iFlow
MARKET MOVERS

September 19, 2024

Making Hay

"Let us make hay while the sun shines." - Miguel de Cervantes
"The fears of what may come to pass, I cast them all away, Among the clover scented grass, Among the new-mown hay." - Louise Imogen Guiney

Summary

Risk on as the market absorbs the Fed going big on the start of easing rates, while other central bank decisions deliver less, with Brazil hiking rates as expected to beat inflation, while Norway, Turkey and UK are all on hold. The contrast leaves the focus on the USD and that weakness has helped shares as well. The global rally after the US easing has brought back Fed put expectations and has left markets data dependent on US labor market data which makes today's jobless claims and the Philly Fed index more important. However, the key to all the central bank decisions today and yesterday is about growth and a soft-landing with the restrictive policy shift to neutral allowing the economy to find its own way. Concerns about geopolitical risks are rising, with fear of and the US election uncertainty clearly matters as well, holding back some investors.

What's different today:

- **China CNH rises to 7.06 -** best level since May 2023 up 0.4$% at 7.066 now, despite talk of an imminent PBOC rate cut with 1Y and 5Y LPR a focus for tomorrow. The central bank injected new liquidity of CNY568bn in 7-day reverse repos and is expected to roll the MLF on September 25.

- **JPY and KRW saw currency weakness at the open** with concern that FOMC easing path won't be fast enough – KRW ends stronger up 0.4% at 1327.6 from 1335 highs while JPY is off 0.6% after touching 143.95, now 143.15
- **iFlow – post Fed we saw carry lower, trend higher and mood rising** with G10 FX buying USD, SEK and AUD but selling NOK. The EM focus was PEN, CZK buying vs. ZAR and PLN selling. The equity flows mixed with again defensive Utilities and Real Estate up rest down led by consumer staples. The bond market flows saw big South Africa buying along with US and Mexico while selling in Europe, UK and Japan stands out.

What are we watching:

- **South Africa SARB rate decision** expected to cut 25bps to 8% - given below target CPI and US easing helping ZAR.
- **US weekly jobless claims** expected unchanged at 230,000 - key for larger Fed action is 4.4% unemployment -
- **US September Philadelphia Fed manufacturing index** expected up to -1 from -7 with focus on employment and prices.
- **US August existing home sales** expected down to 3.9mn from 3.95mn - housing market bounce on easing rates key

Headlines

- Bank of England leaves rates unchanged at 5% - as expected – will keep QT – FTSE up 0.9%, Gilt 10Y up GBP up 0.7% to 1.3290
- Brazil BCB hikes rates 25bps to 10.75%- as expected – BRL up 0.5% to 5.46
- Taiwan CBC leaves rates unchanged at 2%- as expected - but hikes reserve requirement 25bps, lowers LTV ratio 10% to 50% - TWD up 0.1% to 31.93
- Norway Norges Bank leaves rate unchanged at 4.5% - as expected - removes end of year easing view – NOK up 1% to 10.455
- Turkey TCMB leaves rates unchanged at 50% - as expected – TRY up 0.1% to 34.02
- Australian Aug jobs jump 47,500 - all part-time - while unemployment holds 4.2% - ASX up 0.61%, AUD up 0.9% to .6825
- New Zealand 2Q GDP fell -0.2% q/q, -0.2% y/y - better than expected – NZD up 0.7% to .6250
- Swiss SECO cuts forecasts on growth and inflation - leaves 2024 GDP at 1.2%, 2025 off 0.1pp to 1.6% while CPI off 0.4pp to 0.7% - Swiss Mkt up 0.9%, CHF off 0.15% to .8475

- Eurozone July C/A slows E11bn to E39.6bn with income gap driving – EuroStoxx up 1.7%, EUR up 0.3% to 1.1155
- US House votes down budget package with focus on September 30 shutdown risk ongoing – S&P500 futures up 1.6%, US 10Y yields up 1bps to 4.097%, USD index up 0.1%

The Takeaways:

Markets led the Fed and got what they wanted, a big cut to start the rate easing cycle in the US. The USD is weaker, stocks higher, bond yields lower follow. The sense that this is as good as it gets hasn't fully crept into the narrative but that too may follow as the fear of a US recession, a difficult US election and global growth nag. The proverb is to make hay when the sun shines and the easing of the Fed is an admission of trouble ahead for many investors. The harvest of such green grass from high valued shares will still require time to dry and then to store before any economic or political or actual storm. There are signs of trouble in the logic of the moment - as the US yield curve as returned to steepening but the relationship of the USD to the curve has diverged since July when the US employment report shock started the talk of bigger rate cuts ahead. There is a limit to US easing and inflation along with US rates and credibility into messy fiscal needs with the next week focus key for Congress to push forward a budget ahead of an election that may not be certain for anyone after the vote. While gridlock is assumed to be good it doesn't help money flow. There is another nagging risk to consider which is higher inflation and lower growth regardless of the Fed cut. Such a world would drag the USD lower and keep the curve steepening, whether that still leads to a softish landing or not is the real data dependency. The US 2/10Y curve and USD index chart below makes the point below.

