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MARKET MOVERS

**August 30, 2024**

# Better Endings

***"Great is the art of beginning, but greater is the art of ending." – Henry Wadsworth Longfellow***
***"Only bad books have good endings. If a book is any good, it's ending is always bad – because you don't want the book to end." – Pseudonymous Bosh***

## Summary

Risk on as markets rush to end the summer on a bang with DJIA at record highs along with most of Europe – helped by lower CPI in Europe, more action from the PBOC on bonds, better Japan industrial production. JPY ignored the higher Tokyo CPI while Korea suffered with weaker industrial production linked to its strikes. We are ending better than we started which suggests US investors see more comedy than tragedy in the rest of the world. Record highs leave little room for upside surprises into September with today's US Core PCE and consumer sentiment not expected to derail the pricing for FOMC easing ahead. The US markets also face the Labor Day holiday Monday leaving liquidity and interest in trading lower. The close out of August brings the MSCI rebalancing and more focus on how the rest of the world can grow faster than the US in the months ahead.

**What's different today:**

- **China PBOC trades $56bn sovereign bonds in secondary market** – first direct intervention in decades – The operation over the last two days saw long-term bond selling and short-end buying.

- **CNY rises to 14-month highs** with equities higher – The renminbi gains further erasing all of the year's losses.

**What are we watching:**

- **US July personal income** expected up 0.2% m/m after 0.2% m/m while **spending** is expected up 0.5% m/m after 0.3% m/m – savings rate and spending matter to 3Q growth
- **US July core PCE price index** expected up 0.2% m/m, 2.7% y/y after 2.6% y/y – anything higher will complicate rate cutting views. Headline PCE expected up 0.2% m/m, 2.5% y/y flat.
- **US final August University of Michigan consumer sentiment** expected up 68.1 from 67.8
- **Canada 2Q GDP** expected up 1.6% y/y after 1.7% y/y – with July monthly expected up 0.1% m/m after 0.2% in June.

**Headlines**

- Korea July industrial production drops 3.6% m/m – linked to auto and strike related as well as semiconductors – Kopsi up 0.45%, KRW off 0.2% to 1334.1
- Japan July unemployment up 0.2pp to 2.7% - most since Aug 2023 with higher participation rate, while industrial production bounces up 2.8% m/m, retail sales rose 0.2% m/m, and Tokyo CPI core rose 0.2pp to 2.4% -most in 6-months – Nikkei up 0.74%, JPY off 0.15% to 145.25
- China considering refinancing of $5.4trn in mortgages to spur consumption – CSI 300 up 1.33%, CNH up 0.2% to 7.0820
- Australian July retail sales 0% m/m, while housing credit rises 0.5% m/m – ASX rose 0.58%, AUD flat at .68
- French 2Q GDP revised lower to 0.2% m/m, 1.0% y/y on lower government spending, while flash August CPI 0.6% m/m, 1.9% y/y – lowest since Aug 2021 – CAC 40 up 0.45%, OAT 10Y off 1bps to 2.98%
- Italian August flash CPI rose 0.2% m/m, 1.1% y/y – while July unemployment fell 0.4pp to 6.5% - but August consumer confidence fell 1.8 to 96.1 and manufacturing 0.5 to 87.1 – MIB up 0.6%, BTP 10Y off1.5bps to 3.637%
- German August unemployment up just 2,000 holding 6% - DAX up 0.2%, Bund 10Y off 1bps to 2.26%
- Eurozone August flash CPI up 0.2% m/m, 2.2% y/y while unemployment dips to 6.4% in July – EuroStoxx 50 up 0.25%, EUR flat at 1.1085

- UK July mortgage approvals jump to 61,985 – highest since Sep 2022 – FTSE up 0.35%, GBP up 0.1% to 1.3175

**The Takeaways:**

The ability for the rest of the world to grab global capital rests on the data in the months ahead proving the point. The US 2Q GDP revision yesterday mattered in setting the bar. The ability for the USD to remain weak and stay down isn't just a function of the FOMC easing plans – 50bps or 100bps won't matter enough while rate cuts from the ECB and the ongoing new actions from the China PBOC do. The growth path for 2025 is in the price of global shares ahead. The flow of money in August was a mixture of defensive trading back to benchmarks overlayed with hopes that the rest of the world can catch up to US growth. The worry on the day and weekend rests on the unknowns of consumers as they struggle with capital vs. labor, as the high for longer rates leave many wondering if the Fed is too late to the easing party and whether the politics of the moment matter. The weekend will have some key elections in Germany, ongoing focus on the geopolitical troubles in Ukraine and Israel and even more from China as they release their August PMI.

