August 13, 2024

Conditional

"Unconditional love will have the final world in reality." – Martin Luther King

"All things are conditional. Even when the light breaks through the darkness, the darkness fights back." – Starr Z. Davies

Summary

Risk mixed even as the Nikkei returns to base from its shock last Monday. The focus overnight was on Japan Parliament calling out the BOJ, on China credit demand stalling and on German ZEW falling sharply – all of which puts rate cuts back on the table and leaves little worry about inflation – which begs the question of PPI in the US today mattering at all. VIX is just below 20% and the all-clear siren for global equities is in place. But maybe central bankers need a new horn one that is conditional on growth as much as inflation along with financial stability. The UK unemployment fell but so did wages and this leaves some confusion over the BOE ahead. The lack of new geopolitical headlines is a relief but few see this worry ending. The focus maybe on US rates and whether CPI will beat out Retail Sales this week with the Home Depot perhaps the key on the mood swings ahead.

What's different today:

- **US July NFIB small business optimism rose to 93.7 from 01.5 - best since Feb 2022** - however the index remains below the 98 long time average with 25% of business still seeing inflation at their biggest concern while 24% plan to hike prices and 33% plan on paying more in wages.

- **OPEC cuts oil demand forecast - casts doubt for October hike in output**. The cut in demand growth for 2024 is 2.11mpd but 4Q demand still seen up to 2.9mbpd over July output. The IEA cuts its 2024 China demand growth for oil -citing construction drop-off.
- **iFlow** – Global equities bounced with the reversal most clearly showing up in consumer discretionary flipping to strong inflows after selling all month and quarter. Globally 7 of the 11 sectors are positive even as US selling of shares continued as did Turkey. Position reduction seems to be key across the flows – with USD, AUD and EUR buying in G10 but ongoing JPY outflow. Also notable in fixed income Australia bond along with Sweden as rate cut hopes slow.

What are we watching:

- **US July PPI** expected up 0.2% m/m, 2.3% y/y after 0.2% m/mm, 2.6% y/y – with core 2.6% y/y after 3.0% y/y – healthcare, airfares and fund management fees - will be watched closely.as key components for PCE at end of month.
- **US 2Q Earnings** – Home Depot with focus on consumer retail demand, also XP, Telesat, Kimball Electronics and others.
- **Fed Speaker**: Atlanta Fed Bostic

Headlines

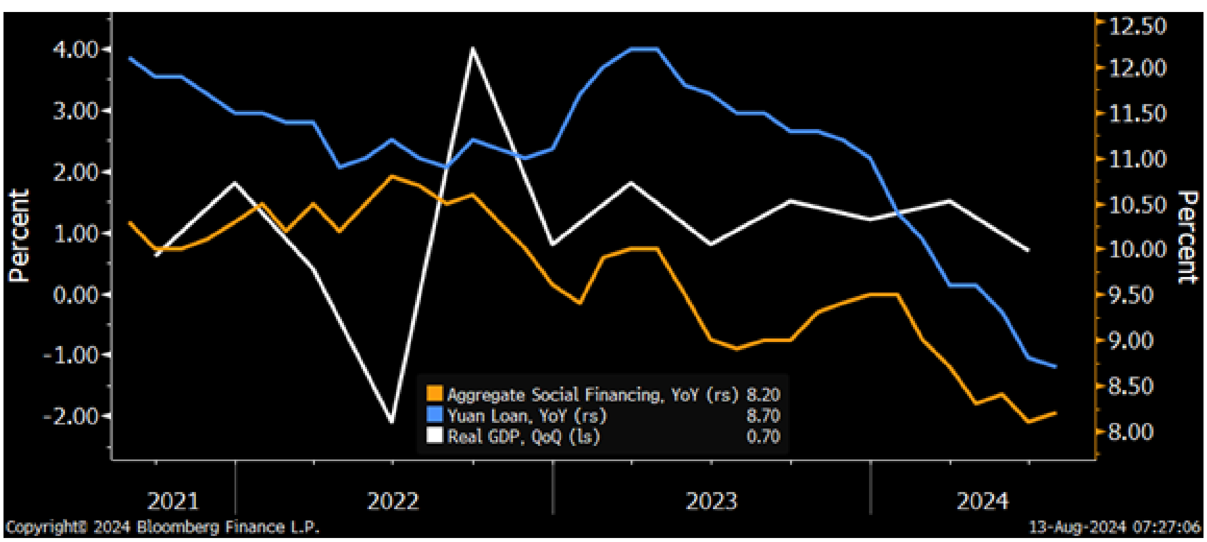
- Japan July PPI rose 0.3% m/m, 3% y/y - highest since August 2023 - led by transport equipment, while Parliament plans Aug 23 session on BOJ hike - Nikkei up 3.45%, JPY off 0.2% to 147.55
- China July Total Social Finance drops to CNY770bn, M2 rises 0.1 to 6.2% while new CNY loans drop to CNY260bn – CSI 300 up 0.26%, CNH up 0.15% to 7.1660
- Singapore 2Q final GDP confirmed up 0.4% q/q, 2.9% y/y - led by wholesale trade and finance – SGD up 0.1% to 1.3225
- Australian Aug Westpac MI consumer confidence jumps 2.8% to 85- best since Feb 2024 - while 2Q Wages up 0.8% q/q, 4.1% y/y - slowest q/q in a year and NAB business confidence drops 2 to 1 – ASX up 0.17%, AUD up 0.2% to .6600
- German Aug ZEW economic sentiment falls 22.6 to 19.2- worst drop since Jul 2022 – DAX off 0.15%, Bund 10Y off 1.5bps to 2.205%, EUR off 0.1% to 1.0925

