

July 26, 2024

Citius

“Citius, Altius, Fortius.” – Olympic Motto

“Capital is necessary for the cultivation of esthetic value.” – Harold Bloom

Summary

Risk on even as the French train disruption into the start of Olympics casts a shadow. Markets are moving faster, hoping for higher and wanting stronger earnings from 2Q reports. The focus overnight was on the Japan CPI which was mixed leaving BOJ decision next week a close call, while French and Italian consumer moods rose and ECB sees anchoring of consumer inflation expectations leaving easing plans easier. The focus on the US day will lock onto the core PCE and whether the FOMC has the same easing path. Final consumer mood measures from Michigan and the personal spending/income will be compared as well but today is mostly about a summer Friday after a long and negative week for shares with the rotation trade and politics dominating fears. The risk into the month end and weekend uncertainty seems modest but few look set to run off the beach to trade.

What's different today:

- **French train network sabotaged ahead of Olympics** – 800,000 passengers disrupted. Pre-dawn attack across the TGV high-speed network causes chaos.
- **China will use some of its ultra-long treasury bonds to fund a consumer trade-in program** to upgrade household durable goods. The state planning agency said on Thursday that about 150 billion yuan (\$20.7 billion) of the 1

trillion yuan China is raising through special debt issuance this year will subsidize replacements of old appliances, cars, bicycles and other goods.\

What are we watching:

- **US June personal income** expected up 0.4% m/m after 0.5% m/m while spending rises 0.3% m/m after 0.2% m/m.
- **US June PCE price index** expected up 0.1% m/m, 2.4% y/y after 0% m/m, 2.6% y/y with core PCE expected up 0.2% m/m, 2.5% y/y after 0.1% m/m, 2.6% y/y
- **US July final University of Michigan consumer sentiment** expected 66.4 from 66 with 1Y inflation 2.9%
- **US 2Q Earnings:** Aon, T Rowe Price, 3m, Bristol-Myers Squibb, Centene, Charter Communications, Colgate-Palmolive, Franklin Resources

Headlines

- Japan Tokyo July core CPI rose 0.1pp to 2.2% - most since March, while LEI rose 0.3 to 111.2 – Nikkei off 0.53%, JPY off 0.35% to 154.60
- MAS keeps policy unchanged, Singapore June industrial production fell -3.8% m/m, -3.9% y/y- led by electronics – STI up 0.12%, SGD flat at 1.3440
- China on alert for flooding from Typhoon Gaemi after pounding in Taiwan, Apple iPhone drops below top 5 in China with local rival gains; Government to allocate CNY300bn to support equipment upgrades/consumer trade-ins – CSI 300 up 0.29%, CNH off 0.3% to 7.2610
- French July consumer confidence up 1 to 90 – best since March – CAC 40 up 0.9%, OAT 10Y yields up 1.8bps to 3.135%.
- Italian July consumer confidence up 0.6 to 98.9 while business confidence up 0.7 to 87.6 – MIB up 0.3%, BTP 10Y yields up 1bps to 3.785%
- Spanish June retail sales up 0.3% m/m, 0.3% y/y – led by food, offset by fuel – while 2Q unemployment fell 1pp to 11.27%, the best since 2007 – IBEX off 0.15%, SPGB up 1.5bps to 3.25%
- Eurozone June consumer inflation expectations steady at 2.8% y/y – EuroStoxx 50 up 0.9%, EUR up 0.1% to 1.0855

