

Investment Weekly

This week in detail

The US economy added 213,000 jobs in June, while wage growth disappointed

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The week ahead

In the coming week, US June inflation data is the key release

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Market moves

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Equities

European equities ended higher on stronger investor risk appetite and upbeat macro data

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Bonds

The US Treasury yield curve flattened further; European bond markets were little changed

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Currencies

US dollar declined against the euro and sterling amid a disappointing US labour market report

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Commodities

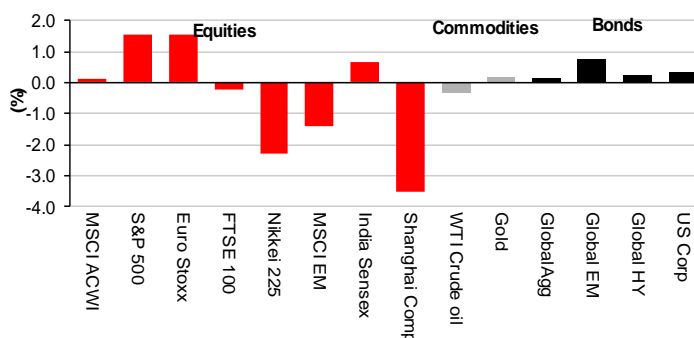
Oil prices fell as US President Trump put pressure on Saudi Arabia to ramp up output

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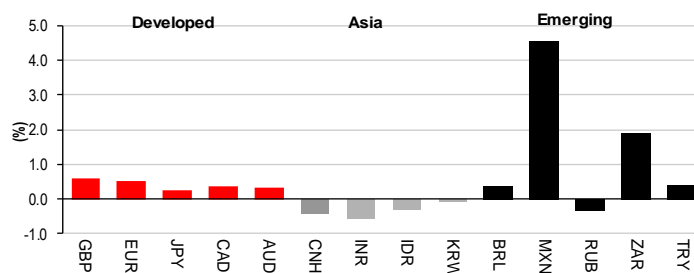
Market data

Market trends

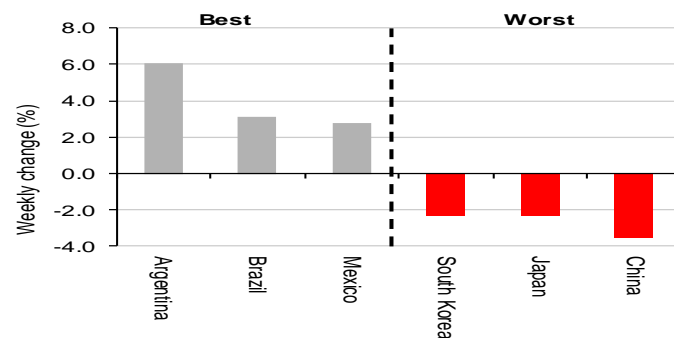
Movers and shakers



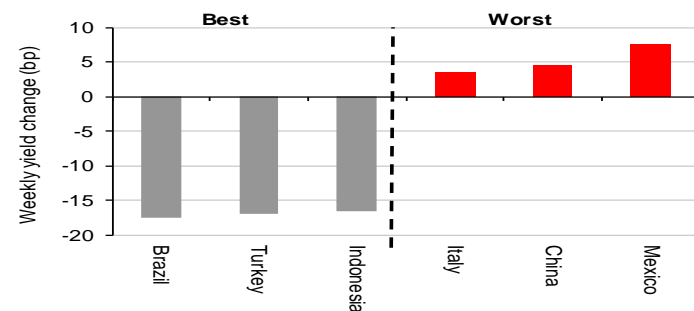
Currencies (versus USD)



Equities



Bonds (10-year yields)



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Source: Bloomberg, HSBC Global Asset Management. Data as at close of business 6 July 2018. All the above charts relate to 29/06/2018 – 06/07/2018.
Past performance is not an indication of future returns.

