BNY

iFlow

MARKET MOVERS

July 5, 2024

Control

““The two things in life you are in total control over are your attitude and your efforts.” – Billy Cox

“He who controls others may be powerful, but he who has mastered himself is mightier still.” - Laozi

Summary

Risk on as markets absorb the expected Labour win in UK, wait for the final round of French voting and slide into a weekend waiting for decisions from democrats on running with US President Biden, along with heating up of Israel Hezbollah conflict in Lebanon. What controls markets and moods will be the key question ahead with economic data, geopolitics or voters all fighting for the lead story. Asia was mixed on the day while Europe bounces and US futures are mixed with USD lower, Bonds higher helping. The focus on the day ahead is US jobs with the expectation for modest slowing. The Fed Williams speech makes clear high for longer is data dependent. The day will have lighter staffing and less liquidity given the 4th holiday, but the importance of the data remains clear with many waiting for clarity on US slowing and FOMC policy.

What’s different today:

- **UN June FAO food price index flat m/m and down 2.1% y/y at 120.6** – The index is 24.8% from the March 2022 highs as cereal prices fell 3% m/m, meat flat, vegetable oil up 3.1% to March 2023 highs while dairy up 1.2% and sugar up 1.9% m/m.

- **China 10Y bond yields rose 2bps to 2.26%** - led by PBOC bond sales, setting floor for yields, even as market sentiment expects further easing with potential RRR cut.
- **iFlow –** Mood still significantly positive in 94.6% percentile holding for 5-days – while trend is still up but not significantly anymore in 81.2% percentile for 2-days. The holiday flows showed USD selling EUR and SEK buying in G10 while MXN, TRY both bought while ZAR sold. Equities up in 4 regions while bonds were mixed with Indonesia and Peru buying notable.

What are we watching:

- **US June non-farm payrolls** expected up 190,000 after 272,000 with unemployment flat at 4% and average hourly earnings up 0.3% m/m, 3.9% y/y after 4.0% y/y.
- **Canadian June unemployment** expected up to 6.3% from 6.2% with 22,500 jobs after 26,700 – focus on labor market post higher CPI key for CAD.

Headlines

- UK Sunak steps down as Tory leader after Labour wins at least 412 seats, new PM Starmer pledges stability – FTSE up 0.25%, GBP up 0.2% to 1.2790
- Japan May household spending drops -0.3% m/m, -1.8% y/y – 4th drop for year – while May LEI up 0.2 and coincident up 1.3 to 116.5 best since Sep 2019; Nikkei flat, JPY up 0.4% to 160.65
- Taiwan June CPI up 0.26% m/m, 2.42% y/y – highest since Feb 2024, led by food – Taiex up 0.14%, TWD off 0.1% to 32.475
- Sweden May GDP up 0.1% m/m, still points to -0.2% y/y, while household consumption -0.4% m/m – 3rd month of contraction led by autos – OMX up 0.3%, SEK up 0.1% to 10.495
- Italian May retail sales rise 0.4% m/m – led by food, while durables drop – MIB up 0.4%, BTP 10Y yields off 5.5bps to 3.94%
- German May industrial production off 2.5% m/m – worst since 2022 – while May factory orders -1.6% m/m also miss – DAX up 0.9%, Bund 10Y off 2.5bps