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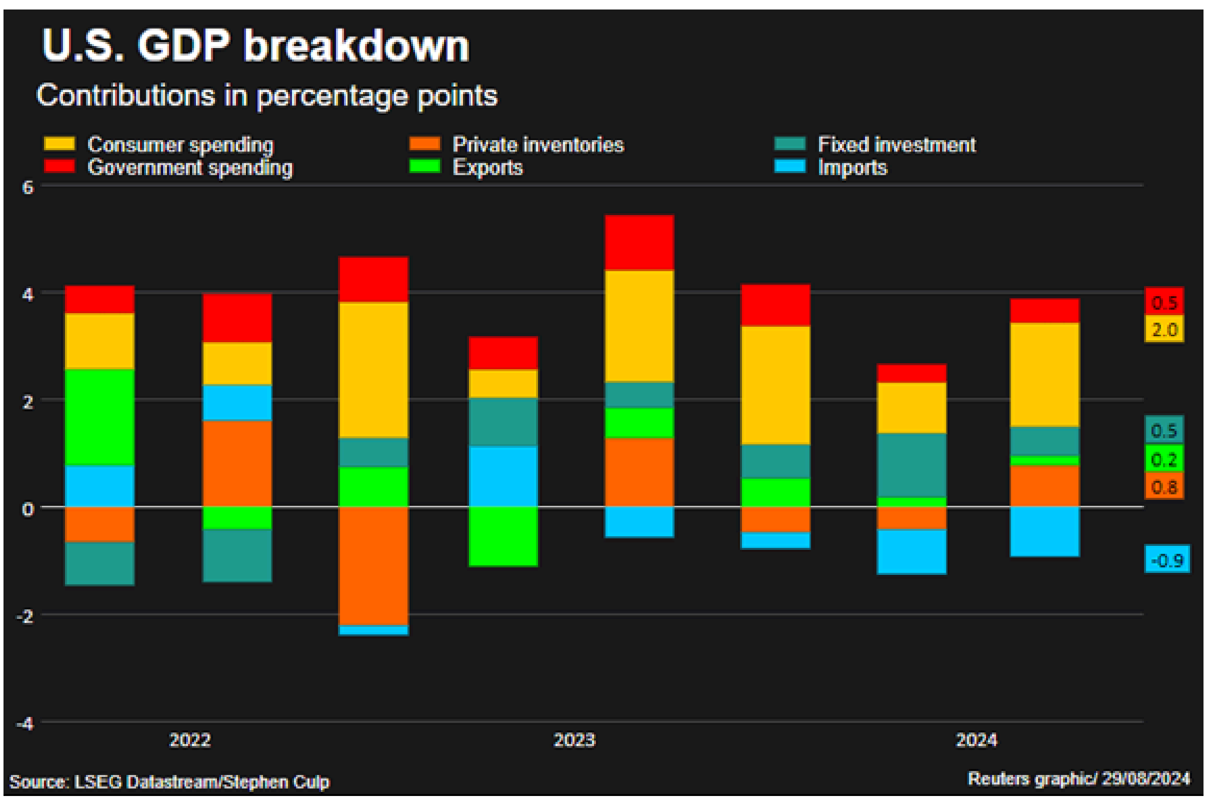
**Exhibit #1: Is US growth sustainable?**



Source: Reuters, BNY

**Details of Economic Releases:**

1. **Korea July industrial production fell 3.6% m/m, +5.5% y/y after +0.7% m/m, 3.8% y/y – weaker than the -0.4% m/m, 7% y/y expected.** The output for major manufacturing items such as semiconductors (-8.0%) and cars (-14.4%) dropped due to temporary factors linked to auto strikes. Shipments fell 5.8% and inventories rose 2.6%. Retail sales fell 1.9% m/m after +1% m/m.

2. **Japan July unemployment rose 2.7% from 2.5% - worse than 2.5% expected** – the highest jobless rate since August 2023, as the number of unemployed rose by 110 thousand to 1.87 million while employment fell by 200 thousand to 67.66 million. The labor force edged down by 90 thousand to 69.54 million, and those detached from the labor force were up 20 thousand to 40.32 million. The non-seasonally adjusted labor force participation rate increased to 63.5% in July from 63.1% in the same month a year earlier. Meanwhile, the jobs-to-applications ticked higher to 1.24 in July from June's over 2-year low of 1.23.

