BNY

iFlow

MARKET MOVERS

July 12, 2024

Sizes

"It's not the size of the dog in the fight, it's the size of the fight in the dog." – Mark Twain

"Believe Big. The size of your success is determined by the size of your belief. Think little goals and expect little achievements." – David J. Schwartz

Summary

Risk on as US bank earnings and PPI are focus and markets bask in glow of lower CPI from US and higher expectations for a Fed rate cut in September (now over 90%). The pain was in the tech heavy APAC where the US rotation play extended. Also, the bond markets globally are less sure – with lower Sweden CPI and German WPI offset with higher French supply hurting EU bonds and better US stocks moderating US bonds. Massive jump in China exports and drop in imports worries many about trade driving growth there without the consumer while in Japan, no confirmation of JPY intervention sounds weak rather than determined. The USD continues lower and the relief of that helps EM FX notably even as volatility dominates. On the day ahead, beyond PPI in US focus on consumer sentiment and bank earnings with eye on Fed speakers and US politics.

What's different today:

- **China Financial News backed by PBOC commentary on defending the credit slowdown** – It is urgent to overcome the "scale complex" of credit allocation – sees rates playing bigger role in economic adjustments ahead.

- **Lithium drops to new 3-year lows** - July China contract CNY91k per ton – with EV and battery surplus driving price. China saw 15% drop in EV sales
- **iFlow** – Mood still significantly positive, trend still positive, carry negative while in FX – USD selling in G10 continued with AUD, CAD, EUR buying but JPY selling seen. In Equities, buying in EMEA except Czech and LatAm stand out while bonds saw US selling, LatAm selling, mixed APAC with China, Philippines and India inflows.

What are we watching:

- **US June PPI** expected up 0.1% m/m, 2.3% y/y after -0.2% m/m, 2.2% y/y with core expected up 0.2% m/m, 2.5% y/y after 0% m/m, 2.3% y/y – focus will be on components for PCE
- **University of Michigan July flash consumer sentiment** expected up to 68.5 from 68.2 with current condition 66 from 65.9 with 1Y inflation outlook expected flat at 3%.

