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MARKET MOVERS

September 17, 2024

Eclipses

"Nations, like stars, are entitled to eclipse. All is well, provided the light returns and the eclipse does not become endless night. Dawn and resurrection are synonymous. The reappearance of the light is the same as the survival of the soul." - Victor Hugo

"Three things cannot be long hidden: the sun, the moon, and the truth." - Buddha

Summary

Risk mixed with China and South Korea still on holiday but Japan returning to sell tech shares while Europe bounces on diversification flows from the US continuing ahead of the FOMC decision tomorrow. The unknown of 25 or 50bps continues to cast a shadow on all markets. US futures are bid but will need to consider and digest the retail sales and industrial production. The need to cut fast vs. the luxury of doing it slowly matters and pivots around economic data. The oddity of optimism in European shares clashes with the economic sentiment collapse with German ZEW at 11-month lows and current conditions back to pandemic lows. Markets want to have their cake and eat it too. The drop in India WPI helps RBI easing hopes while Indonesia and Singapore trade data expands and South Africa consumers return to 2019 highs - all help justify flows back to EM, which is one of the key traditional trades expected post Fed cuts. The global bias to buy equities and sell USD links directly to the FOMC easing plans ahead and many worry that the expectations for a shift are larger than the Fed's thinking - all of which means today is about anxiously

waiting. The fact that we get the full harvest moon and a partial eclipse of it tonight may be a good excuse for the expected market volatility ahead.

What's different today:

- **Malaysia palm oil futures drop 2.5% to MYR 3,720 per ton** - off for 3rd session - near the 1-month lows after India hikes tariffs on edible oils to effectively 27.5% from 5.5%.
- **Hong Kong Hang Seng up 1.4% to 2-week highs** - up for 4th session in a row - with US rate cuts helping boost property shares and builders.

What are we watching:

- **Canadian August CPI e**xpected 0% m/m, 2.1% y/y after 2.5% y/y - with focus on trimmed mean expected 2.5% y/y from 2.7% y/y - BOC Macklem opened door to faster easing but remains data dependent.
- **US August retail sales** expected -0.2% m/m after +1% m/m - with focus on ex gas/.autos expected up 0.3% m/m after 0.4% m/m - key for measuring consumer demand
- **US August industrial production** expected up 0.2% m/m after -0.6% m/m with manufacturing expected up 0.3% m/m after -0.3% m/m - key for 3Q growth views and health of economy overall.
- **US September NAHB housing market index** expected 40 after 39 - with focus on how rate cuts ahead may help the sector
- **US Treasury sells $13bn in 20Y bonds** – along with $60bn of 42-day CMB - with focus on duration given steepening of yield curve - watching demand of both.

Headlines

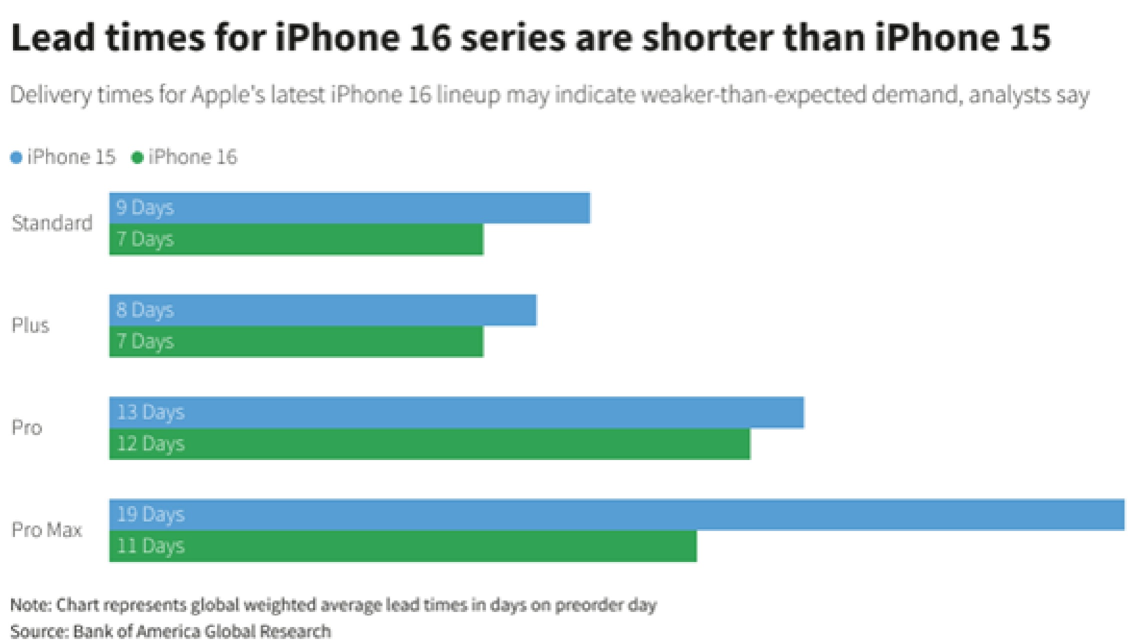
- Singapore Aug Non-oil exports -4.7% m/m but up 10.7% y/y - with continued electronic products leading – SGD up 0.1% to 1.2935
- Indonesia Aug trade surplus rises $2.5bn with exports +7.13% y/y -5th month of gains – IDR up 0.3% to 15,330
- India Aug WPI slows to 1.31% y/y- lowest since April with food and manufacturing costs slowing –Sensex up 0.11%, INR up 0.15% to .83.755
- South Africa 3Q consumer confidence rises 5 to -5- best since 2H2019 – ZAR off 0.15% to 17.637
- German Sep ZEW economic sentiment drops 15.6 to +3.6 - worst since Oct 2023 - with conditions off -7.2 to -84.5 - lowest since May 2020 – DASX up

