BNY

iFlow

MARKET MOVERS

September 5, 2024

Numbed

"A lecture is an occasion when you numb one end to benefit the other." – John Gould

"We cannot selectively numb emotions. When we numb the painful emotions, we also numb the positive emotions." – Brene Brown

Summary

Risk mixed as markets got lower CPI in Asia, steady rates from MBN, more promises from China for Africa and higher wages in Japan and for some in Germany. The Australian trade surplus was better but mostly as imports drop and the German factory orders rise but mostly due to aircraft. There is a sense of numbed pain from the fear of recession in the US leading to larger troubles abroad. The markets are holding for data with the day ahead key with ADP jobs, weekly jobless claims and Service ISM all in focus. The rate markets are reflecting even more Fed easing after a darker Beige Book saw stagnation, while JOLTS surprised with less openings – the risk of 50bps at 50% in September leaves the USD weaker and pushes 2Y to 3.75% back to 16-month lows - but all that doesn't fix equities globally as growth matters more than policy painkillers.

What's different today:

- **India 10-year bond yields fell below 6.85%** - lowest in 2-year – with RBI expected to pivot like the Fed to more easing.

- **Lithium holds at 3-year lows** with the key EV battery ingredient steady at CNY75,000 a ton. Supply expected to jump 50% this year.
- **iFlow continues to see Mood indicator drop** with equities sold in G10 except in Australia while in EM only India, Colombia see notable inflows. The USD sold again with Canada post BOC while JPY and NOK notable inflows. EM sees BRL, MXN, ZAR and THB notable inflows. Bonds modest except for Denmark inflows and in EM for India inflows and Malaysia selling.

What are we watching:

- **US August ADP private sector payrolls** expected 145k after 122k
- **US weekly jobless claims** expected off 1k to 230k
- **US August ISM services survey** expected 51.4 flat, while S&P services PMI final expected 55.1 off 0.1.
- **US Q2 revisions of productivity and unit labor costs** expected 2.5% and 0.8% respectively
- **US Treasury sells $85bn of 4-week bills**

