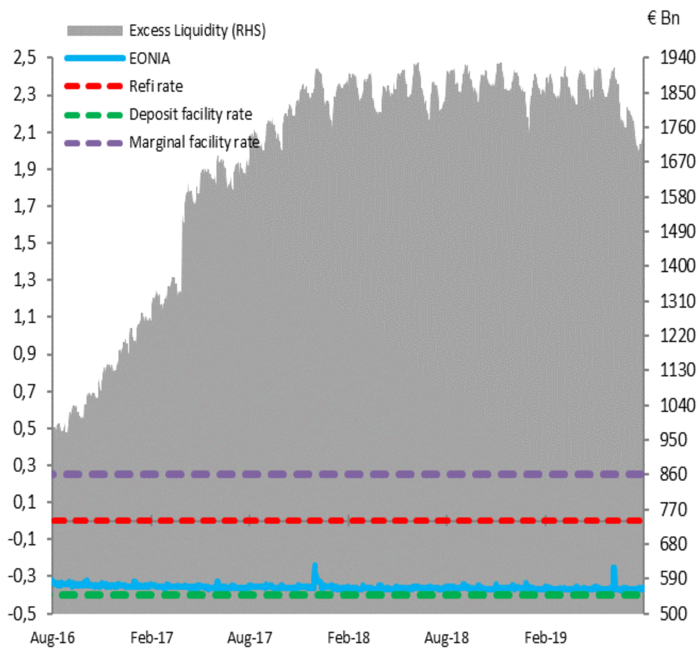
Japanese Govt. Bonds	Spot (%)	Low	High
2 Y	-0,20	-0,21	-0,20
5 Y	-0,24	-0,24	-0,23
10 Y	-0,15	-0,15	-0,14
30 Y	0,35	0,35	0,37

*Data as of last tradable end of day

Eurozone: liquidity analysis

Excess Liquidity evolution (in € bn)	
Excess Liquidity as of 03/07/2019	**1704,69**
Δ Estimated autonomous Factors	-65,40 ▼
Δ MRO (Main Refinancing Operation)	0,69 ▲
PSPP (Public Sector Purchase Programme)	2,05
CB / ABS PP (Purchase Programme) / CSPP	-0,24
TLTRO (Targeted LT Refinancing Operation)	0,00
LTRO 3 M (LT Refinancing Operation)	0,00
Total variation	**67,90** ▲
Excess Liquidity (prevision for this week)	**1772,59**

1. Evolution of EONIA, ECB rates and excess liquidity

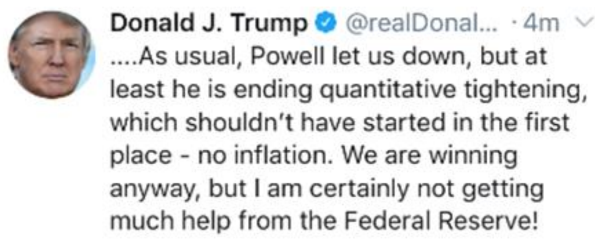


Focus FOMC meeting 31 July 2019: First rate cut in a decade!

As largely expected, the Fed has cut the target range for its key rate by 25 basis point to [2.00%-2.25%] and decided to halt the reduction of the its balance sheet earlier than planned.

The **Fed has cut rates** for the first time since the financial crisis and signaled that it was prepared to adopt a more accommodative stance further if necessary. However, Jerome Powell clearly stated that it does not mean policymakers will follow up with an aggressive rate-reducing regime.
This decision wasn't unanimous (2 against) but was justified by the deterioration of the economic outlook. The Fed Chairman said:
"The outlook for the US economy remains favorable and this action is designed to support that outlook. It is intended to insure against downside risks from weak global growth and trade policy uncertainty, to help offset the effects these factors are currently having on the economy, and to promote a faster return of inflation to are symmetric 2% objective".

The US economy is indeed showing resilience: the unemployment rate is at 3.7% (his structural level) the lowest level in decades and the economic growth has reached 2.1% in the second trimester. **Nevertheless, the inflation level (1.4% in June YoY) is still below its target level.**
The cut was also accompanied by the decision to halt the reduction in the Fed's balance sheet on August 1st, **two months earlier than planned.**



Market Impact

As D. Trump, the markets had been widely expecting a very dovish Fed instead heard a more **neutral commentary** from Powell. **The market was disappointed by the Fed's statement** but when later Powell said that the Fed's action was a ***"midcycle adjustment to policy"*** that really sent markets reeling: Stocks fell, the dollar hit a two-year high and bond yields rose.

The Dow Jones index fell by 478 bps ending down 333 bps in its worst day since May. The two-year treasury yield rose to a high of 1.90% (+7 bps). In addition the Forward rates rose sharply (+10 bps) as the market is now pricing only another cut before the end of 2019 in contrast with the 3 consecutives cuts that were expected after the FOMC meeting at the end of June. The 10-year treasury yield remained stable at 2.05%, while the 10-year bund slipped to an all-time low of -0.44%.