

August 22, 2024

Crowns

“A crown is merely a hat that let’s the rain in.” – Frederick the Great

“If there be no enemy, there’s no fight. If no fight, no victory and if no victory there is no crown.” – Thomas Carlyle

Summary

Risk on with only China sold overnight while Europe bounces and the USD bounces back modestly. The crown of the King Dollar slips on the FOMC minutes all but confirming a September rate cut. Fear of inflation has shifted to fear of growth. The news overnight leaves clear Korea will cut after the FOMC, while the global flash PMI was mostly better except in Germany. Wages drop in 2Q Europe leaving room for the ECB to track the Fed as well. The relative value of the dollar is in play accordingly. And yet we all remain data dependent. The focus on the day ahead will test the US growth vs. the rest of the world with jobless claims, flash PMI, and existing home sales all key. Throw in a 30-year TIPS and Mexico GDP and you have the makings of testing the leadership of what matters - FX, Rates or Stocks.

What’s different today:

- **Wheat drops to 4-year lows near \$5.20 bushel** – linked to Ukraine production and build-up in supply as Canada rail strike will slow exports.
- **Hong Kong Hang Seng rises 1.4%** - second day in a row – with tech sector up 1.5% and with further gains in financials and consumers.

- **iFlow** – FX saw significant CHF selling, ongoing JPY selling and EUR buying. The EM markets saw TWD buying, TRY ongoing buying, MXN buying and selling of PLN. The equity market flows were all negative G10, positive APAC except China and Malaysia. Bonds saw selling in UK, NZ and buying in US.

What are we watching:

- **US weekly jobless claims** expected up 5k to 332k – with continuing claims up 6k to 1.870mn – key for labor market and front-end US rates
- **US flash August S&P composite PMI** expected down to 53.2 from 54.3 with services expected 54 from 55, manufacturing 49.5 from 49.6.
- **US July existing home sales** expected up 1.3% m/m to 3.94mn after -5.4% to 3.89mn – key for shelter CPI worries and Fed rate effects.
- **Mexico 2Q GDP** expected up 0.2% q/q, 2.2% while **mid-month CPI for August** expected up 0.2% m/m, 4.06% y/y – key for further Banxico easing talk with MXN 19.50 key pivot.

Headlines

- Bank of Korea keeps rates on hold at 3.5% - as expected - pivots to easing ahead with 4 of 6 projecting cuts in next 3-months – Kospi up 0.24%, KRW off 0.25% to 1336.90
- Australian Aug flash composite PMI rose 1.5 to 51.4- led by services - best in 3-months – ASX up 0.21%, AUD off 0.15% to .6735
- Japan Aug flash composite PMI rose 0.5 to 53- best since May 2023 – Nikkei up 0.68%, JPY off 0.45% to 145.95
- Taiwan July unemployment steady at 3.34% - TWD off 0.1% to 31.96
- India Aug flash composite PMI drops 0.2 to 60.5 - weakest since May – Sensex up 0.18%, INR off 0.1% to 83.945
- Norway 2Q mainland GDP up 0.1% q/q, while overall up 1.4% q/q led by oil/gas – NOK off 0.3% to 10.542
- Turkey Aug consumer confidence rises to 0.5 to 76.4 - but spending plans drop – TRY off 0.15% to 33.927
- Eurozone Aug flash composite PMI rose 1 to 51.1 - 3-month highs led by services even as orders drop - while EU 2Q wages drop sharply off 1.19pp to 3.55% y/y linked to Germany – EuroStox 50 up 0.25%, EUR off 0.1% to 1.1135
- German Aug flash composite PMI fell 0.5 to 48.5 - 5-month lows - while France flash composite rose 3.8 to 52.7 - 17-month highs led by services linked to

Olympics – DAX up 0.2%, Bund 10Y up 3.5bps to 2.22%

- UK Aug flash composite PMI rise 0.6 to 53.4 - best since April led by services – FTSE up .15%, GBP up 0.2% to 1.3115
- Canada CN Rail and CPKC shut freight network after union talks stall – CAD up 0.1% 1.3590

