BNY

iFlow
MARKET MOVERS

September 11, 2024

Commemoration

"The evil that men do lives after them; The good is oft interred with their bones." - Shakespeare
"To live in the hearts, we leave behind is not to die." – Thomas Campbell

Summary

Risk mixed with focus returning to rates – post the US debate – markets decide Harris trade is the opposite of Trump so USD lower, US rate curve flatter, BTC lower – while news from APAC mixed with BOJ hawk talk and lower Reuters Tankan hurting Nikkei and keeping JPY bid, RBA hawk talk leaves AUD bid, and better China EV sales help CNY. The EMEA session focused on GBP and GDP no growth and weaker manufacturing with exports drop – leaving yields up and FTSE lagging. On the US Day, focus is back to inflation with CPI expected to drop year-on-year but core to hold flat. The supply from 10-year notes may matter to curve and focus on fiscal risks from the election. Debate fallout and 9.11 speeches will be watched but few see the politics clear post the event leaving markets to watch what they think is different – namely the weather with oil higher on Gulf storm risks.

What's different today:

- **Post US Presidential Debate – USD lower** with JPY, KRW best performers – BTC lower, US rate curve flatter – suggests markets see Harris trade opposite of Trump

- **US MBA weekly mortgage applications rise again** up 1.4% w/w as 30Y mortgage rate drops 14bps to 6.29% with refinance up 1% and purchases up 2%.
- **iFlow shows ongoing weakness in mood, carry and trend** – while USD selling in G10 continues with JPY, AUD, CAD inflows. Bonds were mixed US bought but Germany and Japan sold and all of LatAm, only India stands out in EM for inflow. Equities negative across sectors except Utilities, and APAC sees mostly inflows except China and Taiwan.

What are we watching:

- **US August CPI** expected up 0.2% m/m, 2.5% y/y after 0.2% m/m, 2.9% y/y – with core expected up 0.2% m/m, 3.2% flat.
- **US Treasury** sells $39bn in 10Y notes, $60bn in 17-week bills
- **US 9/11 commemoration** with US President Biden, Trump and Harris attending at Ground Zero
- **US Debate fall-out** – with eyes on whether Trump agrees to another debate and how polls evolve post the event

Headlines

- Japan Sep Reuters Tankan fell 6 to 4 – worst in 7 months – linked to soft China demand, while BOJ Nakagawa sees upside risks to inflation, economy on track, will hike if on target – Nikkei off 1.49%, JPY up 0.6% to 141.60
- Korea unemployment improves off 0.1pp to 2.4%– Kospi off -0.4%, KRW up 0.2% to 1339.3
- China CAAM August vehicle sales improve 0.2pp to -5% to 2.45mn – led by EV – China Li promises greater market access to Saudi Arabian business - CSI 300 off 0.3%, CNH up 0.2% to 7.1190
- RBA Hunter – surprised by tight labor markets, drives inflation uncertainty – ASX off 0.3%, AUD up 0.15% to .6660
- Turkey July retail sales slows to +0.8% m/m, 5.4% y/y – lowest since July 2022 – TRY up 0.1% to 34.02
- US weekly API crude oil inventories drop -2.79mb -now 12mb lower than start of year – with SPR up 33mb from lows, with gasoline draw -0.513mb leaving it 2% below average – WTI Up 2.4% to $67.30 bouncing off 3-year lows on US Gulf storm disruption. EIA oil demand forecast
- UK July goods trade deficit £20bn – with exports -10.8% m/m to 30-month lows, while industrial production fell -0.8% m/m led by -1% manufacturing,

