BNY

iFlow

MARKET MOVERS

**July 3, 2024**

# Fireworks

***"I guess we all like to be recognized not for one piece of fireworks, but for the ledger of our daily work." - Neil Armstrong***

***"We all have fireworks within us, ready to explode. Aim high for the sky, shine bright and when you're at the top, share the moment to inspire others." - Arnold Henry***


## Summary

Risk on as markets hear what they want to hear - a dovish Chair Powell yesterday citing some disinflation, along with ongoing tech buying and less fears about the French election and almost none into the UK vote tomorrow. US futures point to new equity highs, while India makes new record highs along with big bounces across APAC and EU bourses. The US July 4th holiday has also left many on vacation making trading less powerful and scary. The overnight news wasn't great - mostly slower services in APAC with higher prices and the EU story isn't much better but for the ECB forum and hope for more cuts to counter the growth slowing. The US agenda into a holiday will be important but likely not shift the current thinking about curves, risks and rates - with private ADP jobs always a noise maker, while service ISM usually matters most to growth outlooks. Likely the surprise will be in the FOMC minutes as they discuss 1 or 2 cuts and the logic. The growth side of the ledger today will be important for many and likely adds to risks for a reversal in trends into the fireworks of the UK and US ahead.


**What's different today:**

- **EGP bonds lead EM gains with Ahmed Kouchouk named new FinMin**. Egypt 2049 bonds up 2 cents, EGB up 0.1% to 48.148
- **iFlow – Mood indicator significantly positive** as is trend factor in FX while carry and value still negative. The USD was sold in G10 against EUR while AUD, JPY and NOK all sold as well. The EM FX saw MXN and TRY and TWD buying against ZAR and BRL selling. In equities, US equity selling stands out along with UK. While bonds were sold across the G10 but bought in India, Peru and China.

**What are we watching:**

- **FOMC Minutes from June meeting -** watching for indications on easing bias vs. high for longer - what triggers matter?
- **US June ADP employment** changed expected 165k from 152k previously – always a noise maker for pre-NFP trading
- **US May trade deficit** expected \$76.5bn after -\$74.6bn – key for growth story in 2Q with 2% still consensus.
- **US weekly jobless claims** expected up 2k to 235k with continuing claims expected up 1k to 1.84mn – if over 250k will matter.
- **US Services PMI** final expected 55.1 like flash while US service ISM is expected down to 52.6 from 53.8 – with focus on jobs 49 from 47.1 and prices 56.7 from 58.1
- **US May final durable goods orders** expected up 0.2% from 0.7% m/m while core capital goods orders expected -0.6% m/m

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**Headlines**

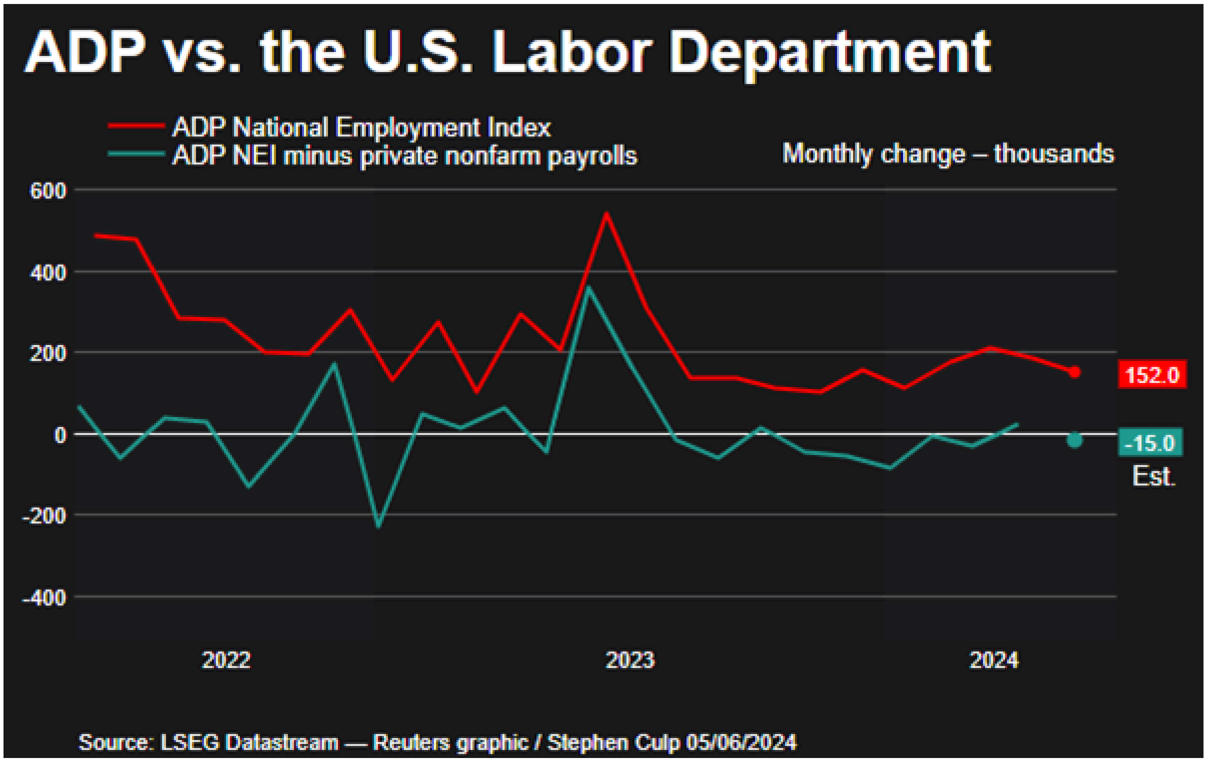
- Australia June Ai Group industry index up +14.7 to -25.6 - still 26th month of contraction but costs rising - final service PMI off 1.3 to 51.2 - worst in 5-months - while retail sales for June up 0.6% mm, 1.7% y/y - best since Jan 2024; ASX up 0.28%, AUD up 0.1% to .6670
- Japan June final services PMI fell 4 to 49.8 - first drop since Aug 2022 - highest prices in 10-montths – Nikkei up 1.26%, JPY off 0.3% to 161.90
- China June Caixin services PMI fell 3.8 to 51.2 - worst since Oct 2023 - with higher prices cited – CSI 300 off 0.24%, CNH flat at 7.3035
- India June final services PMI rises 0.3 5o 60.5 - best jobs growth in 22-months – Kospi up 0.47%, INR off 0.1% to 83.52

