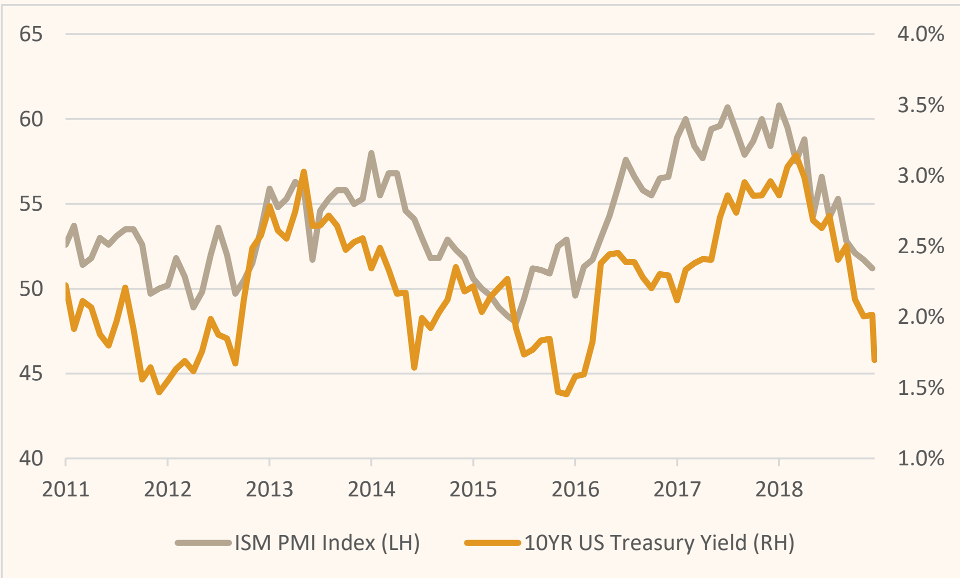
Key Economic Figures/Events of the Week

- This week started with a risk-off triggered by renewed escalation of the US-China trade conflict. As we already got used to, it all started with President Trump's tweet on 1 August, who this time announced the intention to impose a 10% tariff on the remaining $300 bln worth of Chinese imports. The escalation reached new highs on Monday, 5 August, after Chinese yuan was let to depreciate below 7 units per US dollar, its lowest level since 2008, raising concerns about currency manipulations. Shortly after, however, the Chinese Central bank intervened fixing the yuan slightly weaker than the psychological level of 7 and affirming their commitment to keep the currency from falling, which brought back calm to the markets.
- We believe that the current trade tensions is taking the form of currency wars, with other exporting countries following suit with depreciation of their currencies. We believe this trend may last until governments are confronted with other raising issues, due to deteriorating economic situation or political factors.
- Following last week's Fed rate cut, Central Banks around the world are turning more dovish. This week, Central Banks of India, New Zeeland and Thailand have all announced deeper-than-expected rate cuts.
- The latest US employment report on Friday, 2 August, showed a slower, but still robust growth of 164'000 non-farm jobs last month, in line with expectations. The ISM Non-Manufacturing Index was reported at 53.7% in July, down from 55.1% in June. Until now, US key economic statistics have proven quite resilient to global trade uncertainties. Although still in expansionary territory, data is clearly showing a decelerating trend.

ISM PMI Index vs 10-Year US Treasury



- In Germany, factory orders increased by 2.5% in June. However, the prospects remain gloomy, with industrial production dropping as much as 1.5%, compared to a forecasted -0.5%. We expect the global trade to keep exercising pressure on the Germany and Eurozone economy. ECB has no other choice but provide more monetary stimulus, which is in general positive for the euro-denominated fixed-income market, but investors should keep an eye on rising default ratio.

Weekly Investment Insights

- The Israeli drug maker Teva (BB/Ba2/BB-) reported robust results for the second quarter, with revenues of $4.34 bln ahead of analysts' forecasts. However, its bonds saw falling prices, as the company is currently facing lawsuits related to the US opioid crisis, which may add to the pile of debt which is still high after the acquisition of Actavis in 2016. We continue holding Teva debt, as the yield is currently pricing in the worst-case-scenario, which we assign a low probability to.
- Gazprom Neft (BBB-/Baa2/BBB-) released its 2Q19 financial results, with an EBITDA of $2.93 bln, compared to $2.53 bln average estimate. Net debt/Ebitda stays low at 0.54x. We continue to keep Gazprom Neft dollar-denominated debt in our portfolios.
- S&P affirmed Turkey's credit rating at B+ with stable outlook, citing eased pressure on the economy due to Fed's monetary easing. Turkish bonds are still enjoying high demand and continue to appreciate in price.
- The White House announced a new round of sanctions on Russia, which prohibits US banks to participate in USD Russia primary sovereign placements. There was no reaction on the market, while long-maturity sovereign bonds increased in price, following the US Treasuries rally this week.

Strategy

This week, we had no trades, as the current structure of portfolios (average duration 4-4.5% years and average cash holding 5%) reflects our current strategy. August is the peak holiday season month, with the liquidity usually deteriorating and we do not plan high trading activity until September.

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

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