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MARKET MOVERS

August 27, 2024

No Worries

"Worry compounds the futility of being trapped on a dead-end street. Thinking opens new avenues." - Cullen Hightower
"No amount of regret can change the past, and no amount of worrying can change the future." - Roy T. Bennett

Summary

Risk mixed as markets digest ongoing worries about carry unwinds, US recession fears and AI rotation plays into month end. Against that the light news flows focused on China industrial profits rising, consumer travel demand rising, while German consumer confidence slips and Taiwan rises. Throw in fears that China export curbs on key materials for chips and you have some confusion. The focus on what is ahead - Nvidia tomorrow, PCE Friday and lots more Fed speakers is good enough to explain the on and off again mood for risk. The rise of oil prices is another matter driving on geopolitical worries but extending out to its inflationary impact. On the day, the home prices, Richmond Fed and US conference board consumer confidence - all matter but seem unlikely to bring the easy summer trading feelings that dominated August. Instead, we are stuck in month-end rebalancing and the hard work of preparing for the return to 3Q performance doubts.

What's different today:

- **Korea 10-year bond yields rise to 4-week highs at 3.07%** - up 2.3bps over August - with worries about mortgage lending surge slowing BOK potential easing.

- **China company Trip.com listed on Hong Kong Hang Seng sees shares rally up over 9%** after stronger earnings on rebounding China travel demand back to pre-pandemic levels driving profits up six-fold.

What are we watching:

- **US June S&P Case-Shiller 20-city home prices** expected up 1% m/m, 6% y/y after 6.8% y/y while FHA home prices expected up 0.2% m/m, 5.7% y/y.
- **US August Richmond Fed manufacturing index** expected -14 from -17 - with focus on jobs and prices.
- **US August conference board consumer confidence** expected up to 100.7 from 100.3 - with key focus on jobs
- **US 2Y $69bn sale** along with 42-day CMB $75bn – focus on demand

Headlines

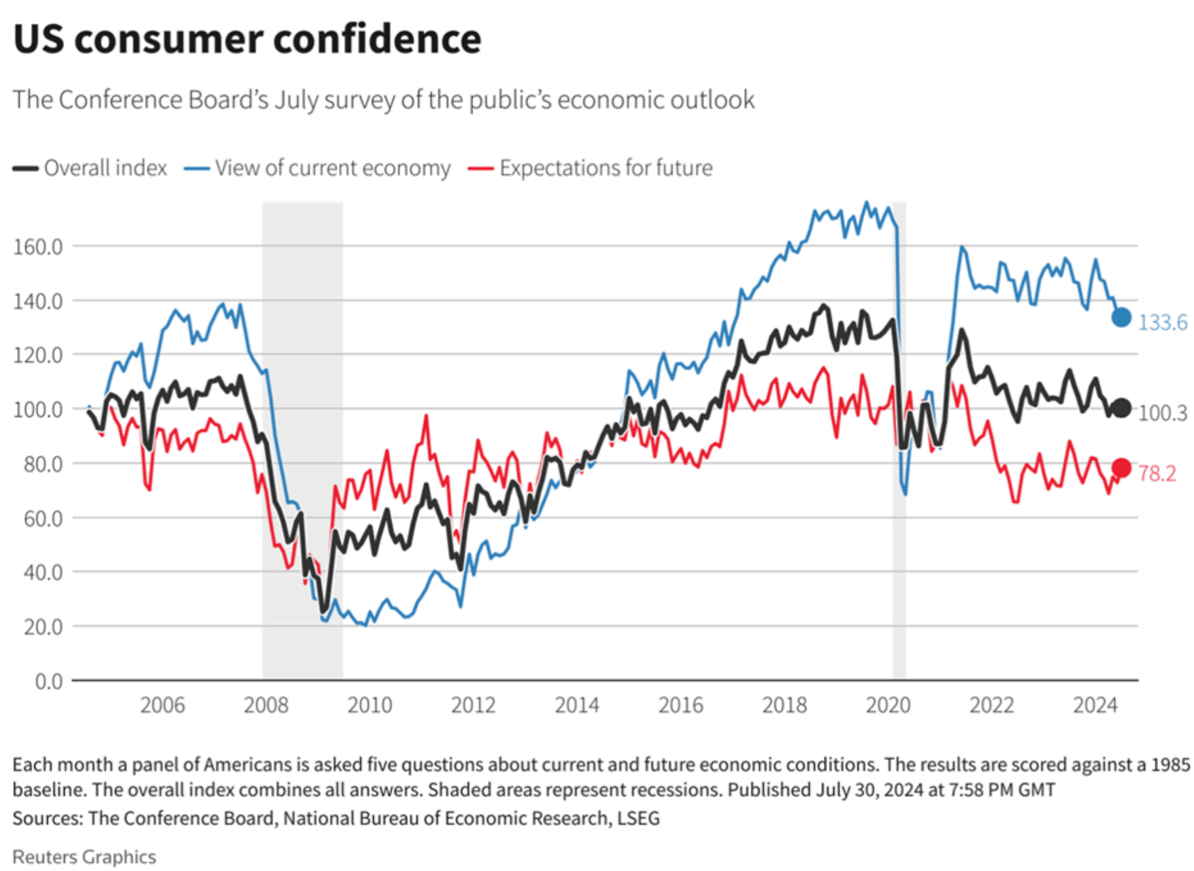
- China July industrial profits rise 3.6% ytd - led by metals and computer communications - China export curbs on semiconductor materials drive production worries globally – CSI 300 off 0.57%, CNH off 0.1% to 7.1285
- Taiwan Aug consumer confidence up 1.37 to 77.75 - best since March 2020 – TWD off 0.3% to 31.925
- Thailand July trade deficit $1.37bn - even with exports up 15.2% y/y - THB off 0.2% to 34.06
- Sweden July PPI fell 1.4% m/m, -0.1% y/y - first deflation since March – OMX off 0.15%, SEK up 0.15% to 10.195
- German Sep GfK consumer confidence drops -3.4 to -22- worst since May - German 2Q GDP revised up 0.1pp to 0% y/y – DAX up 0.3%, Bund 10Y up 4.5bps to 2.29%, EUR flat at 1.1165
- UK Aug CBI retail trader improves +16 to -27 - still worse than expected – FTSE up 0.3%, GBP up 0.3% to 1.3225

