BNY

iFlow

MARKET MOVERS

September 4, 2024

Unwinding

"Finding ways to unwind and switch off is just as important as working very hard." – Francesca Hayward

It's the circle of life, and it moves us all, through despair and hope, through faith and love, 'till we find our place, on the path unwinding." – Elton John

Summary

Risk off as tech sector leads to downside with Nikkei off over 4% in APAC and EuroStoxx off over 1%. Many investors are asking what happened to summer and unwinding relaxation? Rates are lower with 10Y off 4-5bps globally but insufficient to entice value hunting. The final Services PMI reports were mixed with APAC mostly weaker, UK and India better, Europe weaker in the summer bounce. The subdued client demand notable across Europe along with lower input prices and higher output ones. There is trouble ahead for US markets as it focuses on JOLTS for July – the big miss month for NFP – and on factory orders and the Fed Beige Book. Growth fears are perceptible and policy doubts rising as the easing can fix all feeling is unwinding fast.

What's different today:

- **US weekly MBA mortgage applications rose 1.6% w/w** – led by purchases up 3.3% with 30Y rates down for 5th week to 6.43%
- **Italian August service PMI fell to 7-month lows off 0.3 to 51.4** – back to January lows with subdued customer interest.

- **iFlow continues to show big selling of USD** with only Sweden and Canada selling while JPY and NOK buying stood out. The EM markets saw MXN buying, CNY buying. Equities were mixed with APAC only seeing India buying while Australia led in G10. Bonds are mixed with India also leading there.

What are we watching:

- **Bank of Canada** expected to cut rates 25bps and with BOC Macklem news conference expected to be dovish.
- **US July trade deficit** expected $79bn after $73.1bn – key for 3Q growth and rest of world growth/demand.
- **US July JOLTS with job openings** expected down 84k to 8.1mn – with some focus also on quits and layoffs, and Beveridge Curve pre-Covid 1.1-1.2 key.
- **US July factory orders** expected up 4.8% m/m after -3.3% m/m – with durables 9.9% m/m – with autos key.
- **Fed Beige Book** – key for how it describes labor and growth across the 12 districts