This week in detail

Macro Data and Key Events

Date	Country	Indicator	Data as of	Survey	Actual	Prior
Monday 02 July	Japan	Tankan Large Manufacturers Index	Q2	22	21	24
	Eurozone	Unemployment Rate	May	8.5%	8.4%	8.4%
	US	ISM Manufacturing Index	Jun	58.5	60.2	58.7
Tuesday 03 July	Turkey	CPI (yoy)	Jun	13.9%	15.4%	12.2%
Wednesday 04 July	Eurozone	Markit Composite PMI	Jun F	54.8	54.9	54.1
Thursday 05 July	Germany	Factory Orders (working day adjusted, yoy)	May	1.7%	4.4%	0.8%
	US	FOMC Publishes June Meeting Minutes	Jun			
	US	ISM Non-Manufacturing Index	Jun	58.3	59.1	58.6
Friday 06 July	Germany	Industrial Production (seasonally adjusted, mom)	May	0.3%	2.6%	-1.3%
	Brazil	IBGE Inflation IPCA (yoy)	Jun	4.4%	4.4%	2.9%
	US	Change in Nonfarm Payrolls (000s)	Jun	195	213	244

Q – Quarter, F – Final

The US economy added 213,000 jobs in June, although wage growth disappointed

The US government implemented 25% tariffs on USD34 billion in annual imports from China

Bank of England Governor Mark Carney struck an upbeat tone on the UK economy, supporting August rate hike prospects

In the **US**, **nonfarm payrolls** increased by 213,000 in June, exceeding expectations for a gain of 195,000. The unemployment rate climbed back to 4.0%, although this was partially due to a higher labour force participation rate. Less positively, wage growth continued to disappoint, holding at 2.7% yoy in June. The **minutes for the June Federal Open Market Committee (FOMC) meeting** showed that policymakers remained comfortable with a steady pace of policy tightening given a strong economy, a healthy labour market and at-target inflation. The committee reaffirmed that the pace of tightening would remain gradual, with rates reaching what it would consider a neutral stance only “sometime next year.” Meanwhile, the June **ISM surveys** struck a very positive signal around the health of the economy. The **ISM Manufacturing Index** unexpectedly rose to 60.2 from 58.7 in May. This reading is consistent with the robust regional manufacturing surveys released in the last couple of weeks (the Dallas, Richmond and Kansas City Fed manufacturing indexes). Meanwhile, the **non-manufacturing index** unexpectedly rose 0.5 pts to 59.1 in June, bucking an anticipated dip to 58.3. Finally, the **US government implemented 25% tariffs** on USD34 billion in annual imports from China. President Donald Trump repeated a warning that the US had plans “in abeyance” for a further USD200 billion in tariffs should China retaliate, and that he was prepared to go further.

In the **eurozone**, the **unemployment rate** fell to 8.4% yoy in May, the lowest rate since December 2008. Meanwhile, **German** industrial data rebounded in May, with **factory orders** up 2.6% mom, following four consecutive months of declines. There was a particularly strong uptick in domestic consumer goods orders. This left annual growth at a healthy 4.4% yoy. **Industrial output** also rose over the month, by 2.6% mom.

The UK's Bank of England Governor Mark Carney said in a speech this week that he is increasingly confident that the UK economy can rebound after a slow start to 2018. Following recent UK macroeconomic data releases surprising to the upside, an August interest rate hike is being increasingly priced in by the market.

In emerging markets, **Turkey's CPI inflation** jumped to 15.4% yoy in June, its highest rate since October 2003, from 12.2% in May. The bulk of the uptick was driven by recent weakness in the Turkish lira, and it may raise pressure on Turkey's central bank to raise interest rates at its next policy meeting on 24 July. **Brazil's IBGE inflation** rate also rose in June, to 4.4% yoy, from 2.9% in the prior month, and was boosted by higher fuel and food prices caused by a truckers' strike.

Finally, the **Bank of Japan's** quarterly Business Conditions survey (also known as **Tankan**) for Q2 showed a modest deterioration in the survey's main component (the business conditions for large manufacturers), declining to 21, from 24 in the previous quarter (22 expected). More positively, the survey showed that firms plan to raise their capital spending by 13.6% in the financial year starting April 2018, the highest reading since 1990.