The Takeaways:

The GBP trades at 2-year highs and yet remains cheap on any value measure. This is the story of USD exceptionalism cracking but the alternatives having a long-road ahead to prove out their mettle – as Gilts drop with 10Y yields up 6.5bps as UK PM

Starmer warns of a hard Autumn budget, to the EUR looking vulnerable to weak growth. The conundrum of the moment rests on the slowing of trends into the turn of the season as back to school thinking forces a revaluation of what is important and how to make better returns in the next 4 months of 2024. The pressure to perform has eased from central bankers with the shift of inflation to growth worries. The recovery of Germany from technical recession to crawling along the bottom rung of growth is hardly comforting making clear that the ECB and rate cuts will still matter if only in the doing something rather than watching. The US markets are caught in the worry moment before important data and doubting the current price to perfection in bonds and stocks. How the US confidence data comes today is unlikely to matter to this balance, but the clock of how future expectations meet current conditions still matter as does the balance of job market confidence. Nothing today looks easy but worrying about it won't help.

Exhibit #1: Does Consumer Confidence matter?



Source: Reuters, BNY

Details of Economic Releases:

1. **China July industrial profits rose 4.1% y/y, 3.6% ytd after 3.6% y/y, 3.5% ytd - better than the 3.3% ytd expected**. Profits grew for non-ferrous metal smelting

(79.3%), computer, communications (25.1%), agriculture, food (23.9%), heat production (23.2%), textile (18.4%), cars (6.7%), oil and natural gas (5.3%), chemicals (4.8%), and general equipment (4.3%). By contrast, profits fell for non-metallic minerals (-46.6%), coal mining (-21.7%), machinery (-8.1%), and special equipment (-2.9%). Meantime, petroleum and other fuels, and ferrous metal smelting & rolling turned from profits to losses. China's Bureau of Statistics said the foundation for the recovery of industrial firms still needed to be consolidated. M

2. Taiwan August consumer confidence 77.75 after 75.36 - better tan 76.5 expected - the highest figure since March 2020, as sentiments improved for most components: the family’s financial situation (85.89 vs 82.89 in July), expectations on prices in the next six months (42.88 vs 38.41), domestic economic prosperity (90.26 vs 87.38), employment opportunities (79.13 vs 75.23), and the time to invest in stocks (59.02 vs 56.56). By contrast, sentiment toward the timing to buy durable goods softened (109.33 vs 111.67).

