iFlow
MARKET MOVERS

August 28, 2024

Bells

““The temple bell stops but I still hear the sound coming out of the flowers.” - Matsuo Basho
“Once that bell rings, you are on your own. It’s just you and the other guy.” - Joe Louis

Summary

Risk on as markets wait for Nvidia and expect the AI boom to continue albeit with $300bn in market share noise. Waiting for the bell on the stock exchange seems a poor excuse to explain the low volume and marginal confidence on the day. Markets are bid but not excessively. The news flows hardly justify lethargy, lending growth in Europe rose to 8-month highs while French confidence jumps to 2 1/2-year highs around the Olympics. Australian CPI fell to 4-month lows - better but unlikely enough for the RBA to ease. Caution remains the by-word for most investors this week with month-end and US data next week seen as more important. The US gets just a $70bn 5Y note sale today and that leaves lots of time for watching stocks vs. bonds. Bell ringing isn’t always music, sometimes it’s just noise.

What’s different today:

- **Copper futures fell overnight back below $4.20 pound** as BHP cut its forecast for China demand and was cautious in near-term. Supply side concerns eased as well with Chile mine strike ending at Lundin Mining.

- **US weekly MBA mortgage applications rose 0.5%** w/w after -10.1% last week – mortgage rates fell to 6.44% off 6bps but refinancing fell while new homes rose.
- **iFlow stuck feeling** with mood neutral, carry off its highs, trend and value nearing zero – USD selling vs. buying in G10 except NOK while EM was COP and PLN and THB selling vs buying elsewhere. The US equity outflows continue as does most of the G10 while inflows continue in APAC except Taiwan. Bonds are bought in US, Peru, Indonesia and sold in India.

What are we watching:

- **US $70bn 5Y Note sale** - watching for demand and concession into auction.
- **Central Bank Speakers** - BOE Mann in Frankfurt at research conference, Atlanta Fed Bostic on economic outlook. Watching for clues about 25 or 50bps easing.
- **2Q Earnings**: Nvidia after the bell, while J.M. Smucker Company, Chewy, Abercrombie & Fitch and Bath & Body Works will all report quarterly results before the opening bell. Also, Salesforce will post second-quarter results after market close.

Headlines

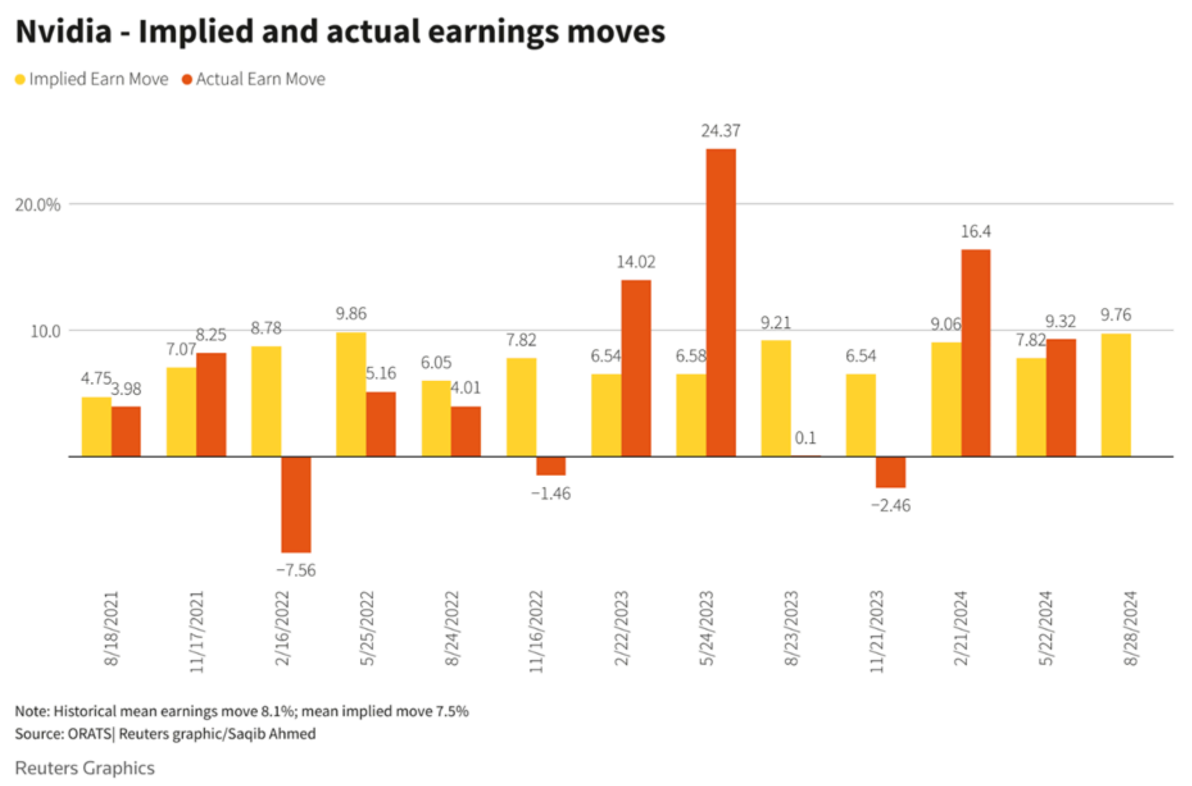
- Australian July CPI off 0.3pp to 3.5% y/y- lowest since March - linked to energy rebates – ASX flat, AUD flat at .6790
- China PBOC cautions on bond supply and potential bubble - Just half of local quota issued by July – CSI 300 off 0.57%, CNH off 0.1% to 7.13
- Japan June LEI fell 2.1 to 109 - lowest since Nov 2023 - while BOJ Himino restates no hikes until markets stabilize – Nikkei up 0.22%, JPY off 0.3% to 144.40
- French Aug consumer condicence up 1 to 92 - best since Feb 2022 – CAC 40 up 0.5%, OAT 10Y off 6bps to 2.90%
- Italian June industrial sales rose 0.1% m/m, -3.7% y/y - weaker rebound than expected – MIB up 0.3%, BTP 10Y off 5.5bps to 3.555%
- Turkey July trade deficit $7.9bn with exports up 13.8% y/y – TRY off 0.1% to 34.03
- Eurozone July M3 up 0.1 to 2.3% with household loans best since Nov 2023 – EuroStoxx 50 up 0.6%, EUR off 0.5% to 1.1125