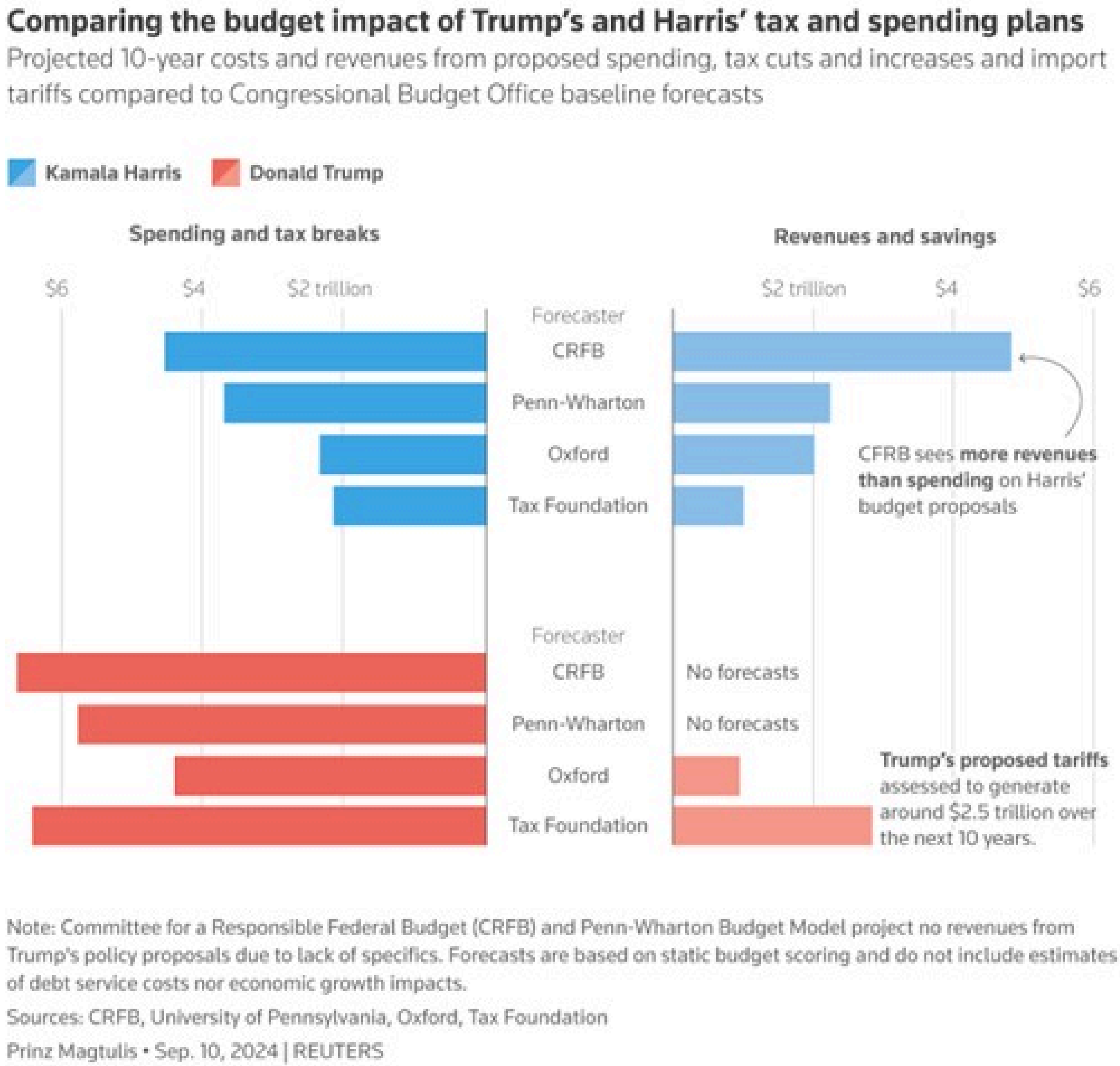
while July GDP 0% m/m, +0.5% q/q - FTSE up 0.1%, GBP flat at 1.3080

- Harris-Trump debate has CNN flash poll 63% to 37% win for Harris, Taylor Swift endorses Harris, but independent voters mixed – S&P500 futures off 0.3%, USD off 0.2%, US 10Y off 2bps to 3.62%

The Takeaways:

Defining the Harris trade was part of the price action overnight and while many investors think the ultimate outcome of the US election will be gridlock which drives up stocks and down bonds, the nuisances of how the US debt matters to the rest of the world is lost. The fact that the debate didn't have the same moment of clarity that the June 27 event matters to investors as well because it merely hardens the support of each party. The bigger picture for most will be on how the US manages its debt and how much any FOMC easing plans will help cut the cost of servicing it. If the market is right about 3% cuts ahead the debt burden eases, but so too is the economy and the future tax revenue. There is no easy way out of too much borrowing and this wasn't in the script of the debate. In fact, tariffs, taxes and subsidies had little details delivered in the debate last night. Further, the ability to deliver broad promises of such will require support of Congress and that gets us back to the likely outcome of a House divided. The more immediate concern for today is the sale of 10-year notes and the expectation that this won't be an issue. The longer-term problem rests with Congress as its debates another continuing budget resolution to keep the money flowing – at least until January. All of which seems too cynical for the bigger picture of the day 9/11 which clearly won't be forgotten and has a memory of pain and purpose to all Americans.

