BNY

iFlow
MARKET MOVERS

September 2, 2024

Labor Day

“An artist is not paid for his labor but his vision.” – James Whistler

“Such is the supreme folly of man that he labors so as to labor no more.” – Leonardo da Vinci

Summary

Risk mixed with China lower NBS PMI hitting shares there, while uneven manufacturing PMI globally shakes up FX with APAC seeing USD up led by THB, MYR an IDR weakness. EMEA lower shares track growth fears along with the expected regional election troubles for the German coalition government. Markets are light and holding out for more information given US and Canada holidays. There is a sense that the ECB cut ahead won’t be enough but that the US soft-landing will hold on FOMC easing ahead. The week ahead pivots on how the data confirms the policy shifts are working or not with focus on growth over inflation driving risk appetites.

What’s different today:

- **German 10-year yields rise to 1-month highs up 3bps to 2.33%** - reflecting the worries from two regional elections where Scholz’s coalition lost with AfD and CDU wins in Thuringia and Saxony respectively.
- **Turkey asks to join BRICS in effort to build alliances beyond the West**. The application was submitted months ago after a decade of waiting for EU

membership and after building closer ties to Russia post the Ukraine invasion in 2022.

- **iFlow** – The G10 USD selling continued Friday with only CAD seeing small outflows, while EM was mixed CNY buying along with SGD and MXN against COP, IDR selling. The equity outflow notable except in Australia and Sweden while in APAC only India saw inflows. Bonds were bought in US but not in rest of G10 while India also saw notable inflows.

What are we watching:

- **Mexico August business confidence** expected off 0.1 to 52.8 -important in measuring judicial reform on business outlooks
- **Brazil August manufacturing PMI** expected off 1 to 53 – important in measuring effect of rates on growth

Headlines

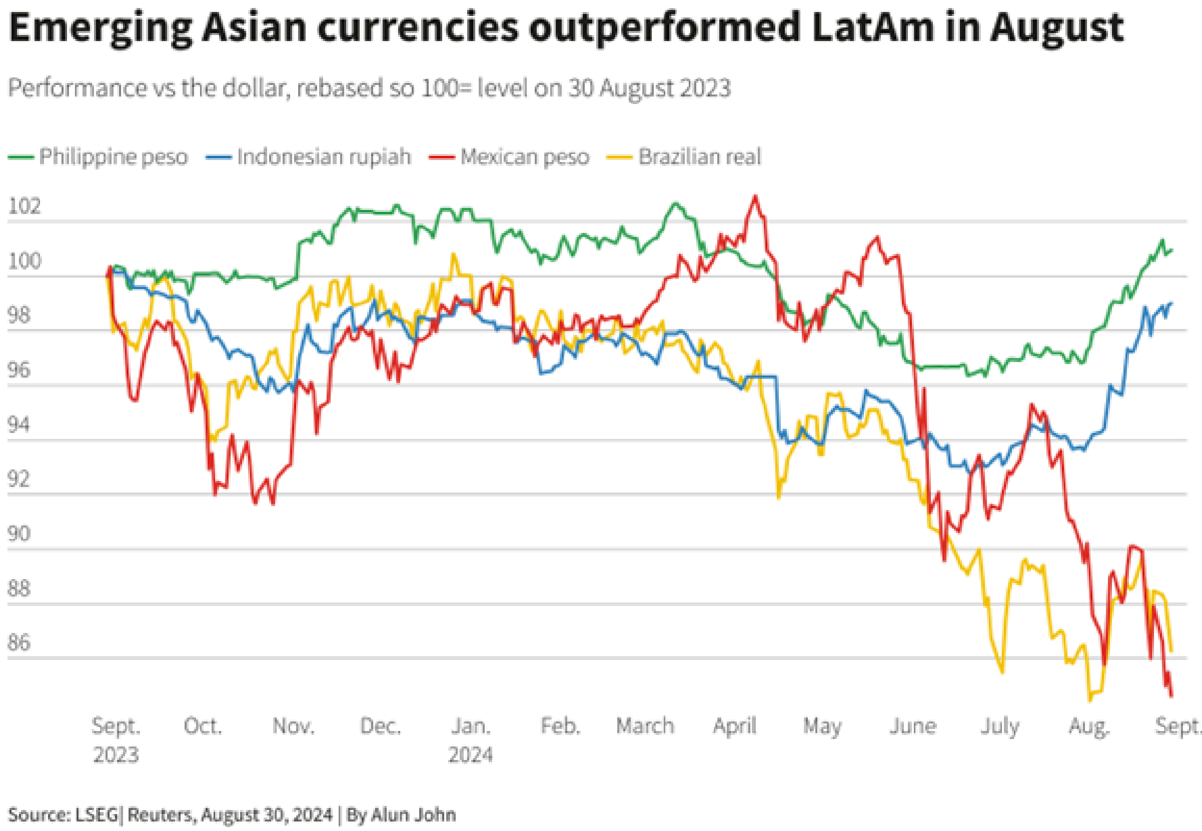
- Australian Aug final manufacturing PMI up 1 to 48.5 – 7th month of contraction, but best since May – while July home approval bounce up 0.6% m/m, 2Q profits -5.3% q/q led by mining– ASX up 0.22%, AUG up 0.2% to .6780
- Japan 2Q capital spending up 0.6pp to 7.4% y/y - worse than expected but 13th quarterly gain – while Aug final manufacturing PMI up 0.7 to 48.8 -Nikkei up 0.14%, JPY off 0.3% to 146.65
- China Aug Caixin manufacturing PMI up 0.6 to 50.4 – as even prices drop for first time in 5-months, foreign demand lower and NBS manufacturing PMI off 0.3 to 49.1 – CSI 300 off 1.7%, CNH off 0.3% to 7.1120
- South Korea Aug manufacturing PMI rose 0.5 to 51.9 – 4th monthly gain – while Aug trade sees exports slow 1.5pp to 11.4% y/y even with robust semiconductor demand – Kospi up 0.25%, KRW off 0.1% to 1338.80
- Indonesia Aug CPI -0.03% m/m, 2.12% y/y – lowest since Feb 2022 – while manufacturing PMI fell 0.4 to 48.9 – with costs at 10-month lows – IDR off 0.45% to 15,520
- India Aug manufacturing PMI slips 0.6 to 57.5 – with output and sales slowest since January – Sensex up 0.24%, INR off 0.1% to 83.925
- Turkey 2Q GDP up 0.1% q/q, 2.5% y/y – weakest in 5 quarters – as Aug manufacturing PMI up 0.6 to 47.80 – bouncing from 8-month lows – TRY up 0.25% to 33.998