The week ahead

Macro Data and Key Events

Date	Country	Indicator	Data as of	Survey	Prior
Monday 09 July	Mexico	CPI (yoy)	Jun	4.6%	4.5%
Tuesday 10 July	China	CPI (yoy)	Jun	1.9%	1.8%
	Germany	ZEW Expectation of Economic Growth	Jul	-18.0	-16.1
Wednesday 11 July	Canada	Bank of Canada Interest Rate Decision	Jul	1.50%	1.25%
Thursday 12 July	Eurozone	Industrial Production (seasonally adjusted, mom)	May	0.7%	-0.9%
	India	CPI (yoy)	Jun	5.3%	4.9%
	India	Industrial Production (yoy)	May	5.9%	4.9%
	US	CPI (yoy)	Jun	2.9%	2.8%
Friday 13 July	China	Trade Balance (USD bn)	Jun	27.2	24.9
	US	University of Michigan Index of Consumer Sentiment	Jul P	98.2	98.2

P – Preliminary

In the coming week, US June inflation data is the key release

The Bank of Canada is expected to raise rates at its July policy meeting

Inflation data from China, India and Mexico will also be in focus

US and Canada

In the week ahead, **US CPI** inflation is expected to modestly accelerate 0.1 ppts to 2.9% yoy in June. Core CPI (ex-food and energy) is similarly expected to gain 0.1 ppts to 2.3% yoy.

Meanwhile, the **University of Michigan Index of Consumer Sentiment** is forecast to hold steady at 98.2 in July, supported by high job availability and rising after-tax income.

The **Bank of Canada** is expected to raise its overnight lending rate by 25 bps to 1.50%. On 27 June Governor Stephen Poloz said the central bank is “particularly data-dependent right now,” owing to lingering uncertainties regarding the impact of a recent tightening in mortgage lending standards, the economy’s sensitivity to higher interest rates given elevated household debt, and the extent to which trade tensions weigh on investment.

Europe

The **German ZEW Expectation of Economic Growth Survey** is anticipated to decline 1.9 pts to -18.0 in July. Sentiment has recently been hurt by concerns over the US administration’s threat to impose auto tariffs on the European Union and the new populist government in Italy.

Eurozone industrial production is expected to rebound by 0.7% mom in May, following a decline of 0.9% in the prior month. Following a string of disappointing releases this year, annual growth in output fell to 1.7% yoy in April, the slowest pace of growth in a year.

Emerging markets

China’s CPI inflation for June is expected to accelerate slightly, from 1.8% yoy in May to 1.9%, mostly due to higher food prices, particularly pork, as suggested by high-frequency data. However, alternative indicators, especially based on online shopping prices, suggest some consumer price weakness. Furthermore, cost-push inflation is expected to gain some traction in June with the Producer Price Index accelerating slightly from 4.1% yoy to 4.5%.

China’s external trade data for June is likely to show a slight deceleration in exports and imports, resulting in a moderate rebound in the trade balance. Exports are expected to grow by 10.4% yoy in June, down from 12.6% in May, as both the official and Markit PMI surveys for new export orders improved in May compared to April. However, the two indicators fell sharply in June. Meanwhile, imports are also expected to slow, from 26.0% yoy in May to 22.2%. Overall, a trade surplus of USD27.2 billion is expected, up from USD24.9 billion.

India’s CPI inflation is expected to accelerate to 5.3% yoy in June, from 4.9% in May, as food prices were probably boosted by public policies to raise the price of certain agricultural crops. Moreover, imported inflation has recently increased amid rupee weakness and higher oil prices. **Industrial production** is also expected to have gathered pace in May, to 5.9% yoy from 4.9%, consistent with the recent upward direction of India’s manufacturing PMI.

Finally, **Mexican CPI inflation** may accelerate 0.1 ppts to 4.6% yoy in June, coinciding with rising gasoline prices and the depreciation of the peso since April.

Equities

European equities ended the week higher on stronger investor risk appetite and upbeat macro data

Bonds

The US Treasury yield curve flattened further; limited movements in the European bond market

Currencies

The US dollar declined against the euro and sterling amid a disappointing US labour market report

Commodities

Oil prices fell as US President Donald Trump put pressure on Saudi Arabia to ramp up oil output

Equities

In a short holiday trading week, **US equities** ended higher on upbeat macro data (factory orders, ISM Non-Manufacturing Index and nonfarm payrolls) and easing trade concerns after German media reported attempts to reach a solution between the US and Europe on car imports. However, optimism was tempered somewhat as tariffs on Chinese imports were implemented. The S&P 500 Index rose 1.5% this week.