- UK June unemployment drops 0.2pp to 4.2% while wages drop to 1.2pp to 4.5% y/y - lowest since August 2022 – FTSE off 0.15%, GBP up 0.15% to 1.2790

The Takeaways:

Does the US PPI matter – that is the question of the day – as markets are pushing back on inflation fears and focusing on growth ones. The drop in China credit demand and the plummet of the German ZEW expectations both point to weaker global demand. The usual expectation around slowing economies is slowing prices. So, the US today will be about just how much slowing in growth has mattered to US producer prices. This is where the link of supply chains, global trade and how the rest of the world comes together in driving US expectations. The most worrying part of the China credit data comes in the shift from the private to the public sector dominance in growth. The most worrisome aspect is that there was zero growth for housing. The repair of China demand rests on the confidence of the consumer there and bolstering their wealth – something that stocks haven't done and that the PBOC wants to limit for bonds to prevent new speculative bubbles. The US election year focus isn't on debt but other issues so far but this too may change and matter as September comes and the Federal budget debate returns with Congress. There is little room left in markets for patience after the shocks of last week and the PPI seems important enough to give some caution to those that want to believe in growth without costs.

Exhibit #1: Is the PBOC pushing on a string?



Source: Bloomberg, BNY

Details of Economic Releases:

1. China July new CNY loans rise 260bn after 2.13trn - less than the CNY500bn expected. The July M2 rose to 6.3% from 6.2% - better than the 6.1% expected. The Total Social Finance (loans to the private sector) fell to CNY770bn after CNY3.3trn - less than the CNY1.3trn expected. Outstanding yuan loan growth slowed to 8.7% from a year earlier, compared with 8.8% in June. Analysts had expected an 8.8% gain. Annual growth of outstanding total social financing (TSF), a broad measure of credit and liquidity in the economy, speeded up to 8.2% from 8.1% in June.

2. Japan July PPI rose 0.3% m/m, 3% y/y after 0.2% m/m, 2.9% y/y - as expected - the 42nd straight month of producer inflation and the highest level since August 2023, amid further rises in the cost of transport equipment (1.3% vs 1.4% in June), beverages & food (2.6% vs 2.7%), chemicals (2.5% vs 2.1%), petroleum & coal (1.1% vs 4.6%), electrical machinery (2.6% vs 4.3%), production machinery (2.9% vs 3.9%), metal products (3.1% vs 3.8%), other manufacturing (4.1% vs 4.0%), general-purpose machinery (3.2% vs 3.3%), non-ferrous metals (18.5% vs 19.5%), business-oriented machinery (2.7% vs 2.3%), information (2.4% vs 2.8%), and plastic products (1.7% vs 1.2%). At the same time, the cost of iron & steel was flat after edging down 0.3% in June.