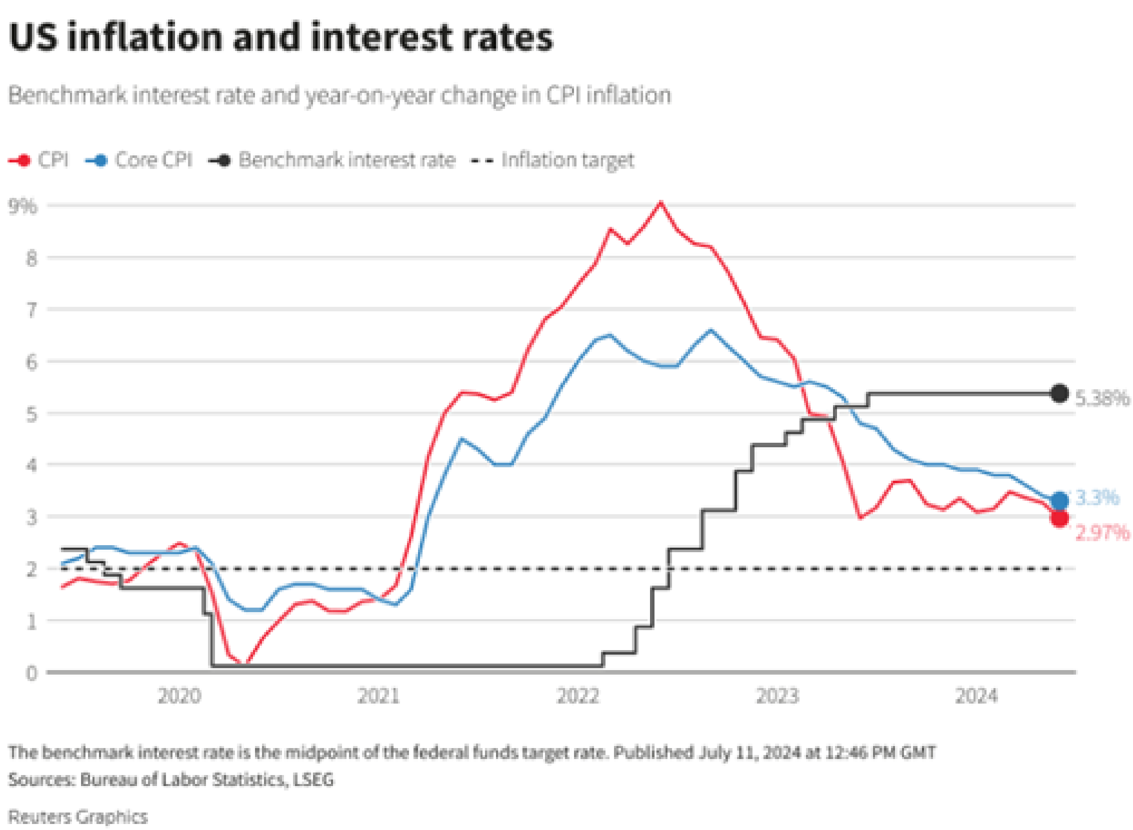
Headlines

- Singapore 2Q GDP flash up 0.4% q/q, 2.9% y/y – holding near 18-month highs – as good producing industries recover – STI up 0.65%, SGD flat at 1.3425
- China June trade surplus jumps to $99.05bn with exports up 8.6% y/y – most in 2 year - while imports -2.3% y/y – with M2 off 0.6pp to 6.2% y/y and TSF growth 8.1% lowest on record -CSI 300 up 0.12%, CNH off 0.05% to 7.2705
- Japan May final industrial production up 3.6% m/m, 1.1% y/y – best in seven months – led by autos – while MOF doesn't confirm intervention but market thinks Y3.5trn bought - Nikkei off 2.45%, JPY off 0.15% to 159.15
- Sweden June CPI drops to 0.9pp to 2.6% y/y – lowest since Sep 2021 – OMX up 0.9%, SEK up 0.1% to 10.54
- German WPI drops -0.3% m/m, -0.6% y/y – first monthly drop in 4-months – DAX up 0.4%, Bund 10Y yields up 4.5bps to 2.505%, EUR up 0.2% to 1.0890
- US President Biden in NATO press conference vows to "complete the job" despite stumbles – US S&P500 futures up 0.1%, US 10Y bond yields up 0.5bps to 4.215%, USD off 0.15% to 104.30

The Takeaways:

The rotation trade in equities is the rage as 2Q earnings start with the big banks and continue into the next 3 weeks. The move in US shares yesterday stands out with big tech sales and small cap buying the notable components. Whether that continues today matters as the hope for stock market bulls is to see such corrections without significant overall market pain. Behind the stock market is the bond market and the expectations that the US CPI move lower was sufficient to help convince the FOMC to ease in September. But the broad drop in prices across components makes clear also that corporate pricing and margins will be key for all 2Q earings and 3Q outlooks with the burden of proof on the CEOs. The bottom-up work of analysis on the US economy will be painful to watch leaving many more macro-minded happy to wait with Soccer and the start of the Olympics. Whether that suffices to keep volatility in check remains to be seen. July should be the easy month for trend chasing but the USD reversal aided by JPY intervention and the noise of US politics makes clear that the size of earnings and supply of bonds in the weeks ahead matters.

Exhibit #1:US CPI and FOMC still key, will PPI matter?



Source: Reuters, BNY Mellon

Details of Economic Releases:

1. **Singapore 2Q GDP up 0.4% q/q, 2.9% y/y after 0.3% q/q, 3.0% y/y – better than 2.7% y/y expected**. The good producing industries returned to growth in the second quarter (1.3% in Q2 vs -0.7% in Q1) amid a revival in the manufacturing sector (0.5% vs -1.7%), while construction output accelerated (4.3% vs 4.1%). The service producing industries also expanded 3.3% in the second quarter driven mainly by gains in the information & communications, finance & insurance & professional services (5.6%).

2. **China June trade surplus rises to $99.05bn from $82.62bn – more than $85bn expected** - the largest trade surplus since July 2022, as exports jumped while imports fell. Exports grew 8.6% from a year earlier, the fastest pace in 15 months and beating forecasts of an 8% gain, while imports unexpectedly dropped by 2.3%, missing the forecast of a 2.8% growth, and after a 1.8% rise in May. The trade surplus with the United States widened to $31.78 billion in June from $30.81 4 billion in the previous month. For the first half of 2024, the country recorded a surplus of $435 billion, with exports rising 3.6% to $1.71 trillion while imports advanced 2.0% to $1.27 trillion. The trade surplus with the United States stood at $159.9 billion for January - June 2024.

