

September 9, 2024

Rebounds

“The most important lesson to remember is that failure is inevitable, but so is success, so rebound.” – Naveen Tewari

“Getting the rebound and going, that’s probably the most fluid part of the game.” – Ben Simmons

Summary

Risk on as markets in Europe and US futures rebound while bond yields rise and the USD gains particularly against the JPY. China deflation continues and Japan 2Q GDP revised lower both hurt the APAC shares as they caught up to the Friday selling in the US, now while most wait for US CPI on Wednesday, right after the Harris-Trump debate Tuesday night. The market rebound rests on views that the 50bps or 25bsp from the FOMC ahead will help US towards a softish landing while the rest of the world will also get some relief. Part of the story is also about labor deals as Boeing finds one with its union. Wages and Prices remain important despite the shift to growth focus from investors. The ECB is expected to cut Thursday and EU plans put forth by Draghi add to some sense that Europe has an action plan. The return of US exceptionalism has a twist, and it will require more tame inflation ahead. The key to the bounce back may just be the history of rebounds and buying the dip in stock markets.

What’s different today:

- **Vietnam hit by Typhoon Yagi** – dozens dead, infrastructure pounded – Factories damaged, LG Electronics plant collapses, one bridge destroyed, with ongoing flooding risks.
- **Australia 10-year bond yields jump 7.5bps to 3.96%** - touched 3.99% - with focus on RBA Bullock hawkish comments on policy, reducing risk for Fed 50bps easing from Friday
- **iFlow** – Trend negative highlighting pain of CTA and other model trading in the recent market environment. The mood and carry drops continue as well making clear risk isn't so clearly bouncing. USD selling in G10 notable Friday with JPY buying notable. EM was about THB and TWD and ILS buying. The bond buying in Denmark and India stand out while selling LatAm stood out. Equities were like the tap mostly negative except for APAC where India again led.

What are we watching:

- **US July wholesale inventories** expected up 0.3% m/m with sales up 0.2% m/m after -0.6% m/m – watching inventory/sales ratio for consumer demand and inflation.
- **US August NY Fed 1-year consumer inflation expectations** last 2.97% - expected to remain anchored
- **Mexico August CPI** expected up 0.09% m/m, 5.09% y/y after 5.57% y/y with core 4.01% y/y from 4.05% y/y – key for Banxico further easing.

Headlines

- Japan 2Q GDP revised off 0.1pp to 0.7% q/q – still best since 1Q 2023 – while Aug EcoWatchers rose 1.5 to 49, outlook up 2 to 50.3 – best since March – Nikkei off 0.48%, JPY off 2.4% to 143.45
- China August CPI up 0.1pp to 0.6% y/y – highest since Feb led by food – while PPI fell 1pp to -1.8% y/y – lowest since April - CSI 300 fell 1.19%, CNY off 0.3% to 7.1230
- Indonesia Aug consumer confidence up 1 to 124.4 – 3-month highs – IDR off 0.1% to 15,450
- Taiwan Aug trade surplus doubles to \$11.5bn with exports up 16.8% led by chips – highest on record - TWD off 0.2% to 32.105

- Former ECB and Italian PM Draghi urges EU reform for investment drive to help growth – calls for E800 EU bonds – Aug Sentix investor sentiment off 1.5 to -15.4 - EuroStoxx 50 up 0.9%, EUR off 0.3% to 1.1045
- US-UK strategic dialogue starts, UK National Audit report on tax evasion see GBP4.4bn lost – FTSE up 0.8%, GBP off 0.4% to 1.3075

The Takeaways:

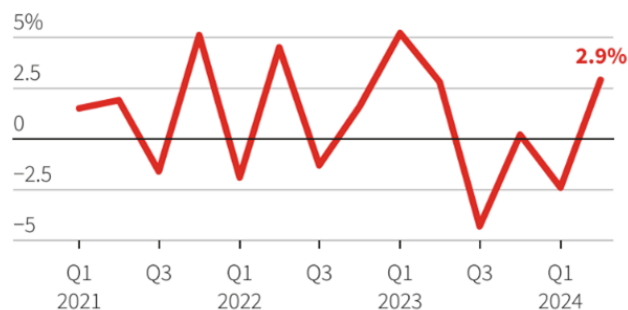
The question for today is what amount of growth is needed to have a soft landing? The markets overnight didn't like the bounce back in Japan GDP as it was seen as less than the flash report. The problem is that Japan growth far outstrips that of others in the region and brings with it inflation some of which it exports while in China ongoing deflation worries the region. There is a lesson here for the US as the relationship of Mexico and Canada to the US matters and the rate cuts from the Bank of Canada look measure compared to its own mix of mortgage rollover risks and weaker labor markets. The Mexico CPI today could be critical to hopes that the Banxico can ease further but that weakness of MXN wrapped around the ongoing judicial reform and what that means for the private sector as it grabbles with ownership rights will be more important. All of which leave markets wanting more from the US economic data ahead – but that is the rub as the Fed blackout and the light set of reports ahead until Wednesday.