3. Singapore 2Q final GDP confirmed up 0.4% q/q, 2.9% y/y after 3.0% y/y - as expected. Singapore also revised its 2024 GDP forecasts to 2% to 3% from a previous estimate of 1% to 3%. GDP growth in the second quarter was primarily driven by the wholesale trade, finance & insurance, and information & communications sectors. By contrast, the manufacturing sector shrank, largely due to a contraction in the biomedical manufacturing cluster caused by a sharp fall in pharmaceuticals output. The electronics cluster returned to growth, supported by strong demand for smartphone, PC and AI-related chips even as demand for automotive and industrial chips remained weak. Meanwhile, consumer-facing sectors such as the retail trade and food & beverage services sectors shrank, partly due to an increase in outbound travel by locals.

4. Australian 2Q Wage Price Index rises 0.8% q/q, 4.1% y/y after 0.9% q/q, 4.1% y/y - as expected - still the slowest q/q sis in a year - as the wage growth for the public sector accelerated (3.9% vs 3.8% in Q1) offset by a slowdown in the private growth (4.1% vs 4.2%). The increases in the public sector growth reflected changes to new state and federal wage policies introduced across 2023. In original terms, the main contributors to the growth were healthcare and social assistance (5.0%), electricity, gas, water, and waste services (4.3%), education and training (4.3%), retail trade (4.2%), administrative and support services (4.2%), accommodation and food services (4.2%), mining (4.0%, transport, postal & warehousing (3.9%), manufacturing (3.9%), and construction (3.8%).

5. Australian August Westpac MI consumer confidence jumps 2.8% to 85 after -1.1% at 82.7 - better than 83 expected - the highest reading since February, as tax cuts and other fiscal measures became more apparent while fears about rate rises subsided. The ‘family finances vs a year ago’ sub-index surged 11.7% to a 2-year top of 70.9 and family finances for the next 12 months rose 5.1% to 96.8. Meanwhile, consumers' views on economic conditions for the next 12 months added 2.4% to 83.3 but their assessment for the next 5 years fell 3.2% to 91.5. The ‘time to buy a major item’ went up 0.6% to 82.6 despite staying below its average of 124. Sentiment around jobs was still consistent with a gradual slowing in the labor market. "Consumers breathed a small sigh of relief," said senior economist Matthew Hassan. That said, he cautioned that concerns about cost of living continued to weigh.

