BNY

iFlow MARKET MOVERS

August 6, 2024

Faltering

"The one who falls and gets up is stronger than the one who never tried. Do not fear failure but rather fear not trying" - Roy T. Bennett
"We shall not fail or falter; we shall not weaken or tire. Neither the sudden shock of battle, nor the long-drawn trials of vigilance and exertion will wear us down" - Winston Churchill

Summary

Risk on but bounce stalls and retreats as uncertainty over US and global growth drives doubts and as central bank rate cut expectations pullback. USD bid returns and US exceptionalism talk returns albeit at sharply lower prices. The RBA held rates steady at 12-year highs and sounded more hawkish. Fed Daly pushed a September cut but not 50bps, leaving data dependency and geopolitical worries to dominate. The bounce back in Japan seemed forced and faltering as well with JPY 145 helping and raising the obvious carry connection link to APAC troubles. Lower rates remain the hope and main driver for recovery today but as the bond markets sell off, risk falters globally. On the day ahead, trade deficit in the US, household 2Q debt and more 2Q earnings won't fix the market, perhaps the 3Y bond sale matters.

What's different today:

- **Japan Nikkei rebounds 9% - best day since October 2008 -** but 10Y JGB yields jump 14bps - after 10Y bond sales shows weakest demand since 2003.

- **US July Logistics Managers Index rose to 56.**5 - most in four months - making 8 month of gains as transportation recovery continues with prices up 2.8 to 63.8 - most since May 2022
- **iFlow** – Another down draft in Mood indicator but still positive, while carry back to neutral, trend drops. The TWD selling stands out in FX while equity selling in US dominates and in bonds Australia, India, and Peru notable flows.

What are we watching:

- **US June trade deficit** expected to widen to $72.2bn from $75.1bn - with focus on exports and energy role.
- **US 2Q Household Debt and Credit -** Fed releases analysis of consumer balance sheet, key for 3Q growth outlooks
- **US Treasury** sells $46bn in 1Y bills and $58bn in 3Y notes
- **US 2Q earnings** - Airbnb, Caterpillar and before the bell Uber, Fox Corporation and Constellation Energy. Super Micro Computer

