

WEEKLY LIQUIDITY & TREASURY

1 August 2019

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

Spot

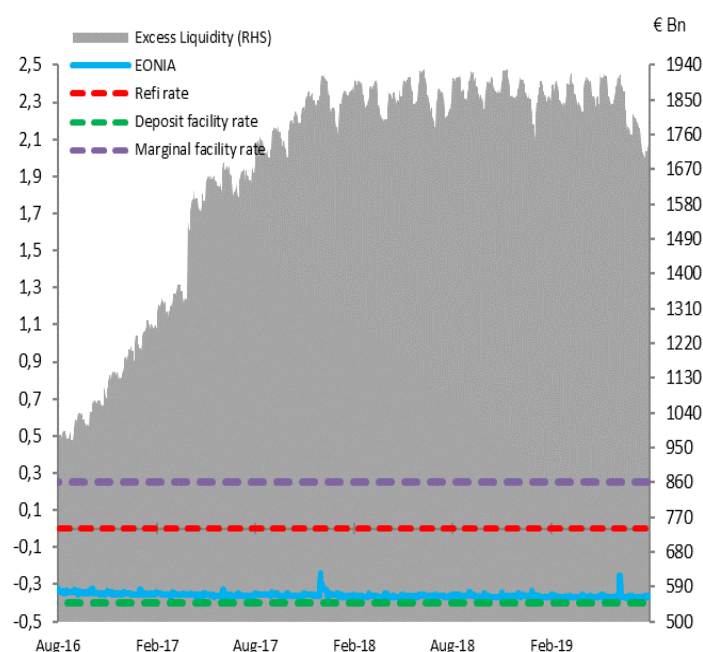
MONEY MARKET											
	Spot	Low	1Y Range	High	1Y Range		Spot	Low	1Y Range	High	1Y Range
EURO	bp					US	bp				
EONIA*	-37	-37		-36		FedFunds*	239	239		240	
OIS 1 M*	-37	-37		-37		OIS 1 M	212	212		214	
OIS 3 M*	-43	-43		-42		OIS 3 M	202	202		205	
OIS 6 M*	-48	-48		-47		OIS 6 M	190	190		193	
OIS 12 M*	-54	-54		-53		OIS 12 M	175	175		177	
EURIBOR 3M	-38	-38		-37		ICE LIBOR USD 3M	2,25	2,25		2,27	
GBP	bp					FOREX MAJORS					
SONIA*	70,9	70,9		71,0		EUR/USD	1,11	1,11		1,12	
OIS 1 M*	70,5	70,5		70,6		EUR/GBP	0,91	0,90		0,92	
OIS 3 M*	69,8	69,6		70,0		EUR/JPY	121	121		121	
OIS 6 M*	63,7	63,7		64,5		GBP/USD	1,22	1,22		1,25	
OIS 12 M*	54,2	54,2		56,4		USD/JPY	109	109		109	
LIBOR 3M	77,2	77		78							
GOV RELATED BONDS											
	Spot	Low	1Y Range	High	1Y Range		Spot	Low	1Y Range	High	1Y Range
Bunds	%					US Govt. Bonds	%				
2 Y	-0,78	-0,78		-0,75		2 Y	1,82	1,82		1,86	
5 Y	-0,72	-0,72		-0,67		5 Y	1,81	1,81		1,86	
10 Y	-0,44	-0,44		-0,36		10 Y	2,03	2,03		2,08	
30 Y	0,12	0,12		0,24		30 Y	2,55	2,55		2,61	
UK Govt. Bonds	%					Japanese Govt. Bonds	%				
2 Y	0,44	0,44		0,51		2 Y	-0,20	-0,21		-0,20	
5 Y	0,38	0,38		0,49		5 Y	-0,24	-0,24		-0,23	
10 Y	0,61	0,61		0,71		10 Y	-0,15	-0,15		-0,14	
30 Y	1,32	1,32		1,36		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.**



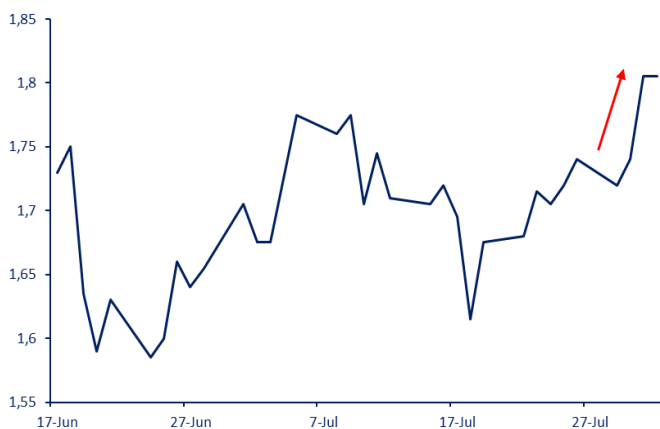
Donald J. Trump @realDonaldTrump · 4m
....As usual, Powell let us down, but at least he is ending quantitative tightening, which shouldn't have started in the first place - no inflation. We are winning anyway, but I am certainly not getting much help from the Federal Reserve!

Market Impact

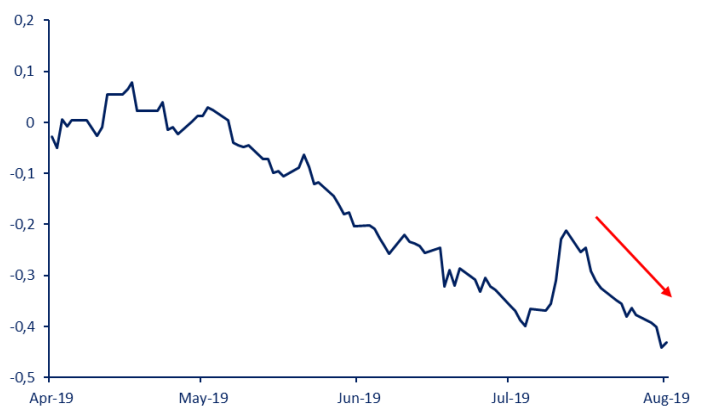
As D. Trump, the markets had been widely expecting a very dovish Fed instead heard a more **neutral commentary** from Powell. **The market was disappointed by the Fed's statement** but when later Powell said that the Fed's action was a **"midcycle adjustment to policy"** that really sent markets reeling: 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%.

US Forward Rates



German Bund 10 Years



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