

September 13, 2024

## Guidance

*“Rule are for the obedience of fools and the guidance of wise men.” – Harry Day*

*“True guidance is like a small torch in a dark forest. It does not show everything at once but gives enough light for the next step to be safe.” – Swami Vivekananda*

## Summary

Risk on as markets digest guidance from former Fed Dudley that there is a case for 50bps next week from the Fed and WSJ and FT articles suggest the debate on big or small cuts rages for the FOMC. This has shifted the expectations from 28bps to 33bps for September 18<sup>th</sup> easing. The USD is lower, bonds are bid, and stocks are bid. All is right with the world – oh wait- there is escalation risk in Ukraine, there is uranium production success in North Korea and there is the surprise hike in working ages for China – all that suggests some geopolitical risks ahead of any joyous Fed rate cut. However, it's Friday and the end of a successful week for equities and bonds. Markets embraced US supply, survived the Harris-Trump debate and have found some comfort in the ECB easing. The path ahead isn't clear but it's less scary.

### What's different today:

- **Japan 10Y bond yields drop 2bps to 0.83% - 4-week lows** tracking US bond rally while Korea sold KRW500bn of 50Y bonds at 2.77% with 1.65 bid/cover.

- **Gold sets new record high to \$2560** with weaker USD and more rate hike cut talk driving along with lower bond yields – CME speculative holdings now near record at \$73bn
- **China M2 held 6.3% while new CNY loans rose to CNY900bn** up CNY640bn and Total social finance jumps to CNY3.03trn up 2.23trn – suggesting some PBOC success in credit.

#### What are we watching:

- **US August import prices** expected -0.2% m/m after +0.1% m/m – normally not that important but given USD drop and focus on China deflation interesting. Export prices expected up 0.2% m/m unchanged.
- **US September preliminary University of Michigan consumer sentiment** expected up to 68.5 from 67.9 with current conditions up to 61.6 from 61.3 – this is going to be important for mood/politics/view on consumer and jobs. 1Y inflation expected 2.8% flat and 5-10Y 3% same.

#### Headlines

- Australian uranium producers see surge after Putin considers limiting exports due to West sanctions. – ASX up 0.3%, AUD off 0.4% to .6695
- Korea August export and import prices slot to 5.7% y/y, 1.8% y/y respectively – while North Korea gives glimpse of weapons grade uranium factory - Kospi up 0.13%, KRW up 1% to 1327
- Japan designates 7-Eleven parent a “core” industry, complicating takeover, while Japan again scrambles jets with Russian aircraft near islands, Final July industrial production higher at 3.1% m/m, 2.9% y/y – best since Jan 2023 - Nikkei off 0.68%, JPY up 0.9% to 140.40
- China raises retirement age for first time since 1978 to 63 from 60 for men, 55 from 50 for blue-collar woman – CSI 300 off 0.42%, CNH up 0.3% to 7.0960
- Singapore MAS sees GDP closer to 3% rather than 2% in 2024 – SGD up 0.2% to 1.2990
- French Aug final CPI revised lower off 0.1pp to 0.5% m/m, 1.8% y/y – lowest since July 2021 linked to energy – CAC40 up 0.5%, OAT 10Y off 0.5bps to 2.845%
- Eurozone July industrial production drops -0.3% m/m, 2.2% y/y, ECB Holzmann see 2.5% near neutral rate, room for another cut in December – EuroStoxx 50 up 0.3%, EUR up 0.15% to 1.1090

- UK Ipsos poll shows public confidence in BOE for first time in 2-years – 28% satisfied with CPI path – FTSE up 0.3%, GBP flat at 1.3120
- Russia CBR hikes 1% to 19% - will consider further hikes - Putin warns Russia will be “at war” with NATO if Ukraine sees long-range missile restrictions lifted, expels 6 UK diplomats – Oil up 1% at WTI \$69.60 while Wheat up 1.7%
- US starts 100% tariffs on Chinese EVs, while Boeing US factories get first strike since 2008 halting 737 Max production – S&P500 futures up 0.15%, US 10Y yields off 2.5bps to 3.645%, USD index off 0.35% to 101

### **The Takeaways:**

Testing the mettle of the market and the Fed is the business ahead. Markets want the FOMC to ease fast and get on with the risk of recession fighting. The current Powell Fed has a history of being reactive to economic data – much of which is less accurate than his predecessors had with wide revisions now common for jobs, CPI and GDP. The problem with being reactive and not having faith in any set of models for the future is that financial volatility becomes persistent. The FOMC meeting is a risky event and it will remain so regardless of the 25 or 50bps easing next week. The bedrock of measuring the confidence of the world in the Fed policy has usually been in the USD. The complication of the US weaponization of the USD as a tool against the Russian invasion of Ukraine and the ongoing difficulty with others has left gold as an alternative. This may be something to focus on for FX traders as they get back to the 1970-1990 FX risks. Gold is now more held by emerging market central banks than the EUR. This and the cycle of metals in any recovery has put all commodity FX on watch and makes trading of AUD, CAD, NOK, ZAR, BRL and other pairs more interesting (ie volatile). Watching gold and what it means to the Fed for confidence in their policy might be a fool’s errand, but it highlights the complicated world of monetary policy colliding with fiscal limitations and geopolitical realities.