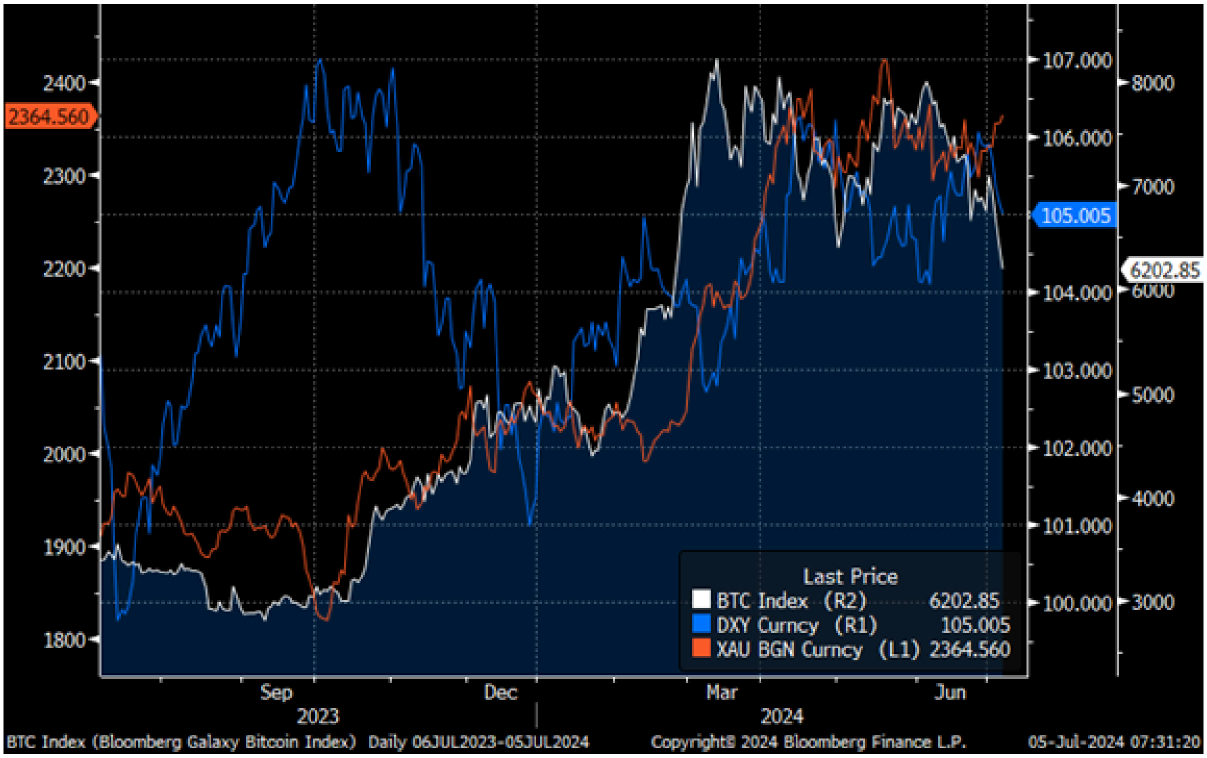
to 2.58%

- French May industrial production -2.1% m/m, -0.4% y/y – worst since Oct 2022 – CAC 40 up 0.4%, OAT 10Y off 3.5bps to 3.237%
- Eurozone May retail sales up 0.1% m/m, 0.3% y/y – 3rd annual gain – while 1Q housing prices rose 0.4% q/q, but June construction PMI fell 1.1 to 41.8; EuroStoxx 50 up 0.5%, EUR up 0.1% to 1.0825
- Fed Williams: Still a "way to go" to reach 2% CPI. US S&P500 futures flat, US 10Y off 3bps to 4.33%, US dollar index off 0.1%

The Takeaways:

The connection between gold, BTC and the USD seem to be fraying a bit. The drop in Bitcoin today is notable off 7% and back to $54.4k from $73.8k in March. The gold market holds its gains up 0.3% at $2363 on the day while the USD is lower. The confusion over correlation in BTC is a warning signal for larger risks. Controlling the narrative of excess cash driving up risky assets looks more important now than at the start of the year. The crypto market has been more volatile but has correlated to tech shares and the excess liquidity story of easy financial conditions in the last few years. The move in BTC started in Korea today with sharp gains in Kopsi (up 1.32%) led by tech. Many would argue that this is just money on the sidelines being put to work. Others that the bigger picture is about cash needs everywhere. The risks for today are squarely in how the US jobs report sets up the risk mood for next week's US earnings season. There is trouble ahead if the US slowdown hits earnings in a negative surprise, but growth matters to profits and the 1.5% Atlanta FedGDP now should give some pause to bulls in risk, particularly if today's unemployment ticks higher and if the job gains are below 150,000. The rise of gold peaked in May but holds still in July and that reflects some of the fears of investors, central bankers and others as they look for USD alternatives and find it hard to believe in EUR or GBP or JPY. This remains the central question for FX markets on the day and for the rest of the summer.

