BNY

iFlow MARKET MOVERS

July 25, 2024

Safety

"Safety doesn't happen by accident." – Jerry Smith
"Safety and security do not just happen; they are the result of collective consensus and public investment. We owe our children, the most vulnerable citizens in our society, a life free of violence and fear." – Nelson Mandela

Summary

Risk off as global bourses follow US tech led selling in equities. Focus is on earnings, but economic data and surveys added to gloom of growth fears - as Korea 2Q GDP shows surprise contraction, as China PBOC adds more liquidity and cuts 1Y MLF rates, but stocks continue lower, as JPY rises to 152 in carry trade unwind and safe-haven surge. While in Europe, German Ifo and French business climate both drop, with French unemployment at 20-month highs. The US markets are looking for stability and that might follow with 2Q GDP expected at 2% along with more 2Q earnings which despite the price action have beaten EPS albeit with less revenue. The dash for safety today has also helped bonds. The other data beyond GDP likely matters as well with durable goods and jobless claims more relevant to calming recession fears and continuing a soft-landing trajectory. Safety maybe in the numbers rather than the search for lower volatility.

What's different today:

- **ETH drops 5%, BTC off 2.5% to $64k** – after ETFs on ETH generate near $1trn volume in 2nd day of trading.

- **Silver down 3.5%, Gold down 1.1% to $2,371** – the precious metals reflect a demand for cash more than a return to USD demand.
- **iFlow Mood indicator continues to drop** but remains positive while trend lower and carry back to negative in FX. The USD buying, EUR and AUD selling stand out in G10 while in EM CLP, CNY and ZAR selling against TRY buying. For fixed income MXN bond selling continues while UK Gilts and India bonds see inflows. Equities sold in G10 except Norway and Canada while EM mostly positive except China and Singapore.

What are we watching:

- **US Q2 GDP** expected up 2% after 1.4% with focus on core PCE index expected 2.7% from 3.7%.
- **US weekly jobless claims** expected off 5k to 238,000 with continuing claims up 1k to 1.868mn
- **US June durable goods orders** expected up 0.3% m/m after 0.1% m/m with core cap goods up 0.2% m/m after -0.6% m/m.
- **US 2Q corporate earnings**: AbbVie, American Airlines, Southwest Airlines, Dow, Eastman Chemical, Honeywell, Union Pacific, Northrop Grumman, PG&E, Dover, Norfolk Southern, Valero Energy, DTE Energy, CMS Energy, Baker Hughes, CBRE, Hasbro, Keurig Dr Pepper, Cincinnati Financial, Principal Financial, Dexcom, Deckers Realty, Juniper Networks, L3Harris, Verisign, Weyerhaeuser, Wills Towers Watson etc
- **US Treasury** sells $44 billion of 7-year notes and $90 billion of 4-week bills

Headlines

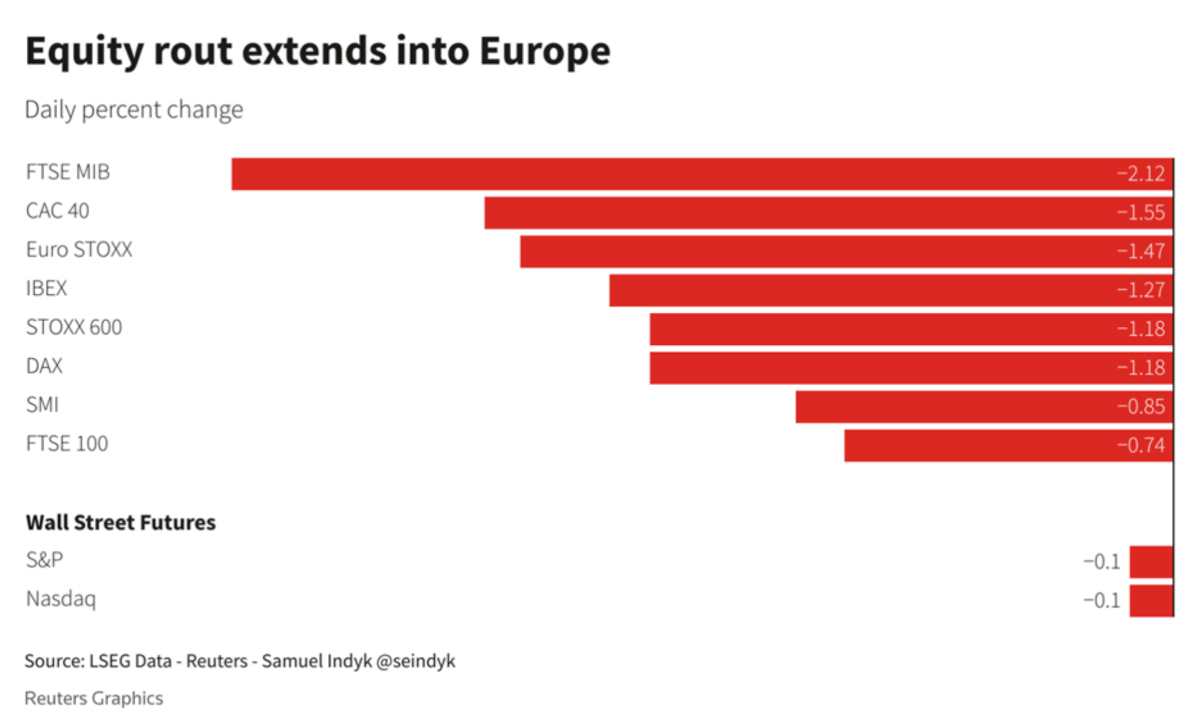
- China PBOC surprises with 20bps cut in 1-Y MLF rate to 2.3% - first cut in a year, net adding CNY200bn - while US intercepts Russian and Chinese bombers off Alaska coast – CNH up 0.6% to 7.2215
- Korea 2Q GDP flash -0.2% q/q, +2.3% y/y- first contraction since 4Q 2022; July business confidence drops 5 to 73 - weakest since April - Kospi off 1.74%, KRW flat at 1380
- Japan population fell for 15th year off 0.7% to 121.5mn, even with immigration rising 11% to 3.3mn, as births drop, deaths rise – Nikkei off 3.28%, JPY up 1%
- Sweden June PPI drops -0.4% m/m, +0.8% y/y - first monthly drop since Dec 2023 – OMX off 1.35%, SEK off 0.5% to 10.835

