BNY

iFlow
MARKET MOVERS

August 19, 2024

Not Soft?

"Be Soft. Do not let the world make you hard. Do not let the pain make you hate. Do not let the bitterness steal your sweetness. Take pride that, even though the rest of the world may disagree, you still believe it to be a beautiful place." – Kurt Vonnegut

"There is no pillow as soft as a clear conscience." – Glen Campbell

Summary

Risk mixed as the hope for easing dominates the week with Riksbank meeting expected to deliver another 25bps cut in rates, with the FOMC Powell speech expected to confirm the Fed plans to ease in September, with some emerging markets expected to also ease – all of which sends the USD lower, stocks higher. However, the FX markets have a limit and higher currencies hurt exporters and some of the confidence that rates alone can spawn a soft-landing everywhere. The lack of bigger news over the weekend leaves many wanting for more clarity to drive hope for recovery over recession – with geopolitical fears remaining intact and US political focus on the DNC opening ahead. The defining of the Harris trade vs. the Trump one maybe the work of the day ahead in the US as it waits for Friday and Jackson Hole clarity. Markets look soft, but investors look hardened by the last 2 weeks of volatility.

What's different today:

- **EUR trades at 1.1035 - 8-month highs**, linked to US FOMC rate cut expectations, and to ECB wage growth data Thursday.
- **Gold hovers near all-time highs at $2500 oz** now -0.5% at $2495 – with safe-haven demand from geopolitical worries and FOMC easing plans cited.
- **FX in Asia shows USD weakness as JPY and KRW gain, but stocks lo**wer – MYR led gains overnight up 1.3%, KRW up 1.2%, JPY up nearly 1% - but Nikkei fell 1.77%, Kospi off 0.85%
- **iFlow shows carry still as significantly positive factor in FX** while mood continues lower in stocks. Friday flows in equities were negative in G10, positive in Mexico and most of APAC except China. The FX markets saw ongoing TRY buying and rebound in TWD buying. The G10 was still JPY and CHF selling vs. EUR and NZD buying.

What are we watching:

- **US July Leading Economic Index** expected -0.4% after -0.2% -
- **Fed Waller gives welcoming remarks** at 2024 summer workshop on Money, Banking and Payment

Headlines

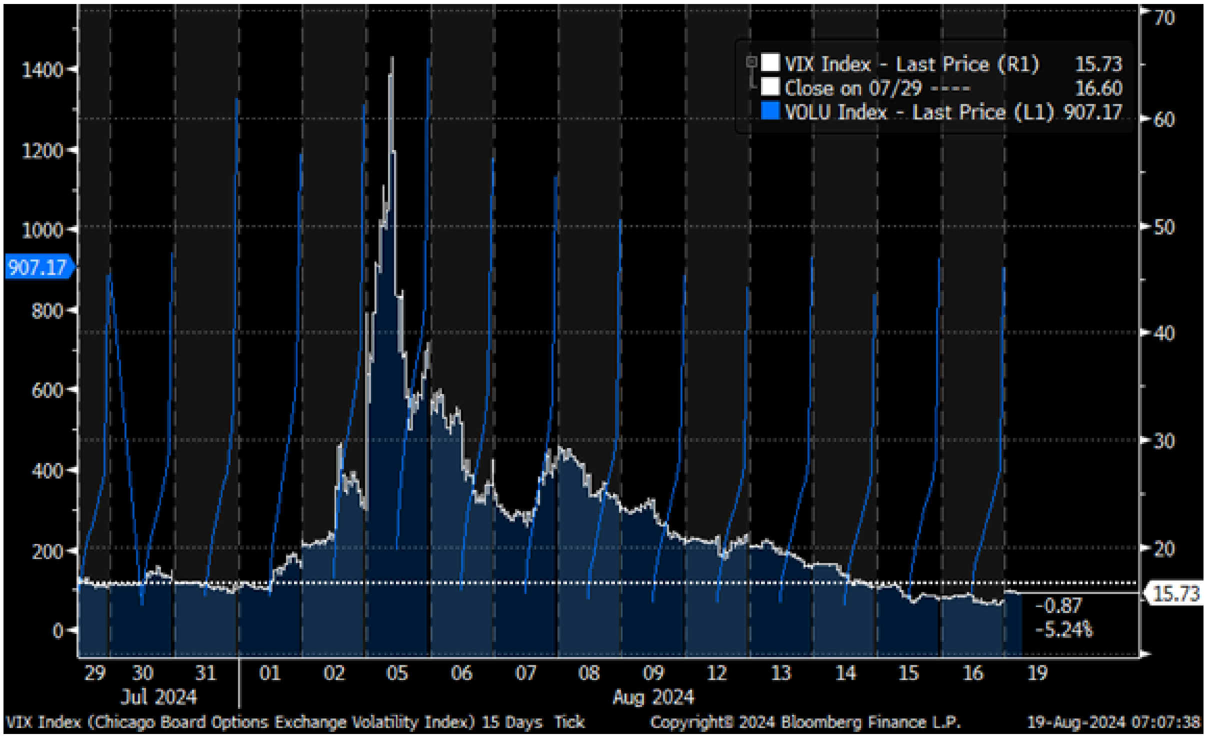
- NZ July PCI composite jumps 3.2 to 44.3 – led by services up 3.9 to 44.6 - first gain in 5-months and best since April – NZD up 0.25% to .6070
- Japan June machinery orders recover up 2.1% m/m – first gain since March – Nikkei up 1.77%, JPY up 0.8% to 146.25
- China and Philippine coast guard vessels collide near Sabina Shoal, China Li vows to boost consumption to help economy, plans visit to Russia and Belarus – CSI 300 up 0.34%, CNH up 0.3% to 7.1390
- Thailand 2Q GDP slows to 0.8% q/q, 2.3% y/y – best yearly gain in 5 quarters but down 0.4pp q/q - slowing consumption blamed on political uncertainty – THB up 1.6% to 34.45
- German FinMin pushes back on reports in FAZ suggesting less military aid for Ukraine due to spending constraints – DAX up 0.1%, Bun 10Y off 2bps to 2.223%
- Swiss SNB cuts limits for banks to earn interest on cash – cuts factor from 25 to 22 minimum holdings – Swiss Market up 0.3%, CHF up 0.1% to .8650
- UK Northern Ireland UUP leader quits, cites “irreconcilable differences” – FTSE off 0.1%, GBP up 0.15% to 1.2960