Exhibit #1: Does BTC reflect liquidity drop?



Source: Bloomberg, BNY Mellon

Details of Economic Releases:

1. Japan May household spending drops -0.3% m/m, -1.8% y/y after -1.2% m/m, +0.5% y/y – weaker than the 0.5% m/m, +0.1% y/y expected – 3rd monthly drop, 4th annual decline so far this year, as expenditure was weak for food (-3.1% vs -2.7%), housing (-3.5% vs 3.5%), fuel, light & water charges (-9.7% vs -1.9%), furniture & household utensils (-10.0% vs 1.9%), and culture & recreation (-8.4% vs -9.2%). At the same time, spending growth sharply softened for education (9.3% vs 25.9%) and other consumption (0.6% vs 10.0%). Meanwhile, medical care expenditure picked up (6.4% vs 1.2%) while spending on transport & communication bounced back robustly (4.2% vs -10.2%).

2. Japan May leading economic index rises to 111.1 from 110.9 – as expected. The coincident index rises to 116.5 from 115.2 – better than 115.0 expected - the highest figure since September 2019, with an assessment of "halting to fall". The latest result came amid a pickup trend in business investment, reflecting steady corporate profits. At the same time, consumer mood improved due to better employment and income situations. Meanwhile, overtime hours worked in the manufacturing industry increased. Simultaneously, new automobile sales showed an acceleration.

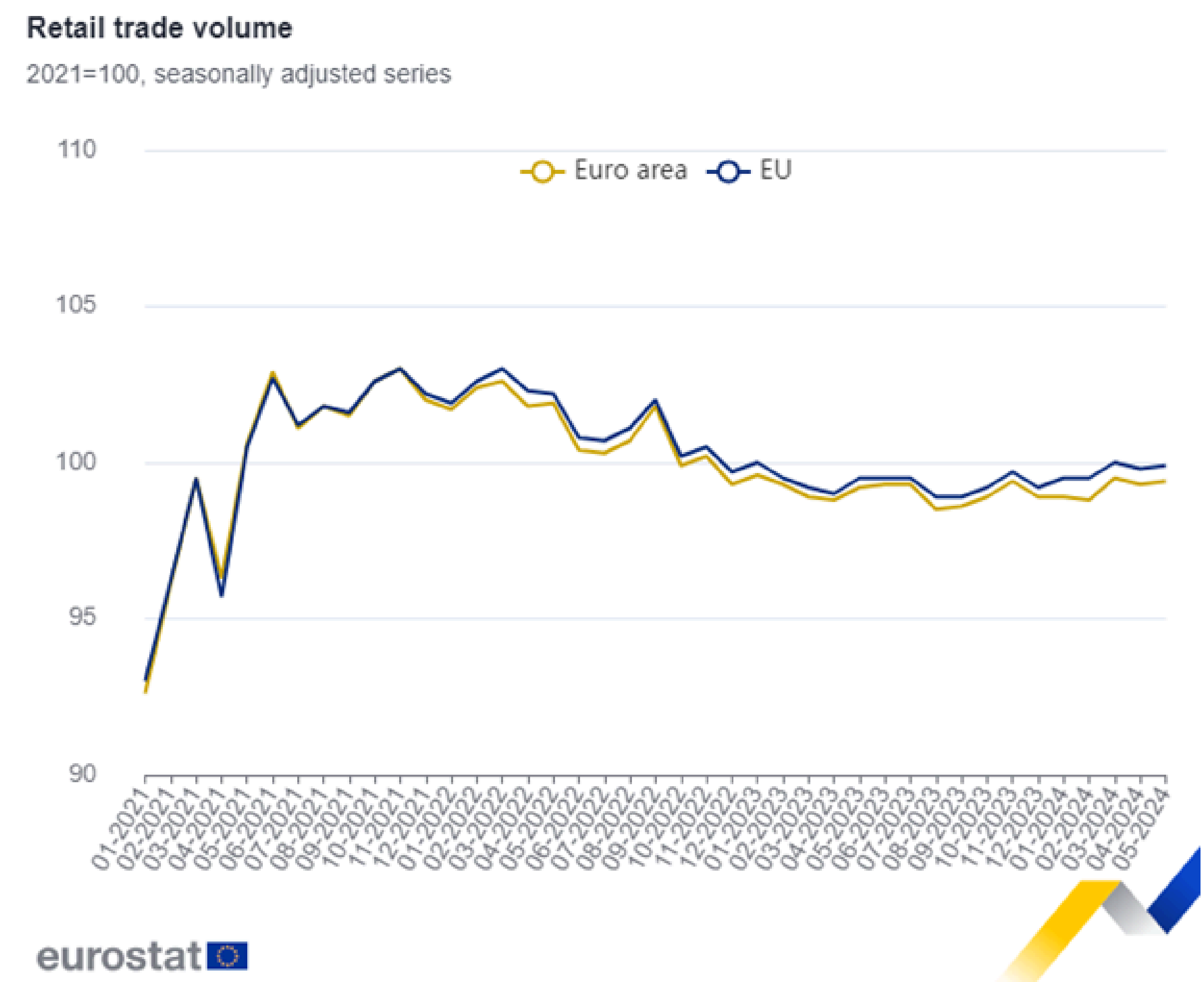
3. German May industrial production fell -2.5% m/m, -6.7% y/y after +0.1% m/m, -3.7% y/y – weaker than +0.2% m/m expected – the second contraction so far this year and the steepest decrease since late 2022, weighed by lower output from machinery and equipment (-5.9%) and the automotive industry (-5.2%). Production in manufacturing, which excludes energy and construction, fell 2.9%; and construction activity was down 3.3%. On the other hand, energy production grew by 2.6%. At the same time, output shrank for all components: capital goods (-4.0%), intermediate (-2.7%), and consumer ones (-0.2%). The less volatile three-month-on-three-month comparison showed that production stagnated from March to May 2024 than in the previous three months. Yearly, industrial output declined by 6.7% in May, much steeper than the prior 3.7% fall and the fastest drop since August 2020.

