



Jun 30, 2024

KN Market View

Key Topics

Government Bonds and Currencies. France and UK elections results. USDBRL reached its highest level since 2021.

Commodities. Natural gas -8.29% traded under pressure for the second week in a row. Steel continued trading under pressure reaching levels not seen since 2017. Cotton -6.95% continued with its negative trend reaching 2020 levels.

Stocks. Market's reaction to the first US presidential debate.

Crypto. Solana ETF approval.

Regarding economic data, **Canadian inflation** rate came above market expectations **2.9%** vs **2.6%** (changing bets on loosening monetary policy), in the US the **Case Shiller Home Price Index** changed its growing trend for the first time since May 2023, but above consensus **7.2%** vs **6.9%**. Also in

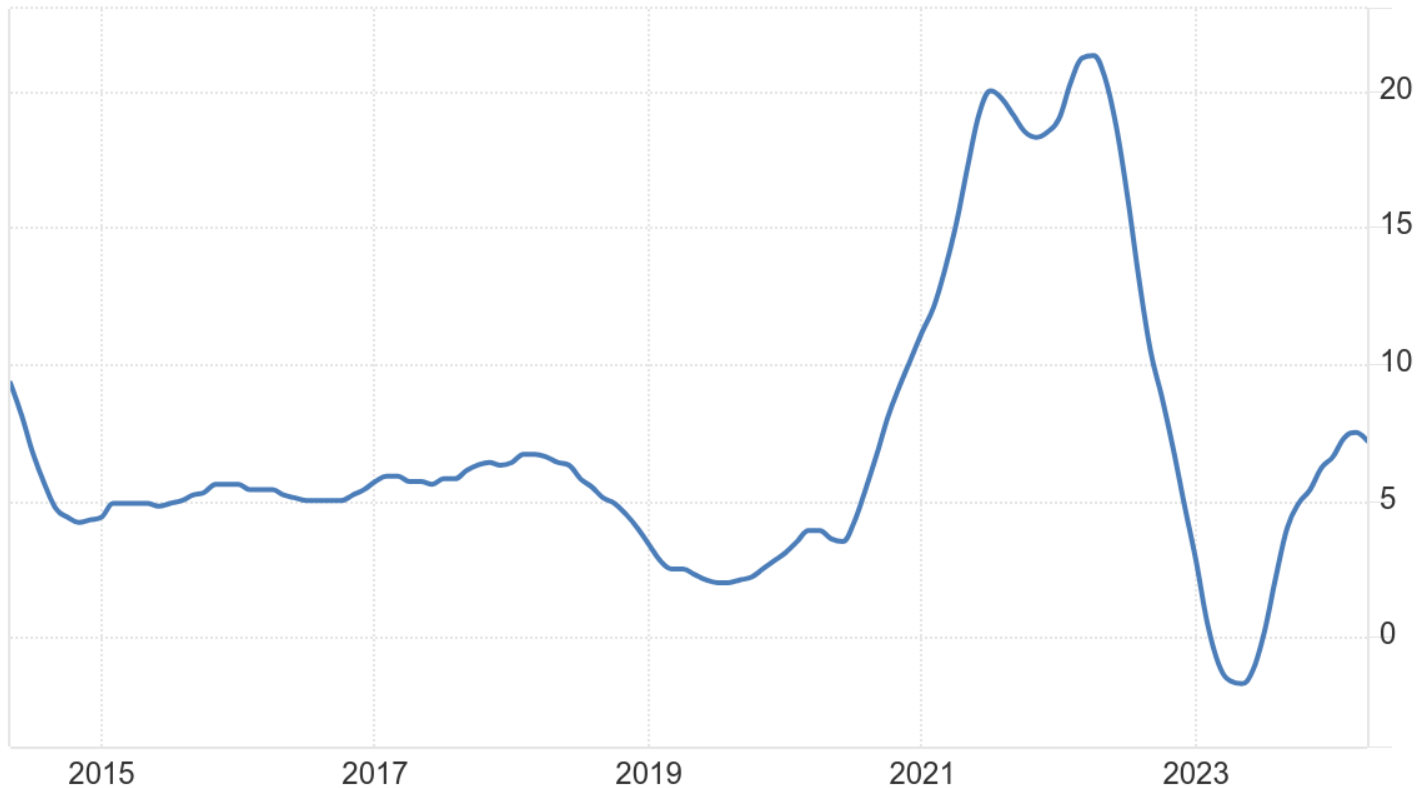
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the US, EIA **crude oil and gasoline inventories increased unexpectedly** with 3.591mn barrels vs -3mn expected and 2,654 barrels vs -2,280 respectively.

