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Equity – One of the worst months for equities in years

- October has been one of the worst months for equities in years. S&P 500 was down 6.9%, while the Nasdaq was down 9.2%. Global equities have suffered similarly, with EM and European equities (MXEF and MXEU) down 8.8% and 5.4% respectively. Drawdown likely reflects uncomfortable macro themes including the downside risks to growth have risen, five more rate hikes through the end of 2019, and Fed's reaction function on inflation expectations and growth concerns.
- October NBS manufacturing PMI declined further to 50.2% from 50.8% in September, notably lower than the market consensus of 50.6%. Both domestic and overseas demand, especially on new orders, continued to weaken. Meanwhile, upstream inflation momentum softened amidst the marginal easing of the supply-side constraints. More important figure was PMI for employment fell further by 0.2ppt to 48.1% in October, indicating more downward pressure on the consumer spending and confidence. Going into 4Q18, both domestic and external demand may face more downside risks. More fiscal policies, such as tax and social security contribution rate cuts, and monetary policies, including MLF and loosening regulatory policies on banks and local governments, are expected to reboot the credit cycle and demand.

Index	Settle	Net Change (+/-%)		Valuation (2018)	
		MoM	YTD	PE	PB
DJIA	25,115.76	-5.07%	1.60%	15.75	3.85
S&P 500	2,711.74	-6.94%	1.43%	16.62	3.14
Nasdaq	7,305.90	-9.20%	5.83%	21.29	4.28
Nikkei	21,920.46	-9.12%	-3.71%	15.59	1.65
FTSE100	7,128.10	-5.09%	-7.28%	12.59	1.66
CAC40	5,093.44	-7.28%	-4.12%	13.55	1.49
DAX	11,447.51	-6.53%	-11.38%	12.53	1.47
SHCOMP	2,602.78	-7.75%	-21.30%	10.65	1.20
CSI300	3,153.82	-8.29%	-21.76%	10.92	1.43
ChiNext	1,525.69	-10.78%	-30.72%	21.78	3.03
HSI	24,979.69	-10.11%	-16.51%	10.46	1.15
HSCEI	10,138.63	-7.98%	-13.41%	7.85	0.96
TWSE	9,802.13	-10.94%	-7.90%	12.82	1.67
KOSPI	2,029.69	-13.37%	-17.74%	8.39	0.88
JCI	5,831.65	-2.42%	-8.24%	15.26	2.25

Source: Bloomberg

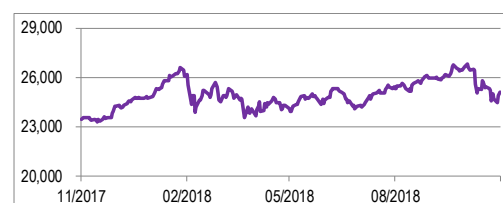


Fig. 1 One year performance of Dow Jones Index

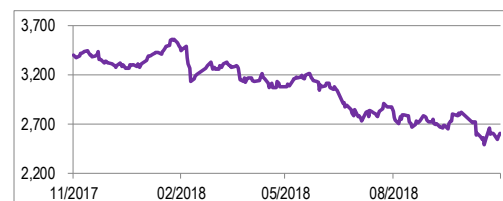


Fig. 2 One year performance of Shanghai Composite

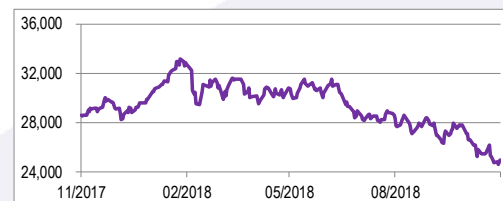


Fig. 3 One year performance of Hang Seng Index

Fixed Income – Reassessing on Fed data dependency may lead to repricing on yields

- The sell-off in equities was not accompanied by a rally in Treasuries. US yields on 2y and 10y bonds had risen on the month by 4.8 bps and 8.2 bps, respectively. The correlation between US bond yields and US growth expectation was weakened, where there was a large decline in expected future growth rates in October. This would likely make the market to reassess the Fed data dependency triggering repricing of macro assets.
- Financial pressure in Italy was looming as the European Commission told Italy to revise its fiscal budget due to the concerns on increasing government expending with existing high debt level for Italy. The 10 year Italy bond yield once rose to 3.683%, up 54 bps vs Sep-end, and closed at 3.425% in October, up 28.2 bps MoM.

