



KN Market View

Main Topics

[Key Events](#) - JP Morgan raised its probability for recession in the United States or the world by the end of the year from **25% to 35%**.

[Government Bonds and Currencies](#) - Following a **surprising interest rate cut by Banxico**, Mexico's 10Y government bond yield closed this week at **9.74%**. The **Brazilian Real appreciated** by 3.85%.

[Commodities](#) - **Natural Gas rebound after the return of warmer temperatures** and positive reports.

[Stocks](#) - Market sentiment in **Brazil** and **Mexico improved following central bank suggestions of easing monetary policy**.

[Crypto](#) - **1.7 billion dollars in Bitcoin** leaving exchanges.

[Weekly Paper Picks](#) - **Recession Signals and Business Cycle Dynamics**.

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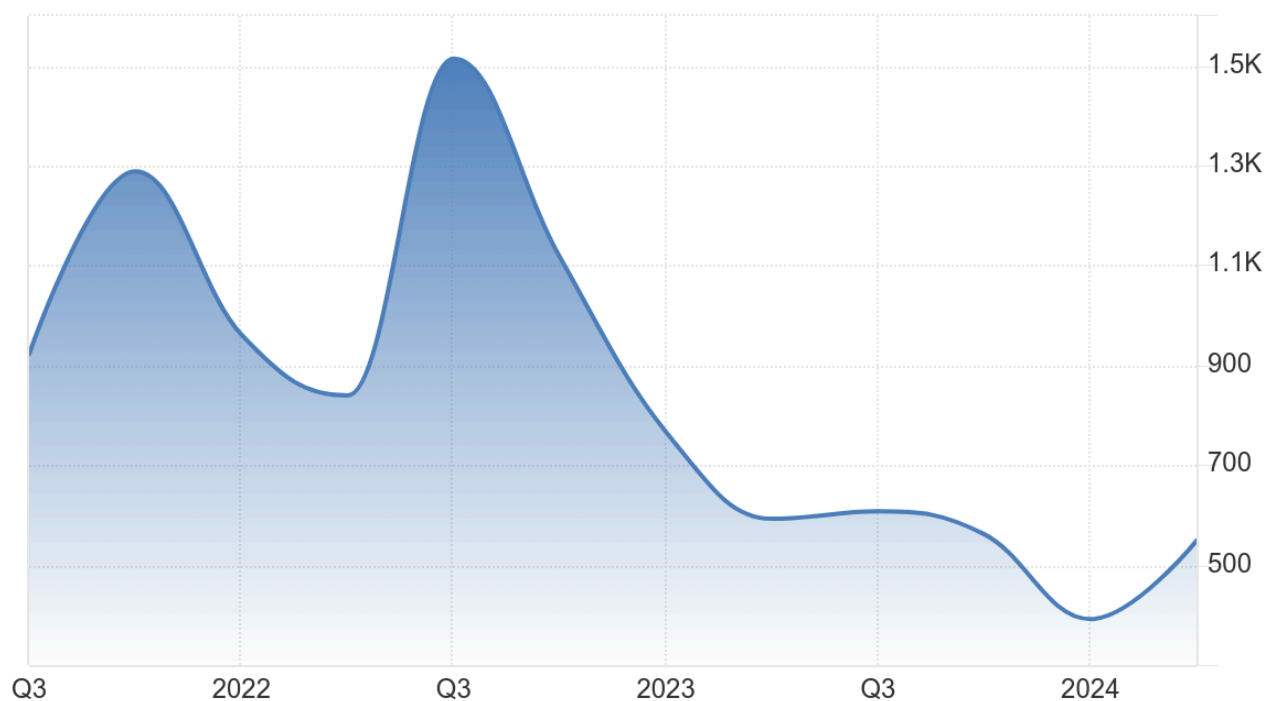


Key Events

Economy at a glance

In the **second quarter of 2024**, **China** posted a **current account surplus of \$54.9 billion**, \$4.4 billion less than last year. The **services deficit** grew to **\$61.7 billion**, while the **goods surplus** increased to **\$167.1 billion**, driven by strong export growth and weak import demand. **The primary account deficit** slightly improved to **\$53.2 billion**, \$1.7 billion below last year's figure, and the **secondary account** remained nearly balanced with a **\$2.7 billion surplus** [link](#).

