BNY

iFlow
MARKET MOVERS

August 29, 2024

Trees

"Trees are poems that the earth writes upon the sky." – Khalil Gibran
"Whoever has learned how to listen to trees no longer wants to be a tree. He wants to be nothing except what he is." – Herman Hesse

Summary

Risk mixed to higher despite the Nvidia forecast dampening AI enthusiasm – as inflation in Europe drops with Spanish CPI at 1-year lows while EU economic sentiment is over 1-year highs. The stock markets are expected to recover tracking EMEA more than APAC but the heavy economic data today matters – US GDP, trade, weekly jobless claims. The markets can ignore the perfection pricing of Nvidia if the macro backdrop helps the rest. There is a mixed USD set up with CNY at yearly highs while EUR remains under 1.11. There is a notable focus on month end flows and concerns that all that is flowing is just noise rather than the reality of the rush to year-end.

What's different today:

- **European equities are set to close at record highs** – with German DAX already there – French CAC 40 and Sweden OMX follow.
- **China EV stocks lower after weaker earnings** – Li Auto and BYD focus.

What are we watching:

- **US Q2 GDP revision** expected 2.8% unchanged with focus on personal consumption 2.2% expected and core PCE for 2Q at 2.9%
- **US weekly jobless claims** expected flat at 232k with continuing claims up 7k to 1.87mn
- **US July trade balance** expected $97.8bn after $96.8bn – this will be watched for inventories building
- **July pending home sales** expected up 0.2% m/m -2% y/y
- **US Treasury sells $44 billion of 7-year notes**, $85 billion of 4-week bills, $80 billion of 8-week bills

