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Equity – Headwinds on China manufacturing & US rate hike

- China September NBS manufacturing PMI declined to 50.8% from 51.3% in August, remaining in the expansionary territory but lower than the market consensus of 51.2%. The decline in the headline PMI was partially driven by the unfavorable working day effect as the Mid-autumn Festival shifted to September this year from October last year, but also indicated strong headwinds on the manufacturing sector. PMI breakdown showed that both domestic and overseas demand weakened, especially the latter. Meanwhile, upstream product prices continued to rise amid supply-side constraints. Although some leading indicators such as construction new orders growth and property new start growth have showed some positive signals recently amid the improved financial conditions and accelerated local gov't bond issuance, the transmission of the monetary policy to the economy is not that smooth and the demand growth is muted.
- The Fed increased the target range by 25bp to 2.00 - 2.25% in September, the third times this year and as widely expected. The Committee struck the language describing the stance of policy as accommodative and rate hike would continue. With no perceived signal on the future path for policy, market reaction was mild. We expect another rate hike in Dec2018 and three more in 2019.

Index	Settle	Net Change (+/-%)		Valuation (2018)	
		MoM	YTD	PE	PB
DJIA	26,458.31	1.90%	7.04%	16.93	4.09
S&P 500	2,913.98	0.43%	8.99%	18.07	3.36
Nasdaq	8,046.35	-0.78%	16.56%	24.09	4.74
Nikkei	24,120.04	5.49%	5.95%	16.99	1.81
FTSE100	7,510.20	1.05%	-2.31%	13.49	1.78
CAC40	5,493.49	1.60%	3.41%	14.70	1.61
DAX	12,246.73	-0.95%	-5.19%	13.38	1.62
SHCOMP	2,821.35	3.53%	-14.69%	11.48	1.29
CSI300	3,438.86	3.13%	-14.69%	11.77	1.55
ChiNext	1,710.10	-1.28%	-22.35%	23.10	3.25
HSI	27,788.52	-0.36%	-7.12%	11.48	1.27
HSCEI	11,017.87	1.31%	-5.90%	8.29	1.02
TWSE	11,006.34	-0.52%	3.42%	14.18	1.80
KOSPI	2,343.07	0.87%	-5.04%	9.42	1.01
JCI	5,976.55	-0.70%	-5.96%	15.70	2.32

Source: Bloomberg

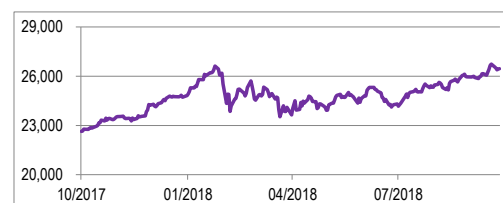


Fig. 1 One year performance of Dow Jones Index

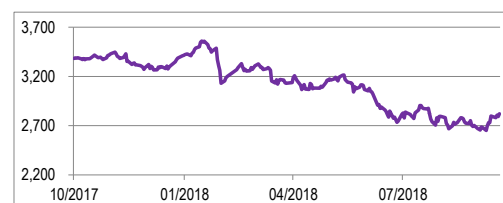


Fig. 2 One year performance of Shanghai Composite

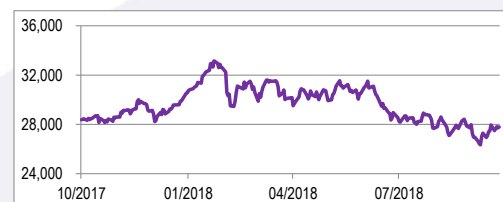


Fig. 3 One year performance of Hang Seng Index

Fixed Income – Yield hike in both US & EU

- Apart from solid economic data, overall inflation also remained on the rise with CPI picking up 0.2% MoM and 2.7% YoY in August, which would make the Fed more comfortable to raise interest rates further. Along with a 25bp rate hike in September, long-term treasury yields climbed again amid active corporate bond issuance with that on 10-year treasuries back above 3.00%. Yield curve steepened further, suggesting that inflation would continue to pick up and add more impetus to economic growth.
- On its 13 September meeting, ECB maintain re-financing rate at 0.0% as expected. While sticking to its tapering plan, ECB lowered economic growth projections and highlighted Sino US trade war as a threat to growth. Nonetheless, ECB President Mario Draghi later commented a “vigorous” pick-up in inflation and noted piling up wage pressures across the region. This comment spurred a pick-up in bond yield across Eurozone.