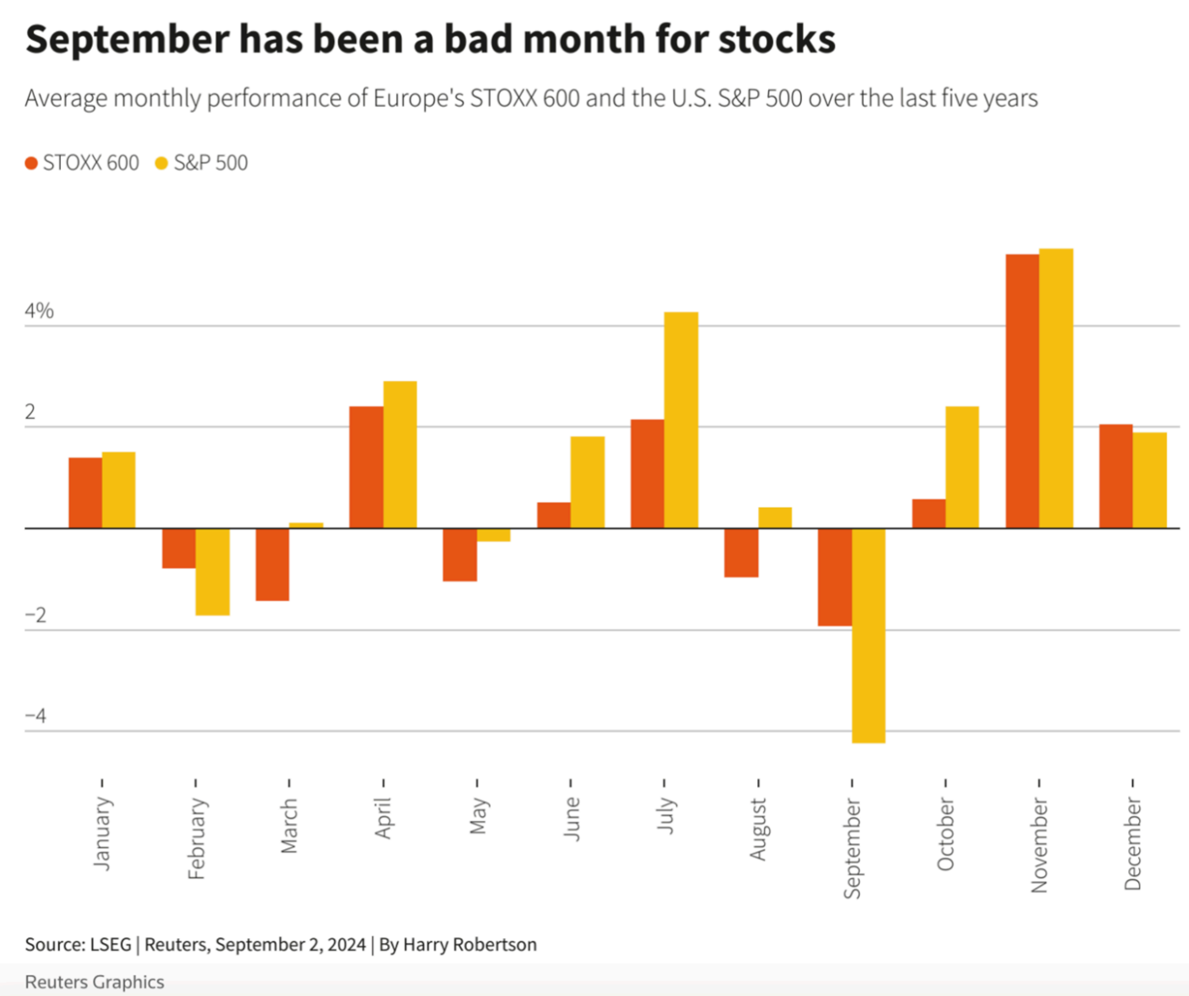
Headlines

- Australia Aug AiGroup all industry index off 2.8 to -23.5 – 28th month of contraction – even while final services PMI rises 2.1 to 52.5 with prices back to July 2021 lows – 2Q GDP +0.2% q/q, 1% y/y – weakest growth since 4Q 2020 - ASX off 1.88%, AUD flat at .6715
- Japan Aug final services PMI flat at 53.7 – 7th month of expansion but orders drop and prices at 9-month lows – Nikkei off 4.24%, JPY up 0.2% to 145.15
- China Aug Caixin services PMI off 0.5 to 51.6 – CSI 300 off -0.65%, CNH flat at 7.12
- India Aug final services PMI up 0.6 to 60.9 – 5-month highs – with lowest prices since Aug 2020 – Sensex off 0.25%, INR off 0.6% to 83.97
- Eurozone Aug final services PMI up 1 to 52.9 – 3-month highs – with input inflation to Jan levels, but output higher – July PPI up 0.8% m/m, -2.1% y/y – most since 2022 - EuroStoxx 50 off 1.2%, EUR up 0.1% to 1.1050
- UK Aug final services PMI up 1.2 to 53.7 – 10th month of expansion with lowest output prices for 3 ½ years – FTSE off 0.6%, GBP flat at 1.3110

The Takeaways:

Is this a repeat of August? Markets look skewed to unwinding all positions with less certainty the first driver as many wait for more data to confirm the FOMC soft-landing, easing plans being sufficient to avoid a recession. The US political situation is also an issue and one that grows in proportion to the wind down to November 5. The key for today is in JOLTS and Factory Orders being near expectations. No surprises are the wish, but what is delivered likely will be something more insidious as the risk mood down has momentum. The rest of the world is not in place to support the alternatives to the US. Blame for the market moves also falls on Japan where BOJ hikes and on China where PBOC bond policy confuses. The Bank of Canada today maybe something that helps and matters as they are expected to ease and support the view that growth isn't a crisis but something that can rebound and help with further rate cuts as inflation eases. If there is hope in the unwinding of risk this is one place to look where policy supports rather than panics markets.

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%.