Exhibit #1: Is US debt the key problem?



Source: Reuters, BNY

Details of Economic Releases:

1. Japan September Reuters Tankan drops to 4 from 10 – weaker than 11 expected - sinking to a seven-month low amid concerns about soft Chinese demand. Manufacturers also expected sentiment to decline further to +3 over the next three months. Service sector survey fell 1 to 23 – lowest since September 2023, but December outlook seen at 27. One respondent said: "Our clients' investments were falling behind schedule since they haven't recovered yet from the impact of the weak Chinese economy." Others also cited the global electric vehicle slowdown and raw material inflation. Meanwhile, some respondents said the semiconductor market was showing signs of a budding recovery, mainly in the high-end products, providing some support to the manufacturing outlook.

2. **Korea August unemployment drops to 2.4% from 2.5% - better than 2.6% expected** - the lowest reading in a year as the number of unemployed persons fell to 564k in August, a year-on-year decline by 9K or 1.6%. The number of employed persons also totaled 28.801 million in August, which went up 123l or 0.4% from a year earlier. The seasonally adjusted labor force participation rate stood at 63.2% in August, up 0.1% y/y..

3. **China August vehicle sales improve to 5% y/y to 2.45mn after -5.2% y/y - better than the 8% expected**. The result came after the government launched policy measures to boost the auto market, according to Chen Shihua, deputy secretary-general of the association. It noted that sales of new energy vehicles surged by 30.02% to 1.1 million units, accounting for 44.8% of total car sales in August. From January to August, vehicle sales grew by 3.0% to 18.77 million units. During the period, the car production rose by 2.5% y/y, reaching 18.67 million units.

4. **Turkey July retail sales rose 0.8% m/m, 5.4% y/y after 1.7% m/m, 8.9% y/y** – weaker than the 1.4% m/m, 9.2% y/y expected – the softest growth since July 2022, due to a slowdown in sales for both food, drinks & tobacco (7.7% vs 8.2% in June), and non food (8% vs 11.5%). Among non-food items, sales grew at a slower pace for pharmaceutical goods, medical and orthopedic goods, cosmetic and toilet articles (8.6% vs 11.3%), via mail orders & internet (8.9% vs 20.8%), while sales declined for textiles, clothing & footwear (-0.7% vs -1.4%) and audio & video equipment, hardware, paints & glass (-11.7% vs 0.2%). Also, sales dropped further for automotive fuel (-9.7% vs -0.5%)

5. **UK July industrial production fell -0.8% m/m, -1.2% y/y after +0.8% m/m, -1.4% y/y – weaker than the +0.3% m/m, -0.2% y/y expected**. Manufacturing -1% m/m, -1.3% y/y after -1.5% y/y. The decline was mainly attributed to the contraction in output for manufacturing (-1% m/m vs 1.1% m/m in June), electricity, gas, steam & air-conditioning supply (-1.7% vs 1.6%), and water supply, sewerage & waste management (-0.7% vs 0.2%). In contrast, production in mining and quarrying rebounded by 3.9%, following a two-month decline of 4% in June and 0.8% in May.

