

August 7, 2024

Sirens

“No Siren did ever so charm the ear of the listener as the listening ear has charmed the soul of the siren.” Henry Taylor

“We should all speak like sirens Use our voices to make a difference, because all of them matter.” - Bethany C. Morrow

Summary

Risk on as BOJ comments ease Japan shares, lift USD/JPY 2% while German industrial production recovers but China trade surplus narrows with lower exports, same with Germany casting doubt on global demand. The risk of a false bottom the selling spree that started in July and shocked in August continues but the siren song of stability and lower volatility reflects a desire to find value. This is harder to do with the noise of markets and the illiquidity of summer where focus is short. Our flows suggest that correlations have flipped back and forth reflecting mood swings from fear to greed faster than any economic reality.

What's different today:

- **iFlow** – JPY was sold the most in G10 yesterday – adding to already extreme (over 2 std shorts). The USD was bought as well by CHF and SEK – all suggests a return to carry and on cue that index is flat from negative most of July. The mood index dives down below significance – reflecting the battering of shares in the last 20 days. The Equity flows we saw from yesterday still US

selling but Japan buying and China selling vs. rest of APAC except Taiwan still.
TWD selling again stands out in EM.

What are we watching:

- **Bank of Canada Minutes** - watching for easing discussion and pace of normalization - terminal rate
- **US 2Q Earnings** - Disney, CVS Health, Shopify, Hilton Worldwide Holdings, Brookfield Asset Management and Wix.com will report quarterly earnings before the opening bell. Warner Bros Discovery, where senior management are considering selling smaller assets in order to avoid a break-up of the group, will post results after market close.
- **US Treasury** sells \$42bn in 10Y notes – watching for demand and curve effect.
- **US Fed Collins** - matters only in that we haven't heard much from the FOMC post stock markets mayhem

Headlines

- BOJ Uchida: Will not hike rates when financial markets unstable - while June LEI slips 2.6 to 108.6 - lowest since April 2023 – Nikkei up 1.19%, JPY off 2% to 147.05
- China July trade surplus drops \$15bn to \$84.65bn - exports slow 1.6pp to 7% y/y – CSI 300 off 0.04%, CNH off 0.4% to 7.1840
- Australia July AiGroup industry index up 4.9 to -20.7 - with wages driving up costs hitting hiring - ASX up 0.25%, AUD up 0.7% to .6565
- Thai court orders dissolutions of “Move Forward” opposition party - bans election winner from office for 10-years – THB off 0.3% to 35.66
- Norway June manufacturing rises 1.4% m/m still down -0.9% q/q – NOK up 1.4% to 10.77
- German June trade surplus narrow E5bn to E20.4bn - smallest since Oct 2023 as exports -3.4% y/y - while June industrial production bounces back +1.4% m/m – DAX up 1.3%, Bund 10Y up 9bps to 2.17%, EUR off 0.1% to 1.0925
- UK July Halifax house price index up 2.3% y/y - best in 6-months – FTSE up 1.2%, GBP up 0.3% to 1.2725
- US election sees Harris pick Minnesota Governor Walz - pushing personal freedoms - national polls still too close to call – S&P500 futures up 0.8%, US 10Y up 4bps to 3.93%, USD up 0.2%

- US weekly API oil inventories report 0.18mb build - ending 5-weeks of draws - with gasoline up 3.31mb still 3% below 5Y average while distillate rose 1.22mb about 7% below average – Oil up 1.95%

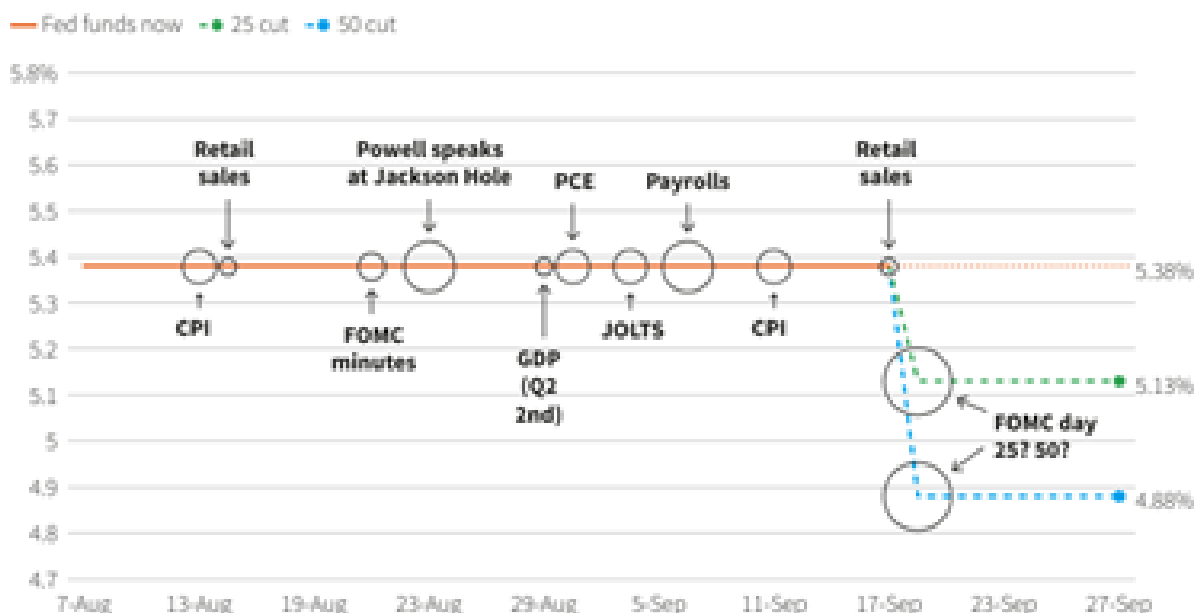
The Takeaways:

Investors are waiting for the all-clear siren and with the BOJ comments on financial stability, and with the VIX back to 23%, many are happy to climb out of the shelter of safe-havens. The focus on JPY remains a key component for risk and the correlation of JPY to global shares is higher not lower today. The iFlow positions in JPY are still extreme and suggest further JPY gains will remain the longer term path ahead but for now, the risk of further hikes from the BOJ abates and the domestic markets in Japan breathes a sigh of relief. For the rest of the world, this isn't so obvious a signal. The risk of higher rates than expected now comes to play. The markets still price in 41bps of easing for September. 2Q earnings return to matter. Despite some misses again in tech, the overall S&P500 earnings are running over 13.5% in the quarter. The US election uncertainty returns The Harris VP pick is starting to wind up markets into what a Harris rather than Trump trade looks like for stocks and bonds ahead. The siren song of equities being linked to the USD has been upended with USD gains now seen as helpful, but there is a limit as we have learned from the JPY at 160.

Exhibit #1: Path to easing is still long

The path to a rate cut

The weeks remaining to the Fed's big rate decision on Sept 18 are peppered with many key events.



Note: Larger circles signify more important events

Source: LSEG

Source: Reuters, BNY Mellon

Details of Economic Releases:

1. Australia July Ai Group industry index rises to -20.7 from -25.6 - better than -22 expected - still the index has contracted for the last twenty-seventh months.

The deep contraction in the activity/sales indicator lessened by 2.5 points in July but still signaled decline at -28.6, continuing a downward trend that began in May 2022.

Employment contraction also eased slightly in July to -8.1, marking the third consecutive month of negative readings after stable results in March and April.

Sector performance was mixed, with some experiencing sales declines due to increased uncertainty, while others benefited from higher export activity. Wage pressures intensified across all industries.

2. China July trade surplus narrows to \$84.65bn after \$99.05bn - less than the \$99bn expected - as Exports rose 7.0% year-on-year, softer than forecasts of a 9.7% gain and slowing from an 8.6% growth in June, the softest pace in three months.

Meanwhile, imports rose 7.2%, rebounding from a 2.3% fall in the previous month, the strongest growth since April, and beating the consensus of a 3.5% rise, amid government efforts to stimulate domestic demand. The trade surplus with the United States narrowed to USD 30.84 billion in July from USD 31.78 billion in the previous month. For the first seven months of 2024, the country recorded a surplus

of USD 518 billion, with exports advancing 4.0% to USD 2.07 trillion while imports grew 2.8% to USD 1.49 trillion. The trade surplus with the United States stood at USD 190.64 billion for January - July 2024.

3. Japan June leading economic index slips to 108.6 from 111.2 - weaker than 109.5 expected - the lowest reading since April 2023, amid easing expansion in the manufacturing sector while marking the first drop in services activity since August 2022. In the meantime, consumer mood in June improved while the unemployment rate was at 2.5%, the lowest level since January. The coincident index fell to 113.7 from 117.1 - the lowest level since February, the latest result held an assessment of "halting to fall", as the economy continued to recover moderately despite mounting global headwinds, such as the effects of high interest rates in the US and Europe, and uncertainty regarding the prospect of the Chinese economy. Meantime, Japanese consumer prices are expected to elevate following the full end of energy subsidies in May while the Bank of Japan started mulling policy normalization amid a weak currency.