Bonds	High	Low	Settle	Net Change (bp)	
				MoM	YTD
US 10-yr Treasury Yield	3.23%	3.06%	3.14%	8	74
US 30-yr Treasury Yield	3.40%	3.22%	3.39%	19	65
Euro 10-yr Govt Yield	0.57%	0.35%	0.39%	-9	-4
Japan 10-yr Govt Yield	0.16%	0.11%	0.13%	0	8
China 10-yr Govt Yield	3.63%	3.53%	3.54%	-9	-37

Source: Bloomberg

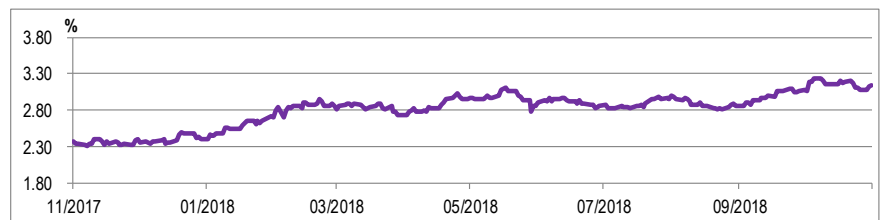


Fig. 4 One year performance of US 10-yr Treasury Yield

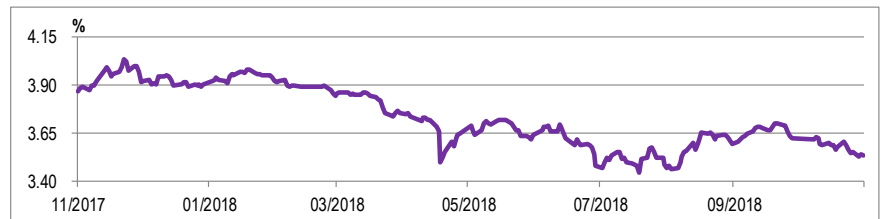


Fig. 5 One year performance of China 10-yr Treasury Yield

Commodities – Oil drop due to concerns on EM demand & diminishing fears on supply

Commodities	High	Low	Settle	Net Change (+/-%)	
				MoM	YTD
WTI Oil (bbl)	76.41	65.31	65.31	-10.84%	8.09%
Brent Oil (bbl)	86.29	75.47	75.47	-8.76%	12.86%
Gold Spot (oz)	1,233.75	1,188.16	1,214.76	1.87%	-6.78%
CMX Silver (oz)	14.79	14.28	14.28	-2.92%	-18.25%
CMX Copper (lb)	283.40	265.90	265.90	-5.20%	-20.64%
LME Zinc (mt)	2,731.50	2,551.75	2,551.75	-4.02%	-23.54%
LME Aluminum (mt)	2,198.00	1,934.75	1,934.75	-5.53%	-14.24%

