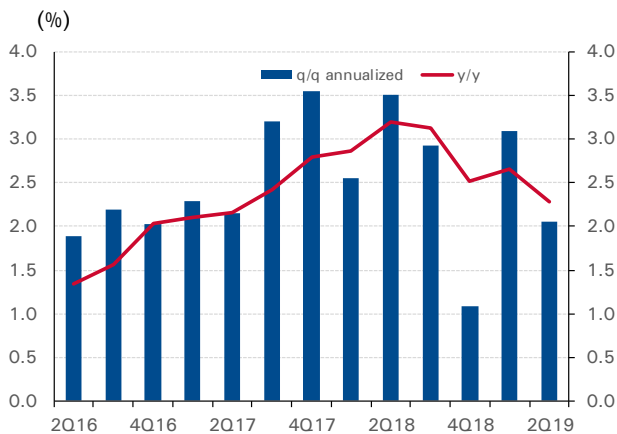


## Q2 GDP growth slows, rate cut expectations grow as markets turn bearish

- US GDP growth slowed to an annualized 2.1% in Q2, beating the market consensus of 1.8%.
- Non-farm payrolls rose a solid 163,000 in July following a downwardly revised 193,000 in June.
- Core inflation edged up to 2.2% in July from 2.1% in June on higher medical services, shelter prices.
- Manufacturing activity fell further to weakest pace of expansion since August 2016.
- The futures market is now pricing in a 95% chance of a 25 bps interest rate cut by the Fed in September.
- 10-year treasury yields dropped to a low of 1.52% in August on heightened growth and trade uncertainty.
- Stocks took a bearish turn in August and saw higher volatility, with the S&P500 down 4.5% month-to-date.

▶ **Chart 1: Real GDP growth**



The economy grew at an annualized 2.1% in Q2, beating a market consensus of 1.8% and following 3.1% growth in Q1.

Source: U.S. Bureau of Economic Analysis

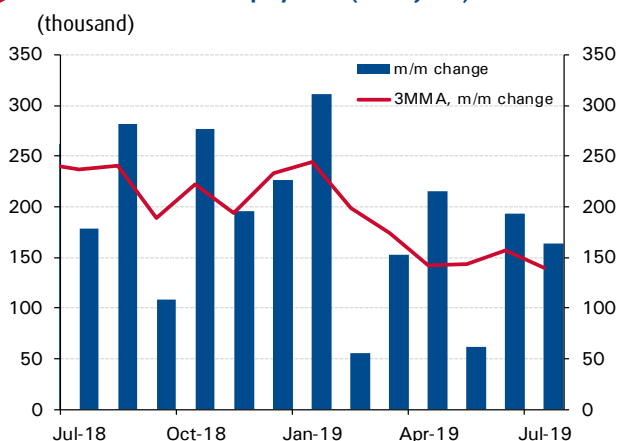
▶ **Chart 2: Unemployment rate**



The unemployment rate held steady at 3.7% in July, in line with market expectations and versus a 49-year low of 3.6% in May.

Source: U.S. Bureau of Labor Statistics

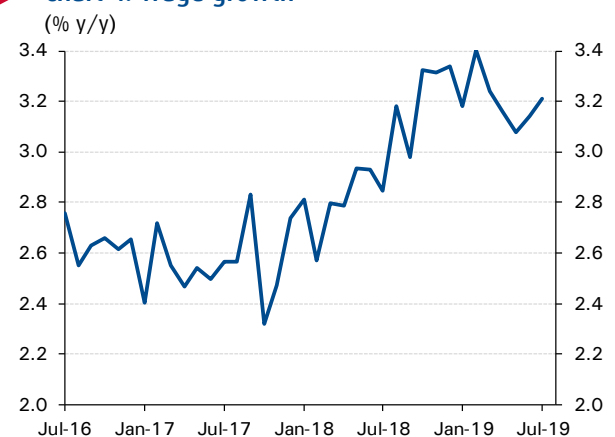
▶ **Chart 3: Non-farm payrolls (new jobs)**



Non-farm payrolls rose a solid 164,000 in July, following a downwardly revised 193,000 in June.

