BNY

iFlow

MARKET MOVERS

September 6, 2024

Certainty?

"If we begin with certainties, we shall end in doubts; but if we begin with doubt, and are patient in them, we shall end in certainties." – Francis Bacon

"Doubt is an uncomfortable condition, but certainty is a ridiculous one." - Voltaire

Summary

Risk off with the certainty of US jobs report and the reaction of two key FOMC voters driving doubt. Markets are set up for a weak report with over FOMC 50bps cuts in September 50% priced. The question of today is whether this report suffices in calming markets and driving money back to work in equities and out of bonds, stabilizing the USD in the process. Most think not and so the doubts about how poorly the world can grow in 2025. The data overnight was mixed and didn't help starting with lower industrial production in France and Germany blamed on autos, continuing to the revised lower 2Q GDP for Europe and extending to the weaker stories in Asia from China policy doubts to Japan household spending weakness. There is more than just jobs to worry about today as markets remain stuck with two wars, ongoing election worries and the weather as 3 tropical storms brew in the Atlantic.

What's different today:

- **UN FAO food price index fell to 120.7 from 121.0 – lowest in 3-months**. Cereal prices fell 0.5% to the lowest level since September 2020, mainly due to a drop in wheat export prices, while sugar prices dropped 4.7% and reached their lowest since October 2022,

- **Hong Kong markets closed on Friday due to Super Typhoon Yagi** – leave Hong Kong Hang Seng at 2-week lows from Thursday close.
- **iFlow showing ongoing USD selling** vs. JPY and NOK yesterday with EM buying CNY, THB and TWD along with BRL and MXN. The equity markets were mixed with utilities and health care sectors leading and with APAC buying except in China and Taiwan.
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What are we watching:

- **US August non-farm payrolls** expected up 165k after 114k with unemployment 4.2% from 4.3% and participation rate steady at 62.7%.
- **Fed Speakers**: NY Fed Williams and Gov. Waller – last speakers before Fed blackout period
- **Canada August jobs** expected up 25k after -2.8k with unemployment 6.5% from 6.4% and participation steady at 65%.

Headlines

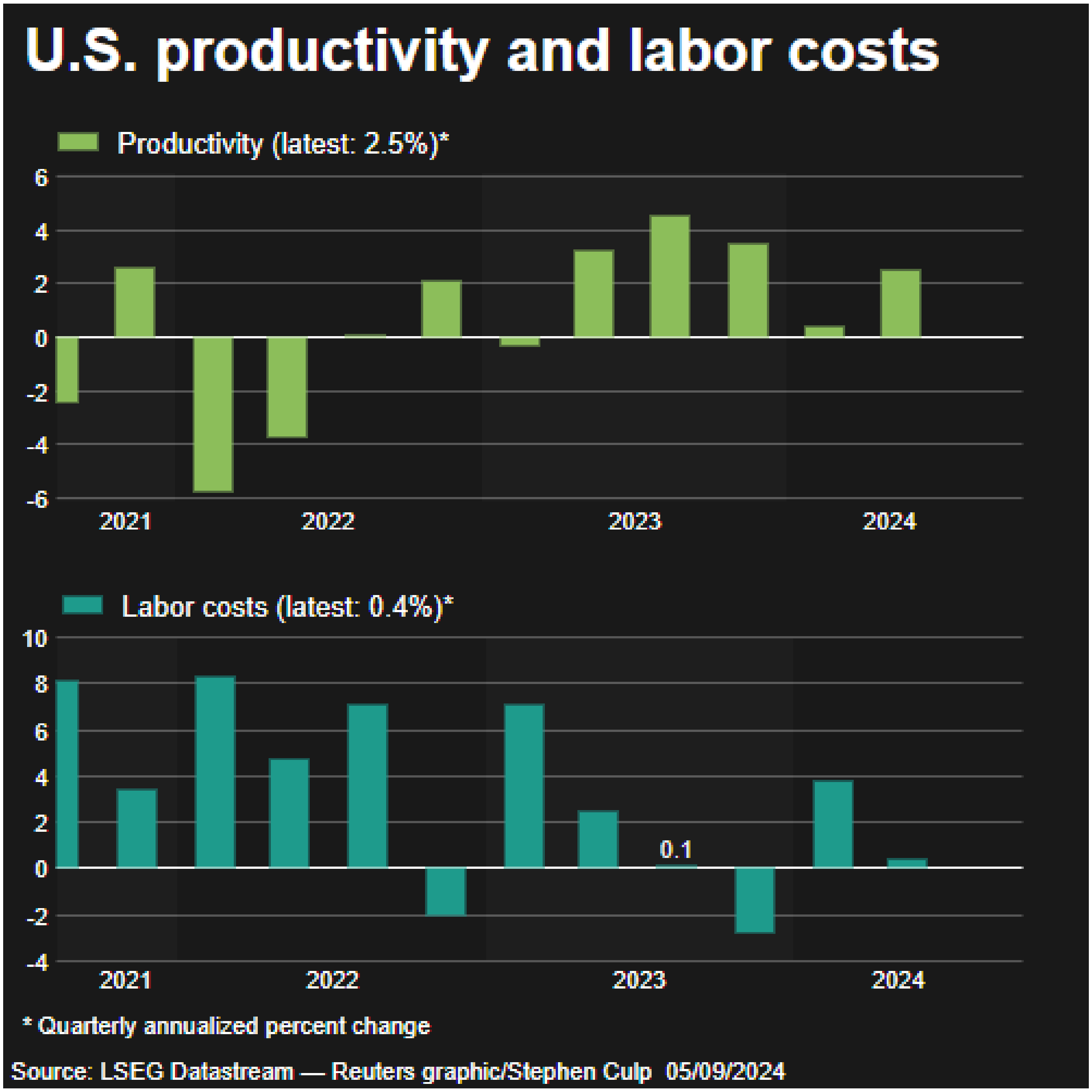
- Japan July household spending -1.7% m/m – biggest drop in 6-months – but LEI up 0.4 to 109.5 bouncing from 7-month lows - Nikkei off 0.72%, JPY up 0.35% to 142.85
- Bloomberg reports China SOE banks supported CNY by selling $100bn, while PBOC sold more long dated bonds – CSI 300 off 0.81%, CNH up 0.1% to 7.0820
- Korea July C/A narrows $3bn to $9.13bn – mostly due to rise in imports – Kospi off 1.21%, KRW up 0.45% to 1328
- Philippine July unemployment jumps 1.6pp to 4.7% but participation up 3.5% pp to 63.5% from last year – PHP up 0.6% to 55.90
- German July trade surplus off E3.6bn to E16.8bn – smallest since Dec 2022 – led by China imports -while industrial production drops 2.4% m/m – led by autos - DAX off 0.5%, Bund 10Y off 4.7bps to 2.157%