- Talks between Israel and Hamas stall, US Blinken warns “maybe the last chance” for peace deal – WTI Oil off 1% to $75.85, ILS off 1% to 3.7040
- San Francisco Fed Daly – backs gradual interest rate cuts as confidence rises for lower CPI – S&P500 futures off 0.1%, 10Y US yields off 1bps to 3.875%, USD index off 0.2% to 102.25

The Takeaways:

The speed bump for risk on today stands out as Gold stalls at $2500, as the lower USD at 102 index bounces and as stocks globally eye FX over rates as a factor to consider. The US dollar weakness tracks FOMC rate cut bets but there too is a limit as 120bps or 80bps for 2024 seem to matter less than the tone of Fed speakers and the growth expectations around the risk that high for longer means trouble for 2025. The problem for today is that its Monday and not Friday – first because we are in the last big week of summer vacations in the US, second because its four days waiting for FOMC Powell and his Jackson Hole speech. The data that matters in the week comes Thursday and Friday – with jobless claims expected to matter still given the volatility that they show around US short end rates, and with the US existing home sales. However, the bigger data is in the global flash PMI reports showing up what easing expectations do to the rest of the world’s order books for manufacturing and services. Making money out of the confidence that this is a soft-landing looks hard. The expectations for many are that this week tests the mettle of the investors hoping for an easy market but getting harder times with volatility and illiquidity interconnected as usual in late summer trading. As the chart shows volumes on the NYSE exchange against the VIX option market from July 29 to Friday August 18, volumes on the selling of shares were higher than on the buying and the justification for lower volatility now looks soft.

