August 23, 2024

Peaks

"One sees great things from the valley; only small things from the peak." – G.K. Chesterton

"Great man are rarely isolated mountain peaks; they are the summits of ranges." – Thomas Wentworth Higginson

Summary

Risk on as markets are prepared for a dovish Fed Powell, another quiet summer weekend and eye Labor Day holidays until new work matters. The overnight focus on BOJ Ueda and Japan CPI proved less scary with inflation up, BOJ hawkish and stocks stable. The Indonesia government retreat on election reform led to a notable rally in IDR, while the ECB inflation expectations were tame enough to keep easing talk intact for the ECB. Markets are sanguine and ready to do less into the last week of August. Peak stocks and bonds and EM FX maybe the worry but for many that only matters if the FOMC Chair deviates from the expected script.

What's different today:

- **The June Dutch CPB world trade volume monitor rose 0.7% m/m** after -0.3% m/m in May – led by UK, LatAm and Asia while global industrial production fell -0.1% m/m after +0.2% m/m in May.
- **China puts brakes on new steel capacity** – suspends all new approvals with deep demand slump leaving Iron Ore and Steel prices lower.

What are we watching:

- **FOMC Chair Powell at 10 am in Jackson Hole**. Also, Atlanta Fed Bostic on CNBC, Philadelphia Fed Harker on Bloomberg, Chicago Fed Goolsbee on CNBC.
- **US July new home sales** expected up 1% m/m to 623,000 after 617,000 with eye on prices and supply given politics and yesterday's existing home sales.
- **Canadian June retail sales** expected -0.3% m/m, +1.6% y/y after -0.8% m/m with ex autos -0.2% m/m after -1.3% m/m – weaker CPI yesterday and this data today could tip BOC for faster easing.
- **Robert Kennedy Jr. speaks in Phoenix, AZ** where he clarifies "path forward" with many expecting him to drop out and support Trump.

