BNY

iFlow MARKET MOVERS

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Grazed

“My soul grazes like a lamb on the beauty of indrawn tide.” – Pat Conroy

“Happiness doesn’t grow where impatience grazes.” – Lisa Wingate

Summary

Risk on in US markets but down elsewhere as we return to a “Trump Trade” after former President survives an assassination attempt. Betting markets show 70% of his election. US 2-10Y rate curve briefly moves to positive - first time since January. Japan on holiday left US bonds less liquidity and more prone to the moves today. China economic data misses badly with 2Q GDP at 4.7% y/y - adding to stimulus hopes there - while credit conditions ease in Europe but so does growth with warnings on fiscal deficit increasing. On the day ahead, focus will be squarely on FOMC Powell and his take on CPI and rate cut hopes while bank and other 2Q earnings hit the tape. The start of the Republican convention will give little room for focus beyond politics and what the policy implications for markets are in the months ahead.

What’s different today:

- **Nigeria Naira falls to March lows** – even as USD reserves rise to $35bn best since May 2023 – but currency now 1563.8 officially while inflation rose 34.2% in June.
- **US 30Y yield above 2Y yields for first time since January** – 30Y now at 4.456% and 2Y at 4.449% with focus on Powell and FOMC easing odds against Trump trade view.

What are we watching:

- **Bank Earnings** and more 2Q earnings – focus on GS, Blackrock
