BNY

iFlow
MARKET MOVERS

September 3, 2024

Subdued

"Little minds are tamed and subdued by misfortune; but great minds rise above them." - Washington Irving
"Beauty in art is often nothing more than ugliness subdued." - Jean Rostand

Summary

Risk off as markets are subdued by seasonality fears and the US jobs focus this week. The risk mood from yesterday revolved around weaker EU and China PMI along with German politics. The US market faces ISM and a catch-up trade to how the rest of the world is doing. Australia notably weaker on an outsized C/A deficit while the Japan Ueda hawk talk drives JPY but not much else in APAC. The lack of big data in Europe leaves it to ECB expectations for more easing and the EUR wobbles.

What's different today:

- **US August logistics managers index eases to 56.4** from 56.5 - still continues to point to moderate expansion in sector. Inventory levels jumped 6.1 to 55.7 - ending a summer of contraction - a signal of return to pre-Covid seasonality for business.
- **German Car Maker Volkswagen warns it is considering closing factories in Germany** - highlighting the slowdown in Europe and the competition from Asia carmakers.

- **iFlow ongoing drop in Mood** – negative territory now with equities sold in G10 expcept in Sweden and Australia, while only India and Colombi in EM. The G10 FX saw big USD selling yesterday with JPY, NOK and GBP notable buying. EM was CNY buying along with SGD against HKD and IDR selling. Bonds were quiet as expected on holiday in US with APAC seeing India buying, Malaysia selling.

What are we watching:

- **US August manufacturing ISM** expected up 47.5 from 46.8, with S&P PMI final expected 48.1 from 48. Key focus on jobs.
- **Central Bank Speakers**: European Central Bank board member Kerstin Jochnick and ECB bank supervisor Claudia Buch speak in Frankfurt
- **US corporate earnings**: Zscaler, GitLab, Healthequity, Ascendis Pharma, Hello, Sportsmans Warehouse
- **US Treasury** sells $81 billion of 3-month bills, $75 billion of 6-month bills and $50 billion of 12-month bills