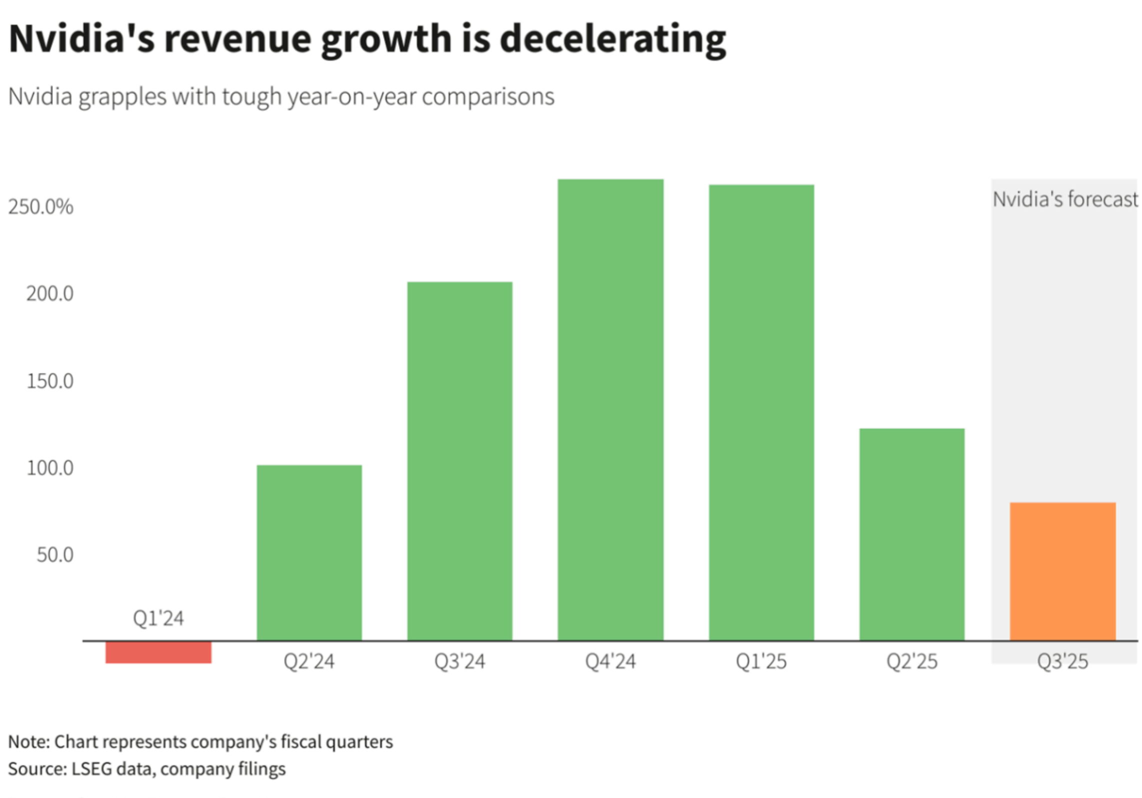
Headlines

- Australian 2Q Capex drops -2.2% q/q led by building -3.8% q/q - first contraction since 3Q 2023 – ASX off 0.33%, AUD up 0.5% to .6820
- Japan Aus consumer confidence steady at 36.7 - holding April highs - while Typhoon Shanshan hit South West Japan forcing millions to evacuate – Nikkei off 0.02%, JPY up 0.1% to 144.50
- China President Xi meets with US national security Sullivan pushing cooperation - while bank analysts cut GDP outlook below 5% for 2024 – CSI 300 off 0.27%, CNH up 0.6% to
- Singapore July PPI moderates -1.9% m/m, +1.8% y/y- linked to fuel – SGD up 0.2% to 1.3005
- Turkey Aug economic confidence drops 1.3 to 93.1 - lowest since July 2020 – TRY off 0.3% to 34.08
- Norway July retail sales rebound 1.2% m/m but household consumption lower -4.3% m/m led by cars – NOK up 0.1% to 10.482
- Sweden final 2Q GDP revised higher by 0.5pp to -0.3% q/q, +0.5% y/y - while July retail sales debounce up 0.5% m/m, 0.5% y/y – OMX up 0.6%, SEK flat at 10.20
- German State CPI for August lower than expected implies 2% y/y national - while Spanish flash August CPI drops to 0% m/m, 2.2% y/y – DAX up 0.6%, Bund 10Y off 1.5bps to 2.243%, SPGB 10Y off 2bps to 3.07%
- Eurozone Aug economic sentiment up 0.6 to 96.6 - best in over a year – EuroStoxx 50 up 0.75%, EUR off 0.2% to 1.1095

The Takeaways:

Do trees grow to the sky? No, they grow to the sun. Markets are looking for hot growth and Nvidia didn't quite surprise sufficiently to get there so we are looking at other forests. Europe remains one winner, APAC less so but its month end and there is noise in the chop. There is wood to cut with the US GDP and jobless claims. The exporters in China are blamed for the CNY gains but others point to inevitable more operations – QE Chinese style as PBOC bought CNY400bn of debt from primary dealers on a roll-over. This is important as it eases financial conditions. Watching whether this matters to the future but we live in the woods and its hard to see the forest. Markets are rushing around to reprice Fed and financial conditions globally with the rate markets likely critical for keeping the USD in check from rising. The USD exceptionalism and the US AI boom are linked with the risk of rotational trading continuing the pressure on the dollar.

Exhibit #1: Is this a rotation story or something bigger?



Source: Reuters, BNY

Details of Economic Releases:

1. **Australian 2Q Capital Expeditures drop -2.2% q/q after +1.9% q/q - worse that +1% q/q expected** - the first contraction in new capital expenditure since the third quarter of 2023 due to a fall in both spending on equipment, plant & machinery (-0.5% vs 3.7% in Q1) and buildings and structures investment (-3.8% vs 0.4%).

Business investment dropped in the non-mining industries, shrinking 3.6%, partly offset by a 1.5% rise in mining capex. Through the year to June, private capital expenditure rose 0.3%, unchanged from the revised figures in the first quarter of 2024.

2. Japan August consumer confidence flat at 36.7- weaker than 36.9 expected - still, the latest figures were the highest consumer morale since April, as households' sentiments improved for willingness to buy durable goods (30.9 vs -30.0 in July) and overall livelihood (34.7 vs 34.5). Meanwhile, sentiment deteriorated for income growth (39.7 vs 40.4) and employment (41.4 vs 42.0).

3. Singapore July PPI eases -1.9% m/m, +1.8% y/y after +0.1% m/m, +4.4% y/y - better than +4.5% y/y expected - still the 4th month of rising prices. The moderation was due to softer rises in prices of mineral fuels (7.4% vs 11.6% in June) and machinery & transport equipment (1.2% vs 5.6%). Meanwhile, prices accelerated for chemicals & chemical products (1.1% vs 0.2%) and food & live animals (2.1% vs 1.9%). Additionally, prices fell further for miscellaneous manufactured articles (-5.3% vs -5.3%), animal & vegetable oils, fats & waxes (-3.3% vs -3.5%), manufactured goods (-2.1% vs -2.6%), beverages & tobacco (-2.6% vs -1.9%), and crude materials (-0.9% vs -1.0%).

4. Turkey August economic confidence drops to 93.1 from 94.4 - weaker than 96 expected - lowest level since July 2020. The deterioration was driven by increased pessimism among manufacturers (98.0 vs. 98.7 in July) and less positive views among service providers (111.8 vs. 114.1). Meanwhile, the pessimistic outlook improved slightly for consumers (76.4 vs. 75.9) and constructors (88.0 vs. 87.1), while optimism grew among retailers (107.9 vs. 107.1).

5. Norway July retail sales rose 1.2% m/m, -0.5% y/y, after -5.1% m/m -3% y/y - better than +0.9% m/m expected. Sales rebounded for non-specialised stores (1.5% vs -6.4% in June), food, beverages etc. (1.3% vs -4.9%), automotive fuel (1.4% vs -4.8%), and cultural/recreation goods (7.5% vs -5.8%). Moreover, trade declined less for other household equipment (-0.5% vs -1.3%). On the other hand, sales tumbled for information & communication equimainly due to a sharp fall in purchases of vehicles & petrol (-22.2% vs 24.8% in June). Additionally, spending on electricity & heating fuels declined (-3.8% vs 24.7%). On the other hand, consumption of food, beverages & tobacco decreased at a slower pace (-0.2% vs -3.3%), while spending on other goods rebounded (0.1% vs -5.6%).pment (-3% vs 8.6%). Household consumption fell 4.3% m/m after a +1.7% m/m

