BNY

iFlow
MARKET MOVERS

August 20, 2024

Glitter

"It doesn't have to glitter to be gold." – Arthur Ashe

"Fortune is like glass – the brighter the glitter, the more easily broken." - - Publilius Syrus

Summary

Risk mixed as equities try for longest winning streak of the year up 9-days in a row, with gold at new highs, with USD lower. However, momentum stalls with US rates holding and hopes for a clear September Fed cut wavering even as the Swedish Riksbank cut rates as expected, as China held rates as expected, as Turkey holds rates at 50%. All of which make clear that the USD level matters to the rest of the world and that the drop to 8-month lows yesterday rests on more than just rates at home. The risk of the day ahead runs with more corporate supply, more inflation reports – from Canada – and with the ongoing focus on the tape as if stocks are the best barometer for the soft-landing hopes ahead.

What's different today:

- **Japan sold Y1trn of 20Y JGB with 1.1bps tail** at 1.717% - this is done from 1.913% from last auction –
- **China SAFE asks banks to survey for impact of stronger CNY** – most of the yearly losses reversed in August.
- **iFlow** – Carry continues to stay in significantly positive zone with JPY and CHF selling notable in G10 against EUR buying. The EM FX is seeing TWD and

TRY buying with PLN and THB outflows. Equities mostly negative again in G10 with just 4 of 11 sectors up globally, biggest inflows were in Mexico, EMEA, APAC ex China. Bonds sold across G10 but for US while in EM Philippines suffers large outflow.

What are we watching:

- **Canada July CPI** expected up 0.4% m/m, 2.5% y/y after -0.1% m/m, +2.7% y/y – with core 1.9% y/y expected and trimmed mean 2.8% from 2.9% y/y – key for more BOC easing
- **US August Philadelphia Fed services index** previously -19.1 – seen as new index and not as correlated to ISM Services but snapshot matters for growth story.
- **Fed Speakers**: Atlanta Fed Bostic on innovating for inclusion, Vice Chair for Supervision Barr on cybersecurity

Headlines

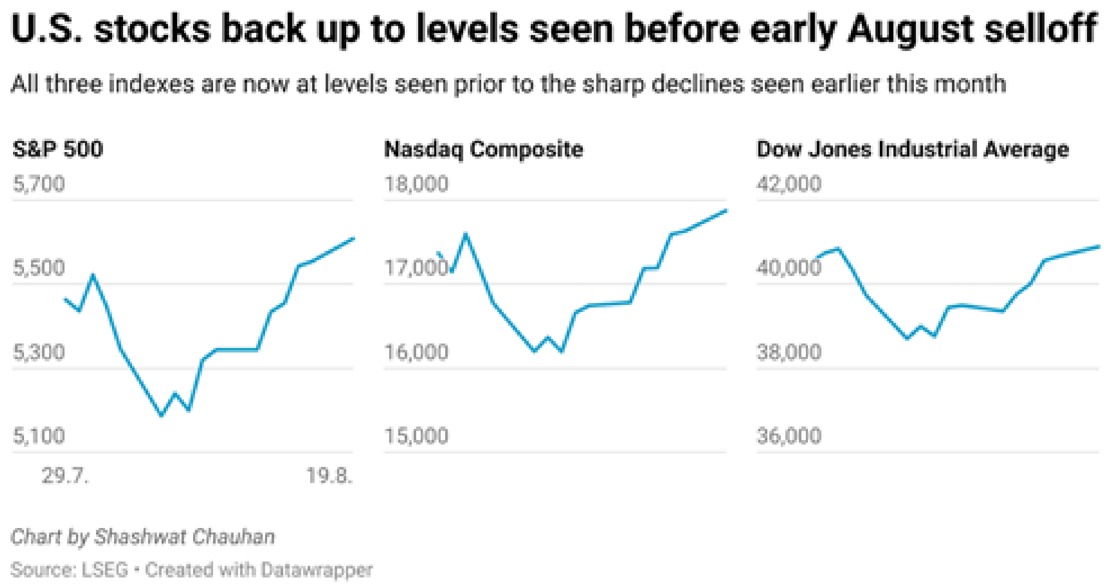
- Turkey TCMB holds rates at 50% - as expected – will hold until inflation expectations shift lower – TRY off 0.1% to 33.807
- Swedish Riksbank cuts rates 25bps to 3.50% - as expected – expected 3 more cuts in 2024 – OMX off 0.4%, SEK up 0.3% to 10.275
- China PBOC leaves 1Y and 5Y LPR unchanged at 3.35% and 3.85% respectively – as expected – CSI 300 off 0.72%, CNH off 0.15% to 7.1430
- RBA August Minutes: Debated hike in rates, sees need for high for longer to cap inflation – ASX up 0.22%, AUD flat at .6730
- New Zealand July trade deficit nearly doubles to NZ$936mn – largest since Jan 2024 – NZD up 0.3% to .6140
- Japan BOJ Paper sees structural changes in labor market adding to wage pressures, LDP election confirmed for Sep 27 – Nikkei up 1.8%, JPY up 0.1% to 146.45
- Korea August consumer confidence drops 2.8 t o100.8 – weakest since Sep 2023 – Kospi up 0.83%, KRW up 0.8% to 1332.40
- Taiwan July exports rise 1.7pp to 4.8% y/y -led by ongoing AI chip demand – Taiex up 0.09%, TWD up 0.1% to 31.98
- German July PPI rose 0.2% m/m, -0.8% y/y – highest in 13 months – Bundesbank monthly sees shallow recession, chance for 2Q growth revisions - DAX flat, Bund 10Y flat at 2.24%

