

July 18, 2024

Pauses

“Mindfulness is a pause – the space between stimulus and response; that’s where choice lies.” – Tara Brach

“Whenever you find yourself on the side of the majority, it is time to pause and reflect.” – Mark Twain

Summary

Risk recovers with focus on Semiconductors as TSMC raises earnings forecasts stoking a modest relief for tech vs rest of market rotation trades. However, APAC continues to punish tech sector heavy bourses with Japan and Korea suffering linked to FX as well. USD trades at 4-month lows and Japan MOF intervention talk rises. China focus is on Xi and the “top mission” of high-quality economic growth. The ECB and SARB rate decisions are next with many expecting fresh guidance on easing. For the day ahead, plenty of risks from US jobless claims and Philly Fed to surprise and shift thinking on FOMC which makes Fed speakers at the Dallas Conference important as well.

What’s different today:

- **ECB and SARB rate decisions** - while both are assumed on hold – risk of guiding for sharper easing cycles ahead matter, FX and fixed income focus.
- **US weekly jobless claims** expected up 7k to 229k with continuing claims up 4k to 1.856mn – labor market slowing important for FOMC easing expectations.

- **US July Philadelphia Fed business outlook** expected up 2.9 from 1.3 – with focus on jobs, prices, outlook.
- **US June conference board LEI** expected -0.3% m/m after -0.5% m/m – adding to slowing growth views.
- **US Treasury** sells \$19bn in 10-year TIPS along with \$90bn in 1m bills and \$85bn in 2m bills. The focus will be on sizing of next week's auctions as well.
- **Fed Speakers:** Fed Governor Michelle Bowman, San Francisco Fed President Mary Daly and Dallas Fed chief Lorie Logan all speak.
- **US 2Q Earnings:** Netflix, Blackstone, M&T Bank, Textron, Snap-On, Cintas, Marsh & McLennan, Abbott Laboratories, KeyCorp, DR Horton, Domino's Pizza, PPG, Intuitive Surgical

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

- Japan Cabinet Secretary Hayashi – no comment on FX moves, former MOF Hayakawa warns BOJ not likely to hike in July but will cut bond buying; June trade Y240bn surplus with exports up 5.4% y/y – Nikkei off 2.36%, JPY off 0.15% to 156.40
- China CCTV show Xi speaking at Third Plenum, pushing for high-quality development, deepening supply-side reform – CSI 300 up 0.55%, CNH up 0.1% to 7.2675
- Australian June jobs jump up 50,200 but unemployment up 0.1pp to 4.1% with participation rate rising – ASX off 0.27%, AUD up 0.1% to .6735
- Eurozone May construction output drops 2.4% y/y – biggest drop in 3-years - EU bonds retreat waiting for ECB – EuroStoxx 50 up 0.3%, EUR off 0.1% to 1.0930

- UK June claimant count up 32,300 while unemployment steady at 4.4% and earnings slow – FTSE up 0.6%, GBP off 0.2% to 1.2985
- President Biden tests positive for Covid stalls his campaign; Host of senior democrats continue to push for President Biden to step aside – according to NY Times, Politico, Washington Post and ABC News – S&P500 futures flat, 10Y US yields up 2.5bps to 4.18%, USD index flat