Bonds	High	Low	Settle	Net Change (bp)	
				MoM	YTD
US 10-yr Treasury Yield	3.10%	2.86%	3.06%	20	66
US 30-yr Treasury Yield	3.23%	3.02%	3.21%	19	47
Euro 10-yr Govt Yield	0.54%	0.33%	0.47%	14	4
Japan 10-yr Govt Yield	0.13%	0.11%	0.13%	2	8
China 10-yr Govt Yield	3.70%	3.61%	3.63%	3	-28

Source: Bloomberg

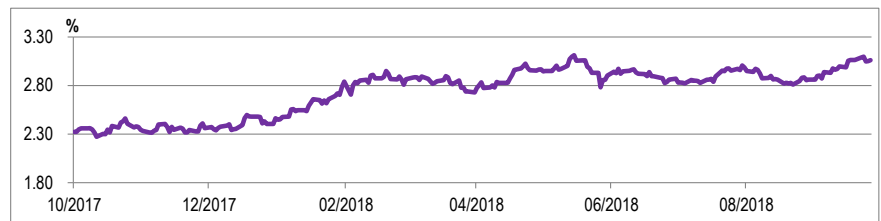


Fig. 4 One year performance of US 10-yr Treasury Yield

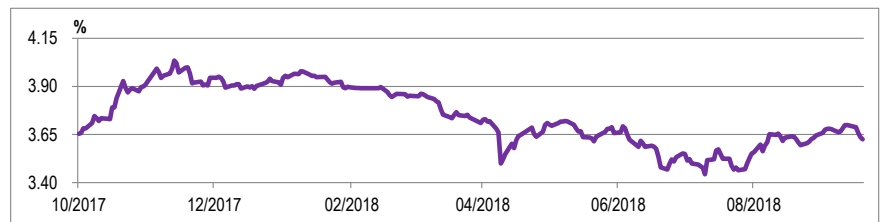


Fig. 5 One year performance of China 10-yr Treasury Yield

Commodities – Oil price more on upside vs Gold under pressure

Commodities	High	Low	Settle	Net Change (+/-%)	
				MoM	YTD
WTI Oil (bbl)	73.25	67.54	73.25	4.94%	21.23%
Brent Oil (bbl)	82.72	76.50	82.72	6.85%	23.70%
Gold Spot (oz)	1,207.20	1,182.85	1,192.50	-0.74%	-8.48%
CMX Silver (oz)	14.71	14.14	14.71	1.06%	-15.79%
CMX Copper (lb)	285.75	260.20	280.50	5.02%	-16.28%
LME Zinc (mt)	2,658.50	2,299.50	2,658.50	7.99%	-20.34%
LME Aluminum (mt)	2,065.75	1,991.00	2,048.00	-2.55%	-9.22%

