

July 17, 2024

Rotations

““You know, your life is a rotation. You have to lead your revolution.” – Ega Andromeda

“The lazy manage to keep up with the earth’s rotation just as well as the industrious.” – Mason Cooley

Summary

Risk off as rotation trades in stocks from tech to small caps dominates. Taiwan chip shares fell sharply leading to doubts, throw in talk of Japan FX being misvalued by Trump, coupled with more clarity on his policy plans with mixed global data and markets look confused. The US bond markets are a focus with rates rethinking Fed easing and yet a 20Y sale today will test duration demand. The US housing and industrial production data matter to the narrative and the Beige Book will make clear the mood of the Fed districts on growth and inflation.

What’s different today:

- **Trump Bloomberg interview** – strongly warns Fed not to ease during election, wants 60% tariffs on China, would cut corporate tax rate to 15%, would consider JPM Dimon for Treasury Secretary.
- **US weekly MBA mortgage applications jump 3.9% w/w** with 30Y mortgage rates off 13bps to 6.87% - lowest since March.
- **iFlow** – Mood still significantly positive despite rotation trade, while carry is back to neutral and trend positive but off its peak – G10 saw notable SEK

selling along with EUR while USD, AUD bought. The equity flows in G10 still negative ex NZ while bond buying in LatAm and EMEA notable.

What are we watching:

- **Fed Beige Book and Fed speakers** – anecdotal view on growth and disinflation important
- **US June housing starts** expected up 1.8% to 1.3mn after 1.277mn – with permits up 0.1% to 1.386mn – key for housing inflation and rate views.
- **US June industrial production** expected up 0.3% m/m after 0.7% m/m with manufacturing up 0.1% m/m – continuing recovery key for soft-landing views
- **US Treasury** sells \$13bn in 20-year bonds and \$60bn in 17-week bills

Headlines

- Bank of Indonesia leaves rates unchanged at 6.25% - as expected – focused on IDR and investment flows – IDR up 0.5% to 16,095
- Japan July Reuters Tankan index jumps to 5 to 11 - best in 7-months – Nikkei off 0.43%, JPY up 1.2% to 156.50
- China Securities Daily – PBOC could still cut LPR this month, injects net CNY268bn via 7-day reverse repos – CSI up 0.09%, CNH off 0.3%.
- Singapore June NODX surprise drop in exports -0.4% m/m, -8.7% y/y – 5th month of weakness, led by electronics – STI up 0.05%, SGD up 0.3% to 1.3405
- NZ 2Q inflation drops 0.7pp to 3.3% y/y – lowest since June 2021 – led by tradeable price drops - NZD up 0.7% to .6090
- Australian June Westpac LEI flat 0% with 6M average up 0.15pp to -0.13% y/y suggesting below trend growth still – ASX up 0.73%, AUD up 0.2% to .6745
- UK June CPI up 0.1% m/m, 2% y/y – higher than 1.9% y/y expected but core flat at 3.5% y/y- while King's Speech details 35 priorities for growth from homebuilding to railways – FTSE off 0.3%, GBP up 0.5% to 1.3035
- Eurozone June CPI up 0.2% /m, 2.5% y/y – as expected – EuroStoxx 50 off 1.3%, EUR up 0.3% to 1.0940
- US weekly API oil inventories surprise with -4.44mb draw – 3rd weekly drop – but gasoline rose 0.365mb and distillates rose 4.92mb still 8% below 5Y average – WTI up 0.5%

The Takeaways:

The US consumer holds the economy together and the surprise strength of the retail sales yesterday maybe lost in the noise of the day ahead, but it matters to the thinking of a US soft-landing vs. the fear of a recession. The problem is that stoking further growth from the consumer will require money and that begets further fears of inflation as the Trump trade pricing reflects. Many look offside on positioning into another heavy data day with 2Q earnings and important economic releases likely to matter to the storyline. The linkage of how markets track the link of USD weakness inspired by potential political policy shifts matters but so too do economic data points with inflation linked in New Zealand to the sticky wages and in the UK to Taylor Swift concerts while in the US, the disinflation highlights from Powell and Williams comments will be viewed against Fed Governor Waller considered the key hawkish member preventing faster easing.

Exhibit #1: US retail sales



Source: Reuters, BNY Mellon

Details of Economic Releases:

1. New Zealand 2Q CPI slows to +0.4% q/q, +3.3% y/y from +0.6% q/q, 4.0% y/y - below the 3.5% y/y expected – lowest since June 2021 led by increases in cost of

housing and household utilities (4.4% vs 4.5% in Q1) due to rising prices for rent, construction of new houses, and rates. The next contributor to the rise was miscellaneous goods and services (7% vs 6.6% in Q1), followed by Alcoholic beverages and tobacco (6.9% vs 7.4% in Q1). Conversely, prices fell for Household contents and services (-1.5% vs 3% in Q1).

2. Japan July Reuters Tankan index jumps to 11 from 6 – better than 8 expected – first gain in 4-months and best in 7-months. However, the index for the services sector cooled to 26 from 31, reflecting a patchy economic outlook. Manufacturers also expect the index to fall back to +9 over the next 3 months. The latest survey comes two weeks before the central bank's July policy meeting where it could raise interest rates again and announce its bond purchase tapering plans. One respondent said: "Domestic price hikes have weakened consumption and a slowing Chinese economy has caused China-bound materials from the Middle East to make inroads into the Japanese market at low prices. The double punches of weak domestic demand and cheap import materials from overseas are curbing our sales volume." Another manager said: "Input prices have risen and remain elevated due to the weak yen as we struggle to transfer costs to our customers."

