



KN Market View

Main Topics

[Key Events](#) - The Eurozone's annual **inflation rate decreased to 2.2%**. The United States will announce their unemployment rate.

[Government Bonds and Currencies](#) - Market **anticipates rate cuts amid U.S. yield curve shifts**.

[Commodities](#) - **Gasoline trading at January's lows**.

[Stocks](#) - **Regional banks strike back**.

[Crypto](#) - Coinbase CEO Brian Armstrong announces first **AI-to-AI crypto transaction**.

[Paper of the week](#) - **The response of consumer spending to changes in gasoline prices**.

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Key Events

Economy at a glance

China's official NBS Manufacturing PMI dropped to 49.1 in August, down from 49.4 in July, falling short of market expectations of 49.5. **This marks the fourth consecutive month of contraction in factory activity** and the sharpest decline since February. Additionally, **new orders** (48.9 vs. 49.3), **foreign sales** (48.7 vs. 48.5), and **purchasing levels** (47.8 vs. 48.8) **also decreased compared to the previous month**, continuing a four-month downward trend [link](#).

China NBS Manufacturing PMI



Source: Trading Economics | National Bureau of Statistics of China



The Eurozone's annual inflation rate decreased to 2.2% in August, down from 2.6% in July, aligning with market expectations and marking the smallest increase in consumer prices since July 2021. This shift **indicates progress toward the ECB's 2% target**, fitting within a context that supports central bank interest rate policies. **The deceleration was primarily due to a steep drop in energy prices** [link](#).

The Canadian economy expanded by 0.5% in the second quarter of 2024, following a 0.4% gain in the previous quarter, marking two straight quarters of growth. **This increase was largely attributed to a 1.5% boost in government spending**, spurred by higher wages and a rebound in purchases of goods and services by federal, provincial, and territorial governments, which had earlier seen a decline [link](#).

Canada GDP Growth Rate



Source: Trading Economics | Statistics Canada



In July, **the US core PCE price index increased by 0.2%** from the previous month, matching market expectations. Meanwhile, **core PCE prices were up 2.6% year-over-year**, slightly below the expected 2.7%, **supporting the case for the Federal Reserve to begin reducing interest rates** [link](#).

Retail sales in Chile increased by 2.7% year-on-year in July 2024, after an upward revision to an 8% rise in June, **continuing the positive trend of the last six months**. The growth was mainly led by higher sales of pharmaceutical products (6.7%), electronics, home equipment, and technological items (5.1%), along with various other consumer products (4.8%) [link](#).

Uruguay recorded a trade surplus of \$48.33 million in July, a significant shift from the \$263.84 million deficit reported in the same month the previous year. This marks the third straight month of surplus following twenty-one months of deficits, driven by exports outpacing imports [link](#).

This week, Türkiye, Spain, and South Korea will release their consumer confidence, while Japan, Saudi Arabia, and Argentina will announce their balance of trade. Additionally, the European Area, Italy and Mexico will disclose their current account. Moreover, Canada, South Africa, and Japan will report their annual inflation and core inflation rate.

This week, **Canada, Australia, Brazil, Germany and China** will release their **balance of trade**. Moreover, **Canada and the United States** will announce



their **unemployment rate**. Additionally, **China** will report **its inflation rate** and **Canada its Ivey PMI**.

Government Bonds and Currencies

Brazil's central bank signals possible rate hikes amid rising deficit and currency pressure

Emerging markets are gaining relevance again as we approach the end of the year. This week, **Roberto Campos**, the governor of Brazil's central bank, announced during an event on Friday that, if necessary, the **governing board is prepared to initiate a period of gradual interest rate increases**. However, he emphasized that decisions will be “data dependent and refrain from giving guidance on its next steps, and the moment requires flexibility” [link](#).

These statements came after the release of the **current account** report on Monday, which showed an increase in the deficit of **\$0.8 billion**, rising from **\$4.4 billion to \$5.2 billion**, in addition to the country facing price pressures. As a result, the **yield on the 10-year government bond increased by 0.53%** by the end of the week, being the most active bond during this period. Additionally, the **Brazilian real depreciated by 2.27% against the dollar**.



