

July 23, 2024

Quick Crawls

“It’s never too late to be who you might have been.” – George Elliot

“We must keep moving. If you can’t fly, run; if you can’t run, walk; if you can’t walk, crawl; but by all means keep moving.” – Martin Luther King, Jr.

Summary

Risk mixed as markets think thru the Harris/Trump election battle to November, as investors wait for 2 of the magnificent 7 to report (Alphabet and Tesla) today and as US rate markets prepare for \$189bn in supply this week. There is a rethinking of the contrast and commonality of policy for the US markets ahead with debt and foreign policy as the key focus. The Fed blackout leaves the data today (home sales and Richmond Fed) as a sideshow to the big events of GBP and core PCE later this week. The political polls set the tone for risk taking into the uncertainty of the day and week ahead.

What’s different today:

- **China CSI 300 fell 2.1%** - the largest one-day drop since mid-January and ending a 7-day winning streak.
- **India new government budget leaves 10-year bonds yields below 7%**, near 2Y lows of 6.95% set in early June, with 2025 Union Budget slightly more conservative than expected – 4.9% plan down from 5.1% interim spending deficit.

- **iFlow Mood moving lower** still positive, carry neutral, trend positive – this is a systematic trading dream with contained volatility. USD buying in G10 stands out with EUR, NOK selling, while in EM CLP, COP, ZAR outflows against INR and KRW. Fixed Income continues to see MXN outflows, little in G10 while equities is still outflows in G10 and inflows elsewhere except China.

What are we watching:

- **US June existing home sales** expected -3% to 3.99mn after 4.11mn- focus will be on supply and prices
- **US July Richmond Fed manufacturing index** expected -6 after -10 with focus on jobs, prices and services expected -9 after -11
- **US Treasury** sells \$69bn 2Y bond auction with focus on 2/30 curve and further supply ahead.
- **US 2Q earnings:** Alphabet, Tesla, Comcast, Texas Instruments, Lockheed Martin, UPS, GE, GM, Invesco, Visa, Capital One, Moody's, MSCI, Coca Cola, Kimberly-Clark, Chubb, HCA Healthcare, Freeport McMoRan, AO Smith, Pentair, Philip Morris, Avery Dennison, Danaher, PulteGroup, Quest, Seagate Technology, Sherwin-Williams Enphase Energy, CoStar, Genuine Parts, Packaging Corp of America

Headlines

- Kamala Harris secures enough delegates for democratic nomination in race for President, raises \$100mn for campaign – US S&P500 futures up 0.1%, 10Y US yields off 2.5bps to 4.227%, US dollar index up 0.1% to 104.40
- China brokers unity government for Palestinians as Hamas and Fatah “end divisions” - China Xi bets on high tech for “great rejuvenation.” – CSI off 2.13%, CNH up 0.1% to 7.2885
- Japan surge in tourism starts talk of dual pricing, while Japan and China restart strategic talks after 4 1/2 years - while LDP Motegi pushes BOJ to be more clear about monetary policy normalization ahead – Nikkei off 0.01%, JPY up 0.65% to 156.05
- Korea June PPI fell -0.1% m/m, but +2.5% y/y - first monthly drop since November, highest annual since March 2023 – Kospi up 0.39%, KRW up 0.15% to 1386.5