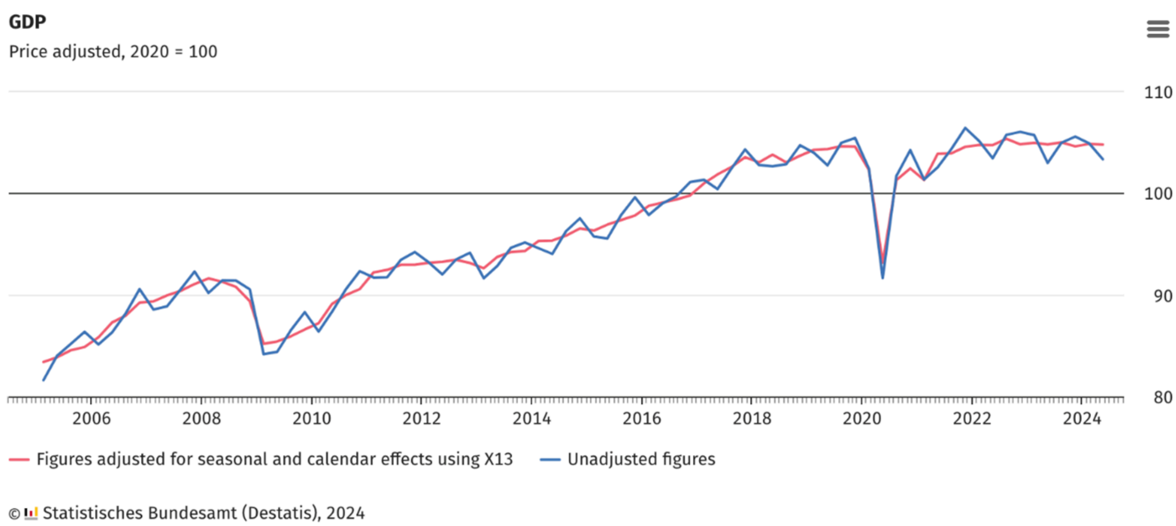
3. Thailand July trade deficit $1.37bn after $0.22bn surplus - worse than -$0.50bn deficit expected but better than $1.98bn last year in July. Exports rose 15.2% from a year earlier to $25.72 billion, rebounding sharply from a 0.3% drop in June and beating market estimates of a 6% rise, pointing to the fastest pace since March 2022. In the meantime, purchases grew by 13.1% to $27.09 billion, the sixth time of growth year to date, and accelerating sharply from 0.3% growth in the previous month. For the first seven months of 2024, the trade balance registered a deficit of $6.62 billion, with exports (3.8%) advancing less than imports (4.4%).

4. Sweden July PPI -1.4% m/m, -0.1% y/y after -0.4% m/m, +0.8% y/y - less than +1.2% y/y expected - the first producer deflation since March, as prices increased at a softer pace for capital goods (1.1% vs 4.4% in June), consumer goods (1.4% vs 3.3%) and excluding energy-related products (0.8% vs 2.8%). Meanwhile, deflation softened for energy-related products (-7.1% vs -12.1%).

5. German September GfK consumer confidence drops to -22 after -18.6 - worse than -18 expected - the lowest reading since May, dragged by concerns about job security, a rise in corporate insolvency, and a weak economy. Income expectations deteriorated sharply (3.5 vs 19.7 in August), notching their lowest in nearly two years. Also, economic prospects plunged (2.0 vs 9.8), and the propensity to buy fell further (-10.9 vs -8.4). At the same time, the tendency to save rose. "... the euphoria from the European Football was only a brief flare-up and disappeared after a tournament ended," said Rolf Bürkl, consumer expert at NIM. He elaborated that a higher jobless rate, increased bankruptcies, and plans to cut staff by various companies have increasingly caused household worries, making a turnaround in consumer sentiment unlikely. "Hopes for a stable and sustainable economic recovery must be postponed further."

6. German 2Q final GDP -0.1% q/q, 0% y/y after +0.2% q/q, -0.1% y/y - better than -0.1% y/y expected. Private consumption fell by 0.2%, swinging from a 0.3% rise in Q1. At the same time, gross fixed capital formation deteriorated (-2.2% vs 0.1%), mainly pressured by declines in construction investment (-2.0% vs 0.8%) and equipment investment (-4.1% vs -1.6%). Also, net trade was a drag to the economy, reducing 0.1 percentage points following a positive contribution in the preceding quarter, with exports shrinking (-0.2% vs 1.3%) while imports stagnated (vs 0.8%). Meanwhile, government spending grew by 1.0%, a reversal from a 0.1% fall in Q1.

Exhibit #2: Is German Economy in crisis?



Source: German Destatis, BNY

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

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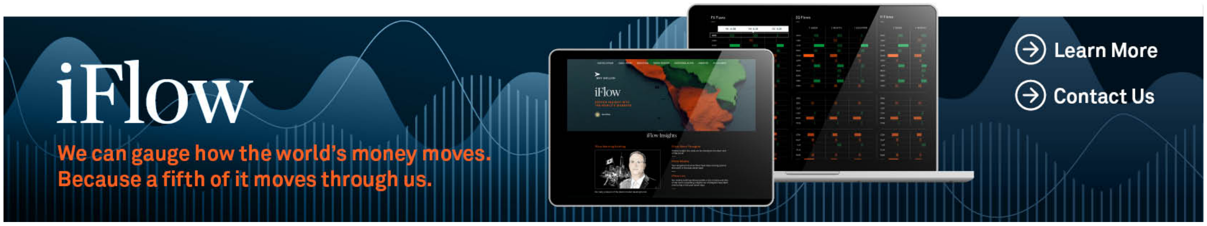

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