BNY

iFlow

MARKET MOVERS

August 14, 2024

Dulled

"Comfort and familiarity were wonderful, but they also dulled passion and excitement. Predictability and the abit made surprises almost impossible." – Nicholas Sparks

"Nothing ever truly faded. Time only dulled the edges." – Karin Slaughter

Summary

Risk mixed even as RBNZ surprises with its first cut in 4-years, Japan PM Kishida plans to step-down after just 3 years while UK CPI is lower than feared but Sweden higher – markets are waiting for some signal that the soft-landing in the US sustains with rate cuts linked to softer inflation. The lack of volume and confidence in the tape stands out as problematic as the linkages of rates to FX to stocks frays and all the hope for a bounce tarnishes. Geopolitical concerns remain with Ukraine escalation grabbing headlines. On the day, other than CPI focus will revert to equities and the finishing up of 2Q earnings

What's different today:

- **China CSI 300 drops 0.6%, -3.4% ytd - trading at 6-month lows** - with weaker credit data blamed.
- **US weekly MBA mortgage applications jump 16.8% w/w** – most in 18-months – extending the 6.9% rise from last week. Mortgage costs fell nearly 30bps since the start of the month. Refinancing surged by 35% while new home buying was up 3%.

- **iFlow** – 7 of 11 global equity sectors saw inflows, mood is neutral and the G10 equities were led by Denmark, Switzerland and Canada while EM saw China outflows along with Turkey. The FX markets were quiet except for TRY buying and some PLN selling. The bond focus was China selling along with Australia against more modest US and Canada buying.

What are we watching:

- **US July consumer price index** expected up 0.2% m/m, 3% y/y after -0.1% m/m, 3.0% y/y with core 3.2% from 3.3% y/y - key for FOMC expectations and core PCE components.
- **US 2Q corporate earnings:** Cisco Systems, Progressive, Cardinal Health

Headlines

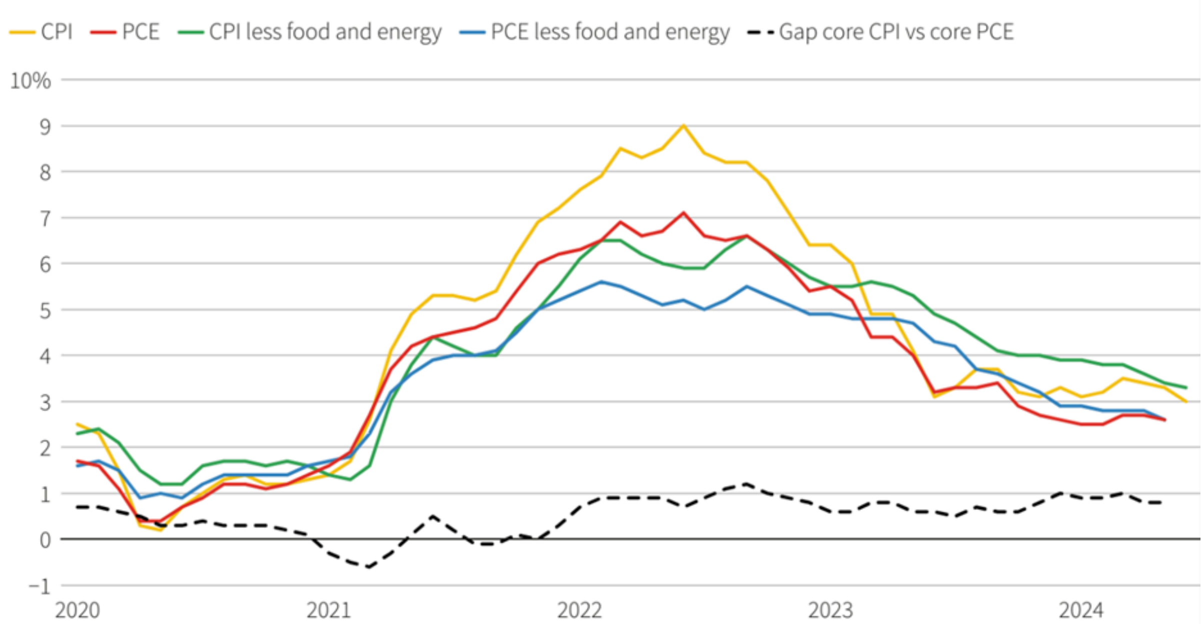
- New Zealand RBNZ surprise with 25bps cut in OCR to 5.25% - first easing since March 2020 - discussed 50bps, cites slowing growth and inflation nearing target - NZX up 2.1%, NZD off 1% to .6015
- Korea July unemployment off 0.3pp to 2.5% - lowest since Oct 2023 – Kospi up 0.88%, KRW up 0.4% to 1360.60
- Japan PM Kishida won't stand for LDP leadership, plans to resign - Reuters Aug Tankan drops 1 to 10 blamed on China weak demand – Nikkei up 0.58%, JPY off 0.1% to 146.90
- Thai court dismisses PM Thavisin for ethics violations – THB up 0.3% to 34.93
- India WPI slows 1.32pp to 2.04% y/y- lowest since April – Sensex up 0.19%, INR up 0.1% to 83.94
- Sweden July CPIF rise 0.4pp to 1.7% y/y - housing costs largest driver of prices – OMX up 0.55%, SEK up 0.5% to 10.405
- UK July CPI -0.2% m/m, +2.2% y/y- while CPIF slows to 3.1% - FTSE up 0.3%, GBP off 0.2% to 1.2840
- ECB rate cut expectations mixed by higher German wage deals - WSI union think-tank sees 5.6% y/y increase – DAX up 0.4%, Bund 10Y yields up 1.5bps to 2.20%
- Eurozone 2Q GDP unrevised at 0.3% q/q, 0.6% y/y while employment moderates up 0.2% q/q, 0.8% y/y - and industrial production for June down -0.1% m/m, -3.9% y/y with no bounce – EuroStoxx 50 up 0.35%, EUR up 0.25% to 1.1025

