

July 10, 2024

Dampness

“I had seen the damp lying on the outside of my little window, as if some goblin had been crying there all night and using the window for a pocket-handkerchief.” – Charles Dickens

“But it is growing damp, and I must go in. Memory’s fog is rising.” – Emily Dickenson

Summary

Risk mixed even as China CPI was still out of deflation for 5th month and RBNZ delivered a dovish hold in the afterglow of FOMC Chair Powel testimony also considered dovish enough to leave it up to the US data ahead to add to September easing hopes .Markets price 50bps of easing to end of 2024 while the Fed projects just one cut. US lack of data and forced calm in the humidity of July markets waiting for CPI leaves central bank speakers effects on markets more damp squibs than fireworks, with FX markets moving more than usual around any tone shift – witness NZD off nearly 1%. For the day ahead, US markets will focus on more Fed speakers, more central bank speakers and the ongoing bond supply, with an eye to equities as they also wait for 2Q earnings.

What’s different today:

- **US FOMC Chair claims the US economy is no longer overheated.** Sees room for easing if inflation continues to moderate - The testimony to Congress continues today with expectations that he remains upbeat on soft-landing for US economy.

- **US mortgage applications fell 0.2%** after 2.6% at the end of June – with average 30-year mortgage at 7% for second week. Refinancing fell 2% for the 4th consecutive drop.
- **Bird Flu response in Michigan** harkens back to Covid responses for farms – Dairy farmers are testing cattle and humans for virus
- **iFlow** – little changed but equity buying in APAC stalled for Thailand and Taiwan while in EMEA Czech saw outflows while Swiss, Canada and New Zealand saw modest buying but now just one region LatAm has positive inflows.

What are we watching:

- **US Treasury** sells \$39bn of 10-year notes
- **Central Bank speakers** - beyond FOMC Chair Powell continuing his testimony, Chicago Fed President Austan Goolsbee, Fed Governor Lisa Cook and Fed Governor Michelle Bowman speak; Bank of England chief economist Huw Pill and BoE policymaker Catherine Mann speak

Headlines

- **RBNZ leaves OCR at 5.5% as expected** - sees rate cut next likely move – NZD off 0.9% to .6070
- **Korea June unemployment steady at 2.8%** - still up 6.2% y/y while employment up just 0.3% y/y – Kospi up 0.021%, KRW off 0.15% to 1385.10
- **Australian May building permits confirmed up 5.5% m/m** - biggest gain since Oct 2023 – ASX off 0.16%, AUD off 0.1% to .6735
- **China June CPI -0.2% m/m, +0.2% y/y**- smallest rise since March - while PPI -0.8% y/y -21st month of deflation - while **June vehicle sales -2.7% y/y** even as EV sales up 30.1% y/y – CSI 300 off 0.32%, CNH flat at 7.2915
- **Japan WPI up 2.9% y/y**- as expected - reflecting weaker JPY cost on imports – Nikkei up 0.61%, JPY off 0.15% to 161.45
- **Italian May industrial production up 0.5% m/m, but -3.3% y/y** - 16th month of y/y declines – MIB up 0.85%, EUR up 0.1% to 1.0825
- **Norway June CPI off 0.4pp to 2.6% y/y** – lowest since Dec 2023 – CPI-ATE also off 0.7pp to 3.4% - lowest since May 2022 – NOK off 1.1% to 10.71
- **Turkey May industrial production rises 1.7% m/m -0.1% m/m** - while unemployment dips to 8.4% - best since 2012 – TRY off 0.2% to 32.935

- US weekly API oil inventories report crude -1.9mb draw, gasoline -3mb and distillates rose 2.3mb while EIA raises demand forecasts up 1.1mbd- WTI off 0.15% to \$81.30
- US President Biden in NATO speech vows Ukraine will stop Putin – S&P500 futures flat, 10Y US bonds off 2.5bps to 4.27% while USD index is flat at 105.09