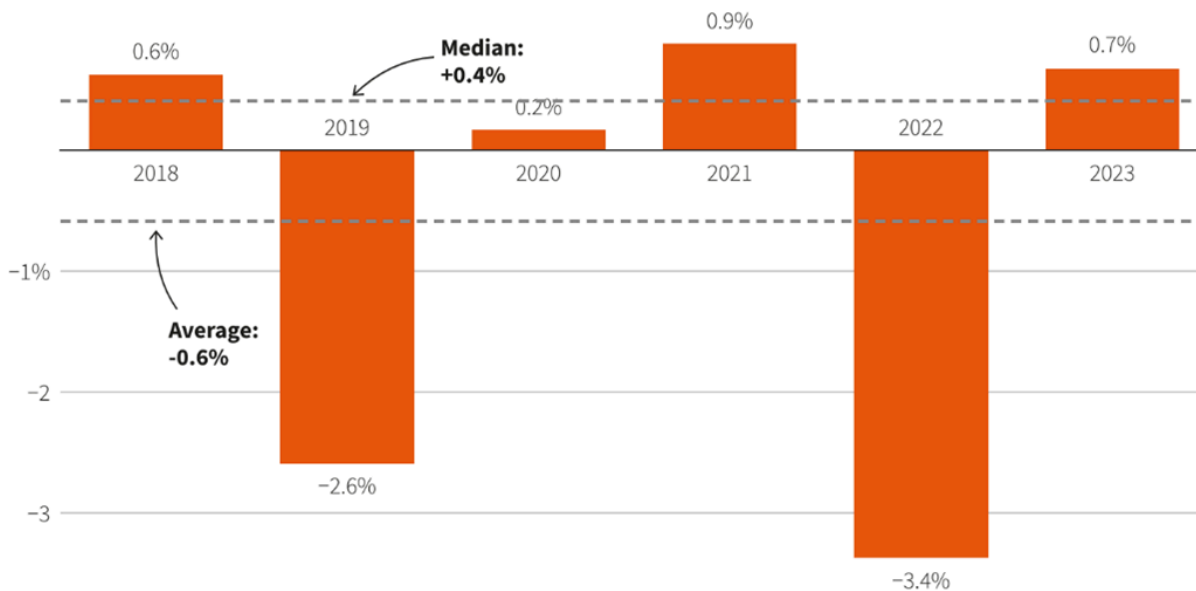
The Takeaways:

Today isn't tomorrow and many seem ready to wait. The last of summer beckons and like a siren song the risk of slowing US economic growth leaves the USD wobble looking precarious. The problem is the rest of the world and the dependence on forward guidance in a world of uncertainty. The lack of consistent economic data is today's risk and that may lead to further volatility and pain into the next week regardless of what Chair Powell says tomorrow. Most expect the Fed to cut in September and possibly do 50bps dependent on the jobs report September 6. The weekly jobless claims today matter accordingly. The shift from fighting inflation to worrying about a soft-landing leaves the role of USD leadership in doubt and money flows have turned in light volume this month to chase value and growth. There is a relativity to the way markets work that holds until there is a shock. The playbook for Fed cuts and the risk on seems as good as anything to believe in now but this is all pre-season and trading ahead of the real news and data ahead.

Exhibit #1: Powell speeches are bullish risk?

Stocks on Powell's Jackson Hole speech days

Stocks have risen more often than not on the day of Fed Chair Jerome Powell's speeches at the Kansas City Fed's annual Jackson Hole conference, but the two down days were big ones. In 2022 his warning that the Fed's fight with inflation would mean pain lay ahead delivered a jolt to overly optimistic markets. The 2019 drop owed more to escalating trade tensions with China than to the substance of Powell's speech.



Note: S&P 500 Index change from the closing level the day before the speech.

Source: LSEG

Source: Reuters, BNY

Details of Economic Releases:

1. Australian August flash composite PMI rises to 51.4 from 49.9 - better than 49.9 expected. The flash manufacturing PMI rose to 48.7 from 47.5 while the services flash rose to 52.2 from 50.4. The fastest expansion in three months, driven by stronger services activity despite a deeper contraction in manufacturing production. Total new orders grew for the first time since May, with a rise in services offsetting a decline in goods orders. However, manufacturing export demand boosted overall foreign new business. Employment rose, particularly in services, while manufacturing staffing stabilized. Input prices surged at the fastest rate in 17 months, driven by higher raw material, transportation, and labor costs, but output price inflation eased to its slowest since January. Business confidence improved, though it remained below average across both sectors.

