BNY

iFlow MARKET MOVERS

July 24, 2024

Losing Faith

"In faith, there is enough light for those who want to believe and enough shadows to blind those who don't." – Blaise Pascal

"Faith is taking the first step, even when you don't see the whole staircase." – Martin Luther King, Jr.

Summary

Risk off as 2Q earnings misses add up with tech in focus - while global PMI reports mixed with Japan and UK better, Australia and EU worse. The odds for Trump lower to 55% in US polls post the Harris clinching of the democratic nomination, while focus on weaker US data in housing yesterday leave today's releases more important. Bonds are bid on stocks lower, oil off 7% on the week and hope that FOMC cuts – all of which will be foreshadowed by the BOC today widely expected to cut another 25bps. The unwinding of the US exceptionalism trade is ongoing, linked to the data, 2Q earnings and politics – making today's flash PMI and new home sales that much more exciting into the test of $70bn in 5Y bond sales.

What's different today:

- **Copper trades at 4-month lows below $4.15lb** - led by China demand concerns, tempered by India growth - inventories in LME warehouses in China back to May 2023 highs.
- **US MBA weekly mortgage applications fell 2.2% w/w** after +3.9% even as 30Y mortgage rates 30Y fell 5bps to 6.82% – This is the 3rd weekly decline in rates.

- **iFlow** mood indicator moving lower out of significant territory while G10 equity selling continues, EU bill buying notable. Carry and trend neutral zone, with G10 FX still seeing USD buying and EUR selling, while EM is CLP, ZAR, CNY selling vs. TRY, INR.

What are we watching:

- **Bank of Canada rate decision expected 25bps to 4.5% -** this is fully priced into markets making the commentary around cut key for guiding to neutral rate.
- **US June goods trade deficit** expected $98.7bn after $100.6bn – important for 2Q GDP estimates.
- **US July flash composite PMI** expected down 0.6 to 54.2 with services expected -0.4 to 54.9 and manufacturing flat at 51.6.
- **US June new home sales** expected up 3.4% m/m to 640,000 after -11.3% m/m, 619,000 – important given the drop in existing home sales.
- **US 2Q Earnings:** AT&T, IBM, Ford, General Dynamics, Ameriprise Financial, CME, Fiserv, Boston Scientific, Allegion, Align Technology, Newmont, Nextera, Otis, Chipotle, Teradyne, International Paper, United Rentals, Westinghouse, Molina Healthcare, Thermo Fisher Scientific, Edwards Lifesciences, Universal Health etc

