BNY

iFlow

MARKET MOVERS

August 5, 2024

Healthy?

“Correction does much, but encouragement does more.” – Johann Wolfgang Goethe

“Stock market corrections, although painful at the time, are actually a very healthy part of the whole mechanism, because there are always speculative excesses that develop, particularly during the long bull market.” - Ron Chernow

Summary

Risk off – with markets in turmoil selling stocks, bonds and FX with credit worries rising. We are in a VAR shock as the VIX rises to 4-year highs. The short JPY holdings continued to wash out driving USD off 2.9% there while CHF gains 1.1%. Notable CNH is near the best of the year at 7.10. FX carry crushed as well with MXN off 3%, ZAR off 2%. The drivers of today remain the same as Friday – worries about the escalation risks in Middle East, fears of a global recession from policy mistakes linked to BOJ hikes, FOMC being behind curve for jobs. The need for encouragement to stabilize markets rises. The news agenda for the day seems insufficient for such leaving many worried about liquidity given it’s the first full week of August and vacations leave many investors on the sidelines. Focus on the day beyond the pain of US stocks with futures in NASDAQ off over 3%, is going to be one the US ISM for services and the Fed Senior Loan Officers Survey.

What’s different today:

- **Japan Nikkei drops 12.4% - the largest 1-day sell-off since October 1987** – with the broader Topix index off 12.48%. Over three days the drop is the worst on record. These stock indices flipped from bull to bear markets inside 1 month, both are down over 20% from their peaks.
- **WSJ on Banks highlights the risks of expected-loss models on credit** – the article rehashes the July 24 not from Pimco warning of $15trn in CRE loans coming in the next 2 years.
- **iFlow** – while the Mood Indicator remains positive its off its highs and that is bearish for risk overall. Bill buying dominated Friday. The buying of bonds was muted by our flows which is interesting except in Australia while EM selling notable except in Indonesia. The USD was sold most in Taiwan Friday while it was mixed in G10 – even JPY was sold – but CHF bought. Our flows suggest tactical opportunity seeking behavior not panic.

What are we watching:

- **Fed Goolsbee on CNBC** – watching for some signal on role of financial stability for 50bps easing risk in September.
- **Fed Senior Loan Officers Surve**y – watching for bank credit tightening and role of demand
- **US July ISM services** expected 51 from 48.8 – with focus on prices paid, jobs which were 46.1 in June, and new orders – also the final US Services PMI expected 56 unchanged.

Headlines

- Australian July final services PMI off 0.8 to 50.4 – lowest jobs in 19-months, first new order drop since Jan – ASX off 3.7%, AUD off 1% to .6445
- BOJ June Minutes how hawkish tilt to hike, Japan July final services PMI up 4.2 to 53.7 – best in 3-months – Nikkei off 12.4%, JPY up 2.5% to 142.60
- China July Caixin services PMI up 1 to 52.1 – led by export sales – CSI 300 off 1.21%, CNH up 0.8% to 7.1020
- Eurozone July final services PMI off 0.9 to 51.9 – worst since March – inflation at 9-month lows – EuroStoxx off 2.9%, EUR up 0.4% to 1.0965
- UK July final service PMI up 0.4 to 52.5 – best demand since May 2023 – FTSE off 2.75%, GBP off 0.3% to 1.2765

The Takeaways:

The stock market price actions suggest panic, the words of central bankers and government officials calm. Our flows from Friday suggest most of our clients are not in a panic either but being on the sidelines except in overheld areas like IT or some EM. Also notable on the day is that the news flows were mostly better than feared – from China PMI upside to UK – or Turkey inflation dropping – all that is swept aside in the maelstrom of the price action. The markets are in overdrive looking for liquidity as the chart on High Yield Bonds vs. Investment Grade show below. The IG vs. HY spread matters as it would be the first signal that a Fed rate cut isn't going to be enough to help markets stabilize. The Russell 2000 vs. NASDAQ rotation trade is worth watching today accordingly. This is the problem for those that hope central bankers are invincible in their ability to control market volatility and guarantee stability.

BB spreads widened 49 basis points in the week ended Friday, the biggest weekly jump in two years, to close at a year-to-date high of 225bps. Yields rose to a four week high of 6.34%, though still only 6bps above the 17-month low of 6.28% while **CCC spreads rose to 846 basis points**, the highest since mid-December, after widening 54 basis points, the most in a week since January. Yields rose to 12.50%, the first weekly jump in five weeks.

Exhibit #1: US HYG vs. IG show unwind Friday - watch this space

Source: Bloomberg, BNY Mellon

Details of Economic Releases:

1. **Australian July final Judo Bank Services PMI drops to 50.4 from 51.2 – weaker than 50.8 flash** – still signaling a sixth straight monthly expansion in services activity, but at a pace that was marginal and the slowest in the current sequence. July's figure was also revised lower from an initial reading of 50.8. The sector faced a renewed decline in new orders, the first since January, with decreased client demand and the largest drop in new international business in 2024. As a result, employment growth eased. Concurrently, Australian service providers also faced rising cost pressures, which led to selling prices being raised at the fastest pace in nearly a year. Looking ahead, sentiment in the Australian service sector remained positive at the start of the second half of 2024 with firms holding on to hopes that business development efforts can support sales growth in the year ahead.