- Turkey June CPI slows to 1.6% m/m, 71.6% y/y - first slowdown in 7-months – TRY off 0.1% to 32.575
- Eurozone June final services PMI off 0.4 to 52.8 - weakest in 3-months with goods/services foreign demand dropping - PPI for May up 1.5pp to -4.2% y/y – EuroStoxx 50 up 1.4%, EUR up 0.1% to 1.0760
- UK June final services PMI fell 0.8 to 52.1 - 7-month lows, but prices higher – FTSE up 0.55%, GBP up 0.1% to 1.27

**The Takeaways:**

The US jobs report on Friday matters and likely makes the betting on Fed rate cuts more intense so the FX markets are waiting for that data and watching the UK, French elections along with the pressure on US President Biden, even as polls show a bounce back for him against Trump. Many expect the day ahead to not matter much as the July 4th holiday beckons, but the host of data from trade to durable goods to ADP, to weekly claims and service ISM all will set the tone for 2Q growth forecasts, 3Q outlooks and the mood for risk as lower growth with sticky inflation seems to be the problem abroad and if that shows up in the US story, markets will need to rethink USD exceptionalism. The fear factors driving markets today are less than the FOMO trades even as our iFlow shows mood positive, its led by selling short end bills rather than jumping into more equities. The cash levels everywhere post 2Q end are on watch and indicative of how important wages and jobs are to keeping the 3Q demand alive for the US. Watching the ADP has been not particularly informative of NFP but surprises matter anywhere as we have learned in June. Fireworks are fun to watch, dangerous to light and usually fleeting in their effect.

**Exhibit #1: Does ADP matter?**



Source: Reuters, BNY Mellon

**Details of Economic Releases:**

1. **Australia June Ai Group Industry index improves to -25.6 from -40.3 - as expected** - 26th month of contraction. Indicators for activity/sales, new orders, and employment all rebounded from a very weak May but remained in negative territory. Input prices and wages both saw significant increases in June, indicating ongoing cost and inflation pressures in the industry. Food manufacturing was the only subindustry to report expansion, while contractions in construction and chemicals eased. Capacity utilisation increased slightly to 76.5%, reflecting ongoing supply-side pressures, particularly for labor.

2. **Australia June final Judo Bank services PMI slips to 51.2 from 52.5 - better than 50.6 flash -** but the slowest growth in five months. New business growth continued for the fifth consecutive month but at a marginal pace, due to softer market conditions despite improved client interest. Domestic demand mainly supported sales, while new export business declined for the first time since March. The transport and storage sector saw the fastest expansion in new business and activity. Employment levels rose but at the slowest rate in nearly a year due to slower new business inflows. Unfinished business levels fell at the fastest pace this year, indicating eased capacity pressures. Input costs increased due to higher material, transport, and wage expenses, although the inflation rate eased to a 33-

month low. Service providers continued to raise selling prices, with output price inflation remaining significant and stable since May.