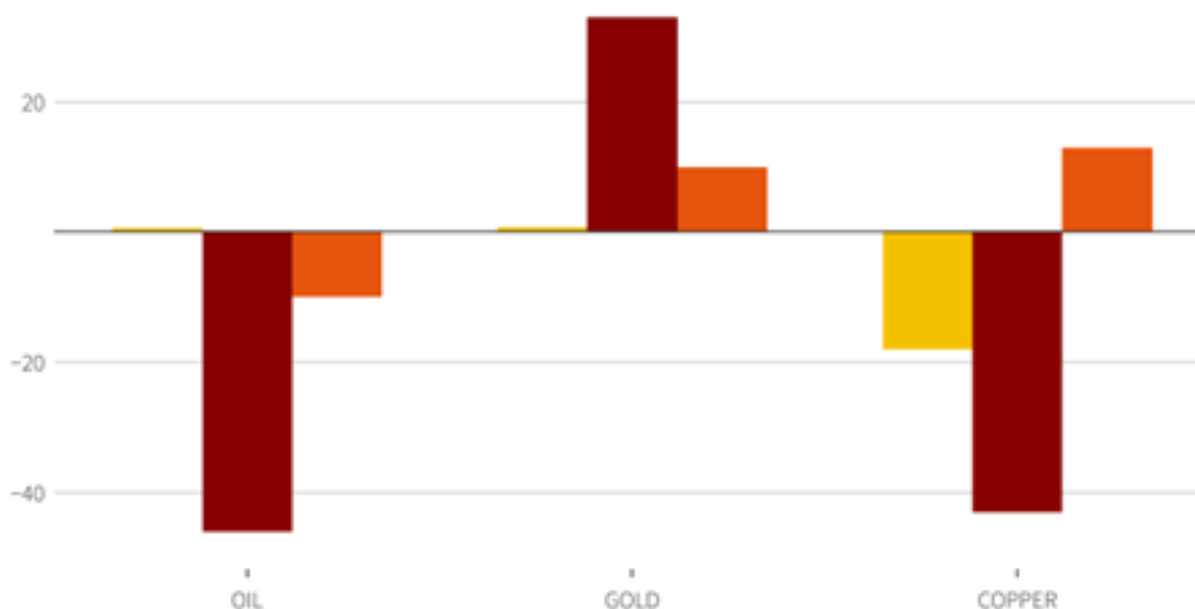
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### **Exhibit #1: Is there a signal in metals?**

## Commodities and the U.S. easing cycle

Percentage change in the six months after the first Federal Reserve rate cut of the cycle

● 2001-2003 ● 2007-2008 ● 2019-2020



Note: Price change for 2001-2003 in oil and gold are less than 1%

Source: LSEG | Reuters | Dhara Ranasinghe

Source: Reuters, BNY

### Details of Economic Releases:

**1. Korea August export prices fell 2.6% m/m, +5.7% y/y after +0.8% m/m, +13% y/y – less than the 12.5% y/y expected** – still, the eighth consecutive month of increase in export prices. Outbound shipment cost rose for manufacturing products (5.7% vs. 13% in July). On the other hand, prices fell for agricultural, forestry, and marine products (-2.8% vs. -3.2% in July). Import prices fell to -3.6% m/m, +1.8% y/y from +0.4% m/m, +9.9% y/y – sharply lower than 9.5% y/y expected – and the 5th straight month of rise in import prices, albeit the slowest. Purchasing prices rose at a softer pace for intermediate goods (5.1% vs. 11.4% in July); capital goods (2.2% vs 4.5%) and consumer goods (4.1% vs 6.9%). On the flip side, cost decreased for raw materials (-3.5% vs. 10.6%).