- South Africa Aug manufacturing PMI drops 8.8 to 43.6 – worst since Janu, new orders plummet – ZAR off 0.4% to 17.89
- Sweden Aug manufacturing PMI rises 3.5 to 52.7 – led by new orders – back to June levels – OMX off 0.5%, SEK up 0.1% to 10.26
- Swiss July retail sales rebound 1.4% m/m, 2.7% y/y – first yearly gain since April, best month since June 2023 – while Aug manufacturing PMI recovers up 5.5 to 49.0 – still 20th monthly contraction – Swiss Market off 0.45%, CHF off 0.1% to .8505
- Eurozone Aug final manufacturing PMI flat at 45.8 – prices up for first time since Apr 2023 despite orders drop – EuroStoxx 50 off 0.1%, EUR up 0.1% to 1.1065
- UK Aug final manufacturing PMI up 0.4 to 52.5 – best in 26-months - FTSE off 0.15%, GBP up 0.1% to 1.3135

The Takeaways:

Seeing the forest for the trees is a labor and the lack of US markets today will make the work of dissecting USD gains over the last 2 trading sessions even harder to discern whether this is a bottom or a pause in the bigger trend. The overnight news highlights the ongoing growth troubles in Europe and the nascent recoveries in APAC. However, whether there is a bigger trade for markets rests on the USD still. The one trend that stands from the summer comes from Japan where the talk of intervention has disappeared and where another BOJ rate hike is being priced for October. The JPY bounce back and ability to hold under 148 remains critical to the divergence flow arguments for September where the US exceptionalism continues to unwind. The other important currency in the mix is China with the Yuan unable to hold under 7.10 overnight, many are wondering about the policy moves ahead and whether they will get the nation to its 5% GDP target in 2024. For the day, the focus likely should be on the worst performers in EM in August – BRL and MXN where their fiscal and political worries hit hard. The data today likely won't shift sentiment much but the forest is made of many trees and the labor ahead is in seeing which one's matter.