These statements align with the analysis from JPMorgan Chase, whose analysts foresee the possibility of a **moderate cycle of interest rate increases**. According to their estimates, this cycle could begin with a 25 basis point hike at the next meeting in September, followed by three additional increases of the same magnitude before the end of the year. This would project the interest rate to reach a level of **11.5% at the beginning of 2025**. Without a doubt, this situation deserves attention, as a **high rate could make the largest economy in Latin America an attractive investment option** [link](#).

US Dollar Brazilian Real



Source: Trading Economics



Market anticipates rate cuts amid U.S. yield curve shifts

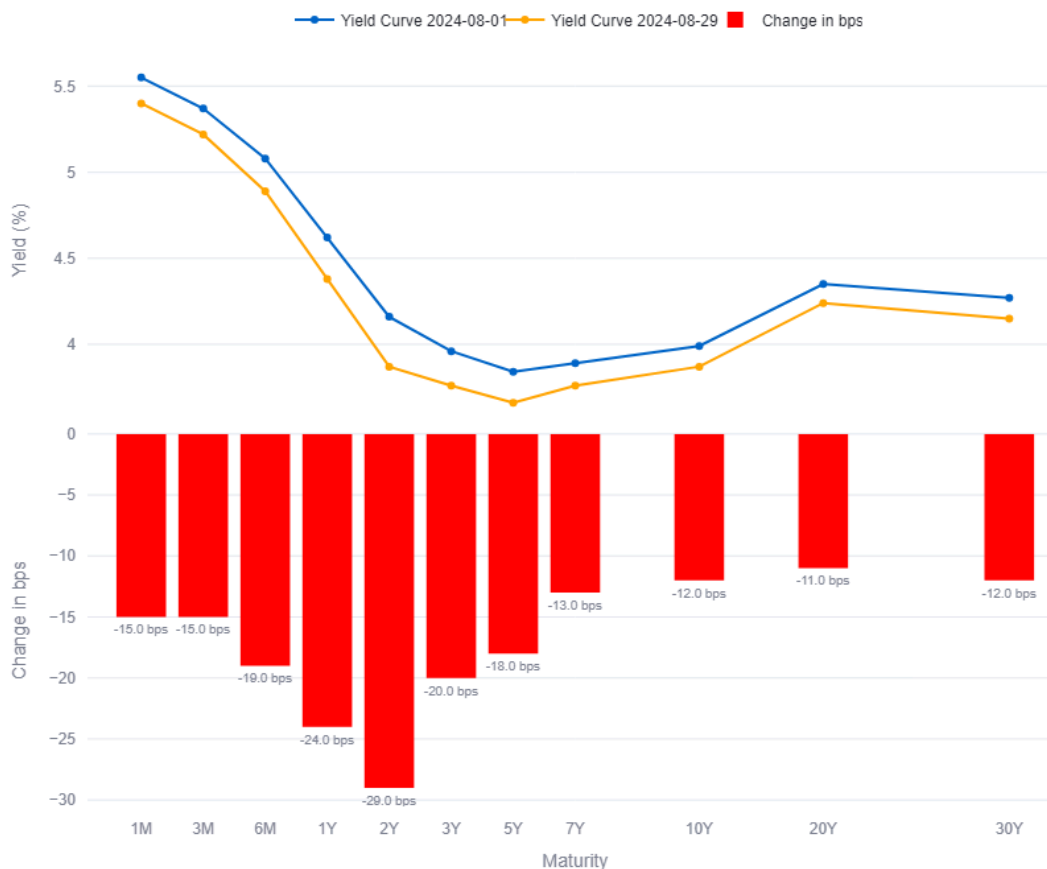
Last week, Jerome Powell, the Fed Chairman, declared that "**the time to adjust monetary policy had come.**" This statement reinforced the market's expectations that an interest rate cut might occur at the next Fed meeting in September.

The comparison of the yield curve between the beginning and the end of the month shows that, despite remaining inverted, **it has experienced declines across all maturities.** This yield decrease was most pronounced for bonds with **short and medium-term maturities**, with the **2Y bond's yield** registering the largest change, **dropping 29 bps** during this period. These movements in the curve suggest that the market is pricing in the possibility of a rate cut for mid-September, when the next Fed meeting is scheduled.

The more pronounced decrease in the short and medium-term part of the curve could indicate that the **market expects more cuts in the coming months**, which supports the estimates made by the CME Group. These estimates point to a **44.8% probability** that, by the end of the year, the rate range will be between **425-450 bps**, while the probability for a range of **450-475 bps is 30%**. This distribution has changed significantly compared to the estimates at the **beginning of the month**, which indicated a **68.9% probability** that rates would close within the **450-475 bps** [link](#).