- French July industrial production fell 1.3pp to -0.5% m/m – linked to autos – CAC 40 off 0.3%, OAT 10Y off 5bps to 2.855%
- Italian July retail sales rose 0.5% m/m, 1% y/y – led by personal care products – MIB off 0.4%, BTP 10Y off 4.5bps to 3.59%
- Eurozone 2Q GDP revised lower by 0.1pp to 0.2% q/q, 0.6% y/y – weaker than ECB forecasts – EuroStoxx 50 off 0.5%, EUR flat at 1.1105
- WSJ Timiraos: US jobs report will sway Fed decision on size of cut -S&P500 futures off 0.4%, 10Y US off 3.5bps to 3.693%, USD index off 0.1% to 101.0

The Takeaways:

How do we get back to a soft landing, let alone the hopes of no-landing? The data today is expected to deny this hope and push markets into a US recession fear. One report on weak jobs in July was discounted but two is taken as a signal that unemployment like bankruptcy happens slowly then all at once. This squeeze for liquidity that usually follows panic isn't in play right now and that makes the set up for today's trading of risk more complicated as bad news has been discounted but good hasn't. The key will be unemployment over 4.4% - as that is seen as the trigger for the Fed doing 50bps and will likely be confirmed by Williams and Waller. The problems happen if the opposite plays out with 4.1% unemployment leaving doubts about even 25bps. The total number of non-farm payrolls is expected at 165,000 but anyone watching this data should be ready for 115,000 or 215,00 – its noisy and usually revised. So this leaves most of the world watching the markets again for the reactions and sustainability of holding recession like pricing for the US into 2025. For those that think markets don't matter here beware as they are the driving force for companies that hold the keys to unemployment ahead. We seem to underappreciate that October 4th unemployment reports are going to be just as important as today particularly if we get the consensus today. There is a market for companies and margins as well and stocks should take comfort in the one report this week that long-term matters to wages and jobs – productivity, while the 1Q dip worried the 2Q bounce back is over the 1.9% 5Y average and suggests better not worse times ahead.

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



Source: Reuters, Challenger, BNY

Details of Economic Releases:

1. **Japan July household spending drops -1.7% m/m, +0.1% y/y after +0.1% m/m, -1.4% y/y – weaker than -0.2% m/m, +1.2% y/y expected** – biggest drop in 6-months but the first annual increase since April, with expenditure bouncing back for housing (17.3% vs -23.6% in June), medical care (1.6% vs 2.3%), education (8.9% vs 7.3%), and culture & recreation (5.6% vs -1.0%). At the same time, spending fell for food (-1.7% vs 1.5%), fuel, light & water charges (-4.6% vs -7.3%), transport & communication (-4.3% vs -3.4%), furniture & household utensils (-2.0% vs 23.7%), and other consumption (-0.9% vs -2.8%).