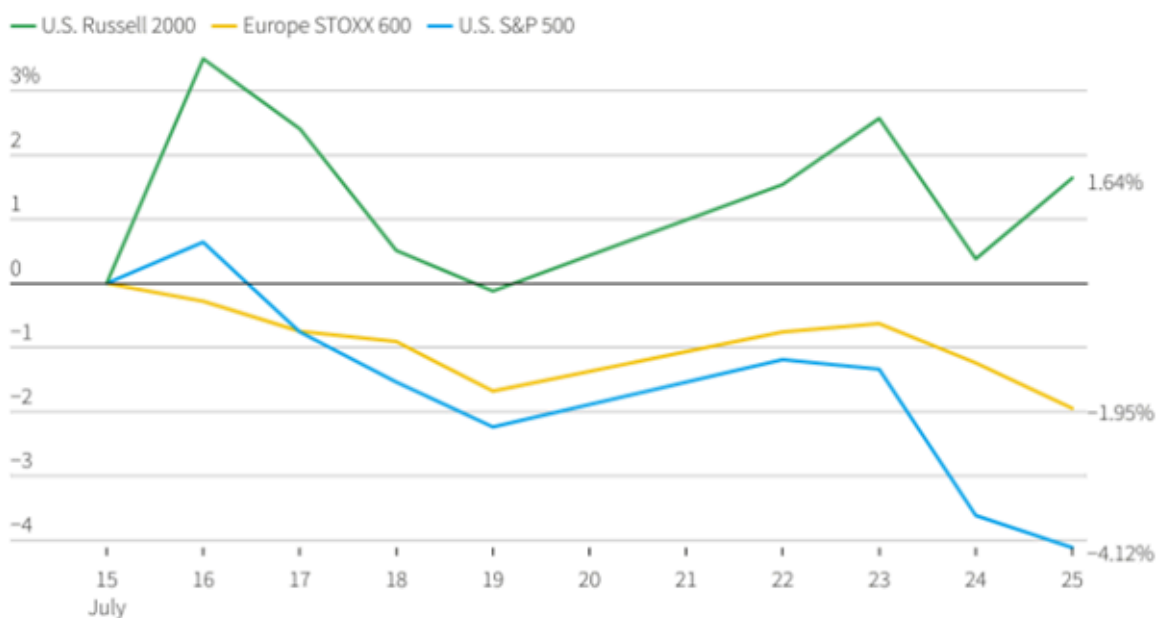
The Takeaways:

Markets want to see results and after a week of worry about flagging growth the US GDP 2Q report sufficed to drive back soft-landing expectations. The next leg for stabilizing risk assets revolves around the core PCE today which has to be low enough to continue the confidence game for Fed easing. The market rotation of stocks from high tech to SME companies will be the biggest focus, followed by the US yield curve shape and then the USD. Investors are setting up for next week today with the BOJ and FOMC on the same day with divergent paths ahead. The role of JPY in setting the pace of USD weakness and mood in equities maybe a larger link of how JPY volatility and the S&P500 VIX play out today. Many would like to call it a weekend and pray for a quiet Friday but given the data dump and the dislocations from the week, that maybe too simple. Better to pay attention and look for the opportunities now rather than wait.

Exhibit #1: Rotation trades dependent on FOMC?

U.S. small-cap stocks rally while S&P 500 and Europe drop

Russell 2000 U.S. small-cap index versus U.S. S&P 500 and Europe STOXX 600, rebased to July 15



Source: LSEG | Reuters, July 26, 2024 | By Harry Robertson

Reuters Graphics

Source: Reuters, BNY Mellon

Details of Economic Releases:

1. Japan July Tokyo CPI slows to 2.2% y/y from 2.3% y/y – as expected with core rising 2.2% from 2.1% y/y – most since March, up for 3rd month but with “core core” slipping to 1.5% y/y from 1.8% y/y. Energy prices drove the July CPI gains,

with electricity and city gas bills rising 19.7 percent and 11.9 percent, respectively, following the end of government subsidies aimed at easing the burden on customers.

2. Japan May leading economic index rose to 111.2 from 110.9 – better than 111.1 flash. The coincident index rose to 117.1 from 115.2 – also better than 116.5 flash - the highest figure since July 2019. A pickup trend in business investment and steady corporate profits supported the upturn. At the same time, consumer mood improved due to better employment and income situations. Meanwhile, overtime hours worked in the manufacturing industry increased. Simultaneously, new automobile sales showed an acceleration.

3. Singapore June industrial production fell -3.8% m/m, -3.9% y/y after 0.5% m/m, +2.3% y/y – weaker than -0.5% m/m, 0% y/y expected. The decline was mainly driven by a sharp drop in output for electronics (-5.5% vs 18.6% in May), weighed by decreasing production for semiconductors (-9.4% vs 18.8%). Additionally, activity continued to fall for biomedical manufacturing (-23.2% vs -43%) and precision engineering (-3.2% vs -8.2%). At the same time, output growth slowed for chemicals (5.9% vs 8.2%), while production accelerated for transport engineering (10.3% vs 7.9%) and rebounded for general manufacturing industries (1.6% vs -3.7%).

