BNY

iFlow
MARKET MOVERS

August 21, 2024

Incongruity

“Incongruity is the mainspring of laughter.” – Max Beerbohm

“Wit is the fetching of congruity out of incongruity.” – Joseph Addison

Summary

Risk on with focus on oil lower, industrials higher, with US job revisions and FOMC minutes the key focus on the day. The USD traded at the lows of the year, but selling dollars stalls overnight, while US bonds are wobbly into $16bn 20Y bond sale and the data ahead. The overnight news was about APAC central banks waiting for the Fed before easing themselves and the self-reflexive hesitancy describes the day with the incongruity of watching volatility risks across markets on the rise even as stocks rebound to near the yearly highs, bonds similarly are near their highs. The global demand hopes remain intact and seem incongruous to the urgency of pricing more easing.

What’s different today:

- **EU Natural Gas futures drop to E38 mwh** as European gas reserves are nearly full - surpassing November targets.
- **Aluminum touches 5-week highs-** up 2.3% to $2502 as China supplies lag - EU mining stocks rally 1% - hopes for global recovery rising.
- **iFlow** – Watching JPY and CHF outflows against TRY, MXN and TWD inflows. The bonds are mixed with US inflows about UK, New Zealand outflows and with equities sold across G10 while bought in APAC again except for China.

What are we watching:

- **US BLS revisions for job growth -** for year ending Marching with some expectations of cutting 600k to 1mn jobs.
- **FOMC Minutes for July** with focus on debate about rate cuts and outlook pre-jobs surprise.
- **Canadian railway strike risk** - with CN and CP railways in talks to prevent Thursday strike with Canada Teamsters