2. **Japan July leading economic index improves to 109.5 from 109.1 – better than 109.4 expected –** bouncing from 7-month lows. The upturn came amid expansion in services sectors in July while consumer confidence improved to the strongest in three months. In the meantime, the unemployment rate rose to 2.7%, the highest level since August 2023. The coincident index climbed to 117.1 in July 2024 from a final 114.1. The held an assessment of "halting to fall", as moderate recovery in the economy sustained amid improving employment and income situation as well as a positive trend for business investment. At the same time, new automobile sales picked up in the month, and eating out increased. Simultaneously, both consumer and producer prices were relatively higher.

3. **South Korea July current account surplus narrows to $9.13bn from $12.26bn –** as expected - slipping from Sep 2017 highs - mostly due to a rise in imports while exports decreased slightly. The goods account saw an $8.49 billion surplus with exports rising by 16.7% to $58.63 billion and imports up by 9.4% to $50.14 billion year-over-year. The services account had a $2.38 billion deficit due to shortfalls in travel and other business services. The primary income account recorded a $3.15 billion surplus from higher income on equity investments, while the secondary income account posted a $0.13 billion deficit.

4. **German July trade surplus narrows to E16.8bn after E20.4bn – less than E21bn expected** - the smallest trade surplus since December 2022, as exports grew less than imports. Exports rose 1.7% mom to EUR 130 billion, the 1st increase in three months, rebounding from a 3.4% drop in June, above forecasts of a 1.2% growth. Shipments to the EU rose by 3.3%, while those to third countries dropped by 0.2%, with exports to the US falling by 1.7%, while those to China, and the UK shrank by 8.0% and 2,7% each. Conversely, exports to Russia surged by 18.9%. Meanwhile, imports grew 5.4% to a three-month high of EUR 113.2 billion, after a downwardly revised 0.2% gain in June. Imports from the EU rose by 5.3%, while purchases from non-EU climbed by 5.6%, particularly from China (6.6%), and the US (5.3%), while shrinking to the UK (-4.5%) and Russia (-6.5%). For the 1st seven months of 2024, the county posted a surplus of EUR 156.5 billion.

5. **German July industrial production fell -2.4% m/m, -5.3% y/y after +1.7% m/m, -3.7% y/y – weaker than -0.3% m/m expected** - the third time of decline year to date, mainly dragged by the automotive industry (-8.1%), the manufacture of electrical equipment (-7.0%), and fabricated metal products (-3.8%). Production in manufacturing, which excludes energy and construction, contracted 3.2%. Also, energy production slipped 1.9%. By contrast, construction activity rose by 0.3%. At

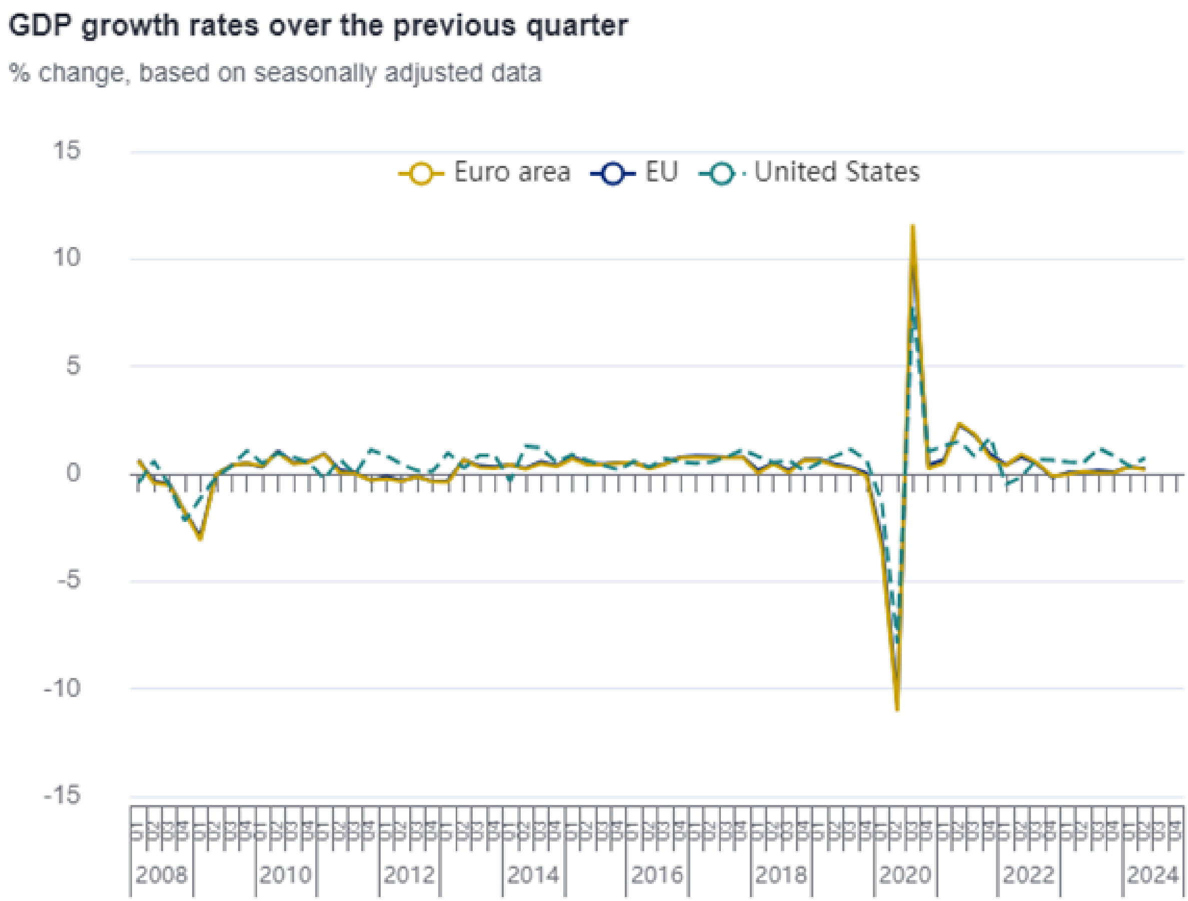
the same time, the output of capital goods were lower (-4.2%), as did intermediate ones (-2.8%) and consumer goods(-1.2%). The less volatile three-month-on-three-month comparison showed that production was 2.7% lower in the period from May to July 2024 than in the previous three months.