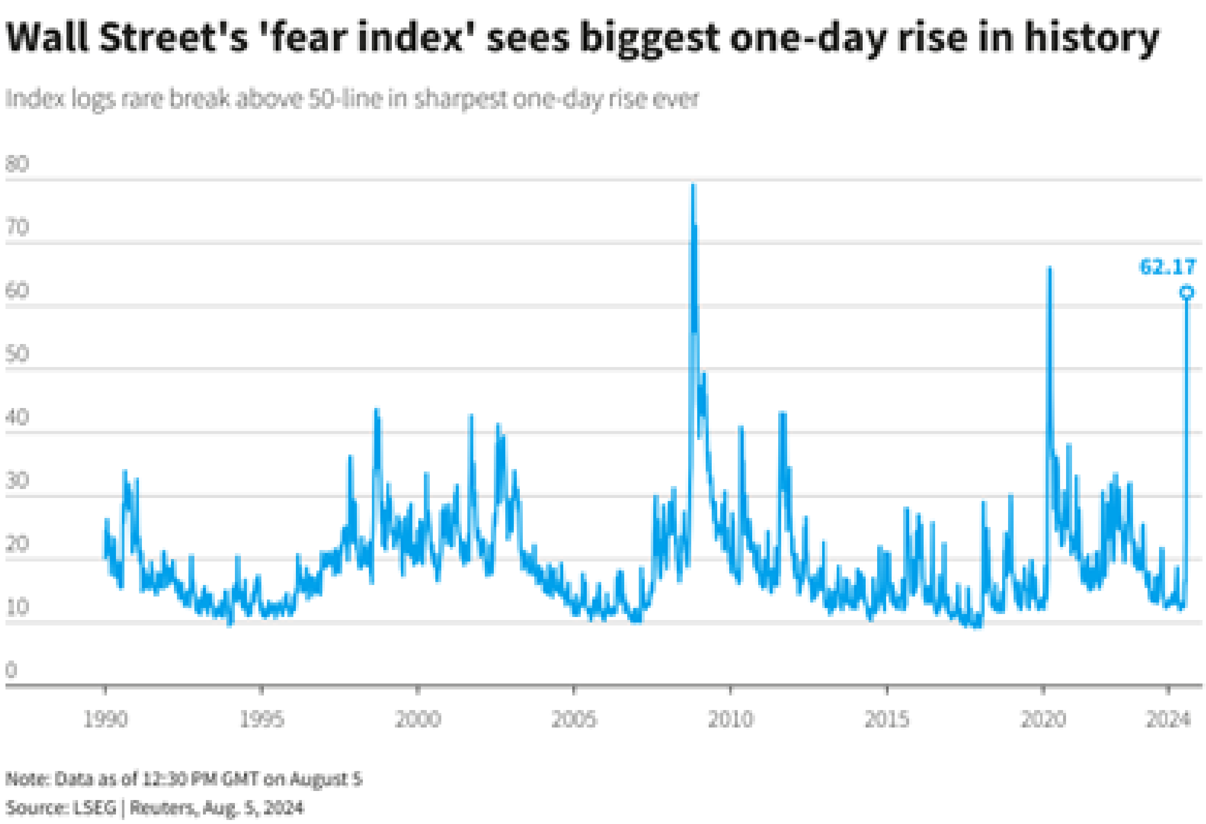
Headlines

- Australia RBA leaves policy unchanged at 4.35% - as expected - still worried about CPI risks – ASX up 0.41%, AUD off 0.25% to .6480
- Japan June average earnings jump to 4.5% y/y- most since Jan 1997 -while household spending rose just 0.1% m/ml, -1.4% y/y – Nikkei up 10.23%, JPY off 0.65% to 145.40
- German June factory orders jump 3.9% m/m - first gain since Dec 2023 - led by aircraft – DAX up 0.1%, Bund 10Y off 0.5bps to 2.18%
- Frence 2Q payrolls stall with focus on service sector – CAC 40 off 0.25%, OAT 10Y off 3.5bps to 2.945%
- Eurozone June retail sales drop -0.2% m/m -0.3% y/y - hit by food sales - while July construction PMI fell 0.4 to 41.4 at 6M lows with weaker jobs and confidence worst of 2024 – EuroStoxx 50 flat, EUR off 0.4% to 1.0905
- UK July construction PMI jumps 3.1 to 55.3- 26-month highs – FTSE flat, GBP off 0.6% to 1.2695
- US base in Iraq sees 3 wounded after drone attack – Oil up 0.3%, US futures up 0.8%, USD index up 0.5%.

The Takeaways:

Before you buy a dip, you need to define the bottom. What drove the selling matters as much now as it did yesterday - Japan's bounce back in risk isn't sufficient for Europe and likely US markets as the fears of inflation, tech earnings and hopes for Fed and ECB easing policy to right a slowing economy maybe overblown. JPY carry unwinds remain in play and EM over positioning continues to trouble with INR, MXN and ZAR the key focus. The ongoing simmering geopolitical fears don't help either. Oil is up, Gold flat, but the VIX is 34 down from 65 highs – still too high for comfort or normal trading. This leaves many wondering if any of the worries can be resolved in today's news agenda with 2Q earnings back in play as a driver, along with bond supply. The USD bid overnight, and the ongoing role of rates dominates the risk environment. How markets define the bottom and why will be key to containing uncertainty and ensuring financial stability – all of which likely requires more confidence in the Fed easing plans and the US economy staying on course for a soft-rather-than-hard landing.

Exhibit #1: VIX over 30 remains a brake for risk



Source: Reuters, BNY Mellon

Details of Economic Releases:

1. **Japan June average cash earnings jump to 4.5% y/y from 2% y/y - more than the 2.3% y/y expected** - highest reading since January 1997, supporting Japan's shift to an environment of rising interest rates. The country's nominal wage growth outpaced the 2.6% core consumer inflation rate in June, leading to the first rise in inflation-adjusted real wages in 27 months at 1.1%. The following industries contributed the most to the wage increase: living-related & personal services & amusement (11.7%), finance & insurance (11%) and services, not elsewhere classified (9%). Meanwhile, wages declined in mining & quarrying of stone & gravel (-9.4%), real estate & goods rental & leasing (-5.8%) and scientific research, professional & technical (-3.9%).

2. **Japan June housheld spending rose 0.1% m/m, -1.4% y/y after -0.3% m/m, -1.8% y/y - worse than the +0.2% m/m, -0.9% y/y expected** - 5th annual decline this year, dragged by lower expenditure on housing (-23.6% vs -3.5% in May), fuel, light & water charges (-7.3% vs -9.7%), culture & recreation (-1.0% vs -8.4%), other consumption (-2.8% vs 0.6%), and transport & communication (-3.4% vs 4.2%). At the same time, spending slowed for medical care (2.3% vs 6.4%) and education (7.3% vs 9.3%). Simultaneously, spending on food grew for the first time in three months (1.5% vs -3.1%) amid a strong upturn in expenditure for furniture & household utensils (23.7% vs -10.0%)

3. **German June Factory Orders jump 3.9% m/m after -1.7% m/m - more than the 0.8% m/m expected** - the first increase since last December, largely boosted by robust orders for aircraft, ships, trains (11.7%) and the automotive industry (9.3%). By contrast, orders shrank for computer, electronic and optical products (-7.9%). New orders for capital goods surged 9.2% but dropped for both intermediate (-1.5%) and consumer goods (-7.1%). Notably, domestic orders soared 9.1%. Meanwhile, foreign orders gained 0.4%, with orders from outside the Eurozone rising 0.9% while orders from the Eurozone fell 0.3%. Excluding large orders, incoming orders increased 3.3% from May. In a three-month comparison, new orders were 1.4% lower in Q2 of 2024 than in the prior period.