Exhibit #1: US VIX vs. Volume doesn't mix



Source: Bloomberg, BNY

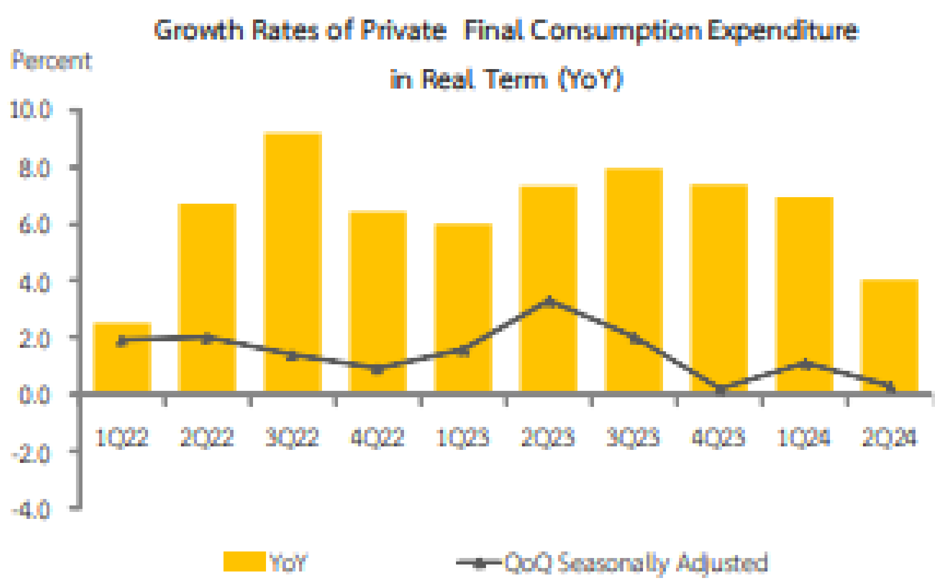
Details of Economic Releases:

1. New Zealand July composite NZ PCI rises to 44.3 from 40.9 – better than 41.5 expected – as services NZ PSI jumps to 44.6 from 40.7 – better than 41 expected – first gain in 5-months and best since April. The key index values for Activity/Sales (39.1) still remains under the 40-point mark, although New Orders/Business (45.3) did show a marked improvement compared with June, albeit off a very low base. Despite the relative positive progress of the July result, the proportion of negative comments for the month (67.0%) was the same as June. Respondents noted the cost of living and interest rates as two key determinants for the current tough economic times. Doug Steel, BNZ's Senior Economist, said that "to get some perspective on how challenging the current environment is for service sector firms, it's notable the increase in the PSI does not even get the index back to the level it was during the depths of the GFC back in 2008/09."

2. Japan June machinery orders recover up 2.1% m/m, -1.7% y/y after -3.2% m/m, +10.8% y/y – better than 1% m/m expected - the first rise since March, largely supported by an upturn in orders for the non-manufacturing sector (2.4% vs -7.5% in June) to JPY 450.4 billion. Meanwhile, orders for the manufacturing sector fell (-0.3% vs 1.0%) to JPY 422.4 billion, dragged by non-ferrous metals (-59.9%), pulp, paper (-54.0%), foods and beverages (-51.5%), electrical machinery (-44.7%), textile (-22.9%), and communication (-16.8%), and ceramic, stone, and clay (-10.6%).

3. Thailand 2Q GDP rose 0.8% q/q, 2.3% y/y after 1.2% q/q, 1.6% y/y – more than the 2.1% y/y expected. The slowdown came amid heightened political uncertainty due to several major legal cases at the constitutional court. Private consumption slowed sharply (0.3% vs 1.1% in q1), as the fate of the USD14 billion economic stimulus plan was uncertain. At the same time, fixed investment fell for the third quarter, and at a steeper rate (-3.6% vs -3.2%). Meanwhile, government spending picked up robustly (1.6% vs 0.1%), boosted by an upswing in social transfers in kind and a further rise in consumption of fixed income. Also, net trade added positively, as exports rose (2.1% vs 1.3%) while imports shrank (-3.4% vs 3.2%). Production-wise, the non-agriculture sector posted strong growth (7.2% vs 1.8%), buoyed by robust output from industrials (4.9% vs 1.0%) and services (8.5% vs 1.5%). Simultaneously, activity in agriculture gained traction (6.5% vs 0.5%).

Exhibit #2: Thailand private consumption lower



Source: National Thailand Stats, BNY

Disclaimer & Disclosures

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

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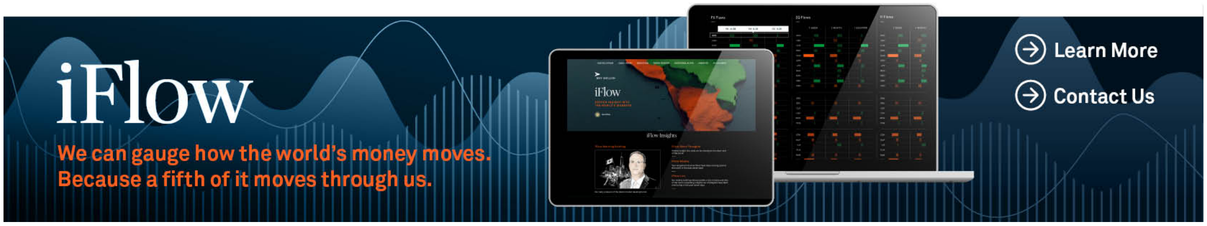

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