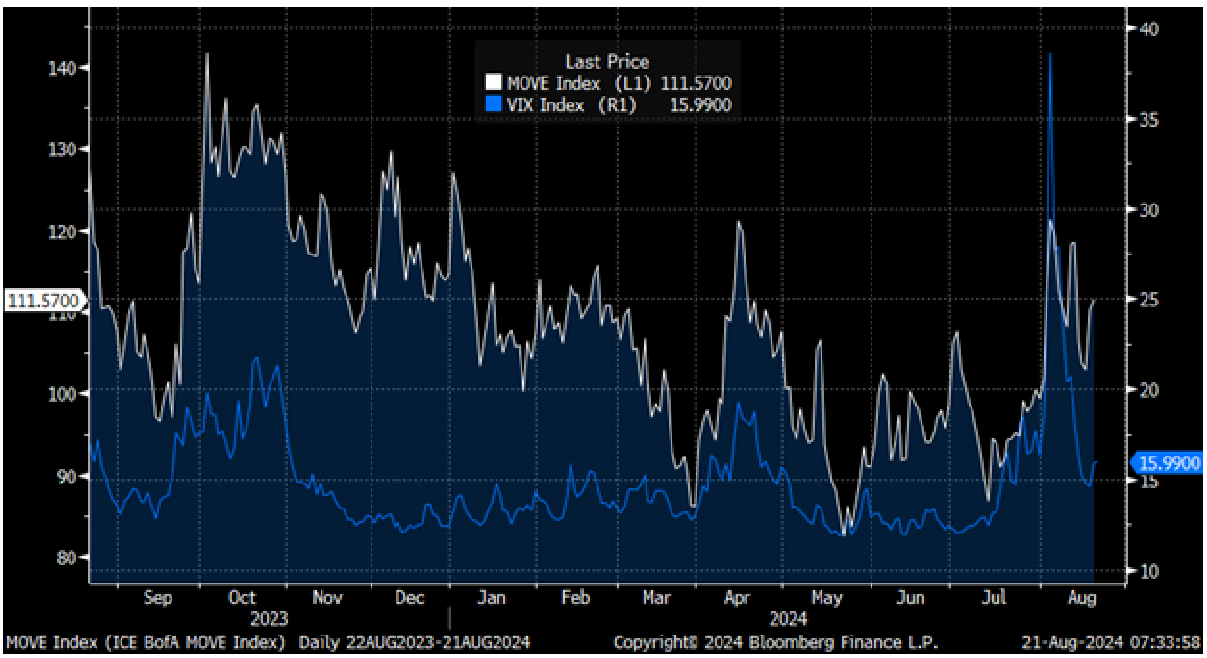
Headlines

- Indonesia BI keeps rate on hold at 6.25%- as expected - with eye on IDR and CPI target – IDR off 0.15% to 15,480
- Bank of Thailand keeps rats on hold at 2.5% - as expected - 5th meeting with decade high rates with 6-1 vote – THB off 0.2% to 31.92
- Korea Aug business confidence drops 2 to 71 - lowest since March, July PPI rose 0.2% m/m, 2.6% y/y - highest monthly rise in 3-months – Kospi up 0.17%, KRW off 0.5% to 1337.3
- Japan July trade flips to deficit of Y621.8bn - as exports rise 10.3% y/y while imports surge 16.6% y/y – Nikkei off 0.29%, JPY off 0.6% to 146.10
- China counters EU EV tariffs with probe into imported EU dairy products – CSI 300 off 0.33%, CNH up 0.2% to 7.1320
- Australian July MI Westpace leading economic index flat at 0% for fourth month – ASX up 0.16%, AUD off 0.1% to .6740
- South Africa July CPI slow by 0.5pp to, 4.6% y/y - while core CPI fell to 4.3% 2-year lows – ZAR up 0.1% to 17.812
- UK July PSNB ex banks rises to £3.1bn - double expectations – FTSE up 0.2%, GBP flat at 1.3035
- US weekly API oil inventories report 0.347mb rise while a -2.8mb draw expected, while gasoline saw a draw of 1.043mb leaving stocks -3% below 5Y average and distillates fell 2.247mb about 7% below average – WTI flat at $73.15

The Takeaways:

Which market matters most in predicting economic growth ahead? Bonds or Stocks? That is the question of the day as the FOMC minutes and BLS job revisions for 2024 to March hang over markets waiting for some indication that labor markets are slowing enough to justify the over 90bps of easing priced into the rest of the year for the Fed. The minutes are expected to show some healthy debate on easing even before the July jobs report that followed their meeting triggered the much-discussed Sahm rule for recession risks. The problem with the US bond markets and how they reflect the economy started with the inversion of the curve never delivering the recession most expected over the last 2 years. However if there is one thing that we learned from the start of August - it's about volatility - and that has been abnormal in bonds and normalized in stocks. The oddity of being just 2% away from new record highs in equities and at the lows of the year for US bond yields makes clear that the data today matters. Volatility is likely the better guide today through month end for measuring the confidence of guidance from central bankers to future economic states.

Exhibit #1: Volatility is incongruous to the fundamentals



Source: Bloomberg, BNY

Details of Economic Releases:

1. **Korea August business confidence drops to 71from 73 - weaker than 73 expected** - the lowest reading since March, led by a slowdown in new orders (77 vs 81 in July). Additionally, conditions for production (84 vs 85 in July) and the financial situation (81 vs 83 in July) worsened, while inventory conditions improved slightly (105 vs 104 in July).

2. **Korea July PPI rose 0.3% m/m, 2.6% y/y after -0.1% m/m, 2.5% y/y - as expected** - the highest monthly increase in three months, indicating rising costs in manufacturing products (0.3% vs 0.1% in June); services (0.2% vs 0.1% in June) and agricultural, forestry & marine products (1.6% vs -2.8% in June).