US Yield Curve



Source: FRED

End Year			
Target rate	Today	Last Week	Last Month
375-400	3.50%	5.50%	0.00%
400-425	21.80%	21.80%	2.50%
425-450	44.80%	44.80%	28.10%
450-475	30.00%	30.00%	68.90%
475-500	0.00%	0.00%	0.50%

Source: CME Group FedWatch

It will be crucial to stay informed on **how macroeconomic and political variables evolve throughout the remainder of the year**. However, the decline in short and medium-term yields, along with the CME Group's



projections, **reinforces the expectation that multiple rate cuts may occur before the year ends.**

Mexican peso slumps amid rising political risk

The Mexican peso continues its decline, falling by **3.30% against the dollar this week**, making it the most depreciated currency of the week. As we've highlighted in this market view, since the overwhelming victory of the ruling party, the **peso has dropped 14% against the dollar since election day**, despite Mexico's macroeconomic fundamentals remaining relatively solid, with even the Bank of Mexico recently deciding to lower its benchmark rate from 11% to 10.75%.

US Dollar Mexican Peso



Source: Trading Economics



One of the main reasons for this decline is clear: **political risk**. This week, Mexico's **electoral tribunal confirmed the absolute majority of MORENA**, the party of the current president and the incoming president, in the Chamber of Deputies. In the Senate, the party fell just three members short of achieving the absolute majority required in both chambers to make constitutional changes.

Market concerns escalated midweek when the newly elected president announced that two opposition senators would join her coalition, leaving her just **one senator away from securing the majority needed to pass any constitutional change**. “Traders worry President Andres Manuel Lopez Obrador’s plan to overhaul the judicial system, for example, may curtail the independence of judges and remove checks to the ruling party’s power” [link](#).

The outgoing president's decision this week to **suspend diplomatic relations** with the **embassies of the U.S. and Canada** [link](#), two of Mexico's main trading partners, has intensified the currency's volatility. This move was made after both ambassadors **voiced the concerns of their countries' investors** regarding the proposal to elect judges by popular vote. As this controversial reform begins its journey through the newly seated chambers, the coming weeks will be pivotal in determining whether these **concerns escalate or if a path to stability can be found**.



Commodities

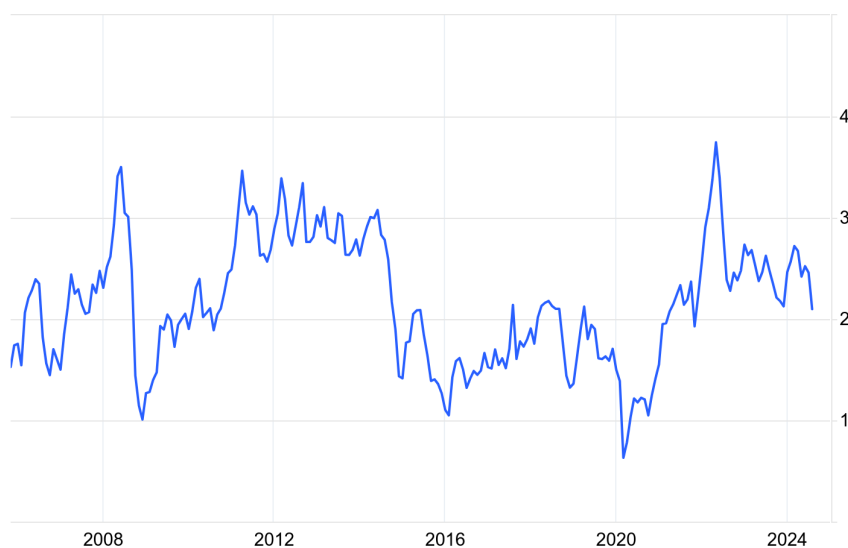
Gasoline trading at January's lows

U.S. gasoline futures fell to \$2.1 per gallon in late August, the lowest in nearly eight months, driven by declining oil prices. Prices are down 15.43% year-over-year, with a 14.69% monthly drop and an 8.23% weekly decline.

The fall follows OPEC+'s plan to increase output in Q4, starting in October. Weak demand from China has contributed to consecutive monthly oil price declines, leading Goldman Sachs and Morgan Stanley to lower their forecasts.