- **FOMC Powell** interview
- **NY July Empire Fed manufacturing index** expected -8 from -6

Headlines

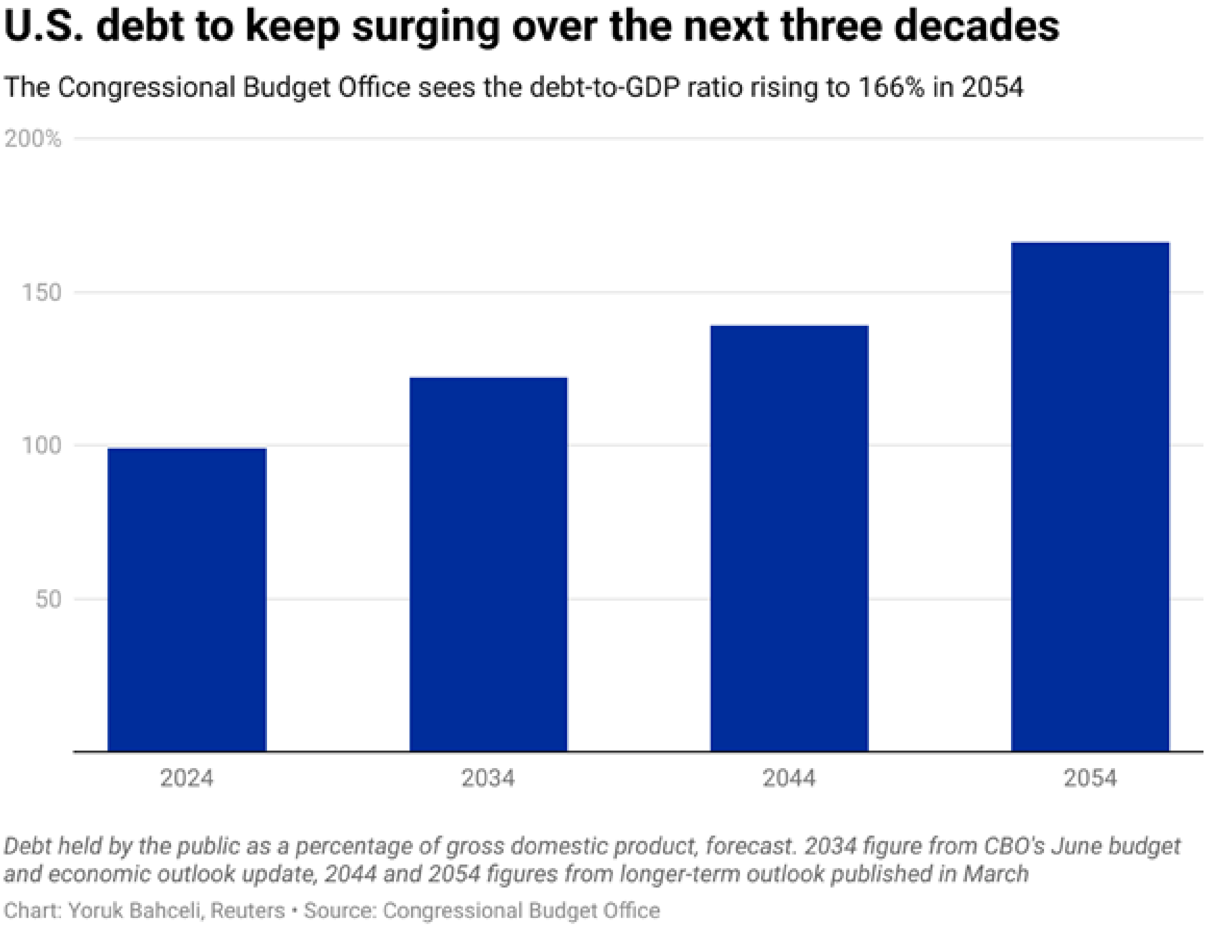
- China 2Q GDP up 0.7% q/q, 4.7% y/y- weakest since 1Q 2023 - led by weak domestic demand - June retail sales -0.12% m/m, +2% y/y - first drop since July 2023; industrial production off 0.3pp to 5.3% - lowest since March - while real estate investment —10.1% ytd and home prices -0.7% m/m, -4.5% y/y for worst month since October 2014 - PBOC net drains CNY 3bn leaving 1Y MLF unchanged at 2.5% - CSI 300 up 0.11%, CNH flat at 7.2705
- India June WPI up 2.48% m//m, 3.36% y/y- fastest rise in inflation since Feb 2023 – Sensex up 0.18%, INR off 0.1% to 83.597
- Indonesia June trade surplus narrows to $2.39bn - smallest since Feb 2023 - with exports up 1.17% y/y and imports jumping 7.58% y/y – IDR off 0.2% to 16,165
- NZ June PCI composite drops 3.8 to 40.9 - led by services off 2.8 to 40.2 - lowest except for Covid -NZD off 0.35% to .6095
- French national auditor warns nation "dangerously exposed"as budget deficit rises – CAC40 off 0.7%, OAT 10Y yields off 0.5bps to 3.145%
- Eurozone May industrial production fell -0.6% m/m -2.9% y/y - while ECB July credit survey shows easing of price pressures – EuroStoxx 50 off 0.5%, EUR up 0.1% to 1.0915
- US President Biden urges Americans to "lower the temperature" after Trump shooting – S&P500 futures up 0.7%, US 10Y yields up 4.5bps to 4.23%, USD flat at 104.11

