BNY

iFlow

MARKET MOVERS

July 11, 2024

Curbed

“To curb the machine and limit art to handicrafts is a denial of opportunity.” - Lewis Mumford

“Curb your desire. Don’t set your heart on so many things and you will get what you need.” - Epictetus

Summary

Risk on as markets get more dovish tilts from central bankers and lower inflation data. The key US CPI is widely expected to moderate post Fed Powell testimony which suggested disinflation continues. The UK GDP bounced back lifted rates there and the GBP. Growth may still be more important than prices, but all eyes are on the data ahead. The test may be in the role of weekly claims, more Fed speakers and the 30-year bond sale to test the mettle of the enthusiasm to believe in soft landings and to support equities and other risk assets.

What’s different today:

- **Japan sold Y755bn of 20Y JGBs at 1.917% with 3.8 bid/cove**r but BOJ data shows foreigners have been selling JGBs for 3rd week - net Y1.8trn.
- **China shares rally after regulatory suppor**t - Shanghai composite up 1.06% - as China Securities Regulatory Commission suspended securities re-lending and raised margin requirements for short-sellers.
- **iFlow** – Mood remains significantly positive as US shares set new records for 37th day in 2024 yesterday and as we have the best US performance since

2021 – but iFlow shows US outflows in equities, and most of G10 except Swiss and Canada while APAC sees inflows except Taiwan and Thailand. FX continues to see USD selling in G10 against AUD, CAD and EUR buying. In EM TRY buying vs. ZAR selling continues as well.

What are we watching:

- **US June consumer price index** expected up 0.1% m/m, 3.1% y/y after 0% m/m, 3.3% y/y – with core 3.4% y/y flat.
- **US weekly jobless claims** expected off 3k to 235k with continuing claims up 2k to 1.86mn.
  Fed Speakers: St. Louis Federal Reserve President Alberto Musalem and Atlanta Fed President Raphael Bostic both speak
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- **US Treasury** auctions $22 billion of 30-year bonds

Headlines

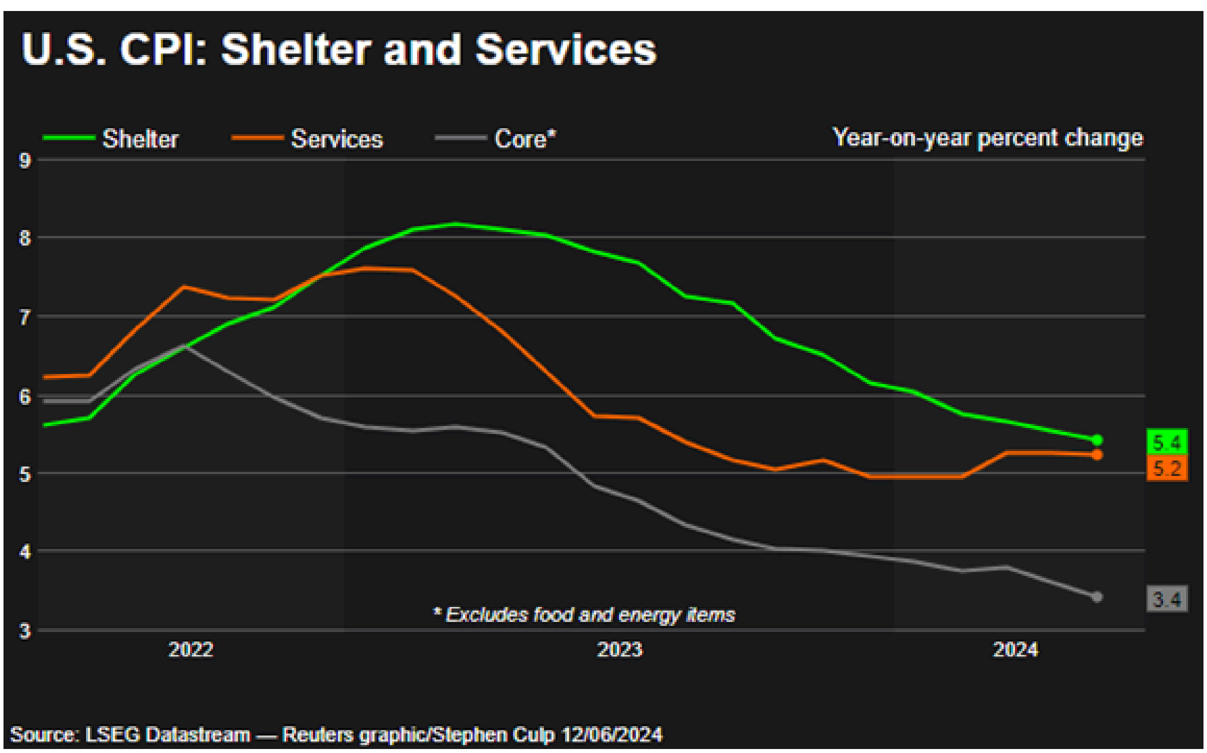
- Malaysia BNM keeps rate steady at 3%- as expected - sees core inflation 2-3% for 2H2024 – MYR up 0.2% to 4.685
- Korea BOK keeps rate steady at 3.5%- as expected - sees lower inflation. steady growth ahead – Kospi up 0.81%, KRW up 0.2% to 1379.90
- China plays down “strong medicine” for economy as third plenum starts -CSI 300 up 1.14%, CNH up 0.2% to 7.2780
- Japan May core machinery orders off 3.2% m/m - biggest drop since Nov 2023 - led by non-manufacturing – Nikkei up 0.94%, JPY up 0.1% to 161.55
- Australian July MI consumer inflation expectations off 0.1pp to 4.3% y/y - but wage expectations sticky – ASX up 0.93%, AUD up 0.15% to .6755
- German June final CPI confirmed off 0.2pp to 2.2% - core lowest since Feb 2022 -DAX up 0.25%, Bund 10Y up 2bps to 2.55%, EUR up 0.2% to 1.0850
- UK May GDP up 0.4% m/m - bounce back in retail and best construction in a year - industrial production up 0.2% m/m, trade deficit narrows £2bn – FTSE up 0.3%, Gilt 10Y up 3bps to 4.156%, GBP up 0.2% to 1.2875
- Axios: US Senate Majority Leader open to switching Biden in election – US S&P500 futures up 0.25%, US 10Y off 0.5bps to 4.28%, USD index off 0.2% to 104.85