0.65%, Bunds 10Y off 1.5bps to 2.105%, EUR flat at 1.1135
- Canada ruling Liberal party loses key Quebec seat to PQ – CAD off 0.1% to 1.3595

The Takeaways:

The stock market has eclipsed the bond market in the eyes of many investors as they hope for a soft landing and fear a recession. The ability to justify record highs in US equities with P/E multiples reaching toward the sky and for bond yields to continue to drop to levels implying nearly 3% of Fed cuts don’t mix but hold together anxiously as we await the truth of tomorrow and the Fed dot plot, their forecasts of the economy in 2025 and the logic of the easy plan ahead. Waiting for news in a dangerous world filled with other uncertainties generates volatility. Today will be no different with the US retail sales and industrial production critical to understanding the components of 3Q GDP. The overnight data was light and much of APAC remains on holiday, but the hope of better times drives except in Germany. There is much to consider for markets after the Fed decision with the stock market rotation out of tech into small caps one of those factors. The focus on the magnificent 7 and the role of tech and productivity in driving USD exceptionalism is expected to continue to reprice. Much of this rests on consumer demand and on AI development delivering real gains for capital over labor. The iPhone 16 is the physical manifestation of much of this worry of late and that makes the actual sale and delivery that much more of the story ahead, regardless of rates.

Exhibit #1: Is the iPhone key for retail sales ahead?



Source: Reuters, BNY

Details of Economic Releases:

1. Singapore August non-oil exports drop -4.7% m/m, +10.7% y/yafter +12.2% m/m, +15.7% y/y - weaker than -3.5% m/m expected - the sharp reversal from July didn’t derail the yearly gains for the second month in a row. Shipments of electronic products surged 35.1%, far stronger than July's 16.8% growth, boosted by disk media products (166.8%), integrated circuits (52%), and personal computers (36%). Meanwhile, non-electronic product exports increased much slower (3.7% vs 15.5%), helped by specialized machinery (43.7%), non-monetary gold (26.8%), and food preparations (20.9%). Exports soared to Hong Kong (70.6%), China (18.8%), South Korea (20.3%), Taiwan (37.2%), Malaysia (28.6%), and Indonesia (18.6%) while plunging to Japan (-29.6%) and the EU (-20.9%). The August total trade surplus narrowed to $5.9bn after $6.54bn - better than the $4bn expected.

2. Indonesia August trade surplus widens to $2.89bn after $0.50bn - better than $1.98bn expected but less than the $3.12bn in August 2023. Shipments grew 7.13% from a year earlier, the fifth straight month of increase and the fastest pace in 19 months, exceeding market forecasts of a 3.83% rise. The export growth accelerated from a marginally revised 6.60% gain in July, mainly supported by rises in exports to the US (22.45%), Japan (17.80%), the ASEAN countries (7.85%), and the EU (22.19%). Meanwhile, imports increased by 9.46%, faster than market expectations of an 8.15% rise, following an 11.07% jump in July. In the first eight months of 2024, the trade balance posted a surplus of USD 23.71 billion, with exports falling by 0.35% while imports rose by 3.1%.