2. **Japan July final Jibun Bank Services PMI rose to 53.7 from 49.4 – weaker than 53.9 flash** - the sixth time of expansion in the service sector so far this year, amid improved customer numbers and demand conditions. New orders grew the most in three months while employment growth accelerated, and was well above the long-run series average. However, foreign orders shrank for the first time in 2024, the steepest decline since June 2022 after growing in June. Regarding inflation, input cost rose strongly, with inflation registering across a broad range of inputs, including fuel, labor cost, and logistics. Consequently, firms passed out cost burdens to clients through a stronger and solid rise in prices charged. Looking ahead, confidence strengthened amid hopes that new store openings and client wins would boost order book volumes and customer numbers.

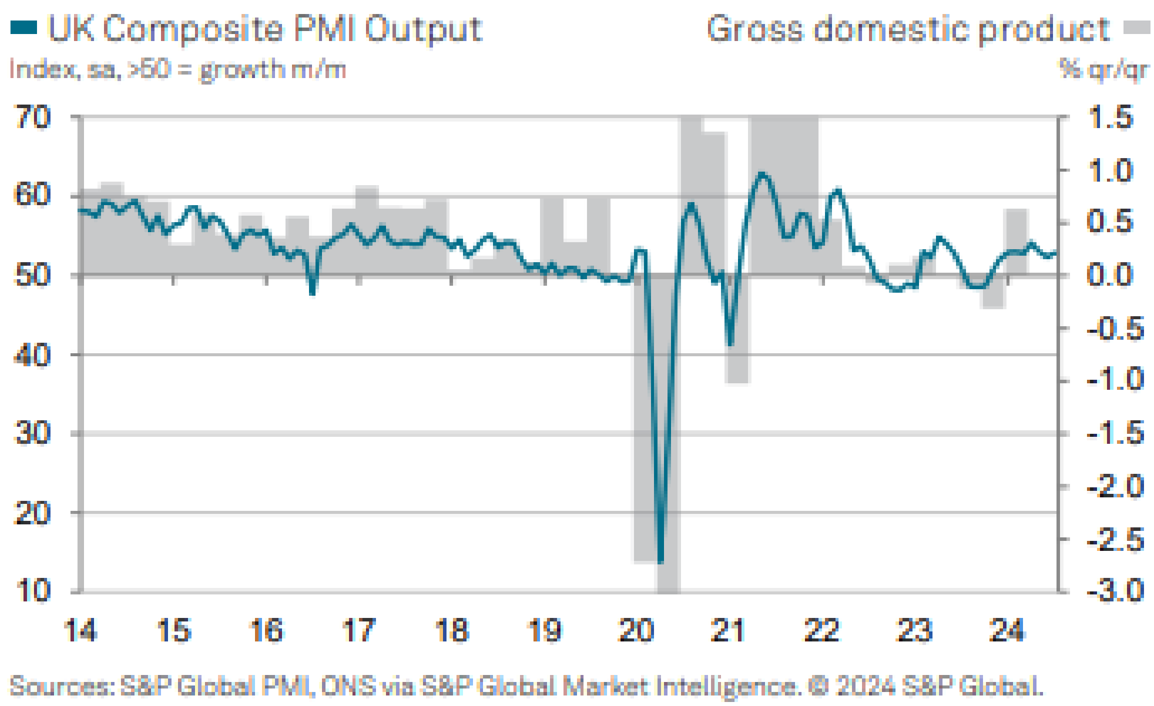
3. **China July Caixin Services PMI rises to 52.1 from 51.2 – better than 51.4 expected** - the 19th month of growth in services activity, helped by a faster rise in new orders, a sustained rise in export sales, and robust employment. Foreign sales continued to rise supported by growth of tourism activity, despite the rate of expansion eased in the current 11-month sequence. Employment climbed to the fastest in nearly a year after falling in June. On prices, input prices rose due to higher material, labor, and transport costs. Meanwhile, average selling prices were unchanged after rising throughout the past five months. Finally, business sentiment was subdued with the level of business confidence being the second-lowest since March 2020, as firms were cautiously optimistic that improvements in market

conditions and business development efforts could support services activity growth in the year ahead.

4. Eurozone July final HCOB Services PMI rises to 51.9 from 52.8 – as expected - the slowest pace of expansion in the Eurozone services activity since March. It was the coolest pace of growth in the Eurozone's services activity in four months amid a slower rise in new business, largely due to softer demand in domestic markets, which offset robust demand from foreign clients. The expansion of activity outpaced new business wins due to another period of clearance in firms' backlogs. Consequently, the moderating demand for capacity drove firms to slow down job creation to its softest pace this year. On the price front, input costs accelerated in the period amid higher staffing and material costs, although softer demand conditions drove first to limit the impact on output charges. Looking forward, confidence waned slightly to a six-month low, marking back-to-back decreases from May's peak.

5. UK July final Services PMI rose to 52.5 from 52.1 – better than 52.4 expected -the ninth consecutive period of expansion in the UK services sector activity. The faster growth rate contrasted with moderating increases noted in Britain's Eurozone members, with new business rising the most since May 2023 as firms cited a solid backdrop of demand and new client wins, both domestically and abroad. The higher demand for capacity drove service providers to increase their headcounts at the fastest pace since last June. Still, backlogs of work were depleted for a fourteenth consecutive month. On the price front, both input costs and output charge inflation were near their softest since the start of the Covid pandemic. Looking forward, business confidence rose to a 5-month high.

Exhibit #2: BOE easing to help steady growth?



Source: S&P PMI, BNY Mellon

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

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