- IEA sees oil demand growth slowing as China's share narrows- WTI up 0.25% to $82.30

The Takeaways:

Curb your enthusiasm? Markets are watching equities rally, bonds stay near the low end of their recent yield range and the USD drop as US slowing growth and dovish enough sounding Fed speakers support the soft-landing expectations for the US and with some trickle-down hope, the rest of the world. China managed to rally back from its lows in equities thanks to regulations tightening the cost of short selling. Japan continues to rally thanks to the JPY weakness helping foreign orders but not their bonds, Europe continues to rally as ECB easing on lower inflation seems likely and the UK rallies as growth beats but bonds are lower there. The set up for the data in the US today looks skewed to upside CPI risks but the recent data from used cars and to airline fares has been softer making the expectations of slightly lower CPI reasonable. Betting on one set of noisy data is irrational and irrational exuberance is the worry on the day. How markets deal with the reality of earnings reports and political uncertainty may be the curb.

Exhibit #1:US CPI key but where inflation sticks matters more



Source: Reuters, BNY Mellon

Details of Economic Releases:

1. **Japan May machinery orders slow -3.2% m/m, +10.8% y/y after -2.9% m/m +0.7% y/y - weaker than +1% m/m expected -** biggest monthly decline since Nov 2023. The decrease in capital spending was driven by a sharp decline in the non-manufacturing sector which dropped 7.5% to 439.7 billion yen in May, while the manufacturing sector saw an increase of 1% to 423.7 billion yen. The highly volatile data series is considered as a leading indicator of capital spending in the coming six to nine months.

2. **Australian July consumer inflation expectations ease to 4.3% y/y from 4.4% y/y - as expected** - continues to highlight persistent service inflation. Meanwhile, recent budget outcomes may impact demand, although federal and state energy rebates will temporarily reduce headline inflation. Still inflation expectations are below last year's 5.2% July levels. Wage expectations increased in July and are elevated relative to their levels at this time last year.

3. **German June final CPI up 0.1% m/m, 2.2% y/y after 0.1% m/m, 2.4% y/y - as expected.** Prices slowed for goods (0.8% vs 1% in May), while energy costs dropped at a faster pace (-2.1% vs -1.1%), counterbalancing a quicker increase in food prices (1.1% vs 0.6%). Excluding food and energy, core inflation rate moderated to 2.9%, the lowest reading since February 2022, from 3% in each of the prior two months. Considering the EU-harmonised CPI, the annual rate decreased to 2.5% from 2.8%,.