Headlines

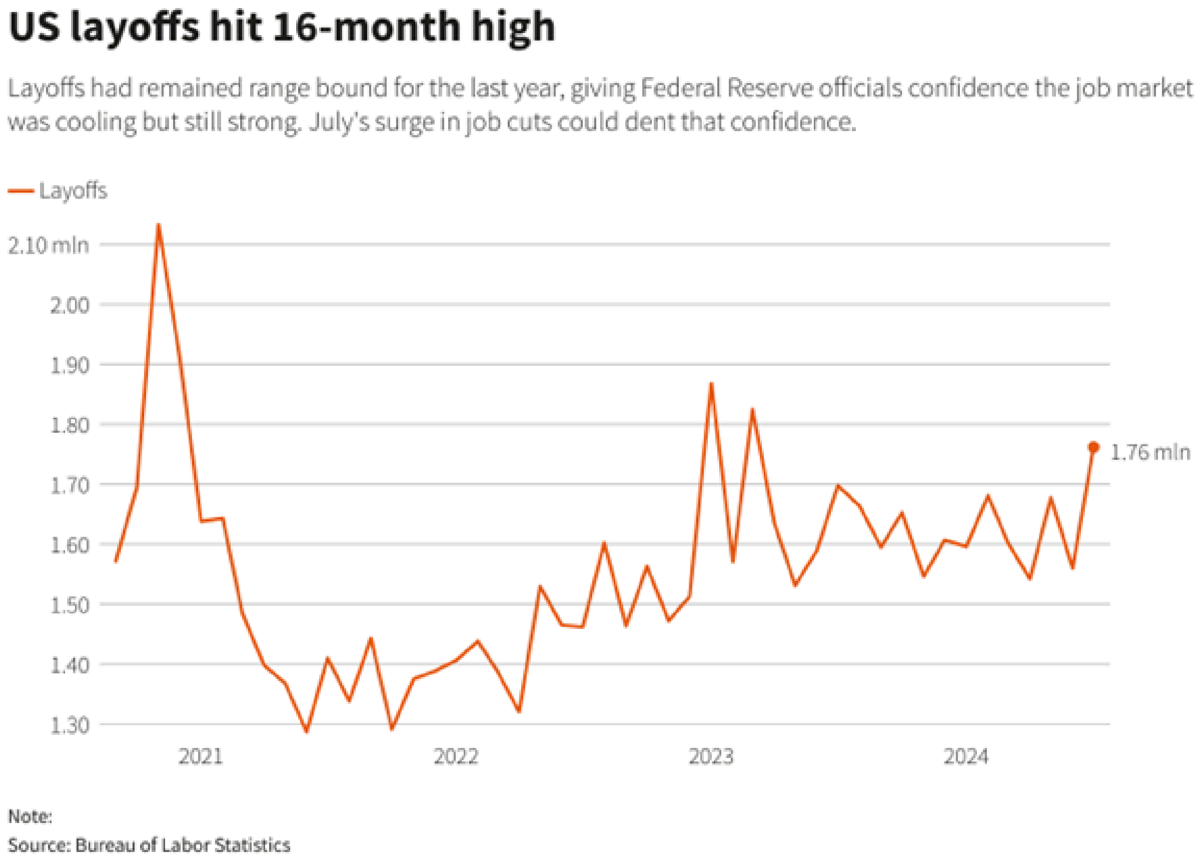
- Malaysia BNM kept rates at 3% - as expected with almost unchanged statement – MYR up 0.3% to 4.3360
- China to cancel some African debt, plans $51bn in new investment – promises 1mn jobs – CSI 300 up 0.17%, CNH up 0.15% to 7.0970
- Korea 2Q final GDP -0.2% q/q, 2.3% y/y – first drop since 4Q 2022 – Kospi off 0.21%, KRW up 0.7% to 1335
- Japan July average wages rise 3.6% y/y – 2nd monthly beat – while BOJ Takata real rates accommodative, hard to shrink balance sheet – Nikkei off 1.05%, JPY up 0.2% to 143.50
- Australian July trade surplus rises A$584mn to A$6bn – best since Feb, with exports up 0.7% and imports down 0.8% - RBA Bullock defends hawkish inflation warnings - ASX up 0.4%, AUD flat at .6720
- Singapore July retail sales jump 3.1% m/m, 1% y/y – best in 5-months – SGD up 0.15% at 1.3020
- Philippines Aug CPI off 1.1pp to 3.3% y/y – lowest since Jan 2024 – PHP up 0.5% to 56.20

- Thailand Aug CPI drops 0.5pp to 0.35% y/y -4-month lows – THB up 1.6% to 33.655
- Taiwan Aug CPI off 0.2pp to 2.36% y/y – easing from 5-month highs led by transport – TWD up 0.35% to 32.071
- Swiss Aug unemployment up 0.1pp to 2.4% - led by youth – Swiss Mkt off 0.7%, CHF flat t .8460
- German July factory orders surprise up 2.9% m/m – 2nd monthly gain – led by aircraft, DAX up 0.1%, Bund 10Y yields up 0.5bps to 2.226%
- Eurozone July retail sales rise 0.1% m/m, -0.1% y/y – led by food/drink – while Aug construction PMI holds 41.4 – 6-month lows – EuroStoxx 50 off 0.4%, EUR up 0.15% to 1.1100
- UK Aug construction PMI slows -1.7 to 53.6 -even while housing jumps to Sep 2022 highs – FTSE off 0.15%, GBP up 0.2% to 1.3170
- US weekly API crude oil inventories report 7.4mb draw when 0.9mb expected – WTI up 0.6% at $69.60 still down $7 from last week – Gasoline inventories off 0.3mb on week 3% below average, distillate off 0.4mb, 10% below average.