- US weekly API oil inventories report -5.20mb draw, flat to start of year, along with -3.69mb draw in gasoline, off 2% from average, and 0.612 build in distillate 6% below average – WTI off 0.3% to $78.10
- Ukraine attacks Russia with drones and missiles- advances further - US President Biden calls it a “real dilemma” for Putin – Wheat off 0.5% to $5.49

The Takeaways:

There is a difference between dulled reactions and tarnished responses – this will be important to note as markets face another inflation report today. The lack of fear about rates stands out in a world with significant debt burdens and with rates still higher than decades-long averages. The burden of carrying any debt hasn’t yet led to wholesale deleveraging but that is the underlying risk to the present lethargic rally back in risk. Calling it a dull bounce may suffice. US CPI dominates the focus on the day ahead and like PPI seems more important than usual to bond markets. The fate of FOMC rate cut expectations rests on the number being benign up 0.2% m/m. Fears about base effects on CPI lie ahead and make analysts focus on the monthly results into Autumn. Whether today’s result has the same effect as yesterday’s lower PPI matters as with it the core PCE expectations will be set. Focus on housing and services looks critical to how we deal with the rest of the week.

Exhibit #1: Is CPI going to move markets like PPI?



Source: Bureau of Labor Statistics

Reuters Graphics

Source: Reuters, BNY

Details of Economic Releases:

1. Japan August Reuters Tankan for manufacturing slows to 10 from 11 - better than 9 expected. The outlook fro November drops to 5. One respondent cited sluggish auto sales particularly in China, with other sectors sharing similar sentiment. Higher inflation and market volatility were also factors that weighed on business confidence, especially among firms that rely heavily on raw materials and are sensitive to foreign exchange rate movements. Moreover, manufacturers expect the index to decline further to +5 over the next three months. The index for services also cooled this month to 24 from 26, but is expected to rebound to November back to 26.

2. Korea July unemployment drops to 2.5% from 2.8% - better than 2.8% expected - the lowest reading since October as the number of unemployed persons totaled at 737,000, which decreased 70,000 persons or 8.7% y/yr. At the same time, the number of employed persons totaled 28.857 million persons in July, which went up 172,000 or 0.6% y/y. The labor force participation rate stood at 64.9% in July, down 0.1% y/y.