European equity indices rose this week with investor risk sentiment supported by better than expected macro data (German factory orders, PMI data) and reports of the US president potentially reversing his tariff threat on autos if levies are reduced. The EURO STOXX 50 Index closed up 1.6% with gains led by European automakers. All other major European bourses ended the week higher, but the UK's FTSE 100 Index bucked the regional trend and fell 0.3% on reports by the German government that the UK's latest Brexit plans were "unworkable."

In **Asia, stock markets** sold off as trade tensions between the US and China escalated, weighing on sentiment and the economic outlook. Chinese equities underperformed, with the Shanghai Stock Exchange Composite Index down 3.5%, although government officials pushed for a market stabilisation. Most other markets also ended lower, although India's SENSEX 30 Index advanced 0.7% on the back of robust PMI data for June.

Bonds

US 10-year Treasuries were little changed for most of the week, but yields fell (prices rose) from Thursday onwards to close 4 bps lower at 2.82%. Support for the perceived "safe-haven" asset remained firmly in place, as investors continued to digest the trade war news flow. Furthermore, underwhelming US wage growth numbers in Friday's jobs report suggest underlying inflationary pressures remain benign. Meanwhile, two-year Treasury yields, which are more sensitive to the monetary policy outlook, rose 1 bp to 2.54% as the June FOMC meeting minutes reiterated the gradual pace of US Federal Reserve tightening.

In a quiet week for major data releases, there were limited yield movements in the **European government bond market**. Benchmark German 10-year bund yields fell 1 bp to 0.29%, French 10-year bond yields dipped 3 bps to 0.64% and UK 10-year gilt yields shed 1 bp to 1.27%. Similarly, in the periphery, Italian 10-year bond yields edged up by 4 bps to 2.71%. In the primary market, the auction of GBP2.5 billion of 10-year UK gilts was well received by the market.

Currencies

The **euro** rose this week against the US dollar (+0.5%), with the bulk of the gains occurring later in the week following a weaker than expected US labour market report and reports of the US President potentially reversing his tariff threat on European autos if levies are reduced. Similarly, the British pound also gained (+0.6%) amid upbeat comments on the UK economy from Bank of England Governor Mark Carney. However, some gains were erased on continued Brexit concerns as the German government reportedly stated that the UK's latest Brexit plans were "unworkable."

Most **Asian currencies** depreciated moderately against the US dollar over the week as investors remained concerned about escalating US-China trade concerns. The Indian rupee underperformed (-0.6%). The Chinese yuan fell by 0.3% as People's Bank of China officials signalled their preference for a stable and reasonable exchange rate. Bucking the regional trend, the Japanese yen ended the week up slightly.

Commodities

Crude oil prices fell this week as US President Donald Trump put pressure on Saudi Arabia to ramp up oil output to overcome supply losses from other major producers (Canada, Libya, Iran), while US-China trade tensions intensified. Downward pressure also came from the U.S. Energy Information Administration weekly report, which showed an unexpected increase of 1.2 million barrels in crude inventories last week. Overall, Brent crude fell 2.9% to close at USD77.1 a barrel.

Gold prices were little changed this week (+0.2% to USD1,255 per troy ounce), broadly tracking movements in the US dollar.