2. Japan August flash composite PMI rises to 53.0 from 52.5 - better than the 51.5 expected. The flash manufacturing PMI rose to 49.5 from 49.1 while the services flash rose to 54 from 53.7 - the seventh time of growth in private sector activity year to date, mainly supported by an acceleration of the services economy as the manufacturing sector shrank further. New orders increased at a faster pace,

led by the services sector. Meanwhile, employment continued to grow despite the rate of job creation slowing. At the same time, a decline in outstanding business deepened. Foreign sales remained weak, with orders falling at a steeper rate. On the cost side, input prices rose the most in 16 months but selling price inflation hit its lowest since November 2023. Signs of margin pressures were present among manufacturers and the service sector, as firms partially absorbed price increases to remain competitive and support sales. Finally, sentiment stayed upbeat but the degree of optimism softened to a 19 month low.

3. Taiwan July unemployment flat at 3.34% - as expected. The number of unemployed persons stood at 401 thousand during the period, while employment rose 7,000 to 11.612 million. Meanwhile, the youth unemployment rate, measuring job-seekers between 20 to 24 years old, rose to 12.13%, up from 11.64% June, marking the highest reading since August 2023. The labor force participation rate ticked higher to 59.32% from 59.29% in the previous month.

4. India August flash composite PMI fell to 60.5 from 60.7 - as expected. The manufacturing flash PMI fell to 57.9 from 58.1 while the services flash rose to 60.4 from 60.3 - the 37th month of rise in private sector activity but the softest pace since May, with the manufacturing sector growing the least in three months while services firms saw a slightly quicker rise in output. New orders continued to rise solidly despite their growth the weakest since May. Foreign orders went up the least in four months, though among the quickest since the series began a decade ago. Meanwhile, employment increased for the 27th month amid a further rise in backlogs and signs of capacity pressures. On the cost side, input prices rose further, linked to higher costs, including transport, raw materials, and labor. That said, cost inflation hit a 6-month low. Selling prices were solidly higher, above their long-run average despite softening since July. Finally, sentiment was upbeat, on bets that demand conditions will remain favorable.

5. Norway Mainland 2Q GDP rose 0.1% q/q, 2.8% y/y after 0.1% q/q, -2.4% y/y - weaker than 0.1% q/q expected - while overall GDP rose 1.4% q/q, 4.2% y/y - The decline in traditional fishing, linked to reduced catch quotas for key species, and a decrease in construction due to a sharp drop in household dwelling investments were slightly more than offset by increases in wholesale and retail trade and electricity production. On a yearly basis, the GDP in mainland Norway expanded 2.8%, sharply recovering from a 2.4% decline in the prior quarter.

6. Turkey August consumer confidence rises to 76.4 from 75.9 - weaker than 78 expected. Expectations improved for the general economic situation over the next 12 months (71.5 vs 70.8 in July), and the financial situation of households at present (63.1 vs 60.4) and over the next 12 months (76.6 vs 75.9). At the same time, concerns about unemployment decreased (73.5 vs 77.8). On the other hand, assessment of spending on durable goods over the next 12 months declined (94.3 vs 96.5), and views on future inflation increased (56.5 vs 55.9).

7. Eurozone August flash HCOB composite PMI rises to 51.2 from 50.2 - better than 50.1 expected - as manufacturing flash PMI flips to 45.6 from 45.8 while the services rose to 53.3 from 51.9 - Growth was carried by a four-month-high expansion for the services sector, offsetting two straight years of decline for the manufacturing sector. Consequently, aggregate levels of new orders continued to diverge in the period, with new business among service providers expanding softly but that for factories declining sharply, driving new business to decrease for the third month at the aggregate level. Also, employment at the composite level eased slightly to end seven consecutive months of expansion. On the price front, input costs increased sharply, but the pace of inflation eased. Still, firms transferred cost burdens at a faster pace for clients, and output charge inflation rose

8. German August flash composite PMI drops to 48.5 from 49.1 - weaker than 49.2 expected - as manufacturing flash PMI slips to 42.1 from 43.2 while services slow to 51.4 from 52.5 - lowest since March. Prices for goods and services increased at the fastest pace in six months, although still in line with long-term averages. Cost pressures in services eased, while manufacturing purchase prices neared stabilization after a year and a half of decline. Expectations for the future dropped to their lowest level since January.