Additionally, concerns over sluggish demand, **particularly in the U.S. manufacturing sector**, and **China's economic slowdown** have pressured gasoline prices further, with PetroChina and Sinopec warning of a potential energy surplus. [link](#).

Gasoline



Source: Trading Economics



Wheat rebounded after trading at its four year low

Wheat prices rose above \$5.2 per bushel, recovering from a 4-year low and continuing gains as global supplies tighten. Despite cheaper Black Sea wheat, global stocks are set to hit a nine-year low. Canada's wheat production is expected to rise over 4% but falls short of expectations.

In Europe, heavy rains damaged crops, though Black Sea exports meet demand, hurting U.S. competitiveness. Prices are up 5.87% weekly, 0.85% monthly, but down 11.67% year-over-year. [link](#).

Wheat



Source: Trading Economics



Stocks

The **best performer WoW is Italy as gains** in the Healthcare, Industrials and Utilities sectors led shares higher. While the **Mexican stock market had the worst return throughout the week** after political turmoil is scaring investors away.

Main Equity Markets Movers WoW

Major	Price	Day	%	Weekly	Monthly	YoY
IT40	34373	▲ 181	0.53%	2.15%	1.80%	19.22%
HK50	17989	▲ 203	1.14%	2.14%	3.72%	-2.14%
STI	3443	▲ 38	1.13%	1.62%	-0.38%	6.48%
SENSEX	82366	▲ 231	0.28%	1.58%	0.76%	27.05%
DE40	18907	▼ 6	-0.03%	1.47%	2.15%	18.56%
NL25	919	▼ 5	-0.55%	1.11%	-0.21%	23.54%
NZX 50	12448	▲ 94	0.76%	-0.66%	0.34%	7.73%
SAALL	83750	▼ 490	-0.58%	-0.71%	1.19%	11.74%
US100	19575	▲ 249	1.29%	-0.74%	1.10%	26.28%
IPC	51986	▼ 1,153	-2.17%	-2.81%	-2.17%	-1.95%

Source: Trading Economics

The **financial sector takes home the biggest WoW increase**, with a 2.95% gain, after the **FEDs chairman talked this week about the start of lowering the rates**, with a couple of cuts in the horizon for this year, at least one rate cut.

US Sector Performance

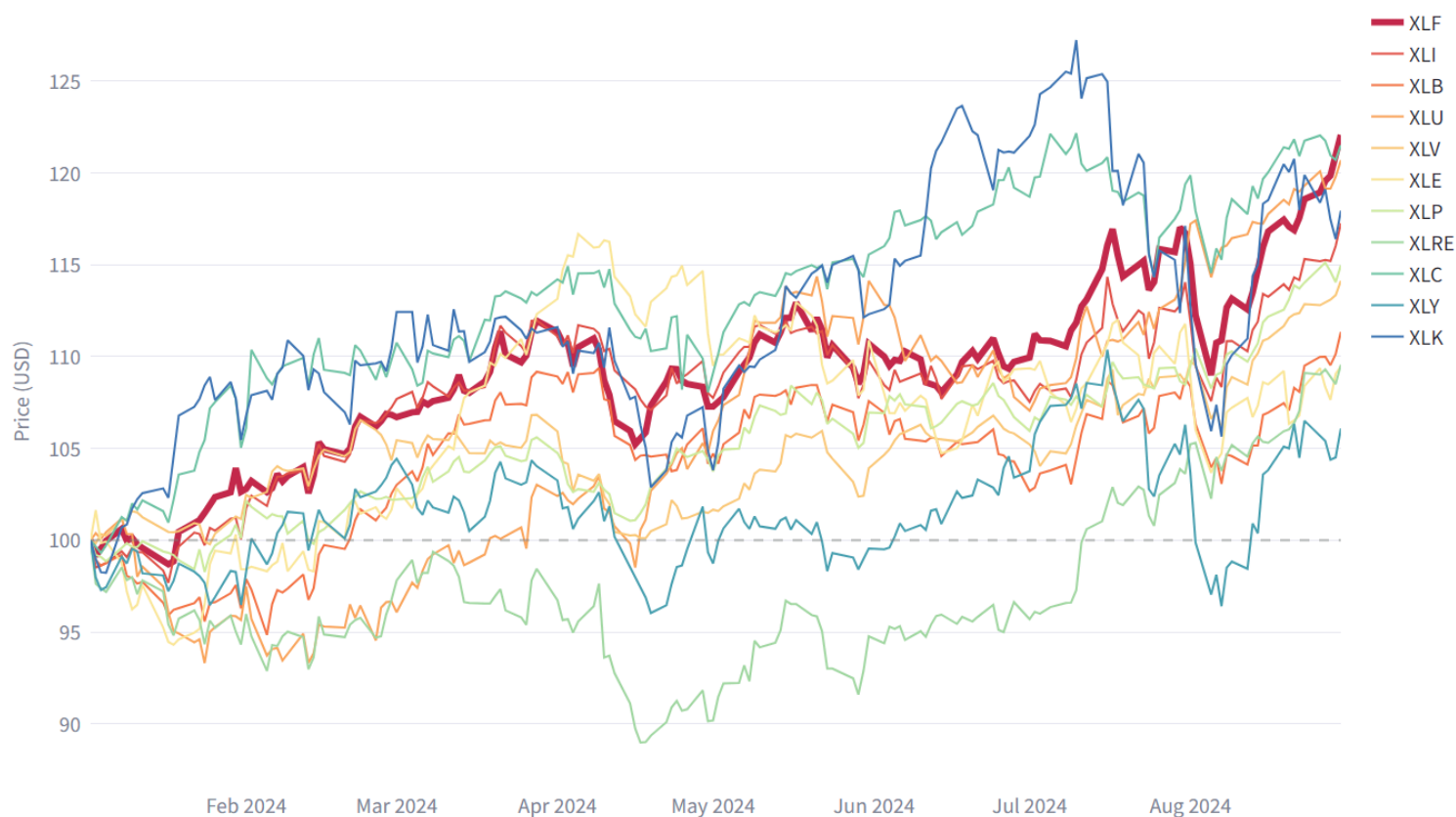
	WoW	YTD
Technology (XLK)	-1.62%	17.95%
Consumer Discretionary (XLY)	-0.40%	6.08%