Market data

	Close	1-week Change (%)	1-month Change (%)	3-month Change (%)	1-year Change (%)	YTD Change (%)	52-week High	52-week Low	Fwd P/E (X)
Equity Indices									
World									
MSCI AC World Index (USD)	506	0.1	-2.7	0.7	9.2	-1.4	551	462	15.3
North America									
US Dow Jones Industrial Average	24,456	0.8	-2.7	2.2	14.7	-1.1	26,617	21,279	15.8
US S&P 500 Index	2,760	1.5	-0.5	6.0	14.5	3.2	2,873	2,408	17.3
US NASDAQ Composite Index	7,688	2.4	0.0	11.2	26.3	11.4	7,807	6,082	23.2
Canada S&P/TSX Composite Index	16,372	0.6	1.2	7.7	8.6	1.0	16,489	14,786	15.8
Europe									
MSCI AC Europe (USD)	465	0.8	-1.9	-3.1	2.9	-4.7	524	449	14.0
Euro STOXX 50 Index	3,448	1.6	-0.4	1.2	-0.4	-1.6	3,709	3,262	13.9
UK FTSE 100 Index	7,618	-0.3	-1.2	6.0	3.8	-0.9	7,904	6,867	13.7
Germany DAX Index*	12,496	1.5	-2.6	2.1	0.9	-3.3	13,597	11,727	13.0
France CAC-40 Index	5,376	1.0	-1.5	2.2	4.3	1.2	5,657	4,995	14.5
Spain IBEX 35 Index	9,905	2.9	1.2	2.3	-5.7	-1.4	10,758	9,328	12.9
Asia Pacific									
MSCI AC Asia Pacific ex Japan (USD)	530	-1.7	-8.2	-5.5	5.4	-7.0	617	499	12.9
Japan Nikkei-225 Stock Average	21,788	-2.3	-3.7	1.0	9.0	-4.3	24,129	19,240	15.8
Australian Stock Exchange 200	6,272	1.3	4.1	8.4	8.9	3.4	6,274	5,639	16.0
Hong Kong Hang Seng Index	28,316	-2.2	-9.4	-5.1	11.2	-5.4	33,484	25,316	11.3
Shanghai Stock Exchange Composite Index	2,747	-3.5	-11.8	-12.3	-14.5	-16.9	3,587	2,691	11.0
Hang Seng China Enterprises Index	10,623	-4.1	-13.5	-11.2	2.7	-9.3	13,963	10,204	7.4
Taiwan TAIEX Index	10,609	-2.1	-5.3	-2.0	2.3	-0.3	11,270	10,189	13.6
Korea KOSPI Index	2,273	-2.3	-7.4	-6.5	-4.8	-7.9	2,607	2,244	8.9
India SENSEX 30 Index	35,658	0.7	1.4	6.0	13.7	4.7	36,444	31,082	18.6
Indonesia Jakarta Stock Price Index	5,695	-1.8	-6.2	-7.8	-2.6	-10.4	6,693	5,558	14.5
Malaysia Kuala Lumpur Composite Index	1,664	-1.6	-6.4	-9.4	-6.0	-7.4	1,896	1,658	15.9
Philippines Stock Exchange PSE Index	7,187	-0.1	-6.5	-9.6	-8.9	-16.0	9,078	6,924	16.5
Singapore FTSE Straits Times Index	3,192	-2.4	-8.0	-7.3	-1.1	-6.2	3,642	3,176	12.7
Thailand SET Index	1,615	1.2	-7.1	-7.2	2.9	-7.9	1,853	1,556	14.9
Latam									
Argentina Merval Index	27,611	6.0	-9.3	-13.0	24.2	-8.2	35,462	20,845	7.5
Brazil Bovespa Index*	75,010	3.1	-1.5	-11.6	20.1	-1.8	88,318	62,035	11.3
Chile IPSA Index	5,285	-0.3	-3.9	-5.3	9.4	-5.0	5,895	4,817	15.5
Colombia COLCAP Index	1,558	-1.2	0.2	2.4	5.1	2.9	1,598	1,415	15.8
Mexico S&P/BMV IPC Index	48,981	2.8	8.4	2.2	-2.1	-0.8	51,772	44,429	17.2
EEMEA									
Russia MOEX Index	2,345	2.2	1.3	2.8	22.0	11.2	2,377	1,898	5.9
South Africa JSE Index	57,314	-0.5	-1.3	2.6	9.6	-3.7	61,777	51,725	14.1
Turkey ISE 100 Index*	98,734	2.3	2.1	-13.9	-1.9	-14.4	121,532	92,289	7.2

*Indices expressed as total returns. All others are price returns.

