BNY

iFlow
MARKET MOVERS

August 15, 2024

Testing

"Courage is not simply one of the virtues, but the form of every virtue at the testing point." – C.S. Lewis
"The test of a first-rate intelligence is the ability to hold two opposed ideas in mind at the same time and still retain the ability to function." – F. Scott Fitzgerald

Summary

Risk on as markets wait for more data and feel confident in the trawling for value post last week's volatility shock. The mood isn't confident but testing with focus on growth over inflation returning today given US jobless claims and US retail sales. Overnight Philippines cut rates, Norway kept rate high, and FX wasn't the story even as China data mostly missed the mark, with industrial production at 4-month lows, while UK growth was in line led by services and investments against weaker production and trade. Hope for policy responses posted this week's data is mixed and likely tests central bank confidence in faster easing anywhere. The US session ahead has so much data that it likely overwhelms with industrial production and the Philly and Empire Fed manufacturing indices look more important given politics, policy and the talk of a faltering business cycle.

What's different today:

- **Nigeria inflation fell to 33.4% y/y from 34.2% y/y - this is the first drop in nearly 2-years -**but was slightly over the 33.3% expected. The food price plan to cut import duties should help further while FX and fuel effects from earlier this year fade.

- **Walmart lifted its full-year outlook as bargain hunting shoppers rise** – e-commerce sales rose 22%, the shares rose post earnings and guidance for 2024 net sales at 4.75% from 4% previously.
- **iFlow** – notable rise back in carry nearing significant correlation zone – with JPY selling in G10 along with CAD while TRY, TWD, and most of LatAm saw inflows. The equity market has just 3 sectors seeing selling with materials leading losses globally but Energy and Consumer Discretionary higher. The biggest bond stories are in China and Australia selling against Singapore and Israel buying.

What are we watching:

- **US July retail sales** expected up 0.3% m/m after 0% m/m with ex autos up 0.1% m/m after 0.4% m/m - with control group expected up 0.1% after 0.9% - key for consumer demand views, growth outlooks.
- **US weekly jobless claims** expected up 2k to 235k with continuing claims up 5k to 1.88mn - key for keeping soft-landing hopes intact.
- **US August Philadelphia Fed manufacturing index** expected 7 from 13.9 - with focus on jobs and Capex - and how it compares to NY Empire Fed manufacturing expected -6 from -6.6.
- **US July industrial production** expected -0.3% m/m after +0.6% m/m - with focus on capacity.
- **US August NAHB housing market index** expected 43 from 42 - watchied for how lower mortgage rates are helping mood in sector
- **Fed Speakers**: St. Louis Federal Reserve President Alberto Musalem and Philadelphia Fed President Patrick Harker both speak
- **US 2Q corporate earnings**: Amcor, Applied Materials, Deere, Tapestry

Headlines

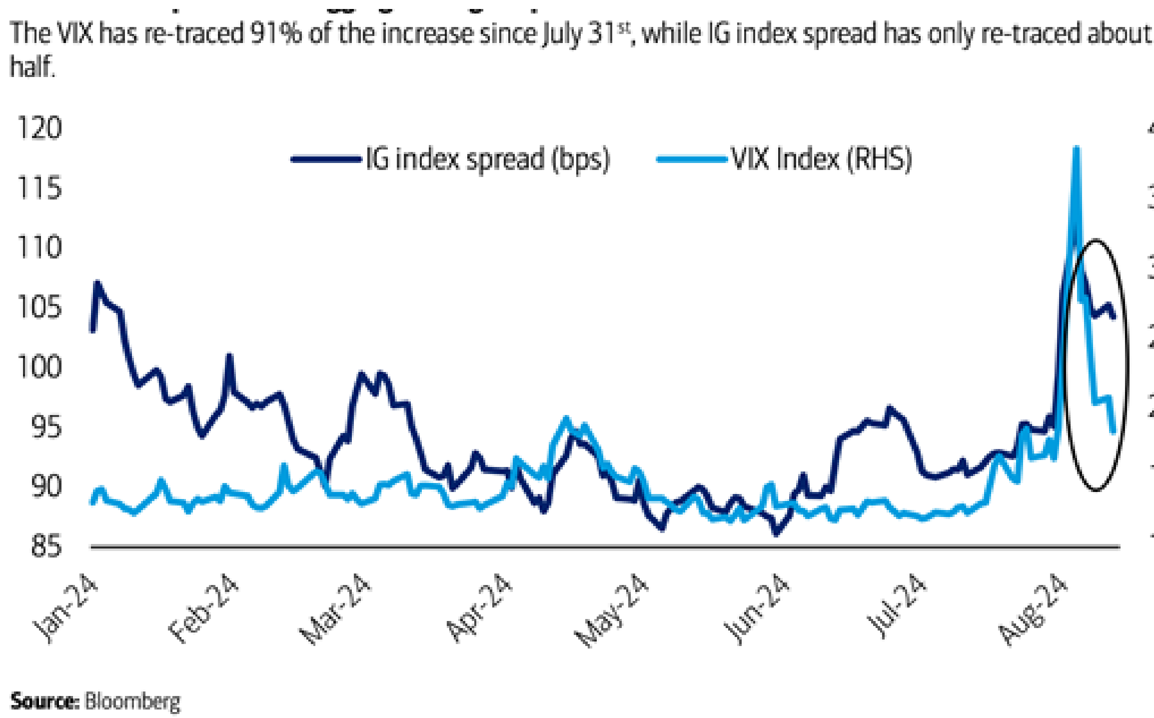
- Norges Bank keeps rate on hold at 4.5% - as expected - sees high for longer continuing with weaker NOK noted, NOK up 0.3% to 10.6850
- Philippines BSP cut rates 25bps to 6.25% - as expected – with further easing signaled ahead – PHP up 0.1% to 56.89