Exhibit #1: Is LatAm cheap?



Source: Reuters, BNY

Details of Economic Releases:

1. **Australia August Judo Bank Manufacturing PMI 48.5 from 47.5 – weaker than 48.7 flash –** 7th month of contraction, although at the softest pace since May. The latest figure was also revised slightly lower from an initial reading of 48.7. Incoming new orders and production remained in contraction, though export orders expanded at the fastest pace in nearly two years. Meanwhile, sentiment improved, with confidence levels touching the highest level in one year. Still, deterioration in overall demand led to a reduction in purchasing activity, inventory holdings and headcounts in the manufacturing sector. Supply conditions also worsened, while firms raised selling prices at a faster pace to cover higher costs. Warren Hogan, Chief Economic Advisor at Judo Bank said: “This is not a manufacturing recession, but an extended soft landing, consistent with the global slowdown in manufacturing activity since 2022”

2. **Australian 2Q corporate profits drop -5.3% q/q after -2.5% q/q – worse than -0.9% q/q expected** – worst drop since 2Q 2023, due to falls in profits of miners (-10.9% vs -6.3% in Q1), builders (-3.7% vs -1.4%), wholesale traders (-7.3% vs -1.3%), retail traders (-1.3% vs -1.1%), transport and warehousing providers (-2.3% vs -0.9%), financial and insurance (-6.1% vs -7.8%), accommodation (-3.7% vs

0.6%), information (-2.7% vs 3.5), arts and recreation (-4.5% vs 8.9%), and rental, hiring (-2.7% vs 3.4%). By contrast, profits grew for manufacturers (2.8% vs 2.8%) and utility providers (1.9% vs 1.7%), while those rebounded for administrative and support services (1.8% vs -0.1%) and other services (2.9% vs -5.9%). Through the year to June, corporate profits decreased 3.9%, the fifth quarter of decline, after a downwardly revised 8.3% fall in the prior period.

3. Japan 2Q capital spending rises to 7.4% y/y after 6.8% y/y- less than the 9.9% y/y expected – 13th quarter of expansion. Industries that contributed most to the gain in capital spending were production, transmission & distribution of electricity (31.9%), real estate (23.7%) and transportation equipment (20.6%). Meanwhile, industries that reduced capital spending include fabricated metal products (-25.1%), production machinery (-15.6%) and wholesale & retail trade (-8.9%).

4. Japan August Jibun Bank Manufacturing PMI 49.8 from 49.1 – better than 49.5 flash – moving near stabilization as new orders fell at a softer rate. Moreover, firms reported a rise in input buying for the first time since July 2022 amid additional production requirements. Employment growth also picked up though the level of outstanding business continued to moderate sharply. On the price front, input cost inflation strengthened to reach a 16-month high as higher raw material prices and exchange rate weakness were sustained. Firms responded by raising their own charges, though at the softest rate since June 2021. Lastly, business sentiment gathered momentum, with a robust degree of optimism due to predictions of a stronger domestic and global economic upturn.

5. China August Caixin Manufacturing PMI up to 50.4 from 49.8 – better than 50 expected - as new orders returned to growth, driving faster production expansion amid better underlying demand conditions. However, foreign demand fell marginally for the first time in the year-to-rate amid report of deteriorating conditions. Meanwhile, employment stabilized after eleven months of decline due to an improvement in demand conditions, with the backlogs of work rising for the sixth straight month. Purchasing activity fell marginally while delivery times lengthened at a slightly faster pace due to supply and transportation constraints. On prices, input prices fell for the first time in five months due to lower raw material prices, while output prices dropped as firms offered discounts to remain competitive. Finally, business sentiment improved to a three-month high, supported by optimism about improvements in economic conditions.

6. **South Korea August Manufacturing PMI rose to 51.9 from 51.4 – better than 51.1 expected** - with sustained and stronger increases in both output and new orders in the South Korean manufacturing sector amid growing signs of client confidence. Positive signals also stemmed from a slower increase in average cost burdens, as the rate of input price inflation was at the weakest in the year so far. Moreover, the degree of optimism regarding the 12-month outlook for output picked up for the second successive month and was the strongest since May. Meanwhile, inflationary pressure remained prevalent at the midpoint of the third quarter of 2024. That said, the rate of input price inflation eased from July to reach the lowest in eight months.