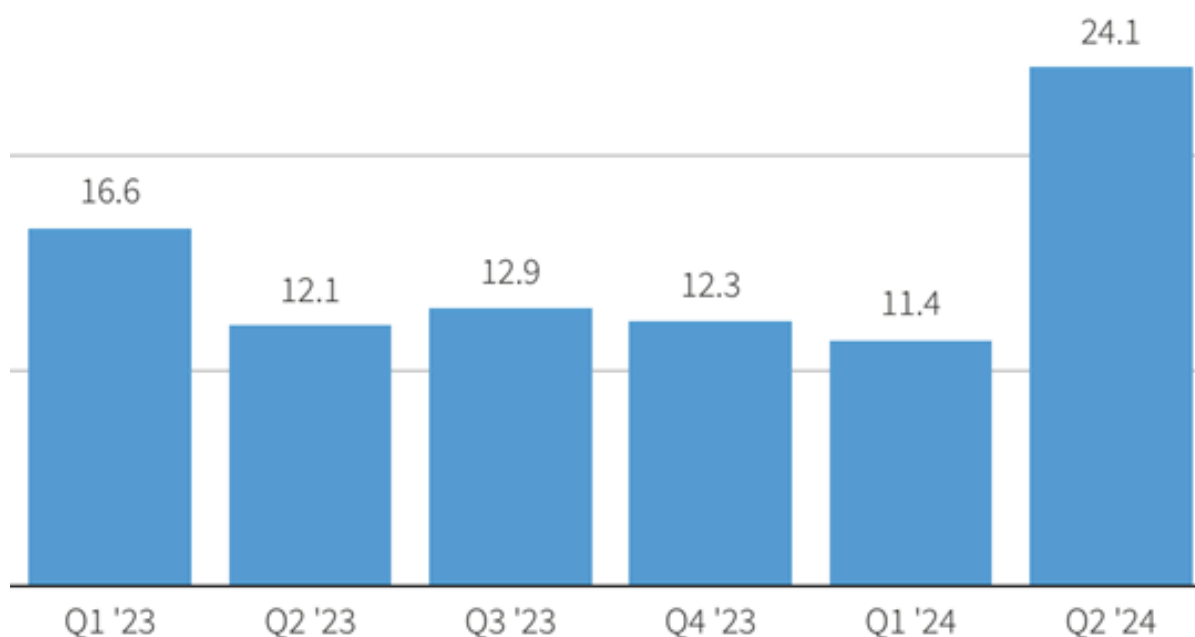
The Takeaways:

The switch from focus on inflation to growth looks important for driving 3Q markets. The drop in inflation in Norway, in Denmark and the language from the RBNZ overnight add to the view that the direction of consumer prices is back towards target. The speed of that shift may be still a problem for some central bankers and that will be what many are listening for in speeches today. The growth equation is less discussed but linked to the present politics where fiscal spending no longer seems the panacea for unhappy voters. The risk of less growth as governments are forced into some discipline over budgets remains a key backdrop to bonds. The mood for business is mixed and the NFIB report yesterday in the US highlighted how inflation remains important as a worry. Whether policy and politics are uncertain enough to matter to businesses is the next agenda for investors – as 2Q earnings and 3Q outlooks will dominate the next 3 weeks. The bet for investors also pivots on the faith in tech and AI particularly. The funding of AI start ups in 2Q makes clear that private investing into the boom continues, but whether that translates into profits for the big tech companies will be key for sustaining the seasonality of chasing the equity tape in July.

Exhibit #1: AI remains key for US shares

Investors bet big on AI

Funding to AI startups more than double in Q2



Note: Figures in billion dollars | Yuvraj Malik, Reuters

Source: Crunchbase

Source: Reuters, BNY Mellon

Details of Economic Releases:

1. Korea June unemployment flat at 2.8% - as expected - The number of unemployed individuals totaled 857,000, marking an increase of 50,000 or 6.2% from a year ago. Meanwhile, the number of employed individuals totaled 28.907 million, up by 96,000 or 0.3% from a year earlier. The labor force participation rate stood at 65.3% in June, remaining the same year-on-year.

2. Australian May building permits confirmed up 5.5% m/m after 1.9% m/m - as expected. the sharpest rise since October 2023, driven by a strong increase in private sector dwellings excluding houses (16.3%), and to a lesser extent private sector houses (2.1%). Dwellings approved rose to almost all states and territories, particularly New South Wales (2.9%), Victoria (8.9%), Queensland (6.3%), South Australia (4.1%), Western Australia (19.6%), and Tasmania (3.8%).

3. China June CPI moderates to -0.2% m/m, +0.2% y/y after -0.1% m/m, +0.3% y/y - less than the -0.1% m/m, +0.4% y/y expected - still the 5th month 0of

inflation albeit the lowest since March. Food prices slipped for the 12th month (-2.1% vs -2.0%) despite a steep acceleration in pork prices during the Dragon Boat Festival. Meanwhile, non-food inflation was stable (at 0.8%), with prices rising further for clothing (1.5% vs 1.6% in May), housing (0.2% vs 0.2%), health (1.5% vs 1.5%), and education (1.7% vs 1.7%). At the same time, transport cost continued to fall (-0.3% vs -0.2%), as moves from some of China's public utility companies to raise utility prices earlier in the year had a limited impact. The core consumer prices, deducting food and energy costs, increased 0.6% yoy, the same as in May.

4. Chine June PPI rises to -0.2% m/m, -0.8% y/y after +0.2% m/m, -1.2% y/y - as expected - the highest level since January 2023, but still the 21st month of deflation. Costs of means of production shrank much softer (-0.8% vs -1.6% in May), mainly due to processing (-2.0% vs -2.6%) as prices rose for both mining (2.7% vs -1.2%) and raw materials (1.6% vs 0.5%). Simultaneously, prices of consumer goods continued to fall (-0.8% vs -0.8%), largely dragged by food (-0.2% vs -0.7%), daily use goods (-0.1% vs flat reading), and durable goods (-2.1% vs -1.8%) while clothing prices were flat (vs 0.4% in May).