United States Case Shiller Home Price Index YoY



Source: Trading Economics

Korea business confidence came at its highest since August 2022 at 78 vs 74. **Japan retail sales** continued with its positive trend beating market expectations **3% vs 2%**. In **Mexico, trade balance** switched to a surplus of **USD\$1.991bn** vs **-USD\$2.04bn** deficit expected. Finally, Brazil's unemployment rate reached its **lowest since 2015 at 7.1%**.



This week, the focus will be on the **US payrolls report** and **FOMC minutes**. **ISM** manufacturing, services **PMI** and **balance of trade** will be released for major economies.

In **France**, volatility might continue on the results of parliamentary elections, with the far right closer to power than it has ever been in modern times [link](#). In the **UK**, polls predict a landslide victory for Keir Starmer's Labour Party on July 4, **ending the Conservatives' 14-year rule**.

The following companies will release their quarterly earnings reports: Sodexo, J Sainsbury, **Constellation Brands**, AEON .

Government Bonds and Currencies

France 10Y government bond closed at its highest level since October. “Concerns lingered ahead of the first round of parliamentary elections, with polls suggesting Marine Le Pen's National Rally could secure over 30% of the votes. **Investors fear a shift away from centrist policies could lead to increased spending and worsen the government's fiscal position.** France's **5.5% budget deficit and public debt at 110.6% of GDP** in the previous year have raised alarms, prompting the European Commission to consider initiating excessive deficit procedures” [link](#).



France 10-Year Government Bond Yield



Source: Trading Economics

In the UK, GBPUSD has been trading sideways ahead of next week's elections. "The polls show **Kier Stammer's party is set for a landslide victory, which could be good news for the pound.** A period of political stability amid a less divided party and Labour's pledge to help improve ties with the European Union could support sterling.

A conservative win is looking extremely unlikely. Even Chancellor of the Exchequer Jeremy Hunt considers it an almost impossible task. If the impossible were to happen, **it could result in an initial bearish knee-jerk**



reaction in the pound and UK assets, as the market will dislike the surprise. However, again, it's worth noting that the BoE's actions could have more of an impact than any Conservative policies" [link](#).

British Pound



Source: Trading Economics

“Sterling's rollercoaster ride has prompted commentators to nickname the pound the "great British peso", with parallels to risky emerging markets. Its volatility has fed back into the UK economy, creating a negative feedback loop.



A **Labour government with predictable policies that markets support could reverse that cycle**, analysts said” [link](#).

UK Policy Shocks Drive Sterling Volatility as Much as Global Crisis



Source: Reuters Graphics

USDBRL reached its highest level since 2021. **“President Lula criticized BCB’s President Campos Neto for maintaining a 10.5% interest rate**, calling it unrealistic and asserting that inflation is under control. Meanwhile, Campos Neto defended the rate as crucial for meeting inflation targets, cautioning that fiscal adjustments through revenue could hamper growth and worsen inflation. **These developments highlighted ongoing market concerns about fiscal spending**, emphasizing challenges in boosting government revenues and raising doubts about debt repayment capacity” [link](#).



Brazilian Real



Source: Trading Economics

Commodities

On the energy front, **Natural gas -8.29%** traded under pressure for the second week in a row. **“Gas in storage is now 20.6% above the seasonal norm.** Despite this, natural gas prices are headed for a third consecutive week of declines due to increased output, as higher prices in recent weeks encouraged producers like EQT and Chesapeake Energy to resume drilling” [link](#).