The Takeaways:

The key for recession fears has boiled down to jobs and in jobs its about firings not less hirings. The pain for companies is in productivity and that means 3Q margins matter significantly in the weeks ahead. The data today from the US may not be the penultimate factor for FOMC cutting 25 or 50bps – leave that to tomorrow and unemployment rate – but for today productivity and the Challenger layoffs could be critical – as they have come in 1% down from 9.2% in July when the JOLTS report reported. However, hiring is at lowest of the year. This is important to the other narrative about July vs. August growth in the US where storms and the usual pre-covid factory retooling led to less jobs. This gets turned back on in August and the risk for a bounce back in US soft-landing hopes follows. The ADP data is always good for volatility and that too will matter but the bedrock for jobs on a weekly basis comes from the claims reports today and those likely matter regardless as they have been the driver for volatility for over a month. The focus on jobs as the only mandate that matters for the Fed has been different from the past 18 months and a relief to some as it has numbed the pain of prices but in that lives corporate margins and profits along with the ability to pay higher wages.

Exhibit #1: Is August hiring or firing most important?



Source: Reuters, Challenger, BNY

Details of Economic Releases:

1. **Korea 2Q GDP confirmed -0.2% q/q, 2.3% y/y after +1.3% q/q, 3.3% y/y – as expected** - the first contraction since the fourth quarter of 2022 when the economy shrank by 0.5%. On the expenditure side, private consumption fell by 0.2%, as expenditures on goods (e.g., motor vehicles, clothing) declined. Government consumption increased by 0.6%, mainly due to a rise in expenditures on goods.

Construction investment contracted by 1.7% as residential building construction and civil engineering both fell. Facilities investment declined by 1.2%, driven by lower investments in machinery like semiconductor manufacturing equipment. Exports increased by 1.2%, owing to expanded exports of motor vehicles and chemical products. Imports were up by 1.6%, mainly due to increased imports of crude oil and petroleum products.

2. Japan July average cash earnings rise 3.6% y/y after 4.5% y/y – more than the 3.1% y/y expected. Japan's nominal wage growth outpaced the 2.7% core consumer inflation rate in July, leading to another rise in inflation-adjusted real wages at 0.4%. The following industries contributed the most to the wage increase: mining & quarrying of stone & gravel (14.8%), construction (9.6%) and living-related & personal services & amusement (6.4%). Meanwhile, wages declined in information & communication (-0.8%) and transport & postal activities (-0.7%)

3. Philippines August CPI up 0.1% m/m, 3.3% y/y after 0.7% m/m, 4.4% y/y – less than the 0.15% m/m, 3.6% y/y expected - the lowest reading since January. The latest result was less than market consensus of 3.6%, as food prices rose the least since the start of the year (3.9% vs 6.4% in July). Also, cost moderated for alcoholic beverages and tobacco (3.3% vs 3.4%), clothing (3.0% vs 3.1%), furnishings, household maintenance (2.7% vs 2.8%), health (2.6% vs 2.8%), recreation, culture (3.3% vs 3.4%), education (5.3% vs 5.8%), restaurant, accommodations (4.6% vs 4.9%), and miscellaneous (3.0% vs 3.2%). At the same time, transport cost fell after rising in the prior six months (-0.2% vs 3.6%). The core inflation, which excludes selected food and energy items, eased to 2.6% in July, the lowest since April 2022, after July's 2.9% increase.

4. Thailand August CPI drops to +0.07% m/m, +0.35% y/y after +0.19% m/m, 0.83% y/y – less than the 0.4% y/y expected – four-month lows. Prices dropped for non-food products (-0.68% vs 0.5% in July), mainly due to lower costs for transportation & communication (-1.01% vs 2.01%) and housing (-0.9% vs -0.85%). On the other hand, costs increased for food & non-alcoholic beverages (1.83% vs 1.27% in July), particularly fruits & vegetables (6.14% vs 4.24%). Meanwhile, the core inflation, which excludes volatile items such as food and energy prices, picked up to 0.62% in August from the prior 0.52%, beating market expectations of 0.55%.