3. **Japan July industrial production rose 2.8% m/m, 2.7% y/y after -4.2% m/m, -7.3% y/y – weaker than the 3.3% m/m bounce expected** – still the best yearly gain since January 2023 and the third time of rise year to date in industrial output, mainly contributed by electrical machinery, and information and communication electronics equipment (7.5% vs -2.8% in June), production machinery (7.0% vs -9.0%), and electronic parts and devices (9.7% vs -5.8%)

4. **Japan July retail sales rose 0.2% m/m, 2.6% y/y after 0.6% m/m, 3.8% y/y – weaker than 2.9% y/y expected**. Still, retail spending remained in positive territory for the 28th consecutive month as rising wages continued to support consumption. Sales increased the most for non-store retailers (9.6%), automobiles (6.3%), pharmaceutical & cosmetics (5.1%), machinery & equipment (4.6%) and other retail industries (4.1%).

5. **Japan August Tokyo core CPI rose 2.4% y/y from 2.2% y/y – more than the 2.2% y/y expected** – highest in 6-months. The headline CPI rose 2.6% y/y from 2.2% y/y while the core-core rose 1.6% y/y from 1.5% y/y. The rise largely reflected a phase-out of government subsidies on utility bills and rising rice prices due to intensifying shortages caused by extreme heat.

6. **Australian July retail sales rose 0% m/m, up 2.3% y/y after 0.5% m/m, 2.9% y/y – weaker than 0.3% m/m expected –** off from 13-month highs. Household goods retailing was unchanged (vs 1.1% in June), as did other retailing (vs 0.9%).

Meanwhile, food retailing rose slightly (0.2% vs 0.1%) amid the first fall in three months for clothing, footwear & personal accessory retailing (-0.5% vs 0.6%) and the third straight month of decline in sales at cafes, restaurants, and takeaway food. Also, sales in department stores dropped by 0.4% after growing by 0.8% in June. Geographical-wise, sales were higher in Victoria (0.1%), Queensland (0.2%), Western Australia (0.2%), and Northern Territory; but shrank in New South Wales (-0.2%), South Australia (-0.3%), Tasmania (-0.8%), and Australian Capital Territory (-0.9%).

**7. UK July mortgage approvals rise to 61,990v after 60,610 – better than 60,500 expected –** highest since September 2022. Approvals for remortgaging, which only capture remortgaging with a different lender, fell to 25,100 from 27,300, continuing the downwards trend seen since March 2024. The 'effective' interest rate, which is the actual interest paid, on newly drawn mortgages was broadly unchanged at 4.81% in July. The rate on the outstanding stock of mortgages rose by 4 basis points to 3.69% from 3.65% in June.

**8. French 2Q final GDP revised down to 0.2% q/q, 1% y/y after 0.3% q/q, 1.5% y/y – weaker than 0.3% q/q, 1.1% flash**. There was a slowdown in government spending (0.4% vs 0.6% in Q1), while fixed investments continued to decline (-0.9% vs -1%), mainly as a result of a decrease in construction (-0.9%) and capital goods (-2.7%). Meanwhile, household consumption slightly recovered (0.1% vs -0.1%), driven by a rise in consumption of services (0.5%). Net trade also contributed positively to the GDP, with exports rising 0.4% (vs 0.6%), and imports increasing at a softer 0.1% (vs 0.1%). The contribution of inventory changes to the GDP growth was again zero during the quarter.

**9. French August flash CPI up 0.6% m/m, 1.9% y/y after 0.2% m/m, 2.3% y/y – more than the 1.8% y/y expected** – biggest monthly gain since February but lowest annual rate since Aug 2021. The HICP rose 0.6% m/m, 2.2% y/y. The decrease in inflation is mainly due to a sharp slowdown in energy prices (0.5% vs 8.5% in July), with petroleum costs expected to fall and electricity prices to ease, following the sharp tariff increase in August 2023. Conversely, service prices accelerated to 3.1% from 2.6%, particularly for accommodation and transport, while costs for food, manufactured goods, and tobacco are seen little-changed from the rates in July.