China's Current Account - USD Hundred Million



Source: Trading Economics | State Administration of Foreign Exchange, China



On Thursday, the **Mexican Central Bank** announced that it had **reduced its benchmark interest rate from 11% to 10.75%**. However, they also **adjusted** their year-end headline **inflation forecast from 4% to 4.4%** [link](#).

JP Morgan raised its probability for recession in the United States or the world by the end of the year from **25% to 35%**. Moreover, they **maintained its 45% estimate** for the likelihood of a **recession in the second half of 2025** [link](#).

Over the past three months, the number of **marginally attached workers in the United States has risen by an average of 247,000 per month**. This trend serves as a warning for the labor market, indicating that more people are seeking jobs but are struggling to find employment [link](#).

“**China** has filed a **complaint** with the **World Trade Organization** regarding the **European Union's decision to impose anti-subsidy duties on Chinese electric vehicles**, intensifying a dispute that is further straining their already tense relationship” [link](#).

This week, **Turkey, Great Britain, and South Korea** will release their **unemployment rates**, while **India, Spain, and Argentina** will announce their **inflation rates**. Additionally, **Russia and Indonesia** will disclose their **trade balances**.



Government Bonds and Currencies

Banxico's Rate Cut Shakes Markets: Bond Yields Fall, Peso Strengthens Amid Political Shifts

Following a surprising **interest rate cut** by Banxico, **despite rising inflation forecasts**, Mexico's 10Y government bond yield **closed** this week **at 9.74%**, dropping **26 bps** from the previous week. The **primary reason** for this cut, **despite** concerns that **inflation** may not converge to Banxico's target in the short term, is growing **worry** over the country's **economic growth slowdown** and “the possibility of making it harder for the new administration to be able to implement fiscal consolidation” [link](#).

Mexico 10-Year Government Bond Yield



Source: Trading Economics



Despite the interest rate cut, the **Mexican Peso gained against the dollar** this week, appreciating by **1.57%** and closing at **18.82 pesos per dollar**. This came after the announcement that Morena, the ruling party that won the elections by a landslide, will **consider renegotiating the most radical aspects of the judicial reform**.

Brazilian Real Surges as Central Bank Signals Rate Hikes Amid Rising Inflation

Brazilian Real



Source: Trading Economics



The **Brazilian Real appreciated by 3.85%** against the dollar, closing the week at **5.50 reais per dollar**. This came after Galipolo, a member of the Brazilian Central Bank's board, announced that “they will not hesitate to raise rates as Brazil’s inflation outlook worsens” [link](#), after **inflation** reported in July **reached 4.5%** year-over-year, higher than both **expectations and the previous 4.23%**. This statement was **well received** by the market, which had been **uncertain about the Central Bank's autonomy** due to President Lula's repeated criticism of the restrictive monetary policy that has kept interest rates high.

[Turkey's Bond Yields Soar as Lira Weakens Despite Central Bank's Inflation Stance](#)

The **yield** on Turkey's 10Y bond **increased by 2.39%** this week, reaching **28.42%**, while the **lira fell by 89 bps** against the dollar, closing at an exchange rate of **33.49 liras per dollar**. This occurred despite year-over-year inflation **dropping from 71.6% to 61.78%**, after “Turkey’s **central bank** said it **will keep monetary policy restrictive** until it sees a permanent slowdown in monthly inflation, underscoring its commitment to stay away from premature interest rate cuts” [link](#).