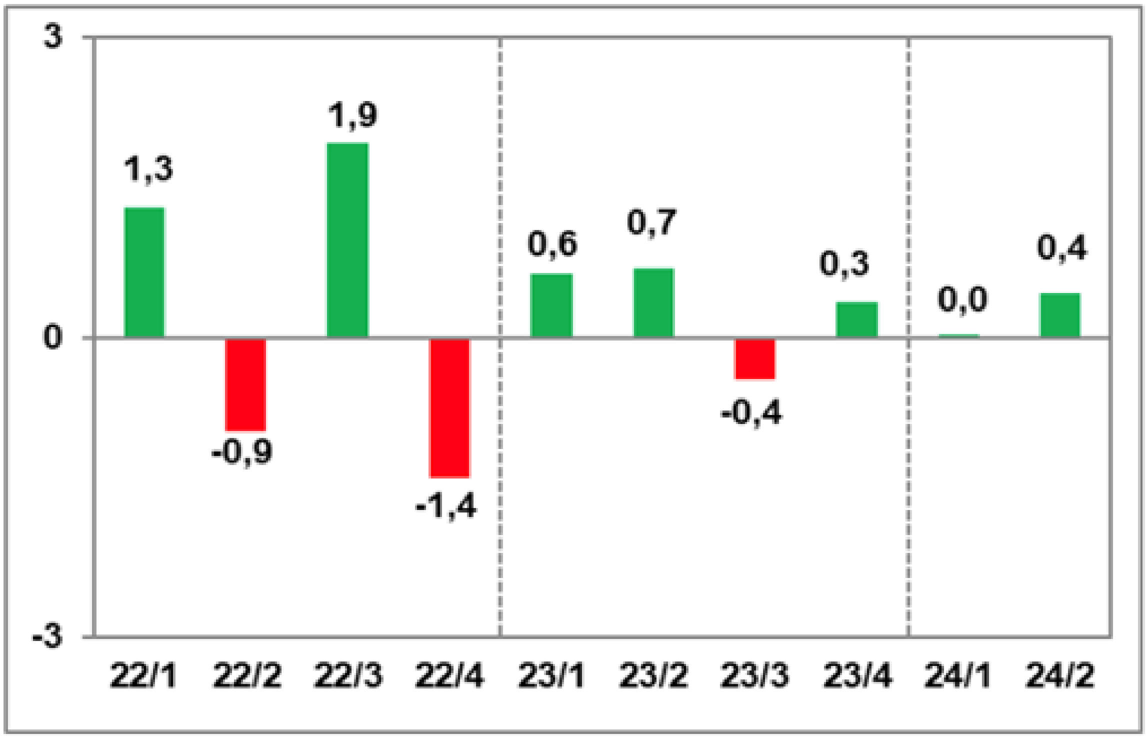
5. **Spanish August unemployment rose 21,900 after falling -10,800 - better than the 35,000 expected** - and the lowest August joblessness since 2008 with unemployment up 0.9% to 2.6mn. Unemployment in Spain usually increases in August due to seasonal effects. The registered unemployment rate rose in 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

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

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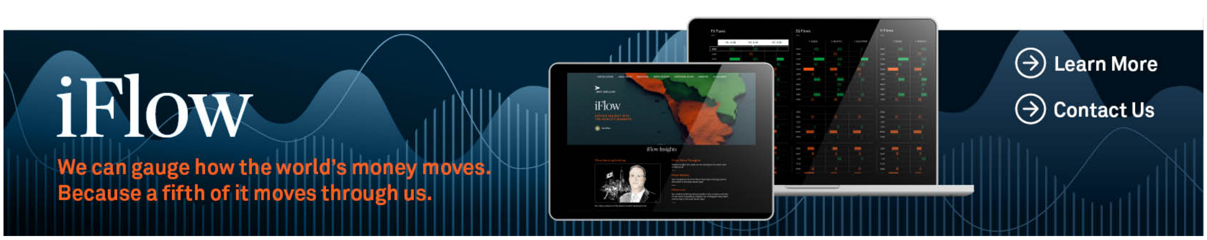

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