The Takeaways:

The narrative for the day rests on the "Trump Trade" with many investors assuming the weekend events add to the former President being re-elected. Th The logic being that the chances of tax cut extensions and higher trade tariffs - leading to even higher U.S. fiscal deficits, even alongside potential growth headwinds and intense political pressure on the Federal Reserve to ease as inflation continues to subside near term. Some also suspect a possible withdrawal of U.S. support for Ukraine would also up fiscal pressures in Europe, who may then have to pick up the funding for the war. Also notable is the jump in Bitcoin up over 9% to $62k trading back at 2-week highs. The oddity of USD up these factors stands out with

Mexico, South Africa and Korea weakness stands out. The key market to focus on remains US rates with the balancing act of US stocks against yields the challenge.

Exhibit #1: US Deficit matter, just when?



Source: Reuterss, BNY Mellon

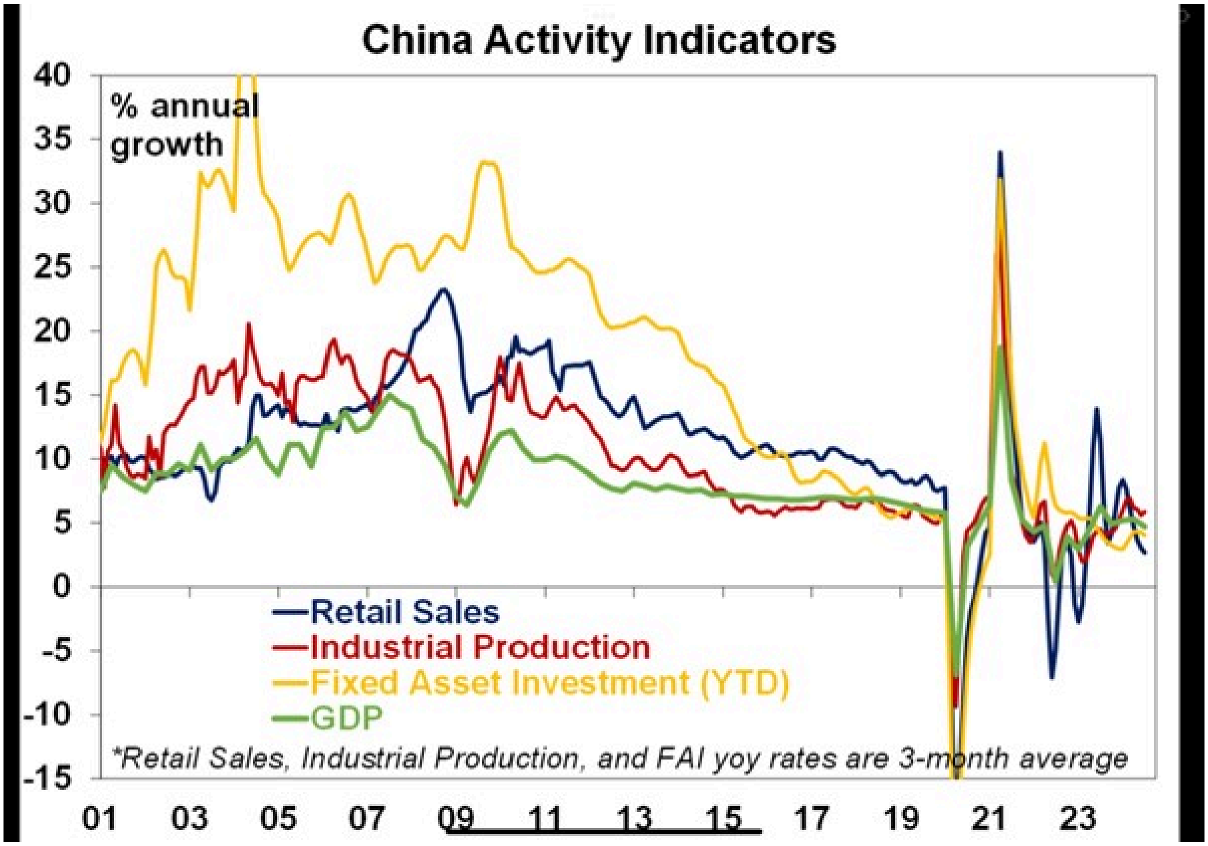
Details of Economic Releases:

1. New Zealand June composite NZ PCI fell to 40.9 f rom 44.7- weaker than 44.0 wepxected. Services fell to 40.2 from 43 posting the lowest level of activity for the sector for a non-COVID lockdown month since the survey began in 2007. The key index values for Activity/Sales (35.6) and New Orders/Business (38.3) were both the lowest for a non-COVID lockdown month. Employment (45.6) was at its lowest point since February 2022, while Supplier Deliveries (41.6) was the lowest since March 2022. Meanwhile, Stocks/Inventories improved 1.3 points to 43.5. Doug Steel, BNZ's Senior Economist, said that "the Performance of Services Index has been well below average for more than a year. Moreover, the weakness appears to be accelerating."

2. India June WPI rose +2.48% m/m,, 3.36% y/y after 0.6% m/m, 2.61% y/y - better than 3.5% y/y expected - still the eighth consecutive period of wholesale inflation and the fastest pace since last February 2023, due to a faster rise in manufacturing, primary articles, and food prices. Primary articles (8.80% vs 7.20% in May) and food index (8.68% vs 7.40%) advanced faster, due mainly to higher onion (93.35%), potato (66.17%), and vegetables (38.76%). Also, manufacturing prices increased more (1.43% vs 0.78%), the second straight month of increase, mainly driven by rises in basic metals (1.06% vs 0.35%) and wood and products of wood and cork (3.17% vs 2.97%). Meanwhile, fuel and power prices eased slightly (1.03% vs 1.35%), as rises in LPG (1.49%) were offset by falls in petrol (-1.35%) and HSD prices (-1.78%).