Bond Yield Rises as Canada's Labor Market Shows Continued Weakness: Central Bank Eyes Rate Cuts

The yield on Canada's 10Y government bond **increased** by **14 bps** over the week, **closing at 3.14%**. This shows a recovery after its sharp decline last week following the release of U.S. employment data, due to the **unemployment rate** reported this week remaining at **6.4%**, although it is still at **its highest level** in the last two years.

Despite this, young people have been the most affected group, with a **youth unemployment** rate reaching **14.2%**, which has raised concerns at the Bank of Canada “further **deterioration** in the **job market** may **delay a recovery in consumer spending** and put downward pressure on growth” [link](#). Since this is the **last labor market report** before the next Bank of Canada meeting, scheduled for the first week of September, **it is likely that another interest rate cut will be considered** this year.

Commodities

Natural Gas rebound after the return of warmer temperatures and positive reports

“US natural gas futures traded above \$2.10 per MMBtu on Friday, marking an over 8% increase for the week supported by a return of warmer temperatures and positive reports. According to the US Energy



Information Administration (EIA), utilities added 21 billion cubic feet (bcf) of gas to storage during the week ending August 2, and **storage levels were 14.9% above the 5-year average, a decrease from 39% above in March and 19% in June.** Meanwhile, gas production in the Lower 48 states averaged 102.9 billion cubic feet per day (bcfd) in August so far, slightly down from 103.4 bcfd in July but still below the record high of 105.5 bcfd set in December 2023. Looking ahead, major US natural gas producers are planning to further reduce production in the latter half of 2024, after prices fell nearly 40% over the past two months” [link](#).

Natural Gas



Source: Trading Economics



Cocoa futures surged past \$8,900 per tonne

“Cocoa futures surged past \$8,900 per tonne, their highest in over seven weeks, as **traders reassessed supply concerns in the key producing region of West Africa**. Dealers said that supplies remained very tight despite a more favorable outlook for the upcoming 2024/25 season, with an anticipated surplus of 108,500 following a record deficit of 475,000 in 2023/24. In the short-term concerns persisted that increased rain in West Africa is making cocoa plantations more susceptible to disease and forcing farmers to buy expensive chemicals, allowing diseases such as Black Pod and Swollen shoot to resurface. **Latest data showed ICE-monitored cocoa inventories held in US ports fell to a fresh 4-1/2 year low of 2,850,317 bags**. At the same time, farmers in the top grower Ivory Coast shipped 1.67 million metric tonnes of cocoa to ports from October 1 to August 4, a 26.8% drop compared to the same period last season” [link](#).

Stocks

Market sentiment in Brazil and Mexico improved following **central bank suggestions of easing monetary policy**. Japan continued trading under pressure, reaching its lowest level since January as central bank officials signaled readiness to hike rates further. **Singapore underperformed global peers falling 4.62%**.



Main Equity Markets Movers WoW

Major	Price	Day	%	Weekly	Monthly	YoY
IBOVESPA	130492	▲ 1,831	1.42%	3.69%	2.57%	10.26%
IPC	53052	▲ 175	0.33%	1.55%	-2.26%	-1.55%
HK50	17090	▲ 198	1.17%	0.85%	-2.18%	-11.21%
EU50	4675	▲ 8	0.17%	0.77%	-5.73%	6.63%
NL25	883	▼ 1	-0.13%	0.51%	-5.99%	13.57%
US100	18513	▲ 99	0.54%	0.39%	-10.46%	22.37%
TSX	22311	▲ 86	0.39%	0.38%	-0.17%	9.68%
SHANGHAI	2862	▼ 8	-0.27%	-1.49%	-2.63%	-12.06%
SENSEX	79706	▲ 820	1.04%	-1.58%	-0.27%	21.34%
NZX 50	12243	▼ 14	-0.11%	-1.68%	2.51%	3.65%
MOEX	2846	▼ 3	-0.11%	-1.82%	-4.52%	-9.62%
ASX200	7778	▲ 96	1.25%	-2.08%	-0.50%	5.71%
JP225	35025	▲ 194	0.56%	-2.46%	-16.27%	7.86%
STI	3262	▼ 0	0.00%	-4.62%	-4.79%	-1.84%

Source: Trading Economics

The Utilities sector takes this week's victory again, showing its resilience when markets are under pressure.