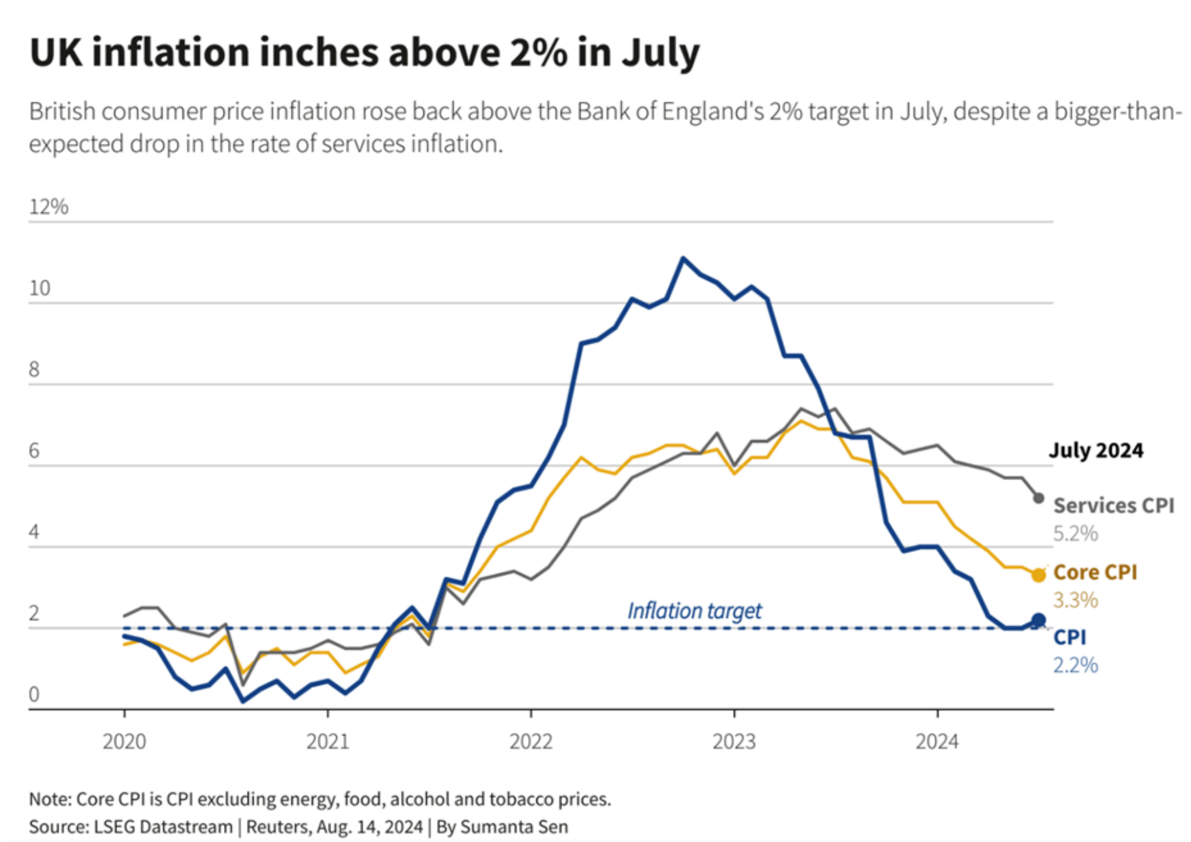
3. India July WPI slows to +0.86% m/m, 2.04% y/y from +0.26% m/m, +3.36% y/y - better than 2.4% y/y expected - the ninth consecutive period of wholesale inflation but the softest pace since April, with food prices rising the least in nine months. Primary articles (3.08% vs 8.80% in June) and food index (3.55% vs 8.68%) rose softer, due to a plunge in vegetable prices (-8.93% vs 38.76% in June) and a slowdown in paddy prices (10.98% vs 12.07%). Meanwhile, manufacturing prices increased more (1.58% vs 1.43%), marking the highest since February 2023, mainly driven by rises in pharmaceuticals and medical chemicals (2.05% vs 0.42%) and wood and products of wood and cork (3.53% vs 3.17%). Also, fuel and power prices accelerated (1.72% vs 1.03%), boosted by rises in LPG (6.06% vs 1.49% in June).

4. Sweden July CPI rises 0.1% m/m, 2.6% y/y after -0.1% m/m 2.6% y/y - meter than 2.7% y/y expected. However, the CPIF rose 0.1% m/m, 1.7% y/y after 1.3% y/y. Food & non-alcoholic beverages inflation was steady (at 1.1%), amid an accelerating in housing & utilities (6.3% vs 5.6%) and transport prices (1.1% vs 0.1%). Meanwhile, prices dropped faster for recreation & culture (-1.3% vs -0.2%), and furnishings & household goods (-1.7% vs -1.0%).

5. Eurozone 2Q GDP unrevised at up 0.3% q/q, 0.6% y/y after 0.3% q/q, 0.5% y/y - as expected. Key economies including France (0.3% vs 0.3% in Q1), Italy (0.2% vs 0.3%) and Spain (0.8% vs 0.8%) grew in the quarter. Belgium (0.2% vs 0.3%), Ireland (1.2% vs 0.7%), Portugal (0.1% vs 0.8%), Lithuania (0.9% vs 0.9%), Cyprus (0.7% vs 1%), Slovakia (0.4% vs 0.6%) and Finland (0.4% vs 0.2%) also expanded. At the same time, the GDP in Estonia (0.2% vs -0.4%), Netherlands (1% vs -0.3%) and Slovenia (0.2% vs -0.1%) rebounded. On the other hand, Germany which is the largest economy, unexpectedly contracted 0.1%, as the industrial sector continues to be strained by high interest rates. Also, Latvia shrank 1.1% and the GDP in Austria stalled (vs 0.2%). Year-on-year, the GDP in the Euro Area expanded 0.6%, the most in five quarters. The European Commission expects the Eurozone economy to grow 0.8% this year, following a broad stagnation in 2023.

6. UK July CPI -0.2% m/m, +2.2% y/y after +0.1% m/m, 2.0% y/y - better then 2.3% y/y expected. Prices rose faster for housing and household services (3.7% vs 2.3%), as prices of gas (-22.8% vs -37.5%) and electricity (-19.5% vs -21%) fell less than in the previous month. Prices also rose more for clothing and footwear (2.1% vs 1.6%), communication (4.5% vs 2.9%) and miscellaneous goods and services (3.5% vs 2.9%). On the other hand, inflation steadied for food and non-alcoholic beverages (1.5%) and education (4.5%). In addition, inflation slowed for services (5.2%, the lowest since June 2022 and below BoE's forecast of 5.6%); restaurants and hotels (4.9% vs 6.2%), mostly hotels; recreation and culture (3.7% vs 3.9%); and transport (0.2% vs 0.9%), mainly maintenance and repairs (5.7% vs 8%), passenger transport by air (-10.4% vs -0.9%), and motor fuels. Core inflation rate eased to 3.3% from 3.5%, below expectations of 3.4%.

Exhibit #2: BOE sees GBP do its work after CPI?



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

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