5. China June vehicle sales drop 2.7% y/y after +1.5% y/y - less than the 1% y/y expected. Sales drop to 2.55mn units but sales of new energy vehicles soared by 30.1% to 1.05 million, the third time surpassed 1 million units, after November and December 2023. Meanwhile, a separate report from the China Passenger Car Association (CPCA) revealed that new energy vehicle sales accounted for 48.1% of total car sales in June. For the first half of 2024, data from CAAM mentioned that vehicle sales rose 6.1%, with new energy vehicles surging 32.0%.

6. Italian May industrial production rose +0.5% m/m, -0.3% y/y after -1% m/m -3% y/y - better than 0.1% m/m expected. Output rose for consumer goods (0.7% vs 0% in April), while rebounding for intermediate goods (0.7% vs -1.2%) and energy goods (3% vs -2.2%). In contrast, a stronger fall was recorded in capital goods (-1% vs -0.2%).

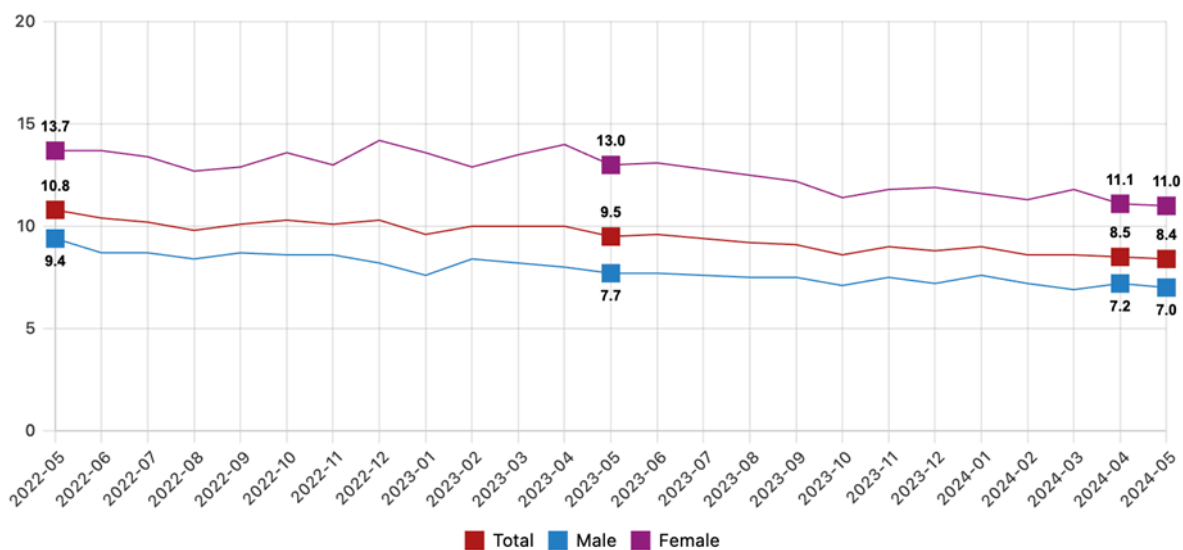
7. Turkey May industrial production +1.7% m/m -0.1% y/y after -5% m/m, -0.7% y/y - better than -2% m/m expected. Still, this marks the second consecutive period of falling industrial activity although to a slower extent, as output fell at a softer pace for manufacturing (-0.4% vs -1.6% in April). At the same time, production growth slowed for mining & quarrying (2.2% vs 11.2%), and electricity, gas, steam & air conditioning supply (0.9% vs 1.6%)

8. Turkey May unemployment drops to 8.4% from 8.5% - as expected - best since November 2012. The number of unemployed individuals decreased by 27 thousand from a month earlier to 3.011 million, while employment rose by 273 thousand to a record of 32.920 million. Meanwhile, the activity rate went up to 54.5% in May, from 54.2% in the prior month. The youth jobless rate for those aged between 15 and 24 years increased by 0.3 percentage points to 15%.

Exhibit #2: Turkey jobs market best since 2012

Seasonally adjusted unemployment rate, May 2022 - May 2024

(%)



Source: Turkey Statistic Agency, BNY Mellon

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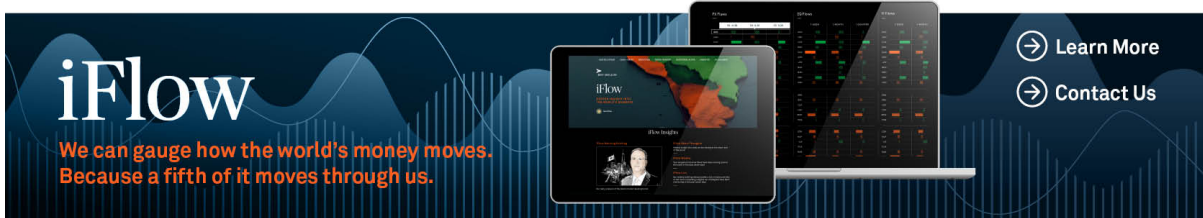


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