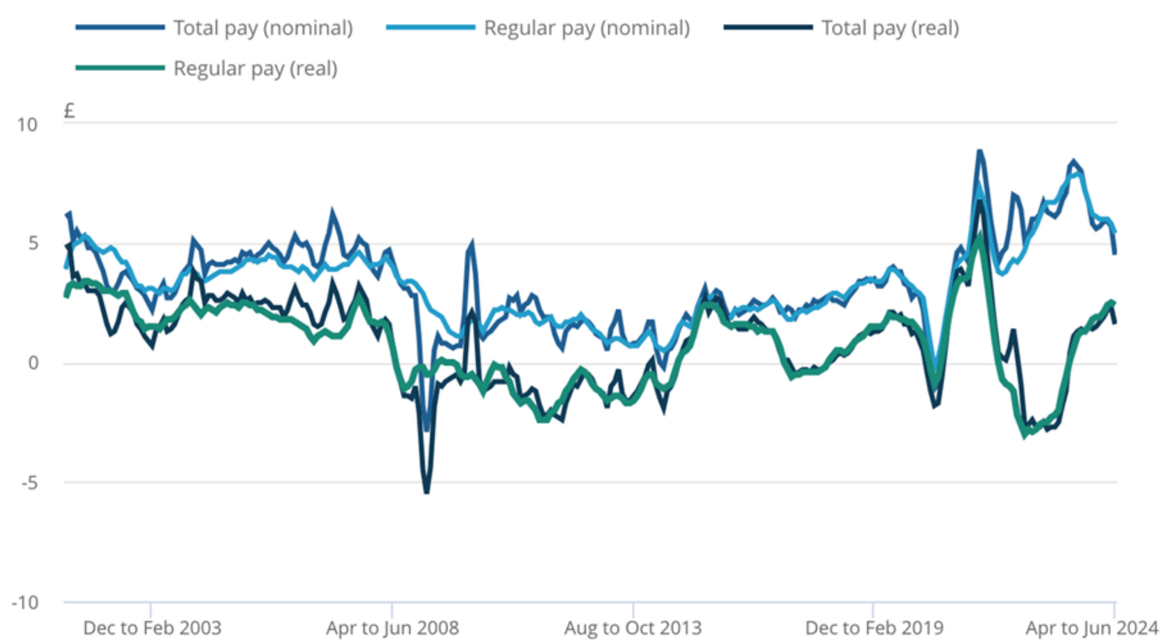
6. Australian July NAB business confidence index drops to 1 from 3 - weaker than 5 expected - coming off the best level since January 2023. Even as business conditions strengthened (6 vs 4 in June), just slightly below average, employment bounced back (7 vs 0) while sales eased (9 vs 11). Labor cost growth jumped to 2.5% in quarterly equivalent terms from the prior 1.5% following the rise in the minimum wage at the start of the month. Simultaneously, purchase cost growth eased to 1.1% from 1.3%. Inflation in product prices held at a quarterly rate of 0.7%, confirming a slowdown in June. "We were concerned about the sharp decline in the employment index, but it jumped back to an above-average level this month, suggesting the robust jobs growth is continuing for now," said NAB chief economist Alan Oster. "The fall in conditions is consistent with the slowdown in growth that has occurred, but we expect the economy to grow more quickly in H2 of the year.”

7. German August ZEW economic sentiment index drops to 19.2 from 41.8 - much worse than 32 expected - the largest plummet since July 2022. "The economic outlook for Germany is breaking down," said ZEW president Achim Wambach. Economic expectations are still affected by a high level of uncertainty, driven by ambiguous monetary policy, disappointing business data from the US economy and growing concern about an escalation of the conflict in the Middle East, Wambach said. Additionally, the current conditions index decreased to a four-month low of -77.3 from -68.9 in July.

8. UK June 3M average unemployment drops to 4.2% from 4.4% - better then 4.5% expected. The number of unemployed individuals decreased by 51,000 to a total of 1.44 million, driven by declines in those unemployed for up to 6 months, bringing the figure below last year's levels. Additionally, the number of individuals unemployed for over 6 months and up to 12 months, as well as those unemployed for over 12 months, also declined but remained above last year's estimates. Meanwhile, the number of employed individuals increased by 97,000 to 33.1 million, mainly due to a rise in part-time employees and self-employed workers, partially offset by a decrease in full-time employees. The number of people in employment with second jobs also rose during the period, accounting for 3.8% of all employed individuals. Lastly, the economic inactivity rate increased by 0.1 percentage points to 22.2%. The July claimant count jumped to 135,000 after 36,200 - much worse than the 14,500 expected. Average earnings with bonus for June 3M average fell back to 4.5% from 5.7% while ex-bonus fell to 5.4% from 5.8% y/y - least since August 2022. Wage growth eased both for the private sector (5.2% vs 5.6%) and the public one (6.0% vs 6.4%). The finance and business services sector (6.2%) saw the largest annual regular wage growth rates, followed by manufacturing (6.0%) and services (5.5%).

Exhibit #2: are Wages the BOE problem?

Average weekly earnings annual growth rates in Great Britain, seasonally adjusted, January to March 2001 to April to June 2024



Source: Monthly Wages and Salaries Survey from the Office for National Statistics

Source: UK ONS BNY

Disclaimer & Disclosures

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

Bob Savage

HEAD OF MARKETS STRATEGY AND INSIGHTS

CONTACT BOB

Can’t see the email? View online

This message was sent from an unmonitored email box. Please do not reply to this message.

.