Headlines

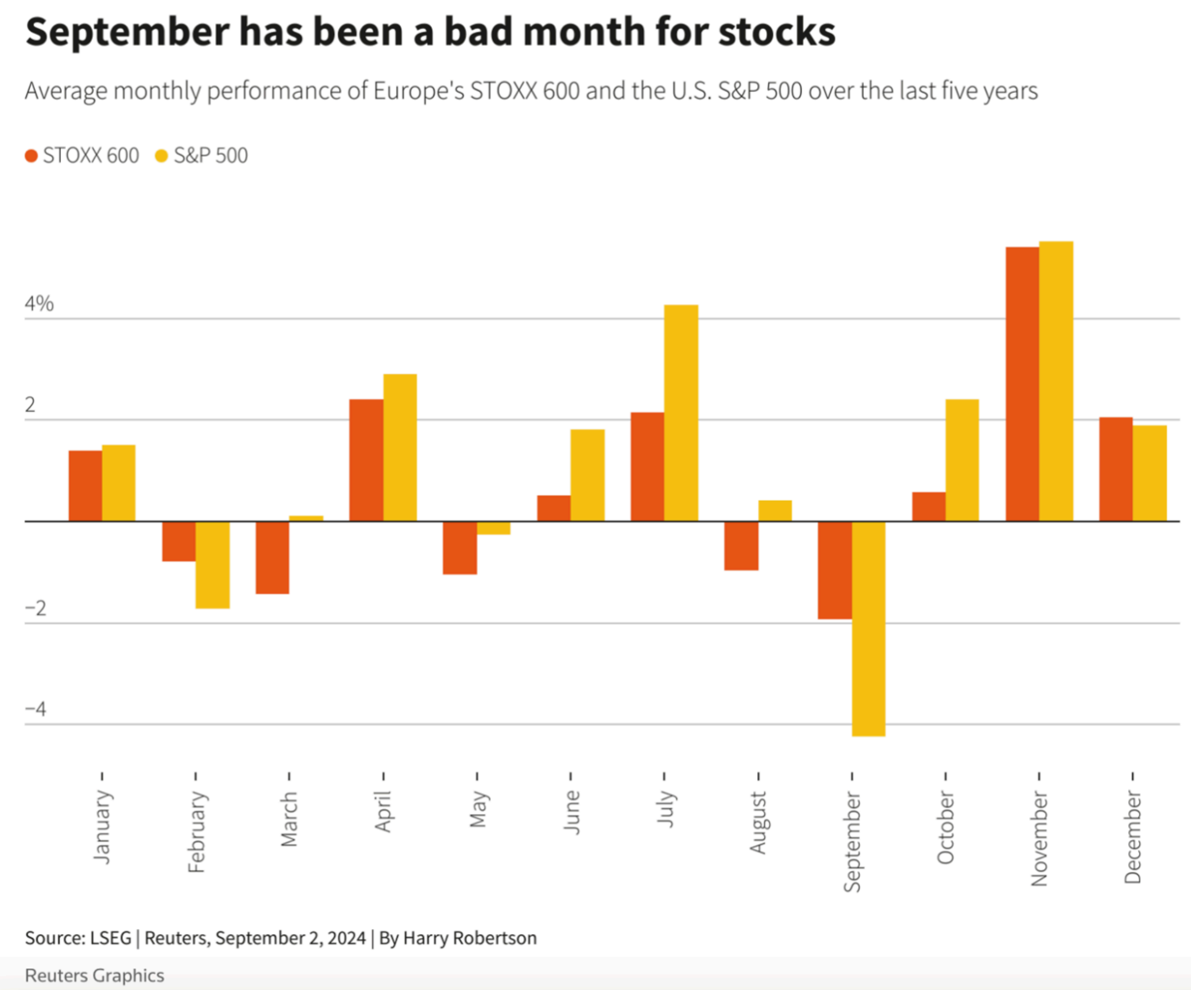
- Korea CPI up 0.4% m/m, 2.0% y/y - 42-month lows - adding to BOK cut hopes - Kospi off 0.61%, KRW off 0.2% 1342.50
- Australian 2Q C/A deficit up A$4.4bn to A$10.7bn - largest since 2Q 2018 linked to trade, primary income deficit – ASX off 0.08%, AUD off 0.9% .6735
- China warns Japan of retaliation for possible semiconductor curbs – CSI 300 up 0.26%, CNH off 0.15% to 7.1265
- BOJ Ueda repeats will hike rates if economic forecasts realized – Nikkei off 0.04%, JPY up 0.7% to 145.90
- Swiss Aug CPI eases to 0% m/m, 1.1% y/y - lowest since March - while 2Q GDP rose 0.7% q/q, 1.8% y/y - best since 2Q 2022 – Swiss Mkt off 0.6%, CHF flat at .8515
- Spanish Aug unemployment up 21,884 or 0.9% to 2.6mn - lowest since Aug 2008 – IBEX off 0.8%, SPGB 10Y flat at 3.145%, EUR off 0.25% to 1.1035
- Turkey Aug CPI slows 9.8pp to 51.97% y/y- 3rd consecutive decline and best since July 2023 – TRY off 0.25% to 33.98
- South Africa 2Q GDP rose 0.4% q/q, 0.3% y/y - 7 of 10 sectors higher – ZAR off 0.7% to 17.975

- Houthis hit two oil tankers in Red Sea, Saudi Arabia expected to cut oil prices to Asia in October – WTI off 1.8% to $72.25

The Takeaways:

The return to work for many is a shock to the system today. It's the start of the rest of the year and the data ahead matters more than usual as the market prices in 100bps of Fed cuts and the Fed speakers talk about 50bps. The spread matters and will pivot on the jobs report Friday. The problem is that today is Tuesday and while US manufacturing ISM matters, there is less focus on growth in manufacturing and more on the overall economy. Perhaps the most interesting story from the weekend and the data on Friday was in inventories. The rise of retail and wholesale inventories is different and suggests a return to focus on 4Q sales and the usual pre-Covid spending hopes for the consumer. This brings back a focus on seasonality and all that it means for the business cycle and the election. There is plenty to worry about in September from the jobs report to the Trump/Harris September 10 debate to the Congressional budget discussions along with supply in bonds and a host of key central bank meetings. The volatility expected seems modest to the news agenda and the history of trouble that this month brings. Today's price action maybe subdued by the sheer weight of the information ahead rather than the prices left behind.