Source: U.S. Bureau of Labor Statistics

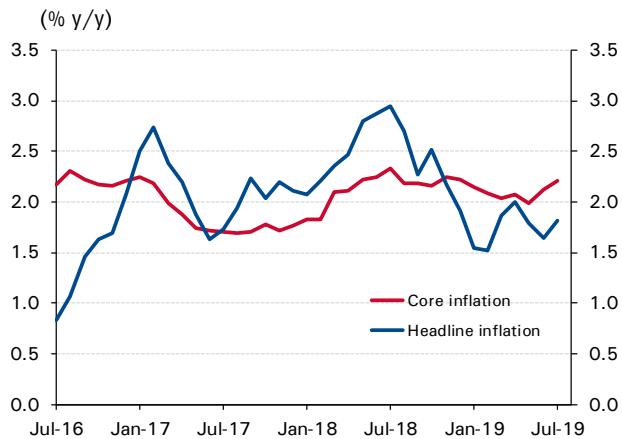
▶ **Chart 4: Wage growth**



Wage growth accelerated to 3.2% in July from 3.1% in June on a tighter labor market (low unemployment, firm job creation).

Source: U.S. Bureau of Labor Statistics

**Chart 5: Consumer price index inflation**



Core inflation edged up to 2.2% in July, beating expectations on higher medical services, shelter and used motor vehicles prices.

Source: U.S. Bureau of Labor Statistics

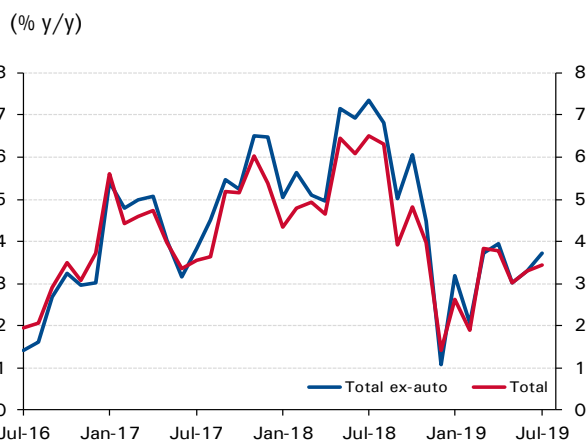
**Chart 6: Commercial and industrial loans**



C&I loan growth eased for the fifth consecutive month to 6.4% y/y in July from 6.7% in June on slower business activity.

Source: U.S. Board of Governors of the Federal Reserve System

**Chart 7: Retail sales**



Retail sales growth picked up to 3.5% y/y in July from 3.3% in June amid still decent consumer confidence levels.

Source: U.S. Census Bureau

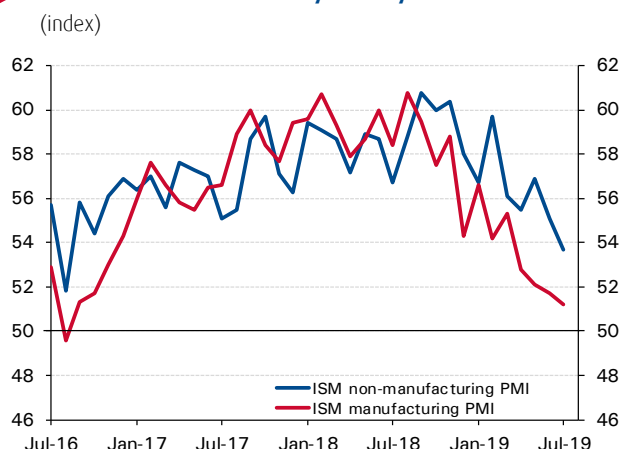
**Chart 8: Existing home sales and housing starts**



Housing starts eased 4% m/m to 1.19 million units in July, likely due to hurricane Barry, the third consecutive month of decline.

Source: National Association of Realtors, U.S. Census Bureau

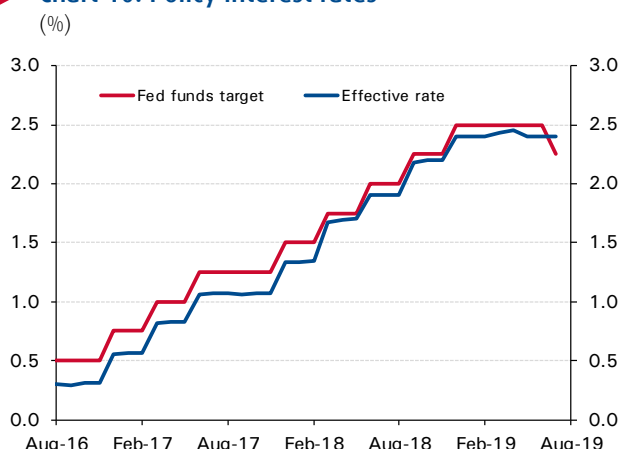
**Chart 9: Business activity surveys**



Manufacturing activity fell in July to the weakest level since August 2016, while the August IHS PMI signaled a contraction.

