

Overnight Asia

US and European stock futures were little changed as investors awaited clues on policy from Federal Reserve Chairman Jerome Powell. Treasury yields touched a three-week high, offering support to the Dollar.

In a mixed session in Asia, equities saw modest gains in Hong Kong and South Korea, and small declines in Japan and China. Futures on the S&P 500 Index and the Euro Stoxx 50 were little changed. Yields on 10-year Treasuries reached 2.08%, while the Dollar hit the highest in more than five weeks against the Yen. Mexico's Peso steadied after sliding on news that the country's finance minister quit.

Powell's two days of semi-annual testimony in Congress on the economic and policy outlook will set expectations for the Fed's policy meeting at the end of July. With both equities and bonds sitting on outsize gains since the start of the year, it is unclear what further oomph they can get given that traders are already discounting a cycle of interest-rate cuts. Even so, some see any confirmation of easing plans as a trigger for a further rally in equities.

Meanwhile, US Trade Representative Robert Lighthizer and Treasury Secretary Steven Mnuchin spoke on the phone with their Chinese counterparts, marking the first high-level contact after their presidents agreed to resume trade talks last month.

Elsewhere, West Texas intermediate crude gained following a report that Russian output declined.

Here are some key events coming up:

- Powell testifies before Congress on monetary policy and the state of the US economy on Wednesday (the House of Representatives) and

Thursday (the Senate)

- Fed minutes are due on Wednesday, ECB minutes on Thursday
- A key measure of US inflation - the core Consumer Price Index, due Thursday - is expected to have increased 0.2% in June from the prior month, while the broader CPI is forecast to remain unchanged
- US producer prices are due on Friday

These are the main moves in markets:

Stocks:

- MSCI Asia Pacific up 0.1%
- Nikkei down 0.15%
- Hang Seng up 0.31%
- Australian ASX up 0.36%

Currencies:

- The Yen was at 108.88 per Dollar
- The offshore Yuan was at 6.8889 per Dollar
- The Euro bought \$1.1209, little changed

Bonds:

- The yield on 10-year Treasuries rose more than one basis point to 2.08%
- Australia's 10-year yield ticked up to 1.35%

Commodities:

- West Texas Intermediate crude gained 1.4% to \$58.63 a barrel

- Gold was at \$1,392.52 an ounce, down 0.4%

US Market Wrap

US equities ended the day mixed as investors continued to weigh the possibilities for interest rate cuts as well as low estimates for earnings reports set to be released next week.

Markets:

- S&P 500 rises 0.1% to 2,979.63
- Dow Jones Industrial Average down 0.1% to 26783.49
- Nasdaq Composite up 0.5%
- 8 of the 11 main S&P 500 sectors advanced
- Real Estate up 0.5%
- Materials down 1%
- 10-Year Treasury yield increased to 2.06%
- Bloomberg Dollar Spot Index up 0.2%

Politics:

- Senator Bernie Sanders and his firebrand counterpart in the House, Alexandria Ocasio-Cortez, on Tuesday unveiled a resolution calling for “massive” federal action to reverse the effects of global warming
- The House Judiciary Committee plans to vote Thursday to authorise subpoenas to Jared Kushner, the president’s son-in-law, as well as former Attorney General Jeff Sessions, former Deputy Attorney General Rod Rosenstein and nine other individuals
- UK Conservatives working to prevent a chaotic Brexit have proposed legislation to stop the next prime minister suspending Parliament to force a no-deal break from the European Union

- JPMorgan Chase & Co. said it will gradually reduce the weighting of Venezuelan bonds in its benchmark indexes to zero after US sanctions curbed trading in the notes

Economy:

- Wednesday: MBA Mortgage Applications at 7 am, Whole Inventories MoM at 10 am, FOMC Meeting Minutes at 2 pm
- Jerome Powell is likely to leave Federal Reserve interest-rate cuts firmly on the table when he appears before Congress this week, even though the latest US jobs report dialed down the urgency to ease borrowing costs
- While more Americans see businesses moving jobs abroad as a greater economic threat than artificial intelligence, the majority of workers expect that AI will also be a jobs killer
- Optimism among small US businesses slipped in June for the first time in five months amid dimmer views of sales and earnings, though still remained near a recent record
- Financial firms including Goldman Sachs Group Inc. and Morgan Stanley are predicting that the European Central Bank's flagship crisis-fighting tool will soon make a comeback

US Federal Reserve

The US Federal Reserve is on the verge of cutting interest rates, potentially this month. The most recent case when cuts were taken during a 'soft landing' (no recession) for the economy resulted in strong returns for markets. This tends to happen for two reasons :

1. Firstly lower interest rates make it cheaper for consumers and companies to borrow and that can buck up economic activity and help corporate profits.
2. Secondly lower interest rates reduce the returns on Bonds as their prices rise and yields fall, which then push investors to invest in equities instead.

Happy Investing!

Mike Towing



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**Head Office: Vladislavova 46/3, 110 00 Praha 1, Czech Republic,
Tel: +420 224 942 421 Fax: +420 224 942 426**

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