- UK and German seek treaty to put relations across “whole spectrum” on new footing – FTSE off 0.1%, GBP off 0.35% to 1.3220
- US weekly API oil inventories report -3mb draw, while gasoline dropped -1.8bmn and distiallate fell 1.4mb - now 10% below the 5Y average – WTI off 1.9%

The Takeaways:

Are investors about to get their bell rung? The rally back in August from a difficult start stands out. Most attribute the rally back in risk to the FOMC confirming its plans to ease and to the US data remaining good enough to keep soft-landing hopes intact. The balancing act of bonds to stocks shifts when 10Y rates are below 4%. What seems clear is that the fate of one company has become more important than perhaps it should as it leads the hype around the US AI investment boom. The expected noise of markets and risks revolves around the Nvidia earnings today. Equity options price in Nvidia's earnings to bring in more than $300 billion swing in its shares over the day ahead. Pricing anticipates a stock move of almost 10% on Thursday - larger than the expected move ahead of any Nvidia report over the last three years. Bottom Line – volatility anywhere destabilizes markets everywhere? This is the risk and the potential hold back for larger trends driving the day as FX markets see USD retracement as risk off while rates lower around the world find a limit on inflation fears.

Exhibit #1: Does the option market capture the Nvidia risk?



Source: Reuters, BNY

Details of Economic Releases:

1. **Australian July monthly CPI rose 3.5% y/y after 3.8% y/y - more than the 3.4% y/y expected -** the lowest figure since March, reflecting the extended and expanded Energy Bill Relief Fund rebate. Housing prices strongly eased (4.0% vs 5.5% in June), weighed by a sharp fall in electricity cost (-5.1% vs 7.5%). Also, transport prices eased to a 5-month low (3.4% vs 4.2%), amid a notable slowdown in cost of automotive fuels (4.0% vs 6.6%). At the same time, inflation was steady for health (at 5.3%) and education (at 5.6%). Food inflation, meanwhile, hit a 3-month high of 3.8%, mainly due to fruit and vegetables, bread and cereal products, and food products n.e.c. Prices also accelerated for alcohol and tobacco (7.2% vs 6.9%) and communication (1.9% vs 1.0%). Excluding volatile items and travel, consumer prices climbed 3.7% in July, the least since January 2022.

2. **Japan June final leading economic index slips to 109.0 from 111.1 - better than 108.6 flash** - still the lowest reading since November 2023, amid easing expansion in the manufacturing sector while marking the first drop in services activity since August 2022. In the meantime, consumer confidence in June improved while the unemployment rate was at 2.5%, the lowest level since January. The coincident index fell to 113.2 from 117.1 - weaker than the 113.7 flash --the lowest level since February while keeping an assessment of "halting to fall", as the economy continued

to recover moderately despite mounting global headwinds, particularly from China, the US, and Europe. Meantime, Japanese consumer prices are expected to elevate following the full end of energy subsidies in May while the Bank of Japan started mulling policy normalization amid a weak currency

3. Turkey July trade deficit widens to $7.3bn after $5.9bn - as expected - still better than $12.5bn deficit in July 2023, as exports increased while imports dropped. Year-on-year, exports climbed 13.8% to $ 22.51 billion, mainly driven by higher sales in mining & quarrying (51.6%). Among destinations, Germany was the largest export market (7.8%), followed by the UK (7.1%), the US (6.4%), Iraq (4.7%), and Italy (4.6%). Meanwhile, imports declined 7.8% to $29.80 billion due to reduced purchases of capital goods (-7.7%), intermediated goods (-8.9%), and consumption goods (-3.2%). The main import partners were China (13.9%), Russia (12.7%), Germany (8.5%), Italy (4.7%), and the US (4.7%). Considering the January to July period, the country's trade gap narrowed to $49.94 billion from $73.86 billion in the same period last year.