Natural gas

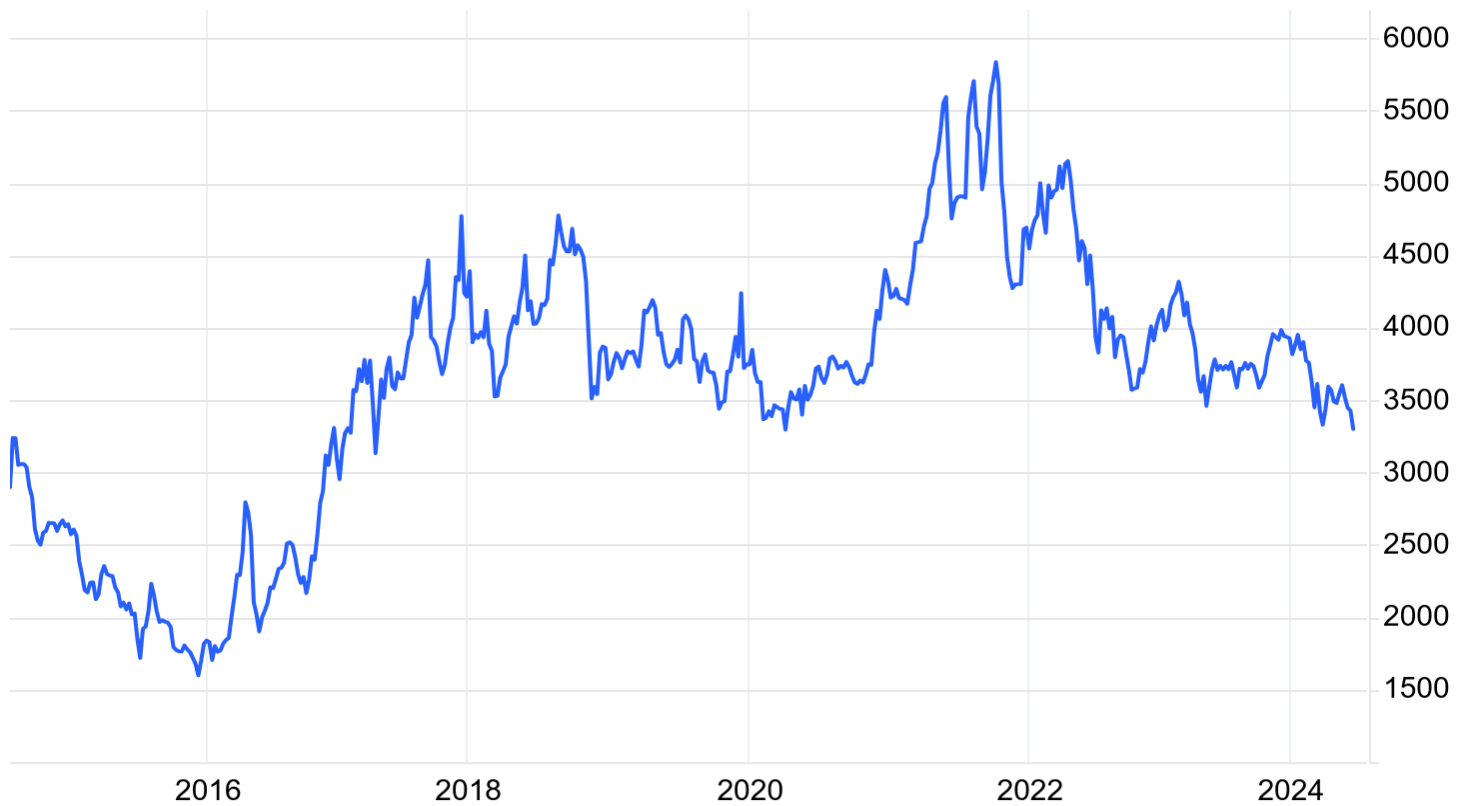


Source: Trading Economics

Steel continued trading under pressure reaching **levels not seen since 2017** amid mounting signs of poor demand. “**New home prices in China sank by nearly 4% in May**, the most since 2015. The data added to concerns that China's property crisis is far from over amid the 34% plunge in sales from the 100 largest Chinese developers in the period, pressuring the demand for new construction for a sector that is a major source of global ferrous metal demand” [link](#).



Steel



Source: Trading Economics

Soft commodities with mixed results, **Sugar** continued with its positive trend “**driven by concerns over reduced supply from India**, the world’s second-largest sugar producer”.



Sugar



Source: Trading Economics

On the negative front, **Cocoa -12.30%** continued on profit-taking mode. “Recently, chocolate producer **Nestle SA indicated that consumers are likely to reduce their chocolate purchases** due to the historic rise in cocoa prices, which is gradually impacting manufacturers and compelling them to raise prices”. **Cotton -6.95%** continued with its negative trend reaching 2020 levels. “Favorable weather conditions persist throughout the entire US cotton belt, with beneficial rainfall observed in Texas, Oklahoma, and Kansas, alongside anticipated future precipitation, contributing to downward price pressure” [link](#).