Equity Indices - Total Return	1-week Change (%)	1-month Change (%)	3-month Change (%)	YTD Change (%)	1-year Change (%)	3-year Change (%)	5-year Change (%)
Global equities	0.2	-2.5	1.3	-0.3	11.3	27.6	55.9
US equities	0.7	-1.2	5.6	3.3	15.4	37.5	80.3
Europe equities	0.8	-1.7	-1.8	-2.7	5.8	15.5	34.3
Asia Pacific ex Japan equities	-1.6	-7.7	-4.6	-5.7	8.2	24.1	42.6
Japan equities	-1.6	-4.6	-3.8	-3.6	9.2	19.0	36.1
Latam equities	1.2	-0.2	-16.7	-10.1	1.6	9.7	-6.3
Emerging Markets equities	-1.2	-7.8	-8.4	-7.8	7.1	19.7	29.1

All total returns quoted in USD terms and subject to one-day lag.

Data sourced from MSCI AC World Total Return Index, MSCI USA Total Return Index, MSCI AC Europe Total Return Index, MSCI AC Asia Pacific ex Japan Total Return Index, MSCI Japan Total Return Index, MSCI Emerging Latin America Total Return Index, and MSCI Emerging Markets Total Return Index

Total return includes income from dividends and interest as well as appreciation or depreciation in the price of an asset over the given period.

Bond indices - Total Return	Close	1-week Change (%)	1-month Change (%)	3-month Change (%)	1-year Change (%)	YTD Change (%)
BarCap GlobalAgg (Hedged in USD)	516	0.1	0.9	0.4	2.1	0.2
JPM EMBI Global	772	0.8	0.2	-3.1	-1.0	-4.5
BarCap US Corporate Index (USD)	2,816	0.3	0.6	-0.7	-0.2	-2.9
BarCap Euro Corporate Index (Eur)	246	0.2	0.5	-0.1	1.4	-0.5
BarCap Global High Yield (Hedged in USD)	461	0.2	-0.4	-1.2	1.6	-1.6
Markit iBoxx Asia ex-Japan Bond Index (USD)	191	-0.2	-0.3	-1.5	-0.8	-2.8
Markit iBoxx Asia ex-Japan High-Yield Bond Index (USD)	239	-0.8	-1.9	-4.9	-2.1	-5.4

Total return includes income from dividends and interest as well as appreciation or depreciation in the price of an asset over the given period.

Currencies (vs USD)	Latest	1-week Ago	1-month Ago	3-months Ago	1-year Ago	Year End 2017	52-week High	52-week Low	1-week Change (%)
Developed markets									
EUR/USD	1.17	1.17	1.18	1.23	1.14	1.20	1.26	1.14	0.5
GBP/USD	1.33	1.32	1.34	1.41	1.30	1.35	1.44	1.28	0.6
CHF/USD	1.01	1.01	1.01	1.04	1.04	1.03	1.09	0.99	0.1
CAD	1.31	1.31	1.29	1.28	1.30	1.26	1.34	1.21	0.4
JPY	110.47	110.76	110.18	106.93	113.22	112.69	114.73	104.56	0.3
AUD	1.35	1.35	1.30	1.30	1.32	1.28	1.37	1.23	0.3
NZD	1.46	1.48	1.42	1.38	1.37	1.41	1.50	1.32	0.9
Asia									
HKD	7.85	7.85	7.85	7.85	7.81	7.81	7.85	7.79	0.0
CNY	6.64	6.62	6.39	6.30	6.80	6.51	6.81	6.24	-0.3
INR	68.88	68.47	66.93	64.98	64.78	63.87	69.09	63.25	-0.6
MYR	4.04	4.04	3.97	3.87	4.30	4.05	4.30	3.85	0.0
KRW	1,116	1,115	1,067	1,070	1,157	1,067	1,158	1,054	-0.1
TWD	30.49	30.48	29.73	29.27	30.59	29.73	30.68	28.96	-0.1
Latam									
BRL	3.86	3.88	3.85	3.37	3.30	3.31	3.97	3.08	0.4
COP	2,872	2,932	2,829	2,793	3,095	2,986	3,103	2,685	2.0
MXN	19.04	19.91	20.30	18.29	18.26	19.66	20.96	17.45	4.4
EEMEA									
RUB	62.99	62.78	61.82	58.10	60.14	57.69	65.04	55.56	-0.3
ZAR	13.47	13.73	12.71	12.03	13.44	12.38	14.57	11.51	1.8
TRY	4.57	4.59	4.56	4.05	3.62	3.80	4.93	3.39	0.4