Exhibit #1: Is 2/10 year US curve telling us recession?

Source: Bloomberg, BNY

Details of Economic Releases:

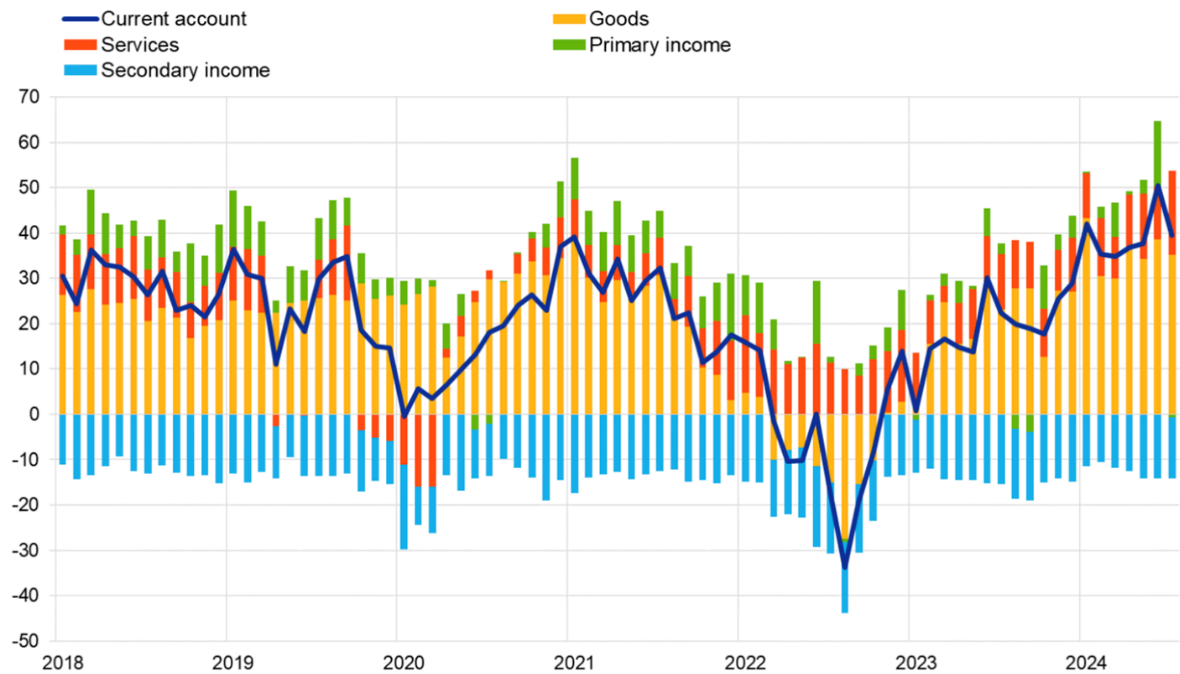
1. Australian August jobs rose 47,500 after 48,900 - more than the 25,000 expected - leaves unemployment rate steady at 4.2%. Part-time employment surged 50,600 after falling 15,800 in July. However, full-time employment fell by 3,100, a reversal from July's five-month peak of 64,800. Through the year to August, employment increased by 374,200 or 2.7%. The number of unemployed individuals dropped by 10,500 to 627,000, with those looking for full-time jobs shrinking by 7,400 to 421,900 and those seeking part-time jobs declining by 3,200 to 205,000. The participation rate remained at a record peak of 67.1% in August, matching the consensus. The underemployment rate rose to 6.5% from 6.3% in July. Additionally, monthly hours worked in all jobs increased by 8 million, or 0.4%, to 1,962 million.

2. Eurozone July current account surplus narrows to E39.6bn after E51bn - slightly less than E40.5bn expected. The goods surplus increased to €38.3 billion from €21.9 billion, and the services surplus went up to €25.4 billion from €18.4 billion. Also, the secondary income gap narrowed to €12.8 billion from €14.6 billion, while the primary income deficit widened to €2.8 billion from €0.2 billion.

Exhibit #2: EU C/A peaked?

Euro area current account balance

(EUR billions unless otherwise indicated; working day and seasonally adjusted data)



Source: ECB.

Source: ECB, BNY

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

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HEAD OF MARKETS STRATEGY AND INSIGHTS

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