U.S.-China trade war worsens as yuan slides to 11-year low

TOP NEWS

U.S. services sector slows; orders hit three-year low
U.S. services sector activity slowed in July as new orders dropped to their lowest level in three years, suggesting the economy lost further momentum early in the third quarter. The ISM said its non-manufacturing activity index fell 1.4 percentage points to a reading of 53.7 in July. It was the second straight monthly decline in the index. The ISM's services sector measure of new orders fell to a reading of 54.1 last month, its lowest since August 2016, from 55.8 in June. A gauge of new export orders dropped to 53.5 in July from a reading of 55.5 in June. There was also a further deceleration in prices paid for materials and services, pointing to benign inflation. But a measure of services industry employment increased to a reading of 56.2 in July from 55.0 June. This suggests job growth will likely remain solid, even though the pace of hiring is slowing.

China lets yuan weaken and stops buying U.S. crops, escalating trade war
China let the yuan weaken past the key 7-per-dollar level for the first time in more than a decade and later said it would stop buying U.S. agricultural products, inflaming a worsening trade war with the United States. The People's Bank of China (PBOC) provided the early impetus for yuan bears by setting a daily rate for the currency at its weakest level in eight months, weakening a long defense that kept the yuan stronger than 7 to the dollar. PBOC Governor Yi Gang, said in a statement posted to the bank's website that the yuan was now at an appropriate level given China's economic fundamentals. He said that China would not engage in a competitive devaluation and would maintain the stability and continuity of foreign exchange management policies.

Euro Zone factory sickness infecting services growth -PMI
Euro zone business growth hit a wall in July as demand crumbled, according to a survey which showed a deepening downturn in manufacturing is increasingly affecting the bloc's dominant services industry. IHS Markit's Euro Zone Composite Final PMI, dropped to 51.5 in July from June's 52.2. With the outlook gloomy -- affected by trade war worries, slowing sales growth and Brexit woes, IHS Markit said the PMI indicated third-quarter economic growth of only around 0.1%. Investor morale in the euro zone deteriorated in August to its lowest since October 2014, a Sentix survey showed, and it warned that a recession was bound to happen in Germany. They said its investor sentiment index for the euro zone dropped to -13.7 in August from -5.8 in July, far below the -7.7 analysts had forecast.

UK services bounce fails to budge recession fears
Britain's dominant services sector unexpectedly perked up in July, a major survey showed, but this did little to shift fears that Brexit risks and U.S.-China trade tensions are pushing the economy close to recession. The IHS Markit/CIPS UK Services PMI rose to a nine-month high of 51.4 from 50.2 in June. The Bank of England expects official data on Friday to show growth in the world's fifth-largest economy slowed to zero in the three months to June, as the boost from premature Brexit preparations in early 2019 fades. Car sales fell to their lowest since 2012 in July, adding to woes for a sector that says it will be one of the hardest hit by a no-deal Brexit that would sever pan-European supply chains.
China July services sector grows at slowest pace in 5 months – PMI
China’s services sector expanded at the slowest pace in five months in July despite a sharp upturn of new export orders, a private survey showed. The Caixin/Markit services PMI slipped to 51.6, the lowest reading since February, from June’s 52.0. In July, a sub-index for new export orders placed with Chinese services firms swung back to expansion at a three-month high of 54.0, compared with 49.5 in the previous month. Caixin/Markit said survey respondents commented that strong demand across international markets supported the latest upturn in new work from abroad. Separately, the final Jibun Bank Japan Services PMI edged down to 51.8 from 51.9 in June on a seasonally adjusted basis, staying above the 50 threshold that separates contraction from expansion for the 34th month.

DEEP DIVE

ANALYSIS-Markets brace for volatility surge as currencies enter trade war
China’s decision to let its yuan plunge through a previously sacrosanct level means a tit-for-tat trade conflict could morph into a currency war, injecting volatility into long-dormant foreign exchanges and piling pressure on world markets.

GRAPHIC-Lower and lower: Emerging central banks keep slashing rates in July
Emerging market central banks accelerated interest rate cuts in July, with policymakers rushing to trim benchmarks as major central banks including the U.S. Federal Reserve and the European Central Bank adopted a more dovish tone.

ANALYSIS-Share buyback juggernaut to roll on, oiled by bond yield collapse
Relentlessly falling borrowing costs worldwide may be setting the stage for a further squeeze in global equity supply, with signs that more companies, especially in Japan and Europe, will exploit the cheap money wave to buy back shares

CHART OF THE DAY

Breaking 7
Yuan drops past key level as PBOC gives up fixing

Largest daily losses since August 2015

Noah Sin | Reuters
MARKETS TODAY

TREASURIES: Treasury yields tumbled, as fears over escalating U.S.-China trade tensions renewed concerns about an economic downturn and spurred a fourth straight session of gains in bonds. Benchmark 10-year notes gained 1-3/32 with a yield of 1.74%. 30-year bonds were up 2-15/32, yielding 2.28%. 2-year notes rose 8/32 to yield 1.60%.

