

August 16, 2024

One Way

"There is only one way in and one way out of this world." – Sarah Beth Durst

"Life is a one-way street and you're not coming back." – Thomas Dewar

Summary

Risk on as Asia picks up on US rally and extends with USD lower while Europe mostly continues gains. Price action over new data dominated today with biggest news from Japan being the BOJ investment flows confirming Japanese investors were buyers of foreign equities – the most in 12-weeks. The hawk talk from RBA Bullock and the better Singapore exports added to mood. Europe braces for the weekend and more geopolitical risks – Oil is up on that – while US bonds are bid rethinking the overall risks for more from the FOMC ahead of next week's Jackson Hole conference. USD waits for more data namely housing starts and consumer sentiment. The week has been quietly one way with bonds mostly sold, stocks mostly bought, and the USD mostly bid. The one-way nature of the bounce has been in low volume and with low conviction.

What's different today:

Japan Nikkei up 3.64% on day, +8.67% on week - setting best week in 4-years – as APAC region sees inflows to equities with focus on non-oil exports from Singapore and Taiwan GDP.

China 10Y bond yields rises 10bps to 2.18% on the week, while 30Y rise 8bps to 2.385% down for second week- led by PBOC efforts to stamp out speculation with

restrictions on new bond funds, further scrutiny over brokers and bank bond desks.
iFlow - worth focusing on FX carry now in the significant zone - which is one of the fastest turnarounds in mood for carry we have ever seen.

What are we watching:

- **US July housing starts** expected -1.5% to 1.33mn rate after 1.35mn with permits -2% to 1.425mn – housing focus is on rates vs. prices – with affordability index.
- **US August preliminary University of Michigan consumer sentiment** expected up 0.5 to 66.9 with 1Y CPI expectations 2.8% from 2.9%.
- **Fed Speaker:** Chicago Fed Goolsbee on NPR then on CNN after public Fireside Chat.

Headlines

- New Zealand July NZ PMI up 3 to 44.0 – still in contraction – while 2Q PPI output up 1.1% q/q – most since 3Q 2022 – NZD up 0.4% to .6025
- RBA Bullock – remain focus on upside risks to inflation, full employment not served by over target CPI
- Singapore July NODX surges back +15.7% y/y – first gain since January – led by electronics – SGD up 0.3% to 1.3190
- Thailand elects PM Shinawatra after turbulent week of politics – youngest leader on record – THB flat at 35.02
- Taiwan 2Q GDP up 1.16% q/q, 5.06% y/y slowing from 6.63% in 1Q – as exports slow government cuts 2024 outlook – TWD up 0.15% to 32.27
- UK July retail sales rose 0.5% m/m, +1.4% y/y – led by sporting events and summer discounts – FTSE off 0.3%, GBP up 0.4% to 1.2905
- Eurozone June trade surplus jumps to E22.3bn – with imports -8.6% y/y – EuroStoxx 50 up 0.7%, EUR up 0.15% to 1.0990

The Takeaways:

Dr. Copper is in? The copper futures rose to 2-week highs today as a strike at BHP's Escondida mine in Chile threatens to disrupt up to 5% of the supply. There are other Chilean mines at risk as well given there is no final wage deal. Demand hopes are higher as well given US data yesterday and talk of more from China given

its weaker than expected data. All that is a great way to capture the key themes for the week and for the FOMC and other central bank decisions ahead. The wage problem is clear across Europe and UK as its stickiness and as the role of government in that process leaves little relief from inflation. In the US, the mood links back to slowing labor markets but not collapsing ones. We are in the Goldilocks one-way traffic zone for risk this week but all that could change quickly. Copper and equities have a long and well-worn relationship – making today’s test of the pairing important given the housing starts and consumer sentiment.

Exhibit #1: Is copper going to rally from here?



Details of Economic Releases:

1. New Zealand July Business NZ PMI rises to 44.0 from 41.1 – better than 42.5 expected - still significantly below the long-term average of 52.6. This indicates that while there was some improvement, the manufacturing sector remains in contraction for the 17th consecutive month. Key sub-indexes showed modest improvements: Production rose to 43.4 (vs 35.7 in June) and New Orders to 42.5 (vs 39 in June), though both remain in significant contraction. Conversely, Employment fell to 43.1 (vs 44 in June), and Finished Stocks declined further to 46.5 (vs 47.7 in June).