Bonds	Close	1-week Ago	1-month Ago	3-months Ago	1-year Ago	Year End 2017	1-week Basis Point Change *
US Treasury yields (%)							
3-Month	1.94	1.91	1.93	1.71	1.03	1.38	3
2-Year	2.54	2.53	2.52	2.27	1.39	1.88	1
5-Year	2.72	2.74	2.81	2.59	1.94	2.21	-2
10-Year	2.82	2.86	2.97	2.77	2.37	2.41	-4
30-Year	2.93	2.99	3.12	3.02	2.90	2.74	-6
10-year bond yields (%)							
Japan	0.03	0.03	0.05	0.04	0.10	0.04	0
UK	1.27	1.28	1.37	1.39	1.31	1.19	-1
Germany	0.29	0.30	0.46	0.50	0.56	0.42	-1
France	0.64	0.66	0.80	0.73	0.92	0.78	-3
Italy	2.71	2.67	2.92	1.78	2.26	2.01	4
Spain	1.31	1.32	1.49	1.22	1.67	1.56	-1
China	3.53	3.48	3.68	3.74	3.57	3.90	5
Australia	2.62	2.63	2.76	2.66	2.64	2.63	-1
Canada	2.13	2.17	2.31	2.14	1.83	2.05	-4

*Numbers may not add up due to rounding

Commodities	Latest	1-week Change (%)	1-month Change (%)	3-month Change (%)	1-year Change (%)	YTD Change (%)	52-week High	52-week Low
Gold	1,255	0.2	-3.2	-5.9	2.4	-3.7	1,366	1,205
Brent Oil	77.1	-2.9	2.4	14.9	60.3	15.4	81	46
WTI Crude Oil	73.9	-0.3	14.2	19.1	62.4	22.3	75	44
R/J CRB Futures Index	198	-1.2	-0.5	3.0	13.5	2.2	207	171
LME Copper	6,345	-4.2	-12.1	-6.3	8.4	-12.4	7,348	5,792

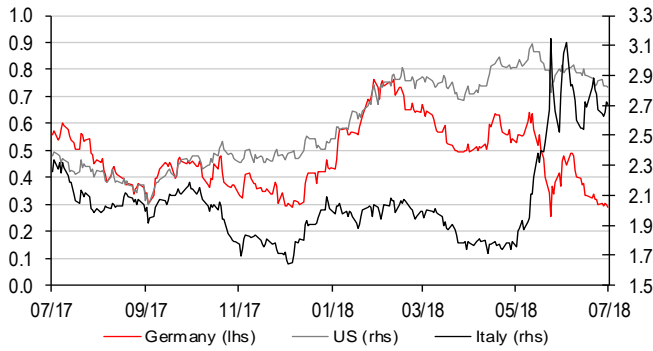
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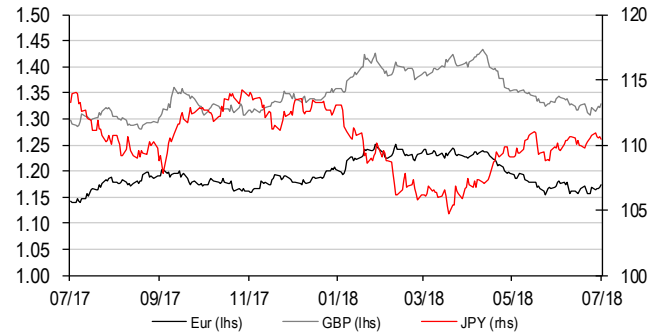
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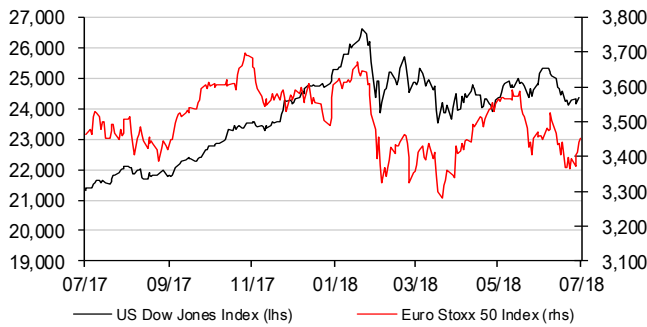
Government bond yields (%)