- Turkish July business confidence drops 0.5 to 102.8 - lowest since Dec 2023 – TRY off 0.6% to 33.08
- French July business confidence fell 4 to 95, climate fell 5 to 94 - weakest since Dec 2020 - while French unemployment rises 18.3k - 20-month highs – CAC40 off 1.9%, OAT10Y off 3bps to 2.895%
- German July Ifo business climate drops 1.3 to 87 - stuck in economic crisis – DAX off 1.2%, Bund 10Y yields -3.7bps to 2.403%
- Eurozone June M3 jumps 0.6pp to 2.2% - with loans to companies up 0.4pp to 0.7% y/y – EuroStoxx 50 off 1.5%, EUR up 0.1%

The Takeaways:

The game of tag requires a safety place, and markets are playing tag into 2Q earnings, politics and central bank meetings. No one is quite sure what that safe-haven is in markets, but we can see that JPY and CHF in FX, bonds in US and owning volatility across markets helps. The pain trade in equities is approaching 5% but most investors will be asking if another 5% follows and if so when will it stop? The risk of a more extended downturn in global markets feeds on itself with a negative vortex of news adding to the momentum. The lack of global growth except perhaps in Japan and the US make for a difficult investing environment. Warnings on policy mistakes from government leaders to central bankers adds to the uncertainty of the moment. The biggest point about 2Q earnings driving the tape today rests on how the rest of the world matter to the US and how earnings and revenues take some of their cue from the Europe and Asia. Hard to see what makes the mood swing back to calm other than some signal that US exceptionalism can hold despite the gloom abroad.

Exhibit #1: Fear is contagious



Source: Reuters, BNY Mellon

Details of Economic Releases:

1. **Korea 2Q flash GDP fell -0.2% q/q, 2.3% y/y after +1.3% q/q, 3.3% y/y - weaker than 0.1% q/q, 2.5% y/y expected** -the first contraction since the fourth quarter of 2022 and missed estimates of a 0.1% rise. On the expenditure side, private consumption fell by 0.2% (vs +0.7% in Q1), as expenditures on goods declined, although expenditures on services increased. Government consumption increased by 0.7% (vs +0.8%), mainly due to a rise in expenditures on goods. Construction investment contracted by 1.1% (vs +3.3%) as residential building construction and civil engineering both fell. Facilities investment declined by 2.1% (vs -2%), driven by lower investments in machinery, despite increased investments in transportation equipment. Exports increased by 0.9%, owing to expanded exports of motor vehicles and chemical products. Imports were up by 1.2%, mainly due to increased imports of crude oil and petroleum products.

2. **Korea July business confidence drops to 73from 78 - weaker than 78 expected**. lowest figure since April, due to a slowdown in production (85 vs 88 in June). Meanwhile, the financial situation (83 vs 83 in June), new orders (81 vs 81 in June) and inventories (104 vs 104 in June) remained steady.