Source: Bloomberg

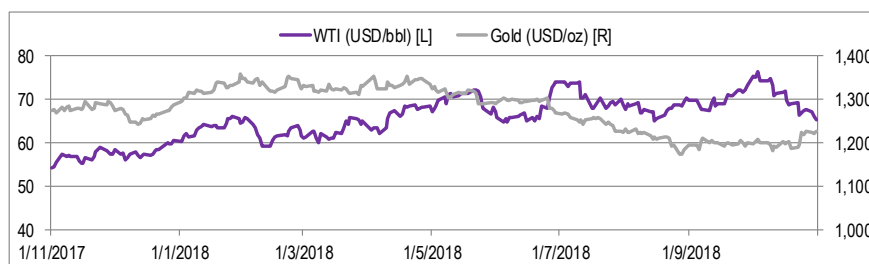


Fig. 6 One year performance of Oil and Gold Price

- Oil prices have sold off sharply this month on growing demand concerns, especially on EM, ramping-up in Saudi production, and diminishing fears over Iran supply losses. Given that Iran exports will fall with low OPEC spare capacity and EM oil demand growth is likely understated, oil price will likely to stabilize with the range of USD75-80/bbl in short term.
- Given the sell-off in both equity and bond markets, gold has rallied by almost 2% over the past month, acting as a safe haven in the market. Increasing recession worries, the potential distortion on Fed's rate hike and growing interest in gold by central banks were key factors on the upside of gold.

FX – Strong Dollar under hawkish comments from the Fed

- DXY gained 2.1% to 97.13 over the past month with the hawkish comments from the Fed and the hike of 10 year yield. Italian budget disputes weighed on the EUR again in October. EUR dropped 2.5% MoM. Brexit developments remained the main factor influencing GBP in October with the Irish border continuing to be the main issue. GBP slid 2.0% through the month as optimism surrounding the negotiations faded.

FX	High	Low	Settle	Net Change (+/-%)	
				MoM	YTD
DXY	97.13	95.02	97.13	2.10%	5.43%
EUR / USD	1.159	1.131	1.131	-2.52%	-5.77%
USD / CNH	6.975	6.879	6.975	1.43%	7.07%
USD / JPY	114.5	111.8	112.9	-0.67%	0.22%
GBP / USD	1.323	1.271	1.277	-2.03%	-5.53%
USD / CAD	1.316	1.281	1.316	1.93%	4.66%
AUD / USD	0.722	0.705	0.707	-2.09%	-9.43%
USD / CHF	1.009	0.984	1.009	2.73%	3.51%

Source: Bloomberg

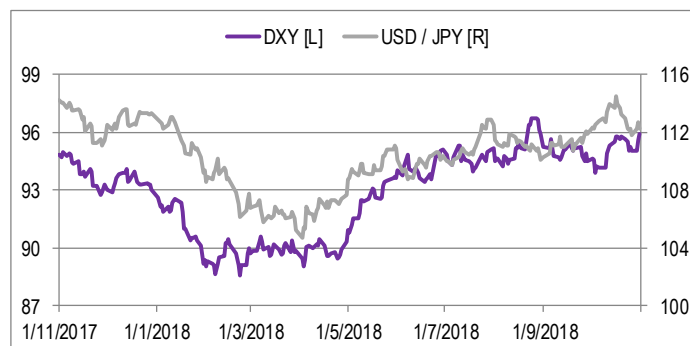


Fig. 7 One year performance of DXY and JPY

Economic Calendar (November 2018)

Monday	Tuesday	Wednesday	Thursday	Friday
			1 Initial Jobless Claims Markit US Manufacturing PMI Construction Spending MoM ISM Manufacturing	2 Trade Balance Change in Nonfarm Payrolls Unemployment Rate Factory Orders Durable Goods Orders
5	6	7 MBA Mortgage Applications	8 Initial Jobless Claims	9 FOMC Rate Decision PPI Final Demand MoM U. of Mich. Sentiment Wholesale Inventories MoM
12	13	14 MBA Mortgage Applications CPI MoM	15 Empire Manufacturing Retail Sales Advance MoM Initial Jobless Claims	16 Industrial Production MoM
19	20 Housing Starts	21 MBA Mortgage Applications Durable Goods Orders Initial Jobless Claims Leading Index U. of Mich. Sentiment	22	23 Markit US Manufacturing PMI
26	27 Conf. Board Consumer Confidence	28 MBA Mortgage Applications Wholesale Inventories MoM GDP Annualized QoQ New Home Sales	29 Personal Income Personal Spending Initial Jobless Claims	30 Chicago Purchasing Manager

Source: Bloomberg