Cotton



Source: Trading Economics

Stocks

Japanese industrial production carries Japan's gains. **India recorded a new all-time high** with a 22.12% return YoY.

France closed at its lowest level since January, election's volatility remains the name of the game. Hong Kong and China have been trading under pressure after this year's early rally. **“Donald Trump and Joe Biden surprised markets in their first US presidential debate by not focusing too much on criticisms against China.** Still, rising tensions between China



and the West due to geopolitical and trade issues kept sentiment in check” [link](#).

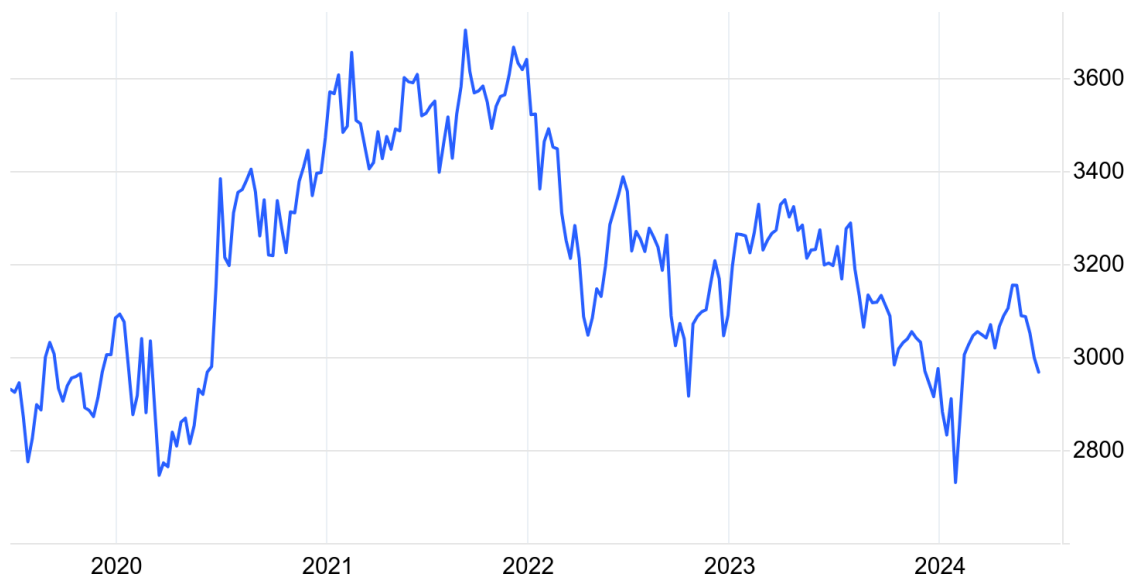
Main Equity Markets Movers WoW

Major	Price	Day	%	Weekly	Monthly	YoY
JP225	39583	▲ 242	0.61%	2.56%	2.66%	19.10%
SENSEX	79033	▼ 210	-0.27%	2.36%	6.08%	22.12%
IBOVESPA	123907	▼ 401	-0.32%	2.11%	0.98%	4.67%
TSX	21876	▼ 66	-0.30%	1.49%	-0.10%	9.86%

Major	Price	Day	%	Weekly	Monthly
FR40	7479	▼ 51	-0.68%	-1.96%	-5.74%
HK50	17719	▲ 2	0.01%	-1.72%	-4.10%
SHANGHAI	2967	▲ 22	0.73%	-1.03%	-4.62%
GB100	8164	▼ 16	-0.19%	-0.89%	-0.23%