3. **Australian May retail sales jump 0.6% m/m after 0.1% m/m - better than 0.2% m/m expected** - best since January. the second straight month of growth in retail turnover and the fastest pace since January, as consumers took advantage of early end-of-financial-year promotions and sales events. Sales of household goods retailing accelerated (1.1% vs 0.7% in April) amid rebounds in sales of clothing, footwear and personal accessory retailing (1.6% vs -0.8%) and food retailing (0.7% vs -0.5%). Simultaneously, trade of other retailing eased sharply (0.2% vs 1.7%) and sales in cafes, restaurants and takeaway food services fell slightly (-0.1% vs 0.2%). Among regions, sales grew in Victoria (1.2%), Queensland (0.5%), Western Australia (1.3%), Tasmania (0.7%), Northern Territory (0.3%), and Australian Capital Territory (0.7%); while fell in New South Wales (-0.1%) and South Australia (-0.1%).

4. **Japan June final Jibun Bank services PMI fell to 49.4 f rom 53.8 - weaker than 49.8 flash** - the first drop in services activity since August 2022 as all sub-sectors shrank except information & communication. New orders were broadly flat after increasing in the prior 21 months. At the same time, growth in foreign sales eased from May's record high. Meanwhile, employment grew the least in five months despite expanding for the ninth month in a row. Outstanding work fell for the first time since last October, with the rate of depletion the steepest in over two years. On inflation, input prices increased the most in ten months, remaining well above the long-run average. Prices charged moved in the opposite direction, rising the least since November 2023. This suggested rising pressure on Japanese service providers' profitability. Lastly, sentiment stayed upbeat despite the degree of optimism hitting its lowest in eight months.

5. **China June Caixin services PMI rises to 51.2 from 54.0 - weaker than 53.4 expected** - the 18th straight month of growth in services activity but the softest pace since last October, as new orders and export order growth eased. Employment fell marginally amid resignations and redundancies, pushing increased backlogs of work for the first time in five months. On prices, input prices increased due to higher material, labor, and transport costs. As a result, selling prices rose despite the net rise in charges being marginal. Finally, business sentiment weakened to the lowest since March 2020 amid concerns about downward pressure on the economy and rising competition.

6. **India June final HSBC services PMI rises to 60.5 from 60.2 - weaker than 60.6 flash** - the 35th consecutive month of growth in services activity, supported by a faster rise in new orders, with an unprecedented expansion in foreign sales. Employment increased at the fastest pace since August 2022, while the job creation rose the most in 22 months, highlighting a mixture of short-term and permanent hires for junior, medium, and senior-level positions. On the price front, input price inflation slowed and was the softest in four months while output cost inflation eased to the slowest since February. Finally, business confidence weakened to an 11-month low, owing to concerns surrounding market uncertainty and competition

7. **Turkey June CPI slows to 1.64% m/m, 71.6% y/y after 3.37% m/m, 75.45% y/y - lower than the 2.2% m/m, 72.6% y/y expected** - the first slowdown in consumer price growth after seven consecutive periods of acceleration, driven by lower inflation for most sub-indexes, particularly food and non-alcoholic beverages (71.60% vs 75.45% in May) and transport (65.67% vs 79.10%). Additionally, prices moderated for furnishings, household equipment, and routine maintenance (67.72% vs 69.34%), hotels, cafes, and restaurants (90.67% vs 92.94%), and clothing and footwear (47.84% vs 50.85%). In contrast, inflation for housing and utilities climbed to 94.72% compared to 93.21% a month earlier. Core inflation slowed to 71.41% from 74.98% in the prior period.