US Sector Performance

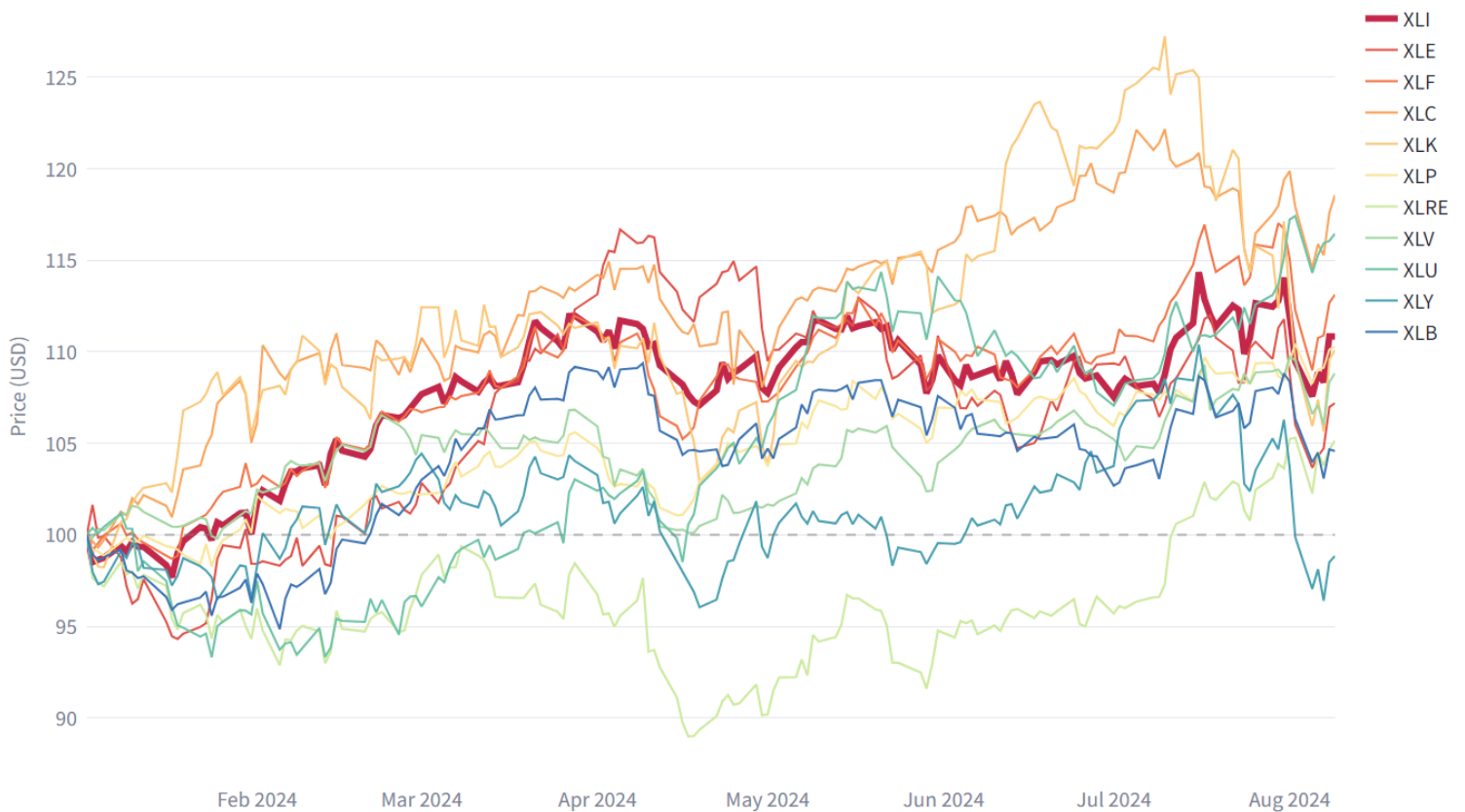
	WoW	YTD
Materials (XLB)	-1.64%	4.58%
Consumer Discretionary (XLY)	-1.03%	-1.16%
Utilities (XLU)	-0.82%	16.45%
Health Care (XLV)	-0.63%	8.84%
Real Estate (XLRE)	-0.14%	5.16%
Consumer Staples (XLP)	-0.14%	10.28%
Technology (XLK)	0.44%	10.08%