Source: Trading Economics

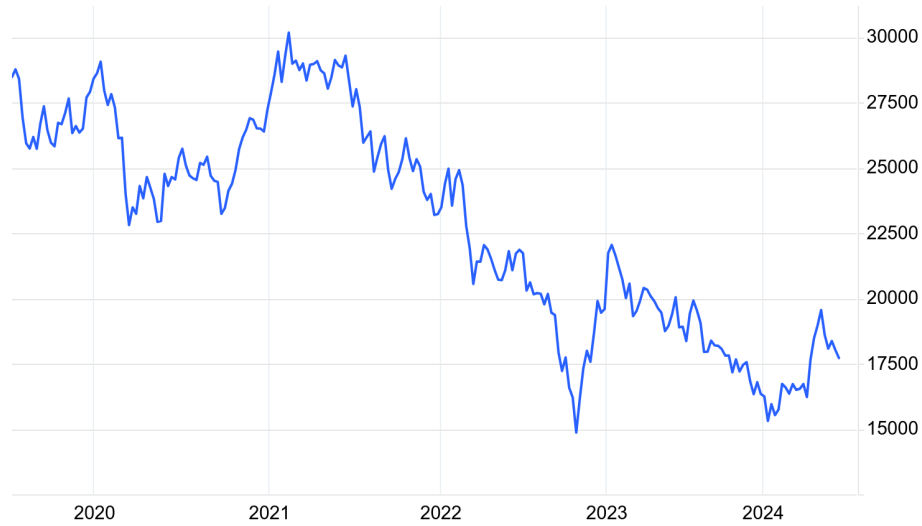
China Shanghai Composite Stock Market Index



Source: Trading Economics



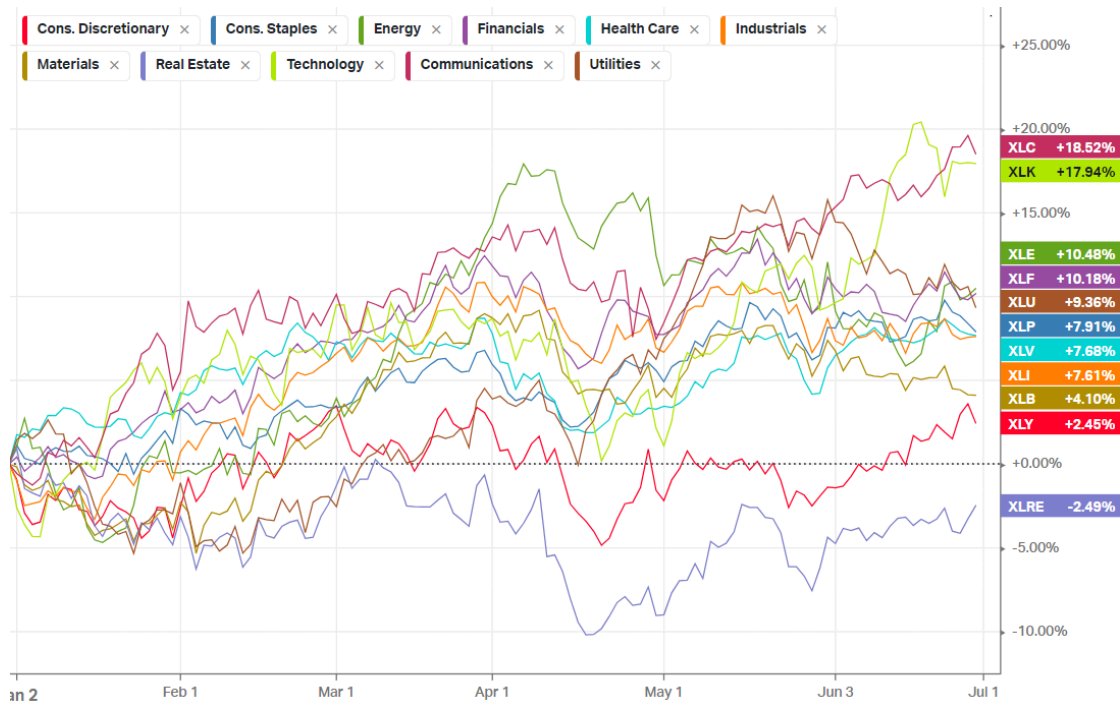
Hong Kong Stock Market Index



Source: Trading Economics

Energy sector takes the WoW win with **2.38%**.

SPDR Sectors YTD



Source: Koyfin



Market's reaction to the first US presidential debate

Thursday night hosted the first presidential debate between the current president Joe Biden, against former president Donald Trump.

On economy and inflation, **President Biden emphasized the dire economic situation he inherited from Trump, describing it as collapsed with high unemployment.** He focused on his efforts to rebuild the economy, stating that more work is needed, especially for working-class families.