- Japan 2Q GDP rose 0.8% q/q, 3.1% y/y- best expansion since 2Q 2023 - led by private consumption - while June final industrial production -4.2% m/m, -7.9% y/y - worst since Sep 2020 – Nikkei up 0.78%, JPY up 0.1% to 147.25
- Australia Aug unemployment rises 0.1 to 4.2%- highest since Jan 2022 - even as jobs rose 58,200 - best since February - while Aug MI inflation expectations rose 0.2 to 4.5% - highest since April – ASX up 0.19%, AUD up 0.35% to .6630
- China July new home prices -0.7% m/m -4.5% y/y - worst since June 2015 - while industrial production slips 0.2pp to 5.1% - weakest since March, retail sales rose 0.7 to 2.7%, Fixed Asset Investment +3.6% ytd while unemployment up 0.2 to 5.2% - CSI 300 up 0.99%, CNH up 0.2% to 7.1615
- UK 2Q flash GDP up 0.6% q/q, 0.9% y/y despite weaker production and trade drag led by investment – FTSE flat, GBP up 0.25% to 1.2860

The Takeaways:

The test of the day comes from the US data with retail sales and jobless claims expected to turn the focus from softer inflation to softer growth and reignition of US slowdown worries. What this means to rates and FX will be important. What does stand out after last week is the miss match of how VIX round-trip moves have beaten the credit concerns that linger. The VIX closed yesterday at 16.2%. The US rate market has responded by cutting back Fed easing plans from 100% 50bps in September to now just 33% chance of such. Today will test this market pricing. The other side of the ledger for markets is China where the MLF roll-over was delayed adding to new policy expectations post another set of weaker data. The question there is about how to get to 5% GDP targets by year-end as July clearly shows 4% track. The problem for China rests on bonds and how the PBOC policy clashes with the need to jump start spending anywhere there. Elsewhere in the region, growth shows up and makes the benign neglect of the Chinese consumer less fearful as Japan GDP and Australian job growth suggest APAC is getting on with life regardless. The risk for the week rests on how the US exceptionalism could turn on the data ahead.

Exhibit #1: Is Credit more important than stocks now?



Source: Bloomberg, BNY

Details of Economic Releases:

1. Japan 2Q GDP rose 0.8% q/q, 3.1% y/y after -0.6% q/q, -2.3% y/y - better than 2.1% y/y expected - the strongest yearly expansion since Q2 of 2023, mainly supported by a strong rebound in private consumption after spring wage negotiations saw an average pay raise of 5.17% in the country, the highest in more than three decades. Moreover, there was a bounce back in business spending, helped by the ongoing recovery in the automotive industry following some scandals involving big automakers. In the meantime, government spending was sluggish while net trade contributed negatively for the second consecutive quarter.

2. Japan final June industrial production fell -4.2% m/m, -7.9% y/y after +3.6% q/q, +1.1% y/y - worse than the -3.6% q/q preliminary - he fourth time of contraction in industrial output so far this year and the steepest pace since the start of the year, mainly dragged by lower production of motor vehicles (-8.9% vs 18.1% in May), production machinery (-9.0% vs -6.8%), and general-purpose and business oriented machinery (-8.2% vs 5.2%).