Communication Services (XLC)	0.54%	18.56%
Financials (XLF)	0.78%	13.13%
Energy (XLE)	1.12%	7.20%
Industrials (XLI)	1.25%	10.84%

Source: FMP

US Sector Performance



Source: FMP

Big YoY earnings increases but sharp market downturns:

This week **US markets saw the rebound to the sell off** that started last Friday with the weak jobs report, leaving some **investors thinking this would be the start of an economic contraction**. This **upside move** has



analysts wondering if last week's movement was only a correction or is really the start of something to worry about.

The **interesting part comes when we take a look into earnings reported** in this season, as **this season has posted the biggest increase YoY of earnings since Q4 2021**, with an increase of **10.8%** [per factset](#).

Taking a **deeper dive into this earnings season**, now that **91% of S&P 500** companies have **reported Q2 earnings, 78% surpassing EPS estimates, above** the **5-year (77%) and 10-year (74%)** averages. However, earnings exceeded estimates by only 3.5%, below the 5-year (8.6%) and 10-year (6.8%) averages. **Despite this mixed performance, Wall Street has reacted less favorably** to both positive and negative earnings surprises than usual.

Companies with positive surprises saw a modest 0.8% price increase, which is **below the current 5-year average of 1.0%**. For instance, **Amazon's stock dropped 11.4% despite exceeding EPS estimates**. Companies with negative surprises experienced a 3.8% price drop, worse than the 5-year average of 2.3%. **Another example is Ford's stock, which fell 20.8% after missing EPS estimates**.

Today's market response isn't driven by earnings guidance or analyst revisions. Notably, **fewer S&P 500 companies are issuing negative EPS**



guidance for Q3, with 55% doing so, below the 5-year (59%) and 10-year (63%) averages.

With lower prices and increased earnings, there are a lot of opportunities in the current market conditions, so **if you were thinking of taking a position**, this may be the right time **if current valuation makes sense for your portfolio**, unless you think this is the start of a major economic recession.

Earnings season highlights

The second quarter earnings season is underway, and here are some highlights from companies that reported this week.

Berkshire Hathaway

- **Massive Cash Reserves:** Berkshire Hathaway's cash pile has reached an all-time high of \$277 billion, driven by a trend of net-selling equities for seven consecutive quarters.
- **Significant Buybacks:** Since the buyback policy change in July 2018, Berkshire has repurchased approximately \$78 billion worth of shares, including \$345 million in the most recent quarter.
- **Reduction in Apple Holdings:** Berkshire's stake in Apple, one of its largest holdings, has been significantly reduced by nearly 50% as of the second quarter.



- **EPS above estimate:** Reported EPS was \$8,072 while the market expected \$6,463, reaching a 24.83% surprise.

BRKB



Source: Trading View

Eli Lilly

- **Surging Sales of Weight-Loss Drugs:** Eli Lilly's weight-loss drug Mounjaro saw sales more than triple year-over-year, reaching \$3.09 billion in the second quarter. Additionally, Zepbound, another weight-loss drug, achieved \$1 billion in sales within less than a year since its FDA approval in November 2023.
- **Significant Investment in Manufacturing:** The company has invested approximately \$18 billion since 2020 in building and



upgrading manufacturing facilities, including a recent \$5.3 billion investment in an Indiana facility.