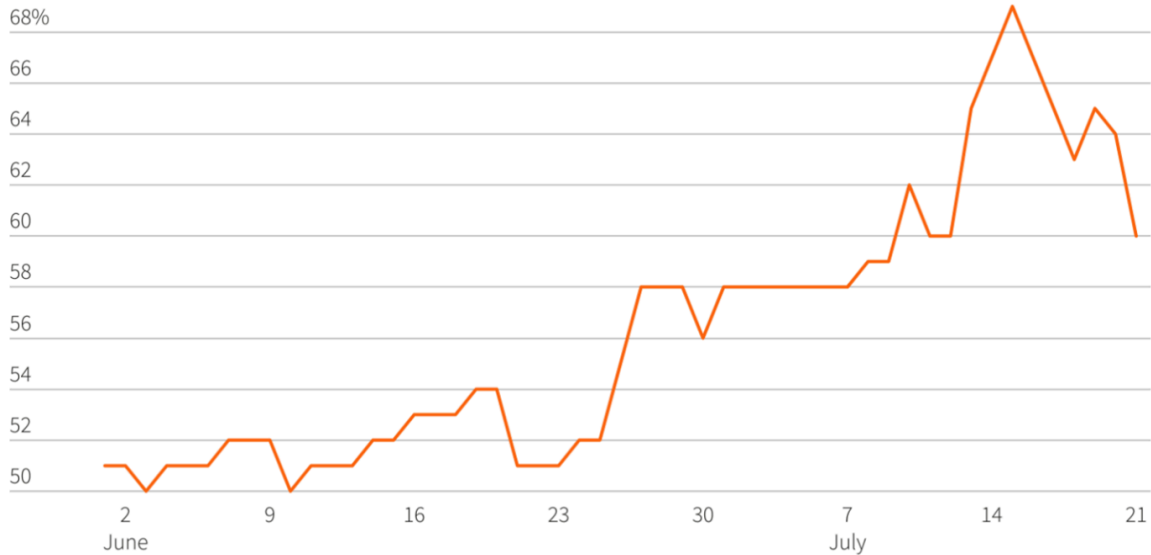
- Singapore June CPI fell -0.2% m/m, 2.4% y/y - lowest since August 2021, while core 2.9% y/y lowest since March 2022 – SGD flat at 1.3455
- Taiwan June industrial production slows from 3Y highs to 13.23% y/y while retail sales 0% m/m – Taiex up 2.76%, TWD up 0.1% to 32.838
- Turkey TCMB leaves rates unchanged at 50% - as expected - while consumer confidence in July drops 2.4 to 75.9 weakest since Nov 2023 – TRY off 0.2% to 32.933

The Takeaways:

The lack of major volatility after the political switch from Biden to Harris, after the great rotation trade in US shares last week and after data in the US suggest the soft path of June flipped in July leaves many investors waiting or perhaps crawling to hold position appropriate for the news agenda ahead. 2Q earnings remain in the center stage now with equity expectation misses are more dangerous now than in 1Q as shown by the harshness of the price action. The glue to keep markets focused on the longer term is politics and the risk of a simple Trump vs. Harris race has been distilled into the yield curve, the rotation trade in tech and to the USD. However, underneath the odds ongoing of a Trump winning (60% according to betting markets) vs. Harris (44%) the fate of Congress matters more. There is no simple way to fix the US deficits and the coattails of the Presidential vote are in play for how markets think about the USD and US bonds ahead. The relief risk trade today must start with the US bond market. The quick crawling to safety seen over the last week may be followed by a slower pace of returning to US exceptionalism.

Exhibit #1: US polling drives risk appetites in markets

Betting markets trimmed Trump's odds ahead of Biden's exit



Note: Odds implied by market prices that Republican candidate Donald Trump wins the presidential election in November
Source: PredictIt | G. Rubin | Breakingviews | July 22, 2024

Reuters Graphics Reuters Graphics

Source: Reuters, BNY Mellon

Details of Economic Releases:

1. Korea June PPI fell -0.1% m/m, +2.5% y/y after +0.1% m/m, +2.3% y/y - less than the +0.1% m/m, 2.6% y/y expected - the highest reading since March 2023 led by a rise in factory gate prices of manufacturing products (2.6 percent vs 1.9 percent in May) and services (2.4 percent vs 2.4 percent). On the flipside, prices rose at the softer pace for electric power, water, and gas (1.9 vs 3.8 percent) and agricultural, forestry, and marine products (3.9 percent vs 5.4 percent).