3. India August WPI moderates to 1.31% y/y from 2.04% y/y - less than the 1.8% y/y expected - lowest since April but still the 10th month of increases, with manufacturing and food prices rising the least in three and ten months each, while fuel prices fell for the first time in five months. Primary articles (2.42% vs 3.08% in July) and food index (3.26% vs 3.55%) rose softer due to a slump in vegetable prices (-10.01% vs -8.93% in July). Meanwhile, manufacturing prices advanced less (1.22% vs 1.58%), marking the lowest since May, due to softer rises in pharmaceuticals and medical chemicals (1.97% vs 2.05%) and wood and products of wood and cork (3.17% vs 3.53%). Simultaneously, fuel and power prices fell for the first time in five months (-0.67% vs 1.72%), dragged down by petrol (-4.23%) and

HSD (-3.03%). Monthly, wholesale prices dropped 0.45%, reversing from a downwardly revised 0.78% rise in July.

4. South Africa 3Q consumer confidence improves to -5 after -10 - better than -10 expected. Although the latest reading remains slightly below the long-term average of the CCI, which has been at zero since 1994, it marks the highest level of confidence since the first half of 2019. "A confluence of positive developments has bolstered the confidence levels of South Africa's more affluent consumers over the last six months," FNB Chief Economist Mamello Matikinca-Ngwenya said. Besides the slowdown in inflation and an expected interest rate cut in September, factors such as the formation of a national unity government, the absence of load-shedding, a stronger rand, and significant fuel price reductions have all played a role in boosting consumer confidence. "Moreover, the implementation of the two-pot retirement system on Sept. 1 now allows consumers access to a portion of their retirement savings," Matikinca-Ngwenya added

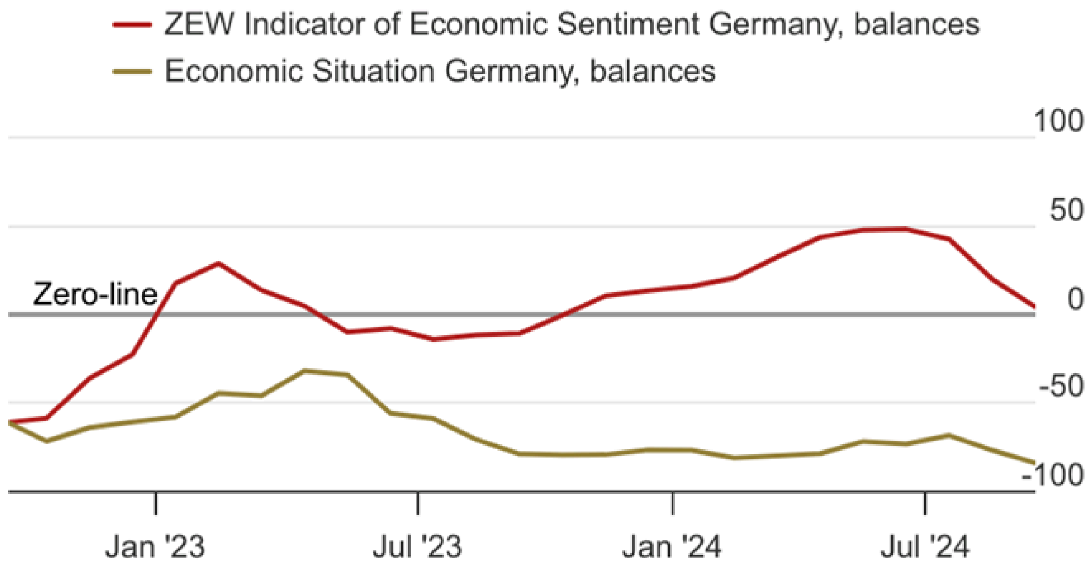
5. German September ZEW economic sentiment drops to 3.6 from 19.2 - weaker than 17 expected - worst since October 2023 and the third consecutive month of falls in economic sentiment, with the optimism in economic expectations that has been evident since November 2023 almost completely dwindled. "The hope for a swift improvement in the economic situation is visibly fading. The number of optimists and pessimists is now evenly balanced", said ZEW president Achim Wambach. Also, the current conditions index decreased to -84.5, the lowest since May 2020, from -77.3.

Exhibit #2: German hope for recovery gone?

ZEW-Index

Zoom **last 2 years** since 1991

from 17 Sep 2022 till 17 Sep 2024



Source: German ZEW, BNY

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

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