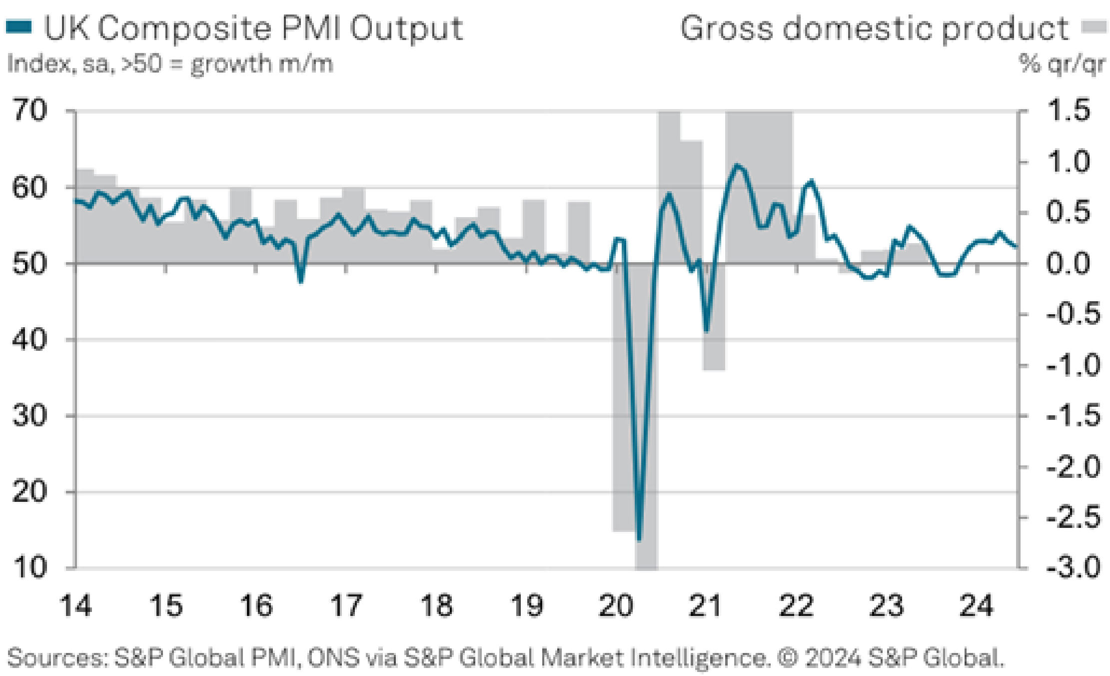
8. **Eurozone June final HCOB services PMI drops to 52.8 from 53.2 - better than 52.6 flash** - 3-month lows, but still the fifth consecutive month of expansion in the Eurozone's services activity, albeit at a slower pace, as lower demand from foreign clients drove new export orders to slow the growth of overall new business contracts in the period, while domestic orders extended its robust growth. Along with a fresh depletion in backlog levels, firms expanded their output. In the meantime, the rate of job creation for service providers fell its softest in five months, but remained above the average from the previous two years. On the price front, input cost and output charge inflations both fell to an over-three-year low but remained above their historical averages. Lastly, firms demonstrated a higher degree of optimism in the period. s

9. **Eurozone May PPI moderates to -0.2% m/m, -4.2% y/y from -1% m/m, -5.7% y/y - less than the -0.1% m/m, -4.1% y/y expected -** the seventh consecutive month of producer deflation, although the smallest in the sequence, led by a 1.1% drop in energy costs (vs -3.6% in April) and a 0.1% fall for durable goods (vs 0.2%). Prices also rose less for intermediate goods (0.1% vs 0.3%), capital goods (0.1% vs 0.2%) and non-durables (0.1% vs 0.2%). Year-on-year, producer prices fell 4.2%,

less than a 5.7% drop and compared to forecasts of -4.1%. Excluding energy, the PPI edged up 0.1%, below 0.3% in April and declined 0.4% on the year (vs -0.9%).

**10. UK June final services PMI slows to 52.1 from 52.9 - better than 51.2 flash** - the eighth consecutive expansion in the British services sector, albeit at the slowest pace this year. New business contracts rose at a subdued pace in historical standards, with firms surveyed noting increased client hesitancy and delays to approve new projects ahead of July's general election and potential policy changes. Consistent with slower overall sales, companies eased the pace of hiring to cut costs. On the price front, wage bills and other operating expenses held input inflation at historically high levels, although the rate of growth slowed to its lowest in three years. Still, prices charged accelerated. Looking forward, UK service providers remained optimistic, as expectations of rate cuts by the BoE offset political uncertainty.

**Exhibit #2: UK Services so stalling growth vs. Election change**




Source: S&P Global, BNY Mellon

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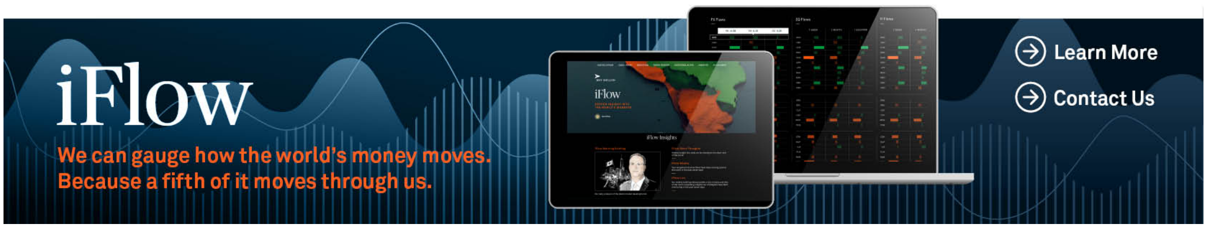





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