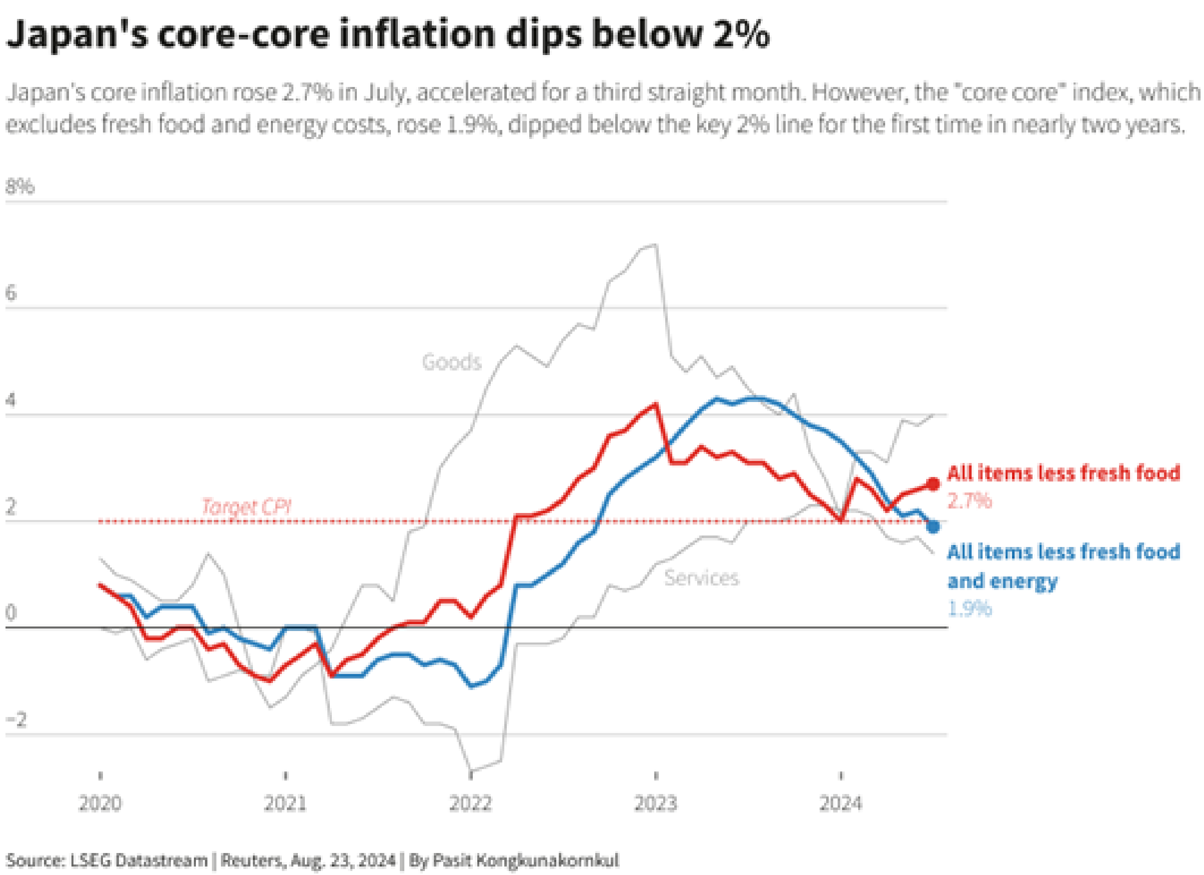
Headlines

- BOJ Ueda: Ready to hike rates if inflation sustains, sees global markets as unstable; Japan July CPI core up 0.1pp to 2.7% y/y – 5-month highs, Nikkei up 0.4%, JPY up 0.15% to 146.05
- Taiwan July industrial production slows -3.2% m/m, +12.3% y/y – TWD rose 0.15% to 34.25
- Singapore July CPI -0.3% m/m, +2.4% y/y – holding at Aug 2021 lows – SGD up 0.2% to 1.3080
- New Zealand 2Q retail sales -1.2% q/q, -3.6% y/y – 8th quarterly decline – led by electronics. NZD up 0.3% to .6155
- Sweden July unemployment drops to 7.7% while seasonally adjusted flat at 8.3% - OMX up 0.7%, SEK off 0.3% to 10.282
- French August business confidence up 4 to 99, climate up 3 to 97 – CAC 40 up 0.6%, OAT 10Y yields -0.5bps to 2.95%
- Eurozone July 1Y ahead consumer inflation expectations steady at 2.8% y/y – EuroStoxx 50 up 0.5%, EUR flat at 1.1115

The Takeaways:

Is this peak dollar pessimism? The risk for today rests on how markets interpret the FOMC Powell speech. The positioning into the event has been clear – shedding USD for EUR and GBP, buying carry trades in FX, while owning more bonds and stocks. The problem for the Fed and other central banks remains in the economic data. The risks and rewards for today maybe best described by the JPY which has been notable in its holding over 145 while other G10 pairs to the dollar break out – notably AUD over .6705, GBP over 1.30 and EUR over 1.11. If JPY breaks stronger post Jackson Hole – pay attention. Our iFlow show larger short JPY forward position likely linked to hedging and speculation again. The wash-out and volatility risks for month-end may beckon for more noise thank trend. Peak optimism is a tough call to make after the July and August summer of discontent where markets have not behaved. The return to school protocols for risk management likely dominate the next week as investors await the bigger data and the reactions to it from central bankers to traders. For today, the best of news was in the mixed CPI report from Japan – where headline CPI rose but their core-core CPI fell – that split would be encouraging for many central bankers looking for a 2% target, but perhaps not Japan where JPY weakness remains a significant import inflation driver along with risk fear for foreign assets.

Exhibit #1: Does Japan CPI justify another 15bps tightening?



Source: Reuters, BNY

Details of Economic Releases:

1. **New Zealand 2Q retail sales fell -1.2% q/q, -3.6% y/y after +0.4% q/q, -2.4% y/y – weaker than the -1% q/q, -3% y/y expected**. The decline in retail activity observed in the June 2024 quarter extends the downward trend seen over the past eight quarters. Eleven of the fifteen retail industries reported lower sales volumes

compared to the first quarter. The largest contributors to this decline were: Electrical and electronic goods retailing (-6.0%); Motor vehicle and parts retailing (-2.7%); Food and beverage services (-1.9%); Clothing, footwear, and personal accessories (-4.1%).