7. **Indonesia August CPI slows to -0.03% m/m, 2.12% y/y after -0.18% m/m, 2.13% y/y – as expected** - the lowest inflation since February 2022, as food prices rose the least in 13 months (3.39% vs 3.66% in July), amid an abundant rice supply as harvest season just started in May rather than in March. Also, inflation eased for health (1.72% vs 1.77%), accommodation (2.24% vs 2.28%), and education (1.83% vs 1.90%) while was steady for furnishing (at 1.05%). Meanwhile, cost of communication fell further (-0.16% vs -0.16%). By contrast, prices rose faster for transport (1.42% vs 1.22%), housing (0.57% vs 0.50%), clothing (1.19% vs 0.99%), and recreation, culture (1.52% vs 1.49%). The core inflation hit a 12-month high of 2.02% from 1.95% in July, above forecasts of 1.98%.

8. **India August HSBC final Manufacturing PMI off to 57.5 from 58.1 – weaker than 58 flash –** with softer increases in new orders and output during the month of August, albeit with rates of expansion remaining elevated by historical standards. Meanwhile, input price inflation eased to a five-month low in August, prompting manufacturers to increase their raw material purchases to build safety stocks. This led to one of the largest rises in input inventories recorded in 19-and-a-half years of data collection. Despite the slowdown in cost pressures, firms reportedly shared additional cost burdens with their clients amid demand resilience. The rate of output cost inflation was the second-fastest in close to 11 years. Lastly, business confidence fell to its lowest level since April 2023, as competitive pressures and inflation concerns weighed heavily on sentiment

9. **Turkey 2Q GDP slows to 0.1% q/q, 2.5% y/y after 1.4% q/q, 5.3% y/y – weaker than 3.2% y/y expected** – slowest growth in 5 quarters. There was a slowdown in household (0.5% vs 0.7%) and public (0.3% vs 3.7%) expenditure, and gross fixed capital formation shrank 4.1%, the most since the first half of 2020. Also, exports declined 3.9% (vs 2.8%) and imports added 0.6% (vs -3.6%).

10. Sweden August Swedbank Manufacturing PMI rises to 52.7 from 49.2 – better than 49.3 expected – as new orders rise (53.8 vs 44.7 in July) and contribute the most to the expansion, followed by production (52.8 vs 48.1), and delivery times (52.2 vs 51.6). Conversely, the employment sub-index (51.3 vs 53.5) increased at a softer pace, albeit remained in the growth territory for the third successive month. Moreover, production plans became less expansive (57.9 vs 59.6). The suppliers' raw material and input supplier price index broadly decreased (51.2 vs 56.7), hitting its lowest level in five months, mainly due to stronger krona and lower global raw material prices, according to Jörgen Kennemar, responsible for the PMI analysis.

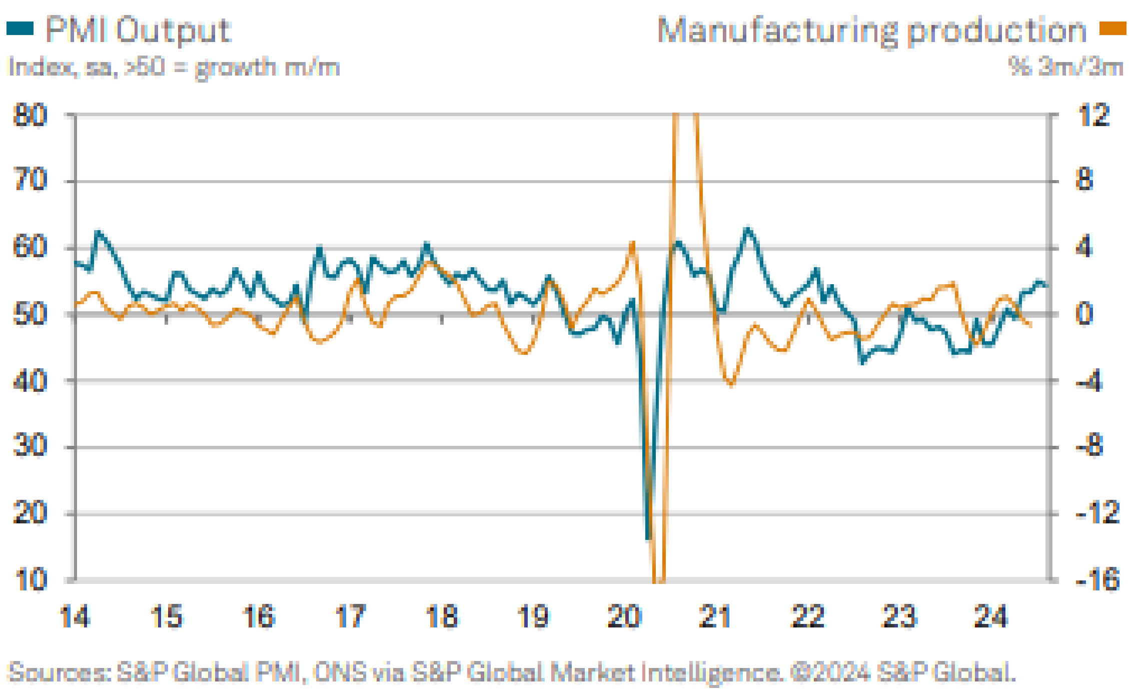
11. Swiss July retail sales up 1.4% m/m, 2.7% y/y after -0.3% m/m, -2.6% y/y – better than -0.2% m/m, -0.2% y/y expected – best monthly gain in 13-months and the first yearly increase in retail sales since April and the fastest pace since February 2022, due to a rebound in trade of food products (2.3 percent vs -3.7 percent in June) and non-food products (3.1 percent vs -1.5 percent).