5. Taiwan August CPI up 0.07% m/m, 2.36% y/y after 0.09% m/m, 2.52% y/y – easing from 5-month highs - Prices for transportation and communication stabilized after a 0.88% increase in July, and clothing costs fell by 0.28% following a

0.04% rise. Inflation also eased in housing (2.27% vs. 2.31%), health (3.18% vs. 3.27%), education and entertainment (1.79% vs. 1.87%), and miscellaneous items (1.95% vs. 2.10%). Meanwhile, food inflation rose further to 4.64% compared to 4.59% in the preceding period.

6.Singapore July retail sales jump 3.1% m/m, 1.0% y/y after -3.7% m/m, -0.6% y/y – more than the -2% m/m, 2.3% y/y expected – best in 5-months. Sales rebounded for watches & jewelry (0.8% vs -1.7% in June) while growing faster for motor vehicles (27.2% vs 19.5%), food & alcohol (4.7% vs 4.1%), and petrol service stations (4.7% vs 0.4%) while those of supermarkets & hypermarkets was steady (at 1.8%). Simultaneously, sales fell less for mini-marts & convenience stores (-1.9% vs -6.8%), recreational goods (-4.4% vs -8.0%), computer & telecommunications equipment (-1.3% vs -5.4%), optical gods & books (-8.7% vs -12.5%), and others (-0.9% vs -4.5%). Meanwhile, sales dropped further for furniture & household equipment (-5.0% vs -1.8%) and wearing apparel & footwear (-10.3% vs -9.8%).

7. Australian July trade surplus rises to A$6.01bn after A$5.425bn – better than A$5bn expected -the largest trade surplus since February, as exports grew while imports fell. Exports rose 0.7% from a month earlier to a five-month high of A$43.81 billion, boosted by other rural. On the original basis, outbound shipments grew to India (4.6%) and Indonesia (27.9%) while declining to the country's largest trading partner, China (-16.1%) and Japan (-1.3%). Meanwhile, imports fell 0.8% from a month earlier to a three-month low to A$37.79 billion, mainly weighed by fuels and lubricants.

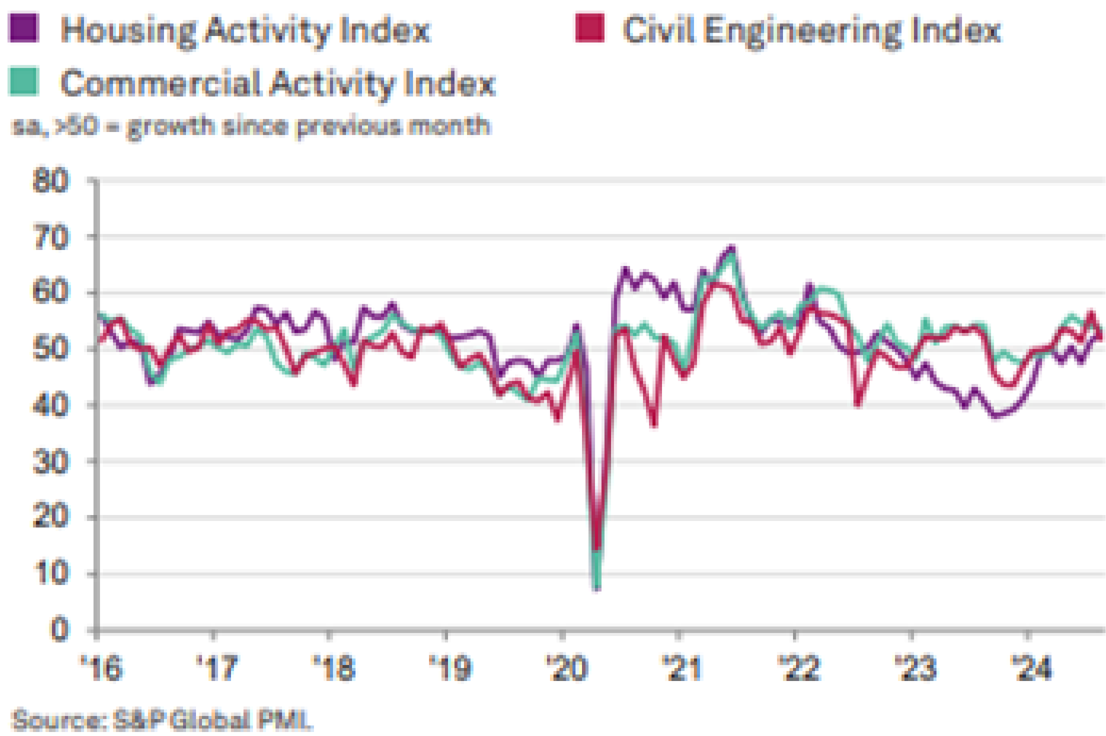
8. German July factory orders rise 2.9% m/m after 4.6% m/m – better than -1.5% m/m expected - the second straight month of increase, due to large-scale orders for aircraft, ships, trains (86.5%). Also, orders for electrical equipment grew robustly (18.6%). By contrast, demand shrank for machinery and equipment (-6.1%). New orders increased for both capital goods (3.5%) and intermediate ones (4.4%) but fell for consumer goods (-5.8%). Notably, foreign orders gained jumped 5.1%, boosted by rises in orders from the Eurozone (5.9%) and outside the Eurozone (4.6%). Meanwhile, domestic orders remained unchanged. Excluding large orders, incoming orders fell 0.4% from June. In a three-month comparison, new orders were 1.7% higher in the period from May to July than in the prior three months.