Headlines

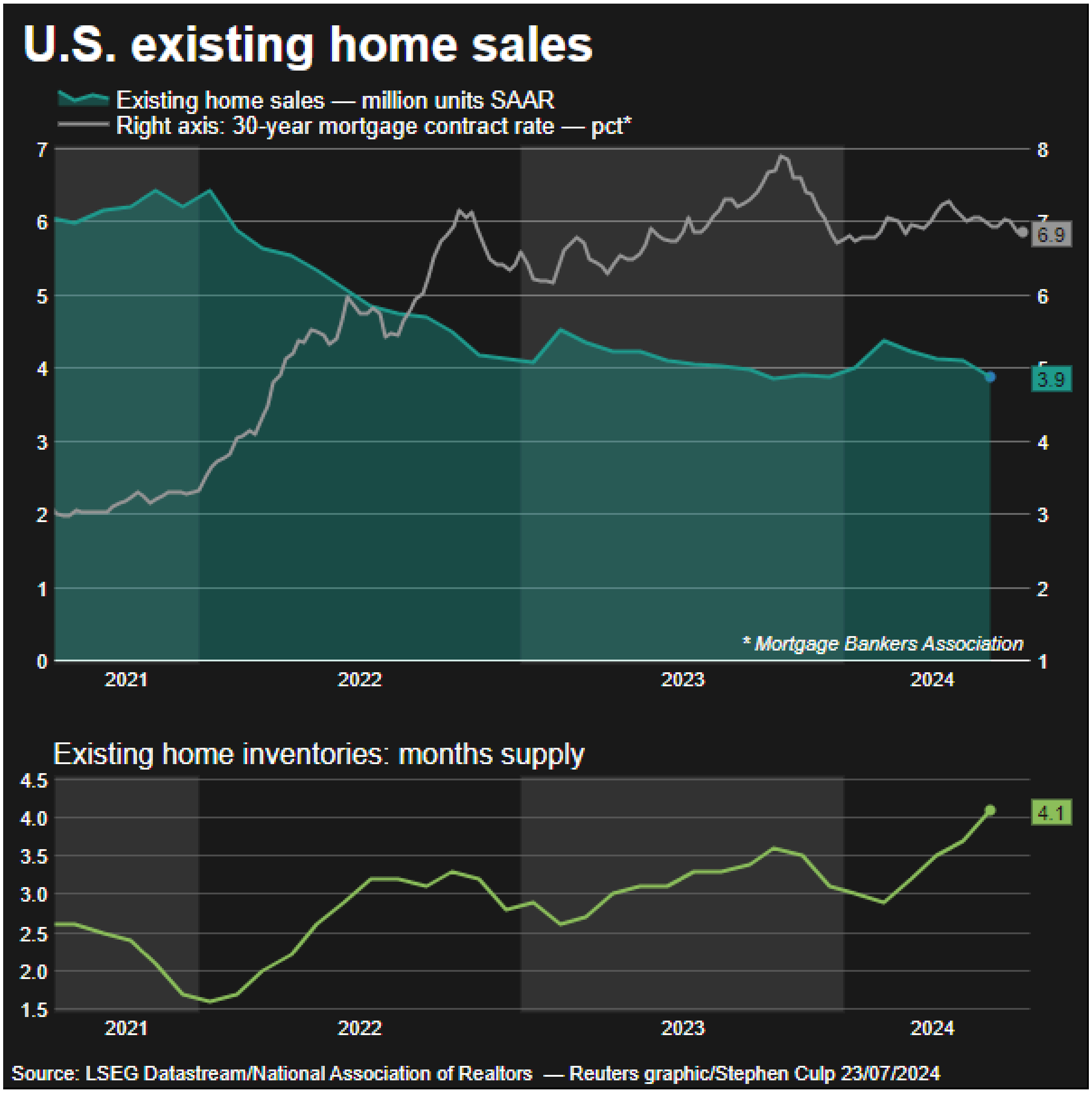
- Japan July flash composite PMI jumps 3 to 52.6 - led by services best since April, while manufacturing contracts, analysts see BOJ on hold, but cutting JGB purschases in half - Nikkei off 1.11%, JPY up 0.75% to 154.50
- Korea July consumer confidence rose 2.7 to 103.6- highest since June 2023 - Kospi -0.56%, KRW up 0.15% to 1383.60
- Australian July flash composite PMI fell 0.5 to 50.2 - weakest in 6-months, with confidence back to Covid lows – ASX off 0.09%, AUD off 0.2% to .6600
- India July flash composite PMI up 0.5 to 61.4 - best since April - led by services - Sensex off 0.35%, INR off 0.1% to 83.71
- South Africa June CPI rose 0.1% m/m, 5.1% y/y - lowest since Dec 2023 - ZAR up 0.4% to 18.3050
- German August GfK consumer climate rose 3.2 to -18.4 - best since April 2022 - while July flash composite PMI fell 1.7 to 48.7 - first contraction in 4-months – DAX off 0.7%, Bund 10Y flat t 2.433%
- Eurozone July flash composite PMI off 0.8 to 50.1- 5-month lows with manufacturing at 7-month, services 4-month lows – EuroStoxx 50 off 0.8%, EUR off 0.1% to 1.0840

- UK July flash composite PMI up 0.4 to 52.7 - 9th monthly expansion led by manufacturing up 0.9 to 51.8 at 2-year highs – FTSE off 0.2%, GBP flat at 1.29
- US weekly API crude oil inventories drop -3.9mb - 4th weekly decline for total 19.4mb draw - gasoline fell 2.8mb near 5Y average while distillates fell -1.5mb now 7% below average – Oil up 1% to $77.70

The Takeaways:

Rates matter but they lost their religion for some money managers as 2Q earnings and growth compete for the news agenda. The Fed black out period has left many doubting the data and the wisdom of high for longer. The Bank of Canada cutting faster stands out today and leaves many watching FX as well with overnight rates expected to drop to 4.5% in Canada today, the 5.5% in the US leaves this spread near the widest and makes CAD at 1.3785 with 1.40 expected now before 1.35. The real test of faith for investors will be in how 2Q earnings continue to play out and how the FOMC expected September easing plays against the 3Q outlooks. The rate markets matter to the real economy but not totally as the home sales data yesterday highlighted along with the MBA mortgage applications do today. The relationship of rates to economics, to other asset classes looks fragile and with it the 3rd implied mandate for all central bankers – financial stability.