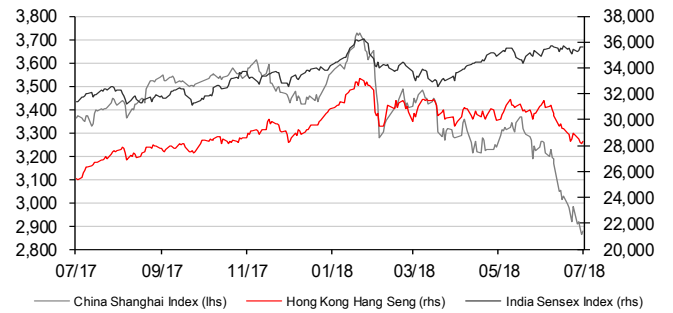
Major currencies (versus USD)



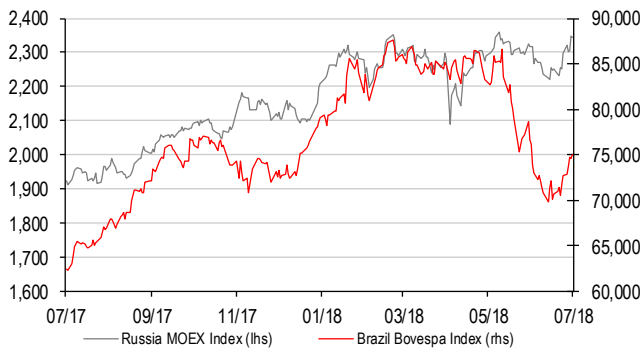
Global equities



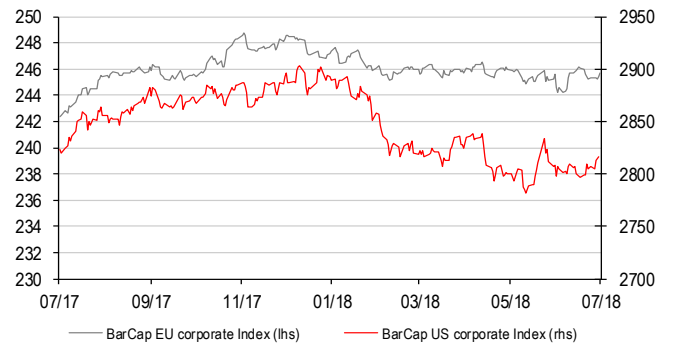
Emerging Asian equities



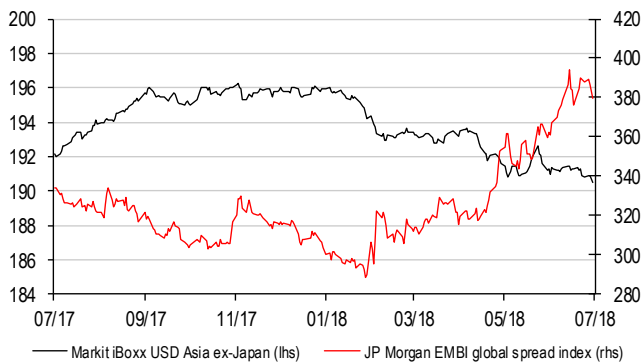
Other emerging equities



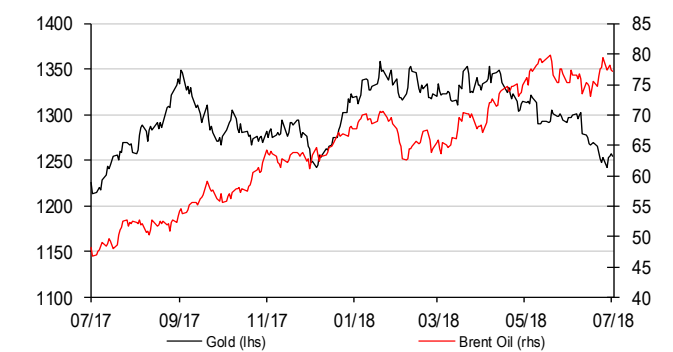
Global credit indices



Emerging markets spreads (USD indices)



Commodities (USD)



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