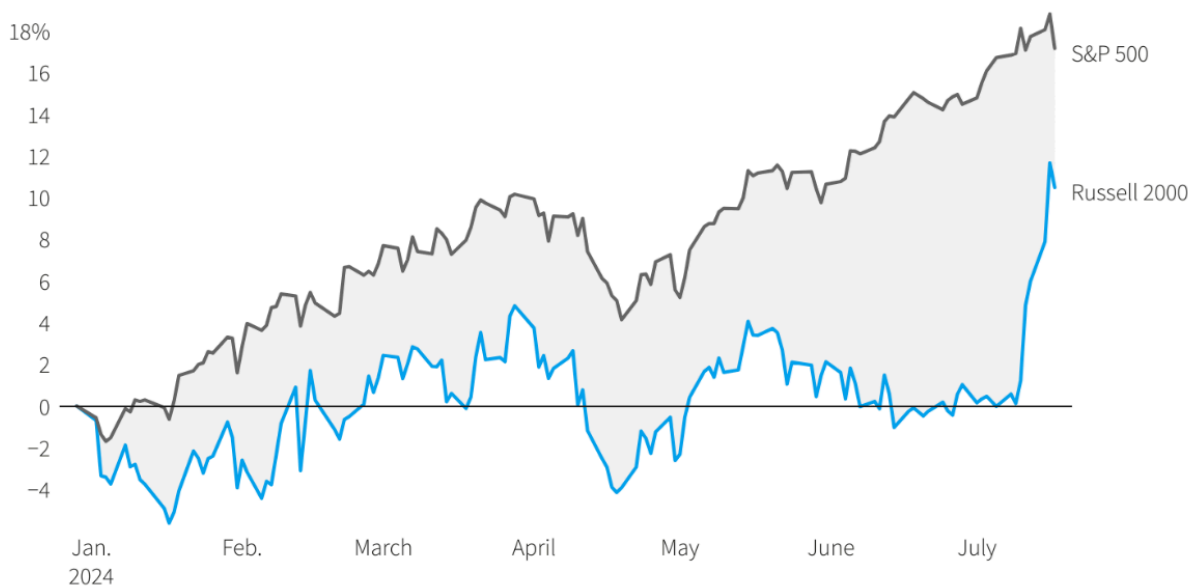
The Takeaways:

The Trump Trade and the Rotation trade in equities stall a bit ahead of more US data, more Fed speakers and more 2Q Earnings. The pause in the momentum trade is important to consider as we start the day with the moves in many shares notable if not historic as investors bake in the idea of tax cuts, tariffs, rate cuts and hope for low inflation and a supportive Fed to make it all work. Throw on top, 2Q earnings expected to stay over 9% and you have the rotation trade and curve steepening plays. The weaker USD follows meekly and the focus on EUR today matters given the ECB and an expected pause in their easing cycle. The way that this decision unfolds and is described by Lagarde today matters. After that the US data will take off with labor market focus on jobless claims and the growth hopes wrapped in the Philadelphia Fed survey. Whether markets chase the ongoing trends or pause will set the course for the week ahead into a Fed blackout period and more focus on the bottom's up analysis of growth and earnings.

Exhibit #1: US rotation trade continued yesterday

Playing catch-up in US stocks

The small-cap Russell 2000 has closed its performance gap with the S&P 500 in recent days



Source: LSEG | Graphic by Lewis Krauskopf

Source: Reuters, BNY Mellon

Details of Economic Releases:

1. Japan June trade surplus narrows to Y224.0bn after Y1.22trn – better than Y240bn deficit expected and up from Y36.52bn last June 2023, as exports grew faster than imports. It was also the second time of surplus so far this year in trade balance with shipments rising by 5.4% yoy, the seventh consecutive month of growth, supported by robust sales to main trading partners, notably the US and China. Meanwhile, purchases increased by 3.2%, the least in three months, indicating the impact of weak yen. The country posted a trade shortfall of JPY 3.23 trillion for the first six months of the year.