**10. Italian August flash CPI rose 0.2% m/m, 1.1% y/y after 0.4% m/m, 1.3% y/y – better than 0.3% m/m, 1.2% y/y expected**. Energy deflation accelerated (-6.1% vs -4% in July), driven by the unregulated component (-8.6% vs -6%). Moreover, prices decreased further for durable goods (-1.8% vs -1.2%) and communications (-6.8% vs -5.2%). On the other hand, the cost of regulated energy (14% vs 11.7%) and processed food products (1.8% vs 1.6%) picked up, while the cost of housing & utilities fell less (-1.4% vs -2.2%).

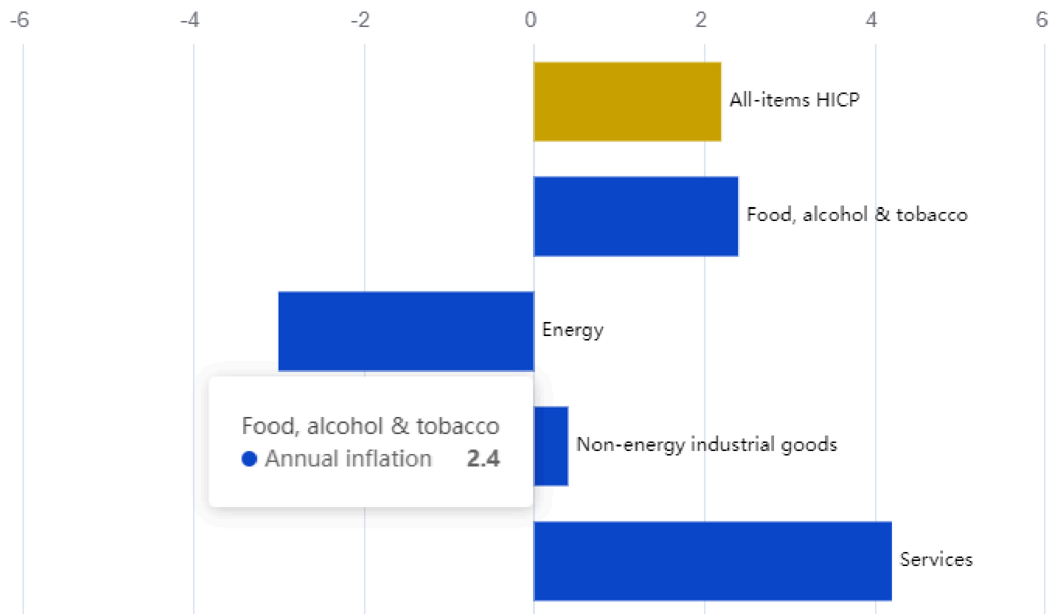
**11. German August unemployment rises 2,000 to 6% rate after 17,000 – better than the 16,000 expected**. There were 699,000 job vacancies in August, down by 72,000 from a year ago, indicating weakening labor demand. On an unadjusted basis, unemployment rose by 63,000 to 2.872 million, the highest level in three-and-a-half years. "The labor market continues to feel the effects of economic stagnation," said Andrea Nahles, chairwoman of the Federal Labor Office, noting that unemployment had increased over the summer.

**12. Eurozone July unemployment drops to 6.4% from 6.5% - better than 6.5% expected**. The number of unemployed individuals decreased by 114,000 from the prior month to 10.990 million. Additionally, the youth unemployment rate, reflecting those under 25 seeking employment, was 14.2% in July, the lowest since June 2023, down slightly from 14.4% in the previous month. Among the major Euro Area economies, Spain still faces the highest unemployment rate at 11.5%, followed by France at 7.5% and Italy at 6.5%. In contrast, Germany reported the lowest rate at 3.4%. A year earlier, the jobless rate was slightly higher at 6.6%.

**13. Eurozone August flash CPI rose 0.2% m/m, 2.2% y/y after 0% m/m, 2.6% y/y – as expected**. Still, the slowdown was owed to a sharp decline in energy costs as base effects kicked in in August (-3% vs 1.2% in July), while inflation slowed for non-energy industrial goods (0.4% vs 0.7%). On the other hand, inflation picked up for services (4.2% vs 4%) and food, alcohol, and tobacco (2.4% vs 2.3%). Excluding energy and unprocessed food, price growth was unchanged at 2.8%.

**Exhibit #2: Is inflation gone in Europe?**

**Euro area annual inflation - August 2024, %**




eurostat

Source: EuroStat, BNY

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