4. French August consumer confidence rises to 92 from 91 - as expected - the highest reading since February 2022. Consumers were less pessimistic about the outlook on financial situations (-9 vs -10 in July), and the standard of living (-45 vs -50). At the same time, views on saving intentions increased (37 vs 35), households were slightly less negative on making major purchases (-31 vs -32), and inflation expectations decreased (-53 vs -47). Meanwhile, assessments were unchanged for future savings

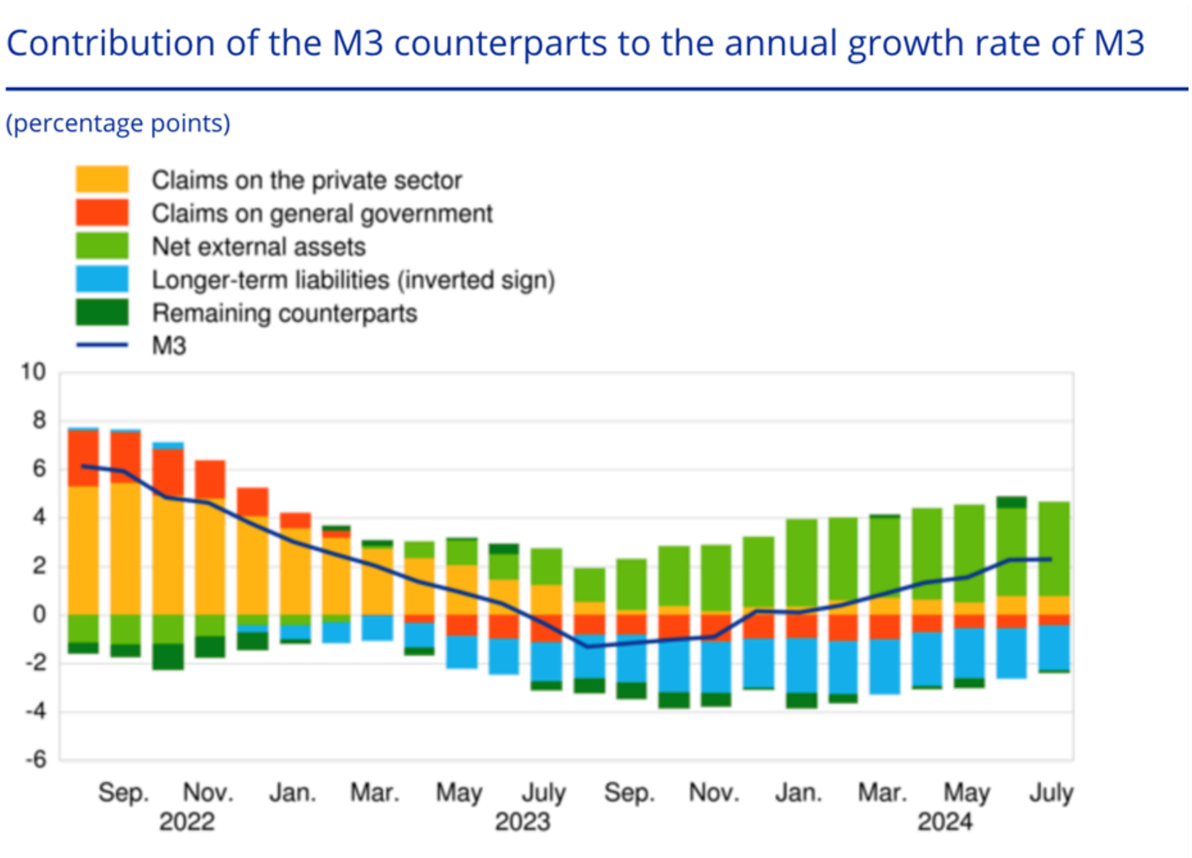
capacity (9) and concerns over future unemployment (28).

5. Italian June industrial sales rose 0.1% m/m, -3.7% y/y after -1% m/m, -4.8% y/y - weaker than +1% m/m expected. The rebound was carried by a bounce in sales in the foreign market (2.2% vs -1.4% in May), which offset a second drop in the domestic market (-1% vs -0.7%). Sales were higher for intermediate goods (1.7%), while turnover fell for energy (-5.8%) and capital goods (-0.4%).

6. Eurozone July M3 rose to 2.3% y/y from 2.2% y/y - less than the 2.7% y/y expected. Bank lending to households in the Eurozone rose by 0.5% year-on-year to €6.883 trillion in July 2024, as expected, accelerating from a 0.3% increase in the previous month. It was the fastest pace of credit growth since November 2023. Meanwhile, lending to companies rose by 0.6% to €5.140 trillion, easing from a 0.7%

advance in June. Overall private sector credit growth, encompassing both households and non-financial corporations, picked up to 1.3% from 1.1%.

Exhibit #2: Does the household borrowing matter?



Source: ECB, BNY

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

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