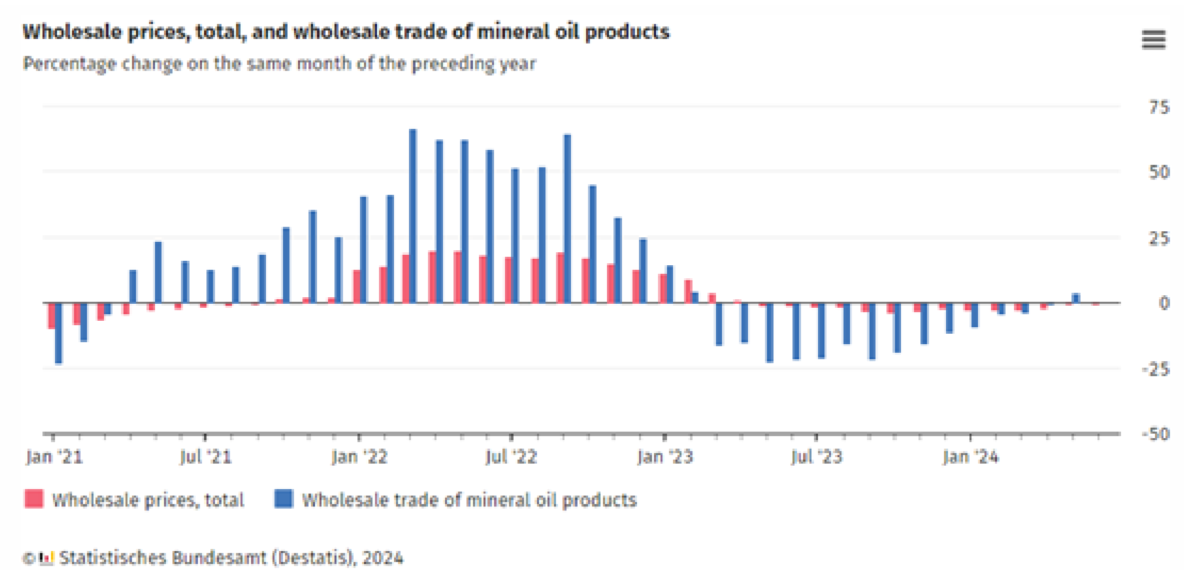
3. **China June M2 drops to 6.2% from 7.0% - less than 6.9% expected**. New CNY loans rise to 2.13trn from 0.95trn still less than 2.2trn expected while total social financing rises to CNY 3.3trn after 2.07trn – less than 5trn expected and down from June 2023 4.23trn - outstanding total social financing rose 8.1% year-on-year, the slowest increase on record. The decline aligned with the sharp slowdown in outstanding loan growth, dropping to 8.1% in June from 9.3% in the previous month, to mark the smallest amount of loan growth since data started being recorded in 1998. The results took place despite continued efforts by the People's Bank of China and other branches of the Chinese government to relax monetary conditions and lift investment and consumption, dampening hopes that economic stimulus and loosened financial conditions will have an impact on aggregate demand. Poor housing demand and Beijing's efforts to tackle housing oversupply have trimmed a main source of loan targeting for the Chinese economy, and reports of unsanctioned investments from policymakers raise concerns about insufficient projects that qualify for loans.

4. **Japan May industrial production rises 3.6% m/m, 1.1% y/y after -0.9% m/m, -1.8% y/y – more than the 2.8% flash** – first yearly expansion in 7-months and the

second monthly expansion in industrial output so far this year, mainly contributed by strong rebounds in the output of motor vehicles (18.1% vs -0.6% in April), electrical machinery, and information and communication electronics equipment (5.3% vs -2.4%), and general-purpose and business oriented machinery (5.2% vs -3.0%).

5. German June WPI -0.3% m/m, -0.6% y/y after +0.1% m/m, -0.7% y/y – less than the 0.2% m/m expected – first monthly drop in 4-months and 14th y/y decline, albeit the softest pace in the sequence, amid lower cost of chemical products (-0.5%), iron, steel & ferrous semi-finished metal products (--9.7%), live animals (-5.5%) and computers and peripheral equipment (-5.4%). Conversely, prices increased for coffee, tea, cocoa & spices (13.9%), non-ferrous ores, non-ferrous metals and non-ferrous semi-finished metal products (12.7%), waste and scrap (9.7%), sugar, confectionery and bakery products (5.8%), fruit, vegetables and potatoes (5.6%), and tobacco products (5.1%).

Exhibit #2: German WPI shows something about demand?



Source: German Destatis, BNY Mellon

Disclaimer & Disclosures

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

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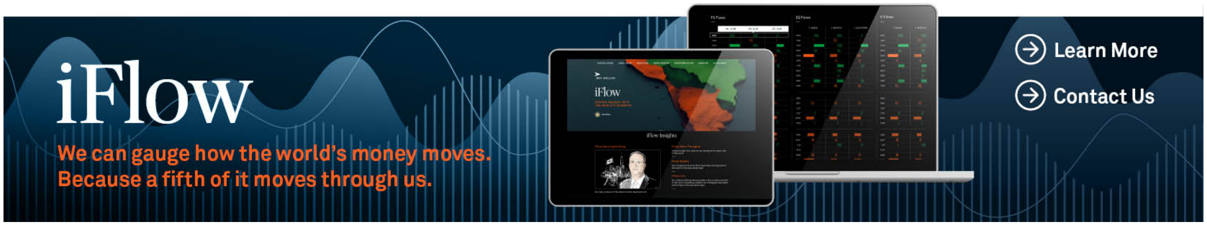

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