- **Positive Clinical Trials:** Zepbound has shown potential benefits beyond weight loss, including reducing the risk of severe cardiovascular events and sleep apnea. Eli Lilly is submitting these findings to the FDA, with a decision expected by the end of 2024.
- **FDA Approval for Alzheimer's Drug:** Eli Lilly received FDA approval for Kisunla, a monthly IV infusion drug that can slow the progression of Alzheimer's disease. The drug is already being prescribed and is covered by Medicare for eligible patients.
- **EPS above estimate:** Reported EPS was \$3.92 while the market expected \$2.74, reaching a 43% surprise.

Crypto

1.7 billion dollars in Bitcoin leaving exchanges

“The crypto market has just experienced a significant shake, marked by an event that does not go unnoticed: a massive movement of Bitcoin out of exchange platforms. This exit reveals a deliberate strategy by major investors, the “whales”, who seem to be doubling down on their confidence in the future of Bitcoin despite the recent market volatility. But why this sudden withdrawal, and what does it mean for the evolution of the BTC price?”



Over the past seven days, the crypto market has witnessed a historic exit of Bitcoin from centralized exchange platforms. **More than 28,000 BTC, equivalent to \$1.7 billion, were withdrawn, marking the largest outflow of this year.** This significant movement is reflected in the drop in Netflow, a key indicator that measures the inflow and outflow of cryptocurrencies on exchanges” [link](#).

Main Crypto Movers WoW

Crypto	Price	Day	%	Weekly	Monthly	YoY
Chainlink	10.3948	▼ 0.3326	-3.10%	-12.18%	-18.58%	37.01%
Bitcoin Cash	342.65	▼ 13.92	-3.90%	-9.83%	0.44%	47.83%
Ether	2610.30	▲ 15.33	0.59%	-9.82%	-15.36%	41.91%
Polygon	0.42	▼ 0.01	-1.89%	-9.54%	-17.38%	-38.40%
Avalanche	21.30	▼ 1.43	-6.29%	-8.81%	-17.04%	71.91%
Polkadot	4.62	▼ 0.16	-3.34%	-7.90%	-21.37%	-7.29%
Uniswap	6.10	▼ 0.19	-3.01%	-7.35%	-23.85%	-1.11%
Litecoin	60.250	▼ 0.264	-0.44%	-6.57%	-10.53%	-27.31%
Cosmos	5.00	▼ 0.14	-2.71%	-5.96%	-16.73%	-40.25%
Cardano	0.34158	▼ 0.0112	-3.17%	-5.73%	-11.97%	15.77%
Binance	519.1	▲ 3.4	0.66%	-3.48%	-0.33%	117.26%
Algorand	0.12	▼ 0.00	-0.08%	-3.18%	-13.13%	6.52%
Bitcoin	60264	▼ 1688	-2.72%	-1.80%	4.32%	105.13%

Source: Trading Economics



ETHUSD Ether / US Dollar



Source: Trading Economics

Weekly Paper Picks

Recession Signals and Business Cycle Dynamics: Tying the Pieces Together

Link : <https://www.federalreserve.gov/econres/feds/files/2023008pap.pdf>

Examining a parsimonious, yet comprehensive, set of recession signals yields three lessons.