Communication Services (XLC)	-0.21%	21.51%
Real Estate (XLRE)	0.42%	9.56%
Consumer Staples (XLP)	0.82%	14.96%
Energy (XLE)	0.98%	9.46%
Health Care (XLV)	1.13%	14.13%
Utilities (XLU)	1.15%	20.69%
Materials (XLB)	1.67%	11.34%
Industrials (XLI)	1.69%	17.26%
Financials (XLF)	2.95%	22.07%

Source: FMP

US Sector Performance

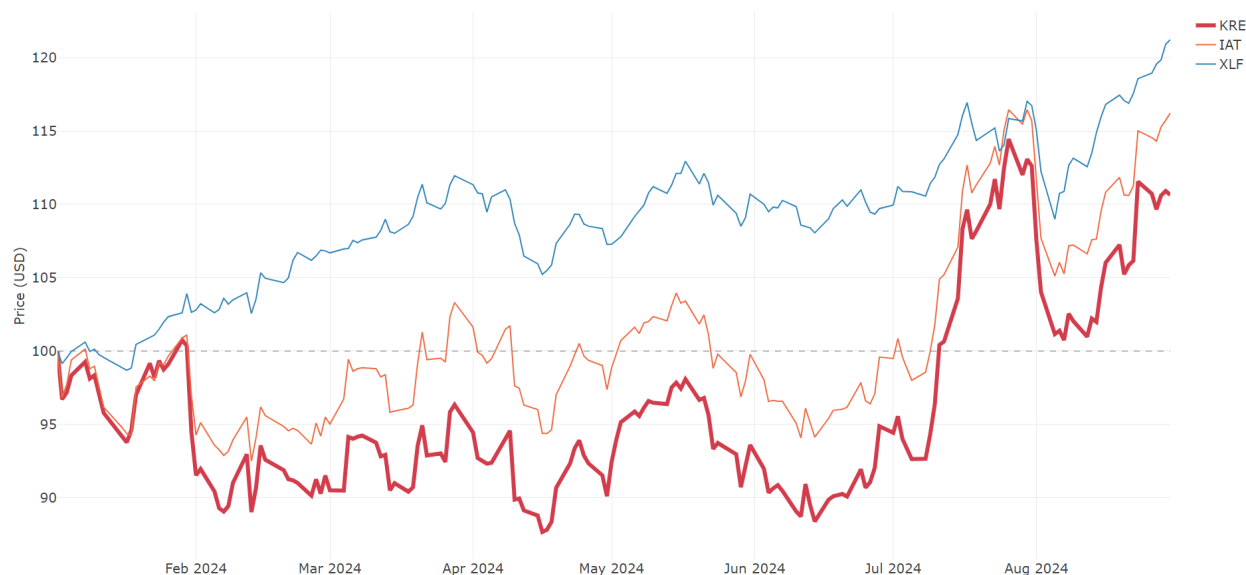


Source: FMP



Regional banks strike back

Financial sector exposure

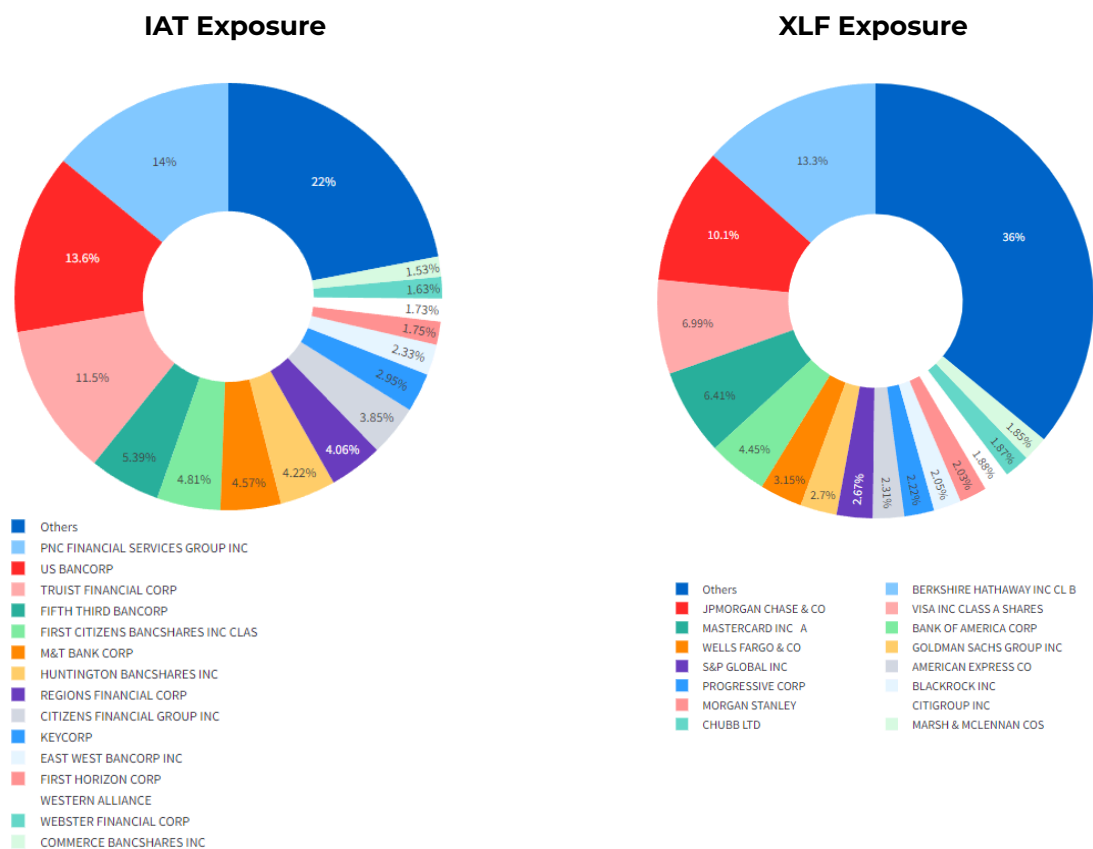


Source: FMP

With the **expectations of lowering the rates, we return to watch the performance of the regional banks.** At the start of the year (in March), we covered a bit on the Regional bank issue the market was facing. **Many players in the industry were facing a huge squeeze from the interest rate side, as the spread between lending and investing was minimal.** There was also the lingering effect of the bankruptcy of Silicon Valley bank. Since the **speculation of the rate cuts started at the start of the second half of the year, the regional banking sector started to outpace the financial industry.** Since the beginning of 2024, regional banks have seen a **9% increase**, though this lags behind the **18% rise** of larger financial institutions.