3. China 2Q GDP rose 0.7% q/q, 4.7% y/y after 1.5% q/q, 5.3% y/y - weaker than 5.1% y/y expected - the weakest yearly advance since Q1 of 2023, amid a persistent property downturn, weak domestic demand, falling yuan, and trade frictions with the West. The latest figures came as the communist party began the Third Plenum, a key political event in which various reform measures are likely to be launched, along with recommendations for more support action to boost recovery. The economy grew by 5.0% during the first half of the year while the government is targeting the GDP to grow around 5.0% this year. In June alone, economic indicators mostly presented a slowdown, with retail sales rising the least in almost 1-1/2 years and industrial output growth at a 3-month low. Meantime, the urban jobless rate remained unchanged at 5.0% for the third month. On the trade front, exports increased more than expected last month but imports unexpectedly shrank.

Exhibit #2: Chinese data weak enough for RRR cut?



Source: Reuters, BNY Mellon

4. China June retail sales slow to -0.12% m/m, +2.0% y/y after +0.23% m/m, 3.7% y/y - weaker than 3.3% y/y expected - first monthly decline since July 2023 - still the 17th consecutive month of annual growth in retail trade, albeit the softest in the sequence, as sales slowed remarkably for beverages (1.7% vs 6.5% in May), tobacco & alcohol (5.2% vs 7.7%), furniture (1.1% vs 4.8%), communication equipment (2.9% vs 16.6%), and petroleum & petroleum products (4.6% vs 5.1%). Moreover, sales tumbled for clothes, shoes, hats & textiles (-1.9% vs 4.4%), cosmetics (-14.6% vs 18.7%), sports & recreation articles (-1.5% vs 20.2%), household appliances & audio-video equipment (-7.6% vs 12.9%), and cultural & office supplies (-8.5% vs 4.3%).

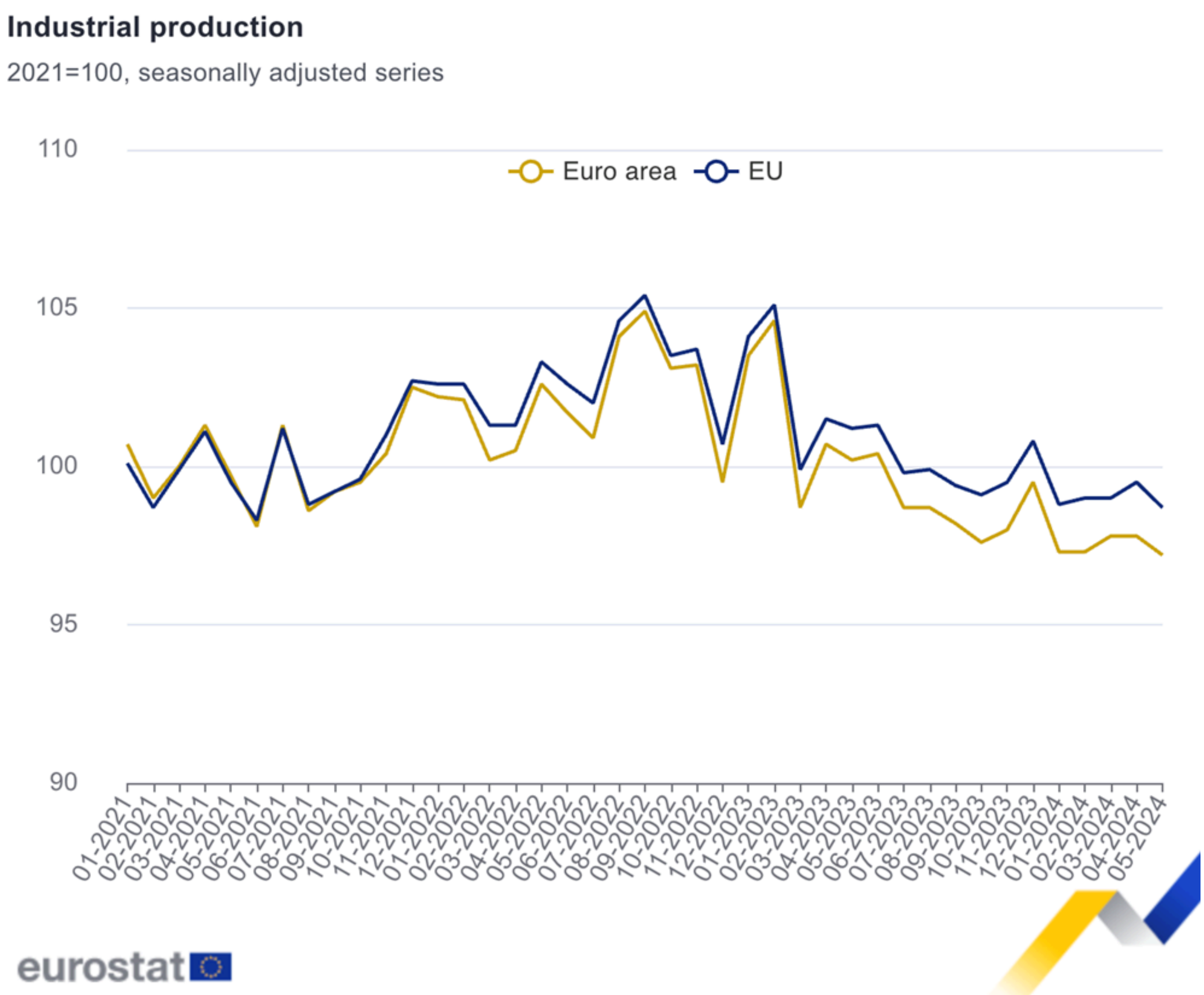
5. China June industrial production rose +0.3% m/m, 5.3% y/y after +0.4% m/m, 5.6% y/y - better than 5% y/y expected - the second straight month of moderation in industrial output, with growth hitting its lowest since March, mainly due to a slowdown in manufacturing activity (5.5% vs 6.0% in May) as economic recovery stayed fragile. Among industries, 35 out of 41 major sectors posted growth, notably coal, mining & washing (4.4%), oil & natural gas (4.4%), chemical products (9.9%), textiles (5.1%), metal smelting and rolling processing (3.3%), non-ferrous metal smelting and rolling processing (10.2%), other transportation equipment (13.1%), automobile (6.6%), computer, communication and other electronic equipment (4.4%), and utilities (4.1%).

