BNY

iFlow
MARKET MOVERS

August 8, 2024

No Relief

"There is no relief at it being over. There is no joy of winning it." – Steffi Graf

"There is certain relief in change, even though it be from bad to worse! As I have often found in traveling…that is often a comfort to shift one's position and be bruised in a new place." – Washington Irving

Summary

Risk off as investors see central bankers talk tough on rates and offer little to calm markets. The BOJ summary of opinions from July hike was hawkish, RBA Bullock talks about hiking if needed and the RBI holds despite volatility in financials. The TCMB inflation report was steadfast in tight monetary policy as well. Beyond the lack of central bank balm, the markets also deal with ongoing volatility - with JPY one example and bonds the other. Focus on the day and balance of fears rests on US weekly jobless claims. The 30Y bond sale and more 2Q earrings along with one other Fed speaker round out the day. While movements in equities have calmed and VIX is half of its highs from Monday, uncertainty over trend makes the hunt for value less powerful.

What's different today:

- **Japan 30Y Y900bn JGB sale drew decent demand despite BOJ hike -** bid/cover 3.47, 1bps tail in start contast to 10Y sale yesterday.

- **Egypt July inflation drops to 25.7% y/y** - 17-month lows and 5th month of declines - with further drops expected even with EGP devaluation. Led by food while clothing and transport rose. The central bank target remains 5-9% y/y
- **iFlow – Factors continue to move** – Carry is higher despite the host of commentary that the JPY leg is vulnerable – the index rose beyond negative for the first time since March. USD buying stands out with NZD while JPY and CHF selling dominated yesterday's flows. The TWD continues to see selling while rest of APAC buying. In Bonds, India and Peru inflows vs. Chile and Canada selling. Equities saw 5 sectors positive flows – with consumer discretionary the most important shift.

What are we watching:

- **US Treasury sells $25bn in 30Y bonds** - focus will be on tail and demand.
- **US weekly jobless claims** expected down 9k to 240k with continuing claims down 7k to 1.877mn
- **Mexico July inflation** expected up 1% m/m, 5.57% y/y while Central Bank of Mexico policy decision later expected on hold with eye on MXN
- **US Richmond Federal** Reserve President Thomas Barkin speaks in a fireside chat at 3pm
- **US 2Q earnings**: Eli Lilly, Gilead Sciences, News Corp, Paramount Global, Expedia, Insulet, Solventum, Take-Two Interactive Software, Akamai Technologies, Epam Systems, Viatris, Martin Marietta Materials, Parker-Hannifan, NRG Energy, Vistra

Headlines

- BOJ Summary of Optinions for July — Some see 1% rate need - with modest recovery - as EcoWatchers Outlook rises 0.4 to 48.3 - best current conditions since March – Japan suffers 6.9 earthquake nears Miyazaki– Nikkei off 0.74%, JPY up 0.4% to 146.10
- Taiwan July exports slow to 3.1% y/y missing 6% expectations - with electronics, machinery drops – TWD up 0.3% 32.57
- RBA Bullock: Will not hesitate to raise rates again if needed – ASX off 0.23%, AUD up 0.4% to .6550
- Philippins 2Q GDP rises to 6.3% y/y- best growth since 1Q 2023 – PHP up 0.35% to 57.315

- India RBI keep rates unchanged at 6.5% - as expected - forecast GBP for FY25 at 7.2% - Sensex off 0.73%, INR off 0.15% to 83.955
- Turkey TCMB August inflation report - tight monetary policy to continue to ensure expectations on CPI drop – TRY off 0.1% to 33.50