4. French July consumer confidence rises to 91 from 90 – better than 90 expected – while still below the long-term average of 100, this is the highest reading since March. Consumers were less pessimistic about the outlook on financial situations (-10 vs. -13 in June), and views on future savings capacity increased (9 vs. 7). At the same time, assessments remained unchanged regarding the outlook on the standard of living (-50) and the share of households believing it is a favorable time to make major purchases (-32). Meanwhile, concerns over future unemployment increased (28 vs. 25), and inflation expectations rose (-45 vs. -47).

5. Italian July consumer confidence rose 98.9 from 98.3 – better than 98 expected – while business confidence rose to 87.6 from 86.9 – also better than 87 expected - Still, it marked over two years below the confidence threshold of 100, indicating that Italian manufacturers continued to be pressed by restrictive monetary conditions by the ECB and the fallout from soaring energy and raw material prices after the Russian invasion of Ukraine. New orders for manufacturers continued to fall considerably, albeit at a slower pace (-20.5 vs -22.8 in June), with lower demand from both the domestic market (-23.5 vs -24.5) and the foreign market (-22.3 vs -25).

In the meantime, production fell faster (-19.1 vs -18.8), and finished stocks edged higher (2.8 vs 2.6). Looking forward, expectations improve slightly for new orders (2.2 vs 1.6) and production (1.4 vs 1.3).

6. Spanish June retail sales rose 0.3% m/m, 0.3% y/y after -0.6% m/m, +0.2% y/y – as expected – as sales rebounded for food (0.5% vs -0.5%), offsetting a decline in fuel sales (-1.1% vs 1.4%).

7. Spanish 2Q unemployment fell to 11.27% from 12.29% - better than 11.4% expected – best since 2007. The number of unemployed people decreased by 222,600 from the previous three-month period to 2.755 million, while the number of employed individuals went up by 435,000 to 21.685 million. Furthermore, the labor force participation rate increased to 58.9% during the second quarter from 58.63% in the previous period.

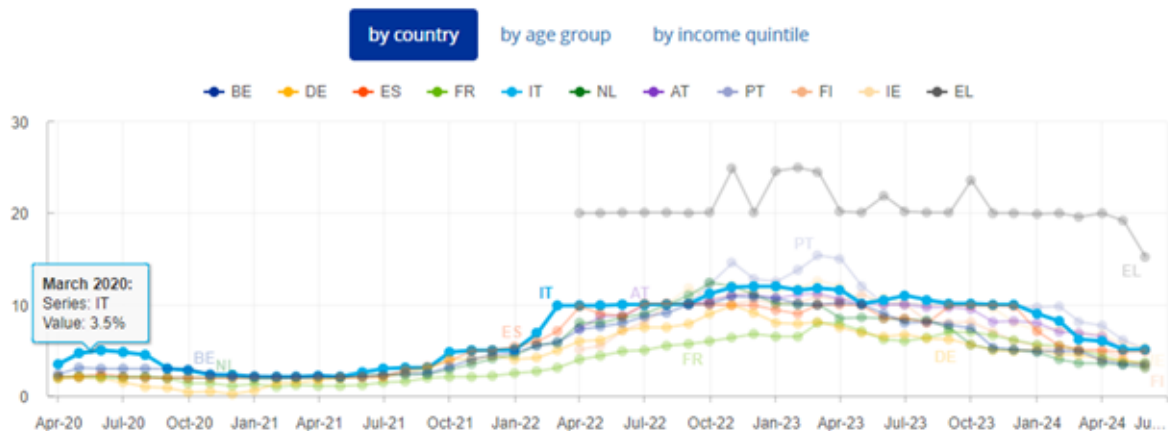
8. Eurozone June consumer inflation expectations steady at 2.8% - as expected. Income expectations rose while spending was flat. The view on economic growth turned negative while unemployment was still seen lower. Home prices were expected to rise slightly, while mortgage rate expectations fell.

Exhibit #2: ECB inflation anchored but at higher level?

Median inflation perceptions over the previous 12 months – breakdown



Quantitative measure of inflation perceptions (backward-looking)
(percentage changes)



Source: CES.

Notes: Weighted estimates. The median is computed on the basis of a symmetric linear interpolation that accounts for rounding of responses. In April 2022 the composition of the aggregates changed after the inclusion of five additional countries (IE, GR, AT, PT and FI).

Source: ECB, BNY Mellon

Disclaimer & Disclosures

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



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