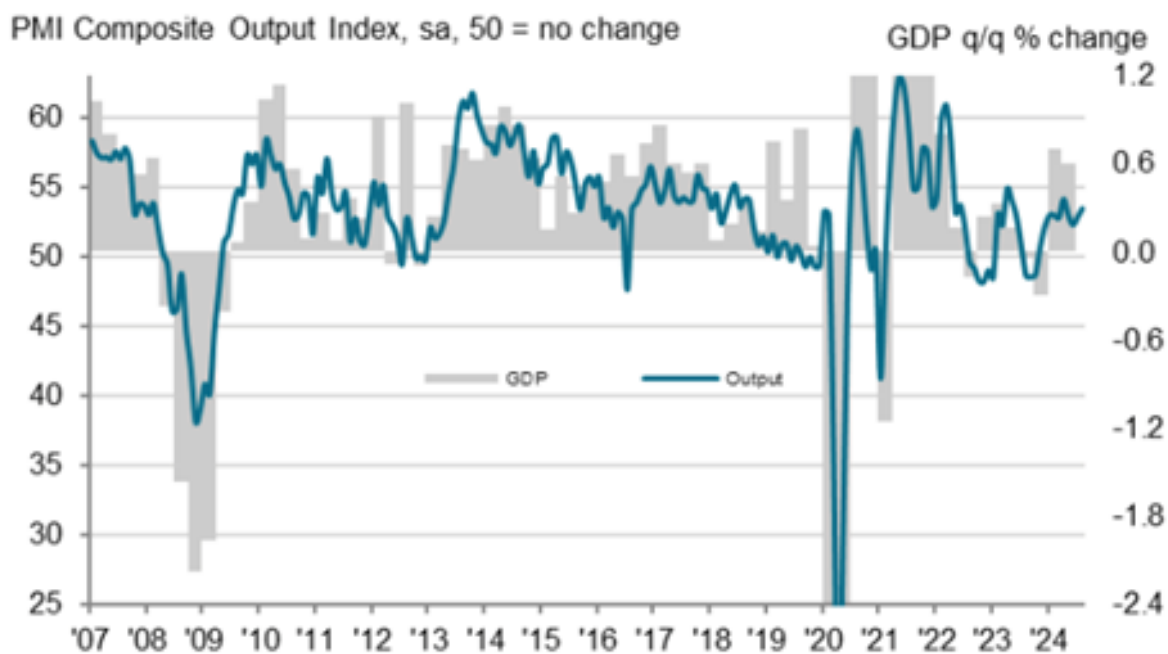
9. French August flash composite PMI rises to 52.7 from 49.1 - better than 49.1 expected - the first expansion in business activity since April and the strongest in 17 months, driven entirely by the services sector, likely bolstered by the Olympic Games (PMI at 55 vs 50.1 in July). However, the manufacturing sector continued to struggle (42.1 vs 44). August data also highlighted ongoing fragility across France's economy. Indeed, private sector employment decreased for the first time since January, while overall new business also shrank. Additionally, expectations for growth over the next 12 months also slipped to their weakest in almost a year.

10. UK August flash composite PMI rose to 53.4 from 52.8 - better than 52.9 expected - best since April. Manufacturing flash PMI rose to 52.5 from 52.1 while

production still significant expansion but off -0.7 to 54.2. Service PMI flash rose to 53.3 from 52.5 - its highest in four months, driven by increased spending from businesses and consumers. There was a solid expansion in UK private sector output supported by a rise in new orders. Employment growth was at its fastest since June 2023 due to increased business activity and demand. Respondents mentioned that positive economic outlook had led to efforts to expand business capacity. Inflationary pressures eased in August, with input costs rising at the slowest pace since January 2021. However, input price inflation in the manufacturing sector remained high due to increased freight and raw material costs compared to the first half of 2024.

Exhibit #2: UK PMI contrasts to Germany

S&P Global Flash UK PMI Composite Output Index



Sources: S&P Global PMI, ONS via S&P Global Market Intelligence.

Source: UK S&P PMI, BNY

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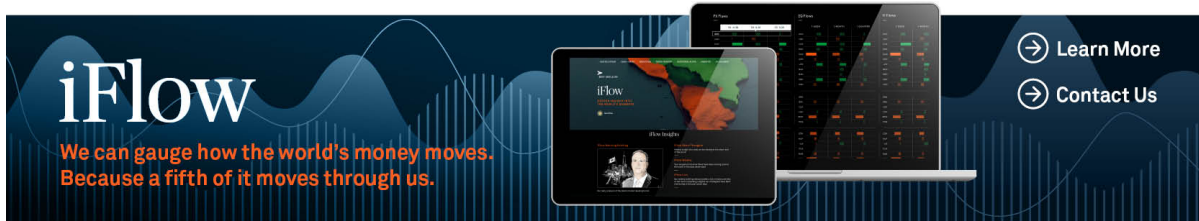


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