2. New Zealand 2Q input PPI rises to 1.4% q/q from 0.7% q/q – more than 0.5% q/q expected, while output PPI rises to 1.1% q/q from 0.9% q/q – also more than 0.6% q/q expected and most since 3Q 2022 - mostly due to increases in cost

of electricity and gas supply (15.3 percent vs 11.6 percent in Q1); building construction (1.0 percent vs 0.6 percent); primary metal and metal product manufacturing (8.2 percent vs -0.2 percent) and sea food processing (4 percent vs 0.8 percent).

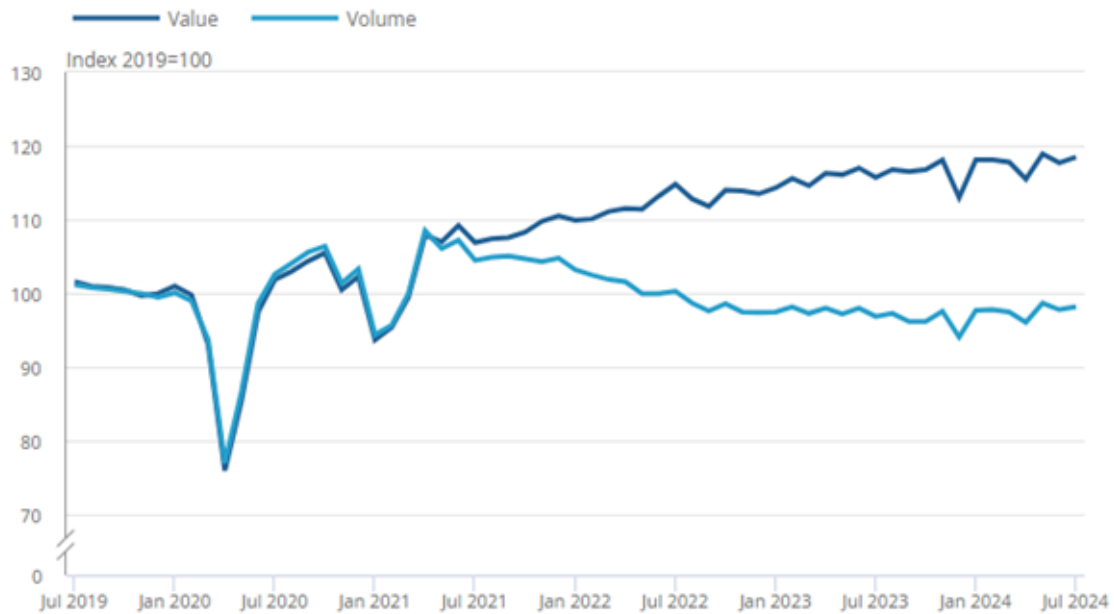
3. Eurozone June trade surplus rises to E22.3bn after E14.0bn – more than E15bn expected – and up from E18bn in June 2023. Imports slipped by 8.6% year-on-year to EUR 214 billion, primarily due to lower purchases of manufactured goods (-11%); machinery & transport equipment (-11%); mineral fuels, lubricants and related (-9.1%) and chemical products (-6.8%). Meanwhile, exports fell at a slower 6.3% to EUR 237 billion, mainly dragged down by reduced shipments of manufactured goods (-8.2%); machinery & transport equipment (-8.8%); chemical products (-9.5%) and mineral fuels, lubricants & related (-3%).

4. UK July retail sales rose 0.5% m/m, +1.4% y/y after -0.9% m/m, -0.3% y/y – as expected. Sales at non-food stores increased by 1.4%, particularly in department stores and sports equipment stores, driven by summer discounting and sporting events. Additionally, non-store retail trade rose by 0.7%, mainly due to a rebound from retailers such as stalls, markets, vending machines, and door-to-door sales. In contrast, trade at food stores stalled, while automotive fuel sales fell by 1.9% after a prior 2.2% increase. Considering the three months to July, retail trade went up 1.1%.

Exhibit #2: Do retail sales matter to BOE?

Sales volumes and values saw moderate growth in July 2024

Volume and value sales, seasonally adjusted, Great Britain, July 2019 to July 2024



Source: Monthly Business Survey, Retail Sales Inquiry from the Office for National Statistics

Source: UK ONS BNY

Disclaimer & Disclosures

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



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