While Trump's perspective countered by claiming he had created the greatest economy in history before COVID-19. He criticized Biden's handling of the pandemic and its economic fallout, blaming inflation and economic struggles on Biden's policies, particularly the mandates imposed during the pandemic.

As a debate outlook, voters think Biden failed to reassure his base or attract independents, which suggest potential damage to his campaign, the debate was a missed opportunity for Biden to solidify support. This has markets speculating that **Biden might soon drop out of the race due to his poor performance,** as there are many Democrats worried about losing control of the House, Senate, and White House after the debate.



Who may replace Biden as the next candidate is not a clear picture. As the Vice President, **Kamala Harris would be a logical successor**, but her low approval ratings and perceived lack of gravitas make her a less attractive option for some. **Gavin Newsom, The California Governor is the next in line**, but he is facing a budget crisis, which could hinder his candidacy and his involvement in state issues might detract from his national appeal. **Gretchen Whitmer and Josh Shapiro**, are both governors of swing states (Michigan and Pennsylvania, respectively), they are seen as strong potential candidates due to their leadership in crucial regions.

Overall, this uncertainty will bring volatility to the markets, and if this year's elections have shown us, **surprises are sure coming around the corner, especially as Trump's tax cuts are about to end**, which in a way, have increased economic growth, but also heightened the massive US government debt. Be sure to keep an eye on the following debates!

Crypto

Crypto closed the week with mixed results. **Bitcoin -3%** continued under pressure and tested its 60,000 support. On the positive side, **Solana 9.27%** outperformed peers. "In a constantly evolving crypto market, the announcement by **21Shares regarding the filing of an application for a Solana ETF in the United States marks a significant turning point**. This



initiative, which closely follows that of VanEck, could not only democratize access to Solana but also signal a new era of institutional acceptance of cryptocurrencies” [link](#).

“In the current political landscape, it is surprising to note that **the presidential debate between Joe Biden and Donald Trump did not address the crypto issue**. This noticeable absence had a direct impact on the market, particularly on politicized meme coins known as PolitiFi” [link](#).

Main Crypto Movers WoW

Crypto	Price	Day	%	Weekly	Monthly	YoY
Polkadot	6.20	▼ 0.08	-1.21%	10.40%	-13.55%	24.00%
Solana	145.1300	▲ 5.44	3.89%	9.27%	-12.77%	670.56%
Algorand	0.14	▲ 0.00	2.70%	7.16%	-25.48%	18.31%
Monero	167.570	▲ 1.94	1.17%	5.49%	12.70%	0.19%
Avalanche	28.80	▲ 1.06	3.82%	4.95%	-20.66%	126.66%

Crypto	Price	Day	%	Weekly	Monthly	YoY
Uniswap	9.22	▲ 0.37	4.15%	-5.91%	-7.74%	65.12%
Polygon	0.55	▲ 0.00	0.05%	-3.11%	-22.75%	-11.43%
Bitcoin	62056	▲ 492	0.80%	-3.00%	-8.03%	104.47%
Ripple	0.47461	▲ 0.00404	0.86%	-2.55%	-8.63%	-0.36%

Source: Trading Economics

BTCUSD Bitcoin US Dollar



Source: Trading Economics

Weekly Paper Picks

[Local Currency Bond Market Development and Currency Stability amid Market Turmoil](#)

This study investigates how **development of the local currency (LCY) bond market brings stability in the financial market.**

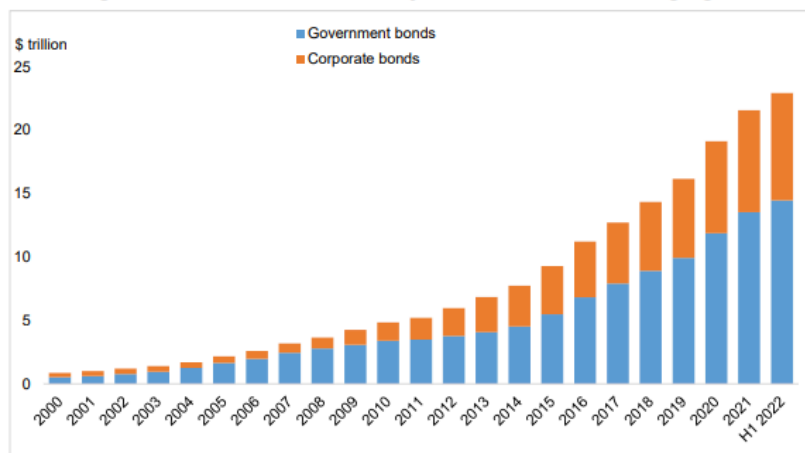
The analysis is based on annual economy panel data set for 1989–2020. The main findings are as follows. First, exchange rate volatility is lower during