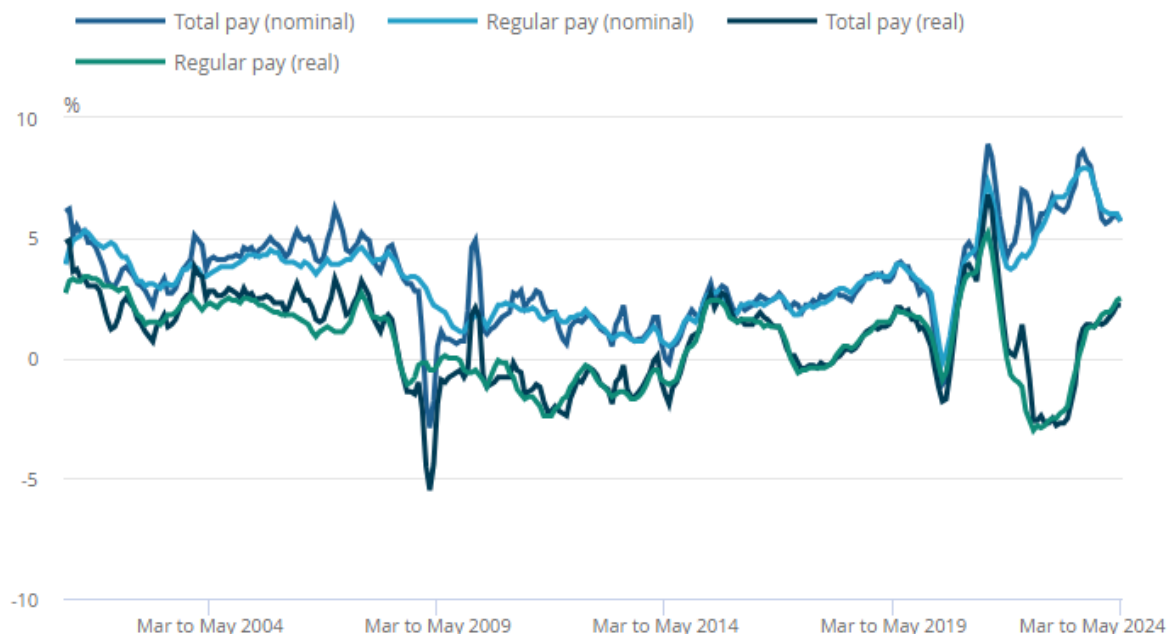
2. Australian June employment rises 50,200 after 39,500 – better than 20,000 expected – but unemployment rate rises to 4.1% from 4.0% with participation rates rising to 66.9% from 66.8%. There was a jump of 43,300 to 9,944,200 in full-time employment. At the same time, part-time employment increased by 6,800 to 4,461,800. Over the year to June, employment gained 387,600 or 2.8%. The number of unemployed individuals increased by 9,700 to 608,200, as people looking for part-time jobs rose by 7,500 to 206,400 and those seeking full-time jobs increased by 2,200 to 401,800. The underemployment rate fell to 6.5% from 6.7% in May. Additionally, monthly hours in all jobs increased by 15 million or 0.8% to 1,967 million.

3. Eurozone May construction output drops -0.9% m/m, 2.4% y/y after -1.5% y/y – worse than -1% y/y expected. Output declined further for specialized construction activities (-1.8% vs -0.9% in April) and building activity (-4.8% vs -3.6%). Also, production eased for civil engineering works (0.4% vs 2%). Among the largest economies in the Euro Area, construction activity dropped in Germany (-7%), France (-5.6%), and Spain (-1.8%).

4. UK June claimant count rises 32,300 after 51,900 – more than 23,400 expected. The unemployment rate (3M average) steady at 4.4% - as expected – still the highest reading since the three months to September 2021, as the number of unemployed individuals rose by 88k to a total of 1.53 million, driven by those unemployed for up to 6 months, which remained above levels from a year ago. Also, those unemployed for over 6 and up to 12 months and those over 12 months had increased in the latest period. Meanwhile, the number of employed individuals rose by 19k to 33.0 million, mainly due to a rise in part-time employees and full-time self-employed workers. Additionally, the number of people in employment with second jobs went up during the period, accounting for 3.8% of all employed individuals. Finally, the economic inactivity rate fell by 0.2 percentage points to 22.1%. The 3M average wages annualized fell to 5.7% from 5.9% with ex-bonus also 5.7% from 6.0%. Wage growth steadied in the public sector (6.3%) and eased at the private sector (5.5% vs 5.9%).

Exhibit #2: Wages in UK matter to BOE

Average weekly earnings annual growth rates in Great Britain, seasonally adjusted, January to March 2001 to March to May 2024



Source: Monthly Wages and Salaries Survey from the Office for National Statistics

Source: ONS, BNY Mellon

Disclaimer & Disclosures

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



Bob Savage
HEAD OF MARKETS STRATEGY
AND INSIGHTS

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