3. **Sweden June PPI fell -0.4% m/m +0.8% y/y after 0% m/m, 2.6% y/y - less than 3% y/y expected** - and first monthly drop since December, but the third straight month of producer annual inflation, the latest result was the weakest in the sequence

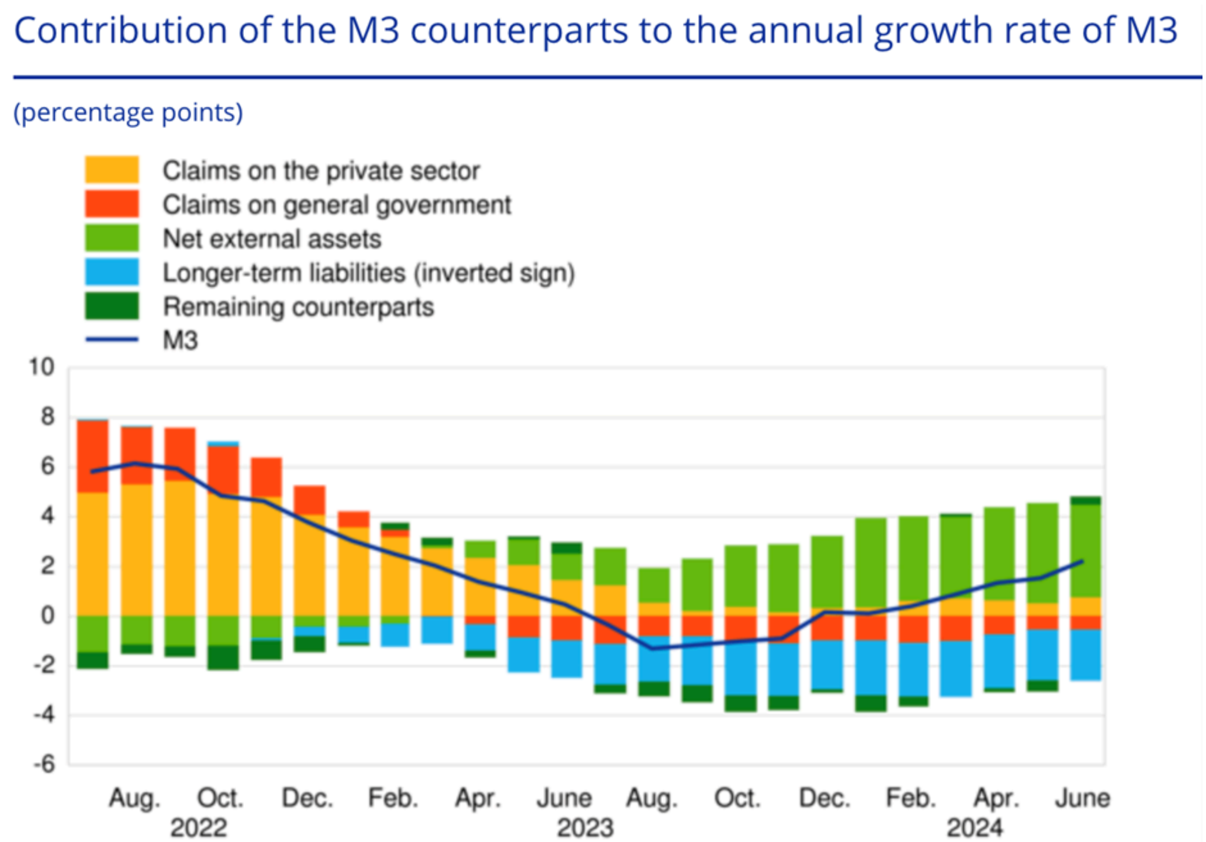
as prices moderated for both capital goods (4.4% vs 5.2% in May) and consumer ones (3.3% vs 4.5%). At the same time, a decline in the cost of energy-related products sharply quickened (-12.1% vs -5.8%). Excluding energy-related products, producer prices rise by 2.8%, moderating from the prior 3.8% gain.

4. French July business confidence drops to 95 from 99 - weaker than 99 expected - while the business climate fell to 94 from 99 - the weakest reading since December 2020. Manufacturer’s evaluation grew more pessimistic for past production (-5 vs -2 in June), overall order books (-20 vs -18), foreign order books (-18 vs -9), and the general production outlook (-18 vs -12). Moreover, assessments turned negative for personal production (-5 vs 2), while views were less positive for expected change in workforce (2 vs 3). On the other hand, sentiment improved for stocks of finished products (9 vs 8), while the gauge for perceiving economic uncertainty decreased (24 vs 30).

5. German July Ifo business climate drops to 87 from 88.3 - weaker than 88.9 expected -Sentiment has declined considerably at companies in Germany, with both current conditions (87.1 vs 88.3) and expectations (86.9 vs 88.8) worsening. "The German economy is stuck in the crisis", Ifo president Fuest said. Business climate declined in manufacturing services, trade and construction.

6. Eurozone June M3 jumps to 2.2% from 1.6% - more than 1.8% expected. The loans to companies rise to 0.7% from 0.3% y/y while loans to households flat at 0.3% y/y - short of market expectations of 0.5% and marked one of the slowest rates of credit expansion since February 2015 as the European Central Bank's recent tightening measures continued to dampen consumer demand. Overall private sector credit growth, encompassing both households and non-financial corporations, picked up to 1.1% from 0.8%

Exhibit #2: ECB M3 rising back to normal?



Source: ECB, BNY Mellon

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

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