

### Key Economic Figures/Events of the Week

- To no great surprise of the market, on Wednesday, 18 September, the US Federal Reserve cut the main interest rate by 25 bps to 2.0%. However, the regulator is now split on what to do next. Chair Jerome Powell said that “moderate” policy should be sufficient to sustain economic growth, but left the door open to a more aggressive policy. Overall, the Fed’s rhetoric was more dovish than the markets had hoped for, which might put further pressure on financial markets in the short term.
- The oil market went through a turbulent week as the drone attack on Saudi Arabia’s oil facilities on Saturday, 14 September, knocked out more than half of the country’s production. Yet the nation recovered as quickly as Wednesday, 18 September, bringing back about 50% of the lost output and hoping to complete resumption of full capacity by the end of the month. The strike initially caused Brent crude to jump from USD 60 to USD 70 per barrel before dropping below USD 65 as markets closed on Thursday, 19 September. The effect on oil bonds was not significant.

#### Surge in oil prices after drone attack on Saudi Arabia’s facilities



- This week, data on the US economy is beating market expectations. In August, industrial production added 0.6%, well above the projected 0.2% improvement following negative growth in July. Housing market is also showing signs of reviving both in existing home sales and housing starts.
- The US money market was marred by constrained liquidity, causing the rates of overnight repo (a form of secured financing when a financial institution sells securities agreeing to repurchase them the following day) to surge. This forced the regulator to intervene for the first time in a decade. Rates went up from around 2% to 10% before the Fed injected USD 75 bn, helping to ease market concerns and bringing rates back to their average levels. The regulator also announced it might be expanding its balance sheet again to avoid more disruptions in the money market down the road.
- News on the US and China trade war remained positive. Deputy trade negotiators met on Tuesday, 17 September, in Washington, with high-level talks scheduled for early October.
- The PBOC cut one-year Loan Prime Rate by 5 basis points to 4.2% on Friday, 20 September, that shows the

- intent to reduce funding costs at a moderate pace. It didn't have a serious impact on the markets, however combined with other measures it demonstrates further monetary policy loosening to steer up the economic growth rate that is in general positive for financial markets.

### Weekly Investment Insights

- Brazilian lender Votorantim (BB-/Ba2) is preparing to launch an IPO, confirming no dates as of yet. The bank's controlling shareholders are expected to retain some of their stakes. We believe this is good for bondholders, providing the business with yet another funding source. Also, the IPO process usually makes companies step up their reporting and corporate governance standards. Placed this week, Votorantim's Eurobonds are up some 1%-1.5% above the offering price. We continue to hold them.

### Strategy

This week, as previously, we kept taking part in attractive primary offerings to invest the cash we have been building since spring. We invested in three- and five-year offerings by Brazil's Votorantim (BB-/Ba2) as it issued senior bonds with a 4% and 4.5% yield respectively. Part of Votorantim Group, the lender is a Top 10 bank in Brazil and is planning an IPO. We also took part in a 10-year primary offering of senior bonds by African Export-Import bank (BBB-/BBB+), with a 4% YTM. The bank has historically high capital adequacy, low NPL ratio, and low sensitivity to developments in African bond markets.

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

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