crisis periods if an economy has a more developed LCY bond market. Second, a greater share of LCY bonds and a greater share of bonds with long-term maturities have a stabilizing effect on exchange rate volatility during normal times. Lastly, **a developed LCY bond market can serve as a buffer against monetary policy shocks emanating from the United States.**

The empirical evidence in this study implies that emerging economies need to consider designing policies to bolster development of LCY bond markets.

Figure 1: Size of Local Currency Bond Markets in Emerging East Asia



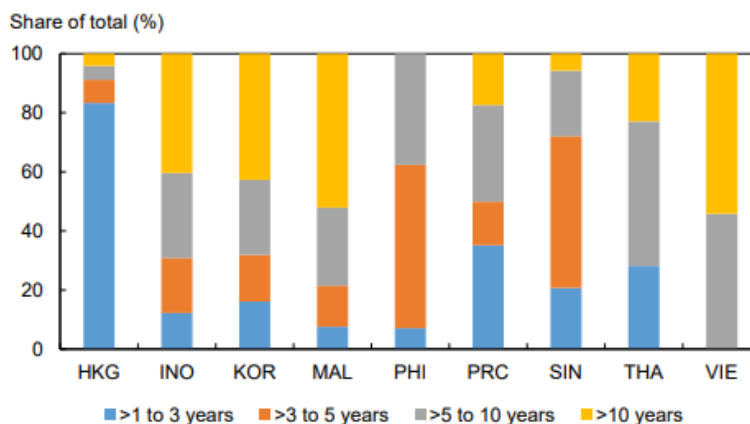
H1 = first half.

Note: Emerging East Asia includes the People's Republic of China; Hong Kong, China; Indonesia; Malaysia; the Philippines; the Republic of Korea; Singapore; Thailand; and Viet Nam.

Source: ADB, AsianBondsOnline Data Portal. <https://asianbondsonline.adb.org/data-portal/> (accessed 24 October 2022).



Figure 3: Maturity Profile of Bond Issuance in Emerging East Asian Local Currency Bond Markets in the First Half of 2022

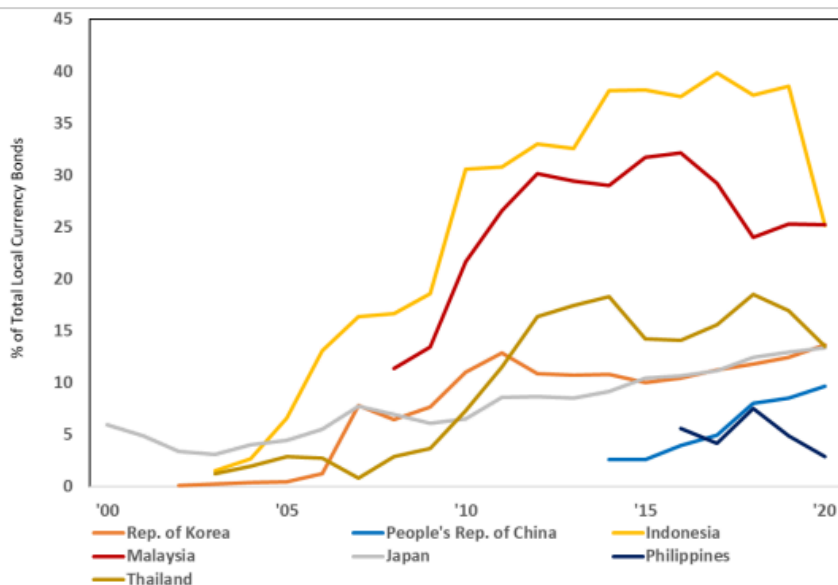


HKG = Hong Kong, China; INO = Indonesia; KOR = Republic of Korea; MAL = Malaysia; PHI = Philippines; PRC = People's Republic of China; SIN = Singapore; THA = Thailand; VIE = Viet Nam.