Exhibit #1: Is September cursed?



Source: Reuters, BNY

Details of Economic Releases:

1. **Korea August CPI slows to +0.4% m/m, +2% y/y after +0.3% m/m, +2.6% y/y- more than the +0.3% m/m, +1.9% y/y expected -** still the 5th month below 3% Bank of Korea ceiling - mostly linked to base effects. The cores CPI fell to 2.1% y/y from 2.2% - as expected.. South Korea's government has said that the country is projected to reach the 2% inflation target by around the end of 2024, with the finance ministry expecting full-year inflation to rise 2.6%. On the monthly basis, Food rose the most (1.2%) and housing/utilities also rose (0.8%). Although electricity bills have been frozen, gas and other utilities managed by local governments are on the rise.

2. **Australian 2Q Current Account deficit of A$10.7bn after A$6.3bn - worse than the A$5.9bn expected.** the largest current account deficit since the second quarter of 2018 due to a fall in the trade surplus and a rise in the net primary income deficit. The balance goods and services surplus slumped to AUD 11.8 billion in Q2 from AUD 15.9 billion in Q1, due to a continued fall in commodity prices. Simultaneously, the net primary account gap increased for the second consecutive

quarter to AUD 22.5 billion in Q2 from AUD 21.9 billion in Q1, amid higher pay to non-residents, due to higher interest payments on Australia's debt liabilities. Meanwhile, the net secondary income deficit narrowed to AUD 0.01 billion from AUD 0.25 billion in Q1.

3. Swiss August CPI slows to 0% m/m, +1.1% y/y after -0.2% m/m, +1.3% y/y - better than 1.2% y/y expected - the lowest level since March, as prices declined for food and non-alcoholic beverages (-0.1% vs. 0.1% in July) and transport (-0.7% vs. -0.2%). Additionally, deflation continued for clothing and footwear (-2.6% vs. -1.8%), household goods and services (-2.7% vs. -1.5%), and healthcare (-0.7% vs. -0.6%). Inflation also slowed for restaurants and hotels (1.6% vs. 1.9%), while it remained unchanged for housing and utilities (3.8%).The core rate, which excludes volatile items such as unprocessed food and energy, remained steady at 1.1% year-on-year in August.

4. Swiss 2Q GDP rose 0.7% q/q, 1.8% y/y after 0.5% q/q, 0.6% y/y - better than 0.5% q/q expected. - best growth since 2Q 2022 - mainly driven by an increase in manufacturing sector (2.6%). Moreover, services sector rose, particularly the accommodation and food services (2.7%) and human health and social work activities (1.1%), while construction industry saw a slight uptick of 0.1%. Meanwhile, retail trade sector tumbled 0.4% after two consecutive period of growth. On the expenditure side, private consumption grew by 0.3% while general government consumption rose by 0.2%. Net trade contributed negatively to the GDP, as goods exports plunged by 5% while goods imports plummeted by 13.8%.