3. Australian August employment rose 58,200 with unemployment 4.2% after 52,200 and 4.1% y/y - better than 20,000 expected but worse than 4.1% rate expected - highest unemployment since Jan 2022, even as this was the largest growth in employment levels since February, as full-time employees surged by 60.5 thousand, while part time employees decreased by 2.3 thousand. Over the year to

July, employment grew by 455.4 thousand or 3.2% The participation rate hit a record high of 67.1% in July, compared with June's reading and forecasts of 66.9%. The underemployment rate was down to 6.3% from 6.4% in June. Additionally, monthly hours in all jobs increased by 7 million or 0.4% to 1,961 million.

4. Australian August consumer inflation expectations rise to 4.5% from 4.3% - worse than 4.1% expected and highest since April. Australia's headline inflation rose 3.8% in Q2 of 2024 from a nine-quarters low of 3.6% in Q1, the first increase since Q4 of 2022. Meanwhile, the monthly CPI index went up by 3.8% yoy in June, following May's 4.0% rise which was the highest reading since late 2023. Meantime, the economy grew 0.2% qoq in Q4, the softest pace in five quarters.

5. China July 70-City house prices fell —0.7% m/m, -4.9% y/y after -4.5% y/y - as expected - the 13th straight month of decrease and the fastest pace since June 2015, despite continued attempts from Beijing to ease the impact of a prolonged property weakness, including reducing mortgage rates and lowering home buying costs. Prices dropped further in most cities, including Beijing (-3.3% vs -2.4% in June), Guangzhou (-9.9% vs -9.3%), Shenzhen (-8.0% vs -7.3%), Tianjin (-1.2% vs -1.2%), and Chongqing (-4.9% vs -3.4%). At the same time, cost continued to increase in Shanghai (4.4% vs 4.4%).

6. China July industrial production slows to +0.35% m/m, 5.1% y/y from +0.4% m/m, 5.3% y/y - weaker than 5.2% y/y expected - the third straight month of moderation in industrial output, with growth hitting its lowest since March, mainly due to a slowdown in manufacturing activity (5.3% vs 5.5% in June) and utilities (4.0% vs 4.8%) as economic recovery stayed fragile. Among industries, 33 out of 41 major sectors registered growth, notably coal, mining & washing (4.7%), oil & natural gas (5.7%), chemical products (8.6%), textiles (5.9%), non-ferrous metal smelting and rolling processing (9.4%), railway, shipbuilding, aerospace and other transportation equipment (12.7%), automobile (4.4%), computer, communication and other electronic equipment (14.3%), and utilities (3.2%).

7. China July retail sales rose +0.35% m/m, 2.7% y/y after -0.1% m/m, 2.0% y/y - better than 2.6% y/y expected and the18th consecutive month of expansion in retail trade. boosted by growth sales of beverages (6.1% vs 1.7% in June), sports & recreation articles (10.7% vs -1.5%), communication equipment (12.7% vs 2.9%), and petroleum & petroleum products (1.6% vs 4.6%). Meanwhile, sales shrank for tobacco & alcohol (-0.1% vs 5.2%), furniture (-1.1% vs 1.1%), clothes, shoes, hats & textiles (-5.2% vs -1.9%), cosmetics (-6.1% vs -14.6%), household appliances &

audio-video equipment (-2.4% vs -7.6%), and cultural & office supplies (-2.4% vs -8.5%).

8. China July fixed asset investment slows -0.17% m/m, +3.6% y/y ytd after 3.9% ytd - worst than the 3.9% ytd expected. Investment activity in the secondary sector sustained (12.5% vs 12.6% in January to June), helped by increases in mining (19.3%), manufacturing (9.3%), and electricity, heat, gas and water production and supply (23.8%). Also, investments in the primary sector rose further (3.3% vs 3.1%). On the other hand, investments in the tertiary industry fell further (-0.7% vs -0.2%). In the meantime, investment in real estate contracted by an annual 10.2% during the first seven months of the year, compared with a drop of 10.1% in the preceding period.