Exhibit #1: Is Japan recovery intact?

Japan's Q2 GDP growth revised down slightly

Japan's economy expanded by an annualised 2.9% in Q2 compared to the prior quarter, a slightly slower pace than initially reported, largely due to downward revisions in corporate and personal spending.

GDP (Annualised)



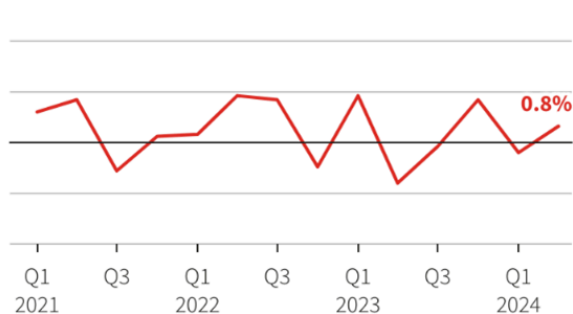
Exports of goods and services



Private consumption



Private non-residential investment



Source: LSEG Datastream; Japan's Cabinet Office | Reuters, Sept. 9, 2024 | By Pasit Kongkunakornkul

Source: Reuters, BNY

Details of Economic Releases:

1. Japan 2Q final GDP revised lower 0.7% q/q, 2.9% y/y after -0.6% q/q, -2.4% y/y – weaker than 0.8% q/q, 3.2% y/y preliminary – Still, the strongest yearly expansion since Q1 of 2023, amid a solid rebound in private consumption after spring wage negotiations saw an average pay raise of 5.17%, the highest in over thirty years. In addition, there was an upturn in business spending, (up 0.8% q/q after -0.5% but less than 1% q/q flash), supported by the ongoing recovery in the automotive industry following some scandals involving big automakers. In the meantime, government spending continued to grow. Overall private consumption was up 0.9% q/q (marked down from 1% preliminary) but up from -0.6% q/q.

2. Japan August EcoWatchers current survey rose 49.0 from 47.5 – better than 47.6 expected -- the third straight month of gains, reaching its highest level since March, as the measure for household budget trends rose further, supported by an advance in the food and beverage industry and other related industries. Also, the gauge for employment was higher. That said, the measure for corporate trends

eased, linked to a decline in the manufacturing industry. Simultaneously, the economic outlook index climbed to 50.3 from 48.3 in June, improving for the third successive month to also hit a 5-month top, as hopes sustained that a recovery in the economy will continue despite concerns over sticky inflation

3. Indonesia August consumer confidence rose to 124.4 from 123.4 – better than 123.6 expected. Almost all six sub-indices strengthened, namely, country's current economic conditions (up by 0.5 points to 114), economic outlook (up by 1.6 points to 134.9), job availability (up by 0.5 points to 132.2), income expectations for current income (up by 1.5 points to 122.9), and income expectations for the next six months (up by 2.3 points 140). Meanwhile, job availability compared to six months ago slightly weakened (down by 0.1 points to 107.6)

4. Taiwan August trade surplus jumps to \$11.49bn after \$4.83bn – more than \$5bn expected and up from \$8.6bn in Aug 2023. Exports jumped 16.8% y/y to \$43.64 billion, mainly driven by higher sales for information, communication & audio-video products (71.3%). Meanwhile, imports advanced at a softer 11.8% to \$32.14 billion, primarily due to increased purchases of information, communication & audio-video products (2.5%), and parts of electronic products (22.2%). Considering January to August, the country's trade surplus was recorded at \$52.45 billion, 19.5% higher compared to the corresponding period last year, with exports rising 10.9% and imports increasing by 9.3%

5. China August PPI fell to -0.7% m/m, -1.8% y/y after -0.2% m/m, -0.8% y/y – less than the -1.4% y/y expected – lowest monthly in 14 months, lowest yearly since April and 23rd month of deflation, due to persistently weak domestic demand and the downward trend of some global commodity prices. A decrease in the cost of means of production gained traction (-2.0% vs -0.7% in July), mainly attributed to processing (-2.7% vs -2.1%) and raw materials (-0.8% vs 1.8%) as mining prices moderated sharply (0.9% vs 3.5%). Simultaneously, prices of consumer goods declined further (-1.1% vs -1.0%), largely dragged by food (-1.3% vs -0.7%), durable goods (-1.9% vs -2.0%), and clothing (-0.4% vs -0.5%) while daily use goods prices were flat (vs -0.3%).