9. Eurozone July retail sales up 0.1% m/m, -0.1% y/y after -0.4% m/m, -0.4% y/y – weaker than +0.1% y/y expected. Retail volumes were higher for food, drink, and tobacco products (0.4%) and non-food products (0.1%). These increases were enough to offset the 1% decline in sales of automotive fuel in specialized stores (-1%).

10.Eurozone August HCOB construction PMI steady at 41.4 – weaker than 42 expected – still staying at 6-month lows. This reading indicated a sharp reduction in total construction activity across the euro area, with new orders dropping significantly, leading to a further slowdown in activity and continued declines in employment and purchasing. The contraction was widespread across all three monitored segments. Housing saw the steepest decline since April 2020, commercial activity matched July's sharp fall, and civil engineering, while the least affected, still experienced a notable drop. On the cost front, input prices rose modestly midway through the third quarter, with inflation hitting a six-month high but remaining below the long-term average. Looking ahead, euro area construction companies remained pessimistic about the outlook for the coming year, given ongoing signs of a steep downturn.

11. UK August construction PMI slips to 53.6 from 55.3 – weaker than 54.9 expected. Still, the reading points to a sustained rebound in total business activity, although the pace of expansion eased slightly. Robust new order growth and a more supportive economic backdrop underpinned the latest recovery in construction output volumes. Employment numbers stagnated as cost considerations meant that some firms opted to delay backfilling vacancies. However, construction companies remained optimistic about the near-term demand outlook.

Exhibit #2: Does UK construction matter?



Source: S&P PMI, BNY

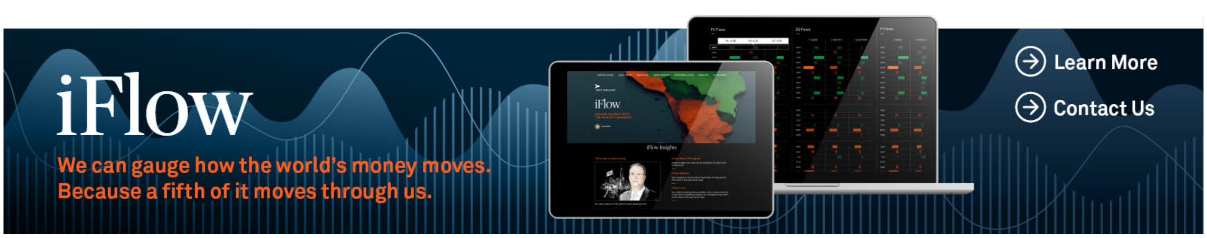
Disclaimer & Disclosures

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

Bob Savage

HEAD OF MARKETS STRATEGY AND INSIGHTS

CONTACT BOB



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