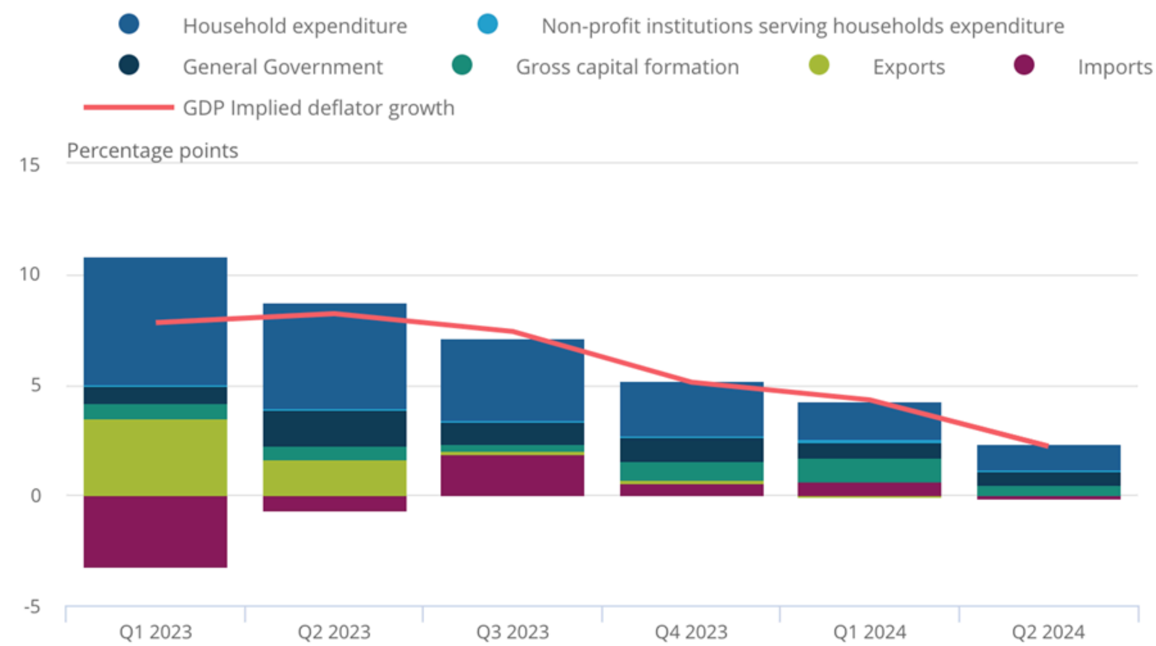
9. China July unemployment rose to 5.2% from 5.0% - worse than the 5.1% expected. The jobless rate among residents registered locally was 5.2%, while those with non-local registration rose to 5.1%, of which the non-local agricultural registrants had a rate of 4.9%. In 31 major cities, the urban unemployment rate was 5.3%. On average, employees in enterprises worked 48.7 hours per week. In July 2023, the surveyed unemployment rate was 5.3%. Considering January to July, the urban surveyed jobless rate averaged 5.1%, down 0.2 percentage points compared to the same period last year

10. UK June industrial production rose 0.8% m/m, -1.4% y/y after 0.3% m/m, 0.4% y/y - better than 0.1% m/m expected. Output increased at a faster pace for manufacturing (1.1% vs 0.3% in May) and electricity, gas, steam & air-conditioning supply (1.6% vs 1%). Moreover, output rebounded for water supply, sewerage & waste management (0.2% vs -0.3%).

11. UK 2Q GDP rose 0.6% q/q, 0.9% y/y after 0.7% q/q, 0.3% y/y - as expected. On the production side, services grew 0.8%, with the largest contribution coming from scientific research and development (11%, the most since 2020). On the other hand, production edged 0.1% lower, led by manufacture of transport equipment (-1.8%) and textiles, wearing apparel and leather products (-6.6%). Construction also fell 0.1%. In expenditure terms, gross fixed capital formation increased 0.4%, namely in transport and intellectual property products while business investment declined 0.1%. Government consumption soared 1.4%, led by higher activity in public administration and defence, and education, which offset a fall in health. Also, household spending edged up 0.2%, mostly consumption in transport, housing, and recreation and culture. On the other hand, net trade fell mainly due to a decline in goods exports

Exhibit #2: UK GDP highlights risks ahead for growth?

UK, contributions to quarter on quarter a year ago growth in the implied price deflator, Quarter 1 (Jan to Mar) 2023 to Quarter 2 (Apr to June) 2024



Source: GDP first quarterly estimate 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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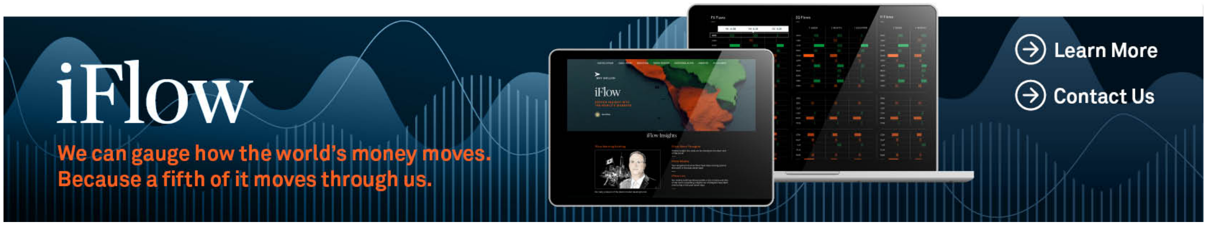

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