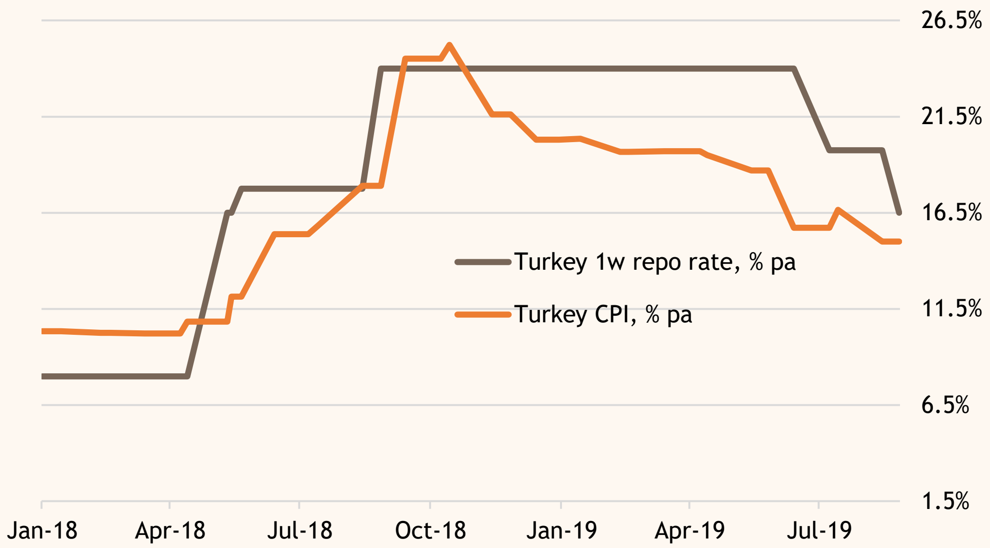
Key Economic Figures/Events of the Week

- As anticipated, the ECB cut on Thursday (12 September) its deposit rate by 10 bp down to -50 bp. It also announced a new round of asset purchasing starting 1 November amounting to € 20 billion per month and an exemption of some reserves from negative rates, to counteract the negative effect on bank profits. The decision improved risk appetite on both EUR and USD markets, as it puts further pressure on the Fed, which will make its rate decision on 18 September.
- The US jobs data published last Friday revealed that unemployment rate is unchanged at 3.7%. However, only 130’000 new jobs were created compared with 160’000 forecasted. At the same time, average hourly earnings increased more than expected, putting some pressure on inflation. We believe that the Fed will not act aggressively and will cut the rate by 25 bp next week, amid persistent trade tension as main risk.
- US and China are exchanging favours ahead of their planned meeting. First, China announced an exception of certain US goods from previously announced tariffs. Subsequently, President Trump announced on Wednesday (11 September) a two-week delay of the imposition of the 5% extra tariffs. This brought optimism to the markets. However, the steps are not enough to smooth out the existing divergences. Thus, it is to early to speak of a thaw in the trade tensions.

Slowing inflation in Turkey supports new interest rate cut



- Under the pressure of President Erdogan, who reiterated recently his view that the economy needs more monetary stimulus, the Turkish Central Bank cut its rate 325 bp. This is a little higher than expected, but in line with recent inflation-growth deceleration. Turkish bonds are again in high demand amid an increase in risk appetite on the markets.

Weekly Investment Insights

- The Mexican government announced a new $5 billion cash injection in Pemex (BBB+/Baa3/BB+) to help relieve its debt burden. The government has no other choice than to solve company's problems, as its financial downturn is likely to trigger a downgrading in the country's credit rating. In conjunction with the previously announced permission to resume joint ventures, this supports our positive view on Pemex and we keep holding its bonds in our portfolios.

Strategy

This week we participated actively on primary markets. We received an allocation in a 5-year new issue of Bank of Sharjah (BBB+), a United Arab Emirates bank, as well as 10-year Mexican chemical manufacturer Alpek (Baa2/BBB). We also took part in 10-year and 30-year primary placement of Pemex (Baa3/ BBB+/BB+). The average of the allocations received was 10%, apart from Pemex, for which we only got a small amount, due to the fact the issue was massively oversubscribed. All bonds are USD-denominated. The rest of September will likely be very active in terms of primary placements and we plan to seize the opportunity by participating and investing some of our cash.

We hope you find this information useful and will be glad to answer your questions

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