6. French July industrial production fell -0.5% m/m, -2.3% y/y after +0.8% m/m – weaker than -0.2% m/m expected. The manufacturing sector contracted (-0.9% vs 0.9% in June), particularly manufacture of coke and refined petroleum products (-9.9% vs 12.8%) and manufacture of transport equipment (-4.9% vs 3.1%). Moreover, construction industry returned to fall (-2.2% vs 1.8%). Meanwhile, output increased at a faster pace for mining & quarrying, energy, water supply, and waste management (1.8% vs 0.3%)

7. Italian July retail sales rose 0.5% m/m, 1% y/y after -0.2% m/m, -1.1% y/y – better than 0.1% m/m expected. Food sales advanced by 0.5%, while sales of non-food products rose by 0.6%. Meanwhile, volume sales grew 0.3%. On a yearly basis, food sales advanced by 0.3%, while non-food increased by 1.4%, driven by perfumery and personal care products (6%).

8. Eurozone 2Q GDP revised lower to 0.2% q/q, 0.6% y/y after 0.3% q/q, 0.5% y/y – worse than 0.3% q/q preliminary. Government spending increased 0.6% while household consumption edged down 0.1% and investment shrank 2.2% as high prices and interest rates weigh. Meanwhile, exports rose 1.4% and imports increased at a slower 0.5%. Among the bloc's largest economies, an expansion was recorded in France (0.2%), Italy (0.2%) and Spain (0.8%) while the German GDP contracted 0.1%. The ECB expects the Euro Area will grow 0.9% in 2024, 1.4% in 2025 and 1.6% in 2026, according to the June 2024 projections. The employment for 2Q unrevised at up 0.2% q/q, 0.8% y/y after 1% y/y.

Exhibit #2: Does the US need a better EU growth rate?



Source:Eurostat, BNY

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

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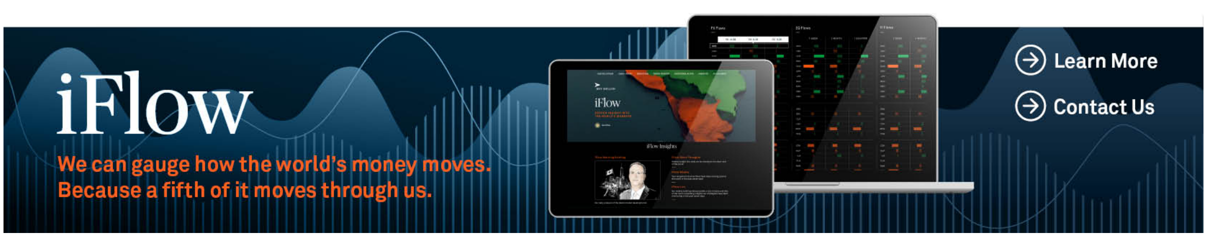

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