4. **UK May trade deficit narrows to £-4.894bn after £6.423bn - as expected**. Imports slumped by 2.8% over a month to £74.7 billion while exports fell by 0.9% to £69.8 billion. Goods purchases dropped by 4.6%, primarily due to a £1 billion decrease in machinery and transport equipment imports from the EU, namely aircraft and mechanical machinery from France, and road vehicles from Germany. Purchases of food, live animals, and chemicals also declined. Imports from non-EU countries fell by 1.7%. Services imports went up by 0.4%. Meanwhile, goods exports fell by 2.5% due to a £0.6 billion drop in machinery and transport equipment shipments to the EU, mainly aircraft to Germany, partially offset by a £0.2 billion increase in fuel imports and a £0.1 billion rise in miscellaneous manufactures imports. There was also a £0.5 billion drop in fuel exports to non-EU countries, notably China. Services exports increased by 0.3%.

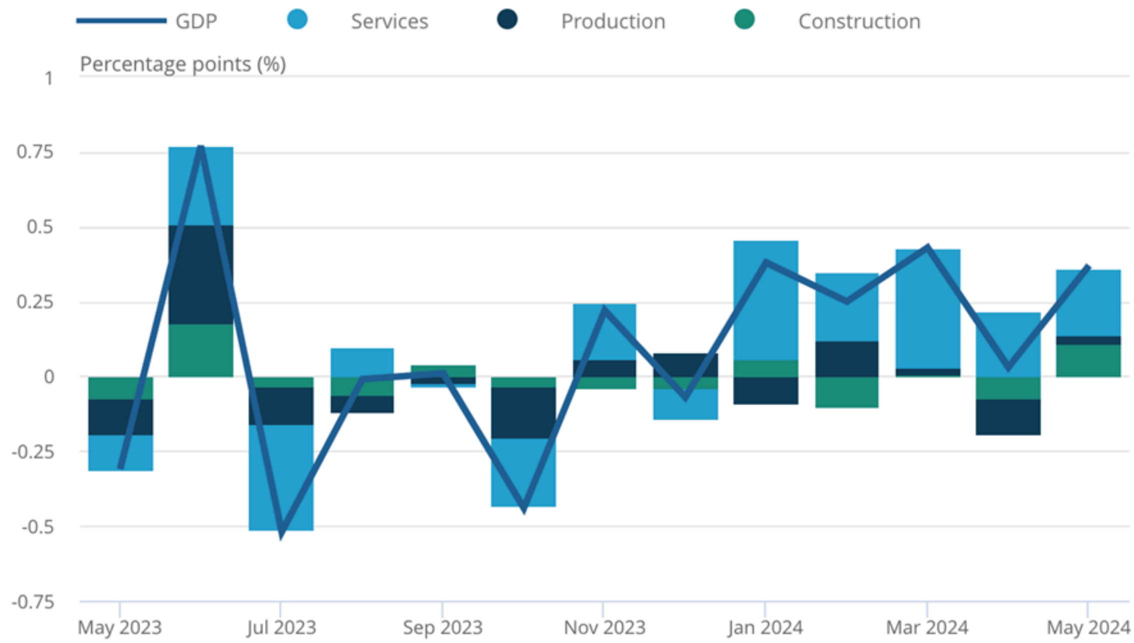
5. **UK May industrial production rose 0.2% m/m, 0.4% y/y after -0.9% m/m, -0.7% y/y - weaker than 0.6% y/y expected.** Output recovered for manufacturing (0.4% vs -1.4% in April), mainly driven by food products, beverages and tobacco (1.7%). Meanwhile, production rose at a slower pace for mining & quarrying (0.1% vs 0.8%) and water supply, sewerage & waste management (0.4% vs 1.3%). At the same time, output declined for electricity, gas, steam & air-conditioning supply (-1.9% vs 0.5%).

6. **UK May GDP up 0.4% m/m after 0% m/m - better than 0.2% m/m expected**. "Many retailers and wholesalers had a good month, with both bouncing back from a weak April. Construction grew at its fastest rate in almost a year after recent weakness, with house building and infrastructure projects boosting the industry", said Liz McKeown, ONS director of economic statistics. The services sector grew 0.3%, the same as in April, and was the largest contributor to growth, namely retail trade, except of motor vehicles and motorcycles industry (2.9%); and professional, scientific and technical activities (1%). Industrial production rose 0.2%, rebounding from a 0.9% drop in April, mostly driven by manufacturing (0.4%), with production of food products, beverages and tobacco rising 1.7%. Meanwhile, construction output expanded 1.9%, recovering from a 1.1% fall in April, with both new work (2.7%) and repair and maintenance (0.8%) increasing.

Exhibit #2: UK growth - is it sustainable?

Figure 2: All three main sectors contributed positively to GDP growth in May 2024

Contributions to monthly GDP growth, May 2023 to May 2024, UK



Source: GDP monthly estimate from the Office for National Statistics

Source: UK ONS, BNY Mellon

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

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