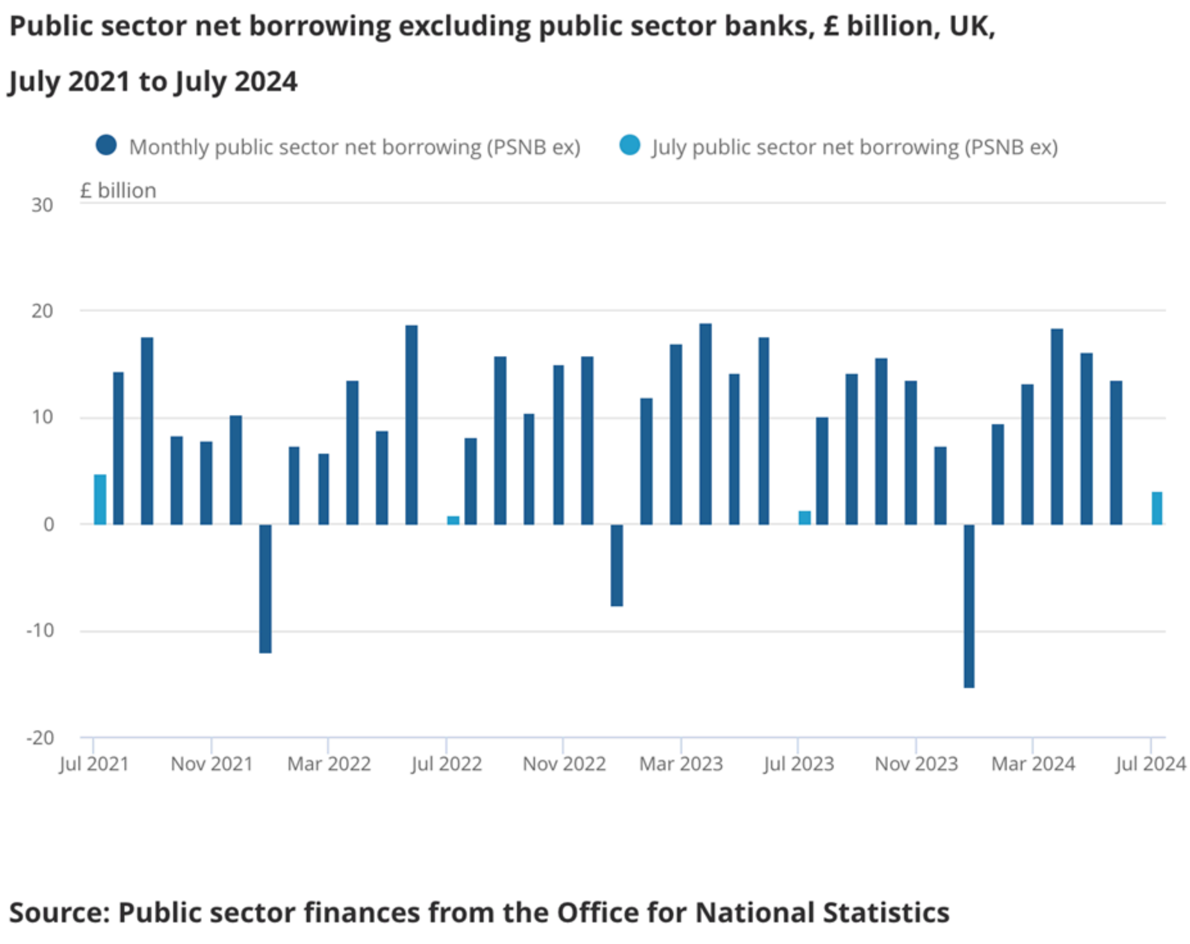
3. **Japan July trade deficit widens to Y621.8bn after Y22bn surplus - worse than the -Y330bn deficit expecte**d and from the +Y61.33bn surplus in July 2023. This was the fifth time of shortfall so far this year, as imports grew much faster than exports. Purchases rose by 16.6% y/y, the most since January 2023, to a 19-month high of JPY 10,241,008 billion, exceeding forecasts of 14.9%. Meanwhile, exports increased by 10.3%, the eighth straight month of growth, to a seven-month peak of JPY 9,619.17 billion, but less than market forecasts of 11.4%.

4. **Australian July MI Westpac leading economic index 0% after 0% - as expected** - 4th month of muted growth with 6-month annualized rise to 0.06% suggesting stabilization over recovery. Sharp falls in commodity prices in recent weeks suggest momentum is likely to weaken again in August. Meanwhile, GDP growth is expected to come in at an annualized 0.8% over H1 of 2024, and a little bit higher in H2 and into early 2025 but remain lackluster overall at a 2.2% annual pace. " ... inflation updates will continue to be key for the central bank's policy assessments," said senior economist Matthew Hassan.

5. **South African July CPI rose 0.4% m/m, 4.6% y/y after 0.1% m/m, 5.1% y/y - better than 5% y/y expected.** The decline was driven by lower annual rates in several categories, notably food and non-alcoholic beverages (4.5% vs 4.6% in June), transport (4.2% vs 5.5%), and housing and utilities (5.3% vs 5.5%). The annual core inflation rate, which excludes volatile items such as food, non-alcoholic beverages, fuels, and energy, eased to an over two-year low of 4.3% in July, down from 4.5% the previous month

6. **UK July public sector net borrowing, excluding banks, rose £3.1bn from £1.3bn last July and more than the £1.5bn expected** - Total public sector spending increased by £3.8 billion to £102.6 billion, driven by higher central government spending on public services and benefits, which continued to grow with inflation. However, these increases were partially offset by a reduction in debt interest payments compared to July last year. Meanwhile, receipts rose by £2 billion to £99.4 billion, bolstered by self-assessed income tax, though this was partially offset by lower National Insurance Contributions. Considering the entire financial year ending July 2024, borrowing reached £51.4 billion, £0.5 billion less than in the same period a year earlier, but still the fourth-highest year-to-July borrowing since monthly records began in January 1993.

Exhibit #2: Do deficits matter to GBP?



Source: UK ONS, BNY

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

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