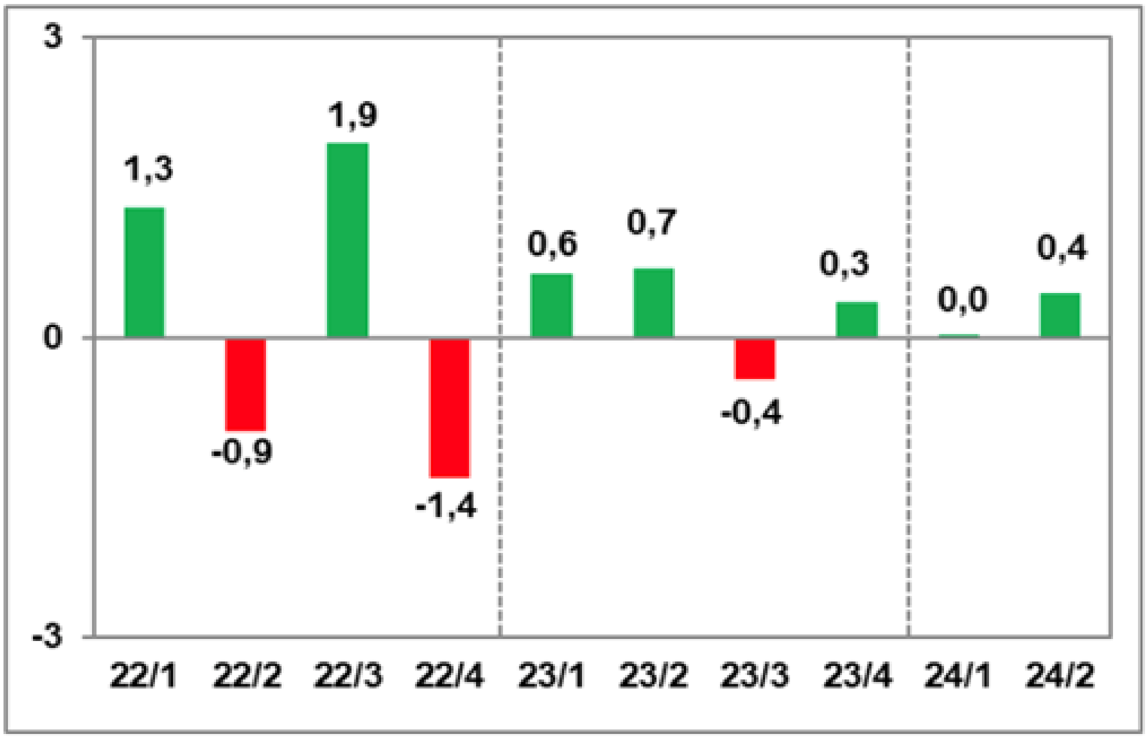
5. Spanish August unemployment rose 21,900 after falling -10,800 - better than the 35,000 expected - and the lowest August joblessness since 2008 with unemployment up 0.9% to 2.6mn. Unemployment in Spain usually increases in August due to seasonal effects. The registered unemployment rate rose in services by 20,189 people (1.1%), construction by 4,187 people (2.1%) and industry by 2,995 people (1.5%). On the other hand, the agriculture sector saw a decrease of 2,337 people (-2.6%), while the group with no previous employment experienced a decline of 3,150 people (-1.3%). Unemployment among young people under 25 years of age rose by 2,186 people (1.3%) in August compared to the previous month and stands at a total of 177,112, the lowest figure for any August. Simultaneously, a separate report from the Social Security Ministry showed that Spain added 30,189 net formal jobs in August to 21.2 million jobs.

6. **Turkey August CPI rose 2.47% m/m, 51,97% y/y after 3.23% m/m, 61.78% y/y - better than the 2.64% m/m, 52.2% y/y** - the third consecutive slowdown in consumer price growth and the lowest level since July 2023, partly due to base effects and a broad easing of inflation across most sub-indexes. Food inflation slowed to 44.88%, down from 58.91% in July, while transport costs increased by 28.96%, significantly easing from 46.07% in the prior month. Prices also moderated sharply for clothing and footwear (29.38% vs. 39.57%), furnishings, household equipment, and routine maintenance (44.75% vs. 56.58%), and hotels, cafes, and restaurants (67.70% vs. 76.04%). Meanwhile, inflation mainly accelerated for housing and utilities (101.49% vs. 98.48%). Core inflation fell to 51.56%, the lowest since June 2023, down from 60.23% in the previous period.

7. **South Africa 2Q GDP rose 0.4% q/q, 0.3% y/y after 0% q/q, 0.5% y/y - weaker than 1% y/y expected** - still the country experienced no load-shedding throughout the entire quarter for the first time in years. Seven out of ten industries registered growth, with the finance, real estate, and business services sector leading the way (+1.3%, contributing 0.3 percentage points). Significant contributions also came from trade (+1.2%), manufacturing (+1.1%) and the electricity, gas, and water (+3.1%) sectors. On the demand side, growth was positively influenced by increased household consumption (+1.4%), government spending (+1%), and a rise in inventory levels. Net trade, however, contributed negatively to expenditure on GDP, as exports decreased by 0.4% and imports rose by 1,7%. Fixed investment shrank by 1.4%.

Exhibit #2: Does South Africa have more growth ahead?

Figure 1 – Growth in GDP (%)



Source: Stats South Africa, BNY

Disclaimer & Disclosures

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

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