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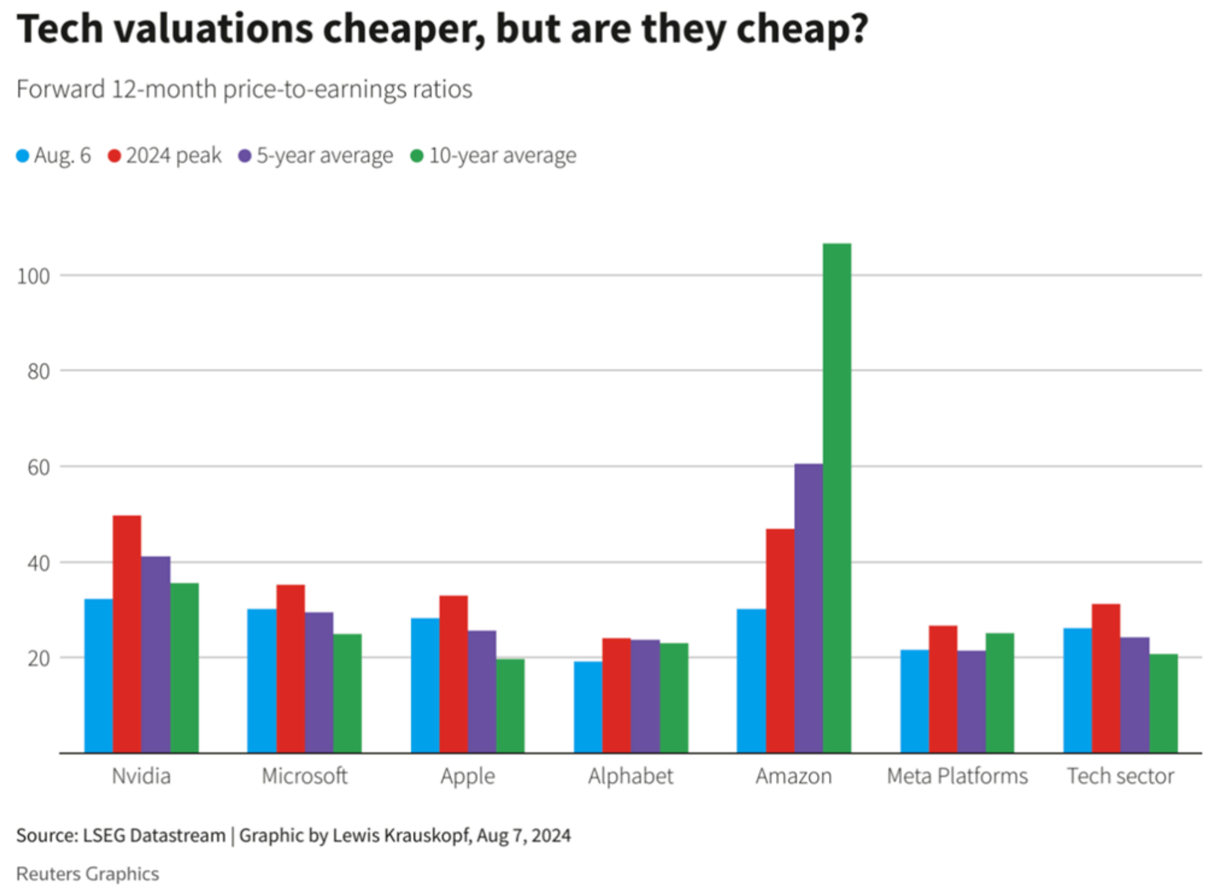
The Takeaways:

Expecting a fast recovery belittles the greatness of the illness that spawned the equity selling. The JPY carry trade unwind, the cost of higher for longer, the payback due on years of low rates and higher government spending - all that has been blamed for the volatility spikes across asset markets in the last week. The ability to recover rests on two points - one that the market volaity doesn't change the underlying economic reality, which leaves today's unemployment claims from the US as critical for further erosion in the labor market will add to fears about the US growth and recession risks. While the labor market is slow than sudden in the reversal, so too are markets in flipping from Bullish to Bearish. The second factor to steady markets is value - a slower moving story but one that matters considerably. Yesterday, the rally up in the NASDAQ failed and left many wondering if the ongoing rotation trade from tech to SME is back as the dominant equity driver. For FX markets the MXN/JPY today is the other value story with both currencies misvalue - JPY by over 30% and MXN overvalued by about the same - the Banxico decision will matter significantly on the carry premium vs. the economic pain it brings.

Exhibit #1: Value is not relative?



Source: Reuters, BNY

Details of Economic Releases:

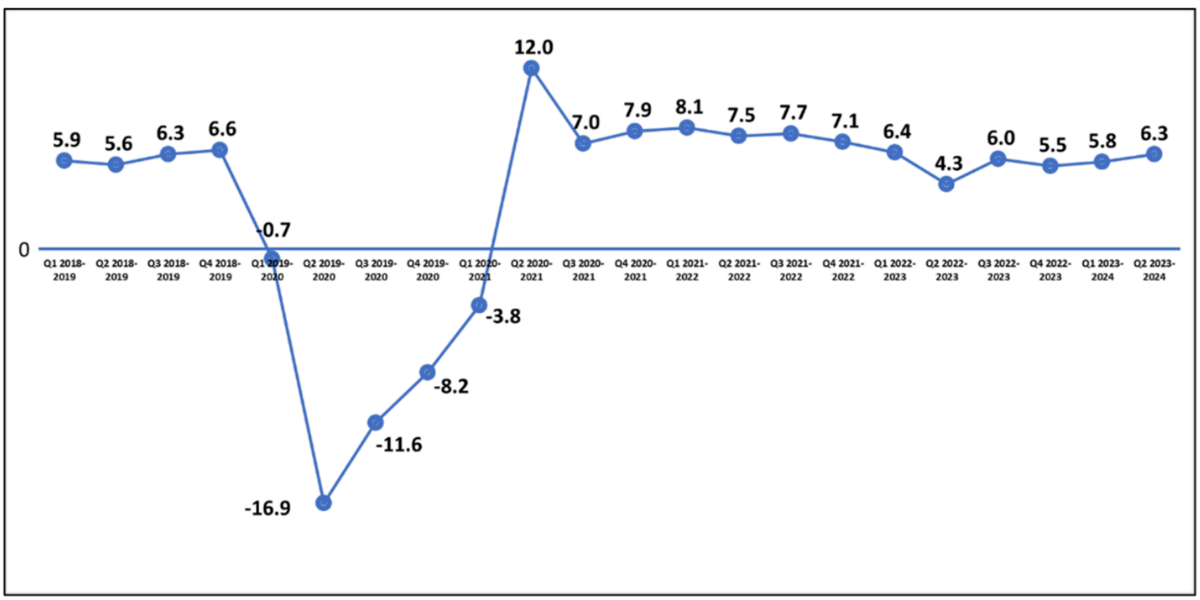
1. **Japan July EcoWatchers outlook rises to 48.3 from 47.9 - better than 48.5 expected.** The coincident index rose to 47.5 from 47 - slightly less than 47.8 expected - still the second consecutive rise and best since March, mainly helped by an advance in the service-related sector. Also, the gauge for corporate trends improved, linked to a rise in the non-manufacturing industry. Further, the measure for employment continued to grow. Simultaneously, the economic outlook index rose to 48.3 from 47.9 in June, improving for the second successive month to hit a 3-month top, amid hopes that a recovery in the economy will continue despite concerns over elevated inflation

2. **Philippines 2Q GDP rises to 6.3% y/y after 5.8% y/y - better than 6.2% y/y expected** - fastest growth since 1Q 2023, driven by a sharp increase in government spending (10.7% vs 1.7% in Q1) and fixed investments (9.5% vs 2.1%). Meanwhile, the growth for household consumption was unchanged during the quarter (4.6%). Net trade contributed negatively to the GDP, as imports advanced 5.2% (vs 2.2%), while exports rose at a softer 4.2% (vs 8.4%). On the production side, growth

accelerated for the industry (7.7% vs 5.1%), while it slightly moderated for services (6.8% vs 6.9%), and output declined for agriculture, forestry & fishing (-2.3% vs 0.5%). The government is expecting that the economy will grow between 6% to 7% this year.

Exhibit #2: EM growth matters

Figure 1. Gross Domestic Product (At Constant 2018 Prices)
Year-on-Year Growth Rates (in percent)
Q1 2018-2019 to Q2 2023-2024



Source: Philippine Statistics Authority

Source: Philippines Statistics, BNY

Disclaimer & Disclosures

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

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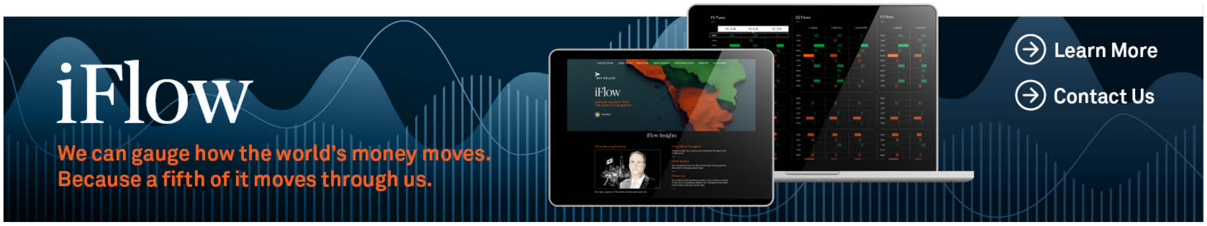
HEAD OF MARKETS STRATEGY AND INSIGHTS

CONTACT BOB



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