12. Eurozone August HCOB final Manufacturing PMI 45.8 flat to July – higher than 45.6 flash – still in contraction for more than 2-years, reflecting the impact of tighter financial conditions by the ECB and the fallout of energy price spikes earlier in the stretch. The volume of new orders fell at the sharpest pace since the start of the year. Consequently, manufacturers depleted their backlogs the most since February, but the drop in outstanding business was unable to offset the decline in new orders, and output for factories booked a fresh decline. In the meantime, surveyors attempted to cut costs in response to lower demand, easing purchasing levels and extending the job-cutting streak to its 15th straight month. On the price front, input costs rose for the third month, albeit at a slightly slower rate from July's 18-month high.

- Italy manufacturing PMI rises 2 to 49.4 – better than 48.5 flash
- Spain manufacturing PMI slips 0.5 to 50.5 – weaker than 51.5 expected
- France manufacturing PMI fell 0.1 to 43.9 - better than 42.1 flash
- German manufacturing PMI fell 0.8 to 42.4 – better than 42.1 flash

13. UK August final Manufacturing PMI rises to 52.5 from 52.1 – same as flash - the fourth consecutive expansion for the UK factory activity, at the fastest pace in over two years, according to a flash estimate. The result contrasted sharply with the declining activity in manufacturing for the UK's Eurozone members, as factories adapt to an era of higher borrowing costs. New orders rose at the highest pace this year, with firms citing an improved sales pipeline and higher risk-taking among clients, lifting output to a near two-and-a-half-year high. Consistently, work backlogs were cleared at the fastest pace since November 2023, adding to capacity demand and hence, aligning with the fresh increase in headcounts. On the price front, higher energy, metals, and plastic prices lifted input costs for factories, although the rate of increase eased from the prior month.

Exhibit #2: Does the UK economy have legs?



Source: S&P PMI, BNY

Disclaimer & Disclosures

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

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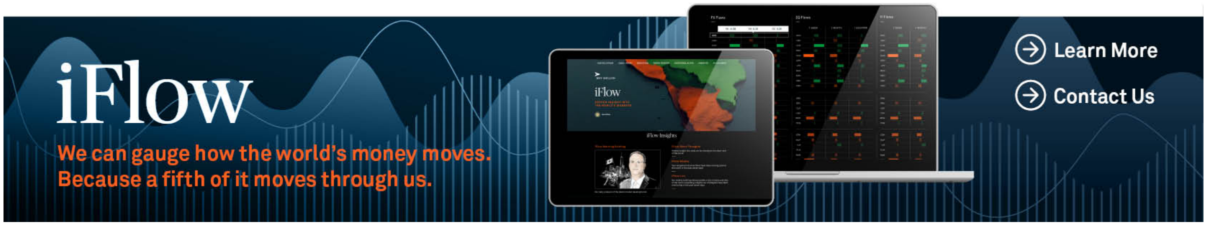

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