FOREX: China let its yuan weaken below 7 to the dollar, an 11-year low, adding to broad risk aversion on concerns about the escalation of the U.S.-China trade war. The dollar index was down 0.50% at 97.583. Against the yen, the dollar dropped 0.38% to 106.17 yen. The euro was up 0.78% at $1.1194. Sterling dropped 0.09% to $1.2143.

CORPORATES: Corporate bond spreads widened after a fall in yuan accentuated fears of a worsening U.S.-China trade war. The CDX-IG.32 index widened by 5 bps to 61 bps.

STOCKS: Wall Street's major indexes tumbled, with the benchmark S&P 500 dropping about 3%, as a fall in the yuan following U.S. President Donald Trump's vow to impose additional tariffs on Chinese goods sparked fears of a further escalation of the U.S.-China trade war. Apple slid 5.23%. Tyson Foods rose 5.12%. The Dow fell 767.27 points, or 2.9%, to 25,717.74, the S&P 500 lost 87.31 points, or 2.98%, to 2,844.74, and the Nasdaq dropped 278.03 points, or 3.47%, to 7,726.04.

C&E: Brent fell more than 3% on global growth concerns after U.S. President Donald Trump last week threatened China with more tariffs, which could limit crude demand from the world's two biggest buyers. Brent dropped 3.49% to $59.73 per barrel. U.S. crude fell 1.55% to $54.80 a barrel. Gold gained 1.41% at $1460.72 per ounce.

NEX DATA

LATAM NEWS

As Mexico's economic prospects dim, pension funds pile into bonds
Dimming prospects for economic growth in Mexico are prompting local pension funds to shift their $194 billion holdings faster than ever to what they see as a safe bet: government bonds. Over the 12 months through June, Mexican pension funds invested eight times more in Mexican debt than they had in the July 2017–June 2018 fiscal period, a record increase in the rate of bond purchases, data from pensions regulator Consar show. Purchases of government bonds in the year through June surged by 377.9 billion pesos. That put the total invested in bonds at 1.99 trillion pesos, or nearly 54% of their portfolios. Pension funds' investment in Mexican and international stocks fell to 18% of their total portfolios.
in June, down from 22.5% at the same point last year, according to Consar figures.

Economists cut forecasts for Brazil's Selic interest rate - poll

Economists lowered their forecasts for where Brazil's benchmark Selic interest rate will be at the end of 2019, a weekly central bank survey showed, after policymakers cut rates more aggressively than most expected to a record low last week. About 100 analysts polled by the central bank said they saw the Selic at 5.25% at the end of this year, down from 5.50% a week ago. Economists maintained their median inflation forecasts of 3.80% this year and 3.90% in 2020. The median forecasts for economic growth and the exchange rate for 2019 were also unchanged.

LATAM MARKETS

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EYE ON ASIA

Thai c.bank seen holding key rate despite slow growth, strong baht

Thailand's central bank is expected to keep its benchmark policy rate steady on Wednesday for a fifth straight meeting, a Reuters poll showed, despite sagging growth, a strong baht and easing moves by other Asian central banks. In the survey, 14 of 15 economists predicted the BOT's MPC will keep its one-day repurchase rate at 1.75% - half a point above the record low. The other forecast a quarter-point cut. While slower growth, below-target inflation and the baht's strength support a rate cut, policymakers have voiced concern about financial stability risks and high household debt. BOT Governor Veerathai Santiprabhob said rates are already low and cutting would not help much.

Indonesia Q2 GDP growth edges down to weakest in two years

Indonesia's economic growth rate remained around 5% in the second quarter and was the weakest in two years, highlighting the difficulties it faces accelerating GDP expansion amid global uncertainties. Indonesia’s economy grew 5.05% in April-June, a touch cooler than January-March's 5.07%, the statistics bureau said. Household consumption, expanded 5.2% in April-June compared with 5.0% the previous quarter. However, investment growth, the second engine of growth, remained at the sluggish 5% seen in January-March, the softest increase since early 2017. Exports continued to contract in the quarter, amid weakness in global trade. The mining sector saw a 2.7% on-year contraction in the quarter, the first since January-March 2017.

ASIA ECON WATCH (For August 6)

NZ HLFS Unemployment Rate for Q2: Expected 4.3%; Prior 4.2%
NZ HLFS Job Growth (Q/Q) for Q2: Expected 0.4%; Prior -0.2%
NZ Labour Cost Index (Y/Y) for Q2: Expected 2.1%; Prior 2.0%
Japan All Household Spending (Y/Y) for June: Expected 1.4%; Prior 4.0%
Philippines CPI (Y/Y) for July: Expected 2.4%; Prior 2.7%
Australia Trade Balance G&S (A$) for June: Expected 6,000 mln; Prior 5,745 mln
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