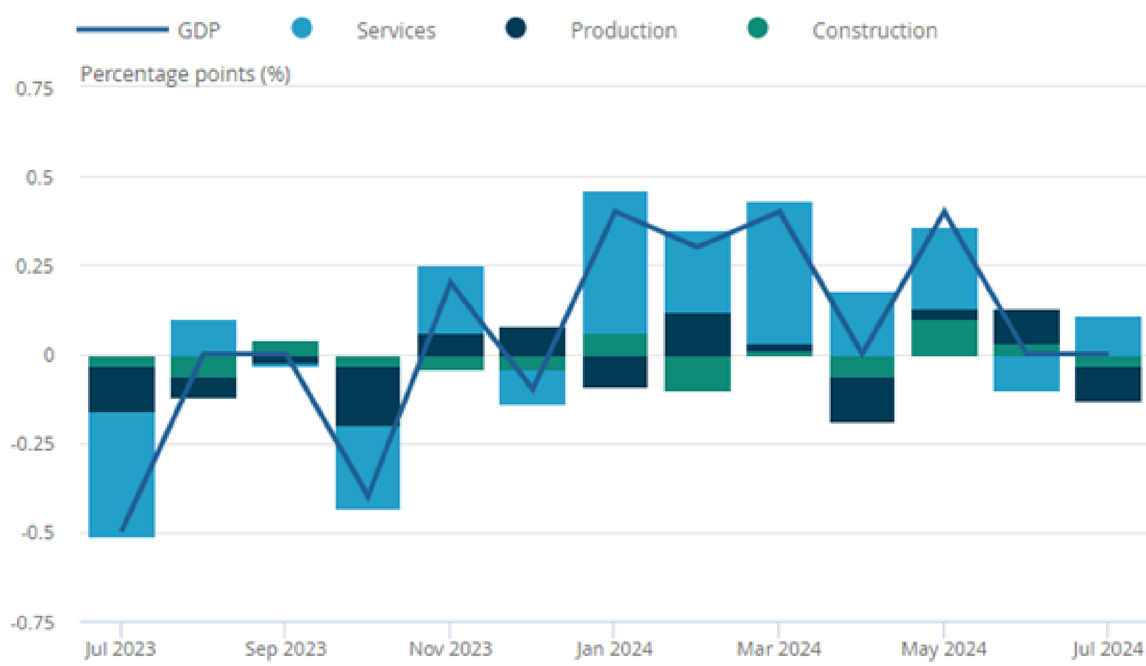
6. **UK July goods trade deficit widens to £20bn after £P18.89bn – worse than £18.1bn expected**. Exports plunged 10.8% from a month earlier to a 30-month low of £28.6 billion while imports fell by 4.6% to a 13-month high of £48.6 billion. The total UK trade deficit increased to £7.51 billion in July 2024 from £5.32 billion in June. It was the largest trade gap since April, with imports shrinking by 1.5% mom to

a four-month low of £77.12 billion while exports fell by 4.7% to a 25-month low of £69.60 billion.

7. UK July GDP flat 0% m/m, 0.5% q/q after 0% m/m, 0.6% q/q – weaker than 0.2% m/m, 0.6% q/q expected. Services output rose by 0.1%, following a decrease of 0.1% in June, led by computer programming, consultancy and related activities (1.6%); information service (4.2%); wholesale and retail trade and repair of motor vehicles (0.5%); and human health activities (0.7%). In contrast, advertising and market research (-4.9%) and architectural and engineering activities (-3.9%) were down. In addition, production output sank 0.8%, reversing a 0.8% rise in June, with the largest contribution to the decrease being a 1% reduction in manufacturing, mostly manufacture of motor vehicles, trailers and semi-trailers (-3.5%). Also, construction output declined 0.4%, after a 0.5% rise in June.

Exhibit #2: Does the stall in growth matter to BOE?

Contributions to monthly GDP growth, July 2023 to July 2024, UK



Source: GDP monthly estimate from the Office for National Statistics

Source: UK ONS, BNY

Disclaimer & Disclosures

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

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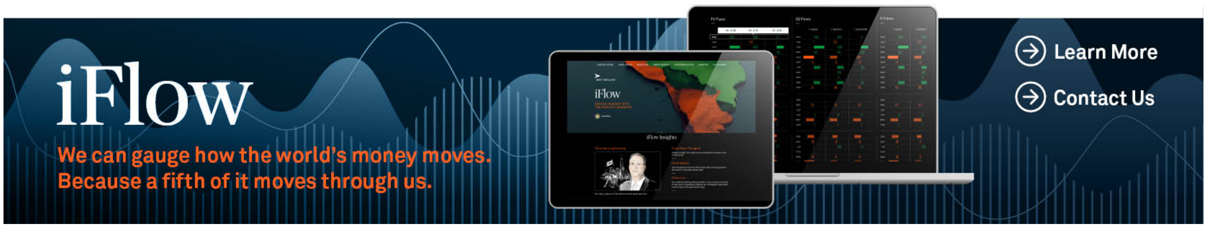

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