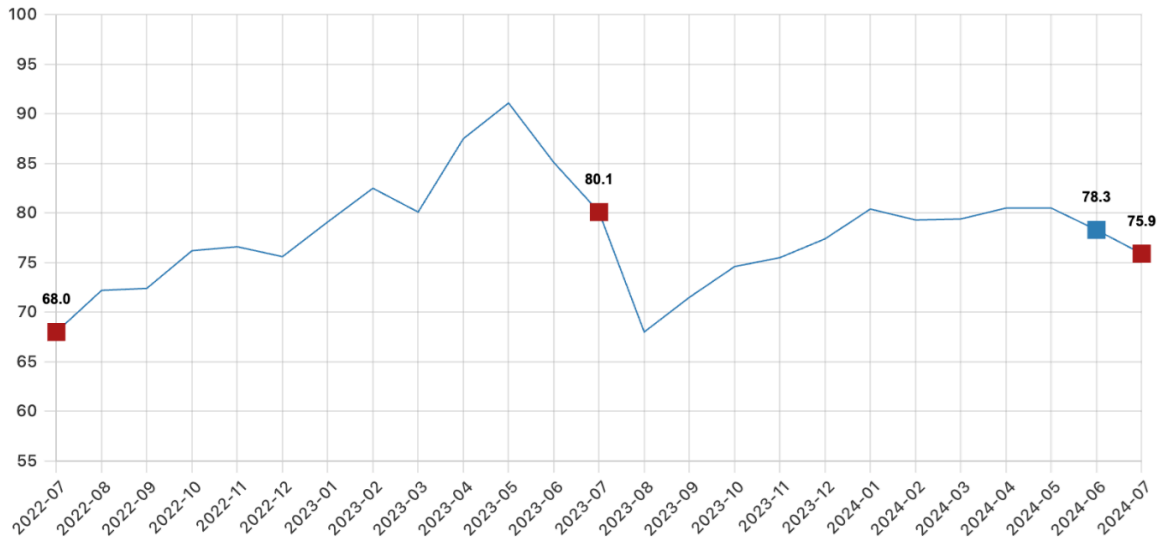
2. Singapore June CPI slows to -0.2% m/m, 2.4% y/y after +0.7% m/m, 3.1% y/y - less than the 2.7% y/y expected. - the lowest level since August 2021. Main downward pressure came from housing & utilities (3.7% vs 3.8% in May), largely linked to accommodation; transport (0.3% vs 2.9%), mainly due to a fall in private transport; recreation & culture (4.7% vs 5.0%), driven by holiday expenses and recreational & culture; healthcare (3.8% vs 4.8%), led by outpatient services; and miscellaneous goods & services (0.8% vs 1.6%), helped by personal care. In addition, clothing prices fell further (-1.8% vs -0.6%). By contrast, inflation was stable for food (at 2.8%); and education (at 3.3%). Meanwhile, communication cost accelerated (0.8% vs 0.4%). The annual core inflation rate dropped to 2.9% from 3.1% in the prior 3 months and lowest since March 2022.

3. Taiwan June industrial production slows to -3.91% m/m, +13.23% y/y after +11.78% m/m, 15.73% y/y - less than the 14.1% y/y expected - slowing from 3-year highs, as output eased sharply for manufacturing (13.5% vs 16.28% in May). Meanwhile, output rebounded for mining & quarrying (1.41% vs -1.22%) and increased at a faster pace for electricity & gas supply (9.07% vs 5.13%) and water supply (1.73% vs 1.44%). Retail sales for the month rose 3.9% y/y after 2.6% y/y with increased sales for general merchandise stores (6% vs 3.1% in May), food, beverages & tobacco (2.9% vs 0.2%), textiles & clothing (9.6% vs 3.5%), household appliances & goods (4.1% vs 0.9%), and pharmaceutical & medical goods & cosmetic (6% vs 1.6%), while remained steady for cultural & recreation goods (at 0.6%). Conversely, sales rose at a slower pace for motor vehicles, motorcycles & related parts & accessories (4.4% vs 6.7%), other goods (9.4% vs 14%), and electronic shopping & mail-order houses (0.2% vs 1%). At the same time, declines were seen in sales of fuel & related products (-2.9% vs -1.9%), information & communications equipment & electrical household appliances (-1.4% vs -2.1%), construction materials (-1.1% vs -3%), and not in stores/stalls (-0.2% vs -0.4%).

4. Turkey July consumer confidence drops to 75.9 from 78.3 - weaker than +80 expected - lowest since November 2023 - s expectations deteriorated for the general economic situation over the next 12 months (70.8 vs 76.1 in June) and financial situation of households (75.9 vs 79.2). At the same time, concerns about unemployment increased (77.8 vs 73.7). On the other hand, the assessment of spending on durable goods over the next 12 months improved (96.5 vs 94), and views on future inflation dropped (55.9 vs 62).

Exhibit #2: Turkey consumer confidence dropping as TCMB hawkishly holds

Consumer confidence index, July 2024



Source: Turkey Statistics Office, BNY Mellon

Disclaimer & Disclosures

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



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