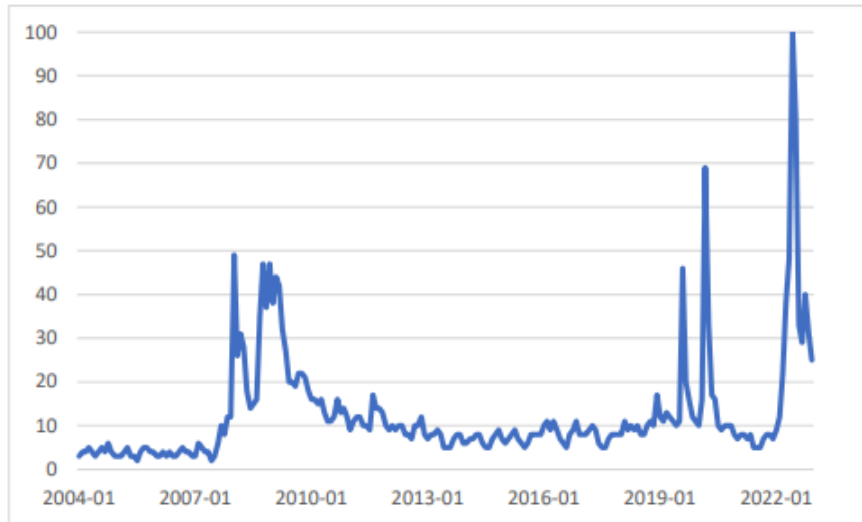
First, signals from financial markets, leading indicators of activity, and gauges of the macroeconomic environment are each useful at different horizons, **with leading indicators and financial signals informative at short horizons and the state of the business cycle at medium horizons.**

Second, approaches emphasizing the **yield curve overstate the recession signal** from the term spread if other factors are not considered; given correlations among indicators, these differences are often small, but were large in 2022.

Finally, **simulations of a reduced-form vector autoregression of unemployment and financial conditions**, which captures the time-series properties of the series well, **suggest the patterns are consistent with a typical hump-shape characterization of business cycle dynamics**; this synthesis tightens the connections of the recession prediction literature with the business-cycle literature.

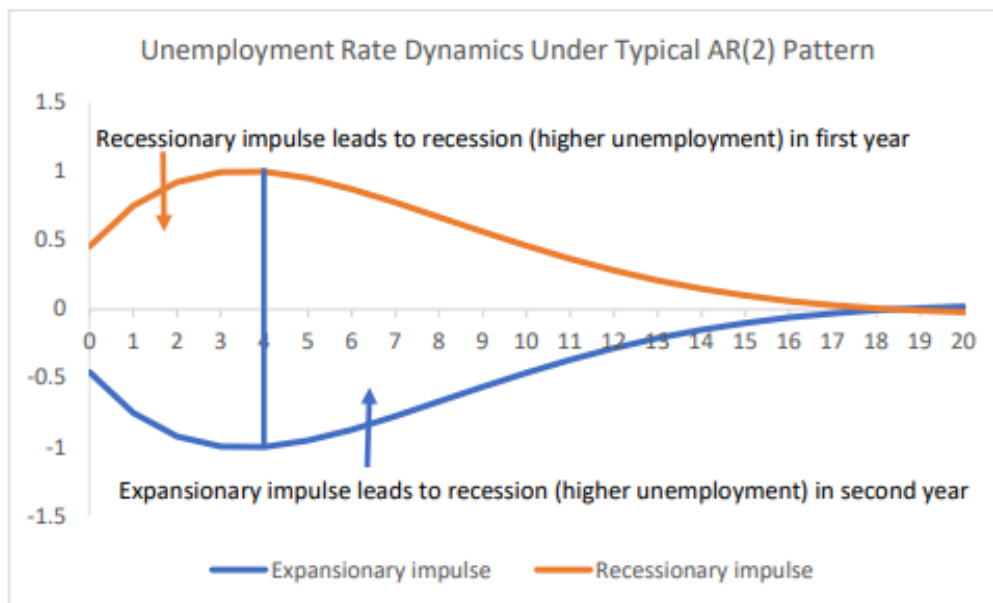


Figure 1: Trend in Searches for “Recession” in the United States from Google Trends



Source: Google Trends, downloaded January 3, 2023. Note: Google Trends measures the share of a search term in all search terms in a region (for a sample of searches). The data are normalized so that the maximum value for the term of interest equals 100. For example, the value reported in the figure equals 100 in June 2022, indicated that searches for “recession” reached their highest value as a share of all searches in that month (for the sample shown).

Figure 2: Business Cycle Dynamics of the Unemployment Rate



2.2 A set of recession signals based on previous work



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