Source: Bloomberg

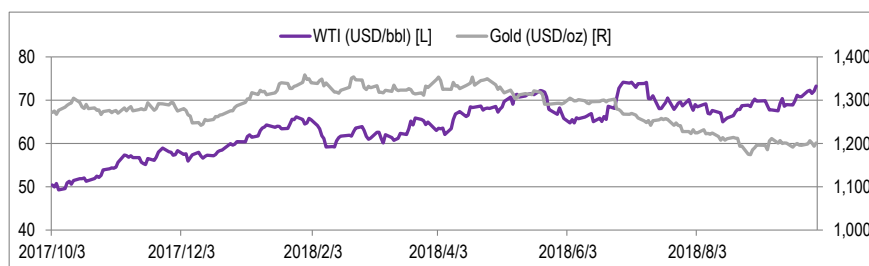


Fig. 6 One year performance of Oil and Gold Price

- Oil: Low inventories and minimal spare capacity are supporting oil price in August leading Brent to jump to USD82.7/bbl. Oil demand concerns have been building with higher oil prices and EM currency weakness. However, we believe supply side outweigh demand side in the short term. Low inventories, falling spare capacity, constrained US production and imminent Iranian sanctions would be the key factors to drive the oil price to the upside.
- Gold: Gold's fall is primarily linked to the rebound in the US dollar since early June. Falling ETF holdings and rising CFTC short positioning are the clearest signals of gold investors' bearishness. We see US dollar strength due to solid US economic data, implying the Fed is likely to continue to raise interest rates. We expect gold price to remain weak in the short term.

FX – USD remaining strong

- DXY remained high at ~95 level by the end of September, apart from the factor of US rate hike, the material EUR weakness in late-September was another key reason. The Italian budget negotiations brought out concerns on EUR debt issue putting pressure on EUR. On EM currencies, they are likely to remain under pressure as EM is struggling to withstand the combined pressure of a rising USD and higher yields.

FX	High	Low	Settle	Net Change (+/-%)	
				MoM	YTD
DXY	95.44	93.91	95.13	-0.01%	3.27%
EUR / USD	1.178	1.155	1.160	0.02%	-3.34%
USD / CNH	6.888	6.888	6.876	0.44%	5.55%
USD / JPY	113.7	110.8	113.7	2.40%	0.90%
GBP / USD	1.327	1.286	1.303	0.55%	-3.57%
USD / CAD	1.319	1.290	1.291	-1.01%	2.68%
AUD / USD	0.729	0.711	0.722	0.49%	-7.49%
USD / CHF	0.982	0.959	0.982	1.32%	0.76%

Source: Bloomberg

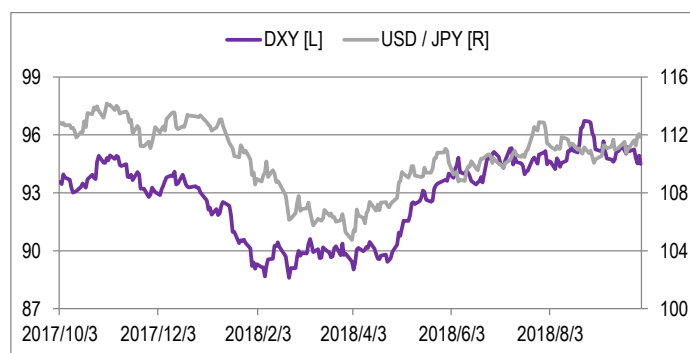


Fig. 7 One year performance of DXY and JPY

Economic Calendar (October 2018)

Monday	Tuesday	Wednesday	Thursday	Friday
1 Markit US Manufacturing PMI Construction Spending MoM ISM Manufacturing	2	3 MBA Mortgage Applications ADP Employment Change	4 Initial Jobless Claims Factory Orders Durable Goods Orders	5 Trade Balance Change in Nonfarm Payrolls Unemployment Rate
8	9	10 MBA Mortgage Applications PPI Final Demand MoM Wholesale Inventories MoM	11 CPI MoM Initial Jobless Claims	12 U. of Mich. Sentiment
15 Retail Sales Advance MoM Empire Manufacturing	16 Industrial Production MoM	17 MBA Mortgage Applications Housing Starts	18 Initial Jobless Claims Leading Index	19 Existing Home Sales
22	23	24 MBA Mortgage Applications Markit US Manufacturing PMI New Home Sales	25 Wholesale Inventories MoM Durable Goods Orders Initial Jobless Claims	26 GDP Annualized QoQ U. of Mich. Sentiment
29 Personal Income Personal Spending	30 Conf. Board Consumer Confidence	31 MBA Mortgage Applications ADP Employment Change Chicago Purchasing Manager		

Source: Bloomberg