2. Japan July core inflation rises 2.7% y/y from 2.6% y/y – as expected – third consecutive rise. Headline CPI steady at up 0.2% m/m,2.8% while core-core CPI fell to 1.9% y/y from 2.2% y/y. Electricity prices jumped, rising the most since March 1981 (22.3% vs 13.4% in June); while the cost of gas picked up strongly (7.4% vs 2.4%) after the full end of energy subsidies in May. At the same time, prices continued to rise for food (2.9% vs 3.6%), housing (0.6% vs 0.6%), transport (1.2% vs 2.5%), furniture & household utensils (3.7% vs 3.7%), clothes (2.2% vs 2.2%), healthcare (1.5% vs 1.4%), culture (4.4% vs 5.6%), and miscellaneous (1.3% vs 1.1%). By contrast, costs fell for education (-1.0% vs -1.0%) and communication (-2.3% vs 1.3%).

3. Taiwan July industrial production slows -3.27% m/m, +12.3% y/y after -0.61%, m/m, +12.82% y/y – less than +13.8% y/y expected. Output growth slowed for manufacturing (12.97% vs 13.17% in June) and electricity & gas supply (0.57% vs 7.39%). Conversely, production increased at a faster pace for mining & quarrying (9.92% vs 2.33%) and water supply (2.55% vs 1.72%).

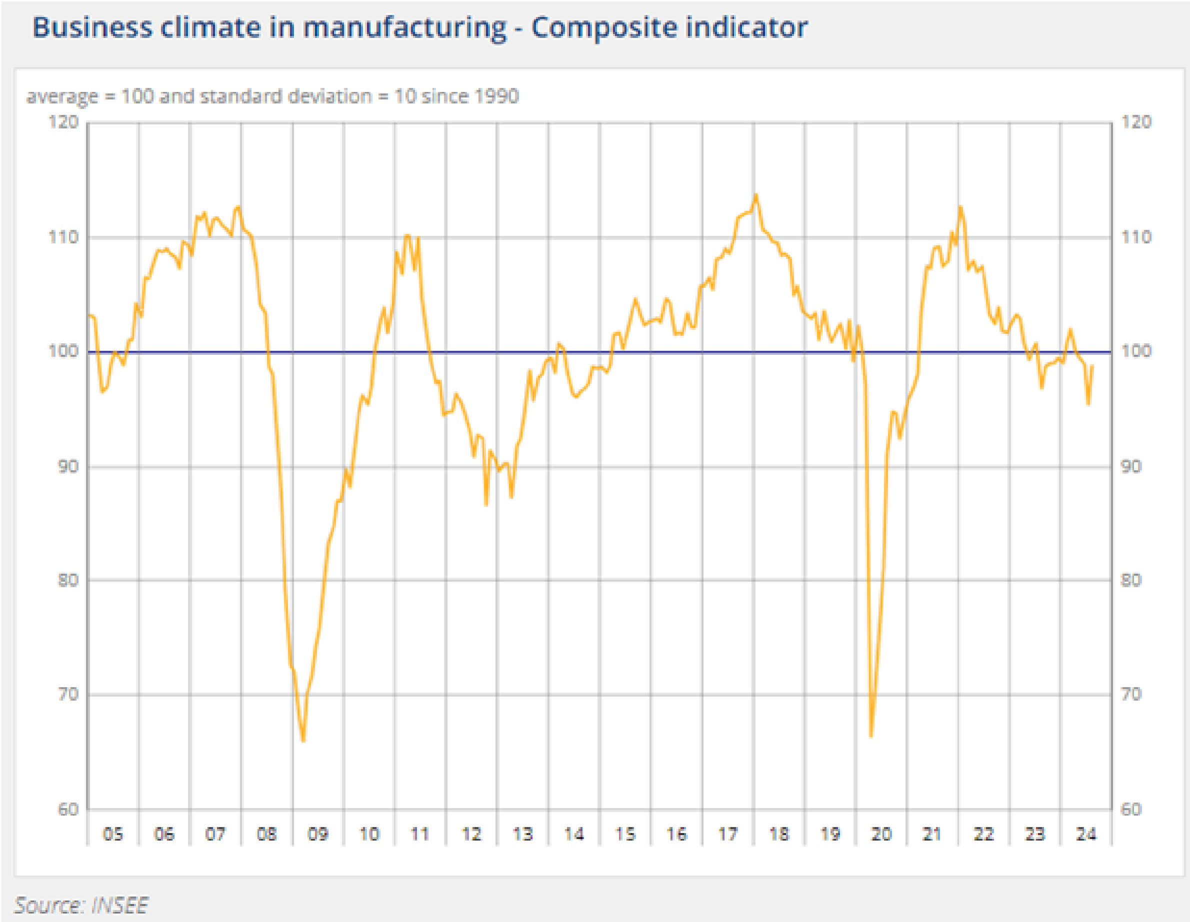
4. Taiwan retail sales rose 0.6% m/m, 3.4% y/y after 3.9% y/y – also less than the 4.5% y/y expected. Sales tumbled for food, beverages & tobacco in specialized stores (-1.3% vs 2.9% in June), textile & clothing (-3.1% vs 9.6%), pharmaceutical and medical goods and cosmetics (-0.8% vs 5.9%), and cultural and recreation goods (-7.9% vs 0.6%). Moreover, trade eased for household appliances and goods (2.8% vs 4.1%) and other retail sales (4.9% vs 9.4%). Meanwhile, sales rebounded for construction materials (1.2% vs -1.1%), information and communications equipment and electrical household appliances (1.9% vs -1.4%), and trade not in stores/stalls (2.9% vs -0.2%) while increased sharply for motor vehicles, motorcycles and related parts and accessories (14.6% vs 4.4%).