- Eurozone July final CPI confirmed up 2.6% y/y with core 1.9% y/y – while June C/A surplus rises to €50.5bn and Construction Output bounces back 1% y/y – first gain since Jan; ECB Rehn sees room for September easing – EuroStoxx 50 up 0.1%, EUR off 0.1% to 1.1075
- US Harris backs plan to hike corporate tax rate back to 28% - S&P500 futures off 0.1%, 10Y US yields up 0.5bps to 3.875%, US dollar index off 0.1% to 101.82

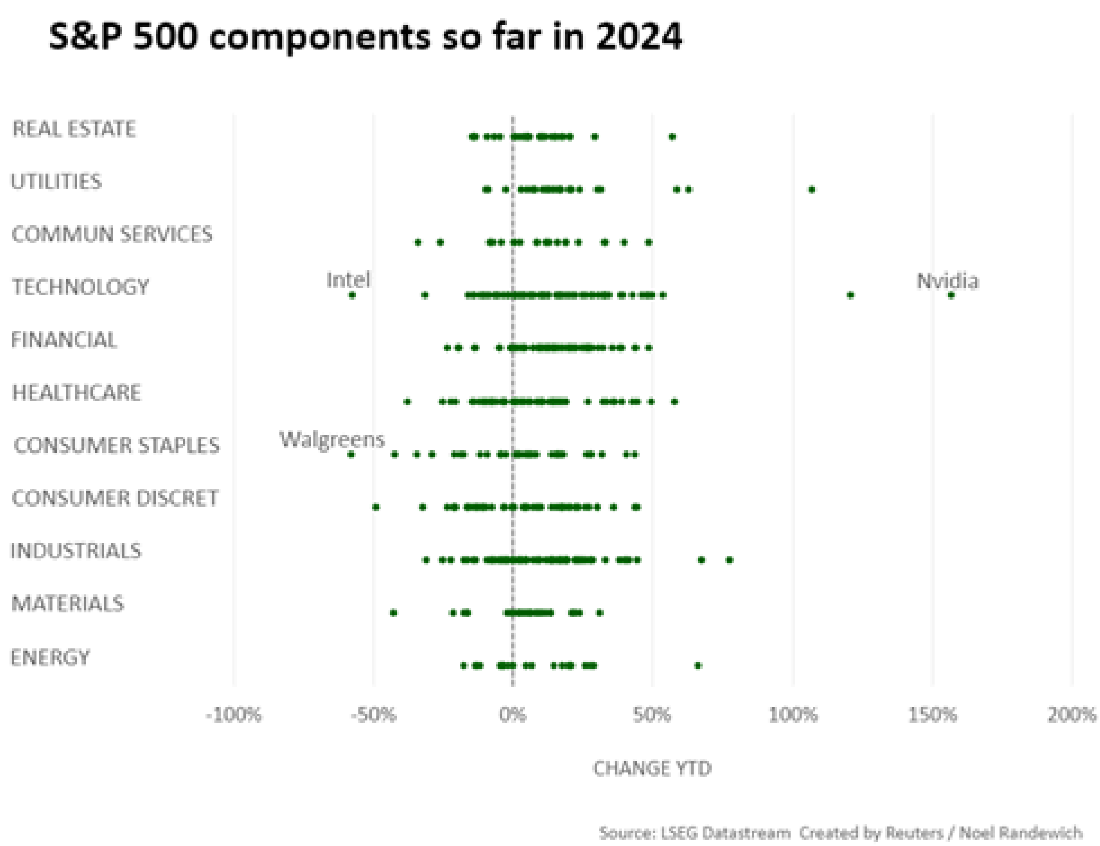
The Takeaways:

The question for today is whether the momentum for more risk holds. The stock markets have unwound the August selling and have recovered fully. The problem for many rests in the current narrow landing strip for policy and the economy – with Goldilocks worries present as higher equities drive up Financial Conditions and worry some Fed watchers that anything more than 25bps this year will spark further irrational exuberance. The other side worries about labor markets and the speed of a recession risk ahead for 2025. Bond markets reflect another heavy week of corporate issuance and the reality that interest rate costs hurt growth here – particularly when it comes to the government where the debate over taxes becomes part of the election again. The movements in equities also reflect the divergence of outcomes from higher costs of debt and that leaves many watching for some hesitancy into the data ahead as expectations for a perfect soft-landing with lower inflation and steady growth are the glitter. There are cracks in the logic from the USD which has dropped to 8-month lows ahead of FOMC cuts – just in anticipation of such – leaving risks for Friday and Chair Powell that much higher. Investors are wondering if all that glitters isn't gold.

Exhibit #1: US markets more than recover from August wobble



Graphics are produced by Reuters.



Source: Reuters, BNY

Details of Economic Releases:

1. **Korea August consumer sentiment fell to 100.8 from 103.6– weaker than 104 expected** – worst since September 2023. Consumer sentiment on various aspects showed a downward trend: current living standards dropped to 90 from 91 in July,

and the future outlook decreased to 94 from 95. Expectations for future household income fell to 98 from 100, while sentiment regarding future household spending declined sharply to 109 from 115. Additionally, views on current domestic economic conditions slipped to 73 from 77, and expectations for future economic conditions decreased.

2. New Zealand July trade deficit rises to NZ$936mn from NZ$585mn – more than the NZ$331mn expected. Still, this was better than the NZ$1.174bn from July 2023 as exports rose at a faster pace than imports. Exports jumped by 14% y/y to $6.1 billion due to higher shipment of milk powder, butter, and cheese (+11%); fruit (+28%); preparations of milk, cereals, flour, and starch (+86%); and crude oil (+310%). Meanwhile, imports rose by 8.5% y/y driven by higher purchase of petroleum and products (+101%); electrical machinery and equipment (+12%); pharmaceutical products (+32%); and plastic and plastic articles (+13%). New Zealand's top export markets in order of total annual goods were China, Australia, USA, EU and Japan, while the main import sources were China, EU, Australia, USA and South Korea.

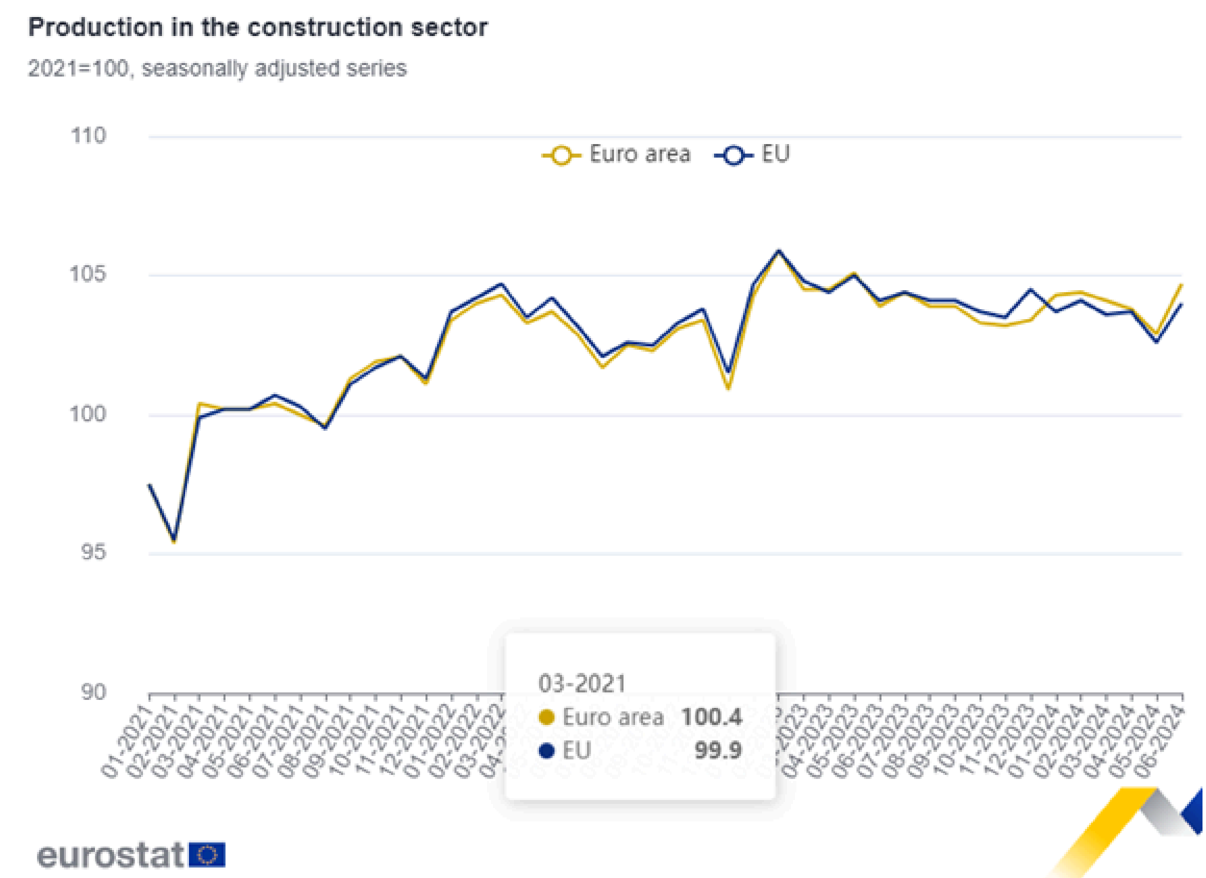
3. German July PPI rises 0.2% m/m, -0.8% y/y after +0.2% m/m, -1.6% y/y – as expected - the 13th straight month of producer deflation but the higest figure in the sequence, amid falling energy prices (-4.1%), notably natural gas (-12.3%) and electricity (-9.2%). Simultaneously, prices of intermediate goods rose by 0.3%, mainly supported by stone, gravel, sand, clay and kaolin (5.5%), mortar (5.2%), and plaster products for construction purposes (3.3%) and lime (2.0%). Also, capital goods prices increased 2.0%, mainly due to machinery (2.1%) and motor vehicles (1.3%). The cost of non-durable consumer goods added 0.6%, amid rises in butter (33.0%); sugar, confectionery and bakery (21.5%); and reserved fruit and vegetables (4.8%). Further, prices of durable consumer goods rose 0.7%. Excluding energy, producer prices gained 0.9%. Monthly, producer prices edged up 0.2%, the same as in June, in line with consensus.