4. French May industrial production fell -2.1% m/m, -0.4% y/y after +0.6% m/m – weaker than -0.5% m/m expected - biggest drop since October 2022, compared to an upwardly revised 0.6% rise in April and much worse than forecasts of a 0.5% fall. The manufacturing sector contracted 2.7%, namely manufacture of motor vehicles, trailers and semi-trailer (-6.6%), machinery and equipment goods (-4.6%), transport equipment (-0.7%) and food products and beverages (-0.6%). In contrast, it bounced back for manufacture of coke and refined petroleum (3.9%), mining and quarrying, energy, water supply (1.1%).

5. Italian May retail sales rose 0.4% m/m, 0.4% y/y after -0.1% m/m, -1.7% y/y – better than 0.2% m/m expected. Food sales advanced by 1.1%, while sales of non-food products fell 0.2%. Meanwhile, volume sales grew 0.2%. On a yearly basis, retail trade increased by 0.4%, rebounding from an upwardly revised 1.7% decline in the previous month. Food sales advanced by 1.4%, while non-food fell by 0.3%, dragged by household appliances, radios, TVs & recorders (-6.2%) and tools (-2.6%).

6. Eurozone May retail sales rose 0.1% m/m, 0.3% y/y after -0.2% m/m, +0.6% y/y – better than 0.1% y/y expected. Sales of food, drinks and tobacco increased 0.7% m/m, following a 0.9% drop and those of auto fuel increased 0.4% m/m, compared to a 0.7% fall. On the other hand, sales of non-food products decreased 0.2% m/m, reversing from a 0.5% rise.

Exhibit #2: EU retail sales holding?



Source: Eurostat, BNY Mellon

Disclaimer & Disclosures

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