3. Australian June MI Westpac LEI 0% m/m – unchanged – weaker than 0.2% m/m expected – holding flat for 3rd month while 6M annualized rate rose to -0.13% in June from -0.28% in May but indicated that lackluster growth momentum continued through H2 of 2024 and into early 2025. Over H1 of the year, GDP growth is expected to come in at an annualized pace of just 0.8%, a result that was foreshadowed by the weak index reads in 2023. On the monetary front, Westpac expects the Reserve Bank to again leave the official cash rate unchanged in its August meeting. "The latest Leading Index suggests slow growth is continuing to bring demand into line with supply, helping to lower inflation," said senior economist Matthew Hassan. He added, however, the speed of this process remains unclear.

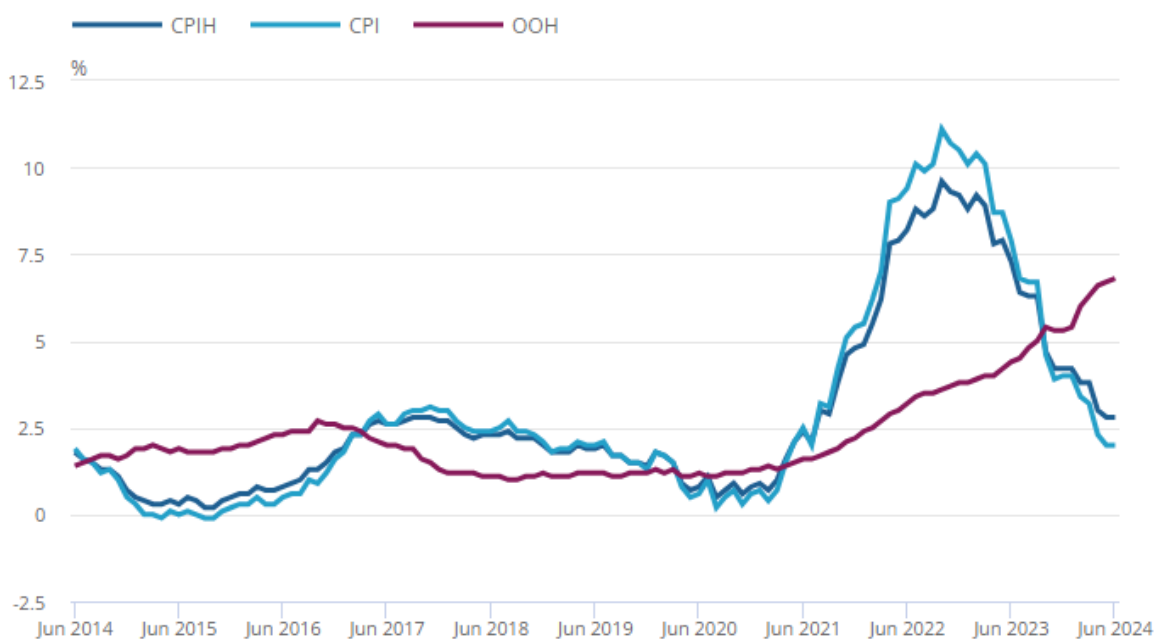
4. Eurozone June final CPI up 0.2% m/m, 2.5% y/y after 0.2% m/m, 2.6% y/y – as expected – with core CPI flat at 2.9% y/y. Prices eased for energy (0.2% vs 0.3%) and food, alcohol and tobacco (2.4% vs 2.6%). On the other hand, inflation was steady for services (4.1%) and non-energy industrial goods (0.7%). Among the bloc's largest economies, inflation slowed in Germany (2.5% vs 2.8%), France (2.5% vs 2.6%) and Spain (3.6% vs 3.8%) but edged higher in Italy (0.9% vs 0.8%).

5. UK June CPI rose 0.1% m/m, 2% y/y after 0.3% m/m, 2% y/y – more than 0.1% m/m, 1.9% y/y expected. Core CPI steady at 3.5% y/y. The largest upward contribution came from cost of restaurants and hotels (6.2% vs 5.8%), mainly price of hotels. Transport prices also increased at a faster pace (0.9% vs 0.5%), mostly secondhand cars, maintenance

and repairs of personal transport equipment and air fares. The average price of petrol fell by 3.0 pence per litre between May and June 2024 to 145.8 pence per litre, up from 143.0 pence per litre in June 2023. On the other hand, the largest downward contribution came from clothing and footwear (1.6% vs 3%), mostly garments. Inflation also eased for food and non-alcoholic beverages (1.5%, the lowest since October 2021 vs 1.7%), particularly bread and cereals, meat, and fruit. Prices for housing and utilities (-4.7% vs -4.8%) continued to fall while inflation was steady for services (5.7%) and recreation and culture (3.9%).

Exhibit #2: CPI in UK sticky

CPIH, OOH component and CPI annual inflation rates, UK, June 2014 to June 2024



Source: Consumer price inflation from the Office for National Statistics

Source: ONS, BNY Mellon

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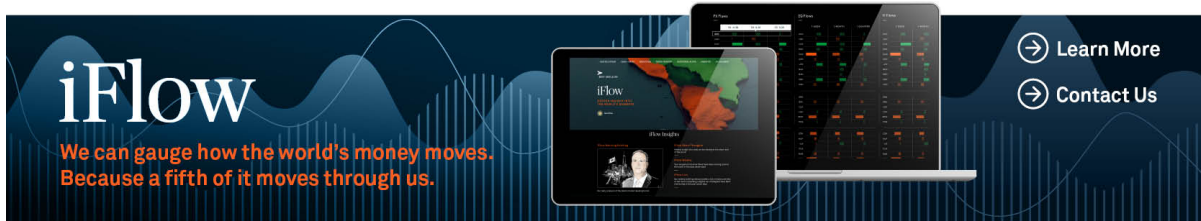


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