4. Norway June manufacturing rises 1.4% m/m, +2.1% y/y after +1.8% m/m, +0.8% y/y - better than -4.5% m/m drop expected. Output increased at a softer pace for textiles, wearing apparel, & leather (2.2% vs 8.7% in May), fabricated metal products (3% vs 6.5%), machinery & equipment (0.2% vs 0.9%), ships, boats & oil platforms (0.9% vs 1.6%) and repair & installation of machinery (4.5% vs 5%). Also, output tumbled for printing & reproduction (-1.1% vs 0.8%), rubber, plastic & mineral prod. (-1.4% vs 4.1%), transport equipment n.e.c (-1% vs 2.9%), and furniture & manufacturing n.e.c (-4.8% vs 8.9%). Meanwhile, output rebounded for food, beverages & tobacco (2.8% vs -1.8%), wood & wood products (2.7% vs -1.7%), paper & paper products (13% vs -7.2%), and refined petro., chemicals & pharmac. (8.2% vs -7.6%)

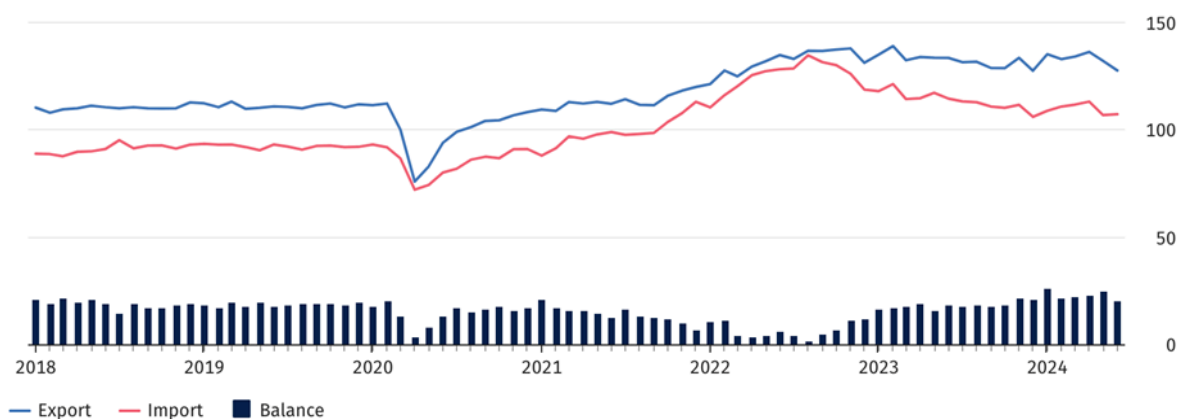
5. German June industrial production rose +1.4% m/m, -4.1% y/y after -3.1% m/m, -7.2% y/y - better than 1% m/m bounce expected - the fourth increase year to date and the steepest pace since February, mainly boosted by robust output from the automotive industry (7.5%) and the manufacture of electrical equipment (5.2%) as the food industry fell by 5.3%. Production in manufacturing, which excludes energy and construction, increased by 1.5%. Meanwhile, energy production grew by 2.9%, and construction activity was up 0.3%. At the same time, output expanded for capital goods (2.5%) and intermediate ones (2.1%) but shrank for consumer goods (-2.4%). The less volatile three-month-on-three-month comparison showed that production was 1.3% lower in Q2 of 2024 than in the prior period.

6. German June trade surplus drops to E20.4bn after E25.3bn - less than the E23.5bn expected - the smallest trade surplus since last October, as exports dropped while imports grew. Exports fell 3.4% mom to a six-month low of EUR 127.7 billion, after a downwardly revised 3.1% drop in May. Shipments to the EU fell by 3.4%, while those to third countries dropped by 3.5%, with exports to the US shrinking by 7.7%, while those to the UK, and Russia fell by 0.6% and 3.2%, respectively. By contrast, exports to China rose by 3.4%. Meanwhile, imports were up 0.3% to EUR 107.3 billion, rebounding from a downwardly revised 5.5% drop in May. Imports from the EU grew by 1.0%, while purchases from non-EU declined by 0.4%, particularly from China (-4.9%), the US (-6.5%), and Russia (-1.5%) while surging to the UK (11.1%). For the first seven months of 2024, the county posted a surplus of EUR 239.9 billion.

Exhibit #2: German trade waning

Foreign Trade

seasonally adjusted values (X-13 Arima), Euro billion



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Source: German DeStatis, BNY Mellon

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

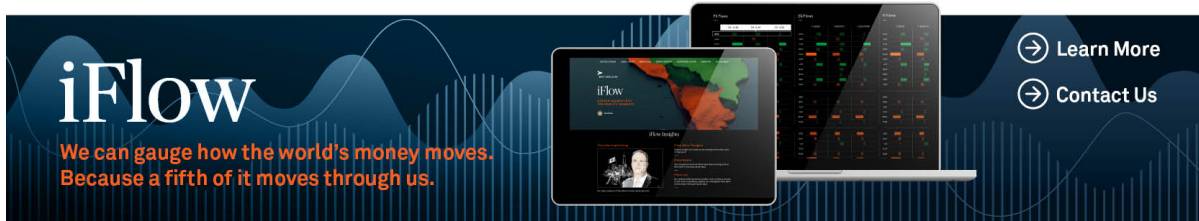


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