5. Singapore July CPI -0.3% m/m, +2.4% y/y after -0.2% m/m, 2.4% y/y – less than 2.5% y/y expected – and the lowest level since August 2021, with food prices rising the least in over 2 years (2.7% vs 2.8% in June). Meanwhile, cost continued to rise for housing & utilities (3.5% vs 3.7%), largely linked to accommodation; transport (1.4% vs 0.3%), mainly public transport; healthcare (3.9% vs 3.8%), led by hospital services; recreation & culture (3.1% vs 4.7%), driven by holiday expenses and recreation; education (3.3% vs 3.3%), and miscellaneous goods & services (0.7% vs 0.8%), due to by personal care; communication (0.3% vs 0.8%). At the same time, a fall in clothing prices extended (-1.5% vs -1.8%). The core CPI fell to 2.5% y/y from 2.9% y/y – lowest since February 2022.

6. Sweden July unemployment down to 7.7% from 9.4% - better than 9.4% y/y expected – however, the seasonally adjusted rate steady at 8.3%. The number of unemployed people increased by 88 thousand from the prior year to 454 thousand, while the number of employed persons decreased by 5 thousand to 5.444 million. The employment rate fell 1.1 percentage points to 72.8%, while the labor force participation rate edged up by 0.1 percentage point to 77.7%. The average number of total hours worked in July amounted to 98.1 million per week.

7. French August business confidence rises to 99 from 95 – better than 96 expected – while the business climate rose to 97 from 94 – however, both below the 100 long-term average. Manufacturers were less pessimistic about overall order books (-16 vs. -20 in July), foreign order books (-8 vs. -19), and the general production outlook (-13 vs. -18). Additionally, assessments turned positive for personal production (8 vs. -5), while the gauge for perceived economic uncertainty decreased (20 vs. 24). On the other hand, sentiment was less optimistic for stocks of finished products (4 vs. 9), expected changes in workforce (1 vs. 2), and the expected trend in selling prices (2 vs. 7).

Exhibit #2: French confidence returns?



Source: French Insee, BNY

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

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