4. Eurozone final July CPI confirmed up 0% m/m, 2.6% y/y after 2.5% y/y -with core flat at 2.9% - as expected. Costs accelerated sharply for energy (1.2% vs 0.2% in June) and continued to rise at a sharp pace for non-energy industrial goods (0.7% vs 0.7%). In the meantime, inflation slowed slightly for food, alcohol, and tobacco (2.3% vs 2.4%) as a decrease in price growth of unprocessed food (1% vs 1.3%) offset the steady inflation for processed food, alcohol, and tobacco (2.7% vs 2.7%). The core rate, which excludes energy, food, alcohol, and tobacco, was unchanged from the previous month at 2.9%, above the initial market expectations of 2.8%. Among the bloc's largest economies, the harmonized inflation rate was the highest for France (2.7% vs 2.5%) and Germany (2.6% vs 2.5%), while that from Italy remained lower (1.6% vs 0.9%).

5. Eurozone June current account surplus rises to €50.5bn after €37.6bn – more than €37bn expected. The goods surplus increased to €39.8 billion from €32.6 billion, and the services surplus went up to €17.3 billion from €16 billion. Also, the primary income account recorded a surplus of €8 billion, compared with a €2.5 deficit. The secondary income gap narrowed to €12.7 billion from €13.7 billion. On a non-adjusted basis, the surplus rose to €52.4 billion in June 2024 from €32.4 billion a year earlier.

6. Eurozone June construction output recovers up 1.7% m/m, 1% y/y after -2.1% y/y – better than the -1% y/y expected – first increase since January, bolstered by civil engineering (3.5% vs 1.2% in May). At the same time, output rebounded for building activity (1.5% vs -4.2%) and specialized construction activities (0.4% vs -1.8%). Among the largest economies in the Euro Area, construction activity rose sharply in Spain (+4.8%) but declined in Germany (-4.4%) and France (-1.8%).

Exhibit #2: Eurozone construction recovery?



Source: EuroStat, BNY

Disclaimer & Disclosures

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

Bob Savage

HEAD OF MARKETS STRATEGY AND INSIGHTS

CONTACT BOB

We take our data protection and privacy responsibilities seriously and our privacy notice explains how we collect, use, and share personal information in the course of our business activities. It can be accessed here.

This email was sent to WeeKhoon.Chong@bnymellon.com, and was sent by The Bank of New York Mellon 240 Greenwich Street, New York NY 10286.

Contact Us | iflow@bnymellon.com

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

.