Regional banks are more sensitive to interest-rate changes than larger banks, suggesting that they **could see a short-term rally as rates drop**. Despite this potential, **regional banks have not yet recovered from the losses incurred during the Silicon Valley Bank crisis** in March 2023, though they could gain 5% by the time the Fed cuts rates in September.



Source: FMP

Even after the favorable short-term outlook, the long term still favors large banks. Big institutions are expected to **benefit from regulatory and policy changes**, a backlog of dealmaking demand, and of course, the



ability to navigate higher macroeconomic volatility in these election times.

Crypto

Coinbase CEO Brian Armstrong announces first AI-to-AI crypto transaction

Coinbase CEO Brian Armstrong has announced the **successful completion of the first cryptocurrency transaction managed entirely by artificial intelligence** (AI). The transaction involved one AI agent, essentially a bot designed to perform specific tasks, using cryptocurrency tokens to interact with another AI agent.

The goal of the AI-to-AI transaction was to **acquire AI tokens—data strings that allow algorithms to learn from and adapt to new information**. “They used tokens to buy tokens,” Armstrong wrote. Armstrong pointed out that one of the **major hurdles for AI agents today is their inability to conduct transactions** [link](#).

Latest news

Bitcoin and Ethereum ETFs have recently recorded significant fund movements, reflecting the ongoing uncertainty in the cryptocurrency market. On August 29th, record fund outflows were observed, **highlighting investor nervousness amidst economic and political fluctuations influencing this ever-evolving sector** [link](#).



Main Crypto Movers WoW

Crypto	Price	Day	%	Weekly	Monthly	YoY
Polygon	0.41	▼ 0.01	-2.01%	-27.30%	-16.27%	-23.71%
Uniswap	5.76	▼ 0.06	-1.11%	-18.01%	-20.05%	31.95%
Avalanche	22.37	▼ 0.37	-1.63%	-17.79%	-4.77%	125.50%
Solana	133.4807	▼ 1.7603	-1.30%	-16.16%	-12.36%	585.57%
Polkadot	4.18	▼ 0.10	-2.24%	-15.91%	-21.91%	-0.88%
Algorand	0.12	▼ 0.00	-1.35%	-15.36%	-1.68%	30.43%
Bitcoin Cash	320.56	▼ 1.42	-0.44%	-12.28%	-23.03%	54.44%
Cardano	0.34029	▼ 0.00470	-1.37%	-11.78%	-6.37%	32.76%
Cosmos	4.50	▼ 0.05	-1.14%	-11.71%	-15.72%	-34.08%
Chainlink	10.6996	▼ 0.2360	-2.16%	-11.47%	-16.51%	81.96%
Ether	2479.60	▼ 46.36	-1.84%	-10.11%	-22.68%	52.37%
Stellar	0.09099	▼ 0.00160	-1.67%	-10.08%	-4.44%	-19.81%
Bitcoin	58250	▼ 707	-1.20%	-9.54%	-5.18%	125.41%
Binance	520.1	▼ 11.4	-2.14%	-9.47%	-3.65%	139.90%

Source: Trading Economics

Polkadot's educational initiative is expanding to include online courses to help train the next generation of blockchain and Web3 developers.

According to a press release from the Polkadot Blockchain Academy (PBA), this step responds to the **increasing demand for skilled developers** in the Web3 space. The demand for Web3 professionals is already rising quickly, **offering competitive salaries and ample opportunities for growth**. This spans a range of roles, from finance specialists and product managers to developers [link](#).



Russia will begin trialing cross-border crypto payments next week in an effort to circumvent international sanctions – but this effort may not work, several policy and legal experts told CoinDesk. Legislation passed at the end of July and swiftly signed into law by president Vladimir Putin does not lift an existing ban on using cryptocurrencies as legal tender for regular payments within Russia, but instead allows cross-border payments with crypto [link](#).