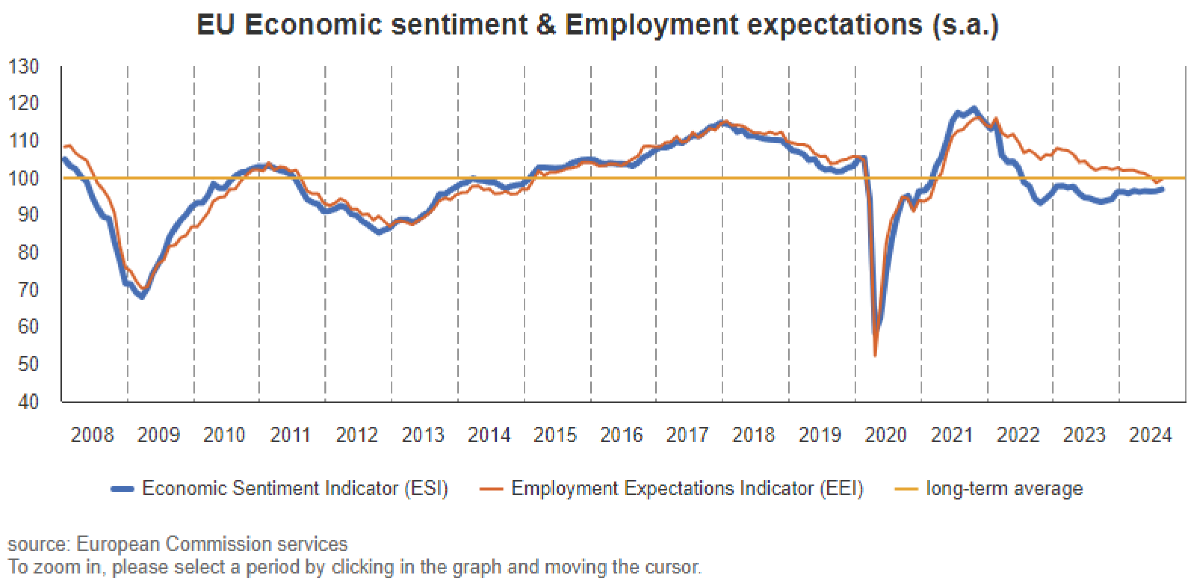
6. **Sweden 2Q GDP revised to -0.3% q/q, +0.5% y/y after 0.8% q/q, 0.9% y/y - better than the -0.8% q/q, 0% y/y flash.** A decline in household spending softened (-0.2% vs -0.5% in Q1), mainly weighed by lower expenditure on food and non-alcoholic beverages. Meanwhile, fixed investment shrank following a slight rise in the prior quarter (-1.7% vs 0.2%), largely due to machinery and equipment, and weapons. Changes in inventories were also negative, reducing by 0.6 percentage points. Meanwhile, government spending rose the least in three quarters (0.1% vs 0.3%). On the trade front, exports logged growth (1.0% vs -0.1%) while imports fell (-0.6% vs 0.6%), contributing positively by 0.9 percentage points.

7. German August State CPI implies 2% y/y down from 2.3% y/y and less than 2.1% expected - Saxony -0.2% m/m, 2.6% y/y from 3.1% y/y, NRW -0.3% m/m, +1.7% y/y from 2.3% y/y, Hesse -0.1% m/m, +1.5% y/y from 1.8% y/y, Brandenburg -0.2% m/m, +1.7% y/y from 2.6% y/y, Bavaria -0.1% m/m, 2.1% y/y from 2.5% y/y and BW -0.3% m/m 1.5% y/y from 2.1% y/y -

8. **Spanish August CPI flash 0% m/m, 2.2% y/yafter -0.5% m/m, 2.8% y/y - lower than 0.1% m/m, 2.4% y/y expected.** The decline is mainly attributed to a decrease in fuel prices, in contrast to the rise observed in August of the previous year. Additionally, though to a lesser extent, the sharper drop in food and non-alcoholic beverage prices compared to the same month in 2023 also played a role.The core rate, excluding volatile items like food and energy, eased to 2.7% in August, the lowest since January 2022, down from 2.8% in the month before.

9. **Eurozone August economic sentiment rises to 96.6 from 96.0 - better than 95.8 expected** - the highest level of sentiment in over one year, and firmly above market expectations of 95.8. The result added some respite for growing concerns that economic sentiment in the currency bloc would not be able to halt its decline amid pessimistic reports from other forward-looking indicators and domestic sentiment reports from the area’s largest economies. Pessimism eased for industrial confidence (-9.7 vs -10.4 in July) and confidence improved for services (6.2 vs 5), although consumers reported a higher magnitude of pessimism (-13.5 vs -13).

Exhibit #2: Is EU recovery drive EUR or stocks?



Source: EU Commission, BNY

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Please direct questions or comments to: iFlow@BNY.com

Bob Savage
HEAD OF MARKETS STRATEGY AND INSIGHTS

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