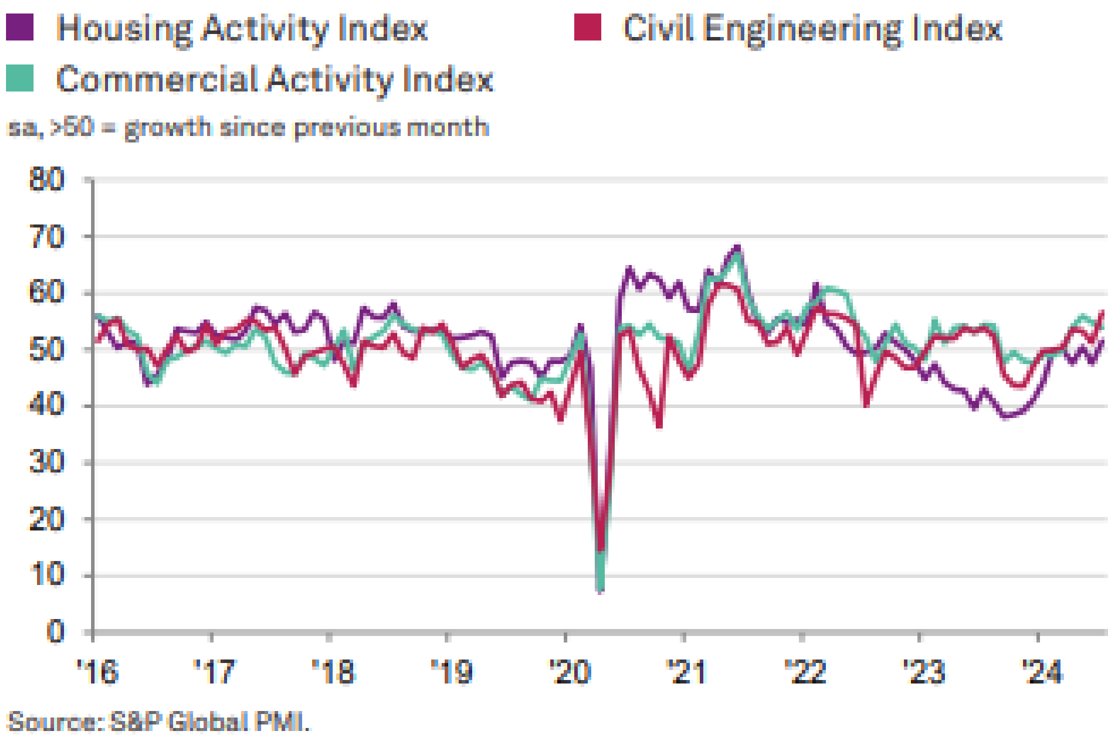
4. **French 2Q payrolls 0% q/q, +0.4% y/y after 0.3% q/q - weaker than 0.2% gain expected.** Private sector payrolls stalled at 21.15mn with just 78,000 jobs gained over the year, largely attributed to a steady private payroll employment in market services after a 0.1% rebound in Q1, and a slowdown in non-market services growth to 0.3% from 0.5%.

5. Eurozone June retail sales fell -0.3% m/m, -0.3% y/y after +0.1% m/m, +0.5% y/y - weaker than -0.1% m/m, +0.2% y/y expected. Sales of food, drinks and tobacco dropped 0.7%, compared to a 1% rise and those of non-food products went down 0.1%, following a 0.3% decrease. On the other hand, sales of auto fuel increased 0.5%, extending a 0.3% increase.

6. Eurozone July HCOB construction PMI fell to 41.4 from 41.8 - weaker than 41.7 expected - lowest in 6-months. The reading showed the construction sector remained firmly in contraction territory as activity fell markedly again, and output declined the most in six months, once again driven by substantial contractions in housing activity. New business was also down amid weak demand and lower new orders sparked a further round of job shedding, as employment fell at a slightly sharper rate. Retrenchment and cost-cutting were also reflected in a steep contraction in input buying and marked reductions in subcontractor use. That said, cost burdens rose only modestly. "Constructors in the Eurozone are not seeing light at the end of the tunnel. Pessimism worsened in Germany and France, fearing weaker demand in the upcoming twelve months while optimism softened in Italy to a 22-month low", Norman Liebke, Economist at Hamburg Commercial Bank, said.

7. UK July construction PMI rises to 55.3 from 52.2 - better than 52.7 expected. Best in 26 months. This growth extends the current five-month streak of expansion, with the rate of growth being the quickest since May 2022. All three categories of construction experienced increased activity in July, with housing projects showing a return to growth. Commercial activity also saw a solid increase, but civil engineering saw the fastest expansion in almost two-and-a-half years. Both activity and new orders rose rapidly during the month, leading to heightened purchasing activity and increased staffing levels for the third consecutive month. Higher demand for inputs led to supply chain pressures and a faster increase in input costs.

Exhibit #2: UK construction recovers



Source: S&P PMI, BNY Mellon

Disclaimer & Disclosures

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

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