Note: Emerging East Asia includes the People's Republic of China; Hong Kong, China; Indonesia; Malaysia; the Philippines; the Republic of Korea; Singapore; Thailand; and Viet Nam.

Sources: ADB. AsianBondsOnline Data Portal. <https://asianbondsonline.adb.org/data-portal/> (accessed 17 May 2023).

Figure 4: Foreign Holdings in Local Currency Government Bonds

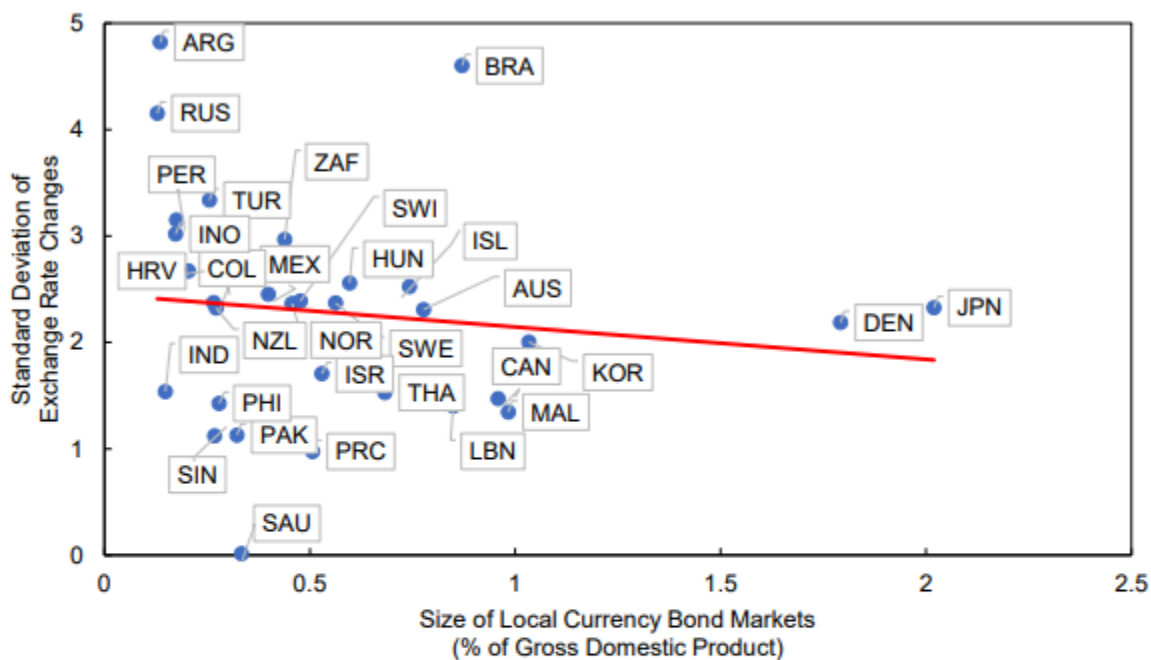


Note: This indicator shows the percentage in local currency (LCY) government bonds held by foreign investors relative to the amount of LCY government bonds outstanding in a specific market. A high percentage indicates the greater participation of foreign investors in buying LCY bonds in a particular market.

Source: ADB. AsianBondsOnline Data Portal. <https://asianbondsonline.adb.org/data-portal/> (accessed 31 August 2022).



Figure 5: Local Currency Bond Markets and Exchange Rate Volatility



ARG = Argentina, AUS = Australia, BRA = Brazil, CAN = Canada, COL = Colombia, DEN = Denmark, HRV = Croatia, HUN = Hungary, IND = India, INO = Indonesia, ISL = Iceland, ISR = Israel, JPN = Japan, KOR = Republic of Korea, LBN = Lebanon, MAL = Malaysia, MEX = Mexico, NOR = Norway, NZL = New Zealand, PAK = Pakistan, PER = Peru, PHI = Philippines, PRC = People's Republic of China, RUS = Russian Federation, SAU = Saudi Arabia, SIN = Singapore, SWE = Sweden, SWI = Switzerland, THA = Thailand, TUR = Türkiye, ZAF = South Africa.

Note: Average size of local currency bond markets as a fraction of gross domestic product (GDP) during 1989–2020 is on the horizontal axis. The vertical axis is the average standard deviation of exchange rate changes.

Source: Authors' calculations.



Contact

research@kaxanuk.mx

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