**2. Japan July industrial production rose 3.1% m/m, 2.9% y/y after -4.2% m/m, -7.9% y/y – better than 2.8% m/m flash** – best y/y since January 2023, bouncing from 5-month lows and the third expansion in industrial output so far this year, mainly contributed by strong rebounds in the output of electrical machinery, and

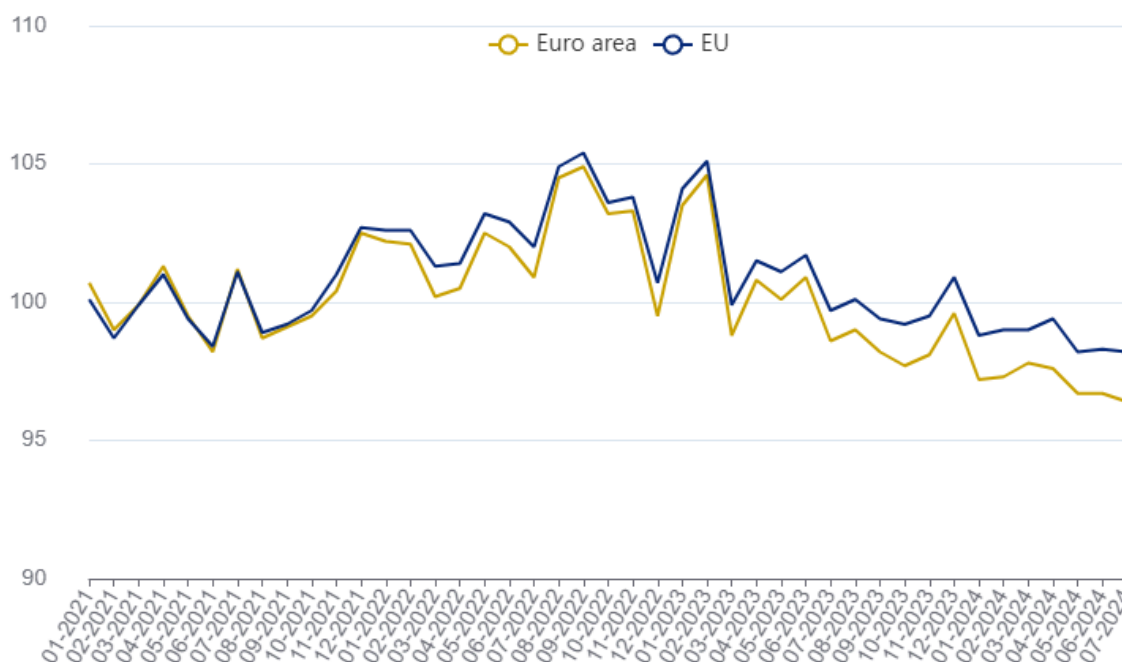
information and communication electronics equipment (7.5% vs -2.8% in June), production machinery (7.0% vs -9.0%), and electronic parts and devices (9.7% vs -5.8%).

**3. Eurozone July industrial production fell -0.3% m/m, -2.2% y/y after 0% m/m, -4.1% y/y – better than -2.7% y/y expected** and June revised higher – still, output decreased across several sectors: intermediate goods (-1.3% vs. 0.6%), capital goods (-1.6% vs. 1%), and durable consumer goods (-2.8% vs. 3.8%). Production growth slowed for energy (0.3% vs. 1.7%) but rebounded for non-durable consumer goods (1.8% vs. -2.3%). Among the major Euro Area economies, Germany experienced the steepest decline with a 3% drop in output, while Italy, Spain, and France saw decreases of 0.9%, 0.7%, and 0.5%, respectively.

### Exhibit #2: Does EU industrial production have a bottom?

#### Industrial production

2021=100, seasonally adjusted series



eurostat 

Source: Stats Sweden, BNY

#### Disclaimer & Disclosures

Please direct questions or comments to: [iFlow@BNY.com](mailto:iFlow@BNY.com)

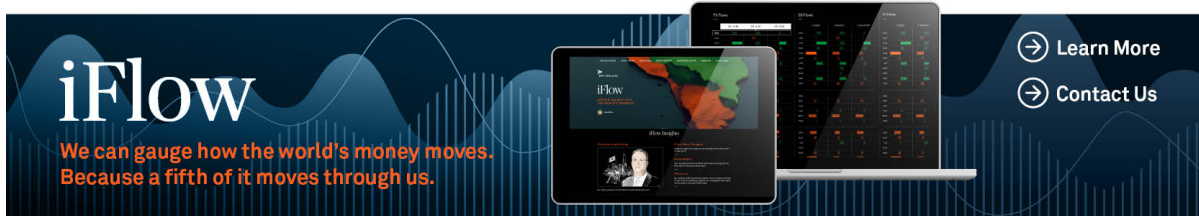


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