Exhibit #1: US housing markets reflect high for long rates



Source: Reuters, BNY Mellon

Details of Economic Releases:

1. **Korean July consumer confidence rose to 103.6 from 100.9 - better than 101 expected -** highest level since June 2023. Consumer sentiment regarding current living standards increased to 91 (from 90 in June), while future outlook sentiment rose to 95 (from 94). Sentiment about future household income edged up to 100 (from 99), and future household spending climbed to 111 (from 109). Sentiment regarding current domestic economic conditions improved to 77 (from 71), and future domestic economic conditions rose to 84 (from 80). Meanwhile, the expected inflation rate for the next year was 2.9%, slightly lower than 3% in the previous month

2. **Australian July flash Judo Bank composite PMI slips to 50.2 from 50.7 - weaker than 50.4 expected -** the slowest growth in the current six-month expansion period, driven by a

weaker rise in services activity (50.8 from 51.2) and a ongoing decline in manufacturing (47.4 from 47.2) as production there fell to 4-month lows at 46.3 from 46.8. Persistent demand weakness led to a second consecutive monthly decrease in total new business and the fastest fall in new export orders in nearly four years. Although companies continued hiring, the rate was the slowest in almost three years, significantly reducing work backlogs. Input cost inflation hit a 16-month high due to rising service input prices and increased minimum wage pressures. Business confidence fell to its lowest level since the survey began, excluding the initial COVID-19 wave in March 2020.

3. Japan July flash Jinbun Bank composite PMI jumps to 52.6 from 49.7 - better than 50 expected - 6th gain of the year, jumping from 7-month lows - supported by the strongest growth in three months for the service sector (53.9 from 49.4) as manufacturing activity unexpectedly contracted (49.2 from 50). Demand conditions strengthened, highlighted by an increase in new orders following a slight dip in the prior month. also, employment increased for the tenth month, as both manufacturing and services firms saw a sustained rise in headcounts. Backlogs of work increased for the first time in three months, despite only fractionally. At the same time, foreign sales continued to shrink. On the cost side, input prices and selling prices quickened. Finally, sentiment stayed positive but the degree of optimism softened.

4. India July flash HSBC composite PMI rises to 61.4 from 60.9 - better than 60.8 expected - highest since April and the 36th successive month of expansion in private sector activity, as output growth accelerated amid a further rise in factory activity (58.5 from 58.3) and an acceleration in the service sector (61.1 from 60.5). Also, new orders were robust, with the rate of increase the fastest in three months. Moreover, foreign sales logged the second-strongest pace of rise in series history. Aggregate employment gained at one of the strongest rates since the survey began while backlogs of work rose further. Turning to inflation, input cost accelerated, broadly aligning with its long-run average. Meanwhile, selling prices rose the most since February 2013. Finally, sentiment strengthened, with the reading above the series average, buoyed by increased advertising, buoyant demand, and new client enquiries.

5. South African June CPI up 0.1% m/m, +5.1% y/y after 0.2% m/m, 5.2% y/y - as expected - lowest since December 2023, as prices softened across several CPI categories, including food and non-alcoholic beverages (4.6% vs 4.7% in May), housing and utilities (5.5% vs 5.8%), health (5% vs 5.3%), and recreation and culture (2.2% vs 2.9%). Transport costs also moderated (5.5% vs 6.3%), due to easing fuel prices (7.6% vs 9.3%). Conversely, prices for household contents and services (2.6% vs. 1.8%) and restaurants and hotels (7.5% vs. 6.5%) increased at a faster rate. Meanwhile, annual core inflation, which excludes food and fuel prices, ticked down to 4.5%, the lowest reading since December 2023, from a prior 4.6%