Weekly Paper Picks

[The response of consumer spending to changes in gasoline prices](#)

Link: <https://faculty.haas.berkeley.edu/stadelis/gasprices.pdf>

This paper estimates how overall consumer spending responds to changes in gasoline prices. It uses the differential impact across consumers of the sudden, large drop in gasoline prices in 2014 for identification. This estimation strategy is implemented using comprehensive, high-frequency transaction-level data for a large panel of individuals. The estimated marginal propensity to consume (MPC) out of unanticipated, permanent shocks to income is approximately one. This estimate takes into account the elasticity of demand for gasoline and potential slow adjustment to changes in prices. **The high MPC implies that changes in gasoline prices have large aggregate effects.**

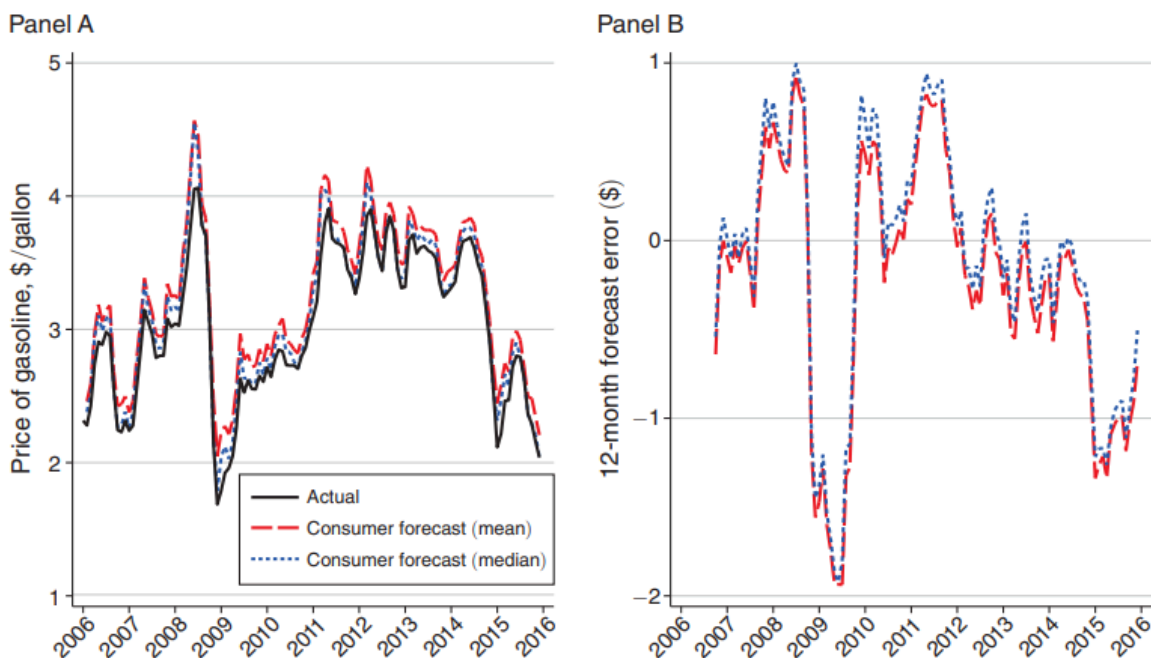


FIGURE 1. GASOLINE PRICES AND EXPECTATIONS

Notes: Panel A shows the gasoline price and the weighted mean and median expectations from the Michigan Surveys of Consumers (2006–2016). (See https://data.sca.isr.umich.edu/sda-public/cgibin/hsda?harc_sda+sca.) In the survey, households are asked, “About how many cents per gallon do you think gasoline prices will (increase/decrease) during the next 12 months compared to now?” We add the household response to this question to the current gasoline price. Panel B shows retail gasoline prices and the consumer forecast made 12 months earlier.

TABLE 1—LARGEST MONTHLY CHANGES IN OIL AND GASOLINE PRICES

Largest decreases			Largest increases		
Date	Percent change		Date	Percent change	
	Oil	Gas		Oil	Gas
1986:2	−33	−6	1974:1	135	
2008:12	−28	−21	1990:8	47	10
2008:10	−26	−14	1986:8	30	−5
2008:11	−25	−32	1948:1	24	
2014:12	−22	−11	1990:9	23	9
2015:1	−20	−18	2009:3	23	1

Notes: The table shows the month-to-month percent change in West Texas Intermediate spot oil prices (FRED series OILPRICE and MCOILWTICO) and the corresponding change in average monthly regular gasoline prices, when available, from January 1946 to February 2016 (the end of the estimation period for the paper). For gasoline prices the table uses the BLS US city average (BLS series APU000074714), since it is available further back in time than other available gasoline price data. We exclude the COVID-19 shock because its constraints on willingness or possibility of spending make it irrelevant for an MPC analysis.



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