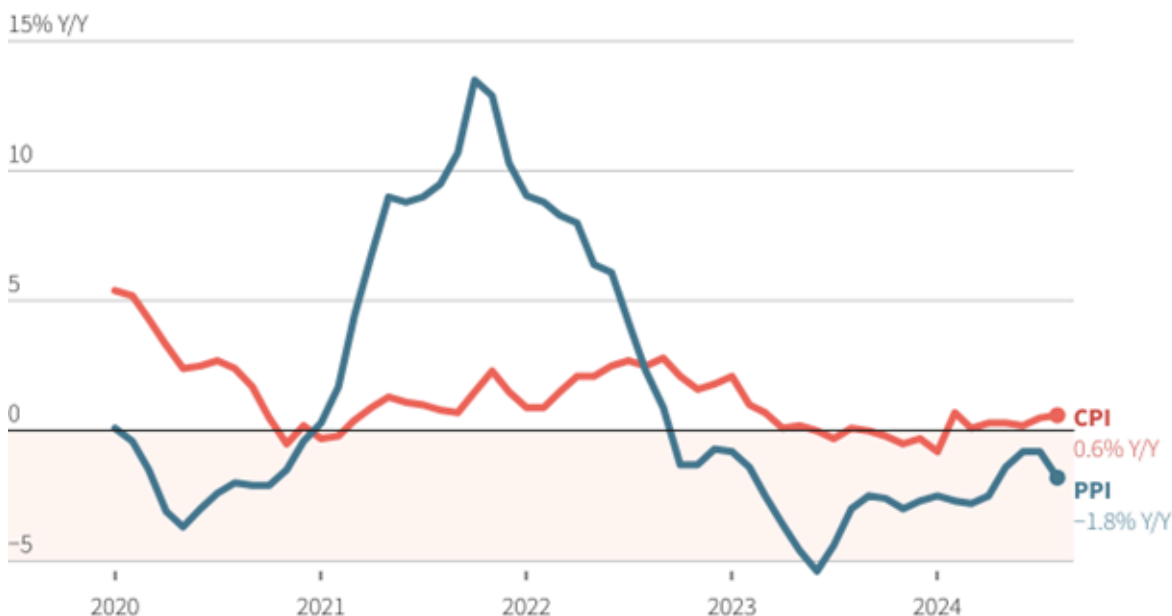
6. China August CPI rose 0.4% m/m, 0.6% y/y after 0.5% m/m, 0.5% y/y – less than the 0.5% m/m, 0.7% y/y expected – Still, the highest since February, marking the 7th straight month of consumer inflation amid supply issues due to flaming heat and pouring rains. Food prices rose for the first time since June 2023, with their rate of increase the fastest in 19 months (2.8% vs flat reading in July) as fresh

vegetables rebounded sharply. Meanwhile, non-food prices increased 0.2% yoy, much slower than the prior 0.7%, on softer rises in cost of clothing (1.4% vs 1.5%), housing (flat reading vs 0.1%), health (1.3% vs 1.4%), and education (1.3% vs 1.7%). At the same time, transport costs fell at a steeper rate (-2.7% vs -0.6%), with lower oil prices offsetting higher cost of utilities. Core consumer prices, deducting food and energy costs, increased 0.3% yoy, the least since March 2021.

Exhibit #2: Does China export deflation?

China consumer prices rise, producer deflation persists

China's consumer prices rose in August due to higher food costs from weather disruptions, while producer price deflation worsened, as Beijing maintained efforts to reinvigorate domestic demand.



Source: LSEG Workspace | Reuters, Sept. 9, 2024 | By Kripa Jayaram

Source: Reuters, BNY

Disclaimer & Disclosures

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



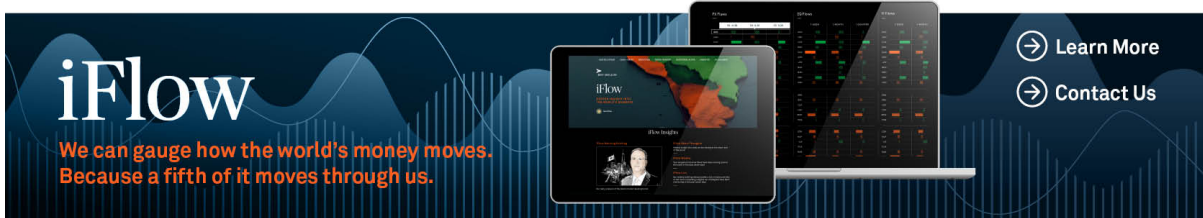
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