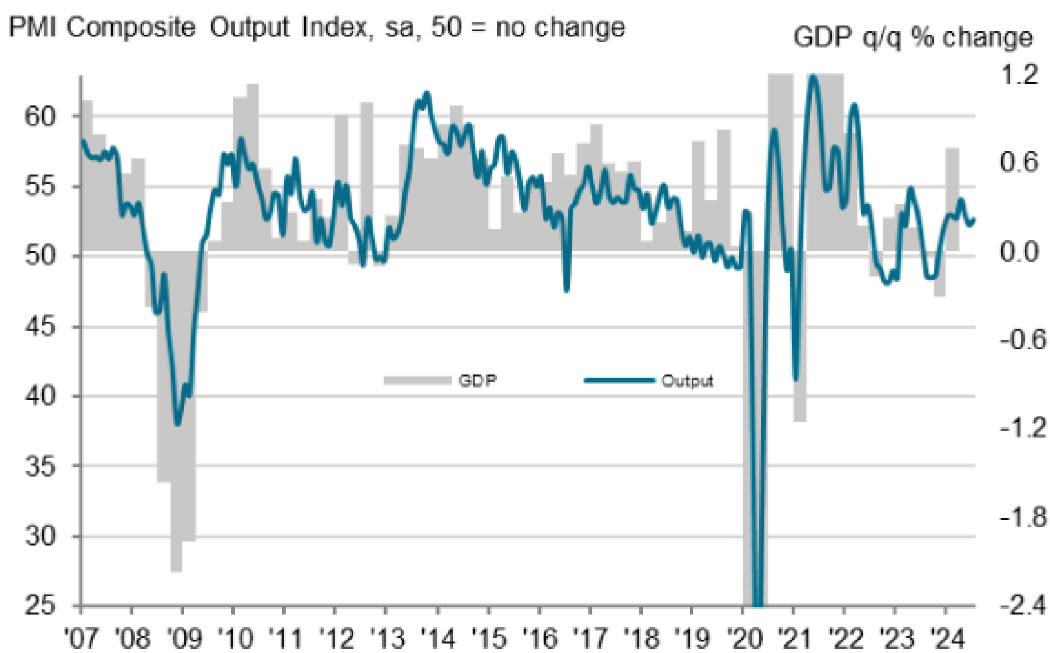
6. German August GfK consumer confidence improves to -18.4 from -21.6 - better than -21 expected - the highest reading since April 2022, amid easing cost pressures and rising wages. Income expectations were significantly higher (19.7 vs 8.2 in July), notching their highest level in nearly 3 years. Also, there were rises in economic prospects (9.8 vs 2.5) and the propensity to buy (-8.4 vs -13.0). Meanwhile, the tendency to save was almost unchanged. "It is very likely that the European Championship euphoria... played a role here," said Rolf Bürkl, consumer expert at NIM. He added, however, it remains to be seen whether the upturn in consumer mood was sustainable or just a short-term flare-up. For a solid improvement in consumer sentiment, Bürkl believed that consumers need a sustained increase in real income and more evidence that the economy can maintain its recovery path

7. Eurozone July flash HCOB composite PMI fell to 50.1from 50.9 - weaker than 51.1 expected - 5-month lows, signaling near-stagnation of the Eurozone private sector as the bloc's economic recovery continued to wane, with manufacturing weakness worsening (45.6 vs 45.8) and the services sector slowing (51.9 vs 52.8). New orders fell for the second month running and business confidence dropped to a six-month low, leading firms to halt a spell of hiring which began at the start of 2024. Meanwhile, the rate of input cost inflation quickened, but demand weakness meant that companies raised their selling prices at a softer pace. The two largest euro area economies continued to underperform the wider region. Output in Germany decreased for the first time in four months, while France posted a third consecutive monthly reduction in business activity

8. UK July flash composite PMI rises to 52.7 from 52.3 - better than 52.6 expected - 9th monthly expansion - Services activity growth accelerated slightly (52.4 from 52.1), while manufacturing output rose to 54.4 from 53.3 - the strongest degree since February 2022. New business increased the most in 15 months, hiring rates rose at the fastest pace in 13 months and business confidence rebounded. Average prices charged rose at the slowest rate in almost three-and-a-half years, though costs remained high due to supply chain challenges, particularly in manufacturing. Services input costs eased, but manufacturing faced rising expenses related to global freight issues.

Exhibit #2: UK flash PMI beats EU

S&P Global Flash UK PMI Composite Output Index



Sources: S&P Global PMI, ONS via S&P Global Market Intelligence.

Source: S&P PMI, BNY Mellon

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

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