6. **China June fixed asset investment ytd slows to +0.2% m/m, 3.9% y/y from 0% m/m, 4.0% y/y - as expected**. The marginal slowdown was attributed to a slight easing of investments in the tertiary sector (5.4% vs 5.7% in January-May), of which investment rose in water conservancy management (27.4%), aviation transportation (23.7%), and railway transportation (18.5%). Additionally, investment growth in the secondary sector remained steady at 12.6%, with increases in mining (17.0%), manufacturing (9.5%), and electricity, heat, gas, and water production and supply (24.2%). Meanwhile, investments in the primary sector advanced (3.1% vs 3%). At the same time, investment in real estate declined by an annual 10.1% during the first six months of the year.

7. **China June Unemployment staedy at 5% - as expected -** the jobless rate among residents registered locally was 5%, while those with non-local registration rose to 4.8%, of which the non-local agricultural registrants had a rate of 4.7%. In 31 major cities, the urban unemployment rate was 4.9%. On average, employees in enterprises worked 48.6 hours per week. Considering January to June, the urban surveyed jobless rate averaged 5.1%, a decrease of 0.2 percentage points compared to the corresponding period in the previous year.

8. **China June house prices drops -0.7% m/m, -4.5% y/y after -3.9% y/y - worse than -4% y/y expected -** steepest monthly drop since October 2014 and the 12th straight month of decrease and the fastest pace since June 2015, despite multiple efforts from Beijing to mitigate the impact of a prolonged property downturn and weak economic recovery. Prices dropped further in most cities, including Beijing (-2.4% vs -1.8% in May), Guangzhou (-9.3% vs -8.3%), Shenzhen (-7.3% vs -7.4%), Tianjin (-1.2% vs -0.7%), and Chongqing (-3.4% vs -2.7%). At the same time, cost continued to increase in Shanghai (4.4% vs 4.5%).

9. **Eurozone May industrial production fell 0.6% m/m, -2.9% y/y after 0% m/m, -3.1% y/y - better than -1% m/m expected**. Output fell for intermediate goods (-1% vs -0.3% in April),capital goods (-1.2% vs 0.7%) and durable consumer goods (-1.8% vs 0.4%). In contrast, production rebounded for energy (0.8% vs -0.2%), and continued to rise for non-durable consumer goods (1.6% vs 3.6%).



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

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