Source: Institute for Supply Management/ IHS Markit

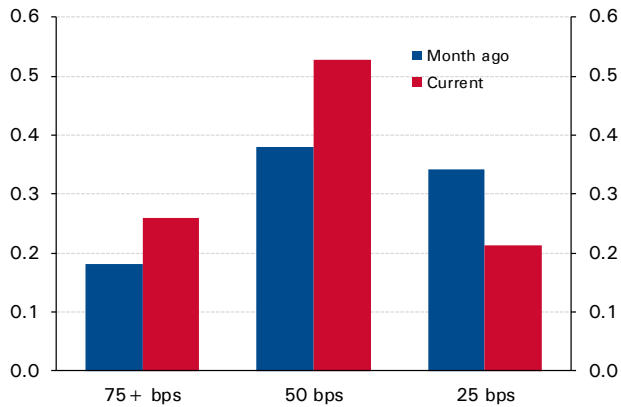
**Chart 10: Policy interest rates**



The Fed cut interest rates by 25 bps to 2.00-2.25% in July and signalled future cuts will depend on economic conditions.

Source: Thomson Reuters Eikon

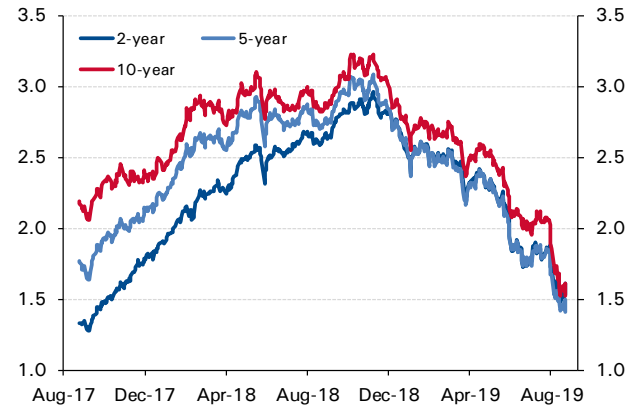
**Chart 11: Fed rate hike outlook for 2019**  
(futures market probability, as of 25th of August 2019)



Market expectations of two or more additional rate cuts have risen to 79%, with a 95% chance of a 25 bps cut in September.

Source: CME Group

**Chart 12: Government bond yields**  
(%)



10-year treasury yields continued to sink in August to a 3-year low of 1.52%, the 10-2-year yield curve is now flat-to-inverted.

Source: Thomson Reuters Eikon

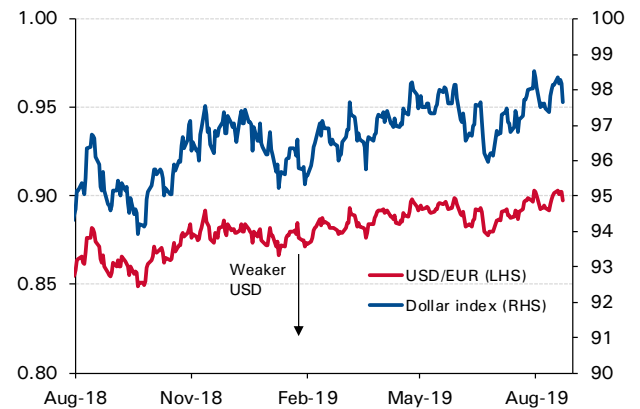
**Chart 13: Stock market**  
(S&P 500)



Stocks took a bearish turn amid heightened volatility in August on rising trade and growth fears. The S&P is down 4.5% month-to-date.

Source: Thomson Reuters Eikon

**Chart 14: Exchange rates**



The dollar index has declined slightly in August affected by rate cut expectations and ongoing trade uncertainty.

Source: Thomson Reuters Eikon

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